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Opportunistic Man or Cooperative Man: Agency vs. Stewardship

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Abstract

Agency theory depicts the manger - owner relationship as a principal - agent relationship assuming man is self-serving and opportunistic. Stewardship theory depicts man as pro-organizational and cooperative. Are these two theories mutually exclusive, or do both types of man exist in small organizations? Which is likely to lead to higher performance? This study compares the two theories in light of current research, and compares the traits of a steward and an entrepreneur which are similar. Regression analysis, applied to a sample of small publicly traded firms, suggests that agency theory is not the dominant theory and that stewardship theory is a reasonable model for entrepreneurial and small firms. Weak owner controlled firms are found to have higher growth than either manager controlled or strong owner controlled firms and family firms have the lowest growth.

Introduction

Strategy research of the large firm has been driven by the concept of man defined by economics. Agency theory depicts the manger - owner relationship as a principal - agent relationship assuming man is self-serving and opportunistic. A few researchers have used agency to attempt to explain small firms (Daily & Dollinger 1993, McConaughy, Matthews,& Fialko 2001, Hufft 1998, 1994). Is this the right characterization of the entrepreneur, small business owner/manger?

Another concept of man predicated on behavioral research has recently been used in strategy research. Stewardship theory depicts man as pro-organizational and cooperative. Are these two theories mutually exclusive, or do both types of man exist in small organizations? Which is likely to lead to higher performance? These questions have profound implications for the successful management of organizations. This study will address these questions, first with a discussion of the literature on and debate between agency and stewardship theory, and then through the discussion of a regression analysis that provides some insight into the issue.

Literature Discussion

Agency theory

Jensen and Meckling "define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (1976, p. 85). They defined agency costs as the sum of monitoring expenditures by the principal (budget restrictions, auditing, incentive compensation systems), bonding expenditures by the agent (financial restrictions and loan covenants), and residual loss due to the reduction in prosperity of the principal caused by the divergence between the agent's decisions and the decisions which would maximize the welfare of the principal. They base their theory of the firm on the ownership structure, considering the agency costs associated with managerial (agent) behavior and the interests of owners or principals in firms. Their theory of ownership structure implies a fundamental dimension of the problem: "the relative amounts of ownership claims held by insiders (management) and outsiders (investors with no direct role in management of the firm)" (Jensen & Meckling 1976, p. 82).

Fama (1980) argued that management and risk-bearing are separate, natural functions within the set of contracts called a firm, thus expanding Jensen and Meckling's (1976) concept. Managers' reputations and hence value in the market for managerial talent constitute the important constraint on managers (agents), not the ownership structure (risk bearing factor) of large firms. Managers satisfy this constraint in either the managerial personnel market or, as in Jensen and Meckling, the financial capital market. In either case, agency theory presents man as self-interested. Eisenhardt (1989) provides an excellent review of agency theory.

Family firms should be exempt from the problems of agency by virtue of their familial altruism (Jensen & Meckling, 1976; Eisenhardt, 1989; Daily & Dollinger, 1992). Chrisman, et al (2004) suggests the overall agency problems in family firms should be less serious than for non-family firms. But, familial altruism can lead to moral hazard problems as parents threaten children and children behave as free-riders (Shultz, et al, 2001).

Agency theory suggests different levels of ownership control should result in different growth rates. Manager controlled firms should have a preference for high growth to minimize the managers' risk (Amihud & Lev 1981). Owner controlled firms should prefer lower growth (and higher profit) (Holl 1975).

Stewardship theory

Block (1993) argues that organizations exercising stewardship by elevating service over self-interest will be those that prosper. Supplanting leadership with stewardship exchanges control and consistency with partnership and choice for all levels of the organizational community, employees as well as customers. The focus is on accepting responsibility and accountability for the organizational community. Davis, Schoorman, and Donaldson (1997) argue that the model of man should be as a steward whose behavior is ordered such that pro-organizational, collectivistic behavior has a higher utility than individualistic, self-serving behavior. They argue that man makes a rational, not irrational, choice, unlike agency theorists who argue that stewardship can be explained as man acting inconsistently with his ordered preferences (Albanese, et al 1997). Corbetta & Salyato (2004) argue that agency provides a significantly, but only partially appropriate explanation of family firm performance.

Comparison/debate

Davis, et al (1997) provide an excellent table comparing agency and stewardship theories. Key points that should be of interest to entrepreneurship are (1) the motivation comparison and (2) the power comparison. The agency man is motivated by lower order economic needs and extrinsic rewards. The steward is motivated by higher order needs of growth, achievement, and self-actualization, and by intrinsic rewards. The power of agency man is institutional power while the steward's power is personal. The motivation and power of the steward thus is similar to the findings of entrepreneurship trait research (Carland et al 1984).

Davis, et al (1997) argue that the two theories are not mutually exclusive but create a choice between agency and stewardship relationships. The choice is similar to the prisoner dilemma decision, it is (1) made by both parties, (2) situational characteristics play a part in the choice, and (3) the expectations of the parties influences the choice. This complex interplay leads to a choice model, a 2x2 matrix of choices. The principal can either choose to act in an agency fashion or as a steward, and so can the manager. This leads to (1) a true agency relationship where both have chosen their self-interests as the dominate characteristic of their relationship, or (2) a true stewardship relationship, a mutual relationship to further the organizational community, a relationship that should maximize organizational performance. Two other possibilities exist, neither of which is satisfying to at least one party and can lead to suboptimal performance, (3) the principal acts as steward and the manager acts an agent, or (4) the principal acts opportunistically and the manager acts as a steward, which could lead through frustration and decreased feelings of self-worth to the manger acting more as an agent in concert with the principal.

Albanese, Dacin, and Harris (1997) argue that Davis, et al (1997) misspeak agency logic. They make a distinction between agency theory and the agency problem of divergent self interest. They argue that the discussion of stewardship simply refines agency theory, it does not provide an alternative. As Davis, et al (1997b) argue, Eisenhardt's (1989) review shows that agency theory was developed and is continually refined with the conflicting self-interests of the principal-agent as the underlying assumption. Sundaramurthy & Lewis (2003) provide a useful table contrasting the control vs. collaboration approaches, for example, goal conflict/distrust vs. goal alignment/trust (p. 398).

Preston (1998) argues that "the strength of the stewardship model is that it offers managers a different set of motivations which could potentially include the interests of all relevant stakeholders" (p. 9). However, he argues that the discussion has not dealt with the problem of identifying all stakeholders and defining the concept of wealth. If all stakeholders are not considered, and the model just leads to shifting costs to outside stakeholders, then there is no real difference between the models. The real benefit is that stewardship theory has moral appeal in the sense that Block (1993) proposes, because it provides a motivational basis for the stakeholder model of the corporation as a normative concept.

Summary

The agency model and stewardship model of the firm provide two different lenses for viewing the firm, its decision making, its internal relationships, its external relationships, etc. This review suggests that the entrepreneur acting as a steward, and hiring personnel with similar expectations, is more in line with the traits we infer to entrepreneurs, and thus increases the potential for maximizing the performance of the venture.

Empirical Data Analysis
Method

A regression analysis was performed with a sample of 735 small publicly traded firms in a variety of industries. The purpose of the analysis was to examine the relationship between ownership of the firm, independent variable, and the growth of the firm, dependent varialble, an important agency theory relationship. Jensen & Meckling (1976) assert agency relationships within a firm have a strong bearing on its growth rate. Schultz, et al (2001) used the five year growth rate from their survey, this study uses the three year growth rate.

A curvelinear relationship between growth and ownership has been noted in some previous agency studies (Shultz 1988, Hufft 1998). This results from weak owner controlled firms (less than 30% ownership) having greater growth than either manager controlled firms or strong owner controlled firms. This result is contrary to agency theory but would support Davis et al (1997a).

The variables of interest were the compound three year growth of net sales from **Compustat**, and the ownership of the firm measured as the "stock held by officers and insiders" divided by "common stock outstanding" from **CompactDisc**. Additionally, the squared term for ownership was also included to test the curvelinear relationship.

Several additional variables were added as control variables. The industry the firm competed in was controlled by its SIC1 industry code, a single digit integer from 1 to 8. Size was controlled by both the log of the total assets of the firm and the log of the employees of the firm. Since family owned and managed firms might perform differently than the typical small firm due the interaction of family and business interests, firms were coded as either family owned (coded as "1") or not (coded as "0"). An additional variable was added as a proxy for agency costs incurred by the firm, institutional stock holdings.

Analyses

The research questions focus on the differences in rates of growth between different types of ownership structure.

First, Table One provides the correlation table for the variables. The variables are not strongly correlated with each other, *r* less than |0.2|. As would be expected, the institutional holdings of investment firms is positively correlated with size of the firm, *r*=0.487, p<.001, the log of assets.

Table 1 Here

Table Two shows the regression results. The regression was significant (F=4.9, p<.0001), however, the power of the explanation of the equation was low, R**2=0.036, r=0.212.

This result should be expected if we believe in the power of stewardship theory and its basis in behavioral issues which were not included in this preliminary exploration of the issue.

The only variable coefficient that was significant was associated with the institutional stockholding, b=1.08 (SE=.319, *t*=3.387, p=.0007). This suggests a 1 to 1 relationship between growth and the investment of institutional investors, and the demand for short term stock growth.

Table 2 Here

In other words, institutional investment could be the driving force for growth and not a moderating influence on the self interested behavior of managers. Ownership does have a slight curvilinear relationship with growth, the squared ownership term is negative (b=-0.005, SE=.0074, *t*=-.682), while ownership is positive (b=.34, SE=.65, *t*=.524). (A prior regression, without the squared term, indicated ownership was negatively related to growth.) This suggests maximum growth is obtained with weak ownership, approximately 30% interest. As the firm becomes more manager controlled, growth appears to decline contrary to agency theory. Also as the firm becomes strongly owner controlled, growth also declines which would agree with agency theory predictions, but also with stewardship theory.

The impact of family control on the growth of the business appears to be strongly negative, b= -7.08, SE=7.2, *t*= -.981. Therefore, we would expect family controlled firms to exhibit less growth than non-family controlled firms across the continuum of ownership interests, a commitment to stewardship would be a possible explanation.

The control variables for size , log employees and log total assets, are both positively related to growth, as we would expect, since size can be equated with greater resources available for growth. The industry variable is also positively related to growth, b=.63, SE=1.29, *t*=.48. This suggests service industries exhibit higher growth than the extractive and manufacturing industries, which agrees with recent observations. The constant term is strongly negative which corresponds with the curvilinear relationship with ownership.

DISCUSSION

The results of this study suggests that the relationships that exist in large firms do not exist to the same extent in small firms. The concerns of family businesses probably do not lend themselves to the use of agency theory for decision making; behavioral, rather than economic issues, drive decision making. The family firm is more likely to function under a stewardship model rather than an agency model. The curvilinear relationship between growth and ownership is perhaps the most intriguing relationship suggested by this study. Why would manager controlled small firms suffer less growth than firms still controlled by the owners? Davis, et al (1997a) presentation of a matrix of relationships between stewardship and agency theories perhaps provides the answer. Small firms that are manager controlled, with self interested managers, could still be in transition from the entrepreneurially managed, stewardship oriented, firm to the professionally managed firm, thus they get the worst of both theories combined. They do not exhibit either theory well, but some poor combination of the two, leading to suboptimization of performance.

Future analysis should address the behavioral and societal issues that impact the decision to grow or not grow the firm. This study raises more questions than it answers but it does indicate the possible relationships of economic issues in decision making. Size, industry category, and presence of institutional investors, all impact growth. These environmental conditions should be explicitly included in decision making.

These results suggest families, entrepreneurs, small business owners and/or investors should determine their objectives and expectations for the firm. Is a stewardship model appropriate? If so, they must explicitly communicate the objectives to the family and non-family managers, and monitor the performance of the firm to insure the decisions made by managers support the owners objectives, not the managers objectives.

Future study should examine all types and sizes of firms to determine if similar relationships exist. Additionally, different measures of the outcomes of ownership strategy should be explored to determine the factors that influence performance the most to better inform decisions.

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Table 1								
Correlation Table								
Correlations	Growth Sales %	Owner-ship^2	Owner-ship %	Institute Holding %	Family y/n	SIC 1	Log Employ	LogT A
Growth Sales %	1							
Ownership^2	-0.0622	1						
Ownership %	-0.0581	.9719**	1					
Institutional Holdings %	.1798**	-.1662**	-.1752**	1				
Family y/n	-0.0437	.1059*	.1159**	-0.0608	1			
SIC 1	0.0426	-0.0296	-0.0248	0.0494	-0.0076	1		
Log Employees	.1315**	-0.0478	-0.0391	.2121**	0.0318	.1890**	1	
Log Total Assets	.1431**	-.1196**	-.1279**	.4526**	0	0.0394	.4865**	1
** p=.001	* p=.01							

Table 2					
Multiple Regression Results					
Mulitiple R	0.21243	Adjusted R Sq	0.03593		
R Squared	0.04513	Standard Error	77.1696		
Analysis of Variance					
	DF	Sum of Squares	Mean square		
Regression	7	204602	29228		
Residual	727	4329390	5955		
F	4.908	Signif F	0.0001		
Variable	b	SE b	beta	t	Signif
Log Total Asset	6	7.09	0.0387	0.847	0.398
Family y/n	-7.08	7.22	-0.0359	-0.981	0.327
SIC 1	0.625	1.295	0.0179	0.482	0.63
Ownshp Squared	-0.00507	0.00744	-0.105	-0.682	0.496
Institutional Stk	1.08	0.3189	0.139	3.39	0.0007
Log Employees	11.63	6.23	0.0791	1.87	0.06
Ownership	0.342	0.652	0.081	0.524	0.6
Constant	-26.21	27.67		-0.947	0.344

An Empirical Study of Organizational Citizenship Behavior as an Antecedent to Employee Withdrawal Behavior

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Abstract

This study addresses a void in the organizational citizenship behavior literature concerning the consequences of organizational citizenship behavior, specifically, the impact of organizational citizenship behavior on employee withdrawal behavior. Measures of organizational citizenship behavior and three forms of employee withdrawal behavior were obtained from 299 law enforcement personnel. Structural equation modeling was used to test the hypothesis that organizational citizenship behavior will be inversely related to employee withdrawal behavior. The results were mixed with significant inverse relationships found between organizational citizenship behavior and only two forms of employee withdrawal behavior. The limitations of the study and suggestions for future research are discussed.

Introduction

A research void in the organizational citizenship behavior literature relative to the consequences of organizational citizenship behavior, specifically employee withdrawal behaviors, was noted by Podsakoff, MacKenzie, Paine, and Bachrach (2000). It was the intent of this research study to address this research void. Thus, the specific purpose of this study was to empirically examine the effect of organizational citizenship behaviors (altruism, sportsmanship, generalized compliance, courtesy and civic virtue) on an organization's employee withdrawal behaviors (turnover, absenteeism, and tardiness [lateness]).

Employee withdrawal behavior research has received increasing attention in the organizational citizenship behavior literature and numerous negative effects of employee withdrawal behavior have been noted. Organizational productivity or efficiency may be negatively impacted by tardiness (G. Blau, 1994; Steers & Rhodes, 1978) and absenteeism (Martocchio, 1992; Steers & Rhodes, 1978). A decrease in the morale and/or work motivation of the colleagues of tardy or absent employees has also been indicated (Jamal, 1984).

Purpose of the Study

The organizational citizenship behavior literature is replete with empirical research efforts addressing the antecedents of organizational citizenship behavior (Bateman & Organ, 1983; MacKenzie, Podsakoff, & Ahearne, 1998; Organ & Konovsky, 1989; Organ & Lingl, 1995; Riketta & Landerer, 2002; Schappe, 1998; Smith, Organ, & Near, 1983; Williams & Anderson, 1991). A considerable amount of research activity has also addressed the positive consequences of organization citizenship behavior (Avila, Fern, & Mann, 1988; Chen, Hui, & Sego, 1998; MacKenzie, Podsakoff, & Fetter, 1991, 1993; MacKenzie, Podsakoff, & Paine, 1999; Podsakoff & MacKenzie, 1994; Viswesvaran, 2002).

While empirical research endeavors addressing the relationships between organizational citizenship behavior and positive employee performance are ongoing and viable, scant research activity has been directed toward discerning the relationship between organizational citizenship behaviors and negative employee performance such as employee withdrawal behaviors. Specifically, the literature has referred to withdrawal behaviors as tardiness (lateness), absenteeism and turnover. Research findings indicated that organizational citizenship behavior had a significant inverse relationship with turnover (Chen et al., 1998; MacKenzie et al., 1998; Viswesvaran, 2002). Note that these studies examined only the turnover dimension of employee withdrawal behavior. The current study extended the research to all three dimensions of employee withdrawal behavior, i.e., tardiness, absenteeism, as well as turnover.

Chen et al. (1998) suggested that additional empirical research on the relationship between organizational citizenship behavior and turnover was necessary. This position found support from Podsakoff et al. (2000). In their extensive critical review of the theoretical and empirical literature on organizational citizenship behaviors, Podsakoff et al. (2000) alluded to the fact that more empirical research investigations should address the relationship between organizational citizenship behaviors (hereafter referred to as OCBs) and other forms of withdrawal behavior, like employee absenteeism, tardiness (lateness) (p. 553). Hence, the major research question addressed in this study was: Are organizational citizenship behaviors significantly inversely related to employee withdrawal behaviors of turnover, absenteeism, and tardiness (lateness)?

Theoretical Framework

The social exchange theoretical foundation (P. Blau, 1964) proposes that organizational citizenship behavior is built on reciprocity between an individual and his or her supervisor, coworkers, or the organization. The amount of reciprocity is a reflection of the employee's perception of his/her ratio of inputs to outcomes, that is, perceived equity. Inputs are the variables the employee brings to the job such as education, experience or effort. Outcomes are what is received from the organization and can take various forms such as recognition from a supervisor, assistance with work from a coworker, or a desired benefit from the organization. The underlying assumption is that a social exchange occurs resulting in organizational citizenship behavior when the employee recognizes the receipt of valued outcomes. The employee reciprocates by engaging in organizational citizenship behaviors directed either at individuals, i.e., supervisor or coworker, or directed at the organization. We suggest that social exchange explained the relationship between organizational citizenship behaviors and employee withdrawal behaviors. As part of that obligation to reciprocate favorable acts to the supervisor, coworkers, or the organization, the employee may respond with positive employee behaviors (organizational citizenship behaviors) which may lead to reduced employee withdrawal behaviors.

Organizational Citizenship Behaviors

The research literature stream addressing organizational citizenship behaviors was spearheaded by the pioneering work of Katz (1964), predicated on his assumption that innovative and spontaneous activity that goes beyond role specification is "vital to organization survival and effectiveness" (p. 132). Subsequently, some two decades ago, the term "Organizational Citizenship Behavior" was coined (Bateman & Organ, 1983; Smith et al., 1983). Organizational citizenship behavior (OCB) is defined as a voluntary employee behaviors that are not included as part of the formal job description, that is, the behaviors are not prescribed or required for a given job. They are discretionary, positive behaviors for which there are no formal rewards for performing the behavior, or punishments for non–performance (Brief & Motowidlo, 1986; Organ, 1988; Tang & Ibrahim, 1998). The construct includes five discrete dimensions: altruism, generalized compliance, sportsmanship, courtesy and civic virtue. Organizational citizenship behaviors were proposed to enhance efficiency and organizational effectiveness through behaviors that benefit the organization as well as behaviors that benefit organization managers and employees.

Employee Withdrawal Behaviors

Broadly defined, employee withdrawal behaviors are those behaviors that create a physical or psychological distance between employees and their work environments (Rosse & Hulin, 1985). Specific withdrawal behaviors examined in the literature include lateness (G. Blau, 1994; Koslowsky, 2000; Koslowsky, Sagie, Krausz, & Singer, 1997) and absenteeism (Brooke Jr. & Price, 1989; Hackett, 1989) which are also known as work withdrawal behaviors (Hanisch & Hulin, 1990). Withdrawal behaviors also include such exit-related behaviors as turnover (Chen et al., 1998; George, 1989; Podsakoff et al., 2000).

Effects of Organizational Citizenship Behavior on Employee Withdrawal

A thorough analysis of employee withdrawal behavior research can be found in the psychology literature. It is only recently that the management discipline has undertaken an analysis of employee withdrawal behaviors relevant to individual and organizational performance. However, the findings of the employee withdrawal behavior research in the field of psychology offer insight as to not only the relevance but also the value of understanding these behaviors. Employee withdrawal behavior is defined as actions intended to place physical or psychological distance between employees and their work environments (Rosse & Hulin, 1985: 325). Hulin (1991) further defined withdrawal behavior as a "set of behaviors dissatisfied individuals enact to avoid the work situation; they are those behaviors designed to avoid participation in dissatisfying work situations" (p. 63).

The majority of the research on the contributions of organizational citizenship behavior to organizational success emphasized increased productivity through use of resources; only one recognized the relationship between employee retention and organizational effectiveness (Podsakoff et al., 2000). The underlying assumption in this relationship is that employee retention results in reduced costs associated with employee recruitment, selection, and training. Thus, organizational effectiveness is enhanced through increased efficiency. In light of the accepted importance of organizational citizenship behavior in enhancing the effectiveness of organizations and the limited study on the relationship between organizational citizenship behavior and organizational efficiency, this study attempts to further the research in that area, that is, organizational citizenship behavior increases organizational efficiency through reduced negative performance (withdrawal) behaviors. The remainder of this section will focus on those studies in the extant literature that examined OCB and turnover.

Organizational Citizenship Behavior and Turnover

George and Bettenhausen (1990) examined group cohesiveness, leader's positive mood, and socialization emphasis on prosocial behavior (similar to organizational citizenship behavior) as antecedents to voluntary turnover. An inverse relationship between prosocial behavior and voluntary turnover was not hypothesized in the study; however, correlation analysis indicated that there was a significant negative relationship between prosocial behavior and voluntary turnover. Although the prosocial behavior construct in this study was narrowly measured as customer oriented helping behavior in a service context (retail sales), it suggested a negative relationship between organizational citizenship behavior and turnover that warranted further examination.

The relationships (antecedent and consequence) between role ambiguity, role conflict, job satisfaction, in-role performance, organizational commitment, organizational citizenship behavior and turnover were examined by MacKenzie, et al. (1998). Of primary interest to the current study is the hypothesized relationship between organizational citizenship behavior, and turnover. The analysis indicated that organizational citizenship behavior had a significant inverse relationship with turnover.

The relationship between organizational citizenship behavior and turnover was also confirmed in a study by Chen et al. (1998). The study hypothesized that organizational citizenship behavior was a predictor of turnover. Analysis of the data found support for the hypothesis, specifically, employees who demonstrated low levels of organizational citizenship behavior had a greater propensity to terminate employment.

The Conceptual Model

This research tested the conceptual model presented in Figure 1. A review of the literature identified only three studies that examined the relationship between organizational citizenship behavior and negative in-role behaviors; specifically, the turnover dimension of employee withdrawal behavior. The current study examined the organizational citizenship behavior–employee withdrawal behavior relationship as it pertained to the employee withdrawal dimensions of turnover, tardiness and absenteeism. Hence, this study proposed the following hypothesis: Organizational citizenship behavior will be inversely related to overall employee withdrawal behavior.

Sample

The sample for this study was comprised of 299 employees of a municipal law enforcement agency in the South. Meetings were scheduled with each department at which time employees were provided with a description of the research study and were told that participation was voluntary. Employees wishing to participate were provided with the study instruments and were allowed to complete them on company time. The employees returned the instruments directly to the author. The sample was comprised of 69.57% male and 30.10% female respondents. The racial/ethnic breakdown of the sample included 74.58% African American/black respondents, 23.75% Caucasian/white respondents, and 0.33% each for Asian/Pacific Islander, Hispanic, Native American, and Other respondents. The majority of the respondents were aged 30-39 (42.14%), 27.42% aged 40-49, 17.06% were aged 18-29, 10.70% were aged 50-59, and 2.01% were aged 60 or older. Approximately 90% of the respondents had at least some college education. The majority of the respondents (49.83%) had some college education, 21.40% had a bachelor's degree, 14.05% had an associate degree, and 3.68% had a master's degree while 10.03% had a high school education. Income reported by the respondents ranged from less than $10,000 to $70,000 annually with 47.49% of the respondents reporting incomes between $20,000 and $30,000 annually and 33.78% reporting incomes of $30,001-$40,000 annually. The respondents' tenure with the organization averaged 9.35 (SD 7.07) years while the respondents' average tenure with their immediate supervisors was 2.09 (SD 1.80) years.

Measures

Organizational citizenship behavior. The Organizational Citizenship Behavior Scale developed by Podsakoff, MacKenzie, Moorman, and Fetter (1990) was used to measure organizational citizenship behavior. This instrument operationalized the components of organizational citizenship behavior - conscientiousness, sportsmanship, civic virtue, courtesy, and altruism - as follows. Conscientiousness was measured by five (5) items that included work attendance, compliance with rules and regulations, shirking work, taking extra breaks, and conscientiousness relative to coworkers. Five (5) items also measured sportsmanship. These items included two on complaining, negativity, faultfinding, and problem exaggeration. These items were reverse scored. Civic virtue was measured by four (4) items that included attending meetings and functions that are not required, keeping current with organizational changes, and reading organizational announcements, memoranda, etc. Courtesy was measured by five (5) items including problem prevention (2 items), awareness of the effects of one's own behavior on others (2 items), and consideration of the rights of others. Five items were also used to measure altruism. These items all concerned helping behaviors and included helping co-workers who have been absent, who have heavy workloads, who are new, who have work related problems and general helpfulness to co-workers. The dimensions were assessed using seven-point Likert scales ranging from (1) "Strongly Disagree' to (7) "Strongly Agree."

Turnover Intention. Cammann, Fichman, Jenkins, and Klesh's (1979) three-item scale was used to measure turnover intention. Items used in this scale included "It is very possible I will look for a new job next year." The items were assessed using a seven-point Likert scale ranging from (1) "Strongly Disagree" to (7) "Strongly Agree." The use of turnover intention as a proxy for turnover was used in several studies (Boswell & Olson-Buchanan, 2004; Chen et al., 1998; Hanisch & Hulin, 1990; Masterson, Lewis, Goldman, & Taylor, 2000). As noted by Hanisch and Hulin (1990), "behavioral intentions . . . have been found to be significantly related" to actual turnover behaviors.

Tardiness. This variable represents actual tardiness and was obtained from company records. Tardiness data was collected for a two-month period before the administration of the organizational citizenship behavior and turnover intention surveys.

Absenteeism. The measure of absenteeism included total days absent for the same two-month period that tardiness was recorded.

Analytical Procedures

The study analyzed the collected data using structural equation modeling (AMOS 5.0). SEM is used for its ability to analyze the relationships between multiple constructs simultaneously, i.e., it is useful in examining sets of interrelated questions. The advantages of using structural equation models were noted by Byrne (2001). These include the ability to analyze data for inferential purposes, estimation of error variance parameters, the incorporation of observed and unobserved variables, and estimation of indirect effects. The data analysis was conducted in two phases. The responses for each variable were subjected to confirmatory factor analysis to identify the factor structure emerging from the responses. First and second order measurement model analyses were used to confirm that the observed variables were linked to the appropriate latent construct, that is, that the observed variables supported the measurement model. The data analysis utilized structural models to test the hypothesized relationships. The structural model enables the researcher to investigate the impact of one latent construct on another as well as to investigate the direction and relative strength of the relationship. Various fit indexes were used to assess the fit of the data to both the measurement and structural models. The indexes used in this study included: CMIN/DF (normed chi-squared; Byrne, 2001), goodness of fit index (GFI; (Joreskog & Sorbom, 1993), comparative fit index (CFI; Bentler, 1990), Tucker-Lewis index (TLI; Tucker & Lewis, 1973), and root mean square error of approximation (RMSEA; Wheaton et al., 1977).

Results

Confirmatory Factor Analysis and Assessment of Reliability

Evaluation of the factor structure and reliabilities of the constructs was conducted using confirmatory factor analysis. The overall fit of the second order organizational citizenship behavior measurement model to the data was acceptable. The CMIN/df approached 2.0; the GFI, CFI, and TLI were 0.90 or greater; and the (RMSEA) was 0.58.

The fit of the turnover intention measure model to the data was also acceptable after the addition of equality constraints. The CMIN/df was 0.01; GFI, CFI, and TLI all were 1.0 or greater; and RMSEA was 0.00.

Construct reliability was evaluated using Cronbach's alphas. The internal consistency reliabilities for the constructs were 0.94 for organizational citizenship behavior and 0.75 for turnover intention, both of which were above the recommended level of 0.70 (Nunnally, 1978).

Hypothesis Testing

The next step was to test the hypothesis for the proposed conceptual model. This was completed through structural model analysis. As indicated in the proposed conceptual model organizational citizenship behavior was hypothesized to have an inverse relationship with employee withdrawal. The structural model is presented in Figure 2.

Table 1 presents the results of the structural model analysis. The table contains the hypothesized relationship, the estimate value (unstandardized regression weight), the standard error (S.E.), the critical ratio (C.R.), the standardized regression weight, and the significance level.

The study hypothesis predicted that organizational citizenship behavior would have an inverse relationship with employee withdrawal behavior. This hypothesis was supported. The relationship between organizational citizenship behavior and employee withdrawal behavior was significant ($\rho < 0.001$) and in the hypothesized direction. This result is similar to that identified in previous studies that found a significant inverse relationship between organizational citizenship behavior and turnover (Chen et al., 1998; George & Bettenhausen, 1990; MacKenzie et al., 1998).

Table 2 indicates that there was an acceptable fit of the data to the model. The CMIN/df is below the recommended 2.0 benchmark (Wheaton, Muthen, Alwin, & Summers, 1977). The GFI, CFI, and TLI are above the recommended 0.90 (Bentler, 1990; Hair Jr., Anderson, Tatham, & Black, 1998) and the RMSEA falls within the level identified as a reasonable fit (Hair, et al., 1998).

Of particular interest to this study was the effect of organizational citizenship behavior on the three dimensions of employee withdrawal behavior (tardiness, absenteeism, and turnover intentions). The model was respecified to test the relationships between organizational citizenship behavior and tardiness, absenteeism, and turnover intentions. The results of the analysis are presented in Table 3.

The results of the test of the effects of organizational citizenship behavior on the dimensions of employee withdrawal behavior were mixed. The relationship between organizational citizenship behavior and turnover intentions was in the predicted direction but was nonsignificant ($\rho > 0.05$). The relationship between organizational citizenship behavior and tardiness was in the predicted direction and was significant at the $\rho < 0.001$ level. The relationship between organizational citizenship behavior and absenteeism was also in the predicted direction and was significant at the $\rho < 0.01$ level. Table 4 indicates an acceptable fit of the data to the model.

Discussion, Limitations, and Suggestions for Future Research

As indicated, the hypothesis was supported. The relationship between organizational citizenship behavior and employee withdrawal behavior was in the predicted direction and was significant ($\rho < 0.001$). Previous studies examined the relationship between organizational citizenship behavior and turnover (Chen et al., 1998; George & Bettenhausen, 1990; MacKenzie et al., 1998). While this study also examined that particular relationship, it extended the research to include the relationships between organizational citizenship behavior and two other dimensions of employee withdrawal - tardiness and absenteeism. When these two variables are specified in the model, the relationship between organizational citizenship behavior and turnover became nonsignificant, but significant relationships were indicated between organizational citizenship behavior and tardiness ($\rho < 0.001$) and between organizational citizenship behavior and absenteeism ($\rho < 0.01$).

These findings offer new insight on the importance of organizational citizenship behavior as an antecedent to performance. Previous research has overwhelmingly centered on positive performance behaviors such as sales, production quantity, and production quality. Scant research exists on the impact of organizational citizenship behavior on negative performance behaviors. The extant studies on this relationship focused on organizational citizenship behavior and turnover. This study extends the research on consequences of organizational citizenship behavior by including the negative performance behaviors tardiness and absenteeism and concluding that there are significant relationships between organizational citizenship behavior and the latter two dimensions of employee withdrawal behavior.

Limitations

There are several limitations to this research. The first limitation is that this study used a sample derived from a single organization which limits the generalizability of the study findings. Future studies may want to utilize other quasi-military organizations to determine if there are consistencies in the results. That being said, the research sample was a quasi military organization which was quite distinct from previous studies which used samples comprised of salespersons (two studies) and manufacturing employees (one study) in studying the relationship between organizational citizenship behavior and employee withdrawal behavior. As noted above, the results of this research both conflicted with and supported previous findings. This may suggest that there is limited generalizability of the model across populations. Second, the cross-sectional nature of the study also limits conclusions about generalizability as well as conclusions about causality regardless of the goodness of fit results. Past research influenced the direction of causality represented in the proposed research model; however, alternative conclusions about causality may be plausible. One possible alternative is turnover intention may decrease organizational citizenship behavior as the employee psychologically withdraws from the organization. This leads to a final limitation of the study, that is, the restriction of withdrawal to behavioral responses. The study does not include psychological withdrawal responses such as making excuses to avoid work or drinking before going to work or on the job.

One of the strengths of this study is the use of mixed sources. The data for the turnover intention variable was collected from employees, the organizational citizenship behavior variable was collected from the supervisors, and the tardiness and absenteeism data was collected from organization records. This use of mixed sources minimized the effect of common method variance problems (Spector, 1987).

Practical Applications

Employee withdrawal behaviors include tardiness (lateness), absenteeism, and turnover and these behaviors are found in organizations of all sizes, public or private, profit or non-profit, manufacturing or service. Therefore, from a practical perspective, organizations will benefit from an understanding of the antecedents of this behavior. The results of this study suggest that employees that engage in organizational citizenship behaviors are less likely to be tardy or absent from work. Earlier research documents the costs of employee withdrawal in organizations (Cascio, 1991; Hackett, 1989; Koslowsky, 2000; Steers & Rhodes, 1978; Terborg & Lee, 1984). Implications from this study's findings may be helpful to organizations in implementing programs to enhance the level of organizational citizenship behavior in the organization, thus, reduce employee withdrawal behaviors that in return may lower the incidence of tardiness and absenteeism. The decrease in the level of tardiness and absenteeism may result in lowering the financial costs of withdrawal and may also result in increasing productivity. Suggestions for enhancing organizational citizenship behavior include incorporating a test for this behavior in the recruitment process.

Directions for Future Research

Empirical research efforts focusing on employees' organizational citizenship behaviors and the effects of negative employee withdrawal behavior on organizational effectiveness and productivity are at an infant stage of assessment in the organizational behavior literature. This research priority should be addressed focusing on the product and service industries with respect to health care and pharmaceuticals, colleges and universities, industrial and consumer goods, local, state and federal government organizations.

Future research should also investigate whether other antecedents (e.g., fairness, leader support, task scope, transformational and transactional leadership, trust in leader, positive affect) have direct or indirect effects on employee withdrawal behavior.

It is hoped that the findings reported here will contribute toward bridging some of the gaps regarding the understanding of employee organizational citizenship behavior and the negative effect of employee withdrawal behavior that impact work settings.

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Figure 1. Conceptual Model

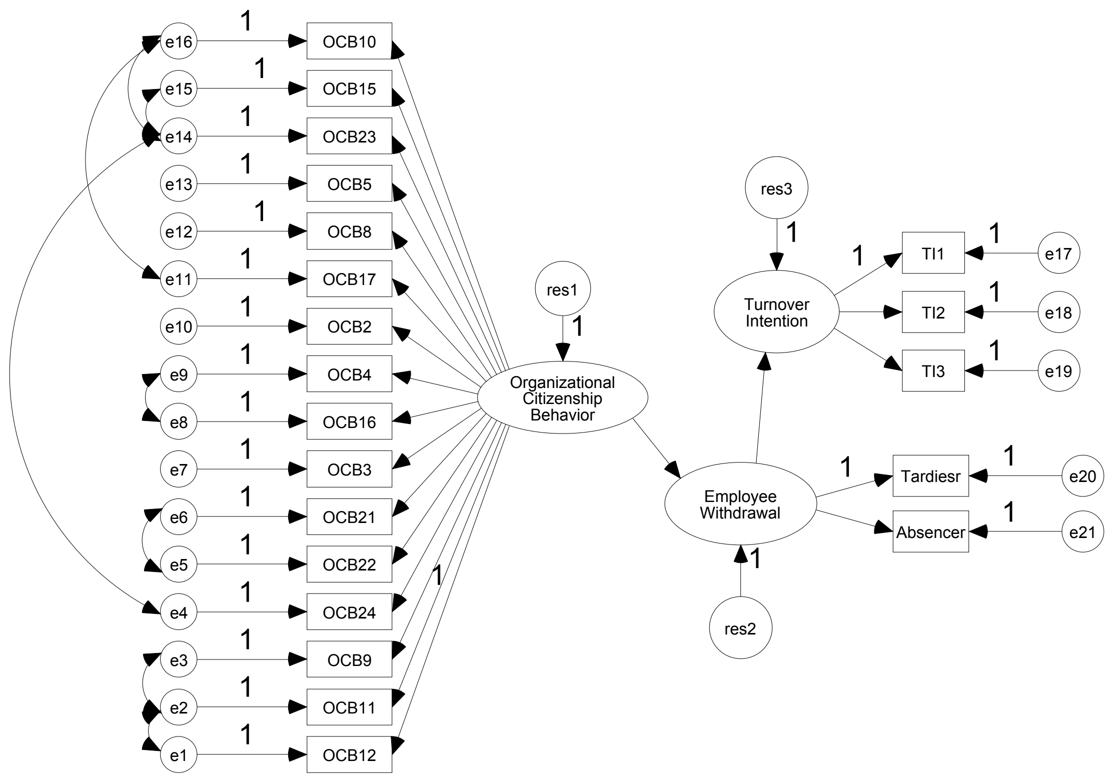

Figure 2. Structural Model

Table 1. Results of the Structural Model

Hypothesis Number	Hypothesized Relationship	Estimate	S.E.	C.R.	Standardized Regression Weight	P
H_1	EWB←OCB	-0.399	0.095	-3.355	-0.376	$\rho < 0.001$

Table 2. Goodness of Fit Model Summary for the Complete Model

CMIN/DF	1.940
GFI	0.906
CFI	0.948
TLI	0.939
RMSEA	0.056

Table 3. Results of the Respecified Structural Model

Hypothesized Relationship	Estimate	S.E.	C.R.	Standardized Regression Weight	P
TI←OCB	-0.147	0.202	-0.726	-0.047	n.s.
Tardies←OCB	-0.374	0.101	-3.718	-0.239	$\rho < .001$
Absenteeism←OCB	-0.353	0.123	-2.883	-0.180	$\rho < .01$

n.s. = non-significant

Table 4. Goodness of Fit Model Summary for the Respecified Model

CMIN/DF	1.758
GFI	0.914
CFI	0.959
TLI	0.951
RMSEA	0.05

PERSONAL FINANCIAL PLANNING CURRICULUM: A MYTH AT U.S. COLLEGES AND UNIVERSITIES

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ABSTRACT

Despite the benefits and needs to offer personal financial planning programs at colleges and universities, the number of registered programs is minute. Current efforts by both nonprofit and profit entities in the United States to curb or reduce the promised benefits to employees mandate that salaried workers need to be prepared to fend for themselves when it comes to their expected retirement and health benefits. Therefore the promises made to employees are no longer the promises kept. We live in nervous years, given the expectation of individuals' financial futures. This calls for a new approach to money management in the form of a personal financial planning curriculum. Review of current literature and surveys indicated that only a handful of colleges and universities are actively participating in educating future leaders in wealth management. The finding indicates that programs to improve individuals' money management skills via personal financial planning are not readily available in many colleges and universities.

INTRODUCTION:

One of the recent activities undertaken by the Federal Reserve Board was an awareness campaign to promote personal financial education. This follows the determination for an increased need for financial literacy that will lead to financial health of individuals. The need for individuals to take their financial health in their hands has been demonstrated given the reduced efforts to accommodate individuals' retirement needs in the United States. The promises made to employees by employers are no longer being kept. Most individual are living beyond their means and therefore being swallowed in debt. Over 120 employers have sought permission from regulatory agencies to modify or reduce employees' benefits. Entities like Verizon Inc., General Motors Corporation, Delta Airlines, and New York City are examples that are working hard to contain the promised benefits in order to stay afloat. In his many speeches before retirement, the chairman of the Federal Reserve Board Alan Greenspan said on January 31, 2006, "I fear that we may have already committed more physical resources to the babyboom generation in its retirement years than our economy has the capacity to deliver." The current state of future benefits calls for educators to assist in engineering individual responsibilities for brighter financial futures through more personal financial planning curricula. Management of one's money is a necessity that transcends socioeconomic status.

The purposes of this study are: (1) to indicate the gap in the current personal financial planning curricula at colleges and universities, (2) to assess how the gap could be filed without breaking the budgets of schools and colleges, (3) to assess the impact such curricula could have on individuals' knowledge- awareness, employers, the economy, and (4) to contribute to the limited literature in personal financial planning.

RELATED LITERATURE

No one's financial kingdom is what it used to be after the Silicon Valley wipeout, 9/11, and the bear market years. "Our employer-based social-welfare system is collapsing," due to recent freezing of many firms' pension plans says Alicia Munnell, director of Boston College's Center for Retirement Research. International Business Machines Corporation stopped entering new workers in their defined-benefit pension plans just as the Circuit City Stores and Sears Holdings Corporation did earlier in 2005. In the 2007 fiscal budget proposed by the executive branch of U.S. government, the spending on social security, medicare/Medicaid is being modestly restrained or curbed and the domestic spending that affects the poor is being cut. These changes are affecting individuals that needed the financial help most. Of the 300 largest companies surveyed by Kaiser, almost 67% have put caps on contributions to retiree health plans, according to Jeff Opdyke, who argued that workers must focus on savings as employers cut retirement benefits. This is another indication that individuals must take their future financial needs into their own hand.

EARLY PLANNERS

Personal financial planning (PFP) began as a mushroom in the early 1970s from seasoned sales people and was elevated in 1972 by the Certified Financial Board, a college for financial planning which provided training for CFP degree. The American Institute of Certified Public Accountants (AICPA) recognized several years ago the need for personal financial services (Gambino, 1986). AICPA has continually called for members to educate themselves on financial services in order to take advantage of meeting people's needs. AICPA hosted a conference in April 1986, to help members attend to clients' needs. In 1987 it called for establishment of personal financial planning departments in CPA firms, and in 1994 its call stated that working closely with other advisers can mean better recommendations for clients. Curtis Verschoor (1985) called on fellow CPAs to take up the challenge of providing personal financial services to their clients, stating that it is natural for accountants to do so, given their knowledge base compared to others attempting to service clients' needs.

Due to untrained PFP professionals, most providers of personal financial services remained attorneys, bankers, stockbrokers, accountants, life insurance agents, friends and relatives (Chesser, Moore, and Sakarda, 1996). Personal financial planning was rarely used as a job title before 1970, but today there are about 50,000 Certified Financial Planners according to the CFP board- a regulatory body for the PFP profession (Blankinship, 1996). The financial planners and experts say it is never too early to start saving. The acronym **3 Rs** now stand for reading, writing, and retirement, as the mode of thinking is now changing. At 25, many do not think about retirement, but it should be the first time to think, says David Herrtt a vice president at U.S. Trust Company.

According to one national study, 43% of all persons 65 and older will enter a nursing home in the future (Hais and DiMarzio, 2000). Personal financial services affect the future finances of clients, and Certified Public Accountants are using personal financial services to keep pace with the rapidly evolving new profession. Personal financial planning adds a whole other dimension to accounting, most CPA firms concluded.

PERSONAL FINANCIAL PLANNING EDUCATION CAN HELP

Money management involves effective accumulation and efficient distribution of wealth. The skills to effectively and efficiently participate in wealth creation at individual levels can be acquired in personal financial planning curricula. Educators realized earlier that most college graduates would be working for corporations, therefore placing emphases on corporate finance. It is known that corporations have unlimited lives and do not visit hospitals, but individual workers do get sick, and have limited resources to effectively maintain reasonable life styles over their life spans. Personal financial planning is a way for individuals to plan for and meet their future financial expectations.

As more entities go under, the need to increase individuals' skills in wealth and money management via personal financial planning education will increase. Given that employers are geared to get out of or reduce their contributions to defined benefit plans, the question is how can individuals wisely participate in wealth management to ensure their brighter financial futures? Smart people make bad financial decision by not taking advantage of obvious opportunities such as the 401(k) employee saving plan at work that features a matching employer contribution, based on informal poll of investment professionals (Gracian, 1994). This is like leaving found money on the sidewalk. He argued that people should be taught how to make their fantasy real.

The summary of 2005 questions and answers conducted by the Chronicle of Higher Education indicated that more people than ever are confused about their financial future, and suggested that academe need to do more to educate the masses. By expanding and improving financial education, especially in public schools, individuals may achieve greater short-term and long-term economic security (Beverly and Benkhalter, 2005). The 2004 Federal Reserve personal financial education initiative finds a connection between what consumers know and what they do. It stated that financial knowledge was statistically linked to individual financial practices. The Fed therefore argued for promotion of effective financial management education that will include cash flow, credit, saving and investment management.

Personal financial planning is also rated as the number one profession in America by Jobs Rated Almanac in 2000, and continues to attract a growing number of college students and career changers. Establishing a personal financial program maybe as easy as adding 1or 2 courses in current school of business curricula. Many universities may already have several required courses on their books or being taught at Schools of Businesses. A personal financial planning program can be achieved by utilizing a combination of current professors and practitioners with small twisting of current course offerings. These changes will accommodate the Certified Financial Planning Board 101 testing coverage for students that may sit for Certification without jeopardizing schools' accreditation. In general, the courses required for registered programs are Investment, Risk and Insurance Management, a Ttax course that should accommodate financial planning principles, Fundamentals of Financial Planning course, and a Retirement and Estate Planning courses.

Therefore, barriers to offering personal financial planning curriculum in schools of businesses are unfounded. Schools that believe that new curricula in personal financial planning will break their thin budgets cannot be further from the truth. In many instances, the schools already have the infrastructure (classroom), personnel, and required courses as stated in their catalogs. The costs can be minimal, given that over 70% of the courses leading to PFP are already being taught at many colleges and universities. In some instances less than 3 new courses (which can be taught by adjunt/practitioners) might be added, a less expensive route to begin a program that significantly influences people's wealth, and thus economy and life styles. The credibility of the personal financial planning profession will be enhanced by the increased participation of business schools in United States.

Collen McArdell, a manager at the Certified Financial Planning Board, stated that there are 313 CFP Board-registered programs in the US in about 191 schools as of February 2006.

There are about 3500 colleges and universities in United States. This indicates that less than 5.5 percent of the schools are actively taking advantage of a personal financial planning curriculum.

According to a recent survey, 21% of firms froze their employees' benefits, while 17% eliminated them. This action will lead to a reduction in retirement and health benefits for salaried employees, given that some benefits are based on the average of the last four years of employment when salaries are high. Therefore, the schools will be making a permanent difference in the world economy if more schools are actively providing personal financial planning education. What is more personal than the day-to-day living activities of individuals? It is therefore important that individuals plan now or live in limbo (financial disappointments).

BENEFITS OF THE PERSONAL FINANCIAL PLANNING CURRICULUM

A healthy financial future reduces fear and anxiety, according to Raymond Dolan of England's University College in London, thereby increasing the longevities of individuals. Financial burdens reduce individual (Frick, 2005). The goal of personal financial planning is to help individuals design and enjoy the lifestyle that they and their families richly deserve. The graduates of personal financial planning programs should be a disciplined and knowledgeable consumers, and proactive and informed investors. Personal financial planning is the art of building a relationship with a content focused curriculum. It is a commodity with skills that are transferable to value added wealth management services. It is also a game of life.

Effective financial planning can only occur if one thinks seriously about what awaits him or her in the long run, according to expectancy theory. What if one's pension plus social security will only cover 50% of future expenditures during retirement? Wouldn't one want to do something about it when it is still possible? Increasing personal savings, 401(K) contributions and holding part-time work now rather than later might be some of the solutions. Personal financial planning education will help individuals to embark on the journey with a final destination in mind. Marlene Stum's (2001) study suggests that the PFP curriculum had a positive impact on participants' overall knowledge, financing their long term care planning, and behavior. Frances Into (2003) stated that it must be dreadful to wonder how one is going to get enough money for retirement. He concluded that the earlier one learn money management the better one learn on how to plan for and meet their retirement needs.

Personal financial management services are a growing business niche for many companies (Gold, Pryor, and Jagolinzer, 2004). Yet less than 55% of schools require courses in personal financial planning for business or accounting majors, they concluded. What is wrong with this picture when it comes to responsibilities and leadership of educators? At the age where social security provides 91% of retirement income of those aged 65, and old people are on shaky ground, why don't we find alternatives to personal wealth creation (Sharpe and Choi, 2005)?

Personal financial planning programs should be consistent with many school's educational missions. Only one school is currently offering terminal degree (Ph.D.) in PFP, and a few are offering masters and bachelors. Schools could start with fundamental courses and grow to full programs in personal financial planning. Being among the earlier adopters will increase the schools' enrollments, by attracting nontraditional and traditional students, and meeting the needs of employers and communities, while positively impacting the economy and enriching life styles. Attracting and educating students is inevitable, but participating in the growth of the students is optional to colleges and universities.

SUMMARY

Nothing is more powerful than the truth. The facts are that educational institutions' missions include increasing people's operational skills, and meeting the needs of employers while contributing to global economy. The truth is that schools could increase their ability to achieve most of their goals by adding personal financial planning degree to their programs. Less than 6% of schools in U.S. are currently offering curricula leading to personal financial planning degrees despite the AICPA recognition of the need for financial services in early 1980s. Many business schools are claiming unfounded barriers to such offering though Home Economics departments. A few schools started offering the curricula in early 1970s. The degree can be effectively and efficiently offered in many U.S. Business Schools, given the capacity and expertise they have available to mitigate the colossal challenges of meeting people's financial future. This is necessary, given that the promises made to employees are no longer the promises kept by employers.

This paper argues for more personal financial planning curricula in colleges and universities in order to help alleviate the up coming financial pain to many retirees and will help the next generation's money management skills. It also helps in promoting and placing the needs of personal financial planning to the forefront of fellow educators. There is no doubt that what people don't know really can hurt them. The question remains, why don't more institutions of higher learning and educators realize the importance and the influence the personal financial planning program can have on our economy (higher enrollment for universities and colleges, jobs for graduates, employees for firms, and effective wealth management for the society at large)?

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An Introduction to Behavioral Finance and Gambling Profiles Evidence from Prior Research

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Abstract

The authors review the literature relative to the field of behavioral finance and gambling profiles (the level of involvement in gambling activities). This review is expected to ultimately form the basis for an empirical study to determine if a relationship exists between market participants' level of success and their gambling profile.

The review encompasses prior research on modern finance, behavioral finance, and the measurement of gambling profiles.

The authors find ample evidence of the behavioral/psychological nature of finance from the literature. They also find accepted methodologies allowing the measurement of gambling profiles, which should allow the measurement of any relationship that might exist between these profiles and other variables such as investor success.

Review of Modern Finance

The beginning of standard, modern, or traditional finance is often credited to the article of Markowitz (1952) where the basic concepts of portfolio theory were developed, including the mean/variance model – the minimum variance and efficient frontiers that support the value of portfolio diversification. Fuller (1999) describes Markowitz's mean variance model as the first of three pillars of modern finance.

Sharpe (1964) developed the capital asset pricing model (CAPM) – the second pillar of modern finance – that provides a formulation to correlate the relationship between risk and return in the financial markets. The capital asset pricing model specifies the relationship between the risk of an asset and the corresponding rate of return on that asset, assuming the assets are held in a well-diversified portfolio.

Ross (1976) developed the Arbitrage Pricing Theory. Under this approach, any number of risk factors can be included to specify the equilibrium risk and return relationship of a security. Risk factors included under APT are limitless and could be, for example, inflation, oil prices, industrial production, consumer confidence, interest rates, *etc*.

Fama and French (1992) hypothesized that the CAPM should have three factors included to determine the risk/return relationship of a security. The first of the three factors is the same beta coefficient that is included in Sharpe's CAPM. The second factor is the company's market value that is included because smaller firms are generally riskier than are larger companies. The third factor is the book-to-market ratio. Stocks with a high book-to-market ratio may be seen as riskier as opposed to stocks with a low book-to-market ratio.

Fama (1970) developed what is known as the efficient market theory – the third pillar of modern finance. The efficient market theory holds that in an efficient market, prices will 'fully reflect' all available information. Accordingly, market prices fairly indicate the true value of the company. That is, in an efficient market, an investor will not beat the market over time unless the investor has inside information. The efficient market theory has been subjected to many tests in studies published by scholarly journals of finance and economics and is widely accepted. However anomalies that are not fully explained by the efficient markets theory continue to exist.

Therefore, in addition to Ross's arbitrage pricing theory and the Fama and French three-factor model attempts to improve CAPM, and in an attempt to explore the anomalies of the efficient market theory, behavioral finance offers alternative theories to existing models.

What Started this Study?

A recent event, pointing to the validity of behavior finance as a field of study, is the overvaluation of the financial markets at the turn of the recent millennium and the subsequent bear-market correction that began in the year 2000. The Dow Jones Industrial Average more than tripled from early 1994 to 1999. During the same period of time, basic economic indicators, such as corporate profits and personal income, did not come near the increases in the Dow. Financial behaviorists point to the internet bubble and telecom bubble and cannot explain, in a rational manner, why the pre-burst valuations ever became so unrealistic. Shiller (2000, Chapter 2) notes that these speculative bubbles represent situations in which temporarily high prices are not sustained by the net underlying value of the assets, but rather, by investors' enthusiasm. In Chapter Two of Shiller's work, he presents a listing of twelve factors which he believes help explain the reason for the millennium bubble to have occurred. These factors concentrate mostly on factors that have had an effect on the market that is not warranted by rational analysis of economic fundamentals. The twelve factors are listed as follows:

1) The arrival of the internet at a time of solid earnings growth
2) Triumphalism and the decline of foreign economic rivals
3) Cultural changes favoring business success
4) A Republican Congress and capital gains tax cuts
5) The baby boom and its perceived effects on the market
6) An expansion in media reporting of business news
7) Analysts' increasingly optimistic forecasts
8) The expansion of defined contribution pension plans
9) The growth of mutual funds
10) The decline of inflation and the effects of money illusion
11) Expansion of the volume of trade
12) **The rise of gambling opportunities** (emphasis added)

The specific impetus for this paper emanates from both Shiller's listing of gambling as a possible factor on the financial markets and the simultaneous growth in both the areas of investing and gambling in the United States. This review is expected to ultimately form the basis for an empirical study to determine if a relationship exists between market participants' level of success and their gambling profile.

Additional Behavioral Finance Literature Review

Behavioral finance attempts to explain reasons for investors' irrationality for the purpose of using this information to improve market performance in the future. Behavioral finance is based on the premise that people do not act rationally in their overall lives, and according, they should not be expected to act rationally in their investing practices.

Schoenfelder (2001) observes, “Behavioral finance is a relatively new field of inquiry in which findings from the behavioral sciences are integrated with the normative models of economics and finance in attempting to understand how investors make decisions.”

Weber (1999) makes the following observation, “Behavioral Finance closely combines individual behavior and market phenomena and uses knowledge taken from both the psychological field and financial theory.”

Barber and Odean (1999) state: “The field of modern financial economics assumes that people behave with extreme rationality, but they do not. Furthermore, people's deviations from rationality are often systematic. Behavioral finance relaxes the traditional assumptions of financial economics by incorporating these observable, systematic, and very human departures from rationality into standard models of financial markets.”

Fromlet (2001) states: “Behavioral finance explains many reactions on financial market that appear to be contrary to conventional theory and can thus make an important contribution to avoidance of serious mistakes and to finding investment strategies.” He adds, “The need for heuristics in real-world applications is a major difference from the ‘perfect world’ in the models of Markowitz, Sharpe, and others.”

Shefrin (2002) in the simplest and broadest terms defines behavior finance as, “the study of how psychology affects finance.”

Thaler (1999) presented the development of finance as encompassing four chapters. The first chapter encompassed the 1930s and 1940s and in this era, finance was behavioral, citing the classic advice of Graham (1934), which is based on the merits of value investing. The second era included the period of the 1950s through the 1970s and was the age during which financial economists used mathematics and data to propose quantitative theories of how the market performed. The third and current period began in the late 1970s and continues through today. This third period is one of anomalies and the rebirth of behavioral finance. Thaler suggests that market characteristics, such as low price-to-earnings ratios, small versus large capitalization, dividend changes, share issues, and the ‘January effect’ have all demonstrated some reliability as predictors of returns. The fourth chapter of the development of finance is the future.

Shefrin (2002) adds, “The proponents of behavioral finance, myself included, argue that a few psychological phenomena pervade the entire landscape of finance.” Shefrin has provided organization to the field of behavioral finance by placing these phenomena into three themes, listed as follows:

> 1) Heuristic-driven bias. The process by which things are found out for themselves by people through trial and error and which often leads to errors.
>
> 2) Frame dependence. Dealing with the distinction of form and substance and holds that differences in form may be substantive, *i.e.*, loss aversion, mental accounting, hedonic editing, self-control, regret, and money illusion.
>
> 3) Inefficient markets. The debated question of whether investors’ errors are the cause of mispricing, *i.e.*, representiveness, anchoring-and-adjustment, loss aversion, sentiment, and overconfidence.

Daniel and Titman (1999) state, “The psychology literature describes a myriad of behavioral biases that can potentially explain almost any observed deviations from the efficient market hypothesis. However, the most prominent anomalies can be explained by what is called investor overconfidence. Overconfidence is one the most strongly documented behavioral biases.”

The behavioral finance literature generally finds that investors do not always act rationally. Schoenfelder (2001) finds, "As opposed to the assumptions of rational choice, investors became risk-seeking when faced with expected returns that fell below a minimum financial goal and became risk-averse when expected returns exceeded a minimum goal."

Li (1999) states: "The empirical results support the overreaction hypothesis which assumes that some investors are overly optimistic about firms which have done well in the past, and are overly pessimistic about those that have done poorly. These findings add to the behavioral finance literature."

Wang (1999) states: "We find that investors tend to overweigh and extrapolate the recent patterns (trends) in returns and earnings. When the trend is broken, they do not update their expectations fully to reflect the implications of the new evidence and thus under-react. Momentum is strong when the historic trend in data is broken, but it is weak and short-lived when the trend is intact."

Behavioral finance academicians believe the time has come to accept behavioral finance. Olsen (1998) states, "By and large, the academic financial community has remained cautious about embracing developments in this field, although practicing financial professionals believe that it is about time academicians become realistic about investor behavior."

Fischer Black upon moving from M.I.T. to Wall Street, in emphasizing the distinction between the world of practice and the theoretical world, stated in 1998 that "Markets look a lot less efficient from the banks of the Hudson than from the banks of the Charles."

Statman (1999A and B) sees the need for a model that would use the capital asset pricing model (CAPM) as a base and could be further developed so that it would include value-expressive as well as utilitarian characteristics. The model is called a behavioral asset-pricing model (BAPM). Statman states: "The BAPM of the future will not be as beautiful as the CAPM, but it will be more robust. Indeed, the BAPM will be the old economics model of demand and supply. It will begin with an identification of the preferences of buyers and sellers, continue with the characteristics that capture value-expressive as well as utilitarian preferences, and conclude with equilibrium prices."

Shiller (2006) states that economic theorists questioned the sources of volatility in financial markets through the discovery of anomalies. In addition, those theorists attempted to incorporate Kahneman and Tversky's 1979 prospect theory.

Nagorniak (2005) further disputes the efficient markets hypothesis by stating that under the theory only investor's luck will bring higher returns.

Stein (2005) argues that investors make decisions with very limited information. People are inundated with so much information that they have difficulty determining which data are relevant. Psychological literature, he suggests, would posit that people simply limit their attention to a small subset of available data.

O'Toole and Steiny (2005) state: "left to their own devices, investors will let their emotions take control when making choices about their portfolios." These emotion-based decisions violate the rationality assumption of the efficient markets hypothesis.

Opiela (2005) points out that lottery ticket sales rise as jackpots rise. However, that likelihood that one would claim the entire prize diminishes as well. This is yet another example of the irrational, yet predictable, nature of behavioral finance.

Study-Relevant Gambling Literature

The assumption underlying the existing research is that gambling participation levels exist and can be measured (Volberg 1998). This is important to the authors because the intent of this review is to provide the basis to empirically study the relationship between gambling levels and investor performance. The National Research Council (1999) provides a conceptualization of gambling behavior on a continuum beginning with non-gambling, to social/recreational gambling, to problem gambling, and ending with pathological gambling. Definitions provided to the National Research Council (1999) by the Committee on the Social and Economic Impact of Pathological Gambling are as follows:

Level 0 gambler (non-gambler): No gambling at all;

Level 1 gambler (social or recreational gambler): gambling for entertainment or social purposes, with no appreciable harmful effects;

Level 2 gambler (problem gambler): gambling behavior that results in any harmful effects to the gambler, his or her family, significant others, friends, coworkers, etc. Some problem gamblers would not necessarily meet criteria for pathological gambling; and

Level 3 gambler (pathological gambler): A mental disorder characterized by a continuous or periodic loss of control over gambling, a preoccupation with gambling and with obtaining money with which to gamble, irrational thinking, and a continuation of the behavior despite adverse consequences.

Conclusion

This literature review was undertaken to acquaint the reader with the issues involving modern finance and a variant, which has come to be known as behavioral finance. Behavioral finance argues that there are basic difficulties with financial models that assume completely rational behavior on the part of market participants. Behavioral finance looks to market psychology to explain what are often referred to as anomalies.

It is the opinion of the authors that there is validity to the argument put forth by the supporters of behavioral finance. In particular, it is the opinion of the authors that there should be a relationship between certain psychological attributes on the part of investors and their ability to successfully manage their portfolios.

The attribute in which we are most interested, and what will form the basis for the empirical part of this work, is the investor's gambling profile, hence the review of that literature as well. It was found that it is entirely possible to measure gambling profiles. Given that we can measure investor's success, the ability to empirically test for a link between the two is established.

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How to Position a College of Business: An Empirical Study

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Abstract

This paper examines a college of business and how it is positioned relative to competitors. Positioning is defined as creating a distinctive place in the mind of the consumer relative to competing products.(Lovelock & Wright 2002). In this case, potential college business students are the customers. Positioning has several uses which include determining if a product/service is too closely positioned to a competitor, identifying an ideal position, and repositioning or changing the image of a product or service in the consumer's mind. According to Trout and Ries (1986) positioning must involve four principles. A company must establish a singular position, it should have a consistent message, its position must set it apart from competitors and it must focus its efforts on specific targets.

Positioning can be physical or perceptual. This study involves perceptual positioning and how a college of business is perceived on two critically determinant attributes relative to competitors. Critically determinant attributes are not only important attributes but those that differentiate one product or service from another. This study examined nine critically determinant attributes that were identified by surveying business students. These attributes were the quality of job prospects after graduation, reputation of the college, degrees and programs offered, the accreditation of the college, tuition and books costs, availability of night courses, availability of online courses, and class size. The most important attributes were the quality of job prospects after graduation, the reputation of the college and the degrees and programs offered.

Seven public universities within a southeastern state were compared on these attributes. Perceptual maps were developed to identify the college of business position relative to competitors on these attributes. 131 junior and senior college students were surveyed. Results of the positioning study were used to make recommendations to the Dean of the college of business on how to develop a strategic marketing plan for the college of business.

Positioning Study for the DSU College of Business

Positioning refers to both the place a product or brand occupies in the customer's minds relative to their needs and competing products or brands. (Walker et al. 2006) . The term positioning was first coined in a paper written by Jack Trout in 1969. (Trout 1969) Positioning involves establishing a distinctive place in the minds of consumers relative to competitors. (Lovelock & Wright 2002). In this case, potential college business students are the customers. According to Trout and Ries (1986) positioning must involve four principles. A company must establish a singular position, it should have a consistent message, its position must set it apart from competitors and it must focus its efforts on specific targets.

Positioning is a way for marketers to distinguish or differentiate themselves from competitors and gain a competitive advantage. Differentiation among universities involves distinguishing yourself from a competitor in ways that are achievable and that students find meaningful. To position a product or service a marketer must communicate what is being offered, whom it is for and why it is unique. If a university does not differentiate some aspect of its product offering then students will differentiate business programs on price. In this case, positioning is how the college of business is perceived in the minds of the consumer, in this case, the student relative to other competing universities on two critically determinant attributes. Other colleges and universities considered include Miss State, Ole Miss, Southern Mississippi, Jackson State, Alcorn State, Miss Valley State, and Miss University of women.

Uses of Positioning

Perceptual positioning has a number of uses. One use of positioning is to see if a product or service is being accurately perceived. If a product or service is being inaccurately perceived then either the physical attributes or features need to be changed or the promotional campaign needs to be redesigned. Another use of positioning is to see if a product or service is being perceived as too close to a competitor in the customer's mind. A third use of positioning is to see how close the product or service is to an ideal product or brand. A fourth use of positioning is to identify any threats that may exist from other products or brands. Positioning is also used to gauge marketing opportunities. Finally a last use for positioning is to see whether or not the product or brand is being accurately perceived.

The Method of Positioning

A first and most important step in the positive positioning of a college or university involves a commitment from top administration to a strategic marketing process. Indeed, a comprehensive marketing strategy, to be effective, must involve the efforts of the entire campus staff and must be based on sound marketing research and principles. (Zeiss 2006). Top level management must utilize a strategic decision making process that involves a clear understanding of mission, whom a college serves, and a knowledge of what makes the services of that college unique.

A positioning strategy is relatively straightforward and easily accomplished. The Dean of the College of Business must believe in the mission of the college and secure acceptance of the mission from both faculty and students. A strategic action plan must be developed with input from internal and external publics. The college must be involved with community economic development and chamber of commerce activities. The college must follow through with commitments and develop an impeccable reputation for integrity , responsiveness and cooperation. Economic development activities should include development of a small business center, assisting the chamber of commerce, recruiting industry, providing business related services and training, and publicizing the college's role in these activities.

Steps in the Positioning Process

Competitive positioning is a multi-step sequential process. You first identify your competition. Its best to focus on institutions with which you really compete for the students you need. Generally these institutions will be more similar to you than dissimilar. You should learn as much as you can about these other institutions and the image, degree and course offerings, curriculum, pricing, methods of distribution and promotions as you can. Next you need to determine the position that you and your competitors occupy in the minds of prospective students. Last you need to identify the position that you would like to occupy.

Most authors agree that the steps in the positioning process involve first identifying a set of competitive offerings. In this case we have identified seven public universities offering business degrees in the state of Mississippi. The next step is to select two critically determinant attributes. We have selected seven attributes that were thought to be critically determinant and thus will be able to develop a set of perceptual maps. Perceptual mapping is simply a visual representation of the positioning process and how customers perceive competing services. A perceptual map is sometimes called a positioning grid. The third step is to collect data from a sample of customers about their perceptions for products in the competitive set. In this case, we surveyed 165 junior college and business students . The next step is to analyze the intensity of the current position of products on the perceptual map. While sophisticated statistical techniques can be used, we calculated means for each attribute at each college and plotted those means on 2 dimensional perceptual maps. The next step is to determine customers most preferred combination of attributes. The next step is to examine the fit between preferences of the various market segments and the current position of the market. The last step is to write a positioning statement and to select a positioning strategy. (Walker et al 2006).

Identify a set of competitive offerings.

Although there are eight public universities in the State of Mississippi, only seven of those offer degrees in business. These include Alcorn State, Delta State, Jackson State, Mississippi State, Mississippi Valley State, Ole Miss, and Southern Mississippi. There were selected as major competitors for DSU because tuition costs should be similar. While potential DSU students could choose to attend private universities such as Millsaps, Belhaven or Mississippi College tuition costs might be much higher. Potential DSU students could also choose to attend colleges or universities out of state such as Arkansas Tech, University of Central Arkansas, Arkansas Monticello or University of Memphis. Here again tuition costs would be much higher if students had to pay out of state tuition. Finally these schools were chosen because of the wealth of data available on the IHL (institutions of higher learning of Mississippi) web site.

Selection of Critically Determinant Attributes

A class of business graduate students was surveyed and asked what factors were important to them in choosing a college of business undergraduate or graduate program.
The following factors were identified.

Night Classes – This factor refers to whether or not the university offers night classes. Many students work full time and this is the only way they can attend undergraduate and graduate programs in business. At DSU approximately 50% of students enrolled in the MBA program work full time and are only able to attend at night. Most universities offer night classes. Ole Miss does not offer night classes in the MBA program.

Job Prospects – This factor refers to the number of job prospects for a graduate after graduation and the quality of those job prospects. One reason that college students might choose a particular college of business is the number and quality of possible job opportunities after graduation. The more job prospects and the better quality of those job prospects, the higher the likelihood that a student might choose that college of business.

Costs – Costs in this case refer to such items as tuition costs and costs of textbooks. Tuition costs to attend Mississippi public universities average about $2000 a semester , books can average about $500 a semester and housing and meal plans can average about $2000 a semester. Total costs to attend public universities is in the $8000 to $9000 range. Costs cold also refer to housing costs to live in a particular college community. The costs to live in a student dorm and to eat meals in the student cafeteria all contribute to costs / All public universities should have approximately the same costs involved to attend that university.

MVSU 's recent enrollment dropped 13% from 3621 students to 3162 students. The president of the university attributed this to a 33% increase in tuition costs over the last several years from $3158 in 2001-2002 to $4024 this year. 98% of MVSU's students are receiving some form of financial aid. In addition Room and Board costs (dorm room housing and meal plans) have gone up 33% over the last 5 years from 3,013 a year to $3946 a year.

Accreditation **–** Accreditation refers to where or not the college of Business is accredited. Delta State is accredited by SACS, and ACBSP and Ole Miss and State are accredited by AACSB. If a degree program is not accredited then students will be less likely to enroll as their degrees will probably be worth less. AACSB accreditation requires professors to engage in more research endeavors. AACBS accreditation is generally thought of as better than ACBSP accreditation.

Location (closeness) – Closeness of the location refers to how close the university is to a students job or home. Many students want to attend colleges or universities close to work or home for financial reasons. Delta State attracts 70% of its enrollment from seven surrounding Delta counties including Washington, Bolivar, Leflore, Sunflower, Grenada, Coahoma and Desoto. Students who live in these counties want to attend a university nearby.

Location (attractiveness) – The attractiveness of the location refers to the geographic location of the college or university. For example, The University of Hawaii would be considered an attractive location if a student wanted to engage in surfing and sun tanning. A university located near ski slopes in Colorado would be considered an attractive location if students were interested in snow skiing.

Availability of assistantships **-** The availability of assistantships refers to whether graduate assistantships are available and the likelihood of getting one of those assistantships. Graduate assistantships usually pay students in graduate school several hundred dollars a month. Some pay $600 to $700 a month. A student is required to work for a professor or department and help with test grading, test preparation, running off copies, and gathering research articles in the library or online.

Reputation – Reputation refers to the local , state, regional and national reputation that the college or university has. The local reputation refers to the reputation that the college has in the local community. The in state reputation refers to the reputation the college or university has within the State, in this case, the state of Mississippi. The regional reputation refers to the reputation the college or university has in the regional area, in this case that would refer to the Southeastern Region. The national reputation refers to the national reputation of the university. Reputation is comprised of the excellence of teaching within the universities and how widely renown it's programs are.

Programs or Degrees Offered. – This factor refers to the degrees and programs offered by the college and how well they match up to what the student wants. For example, Ole Miss offers a major in management information systems but does not offer anything in computer information systems such as what DSU offers. DSU offers an aviation program which many other universities do not offer.

Class Size – Class size refers to the number of students enrolled and attending a class. Larger universities and colleges such as Ole Miss or Miss State are thought to have larger class sizes but in fact DSU class sizes in graduate programs of business are just as large. Students who attend smaller classes would benefit from more personal interaction with a professor.

Online classes – Online classes refer to whether or not the college or university offers online courses. This may not be a critically determinant attribute as most colleges and universities do offer these courses.

The Study

A sample of 42 students in a graduate class was asked what factors would be important to them if they were selecting an undergraduate or graduate college of business. The most important factors were identified below

	Mean	rank
Job Prospects after graduation	3.1765	1
Reputation of the college	3.3235	2
Degrees and Programs offered	3.5000	3
Closeness of the College to Home	4.4706	4
Is College accredited	4.6765	5
Tuition and Books Cost	5.2941	6
Night class availability	7.6178	7
Availability of assistantships	7.8824	8
Online classes offered	8.0294	9
Class Size	8.5000	10
Attractiveness of surroundings	9.2353	11

Sample Demographics

Sample demographics include gender, race, family household income, and age.

Gender

The sample was composed of 52 males and 79 females. This ratio closely approximates the male female ratio at DSU which is 40% male and 60% female.

Age

The mean age of the sample was 22.3 years. Almost 60% of the sample was 22 years old or less. 32% of the sample was from 17-18 years old. Another 14% was from 19-20 years old. Another 14% was from 21-22 years old. 11% of the sample as from 23-24 years old. 9% of the sample was from 25-26. Another 5% was 27-28 years old. 15% of the sample was above the age of 29.

Ethnic Background

The sample was evenly divided between African American students and White students according to ethnic background. 47% or 62 students were African American. Another 45% or 59 students were white or Caucasian.

Family (Household) Income Level

The mean family income for the sample was $37,500. 50% of the sample were in households with income of $50,000 or less. 75% of the sample were from households with family income of $75,000 or less. This suggests that financial aid may play an important role for students in the Miss. Delta. 15 students did not provide income data. 26.5% of the sample had incomes of less than $25,000. Another 26.5% had incomes between $25,001 and $50,000. Another 21.1% had incomes from $50,001 to $75,000. Only 15% of the sample had incomes over $75,001.

Expected Major in College

47% of the sample expected to major in business in college. 13% expected to major in sciences. Another 12% expected to major in Education.

Means and Standard Deviations for Each Business College

The next step was to survey a sample of community college students and a sample of high school students and ask them how each of the seven colleges was perceived on the dimensions listed above. We surveyed 131 community college and high school students.

Interpretation of Means

Job Prospects

We first asked students to guess what their job prospects would be after graduating from each college of business. Job prospects are defined as the likelihood of obtaining several good quality job offers after completing and receiving a business degree

Job prospects were generally perceived to be good after graduating with a degree in business from Ole Miss , Miss State and Southern Miss (mean 4.04 to 4.23). Job prospects after graduating from Delta State are perceived to be better than average (3.65) Job prospects after graduating from Alcorn, Miss Valley and Jackson State were perceived to be average (2.73 to 3.17).

Reputation of the college

Reputation of the college refers to how the college is thought of in the local community by students as well as business people. Does the college have knowledgeable faculty members. Are students who graduate from the college highly thought of?

The reputation of Ole Miss, Miss State and Miss Southern was perceived as good (4.02 to 4.26). Delta State's reputation was much better than average (3.72). The reputation for Miss Valley, Alcorn and Jackson State was perceived as average (2.85 to 3.02).

Degrees and programs offered

Degrees and programs offered refers to the number and quality of degrees and programs offered and how highly thought of those degrees and programs are.

Degrees and programs offered were perceived to be good at Ole Miss, Miss State and USM (3.95 to 4.28). Delta State's reputation was perceived as better than average. (3.63) Miss Valley, Alcorn and JSU were perceived as average in reputation (2.90 to 3.02).

Accreditation

Accreditation refers to which accrediting agency is responsible for accrediting the college of business and whether or not the college is accredited by AACSB or ABCSP

Accreditation was perceived to be good at Ole Miss, Miss State and Southern Miss and Delta State. (3.77 to 4.24) Accreditation was perceived to be average or slightly above average at Alcorn, Valley State, and Jackson State (3.04 to 3.2)

Tuition and books costs

These costs refer to the tuition and textbooks costs to attend each college of business

Tuition costs were perceived to be high at Ole Miss, Southern and Miss State (3.99 to 4.17). Tuition costs were perceived to be above average for Delta State (3.45) and Jackson State (3.32). Tuition costs were perceived to be average for Miss Valley and Alcorn State (3.05 to 3.16)

Availability of Night classes

The availability of night courses refers to how many business courses at both the undergraduate and graduate level are offered at night. Many working adults can only take courses either at night or online.

The availability of night classes was perceived to be good at Miss State , Ole Miss, Southern and Delta State (3.65 to 3.80) The availability of night courses was seen as above average for Alcorn , Valley and JSU (3.19 to 3.35).

Availability of assistantships

The availability of assistantships refers to whether or not assistantships are available and the likelihood of obtaining those assistantships.

The availability of assistantships was perceived to be good at Miss State, Ole Miss and Southern Miss (3.86 to 3.88). The availability of assistantships at Delta State was perceived to be above average (3.52). It was perceived to be slightly above average for JSU, Alcorn and Miss Valley. (3.13 to 3.29)

Availability of online courses

The availability of online courses refers to the extent to which online courses are available for students to enroll in. Many students work full time and like the availability of online courses

The availability of online courses was perceived as good at Ole Miss, Southern Miss and Miss State (3.83 to 4.00). It was perceived as slightly above average for Delta State (3.37) and about average for JSU, Miss Valley and Alcorn (2.98 to 3.17).

Class size

Class size refers to the average number of students enrolled in a traditional class where an instructor is present. One theory is that the quality of instruction and interaction with a professor is better in smaller classes.

Class size was perceived to large at Ole Miss, Miss State and USM (4.02 to 4.23) Class size was perceived to be average for Alcorn, Valley, JSU and DSU (3.08 to 3.29).

Analysis of Variance, ANOVA

Analysis of variance, ANOVA, was performed on the means of job prospects for different colleges, means of reputation of the college, means of perceived excellence of degrees and programs, means of perceived excellence of accreditation, means of perceived availability of assistantships, online classes and night classes, means of perceived class sizes and perceived tuition costs. ANOVA is an appropriate statistical technique used to see if a significant difference exists between means. All means for different colleges were significantly different on each dimension.

The means of job prospects were significantly different with a calculated value of F = 57.1 significant at alpha less than .001. The means of reputation were significantly different with a calculated value of F = 50.73 significant at alpha less than .001. The means of perceived excellence of degrees and programs were significantly different with a calculated value of F = 42.9 significant at alpha less than .001. . The means of perceived excellence of accreditation were significantly different with a calculated value of F = 37.44 significant at alpha less than .001. The means of perceived costs of tuition and books were significantly different with a calculated value of F = 42.30 significant at alpha less than .001. The means perceived availability of night classes were significantly different with a calculated value of F = 9.7 significant at alpha less than .001. The means of the perceived availability of assistantships at each college of business were significantly different with a calculated value of F = 16.17 significant at alpha less than .001. The means of the perceived availability of online courses were significantly different with a calculated value of F = 22.99 significant at alpha less than .001. The means of perceived class size were significantly different with a calculated value of F = 50.07 significant at alpha less than .001.

Correlation between ethnic background and perception of a business college

Do white students perceive predominantly white institutions such as Ole Miss or Miss State to have better reputations and better programs. Do white students perceive predominantly black institutions such as Alcorn State, Valley State or Jackson State to have poor reputations or programs. Do Black students negatively perceive predominantly white institutions or do they positively perceive predominantly black institutions. Because they may be relationships between ethnic background and how institutions are perceived, a correlation analysis was performed. The variable ethnic background was correlated with how students perceived the quality of job prospects, reputation of the college, degrees and programs, the accreditation, tuition costs, availability of night classes, availability of assistantships, availability of online classes, and class size.

Results of correlation analysis between ethnic background and perception of various business colleges.

Black students had much higher perceptions of predominantly black universities in terms of job prospects after graduation. Conversely white students had much lower perceptions of job prospects after graduation at predominantly black business colleges. Race and perception of job prospects were significantly correlated at alpha less than .004. for all three HBCU's

Black students had much higher perceptions of the reputations of predominantly black universities. Conversely white students had much lower perceptions of the reputations of predominantly black business colleges. Race and perception of reputation were significantly correlated at alpha less than . 05 for all three HBCU's

Black students also had higher perceptions of the degree programs of predominantly black colleges. Conversely white students had much lower perceptions of the same business and degree programs. Race and perception of degree programs were significantly correlated at less than .05 for ASU and JSU.

There was also a strong relationship between ethnic background and how accreditation of the university is perceived. Black students strongly perceived the accreditation of black colleges more favorably. Conversely white students perceived the accreditation of predominantly black business colleges as poorer. Race and perception of accreditation were significantly correlated at all three HBCU's at alpha less than .05.

There was also a strong relationship between the perception of availability of assistantships and ethnic background at one business college Race and perceived availability of assistantships were significantly correlated for ASU at alpha less than .004.

There was a positive correlation between ethnic background and the perceived size of classes. White students significantly perceived class size to be larger at Ole Miss or MSU. Race and perceived class size were significantly correlated for UM and MSU at alpha less than .008.

Halo effect

One of the problems with the study is that students tended to rate a university or college the same on each important dimension. This is referred to as Halo effect, which is the tendency for consumer ratings of one prominent product characteristic to influence ratings for many other attributes of that same product (Wirtz and Bateson 1995). Halo effect, in this case, makes it difficult for prospective students to assess the strengths and weaknesses of competing college of business programs. In order to see if Halo effect was present correlations were run for each business college and included only the various aspects that students were rating for that college. In other words we wanted to see if students were rating all aspects of a particular college the same.

Alcorn state

For Alcorn state all dimensions were significantly correlated except for job prospects and the availability of night courses. The majority of correlations were significant at .001 or less. This may suggest that some of these variables can be combined. 97% of the possible combinations of variables were significantly correlated. Halo effect was found to be present.

Delta State

For DSU all variables and dimensions were significantly correlated. The majority of correlations were significant at .001 or less Halo effect was found to be present.

Jackson State

For JSU all variables and dimensions were significantly correlated. All the correlations were significant at .001 or less. Halo effect was present.

Mississippi State

Not all variables or dimensions were significantly correlated. The following variables or dimensions were not correlated with job prospects ; tuition costs, the availability of night classes, the availability of online classes, and class size. Reputation was not correlated with availability of night classes. Costs were not correlated with the availability of online courses. Assistantship availability was not correlated with class size. All other variables were significantly correlated. 28% of the possible combinations of variables were not correlated while 72% were significantly correlated. Halo effect was present.

Mississippi Valley State

For MVSU all of the dimensions were significantly correlated at .001 or less. Halo effect was present.

Ole Miss

For Ole Miss all of the possible combinations of variables and dimensions were significantly correlated at .001 or less. Halo effect was present.

Southern Miss

For southern Miss all of the possible combinations of variables and dimensions were significantly correlated at .001 or less. Halo effect was present.

Interpretation of Selected Perceptual Maps

With nine dimensions or important attributes we were able to create thirty six perceptual maps, keeping in mind that a perceptual map is limited to two attributes or two dimensions. Rather than discuss all thirty six perceptual maps, we decided to select only several to discuss.

Perceptual Maps where DSU is closely aligned with the Big Three Schools

There are a number of perceptual maps in which DSU is closely aligned with Ole Miss, Miss State and Southern Miss. With these, DSU does not seem to differ much from the big three schools but seems to differ markedly from the three historically black universities (HBCU's). When examining reputation and job prospects, job prospects and degrees and programs, reputation and degrees and programs, accreditation and reputation, and reputation and costs, DSU is seen as very similar to the big three schools and very different from the historically black public universities. DSU should stress in its advertising and promotions its excellent reputation, good job prospects after college graduation, excellent degrees and programs and high accreditation standards. A good example is reputation by job prospects. See table I below for the map.

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Insert table I here
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Perceptual Maps where DSU is seen as somewhere in between the big three schools and the three historically black schools

There are a number of perceptual maps in which DSU is seen as about halfway between the big three schools and the three historically black schools. These would include job prospects and online courses, online courses and reputation, class size and reputation, online courses and degrees, and online courses and assistantships. In many of these maps, DSU is seen as not quite having the online capabilities that the big three schools do but still having a better reputation than the historically black schools. In these maps, DSU should first identify its weaknesses and then strive to improve in those areas. A good example is reputation by online courses in table II below. By improving the availability of online offerings DSU could be perceived as closer to the big three schools.

~~~~~~~~~~~~~~~~~
Insert table II here
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Perceptual Maps where DSU is seen a very similar to the smaller historically black universities.

There are a number of maps where DSU is seen or perceived as very similar to the smaller historically black universities on several dimensions. These include class size by job prospects, night courses and degrees and programs, night courses and costs, online courses and costs, class size and costs, class size and online. DSU should seek to align itself with the smaller schools on dimensions such as low costs and smaller class sizes. A look at table III below shows how DSU is perceived in relation to class size and costs.

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Insert table III here

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Perceptual Maps where DSU has a distinct advantage over the Big Three schools and the smaller historically black schools

There are a few maps where DSU is perceived very favorably on both attributes of importance. A good example is accreditation by class size. Another example is assistantships and class size. Here DSU is seen as having excellent accreditation equal to the big three schools and small class size. In this situation DSU is closer to the ideal position than any other school. In situations like these DSU should market and promote these strengths in a promotional campaign. An example is table IV .

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Insert table IV here

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Discussion

Delta State's strengths include its perception of having higher than average job prospects, the business school being perceived as having a good reputation, better than average degree programs, good accreditation, good availability of night classes and assistantships and average class size. Weaknesses are that DSU is perceived as having above average costs of tuition, and only average availability of online courses. DSU's actual tuition costs are significantly below that of Ole Miss, Miss State and Southern Miss and also lower than Alcorn, Valley and Jackson State.

On many dimensions that are important to students DSU is seen as somewhat below Ole Miss, Miss State and Miss Southern, but somewhat above Alcorn, Jackson State and Miss Valley State. DSU's promotions and communications should stress its graduates and jobs they have been able to attain, the reputation of the business college and programs offered, the excellent perceived accreditation, good availability of night classes for working adults, and smaller class sizes. DSU needs to develop more online courses and promotions should stress that tuition costs are below the big three schools.

In some areas DSU is perceived to be very close to Ole Miss, MSU and Southern Miss such as accreditation and availability of night classes. In other areas such as class size DSU is perceived closer to JSU, Alcorn and Valley. However most of the time DSU is perceived as somewhere in between the Big three universities and the three historically black universities

Recommendations – "The Best of Both Worlds"

DSU's advertising campaign should emphasize "the best of both worlds". The campaign should mention that at DSU a graduating student has excellent job prospects, the college of business has an excellent reputation, good degree programs and accreditation. The campaign should infer that students receive an excellent education while at the same time having certain advantages that the big schools can not offer. This includes lower costs to attend DSU and smaller class sizes. DSU needs to seek to find ways to offer lower costs for students and at the same time increase the availability of online courses to improve its image as a student friendly progressive university.

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Table I – reputation by Job prospects

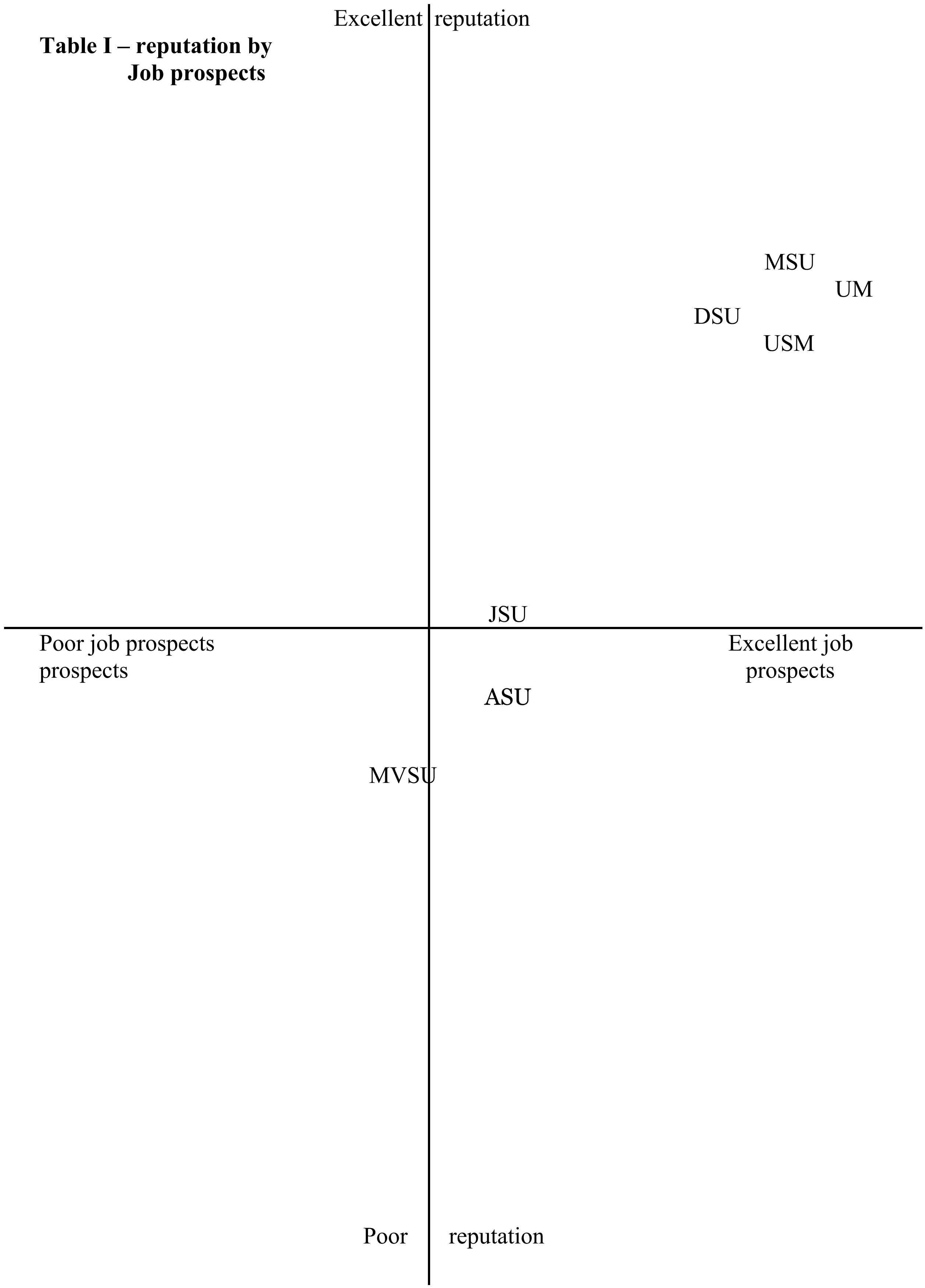


Table II – online course availability By school reputation

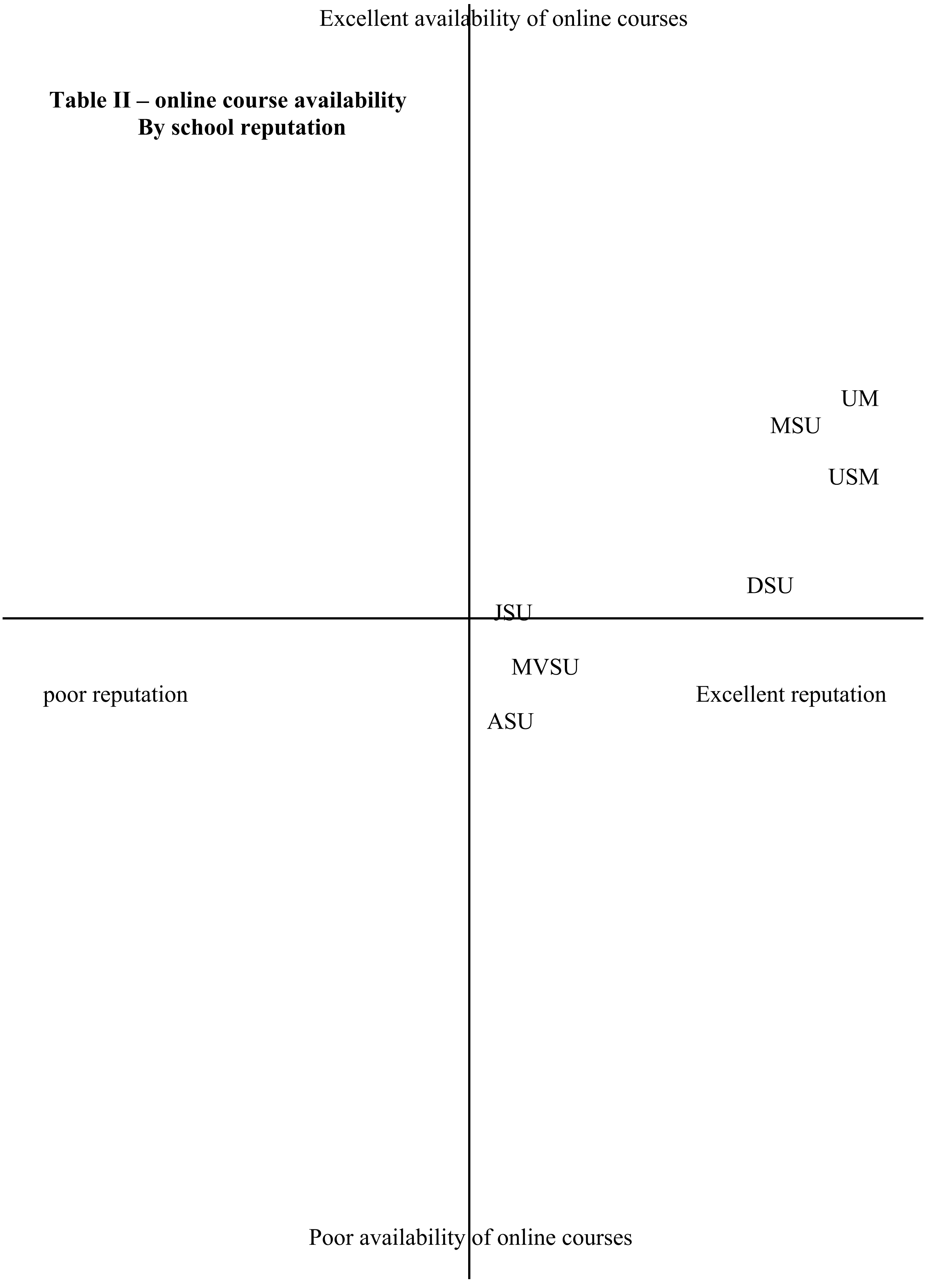
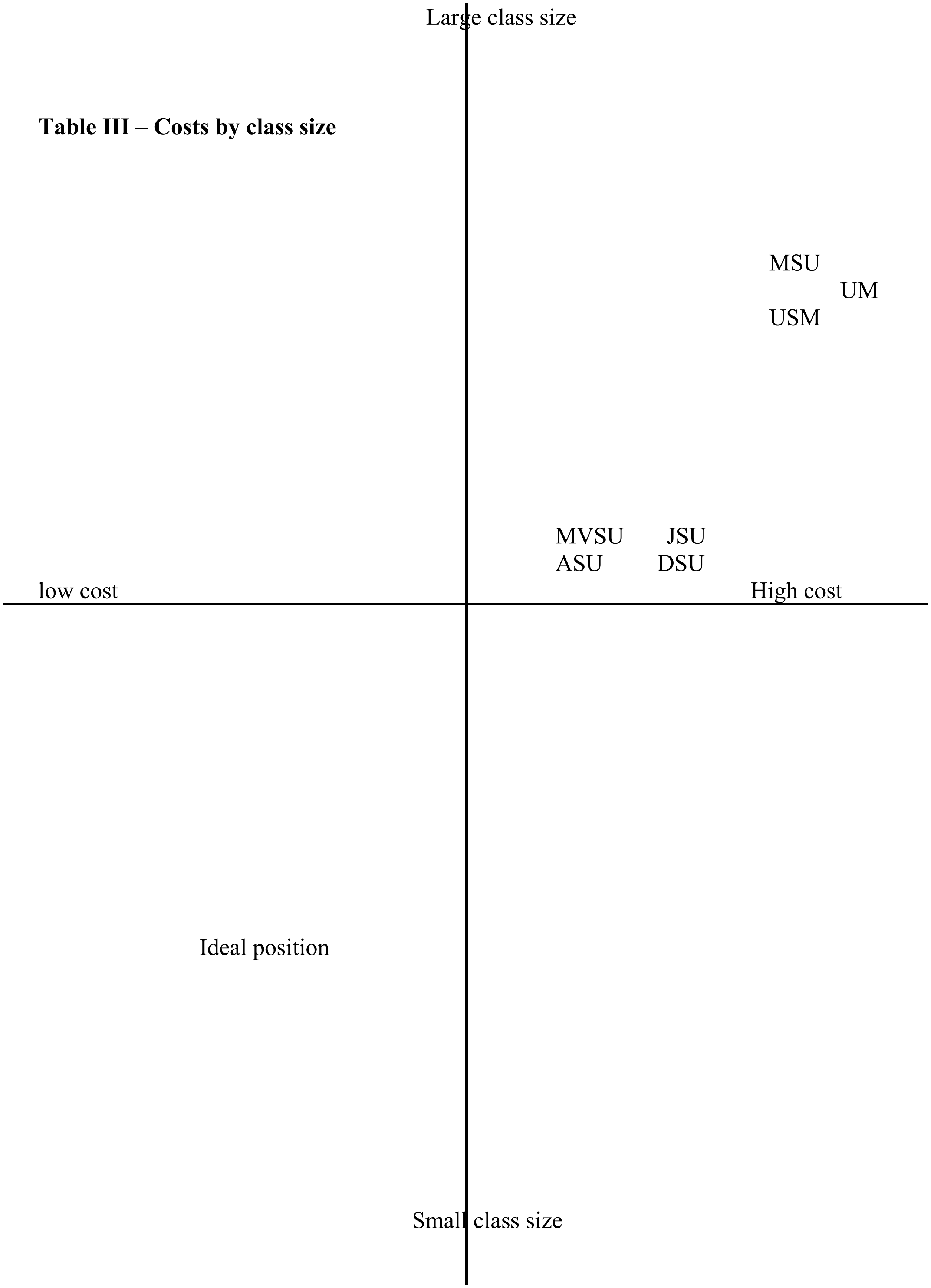


Table III – Costs by class size



Large class sizes

Table IV – Accreditation by size

UM
MSU
USM

JSU
MVSU
ASU DSU

poor accreditation Excellent accreditation

Interpretation: DSU is perceived as having accreditation close to the big three schools and smaller classes than the big three schools. DSU in this perceptual map is closer to the ideal position than any other college. Therefore this could be considered a strength and DSU should use this to an advantage in its marketing campaign.

Ideal position

Small class sizes

THE CASH FLOW STATEMENT LINK TO STOCK PRICE MOVEMENT: A TALE OF TWO COMPANIES

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Abstract

Much has been written recently about determination of the 'quality' of earnings reported on income statements of publicly held corporations. This bombardment of literature is the result of the use of bottom line earnings in the past as an inordinate tool to value equity investments. Pressure placed on CEOs and CFOs to post double-digit earnings figures in the late 1990s and early 2000s led to a technique known as 'earnings management' which blossomed and ran its full course of corporate financial disasters in the matter of a few years.

The appeal was made to find the link to quality earnings and therefore provide a tool to identify quality equity investments. Many articles surfaced that propose ways of determining quality of earnings. However, few have noted a connection between cash flow statement information and quality earnings determination. The authors of this paper present an argument that suggests that there can and should be a strong link between useful data extracted from the cash flow statement and the determination of quality of earnings. Accordingly, cash flow statement data can provide good indicators of corporate stock price movement.

Introduction

The reliance on earnings measurements has long been the hallmark of forecasts of publicly held company stock price movements. Historically, corporate earnings have driven stock price movements for equity investments. Earnings per share, price-earnings ratios, and return on investment measures each use some component of earnings, as shown on income statements, as part of the calculation. However, the inordinate use of earnings as primary drivers of investment decisions has generated skepticism (Morgenson, 1999).

Some prominent companies such as Cisco, Tyco International, Dollar General, and Global Crossing, Ltd. restated earnings during 2001-2002. Others like K-Mart, WorldCom, and Adelphia experienced financial distress and are currently either in various reorganization processes or out of business. The demise of Enron (Krantz, 2002) provided the first shock wave in an array of corporate scandals during this time. Enron reported a 250% revenue increase and a 10% net income increase in 2000. Yet its stock prices plummeted to practically nothing during the latter part of 2001.

The Earnings Link To Stock Price Movement

During the scandals and financial statement frauds of 2001-2002, one common force on company chief executive officers and chief financial officers evolved. This was to show double-digit earnings returns. Why did the push for rapidly increasing stock prices experienced from the mid-1990s to the beginning of the 21st century occur? Some (Jennings, 2004) say pressures put on top management to inflate revenue and earnings figures was so great that CEOs and CFOs began to manage these figures in attempts to meet unrealistic demands of stockholders and other investors.

The Private Securities Litigation Reform Act of 1995 made it more difficult to sue executives, auditors, and financial analysts for securities fraud. More notably, the bill made it legal for CEOs to "pipe up" their company prospects. As a result, forward-looking financial statements began to appear in annual reports. These statements always painted a better than actual picture of company operations. The investing public began to place almost as much faith in these statements as the statements prepared according to generally accepted accounting principles (GAAP).

A General Accounting Office report was highly critical of corporate improprieties that began to surface in the late 1990s. The report noted that the number of publicly held companies that restated financial statements increased 147% from January 1997 through June 2002. The report listed four factors that caused companies to use questionable accounting practices, including (1) corporate pressure to meet quarterly earnings projections and thus maintain stock prices during and after the market expansion of the 1990s, (2) perverse executive compensation incentives, (3) outdated accounting and rule-based standards, and (4) complex corporate financing arrangements. Based on the number of restatements as of June 30, 2002, the increase was expected to exceed 170 percent by the end of the year. (GAO, 2002).

In February 2001, Sunbeam Corporation was the first to receive extensive media publicity involving the financial restatement process (GAO, 2002) when the corporation filed for bankruptcy. Shortly thereafter former CEO, Al Dunlap was charged with securities fraud. Sunbeam's management was involved in earnings management during the years 1996-1998. Al 'Chainsaw' Dunlap came to the company in 1996 with promises to turn the company around. Liberal reserves were set up in 1996 to inflate the loss that year. This resulted in overstatements of 1997 and 1998 earnings thereby giving the impression that Mr. Dunlap had turned the company around as he had promised.

Clearly, by the end of 2002, there was a loud cry from the investor public to cease the process of using earnings as the premier predictor of stock price movement. The practice led to extreme 'cooking of the books' by corporate management. Some other means that, at least, coexists with earnings analysis as stock price drivers should be developed. Thus, the call for a more complete determinant of earnings quality evolved.

Quality Earnings

Quality earnings exist when earnings reported result in true economic increases in value of the companies reporting the earnings. Amernic and Robb (2003) suggest that "Quality of earnings measures how much the profits companies publicly report diverge from their true operating earnings." Kamp (2002) notes three elements that encompass aspects of quality earnings. Earnings should be accompanied by an equal amount of cash flow; earnings should clearly reveal ongoing costs and revenues; and earnings should clearly reveal the performance of the company's core business. The income statement appropriately identifies ongoing costs and revenues and reveals performance of the company's core business. However, literature that relates earnings quality with the generation of cash flows is scarce at this time.

Presentation of Cash Flow Statements in Current Texts

The articulation of cash flow from operating activities with earnings statements was not emphasized in financial accounting texts a few years back. Have recent publications of accounting texts addressed this issue adequately? In an effort to answer this question the authors reviewed several financial accounting principles texts (all were copyrighted 2007).

Financial Accounting, 5th Edition by Libby, Libby, and Short includes the cash flow statement as one of the four required financial statements in its Chapter 1. The text also focuses on operating cash flows in Chapter 3 and presents a detailed chapter on the cash flow statement in Chapter 13. *Financial Accounting, 9th edition* by Needles and Powers includes four cash flow statement ratios on the inside cover of the text. The cash flow yield ratio uses net cash flows from operating activities divided by net income as its primary measure of quality of earnings. The Needles text also includes the cash flow statement as one of the four financial statements discussed in Chapter 1. The text revisits the cash flow statement in Chapter 13.

Financial Accounting: Tools For Business Decision Making, 4th edition by Kimmel, Weygandt, and, Kieso includes several cash flow statement ratios on the inside cover of the text: the cash debt coverage ratio is cash provided by operations divided by an average total liabilities; free cash flow is cash provided by operations minus capital expenditures minus cash dividend; also given is current cash debt coverage ratio calculated as cash provided by operations divided by average current liabilities. Chapter one introduces the statement of cash flows along with the other three generally recognized financial statements. The cash flow statement is then revisited in chapter 12.

Financial Accounting by Jane L. Reimers includes the cash flow statement as one of the four financial statements in Chapter 1. An illustration of the preparation and completion of the cash flow statement is also given in this chapter. Preparation and analysis of the statement of cash flows is revisited in Chapter 11. In all the texts reviewed a common format that emerged was a brief discussion of the cash flow statement in early chapters with a detailed discussion of the statement in a much later chapter. The writers believe it should be discussed in detail with the other three financial statements in beginning chapters. It appears that the more recent editions of accounting texts emphasize the importance of articulation of cash flow from operating activities to earnings statements.

The Cash Flow Statement Link to Quality Earnings

Putman, et al (2005) proposed a model (the Q-Test) that includes a five-factor weighting of financial statement ratios that they used to rank 20 companies for quality earnings. Their findings indicate that cash flow statement information is useful in the determination the quality of earnings reported by the companies. Other authors such as Kamp (2002), Schwartz and Soo (1996), and Stickney, et al (2004) provide research that validates the cash flow statement link to quality earnings.

In this paper the authors propose to use data from the cash flow statement to determine quality of earnings and, consequently, stock price movements. As one example we use EBAY's cash flow from operations section of the cash flow statement for the most recent four years data available as summarized in Exhibit 1. When using the indirect method of presentation, the most important link to the earnings statement is the net cash flow from operations section of the cash flow statement. It is here that a comparison between earnings and the cash flow provided by such earnings can be made side by side.

Exhibit 1
Cash Flow from Operations: EBAY, Inc
Annual Cash Flow (in $Millions)

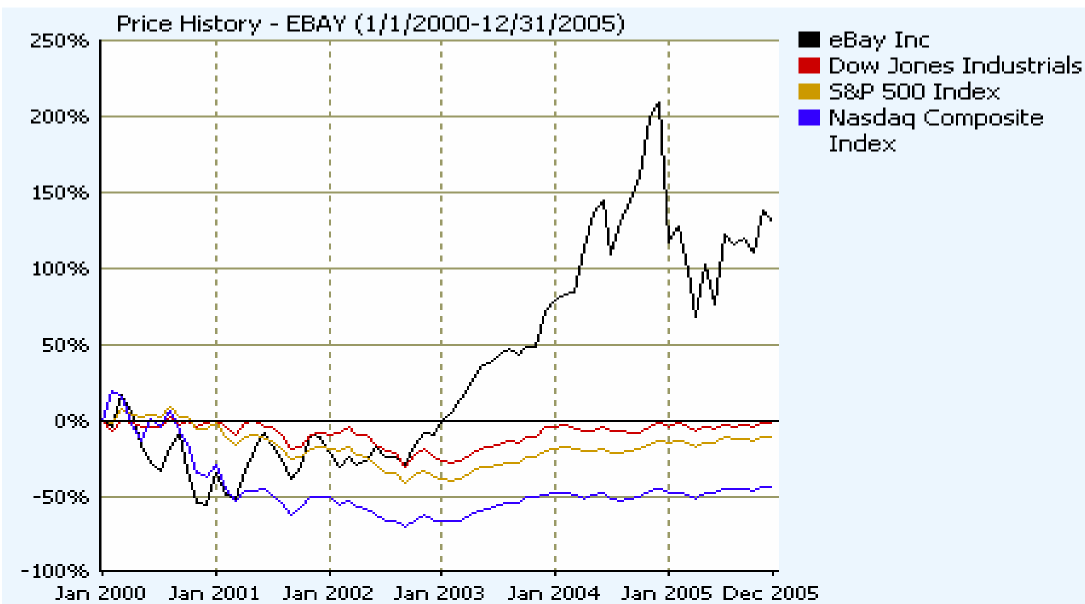
	Dec-04	Dec-03	Dec-02	Dec-01
Cash Flow from Operating Activities				
Net Income (Loss)	778.2	441.8	249.9	90.4
Depreciation and Amortization	259.5	159.0	76.6	89.7
Deferred Income Taxes	28.7	69.8	8.1	-11.4
Operating (Gains) Losses	409.5	233.0	114.2	113.0
Extraordinary (Gains) Losses	0.0	0.0	0.0	0.0
Change in Working Capital				
(Increase) Decrease in Receivables	-150.3	-192.3	-66.4	-50.2
(Increase) Decrease in Inventories	0.0	0.0	0.0	0.0
(Increase) Decrease in Other Current Assets	-313.1	-17.2	10.7	6.8
(Decrease) Increase in Payables	-34.0	17.3	14.6	-4.1
(Decrease) Increase in Other Current Liabilities	306.7	162.7	73.3	17.8
Other Non-Cash Items	0.0	0.0	0.0	0.0
Net Cash from Continuing Operations	1,285.3	874.1	479.9	252.1
Net Cash from Discontinued Operations	0.0	0.0	0.0	0.0
Net Cash from Operating Activities	1,285.3	874.1	479.9	252.1

Source: moneycentral.msn.com

Notice that in each of the four years the net cash flow provided by operating activities is more than the net income or loss. This indicates that the earnings reported on EBAY's income statements are true quality earnings (Libby, et. al., 2005). Also, information that is shown between these two items on the cash flow statement can give clues as to the quality of earnings reported. For example, each year EBAY showed moderately increasing accounts receivable balances even though the revenue stream more than doubled over the previous year in each of the four years analyzed.

Exhibit 2 shows how EBAY stock prices compared to three leading stock price indices from January 1, 2000 to December 31, 2005. An assumption made by the authors is that if a company consistently generates quality earnings, such quality earnings will be reflected in increased company value and consequently increased stock prices.

Exhibit 2
Comparison of EBAY Stock Prices with Three Indices



Source: moneycentral.msn.com

As can be seen in Figure 1, EBAY stock began to outperform the three major stock price indices (Dow Jones, S & P 500, and Nasdaq) in late 2002. This is when most of the companies that were involved in financial statement shenanigans were bottoming out. Clearly, EBAY not only had earnings increases during this period, but also, they had high quality earnings that led to large stock price increases.

What about a company that has not done so well during this period? For this example the writers chose Lucent. Lucent's operating cash flows for the past five years are illustrated in Exhibit 3. Lucent's cash flow from operating activities was lower than net income beginning in the year ended September 30, 2003, and continued that trend through 2005. For September 30, 2001 and 2002 the reverse situation was true. Even though 2001 and 2002 were loss years, cash flows from operations were less of an outflow than the net losses. Large increases in accounts receivable, especially in 2001 and 2002, indicate non-quality earnings for the five years studied. The best cash flow from operations to net income ratio was .61 in the year ended September 30, 2005. Lucent's stock price performance is illustrated in Exhibit 4.

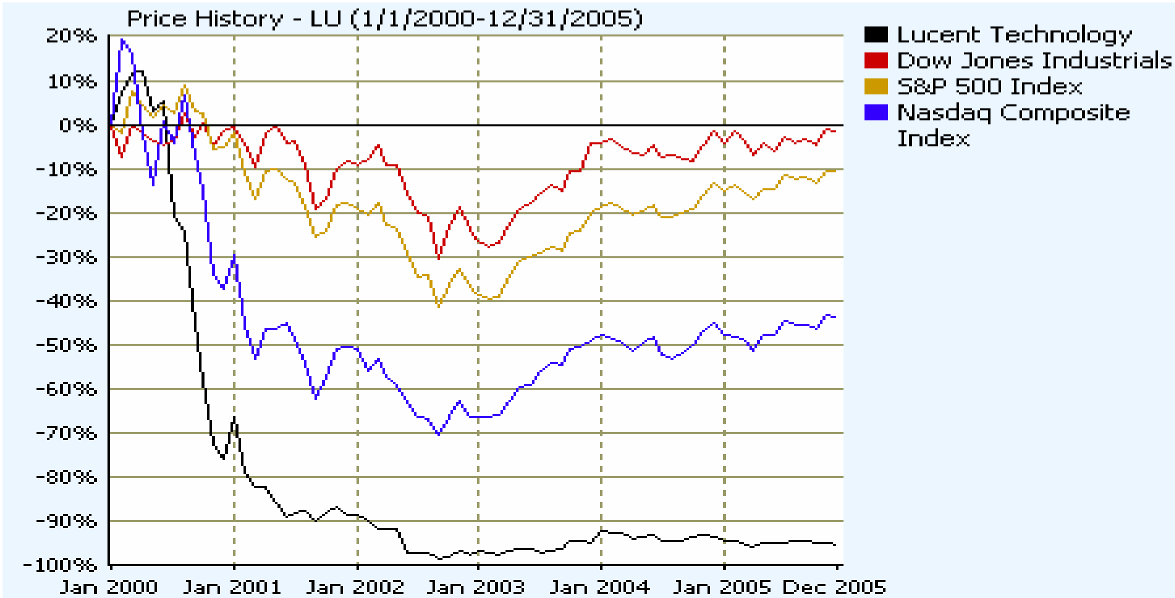
It is evident from looking at Lucent's cash flow from operations and its stock performance over the past five years that its earnings quality was not good during that period. Even in the last two years when Lucent turned losses into earnings, the cash flow from operations lagged behind the earnings figures indicating non-quality earnings. Consequently, Lucent's stock prices remain in the doldrums at performance levels below the major stock market price indices.

Exhibit 3
Cash Flow from Operations: Lucent, Inc.
Annual Cash Flow (in $Millions)

	Sep-05	Sep-04	Sep-03	Sep-02	Sep-01
Cash Flow from Operating Activities					
Net Income (Loss)	1,185	2,002	-770	-11,753	-14,170
Depreciation and Amortization	599	693	978	1,470	2,536
Deferred Income Taxes	-84	-19	-213	0	-5,935
Operating (Gains) Losses	-876	-1,261	-774	7,396	10,947
Extraordinary (Gains) Losses	0	0	0	0	0
Change in Working Capital					
(Increase) Decrease in Receivables	42	200	205	2,493	3,627
(Increase) Decrease in Inventories	50	-59	747	2,552	881
(Increase) Decrease in Other Current Assets	0	0	0	0	0
(Decrease) Increase in Payables	-160	-203	-257	-539	-759
(Decrease) Increase in Other Current Liabilities	-65	80	0	0	0
Other Non-Cash Items	26	-799	-864	-2,375	-548
Net Cash from Continuing Operations	717	634	-948	-756	-3,421
Net Cash from Discontinued Operations	0	0	0	0	-236
Net Cash from Operating Activities	717	634	-948	-756	-3,657

Source: moneycentral.msn.com

Exhibit 4
Comparison of Lucent's Stock Prices with Three Indices



Source: moneycentral.ms.com

Conclusion

This paper proposes that cash flow statement information can be linked to the income (earnings) statement in an effort to distinguish quality earnings from non-quality earnings. The quality of earnings consequently affects stock prices of companies who report the earnings. Two public companies are studied in this project to validate this point. The first company, EBAY, Inc. had high-quality earnings throughout the period. Also, their cash flow statements reflected good cash flow from operations. The result was that EBAY stock outperformed the market during the period under study.

The second company included in the study was Lucent, Inc. Lucent experienced huge losses in 2001 and 2002 before a moderate loss in 2003. Profits were made in 2004 and 2005. However, information from the cash flow statements of these two years indicates that the earnings were non-quality. Hence, their stock prices underperformed in each year of the study.

This study shows that the use of the cash flow statement as an articulation tool with the income statement is helpful in determination of the quality of earnings reported on the income statement. This in turn underscores the need for accounting programs at business schools to include cash flow statement information in the articulation process in an effort to impress upon students the importance of the cash flow statement in effective financial reporting.

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HRM PRACTICES IN SMALL SERVICE FIRMS

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ABSTRACT

Small firms, with limited opportunities, limited markets and limited resources, must use every means available for improving performance and insuring survival. Although many human resource management (HRM) practices are advocated as leading to firm improvement and/or survival, little research in this area pertains to small businesses. This empirical study shows that these practices are rated as important to the responding firms.

INTRODUCTION

Many questions arise when considering the management abilities of small firm owners. Why do some firms survive, while others fail? What unique management skills and activities are necessary for survival and success? Small firms have been studied much over the years, but we still know very little about how they should be managed. Are small firms just little big firms? Additional research is needed to provide more understanding of the firms and how to improve what small firm owners must do to survive. If small firms are growing and creating new jobs and hiring new employees, then one place to study would be in the area of human resources.

To achieve success and growth and viability, a firm needs employees that could be productive and would be committed to helping the organization succeed. The ability to find and keep good employees, to interact with employees, and to create a climate for their performance could have a positive impact on the survival of the firm (Kilmann, 1990). Some successful owners have given much of the credit for their success to their employees (Hofer and Sandberg, 1987). A classic study by Foulkes (1980) also clearly defined the contribution made by employees and by human resource management to the success of organizations.

As firms grow, they implement a greater number of formal HR policies, procedures, and practices for two reasons. Employees need to be treated fairly and consistently, which requires a formal system, and employment laws demand written documentation to support decisions made about employees and about job applicants. Previous research has demonstrated that HR systems evolve as a business grows (Stewart, 1989). A small growing firm thus must juggle responsiveness and consistency while avoiding bureaucracy. A study was proposed that would investigate HR practices in small firms, and the possible contribution such practices make to these firms. Hiltrop (2005) says that research shows HRM practices can contribute to the financial success of small firms.

THE STUDY

The focus of this study was on the perception of the value of HRM practices to the firm. HRM practices have been said to produce a climate of trust and confidence that contributes to long-run firm effectiveness and efficiency (Foulkes, 1980). It has been said that, for a firm to grow and add jobs, the owner must develop internal systems, delegate authority, and formalize management practices (Baumback, 1988; Stewart, 1989). The practices relating to employees (HRM practices) would thus be important to the firm, to its growth, perhaps even to its survival. Since owners still in business must be somewhat successful at starting and running their firms, it was hypothesized that these owners would be capable of evaluating and rating the contribution made by HRM practices to the success and longevity of their firms. A study by Huselid (1994), found that HRM practices in general did contribute to improving firm performance.

Small firm owners were contacted by mail and asked to respond to a questionnaire about their HRM practices. Service firms were chosen because it was expected that they would be need people to deliver their services, and would have a human resource management program in place. The sample was drawn systematically from a national database of service firms.

The questionnaire contained operational statements of twelve different HRM practices, covering a wide spectrum of human resource management, from employee search to orientation to promotion and pay. The twelve practices were gathered from current textbooks listing such major necessary practices. The number of practices was reduced to twelve to keep the questionnaire short and thus encourage participation by the small business owners. Support in the literature was found for the effects and the contribution of all twelve HRM practices (see for example, Aziz and Anderson, 1986; McEvoy, 1984; Schuler and Jackson, 1987; Schuler, 1987). In addition, the questionnaire was tested by a chapter of human resource managers (SHRM) as to its breadth of coverage of the field of HRM.

The owners were asked to rate each HRM practice as to the value of its contribution to the performance of their firm. The rating scale used a set of adjectives in seven steps from 'Very Unimportant' to 'Very Important.' The owners thus rated each operational statement containing the HRM practice on a scale of one to seven, with four being a neutral point. Although the ratings were subjective, the use of subjective ratings has been shown to be an acceptable alternative to objective data (Dess and Robinson, 1984; Smith, Gannon and Sapienza, 1989).

RESULTS

Ratings for each HRM practice were averaged and the results are shown in Table 1.
Having a safety program, paying market salaries, having good performance evaluations, and using realistic job previews all received ratings of Important. All are HRM practices that can reduce lost work time, lower turnover, be competitive in the marketplace for job applicants, and attract and keep good employees. Promotion from within, using a variety of search methods, having a grievance program, orienting new employees into the

business, and communicating with employees all received ratings of Somewhat Important. A Neutral rating was given to the HRM practice of employee training.

DISCUSSION

Using practices that will attract and keep employees appears to be the HRM practices that received the highest ratings by the small firms. Realistic job previews, market salaries, and helpful performance evaluations are all practices that aid in employee retention (Schuler, 1987).

The lower ratings of other HRM practices substantiate previous research. Owners of small firms have been characterized as having only a short-run emphasis and also lacking in an awareness of the need for HRM (McEvoy, 1984; Amba-Rao and Pendse, 1985). HRM in small firms has been viewed as informal and low in its importance (Aziz and Anderson, 1986; Baumback, 1988). The lower ratings in this study show both a short-run emphasis and the low importance of several HRM practices. For example, training, using job descriptions, and progressive discipline are practices that could make a long-run contribution to the success of the firm (Schuler, 1987). Perhaps small firms may not be able to afford the cost of training or may try to employ some sort of OJT. This may lead to inefficiencies that could hurt in the short run. If employees are to make a long-term contribution to the firm, training and preparation of employees would be needed and should also be rated as important HRM practices. Promoting employees who are unprepared for their new jobs could not help firms in the short run.

CONCLUSIONS

Further research is needed to determine if the perceptions of the small business owners are out of step with good management practices. On the one hand the small firm owner, having succeeded at both starting and managing the new enterprise, may have the best understanding of the true contribution made by HRM practices to the employees and to firm performance. On the other hand, the low ratings for some HRM practices may indicate a lack of understanding about the value of employees to the future success of the firm. Since the most successful owners are those who seek help from many sources including employees (Stewart, 1989; Hay and Ross, 1989), this exclusion may then contribute in some part to the high failure rate of small firms.

Even the higher ratings for some of the practices may be an indicator of an inward focus. The promotion of current employees avoids bringing in new people with fresh ideas, retains the status quo, and may reward employees only for their fealty and not for their ability.

For an owner and a firm to succeed, help and information are needed from experts and from a network of other small owners. According to research, those who can best obtain this help also tend to achieve the most success (Hay and Ross, 1989). In that study, none of the failed firms had made an effort to obtain help. Although assistance may be obtained from several sources, the employees of the small firm may be one source that has been overlooked by the firm's owner. If allowed and if encouraged, the contribution and commitment of employees may make that incremental difference that leads to success instead of failure of the small business. It has been suggested that small firms should develop HRM policies and procedures that will lead to improvements in efficiency and effectiveness, and thus could increase their chances for survival (Thomas, Franklin, and Rainsford, 2005).

For small firms to survive, their owners will have to improve their recognition of the value of practices that could have a positive influence on employee performance. That would especially include human resource management practices, since these practices have been shown to have an impact upon employee performance (see for example, Foulkes, 1980).

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Table 1

Rating Values of HRM Practices

HRM Practice	Mean
Using realistic job previews	5.9
Paying market salaries	5.5
Performance evaluations	5.5
Safety program	5.5
Promotion from within	5.4
Search methods	5.4
Grievance program	5.2
Communication program	5.1
Orientation program	5.0
Progressive discipline	4.8
Job descriptions	4.7
Training program	4.1

Number of employees = < 50

Rating scale -		
	Very important	- 7
	Important	- 6
	Somewhat important	- 5
	Neutral	- 4
	Somewhat unimportant	- 3
	Unimportant	- 2
	Very unimportant	- 1

Practical Application of Cross-Cultural Training and Selected Techniques for Improving Expatriate Success

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Abstract

The span of business for organizations of all sizes is quickly becoming internationally focused. Organizations seeking to enter new markets and reduce production costs are moving to international operations. These changes increase the need for managers to have the skills that allow them to effectively navigate cultural differences and manage the organization's overseas operations. The vast differences in cultures increase the need for cross-cultural training by multinational organizations. Effective cross-cultural training is critical to improving expatriate adjustment to varying cultures throughout the world.

This research, in part, examines the necessary tools and support that multinational organizations must supply to expatriates assigned tomanage foreign locations. Based on various findings during research, insights are provided on aspects of expatriation and organizations' concerns with emphasis in areas of pre-assignment training, work-family conflict, and career and repatriation planning.

Introduction

In today's business environment, globalization is a common focus, a given attribute of organizations of all sizes. As markets in developed countries near maturity, organizations have begun to seek new markets for their products and services. Technology has gained importance as it serve*s* to increase the speed of business transactions and the global span of those transactions. As organizations enter new markets they find themselves in unfamiliar territory. Overseas operations require well trained managers that are able to handle psychological and socio-cultural adjustments. Effective preparation and training of those expatriate managers have become a primary concern of organizations seeking to expand operations.

There are many aspects to selecting and training expatriates. This paper will briefly examine several of these issues with the main focus being cross-cultural training as a way of preparing expatriates for success in overseas assignments, and the practical implications and effectiveness of cross-cultural training. The primary focus of this paper will be US expatriates.

The Case for Using Expatriates

Expatriate compensation packages are expensive, often costing as high as three times the annual compensation for a similar position in the home office. Expatriate compensation packages have been estimated between $300,000 and $1,000,000 US dollars (Selmer, 2001). Host-country nationals employed by organizations generally cost less to employ when conducting business in a foreign country. This brings one to question the decision to staff key positions with expensive expatriates. Due to the high stakes in international business, few organizations are willing to risk the success or failure of overseas ventures to unknown host-country nationals. “Expatriates are key to the navigation of an increasingly complex international business world” (Clegg and Gray, 2002, p. 602). Clegg and Gray (2002, p. 604) offer the following as to why companies commonly choose expatriates over local nationals.

1. The deficiency of technical or managerial talent in the host country.
2. The desire of the home office to have greater control over the overseas operation.
3. Career building opportunity to prepare potential executives for future promotion.
4. Startup operations requiring experience for establishing markets or suppliers.
5. Management philosophy on staffing requiring the use of expatriates.

Expatriates provide organizations with the expertise and stability needed to operate efficiently and effectively in an international arena. Multinational organizations rely on expatriates as tools to transfer knowledge, which includes “general, business and HR performance, information processing, cycle times, efficiency, venture outcomes, firm value, relationship commitment, and customer satisfaction” (Werner, 2002, p. 287). Manev and Stevenson (2001) state that international organizations employ the use of expatriates in order to monitor foreign offices and to communicate the organization’s knowledge and technological expertise. Organizations face complex issues and problems when managing expatriates (Shaffer, Harrison, Gilley, and Luk, 2001).

Expatriate Selection

Organizations face complex issues and problems when managing expatriates (Shaffer, Harrison, Gilley, and Luk, 2001). They must be incredibly selective when selecting an employee for an international assignment. The selection process is based on matching the perfect candidate based on the assignment’s specific goals and requirements. In order to determine this compatibility, companies employ critical predictors of success including functional skills, psychological factors, and family dynamics (McFarlin and Sweeney, 2006).

The initial step to assuring successful expatriate deployment is to select the correct person for the job. Hodgetts, Luthans, and Doh (2006) offers the following selection criteria:

1. General criteria including issues like technical ability and behavioral and relational skills.
2. The ability of the candidate to adapt to cultural change.
3. The physical and emotional health of the candidate.
4. The age, experience, and education of the candidate.
5. The ability of the candidate to speak the language of the host country.
6. Motivation of the candidate to accept a foreign assignment.
7. The receptiveness and willingness of the candidate’s spouse and/or family to agree to the assignment, and their ability to adjust.
8. The leadership ability of the candidate.

This list illustrates the broad range and importance of characteristics and factors that must be considered in the selection process. Additionally, the culture of the host country should be studied to determine if cultural factors will affect expatriate's success. To illustrate, Selmer (2001) studied the expatriate socio-cultural adjustment of managers in Hong Kong and concluded that age and marital status (spousal support) were positive factors associated with work adjustment while gender was not a significant factor.

Human resource (HR) professionals faced with the task of selecting candidates for overseas assignments have an enormous number of considerations. The physical, emotional, personal, technical and relational attributes of the candidate are important considerations, as well as the differing cultures of the host country. Therefore culture is also an important consideration in the selection process. A candidate that fits the needs and demands of one position or culture may fail miserably in another. HR professionals must do extensive research and use every tool at their disposal to select the best candidate for an international assignment.

Preparing Expatriates for Assignment Overseas

As with other organizations, the goal of international operations is to succeed. The success of the assignment rests on the expatriate. Therefore, the individual success of these managers is the foundation upon which overall corporate success is built. A well-developed workforce should provide an organization with a competitive advantage (McFarlin and Sweeney, 2006). Specifically, an organization's workforce is a challenge for competitors to duplicate. Furthermore, by developing the workforce, the organization decreases the probability the employees will disregard the values and cultural norms of the organization. Also, an established and effective workforce possesses the necessary skills and desire to address organizational and industry changes (McFarlin and Sweeney, 2006). It is important to note that expatriates are rarely pre-qualified for assignments, and therefore, various training techniques are employed with the goal of preparing the expatriate for a successful assignment.

Why Expatriate Training is Important

The success of international assignments rests on the ability of selected managers to make the necessary adjustments to the new environment and manage the assignment well. There are a tremendous number of risks organizations have when identifying and hiring an expatriate. The organization must identify key attributes such as education, experience, and expertise in fields that are emphasized in the assignment. Then, they must locate an appropriate candidate to fill a vacancy or a future opening. Matching an expatriate to an overseas assignment can be a costly procedure for organizations. Labor laws for foreign-owned organizations and expatriates limit business visas for expatriates to specified duration terms. Thus, organizations are forced to search continually for new candidates that must be trained and relocated. The price of the expatriate's compensation package is high, between $300,000 and $1,000,000 US dollars (Selmer, 2001), and there exists other intrinsic factors. The expatriate manager represents the philosophical and ideological values of the parent company in both the workplace and local environment. The actions they exhibit have a tremendous impact on the perception of the organization by local workers, customers, and governments. Failure to adapt and manage the assignment well due to inadequate preparation and training can have serious consequences to the parent company in excess of the manager's salary.

Once a candidate has been identified, training must be provided to the individual for the development of individual skills and knowledge for the assignment. Language classes are the most obvious of training tools for an international assignee, but they may not be the most important element. If a organization has the luxury of relocating a replacement expatriate while a departing expatriate manager is still operating in the host country, the exiting expatriate manager can guide the new assignee through the hurdles of the unfamiliar culture. This plan can eliminate similar mistakes made by any manager in a position that must be transitioned by a organization on a periodic basis.

It may also help the expatriate to understand the general cultural norms of a society before arriving in the host country. For example, Lenartowicz and Johnson (2003) state, "In Latin America, politeness is an important theme in relationships and, although there is high power distance, even those low on the social scale expect to be treated with respecto (respect) and dignidad (dignity)" (p. 271). Culture classes are offered along with language classes to corporate managers to submerge international assignees in another culture for preparation of an expatriate experience.

Another important element of training is providing the assignee with a network of organization contacts. "Management's task should be to promote communication across diverse groups of managers through arranging forums for meetings, encouraging teamwork across subsidiaries, and using the social capital of centrally located managers in the network" (Manev and Stevenson, 2001, p. 298-299). Some organizations take advantage of industry meetings to bring together staff from various nationalities for business planning and goal setting. Organizations also take advantage of these social settings to introduce a new expatriate to the group. This setting introduces the new expatriate to a staff of dedicated fellow expatriates in which he can lean upon for advice, expertise, and most importantly, experience (Manev and Stevenson, 2001).

Treven (2003, p. 554-555) offers the following regarding the importance of cross-cultural training:

1 Changes in the workplace and workforce.
2 Maintaining competitiveness and improving productivity.
3 Regulatory requirements.

Cross-cultural training addresses three main objectives for the organization. First, trainees learn appropriate behaviors and ways of performing job functions prior to assignment. Second, trainees learn coping skills with which to handle unexpected situations. Finally, trainees develop realistic expectations of what daily life will be like in the host country (Caligiuri, Phillips, Lazorova, Ibraiz, Tarique, and Burgi, 2001).

Expatriate Adjustment

The primary goal of cross-cultural training is to prepare an expatriate for the psychological and socio-cultural adjustment needed to work effectively in the host country and adapt to the host country's culture. Organizations have begun to realize that to effectively operate in an international business environment they must adopt geocentric corporate policies (Selmer, 2001). Hodgetts, Luthans, and Doh (2006) define a geocentric Multinational Organization as “an MNC that seeks to integrate diverse regions of the world through a global approach to decision making” (p. 459).

Expatriate adjustment follows a distinct cycle that has been labeled “The Relocation Transition Curve” (Hodgetts, et al., 2006). This cycle of adjustment flows through seven distinct phases that are illustrated in Figure 1.

[Insert Figure 1 Here]

Figure 1 demonstrates the perceived competence of the expatriate as a function of time. One could anticipate that the most probable point where expatriate managers may abandon their assignments is near phase 4, in which the perception of competence is at its lowest. At this point, the reality that the environment is fundamentally different begins to be established and the expatriate is unable to adapt new attitudes toward the work and the environment that will be critical to future success.

Realistic Job Previews

With much of the expatriate’s success dependent upon perceived competence, one can conclude that the more informed an expatriate is prior to accepting an assignment, the greater the expatriate’s chances of success. A realistic job preview (RJP) provides the expatriate with positive and negative information about the assignment to allow the candidate to develop realistic expectations (Caligiuri and Phillips, 2003). “It is thought that RJPs have the potential to help a person create a realistic level of initial expectations when entering any new or unknown setting…which increases the probability of success (Caligiuri and Phillips, 2003, p. 1103).” Additionally, RJPs offer the candidate the opportunity to self-assess his or her fit to both the job and the organization. This allows the candidate to decide whether or not the assignment is desirable prior to the relocation. The concept of RJPs is built on the idea that offering factual, accurate, and relevant information about the assignment allows candidates to be better qualified to make informed decisions, which leads to a greater chance of success with the assignment.

Expatriate Culture Shock

The need for expatriate managers is evident with the expansion of global business. Managers are being called on to move to foreign lands and function effectively and efficiently. One barrier to effective and efficient operation is expatriate culture shock. Sims and Schraeder (2004) define culture shock as “stress induced by all the behavioral expectation differences and the accompanying uncertainty with which the individual must cope” (p.74). Many expatriate managers facing an international assignment experience this stress-induced reaction known as culture shock. This initial stress is primarily due to uncertainty. Some initial levels of uncertainty are acceptable and are generally anticipated. Overtime, the expatriate will learn to cope with the uncertainty by learning new behaviors and discarding old ones (Sims and Schraeder, 2004).

Sims and Schraeder (2004) provide some examples of critical factors that affect expatriate culture shock including training, demographic factors, personality characteristics of the expatriate, organizational support activities, and technical competence of the expatriate. The authors point out that while this list in not all inclusive, it does identify the primary factors that affect expatriate culture shock. The implication being that expatriates will have increased difficulty adjusting without the proper preparation to handle the associated levels of culture shock they are likely to experience.

Additional Factors to Successful Expatriation

Researchers have identified many factors that influence successful expatriation outcomes. In addition to issues of adjustment, factors such as job design, language skills, and family involvement, play a critical role in successful expatriation and therefore should be addressed.

In most cultures, job design has a major impact on job satisfaction. Though employees are aware that some aspects of their jobs are undesirable, job enrichment provides employees with a higher interest in their work as well as improving job satisfaction. This is generally true of expatriates who spend the majority of their time and energy trying to adapt to work and cultural issues. Human resource professionals can carefully design jobs that provide high levels of enrichment, quality of work life, and satisfaction while minimizing job related uncertainty in order to aid expatriate success.

Language skills are significant contributors to the success of expatriates. Currently, English is considered the primary language of international business. Even so, expatriates, who do not speak the language of the host country, often find themselves at a distinct disadvantage (Hodgetts, et al., 2006).

It is common practice for expatriates to have their family to accompany them while on assignment. As such, organizations express concern for family members with regard to their emotional and physical well-being (Cook, 2004). Expatriates and their accompanying families sometimes experience frustration in the local marketplace as a result of their different backgrounds (Jun, Gentry, and Hyun, 2001). Meanwhile, organizational goals focusing on factors of performance, productivity, and output must be maintained. If an expatriate is to perform to the objectives of the organization, the work-personal life role conflict must be addressed. The international assignee must be able to maintain this delicate balance. Organizations, expatriates, and families must address these issues in pre-assignment training. Literature and seminars are available to prepare the international assignee and family for the challenging endeavor.

Repatriation

Though the transition and adjustment to the new culture for an expatriate can be difficult, repatriation can be equally as difficult. Brown (2001, p. 70) points out that "the real shock is what often happens when an expatriate returns home after three or more years away". Without careful preparation, expatriates who have held a major position in overseas assignments often find adjustment to less significant roles at the home office disappointing. McFarlin and Sweeney (2006) state, "These repatriation problems explain the high turnover rate among repatriation challenges" (p. 403).

Some of the repatriation issues faced by returning expatriates include: reverse culture shock, which is experienced when the employee returns to the home country and is forced to readjust to the culture; a new home environment, which differs from the one left by the expatriate before the assignment; a new job assignment in the form of a demotion or promotion, but often causes the employee to feel disconnected; reorientation to home living conditions and standards, for example no longer having a gardener or cook as they did on assignment; and a feeling of being unappreciated by the home office. In order to increase the likelihood that the expatriation experience will be successful for the employee and the organization, the organization must strive to meet the employee's expectations upon relocation back into the home country. Brown (2001) suggests that to smooth the transition before the assignment, both the company and the expatriate should have an understanding of what position the expatriate will hold upon his or her return. Other suggestions are to prepare and notify the expatriate of future job opportunities and explain the benefits that could lead to career building in the long-term.

The entire course of expatriation to repatriation must be considered by both the potential candidate and the organization in the selection process. One possible benefit to expatriates, upon completion of their international assignments, is the weight the organization places on the value of the now-deemed experienced employee. Organizations often select expatriates for high ranking positions due to the belief that their international experience will impact their overall job performance (Daily, Certo, and Dalton, 2000). Once an expatriate has completed an assignment, organizations may consider him to be seasoned and ready for a position in the management of multiple markets from headquarters.

Conclusion

Expatriates should be carefully selected by organizations based on specific criteria which will differ from organization to organization and often vary from one assignment to the next within the same organization. Organizations make their selection based on the position, location, and other characteristics of the assignment and determine the employee who fits the organization's criteria for an international assignment. Once the selection is made, it is critical that the organization prepare the employee for the international assignment, which includes language training, cultural awareness, and other necessary skills that will assist the expatriate in adapting to the new environment. The amount of training and assistance the organization is willing to provide an employee in order to prepare the expatriate for the international experience will impact the success of the assignment.

Expatriates face numerous challenges when accepting international assignments. Those challenges influence the success of the assignment which impacts the organization. Therefore, organizations must be attentive to the needs of the expatriates, which include the needs of the expatriate's family accompanying the employee. Part of the organization's responsibilities with the expatriate's experience is to assist the employee in the relocation process upon the return of the employee to the home country.

The expansion of business into international markets is not a new concept; however it is becoming more prevalent. A challenge organizations face is developing managers that can easily adapt to business in the international market. In addition to the demands of a physical presence in a foreign country are the challenges presented by communication which has taken on global complications. Progressive organizations are discovering methods to more quickly prepare managers for international assignments. Some of the most advanced companies are researching techniques to assimilate the knowledge of returning expatriates to gain a competitive advantage. With this gained knowledge a new breed of international organization is emerging.

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An Exploration of the Relationships of Physical Features of Art Works to Art Valuations and Selling Prices in Fundraising Auctions

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Abstract

Valuation and pricing of visual fine arts combine subjective and physical aspects of the art works. The most commonly recognized influential factor is the reputation of the artist, but this applies only to well-known arts that have established broad followings. Other subjective factors may include the reputation of the gallery or dealer promoting a work. However, in the long history of art, physical aspects of artworks have been recognized as influencing the valuation of artworks. This study explores the statistical relationships of physical size and media to the assessed valuation of artworks offered at a televised, fund-raising auction for a public television station in a major Untied States city known for its support for the arts.

Introduction

Fine arts marketing in all of its aspects is a multi-billion dollar business in the United States and is often noted as a source of both economic development and quality of life (The New England Arts Council 2000). However, with some notable exceptions (Petkus 2004, Clark and Flaherty 2002, Fillis 2002, Cox 2001, Hirshman 1984, Goodman 1978), marketers have largely ignored this important segment of the economy. This is particularly unfortunate because the realm of the fine arts provides marketers an opportunity to explore new dimensions of the marketing concept (Voss and Voss 2000, Bagozzi 1975, Houston and Gassenheimer 1987), symbolic values (Levy 1959), and a product area in which valuation is even more purely subjective than most (DeMarchi 1999, Dewey 1934). In this paper we present major dimensions of the Marshall art valuation model, and, using data on watercolor sales at a public television broadcast fundraising auction, explore one dimension of that model; the effects of selected physical characteristics of the artworks on the selling price.

A Conceptual Model

The Marshall conceptual model of fine arts valuation incorporates five factors of the purchase situation and four prices. The purchase situation factors include artist factors, product factors, intermediary influences, external market demand, and purchaser receptivity. Price factors include the gallery price, personal subjective valuation by the potential purchaser, purchaser's assessment of investment potential, and the final purchase price. The artistic factors include the artist's reputation, celebrity status, and acknowledged technical skills (Schroeder 2002). Product factors include physical characteristics such as media, size, colors, and framing. Intermediary influences include the reputation of the gallery or current owner and endorsements of the artist by critics (Naumann 1996, Burnham 1975). External market demand factors include general economic conditions that influence disposable income and the cultural enthusiasm for art in general (De Marchi 1999). Purchaser receptivity factors include symbolic identification with the work on a personal experience basis (Levy 1959, the purchaser's motivation (collector, interior decoration, etc.), and identification with the artists brand and brand associations. The pricing factors include the gallery price (the price at which the gallery offers the work), the potential purchaser's price ceiling for purely personal fulfillment, the purchaser's perception of the investment potential of the work (i.e. the price the work may command on the open market in the future) (Gutner 2005, Peterson 2004), and the actual purchase price as the outcome of the model.

Within the model, artist factors are presented as influencing purchaser receptivity directly and through product characteristics and intermediary influences. External market demand is presented as influencing intermediary influences directly, and, through intermediary influences, influencing gallery price. Gallery price in turn influences purchaser receptivity, purchaser's subjective valuation, and purchaser's perception of investment value. Personal subjective valuation and investment perception is presented as influencing the ultimate purchase price.

The Current Analysis

The current study applies the Marshall art valuation model to an exploration of the influences of selected product characteristics on the actual purchase prices for watercolor paintings sold at a public television broadcast auction held in a major United States city over a three-week period in 2003. The study is exploratory because the full model with direct and indirect influences cannot be tested with the available data. Data are available to test direct influences on selling price (in dollars) of product characteristics. Included were size in square inches, whether the painting was dated, signed, and framed (each coded as binary variables with 0 indicating no and 1 indicating yes), the donor's declared value in dollars (as a proxy and control for artist reputation and gallery price), and the use of the colors white, blue, brown, yellow, green, gray, and orange (coded as binary variables with 0 indicating not used and 1 indicating used). All data were derived from the descriptions in the published auction catalogue that was available to the general-public and from the documented selling prices provided by the station on the request of the researchers. These descriptions provided up to three colors.

The analysis employed here was analysis of covariance using multiple regression with "dummy" or binary independent variables (Dated, Signed, Frame, Red, White, Blue, Brown, Yellow, Green, Gray, and Orange) coded as indicated above, and Size (in square inches) and Declared Value (in dollars) as interval level independent variables. Selling Price served as the dependent variable. Stepwise regression was used with independent variables producing alpha probability scores of .05 or less being included in the model.

The results of the analysis are presented in Table 1. Means and standard deviations for all variables, and the b-values and Betas for variables included in the model are provided. The average watercolor was 523 square inches, signed (91.0%) and framed (93.0%). Thirty-five percent of the paintings were dated. The average painting had a declared value of $444.14. Regarding colors, 39.5% of the paintings were reported to have used red, 16% white, 53.1% blue, 27.2% brown, 34.6% yellow, 63.0% greed, 13.6% gray, and 22.0% orange.

Of the variables considered, five, producing statistically significant betas, were included in the final model. These were Size, Signed, Framed, Declared Value, and Green. As noted, declared Value was included as a control and as a proxy for artist reputation, intermediary influences, and gallery price. Declared Value produced a Beta of .480 and a b-value of .167 (P<.000), indicating that, with the other included variables statistically controlled, each dollar of Declared Value increased the selling price by approximately seventeen cents. Size produced a Beta of .062 and a b-value of 23.7 (P<.003), indicating that, in the context of the model including Declared Value being statistically controlled), each square inch was associated with an increase in price of $0.24 on average. Signed produced a Beta of .273 and a b-value of 138.93 (P<.045), indicating that, on average and with the other variables controlled, the physical characteristic of being signed increased the selling price of a painting by $138.93 on average. Being framed (Beta=.273, b-value=.167, P<.001), increased the selling price of a painting by $218.63 on average. Of the color variables included, only Green produced a statistically significant result with a b-value of -.82.680) (Beta=-.190, P<.044) indicating that, with the other variables in the model controlled, including Declared Value and size), watercolor paintings that prominently used the color green sold for an average of $82.68 less than other paintings considered.

Conclusions

The regression analysis reported here demonstrates that physical characteristics of watercolor paintings such as size, documented date, being signed by the author, and being framed, facilitate the selling price in art auctions available to the general public. This is consistent with anecdotal findings drawn from studies of famous artists (Fitzgerald 1995, Jensen 1994, Alpers 1988). These may be "risk-reducing" factors that provide objective information to the buyer regarding valuation, and, in the case of framing, incorporate a "finishing" cost into the selling price. The finding regarding the use of the color green, a cool color, is interesting and may reflect cultural factors unique to the city in which the auction was held, or a general preference for warmer and more vibrant colors among the general population. Of course, this exploratory analysis has not addressed many aspects of the art valuation model and future research, it is hoped, will be carried out to continue to develop and document the model.

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A Profile of Micro Business Preferences Regarding Internet Service Features

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Abstract

Very small (Micro) businesses also need access to the internet and there are many internet service providers (ISPs). These businesses will likely choose a provider whose service is designed to meet their needs. This research examined what service features and benefits are important to them when choosing their ISP. The study sought preferences regarding features like: Multiple User Capability, Speed of Connection, Remote Access Capability, Repair/Quality of Service, Accessible Help Line, Small Business Incentives, Cost, Allowing a Web Page, etc. A questionnaire was designed to collect data. 124 questionnaires were analyzed. Analysis showed that overall importance ratings given to these features, reflecting preferences, were different for different features. Internet Service Providers can use this information to identify what features are most important to the small and micro businesses. This will allow them to better design their Internet Service and better serve the small and the micro businesses.

Introduction

Small Businesses are an integral part of the US economy and are here to stay. Small business population grew from 2.2 million in 2001 to 2.3 million by the end of 2002, representing more than one-fifth of U.S. businesses (Staff, Cyber Atlas, 2002). The forecast was a small but steady increase in the number of organizations with 5 to 99 employees, growing as high as 2.7 million by 2006, and employing approximately 42 million workers—up from roughly 38 million in 2001.

According to SBA (US Small Business Administration), organizations with fewer than 500 employees accounted for $8.3 trillion of the corporate wealth in 2000, representing 42.8 percent of the total business wealth of $19.4 trillion. Small business represents 99.7 percent of all employers and 96 percent of all US exporters (Greenspan, 2002).

Small businesses do not want to confine themselves to traditional ways of doing business. They are using Internet technology for carrying out operations and are demanding services specifically designed to satisfy their business needs. More and more firms realize that the use of Internet-based applications and platforms helps promote improved communications among employees, customers, and partners, while reducing associated costs and enables them to establish a national or even global presence without having to invest in physical infrastructure.

Internet Service Provider (ISP) is a company that provides individuals and businesses access to the Internet and other related services such as Web site building and virtual hosting. An ISP has the equipment and the telecommunication line access required to have a point-of-presence on the Internet for the geographic area served. The larger ISPs have their own high-speed leased lines so that they are less dependent on the telecommunication providers and can provide better service to their customers. ISPs also include regional, local and online providers.

According to Dun & Bradstreet's 20th Annual Small Business Survey (ITAA, 2001) on computer and Internet usage, eighty percent of U.S. small businesses have at least one computer on site used for business purposes, and in some sectors computer usage has almost reached saturation. The survey, which measures attitudes, behaviors and trends in the U.S. small business market, also found out that two-thirds of all small businesses and approximately 85 percent of small business computer owners have Internet access, more than half of those have a Web site and the number is rising. However, only 27 percent of those with a Web site sell on the Internet and average less than three Web-based orders per month.

Small Businesses is a significant segment of the market for Internet Services but it has largely remained ignored until recently when the Internet Service Providers (ISPs) have made attempts to reach this segment aggressively. It took ISPs some time to realize the potential growth and revenue opportunities that this segment holds but soon it became one of the most coveted segments. According to Boardwatch, a publication that covers the ISP market, more than 7400 Internet Service Providers compete for consumer and small business customers. Big companies like AOL and Yahoo have have also started offering services like “AOLSB” and “Yahoo Web Hosting Business Starter” which are specifically targeted at small businesses (Luhn et al., 2002).

The small business segment is important to Internet Service Providers because of the huge size of the ISP market itself ($63 billion in 2002) and a cut throat competition to gain customers. International Data Corp. (IDC) estimated that the consumer ISP market in the United States will grow from $23.9 billion in 2000 to $80.6 billion in 2005. America Online Inc. is the dominant player in the market, with 35.2 million U.S. subscribers as of the fourth quarter of 2002 followed by Microsoft’s MSN which has about 9 million subscribers, EarthLink Inc., and United Online Inc., both with 5.0 million subscribers are next. Thousands of other primarily regional and local ISPs fight over the remainder of the market. However, their numbers have been dwindling quickly due to the dot-com shakeout and questionable business models. There is a trend towards market consolidation to fight competition and gain market share (Sealfon et al., 2003).

Many of the major internet service providers are facing uncertain future in the wake of growing competition and shrinking market share. Despite troubles, the market is not yet saturated and there is still an opportunity for revenues to grow although at a slower rate than in the past. This however can only be achieved through carefully drafted strategies that seek to fulfil the needs of small-businesses.

This paper attempts to determine perceived necessity of the Internet to small businesses and what features of the Internet service are important to small businesses. The study also discusses the implication of these findings for Internet Service Providers in designing their strategies for attracting the small business clientele. The study is significant because the business environment is moving away from simple cost-driven undifferentiated commodity market into a market where there is a serious attempt to provide differentiation based on specific features of the delivered services. In addition, customer awareness has increased many folds over the years. Consumers have become more demanding than before and make their choices after considering all relevant factors. Due to the availability of a wide open field of Internet Service Providers, switching from one provider to another can not be ruled out at any time.

Selection of a service provider is also affected by "word of mouth." A bad experience of one customer may lead to a loss of another ten potential customers thereby making it essential for Internet Service Providers to gauge customers' needs from time to time so as to provide them competent and valuable services.

This study can be used by Internet Service Providers to understand what features of the internet service are valued the most by small businesses. Then, using the findings of the study, Internet Service Providers can design strategies to satisfy the small business needs by providing them customized services.

Methodology

To accomplish the objectives of the study, a mail survey research was used to collect the data. The survey targeted small businesses from Southeastern Louisiana. A small business is generally defined as one with 500 or fewer employees. We define "micro-business" as one with 100 or fewer employees. A questionnaire was developed containing a list of features and benefits that the small businesses would like to see in their internet service. This list of ten features/benefits was developed after informal discussions with a number of local small business owners and included: Multiple User Capability, Company's Name Recognition, Speed of Connection, Remote Access Capability, Repair/Quality of Service, Accessible Help Line, Ease of Installation, Small Business Incentives, Cost, Web Page/Web Hosting. It was sent to a convenience sample of 500 companies selected from Southeastern Louisiana University's "Small Business Development Center" clients. One hundred twenty four of the 500 questionnaires were completed and returned.

The two page questionnaire was divided into three parts. The first part contained a brief statement regarding the purpose of this research followed by demographic questions such as type of industry, number of employees, years of existence, gender of the respondent, etc. The second segment contained questions requesting general information from the company, such as number of computers they have at the site, length of Internet Service (how long), whether or not they feel Internet is a necessity and whether it has been beneficial for the company.

The third section listed the ten possible features or benefits in the internet service a small business may like to see included. Respondents were asked to rate the importance, reflecting their preferences for each of these listed features/benefit. The importance ratings reflecting preferences were to be based on Likert rating scale of 1 to 5 where, 1 = Very Unimportant, 2 = Unimportant, 3 = Neutral, 4 = Important, and 5 = Very Important.

The following is the explanation of the features/benefits the respondents rated.

Multiple User Capability: Permits multiple users to connect to network and share information at the same time without breakdowns.

Company's Name Recognition: Reputation and standing of Internet Service Provider.

Speed of Connection: Speed with which Internet data is transmitted over telephone lines. Speed is dependent on the type of connection. Different connections work at different speed such as Dial up (56 Kbs), ISDN (64 Kbps-128 Kbps), DSL (128 Kbs - 768 Kbs), Satellite (400 Kbps) and Cable (200 Kbs - 2 Mbs).

Remote Access Capability: Access through a terminal to a computer that is geographically removed from the terminal.

Repair/Quality of service: Quality of after sale and repair services offered by an Internet Service Provider.

Accessible Help Line: Telephone help line that can be easily/readily accessed 24 hours.

Ease of Installation/Set–up: Ease with which configuration of hardware and connectivity to Internet is established.

Small Business Incentives: Special incentives offered to small businesses.

Cost: Fee and other costs paid per month by user for Internet Services

Web Space: (also called Server space) is file storage space that is available to anyone on the World Wide Web through ISPs. Web space is typically used for storing personal Web pages.

Web hosting: Web hosting is a typical service provided by many Internet Service Providers to design web sites for small businesses and help them maintain Internet presence on a continuous basis.

The small businesses that responded varied in type and size and represented a good cross section of the small local business community. The questionnaire responses were analyzed using SPSSX-Version 10.

Results

To describe the organizational characteristics of the sample, several demographic variables were explored. Information obtained included type of business, number of employees, years in existence, the respondent's position in the organization, gender and other factors. The respondents were requested to classify their business in one of the seven categories. Thus, the sample represented companies from seven different industries namely retailing, services, real estate, housing, construction, manufacturing and others. About 29 percent of the companies were from retailing, 27 percent from services, 6 percent from construction, 8 percent from real estate, 4 percent from manufacturing, 7 percent from housing and 19 percent were from other industries. When asked how many years the business has been in existence, 50 percent of the small businesses surveyed reported that they had been in existence for more than nine years, 11 percent between seven to nine years, 21 percent between four to six years and 28 percent for less than three years. Sixty eight percent of the companies in the sample had fewer than twenty five employees, 15 percent had a workforce between twenty-five and fifty, 8 percent had between fifty-one and hundred employees, and only 9 percent had more than hundred employees. Overall results show that the typical business type represented by the sample was from service or retail (56%) and consisted of fewer than ten employees (83%) with averaged earnings of less than $500,000 (72.6%).

An interesting finding was that 76 percent of the companies had an Internet Service as recent as 4 years. Only 13 percent have had an Internet Service for more than 6 years. Of all the respondents, 75 percent considered Internet as an important business tool and a necessity for the company and 58 percent acknowledged that the Internet service has been beneficial for the company. While 21 percent felt that the service has not been beneficial for the company, another 21 percent remained neutral regarding the benefit of the Internet.

When asked about how they chose the Internet Service Provider, 41 percent said by recommendation, other 36 percent said they simply chose the local provider, 9 percent of the respondents said that the choice was made after watching advertisement campaigns, 3 percent selected ISPs through yellow pages and 6 percent made a random selection.

When asked about willingness to change the Internet Service Provider, 54 percent of the respondents said they would do so if another company offered more features that were better suited to their needs, 9 percent were not willing to change whereas, 37 percent of the respondents were not sure if they would change their Internet Service Provider if some other company provided better benefits.

Respondents were asked to rate the importance of each of the feature/benefit using a Likert scale of 1-5, 5 being very important and 1 being very unimportant. A high level of importance for a feature will reflect their preference for that feature. Since different respondents may rate features differently in terms of importance (reflecting their preference), overall importance rating had to be determined for all the ten features/benefits. The overall importance rating for each feature was determined from the "Total Points" calculated for that feature. An importance rating of 1 earns the feature 1 point versus a rating of 5 earns it 5 points. Higher the total points calculated for the feature, higher is the overall importance rating for that feature reflecting the customer preference for it. Finally, the features were ranked based on the "Total Points"; the feature with the highest "Total Points" was assigned "Rank 1," the next feature "Rank 2," etc. all the way to "Rank 10." This generated a **profile** of Feature/Benefit preferences based on the overall importance ratings listed below.

Rank	Feature/Benefit
1.	Speed of connection
2.	Quality of Repair/Service

3. Cost per month
4. Accessible help line
5. Ease of installation
6. Small business incentives
7. Multiple user capability
8. Remote access capability
9. Company name recognition/reputation
10. Web Space/Web Hosting

This profile reflects the relative preferences of the small business population, or more precisely micro business population since majority of the businesses in the study had under 100 employees, regarding the features of the internet service. It appears that features that were considered very important were speed of connection and repair/quality of service. Cost per month of service, ease of installation and accessible help line were considered important, whereas features like web space/web hosting, company's name recognition were considered relatively unimportant. Respondents felt that features like remote access capability multiple user capability and small business incentives were not as important.

Conclusions

Internet is an important source of competitiveness for small businesses, and, more and more small businesses are relying on it, especially for customer service and communication. To provide better service to their customers, they may like to see certain features included in their internet service. A survey by Tulenko (2002) showed that small businesses use the Internet as a proactive customer relations and marketing tool. More than half exchange e-mail with customers daily and one in five distribute an e-mail newsletter. For this speed can be critical as revealed by this research. Thus, small business owners are embracing the Internet and clearly see the value in having a Web site. Research shows how small businesses are gearing up to reach out to the potential customers and how dependent they are on Internet service providers to realize potential gains.

There are many possible benefits for small businesses due to the use of Internet. Internet enables small businesses to overcome geographic barriers and broaden market reach, supply faster and current information and receive quick feedback from customers and suppliers. It also saves time and money for managing and marketing and enables them to compete with large firms.

However, there are difficulties which discourage small businesses to use the Internet such as the cost of setting up and using the Internet as a business tool and the uncertainty associated with it as a consequence of fast changing business scenarios. Moreover, small businesses often lack the expertise and time needed to develop and plan strategies for Internet presence or simply use the Internet for carrying simple business transactions. Many are family oriented, who want to stick to traditional ways of doing business and prefer face to face contact with persons they are dealing with rather than making deals electronically. Sometimes, businesses are so small that the cost associated with using the Internet fail to generate equivalent value making entrepreneurs sceptical of the benefits offered by ISPs.

Implications for Internet Service Providers

The ISP industry is maturing fast. It is getting overtly crowded and there is a trend towards consolidation. In order to get a strong foothold in the mature market, ISPs need to focus on customer services rather than technological enhancements. In order to win the trust of small businesses, the emphasis should be laid on customizing products as per individual needs of small businesses. Since there is no clear definition of small business market, it makes each small business unit unique in itself that has needs that vary from person to person who own/manage these businesses.

Internet Service providers cannot satisfy small business needs without knowing what they want. For developing successful marketing strategies it is important to get an insight of the segments they serve. Small business is an important part of the economy; thus its needs cannot be overlooked. A small business is more likely to choose an ISP whose service best meets the needs of the business and offers the best features and benefit it is looking for.

As the relationship between ISPs and small businesses mature, small businesses expect their ISPs to provide better services. So, ISPs should not ignore the service needs of their old clients and must pay utmost attention in providing timely and quality services to this loyal set of customers. While targeting companies that consider Internet as a necessity ISPs should remember that such companies are also inclined to prefer features like speed, remote access capability, repair/quality of service and web space.

Of the three Ps of marketing - price, positioning and perception, ISPs need to build their strategies around these three variables. Price (cost) is not unimportant but it is not the only thing that matters to small businesses when choosing an ISP. In fact, the current preoccupation with price is very misleading. Small businesses do not hesitate to spend money on premium services such as broadband access and Web hosting. According to a report by McKinsey (Berchtold, et. Al, 2001), small businesses are rapidly adopting broadband. The average annual growth rate for broadband deployment to small businesses is 85 percent compared with broadband households. For broadband enabled service providers, these companies not only represent great revenue potential (on average $ 20,000 per company for the intensive user segment), but also an opportunity to provide them sales and customer support services.

Business strategies of ISPs should aim for the segment that is most likely to adopt their services. For example, small business customers with more than 15 employees or which are in existence for longer than five years can be offered features like multiple user capability at a lower cost than competitors. If the firms have more than ten computers, ISPs should emphasize on features like multiple user capability, speed, remote access capability and repair/service quality and make these services better than competitors. By knowing exactly what consumers want and then providing targeted, customized services, ISPs will be able to compete effectively and minimize cost and effort in shelling unproductive marketing campaigns. Lastly, it's important for ISPs to realize that small businesses need reliable services and long-term customer support.

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An Investigation of State Homogeneity

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Abstract

Much research has been conducted on the homogeneity of nations with respect to ethno-linguistic, religious, and economic metrics. Some replication has occurred regarding state data. There is, however, a dearth of literature covering the links between the different dimensions of homogeneity. Here, the four dimensions of homogeneity are compared, and an overall index of homogeneity is created for each state. These indices may be used for future inquiry into the homogeneity of the states.

Key words: ethno-linguistic, evangelical, Gini coefficient, multivariate analysis.

Introduction

What can be said of the relative homogeneity of different geographic entities? Is such a question even reasonable? These issues become more significant as we are treated to a barrage of allusions to the growing gap between rich and poor in the US, the instability among certain religious groups across the globe, and "ethnic cleansing" in the Balkans. Even the term "balkanization" connotes a lack of homogeneity.

On the surface, the topic of population homogeneity appears to be primarily of interest to sociologists. After all, sociology is the study of groups and group dynamics. But then economics also studies such matters, as do geography, psychology, management, marketing, and virtually any "social" science. According to Levitt and Dubner (2005), economics is "the study of what is, [as opposed to] what ought to be." And economists have accordingly studied one aspect of homogeneity (income and wealth disparity) in great depth. (See, e.g., Piketty and Saez, 2003.)

A bit of a measurement chimera, "homogeneity" metrics mean different things to different researchers. Studies have dealt with international ethnic and linguistic (or ethno-linguistic) homogeneity (e.g., Masters and McMillan, 2003), US religious homogeneity (e.g., Breault, 1989a, 1989b), and the previously mentioned economic homogeneity. No one has, however, attempted to unify the four dimensions and develop a single "homogeneity index."

In the current study, state homogeneity is assessed using each of the four dimensions. The states are ranked with respect to each homogeneity metric. An overall homogeneity index is created for each state, using the methodology employed by Couch and Barrett

(2004). These indices link the previously separate dimensions. The overall homogeneity state ranks are given.

Homogeneity Studies

There is a plethora of literature on international ethno-linguistic homogeneity. Masters and McMillan (2003) studied the effects of ethno-linguistic diversity on economic growth in an evolutionary context. Borjas (1998) looked at the effects of residential segregation in industrialized countries. Easterly and Levine (1996) analyzed the relationship between the ethnic divisions and policies in Africa. The general issue is studied in great detail in the aptly titled *Ethnicity Counts* by Petersen (1997). In this work, Petersen also considers the topic of ethnicity in the US. The unifying theme of much work in the area is the analysis of the relationships between ethno-linguistic homogeneity and measures of economic well-being. A second underlying commonality is the difficulty of establishing the boundaries of "ethnicity."

Religious homogeneity is an analogously troublesome concept, as the lines between certain divisions are intrinsically blurred. Barro and McCleary (2003) studied the relationship between religion and economic growth on international data. Breault (1989a, 1989b), Chaves and Gorski (2001), and Olson (1999) investigated religious pluralism and participation. Guiso, Sapienza, and Zingales (2003) assessed the relationship between religion and attitudes on economic issues. Overall, the extent of religious variations differs with respect to within-nation divisions in different areas of the world.

Economic disparity has been examined thoroughly over the years, perhaps ad nauseum. Often it is approached based on one's view of the "goodness of income inequality." Such a position differs greatly between an Austrian and a Marxist. Nevertheless, it is a topic that remains fertile. Frank and Freeman (2002) looked at the relationship between American income inequality and economic growth, concluding that the relationship is slightly negative. Similar issues were considered by Meltzer (1998), Kuznets (1955), Kakwani (1980), Galor and Zeira (1993), Partridge (1997), and Forbes (2000). Akland and Liu (2002), Al-Samarrie and Miller (1967), Cowell (1995), and Piketty and Saez (2003) cover the topic more broadly.

Each dimension of homogeneity has been studied arduously, yet they have been studied separately. The exception is the aforementioned fusion of the ethnic and linguistic under the ethno-linguistic umbrella. One would suspect that "homogeneity" within a group extends beyond a single category. Does a given individual more readily identify with members of his or her ethnic, linguistic, religious, or socioeconomic group? Or is it some combination of the four facets with which one connects? In attempting to answer these questions, the initial step is determining how to measure "homogeneity" using a combination of the four dimensions.

State Homogeneity Measures and Indices

The measurement of "homogeneity" is somewhat difficult. Here, the specific measures employed are based on the most prevalent in the literature. For ethnicity, linguistic, and religious data, the Vanhanen Ethnic Homogeneity (EH) index is used. (See Vanhanen 1991.) The EH is simply the percentage of the population belonging to the largest homogeneous group. The simplicity of the index is a strength and a weakness. The weakness is that it is not an overly efficacious measure of "heterogeneity." Metrics such as Herfindahl Indices or Gini coefficients contain more information, but are difficult to construct for state data given the comparative numbers of ethnic, linguistic, and religious groups. (See, e.g., Kuznets 1955.)

The ethnic and linguistic data were obtained from the 2006 World Almanac and Book of Facts, and the religious data were drawn from the *American Religious Identification Survey* (ARIS) website. The ARIS data were collected by Professors Barry A. Kosmin & Egon Mayer at the City University of New York. Determining the groupings within category also followed precedent in the literature. The delineation between ethnic groups was based primarily on race. This is a limitation, as there are divisions between ethnicities within races. For linguistic groups, it was based on the primary language spoken. Specifically, it is the percentage of people in a state for whom English is *not* the primary language spoken.

The religious differentiation was more difficult. In the United States, the vast majority of religious people are Christians. Other religions such as Judaism, Islam, Hinduism, Buddhism, Shintoism, and B'hai have such relatively small memberships that their effects are negligible. The divisions within Christianity are evangelical, Catholic, and liberal. Evangelical Christians are Protestants who favor a literal interpretation of the Bible. Liberals favor other potential Biblical interpretations. One exception is the Mormons, and they constitute a separate category. (See the ARIS site.)

The indices for each state are given in Tables 1, 2, and 3, for ethnic, linguistic, and religious homogeneity, respectively. Note that there were no religious figures for Alaska or Hawaii. The most homogeneous states with respect to ethnicity are Maine, Vermont, New Hampshire, Idaho, and West Virginia. The least homogeneous ethnicities are in Hawaii, Mississippi, Louisiana, Maryland, and Georgia. Geographically, the southeast tends to be less homogeneous, due to the large African-American population. New England states tend to be fairly homogeneous, as do Midwestern states. The four largest states (California, Texas, New York, and Florida) fall in the less homogeneous category.

With regard to linguistic figures, the most homogeneous states are West Virginia, Mississippi, Alabama, Kentucky, and Tennessee. The southeastern states "turn the tables" here, as they tend to be very homogeneous with respect to languages. The least linguistically homogeneous are California, New Mexico, Texas, New York, and Hawaii. This is not surprising, as the top three are border states, with high percentages of Mexican immigrants. New York is a historical port of entry, and Hawaii has a large population of first-generation Asian immigrants. The four largest states again fall at the lower end, and all rank in the bottom nine.

The most religious homogeneity occurs in Mississippi, Utah, Arkansas, Rhode Island, and Kentucky. Southeastern states tend to rank highly, as they have large concentrations of evangelical Christians. The bottom five are Oregon, Idaho, Washington, Kansas, and Wyoming. Western states clustered in the non-homogeneous end, and also tend to have larger percentages of nonreligious people. The largest states ranked in the middle.

For economic homogeneity, the Gini coefficient is used. (See, e.g., Kuznets 1955.) The Gini coefficient is defined as the ratio of area between the Lorenz curve of the distribution and the curve of the uniform distribution, to the area under the uniform distribution. It is a number between 0 and 1, where 0 corresponds to perfect equality (i.e., everyone has the same income, and thus the lines of perfect equality and actual income are the same) and 1 corresponds to perfect inequality (e.g. one person has all of the income, and everyone else has zero income). See Figure 1 for a graphical presentation (obtained from Wikipedia at http://en.wikipedia.org/wiki/Gini_coefficient).

The Lorenz curve must be estimated from state income data. Malone and Formby (2006) used a cubic spline to estimate the curve. The corresponding Gini values are shown in Table 4. Note that Malone and Formby computed several Gini measures, including using before-tax and after-tax income. The correlation coefficient for the before-tax and after-tax state Gini coefficients was .9956. As either measure could be used, the after-tax was used here.

The most economically homogeneous states are North Dakota, Maine, Wisconsin, Hawaii, and Alaska. Midwestern states tend to exhibit high levels of economic homogeneity. The least homogeneous states with respect to income equality are New York, Connecticut, Washington, California, and New Jersey. Again, the largest states tend to fall in the low end. This may be due in part to the large number of corporate headquarters in those states, and a resulting high proportion of high-income producers.

At this point, some patterns are clear. The homogeneity measures may be used individually in empirical studies. However, one may wish to combine the measures into an "overall index of homogeneity." The methodology employed in constructing such an index is that of Couch and Barrett (2004).

First, the correlations between the metrics were obtained and shown in Tables 5 and 6. The correlations for the three measures for which all fifty states were included are given in Table 5. Table 6 includes the religious data, and uses only the applicable forty-eight states. Surprisingly, the only correlation in excess of .5 was between Gini and language. Note that the language and Gini values are negatively related with homogeneity (since low values indicate higher homogeneity), while ethnicity and religious values are positively associated with homogeneity.

Since the homogeneity metrics are of different measurement scales, they may not be combined without an adjustment. Couch and Barrett (2004) computed empirical z-scores for the ith variable and the jth observation, i.e., $z_{ij} = (x_{ij} - \bar{x}_i)/s_i$, where z_{ij} is the z-score for the jth observation on the ith variable, x_{ij} is the jth observation on the ith variable, $\bar{x}_i$ is the sample mean of the ith variable, and s_i is the standard deviation of the ith variable. Each z-score is then transformed, denoted by z_i^*, where $z_i^* = z_i$ if the ith variable is positively related with homogeneity, and $z_i^* = -z_i$ if the ith variable and homogeneity are negatively related. Finally, the overall index for each state is computed using the equation $I = \sum_{i=1}^{4} z_i^*$.

Two sets of indices were computed for the states. The first includes the religious variable (and therefore excludes Alaska and Hawaii), and the second excludes the religious variable. The indices and corresponding rankings are shown in Table 7. Using all four variables, the five most homogeneous states are North Dakota, Utah, Maine, West Virginia, and Kentucky. The least homogeneous are California, New York, Texas, Washington, and New Jersey. The largest states all fall in the bottom seven. The Midwest is well-represented among the most homogeneous.

Using only the three metrics for which data were available for all fifty states, the most homogeneous are Maine, North Dakota, West Virginia, Iowa, and Vermont. The bottom five are California, New York, Hawaii, New Jersey, and Texas. The geographic distribution is similar to that of the four-variable index. The major differences in ranks between the two indices are for Mississippi (14 vs. 31) and Utah (2 vs. 17). In each case, the religious homogeneity is high.

Limitations and Future Research

The major limitation here is the nature of the Vanhanen index. The problem is not so much that the index is a poor measure of homogeneity. Rather, it is an inadequate measure of *heterogeneity*. For example, a state with an ethnic distribution of 70%/30% would have the same index as a state with 70/15/15 (or 70/10/10/10, etc.). the states may be accurately described as "equally homogeneous," but they are clearly not equally heterogeneous. The Gini coefficient is not so analogously limited.

There are many opportunities for future empirical studies using the homogeneity indices, or simply the individual measures. Such potential studies include using indices as x-variables vs. goodness of life, crime, and other "well-being" metrics. Similar measures may be created for international data. These indices may be used in a similar fashion. Furthermore, measures of freedom and happiness could be assessed with respect to their relationships with homogeneity.

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Figures and Tables:

Figure 1

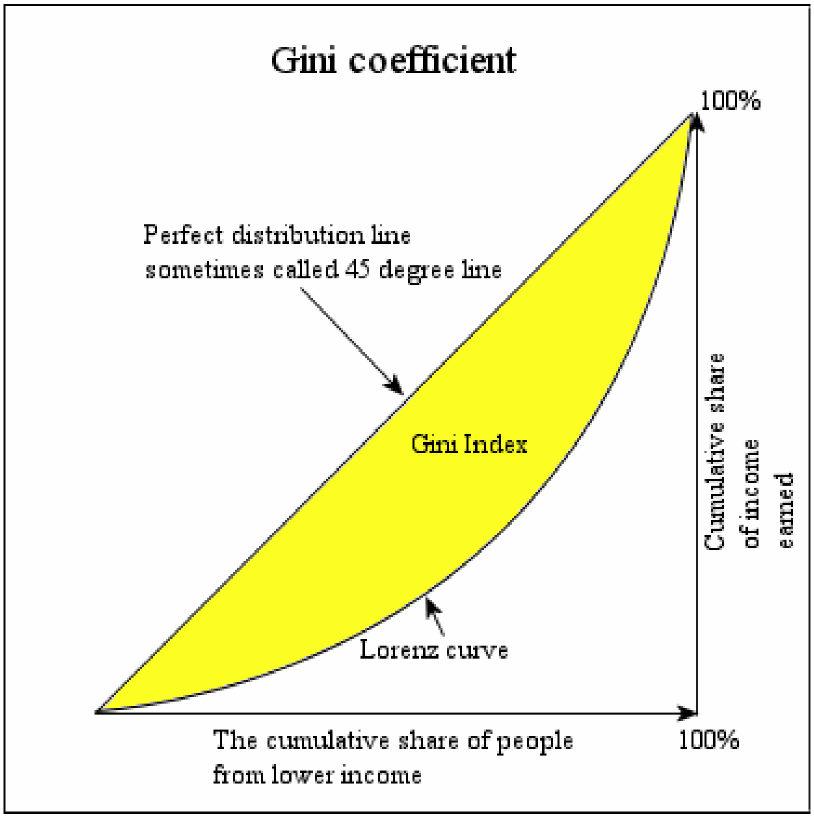

Table 1

State	%Ethnic1	Rank
Maine	97.1	1
Vermont	96.9	2
New Hampshire	96.3	3
Idaho	95.5	4
West Virginia	95	5
Iowa	94.9	6
Wyoming	94.7	7
Utah	93.6	8
North Dakota	92.5	9
Nebraska	92.1	10
Montana	90.9	11
Oregon	90.8	12
Kentucky	90.3	13
Colorado	90.2	14
Minnesota	90.2	15
Wisconsin	90.1	16
Kansas	89.3	17
Rhode Island	89.2	18

Indiana	88.9	19
South Dakota	88.8	20
Arizona	87.7	21
Massachusetts	87.2	22
Pennsylvania	86.4	23
Washington	85.5	24
Connecticut	85.4	25
Ohio	85.4	26
Missouri	85.3	27
New Mexico	84.9	28
Nevada	84.1	29
Texas	83.6	30
Michigan	81.5	31
Arkansas	81	32
Tennessee	80.8	33
Florida	80.6	34
Illinois	79.5	35
Oklahoma	78.4	36
California	77.5	37
New Jersey	77.3	38
Delaware	76.3	39
North Carolina	74.1	40
Virginia	73.9	41
New York	73.6	42
Alabama	71.3	43
Alaska	70.8	44
South Carolina	67.7	45
Georgia	67.5	46
Maryland	65.6	47
Louisiana	64.2	48
Mississippi	61.2	49
Hawaii	42.1	50

Table 2

State	%Lang	Rank
West Virginia	2.7	1
Mississippi	3.6	2
Alabama	3.9	3
Kentucky	3.9	4
Tennessee	4.8	5
Arkansas	5	6

Missouri	5.1	7
Montana	5.2	8
South Carolina	5.2	9
Iowa	5.8	10
Vermont	5.9	11
Ohio	6.1	12
North Dakota	6.3	13
Indiana	6.4	14
Wyoming	6.4	15
South Dakota	6.5	16
Wisconsin	7.3	17
Oklahoma	7.4	18
Maine	7.8	19
Nebraska	7.9	20
North Carolina	8	21
New Hampshire	8.3	22
Michigan	8.4	23
Pennsylvania	8.4	24
Minnesota	8.5	25
Kansas	8.7	26
Louisiana	9.2	27
Idaho	9.3	28
Delaware	9.5	29
Georgia	9.9	30
Virginia	11.1	31
Oregon	12.1	32
Utah	12.5	33
Maryland	12.6	34
Washington	14	35
Alaska	14.3	36
Colorado	15.1	37
Connecticut	18.3	38
Illinois	19.2	39
Massachusetts	19.7	40
Rhode Island	20	41
Florida	23.1	42
Nevada	23.1	43
New Jersey	25.5	44
Arizona	25.9	45
Hawaii	26.6	46
New York	28	47

Texas	31.2	48
New Mexico	36.5	49
California	39.5	50

Table 3

State	%Religious	Rank
Mississippi	61	1
Utah	57	2
Arkansas	53	3
Rhode Island	51	4
Kentucky	49	5
Tennessee	49	5
South Carolina	46	7
Alabama	45	8
South Dakota	45	8
Massachusetts	44	10
Georgia	42	11
North Carolina	42	11
North Dakota	42	11
New Mexico	40	14
Oklahoma	39	15
New York	38	16
Vermont	38	16
Louisiana	37	18
New Jersey	37	18
West Virginia	36	20
New Hampshire	35	21
Maine	34	22
Virginia	34	22
California	32	24
Connecticut	32	24
Iowa	32	24
Wisconsin	32	24
Indiana	31	27
Minnesota	31	27
Arizona	29	29
Delaware	29	29
Illinois	29	29
Nebraska	29	29
Texas	28	34
Pennsylvania	27	35

Florida	26	36
Missouri	26	36
Montana	26	36
Michigan	24	39
Nevada	24	39
Colorado	23	41
Ohio	23	41
Maryland	22	43
Wyoming	22	43
Kansas	21	45
Washington	20	46
Idaho	16	47
Oregon	14	48

Table 4

State	Gini	Rank
North Dakota	0.4649	1
Maine	0.4670	2
Wisconsin	0.4757	3
Hawaii	0.4817	4
Alaska	0.4832	5
West Virginia	0.4844	6
Iowa	0.4854	7
Indiana	0.4867	8
Ohio	0.4900	9
Vermont	0.4932	10
Arkansas	0.4991	11
Oregon	0.5006	12
Nebraska	0.5011	13
South Dakota	0.5013	14
Oklahoma	0.5025	15
Missouri	0.5031	16
Montana	0.5039	17
New Mexico	0.5051	18
Utah	0.5061	19
Mississippi	0.5076	20
South Carolina	0.5081	21
Kentucky	0.5085	22
Minnesota	0.5088	23
Idaho	0.5097	24
Michigan	0.5101	25

New Hampshire	0.5126	26
Kansas	0.5127	27
Rhode Island	0.5141	28
Alabama	0.5148	29
Louisiana	0.5148	30
Pennsylvania	0.5200	31
Arizona	0.5210	32
North Carolina	0.5215	33
Maryland	0.5231	34
Tennessee	0.5233	35
Delaware	0.5321	36
Nevada	0.5351	37
Wyoming	0.5355	38
Virginia	0.5407	39
Florida	0.5431	40
Georgia	0.5450	41
Massachusetts	0.5512	42
Colorado	0.5514	43
Illinois	0.5544	44
Texas	0.5566	45
New Jersey	0.5607	46
California	0.5762	47
Washington	0.5762	48
Connecticut	0.5922	49
New York	0.6033	50

Table 5

	%Ethnic1	%Lang	Gini
%Ethnic1	1		
%Lang	-0.2223599	1	
Gini	-0.173939	0.54736123	1

Table 6

	%Ethnic1	%Lang	Gini	%Religious
%Ethnic1	1			
%Lang	-0.1204033	1		
Gini	-0.3667022	0.62558589	1	
%Religious	-0.2723299	-0.1336761	-0.1422942	1

Table 7

State	Index1	Index2	Rank1	Rank2
Maine	3.467332	3.486805	3	1
North Dakota	4.03279	3.304522	1	2

West Virginia	3.462858	3.295395	4	3
Iowa	2.703015	2.909423	9	4
Vermont	3.181568	2.82717	6	5
Wisconsin	2.419605	2.626013	10	6
Indiana	1.956644	2.256519	11	7
Montana	1.24443	2.011644	17	8
Kentucky	3.33348	1.950938	5	9
Nebraska	1.425221	1.912032	16	10
New Hampshire	1.949703	1.875708	12	11
Ohio	0.817453	1.865069	22	12
Idaho	0.085385	1.787275	25	13
South Dakota	2.77175	1.763079	8	14
Missouri	0.773764	1.540978	23	15
Minnesota	1.123154	1.42303	19	16
Utah	3.50746	1.377178	2	17
Oregon	-0.54503	1.343797	30	18
Arkansas	3.048925	1.292512	7	19
Wyoming	0.054272	1.195356	26	20
Kansas	-0.04208	1.19247	28	21
Pennsylvania	0.051198	0.724944	27	22
Oklahoma	1.127679	0.679813	18	23
Michigan	-0.34994	0.604207	29	24
Tennessee	1.890789	0.508247	13	25
Alabama	1.035015	0.026343	20	26
Rhode Island	1.452791	-0.11669	15	27
Alaska	NA	-0.14733	NA	28
South Carolina	0.874787	-0.22735	21	29
North Carolina	0.333411	-0.39486	24	30
Mississippi	1.881818	-0.62234	14	31
Colorado	-1.74128	-0.69366	38	32
Delaware	-1.19371	-0.7069	33	33
Arizona	-1.61711	-1.13029	37	34
Louisiana	-0.94486	-1.20579	32	35
Virginia	-1.39942	-1.37994	35	36
Massachusetts	-0.55578	-1.47098	31	37
Nevada	-2.55955	-1.6054	39	38
Maryland	-2.86778	-1.72669	41	39
Washington	-3.13588	-1.80786	45	40
Georgia	-1.2395	-1.96777	34	41
New Mexico	-1.50209	-2.04343	36	42
Florida	-2.95145	-2.18424	42	43
Illinois	-2.70503	-2.21822	40	44
Connecticut	-3.02122	-2.81481	43	45
Texas	-3.82993	-3.24965	46	46
New Jersey	-3.06105	-3.32198	44	47
Hawaii	NA	-4.06384	NA	48
New York	-4.96489	-5.31929	47	49
California	-5.5681	-5.36169	48	50

A Comparison of Approaches to Music Sales Via Physical Stores and Internet Stores with Implications for Small Music Labels

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Abstract

This observation research study reports on a comparison of two methods of selling music CDs. A comparison is made between Internet-based retail outlets and conventional physical store retail outlets. Internet websites sell special interest music, such as Mississippi Delta Blues, local folk and country music, and local, popular music produced by local bands. The question is whether or not selling this music on the Internet is more efficient than relying on normal retail outlets. The objective of the research is to determine whether or not a profitable business can be established to market specialized music via the Internet. The study reports on observations based on a variety of physical retail stores and Internet retail stores in early 2006.

Introduction

The project gathered information for a comparison of approaches to retail music sales via physical stores and Internet stores with implications for small music labels. The purpose of the project was to collect information that could be used as a foundation for a larger study to determine the feasibility of opening retail businesses specializing in marketing small independent music labels. The study was conducted during the first three months of 2006. The project involved two phases. The first involved unstructured observation of physical stores with music CD offerings and Internet "virtual" music stores offering CD sales. The second involved structured observation using structured forms derived from the findings of the unstructured observation phases. Observations reveal similarities and differences in the presentation of offerings and in services to consumers.

Project Objectives

The project had two objectives. The first was to identify similarities and differences in how Internet music stores and physical music stores present offerings of recorded music to customers. The second objective was to identify factors that may enhance consumers' awareness of music offerings and positive image of the store. To achieve these objectives unstructured and structured observation research were chosen as cost-effective methods (McDaniel and Gates 1995, Churchill and Iacobucci 2005).

Step 1 – Exploratory – Unstructured Observations

The first step included the development and design of an open-ended observation form to be used for observations of retail music outlets. This initial form was a basic checklist of potential topics of interest thought to be common for both Internet music outlets and retail outlets. This list was used as a guide for the unstructured observations. The unstructured observation stage started with a thorough search for online music outlets on the Internet. From these observations, a list of the Internet outlets was developed. A second list was developed for physical retail music stores. This list was limited to stores found within a 50-mile radius of Natchez, MS. The list was developed through content analysis of Yellow Page listings.

With lists of Internet music stores and physical music stores developed, each identified store was visited by one of the authors. A total of eight physical stores and nine Internet stores were visited in the unstructured observation phase. Notes regarding visible factors that related to the two objectives were made from observations of Internet stores and from observations taken during visits to the physical stores. This information was compiled into a single list of critical topics. This list was used to focus attention on key topics common to both physical stores and Internet stores. The information also developed additional questions to be answered. These common topics and the additional questions were used to develop the structured observation study.

Unstructured Observations list factors derived from the initial round of observations included, for physical stores, the store name, location, type of store, genres of music offered, approximate number of selections offered, whether music sampling was provided, availability of personal service and advice, and the hours of operation. For Internet stores the list of critical topics included the website name, store location, type of store, genres of music offered, whether music sampling was provided, availability of personal service and advice, shipping and delivery arrangements and speed, return guarantees, and length of time on the Internet.

Step 2 – Structured Observation Study

The second step was to carry out structured observations of the stores previously visited and other stores not visited in the initial study. The purpose was to verify the impressions found and gather specific documentation with regard to patterns of retail music offerings. Based on information gathered from the initial observations, two separate structured observations forms were created, one for physical retail stores, and a second for Internet based stores. New observations were made of all of the physical stores except one (The Marriot) and of all of the Internet stores observed in Step 1. Additional Observations were also made at new Internet and physical retail stores to validate the findings from the unstructured observations. The structured observation phase, carried out in March 2006) included twenty retail outlets (nine physical retail outlets and eleven Internet-based outlets).

Findings of the Study

Objective 1.

The first objective's goal was to identify similarities and differences in how Internet music stores and physical music stores present offerings to consumers. The unstructured observations found the following differences. Internet music stores promise "risk-free" purchases. Consumers are able to purchase CD recordings and the consumer can return the purchase if he or she is not satisfied with their purchase. The Internet stores also offer an extremely wide variety and volume of music at every website. Individual Internet stores claimed to offer "thousands" of different artists and recordings, covering many different types of music. Several offered extensive inventories of older, out-dated recordings. Using digital technology, Internet music stores also offered large amounts of information about artists and their music. This information included biographical information, music style information, and digital sampling of recording music. The Internet stores provided easy search methods, allowing costomers to search by style of music, artist, and title. The physical location of Internet stores may not be important since all stores offered several methods of shipping ranging from slowest and inexpensive to overnight express with guaranteed delivery. Similarities between Internet stores and physical stores included music sampling being available at both outlets, generally both types of stores had been in operation more than two years on average, accepted all major credit cards, and offered recordings by the major recording labels.

The physical retail outlets observed were: BeBop Records, Jackson, MS, BESTBUY Electronics, Jackson, MS, Books-a-Million, Jackson, MS, Borders Bookstore, Flowood, MS, CD Trade Center, Jackson, MS, Fred's Dollar Store, Brookhaven, MS, Kaiser's Mobil Convenience Store, Natchez, MS, Marriot Hotel Gift Shop, Houston, TX, and Wal-Mart SuperCenters, Brookhaven and Natchez, MS. The Internet outlets observed were BMG Music Club, CDBaby, CDConnection, CDNOW (a division of Amazon.com), CDUniverse, iTunes (a division of Apple.com), Morphius/Morphius Music, CDARMY.com, ETUNESCITY.com, TOWERRECORDS.com, and YOURTUNES.com.

All of the physical locations observed had been in business more than two years, all took credit cards, and all offered a wide selection of music. Only two outlets had limited libraries, Kaiser's Convenience Store and the Marriot Hotel Gift Shop. Fred's Dollar store offered more selection than Kaisers and the Marriot, but far less than offered by the other six physical retail operations. BeBop offered the largest selection, with the greatest variety. All, except for the Marriot Gift shop and the CD Trade Center offered both CDs and Cassettes. The CD Trade Center had very few new releases, however, the business offered several thousand used CDs, spanning a wide variety of music types. The Marriot Gift Shop was the only outlet specifically catering to tourists. The other outlets offered CD products to the general public, including both locals and tourists.

The music was displayed on vertical racks, horizontal racks and small carousel racks, usually sorted by music type and then by artist. At BeBop, Borders, BestBuy, Marriot Gift Shop and Wal-Mart, digital sampling of CD music was available. These retail outlets presented a very wide variety of types of music, offered on CDs, Cassettes and Boxed sets of music. The larger stores also offered DVD music videos of a wide variety of music artists.

The Marriot Gift shop offered between 125 – 150 selections featuring about from twelve to sixteen artists. These selections were specifically aimed at the consumer visiting Texas and buying Texas-styled music as souvenirs.

Kaiser's Convenience Store displayed the smallest and the most limited collection on a revolving wire carousel rack. The music displayed covered Rhythm and Blues, Classic Country, and Classic Rock music styles. It appeared that CDs and Cassettes purchases at the convenience store were impluse purchases as the rack was adjacent to the cash register.

Eleven Internet sites were also observed during March 2006. All had been in business more than 2 years. All took credit cards and stated that secure encryption protected credit card users from ID theft or illegal credit card usage. Most allowed customers to use "PayPal" as a secure method of making Internet purchases. All offered a wide variety or selection of music and all offered a guarantee that the music offered would be exactly as presented. Most offered digital sampling via the Internet.

BMG Music is a "typical" music club, with a liberal offer to join (12 CDs for the price of one) and a 10 day risk-free guarantee. BMG Music has operated for 50 years.

CDBABY.com offered music from 123,600 different artists and reported having sold more than 2.163 million CDs. CDBaby specializes in selling music from independent musicians and offers no "brand-name" label music. CDBABY has been operating since 1998. The company does not sell used CDs. It has a fourteen day, no questions asked, return policy.

CDCONNECTION.com. sells new CDs and will take PayPal on orders totaling $50.00 or more. The company does not sell used CDs. The company does not inventory CDs, but buys them "as ordered" from stocking warehouses and distributors. The company has been in business more than two years. This firm only offers CDs.

CDNOWcom, a division of AMAZON.com, offers free downloads and digital sampling of the music offered for sale. The operation has been in business more than 2 years. CDNOW offers CDs, Cassettes and musical DVDs.

CDUNIVERSE.com offers deeply discounted CD music. Its inventory includes over 500 thousand titles. CDUNIVERSE provides one to two day shipping. The company sells recorded music (CDs), Movies (DVDs and VHS) and video games. CDUNIVERSE does not sell used products.

ITunes is a division of Apple Computers. ITunes sells downloadable iPod format music. Itunes offers a wide variety of music for the Apple iPod music players. Digital sampling is offered, no used music is offered by iTunes. There are no CDs offered for sale at iTunes.

Morphius Music is a multi-faceted CD Production and sales outlet. The company offers CDs through its Morphius Music division and will custom produce CDs through it's Morphius.com operation. The company sells cassettes, CDs, DVDs, LPs and MP3 recordings. It also offers download loaded music and an audio music club. The company has operated for 10 years.

CDARMY.com is a direct competitor of CDBABY. CDARMY has twelve types of music listed on its website. The company is small, offering about 500 different titles. The website also advertises it will "sell your music" for you. CDARMY only sells CDs. They do not offer downloads. The website also sells a wide range of "logo" clothing. CDARMY has a restrictive return policy, compared to other website retailers. They require that customer to call or email the website to obtain a "Return Merchandise Agreement" before the merchandise can be returned. The company doesn't return customer's money, but rather, gives credit to buy an equal value of merchandise. If permission to return is not requested, there is a 25% restocking fee imposed. CDARMY has operated since 2000

ETUNECITY.com is another "copycat" of CDBABY. EtuneCity even offers an online comparison of their service versus CDBABY. The website sells music and provides a method for independent artists to sell their CDs through EtuneCity. However, EtuneCity sells only three types of music, Country, Bluegrass and American/Folk music. They sell both CDs and downloads on the website. EtuneCity is located in Nashville and caters to Nashville's music market. EtuneCity has a VIP club with discounted prices on products offered., the website also provides a newsletter, an email list, and a calendar for tour and show dates.

TOWERRECORDST.com is the website operation of the Tower Records retail (brick and mortar) operation. This is a standard e-music store. Tower Records offers 17 specific types of music, plus a "general" category on their website. The business also sells books, gift cards, posters, and other "music" related products. Free shipping is offered for all orders over $20.00. There is a plain language simple guarantee. If the customer returns the product in unopened, re-sellable condition, their money is returned, no questions asked. They offer several levels of shipping from "overnight express" to standard (free) shipping. The company has been in operation more than two years.

YOURMUSIC.com is another subscription music service. The website offers more than 14,000 titles, with a standard price of $5.99 per title and free shipping. Members join and send in a list (queue) of music the member wants. As that music becomes available to YOURMUSIC it is shipped, one title monthly. As long as the member buys one title per month at $5.99, the member can continue to buy from the list at $5.99 per title. Satisfaction is guaranteed, there is a liberal return policy, and, if the CD is returned unopened and undamaged, credit is given for another order.

Objective 2

The second objective was to identify factors that might enhance consumer's awareness and positive image of the store and its musical offerings. The information gathered in the structured observation stage suggests effective and ineffective practices. The effective practices may be interpreted to be competitive advantages of the different businesses in a highly saturated, even hostile, market (Aaker 2005). The Internet websites offered both a product and a price guarantee to all customers. The Internet sites also offered deeply discounted prices in their attempt to gain sales and customers for both new business and repeat business. Websites also offered downloadable music (MP3 format), which allows customers to buy one or several songs off a CD as opposed to buying the entire CD to gain access to one or two songs. Websites also offered very large inventory choices and an extremely wide selection or variety of music. Ineffective practices included using retail advertising to for promote independent music or independent artists who did not have a "major" recording contract. The Internet stores also failed to "niche" market their products. Instead, they promoted themselves as having thousands of recordings by thousands of artists covering the entire spectrum of CD recorded music.

The major physical retail store outlets, Be-BOP, Borders, BESTBUY, and Wal-Mart seem to establish and sustain a competitive advantage by the large volume and wide variety of CDs offered as immediately available. These outlets offer thousands of units at or near suggested retail prices. The other physical store outlets offer specialized music or discounted pricing. The Kaiser Convenience store offers a small collection, targeted towards the typical consumer at that store: Rhythm and Blues and Country Music. The store caters to large trucks and this is a product aimed at the truck driver. These prices are somewhat lower than the "big box" retail outlets.

Fred's Dollar store offers a rack of music, partnered with DVDs and VHS movies that seems to say "we also have this product if you want it" rather than promoting the product to stimulate demand. There are two large signs promoting price. Fred's sells "greatest hits" collections and more dated CDs released several years ago or CDs that are re-releases and remixes of previously released music. The pricing is discounted, as one would assume at a discount department store.

At BE-BOP, Borders, BESTBUY stores, several signs advertise the latest releases, new artists, special pricing. Wal-Mart presents a large amount of product and there is no special advertising or pricing offered. The assumption is that Wal-Mart is using its reputation for low prices for competitive products. The BE-BOP, Borders, and BESTBUY stores offer exceptional variety, compared to Wal-Mart. The Internet based outlets promoted their length of time in business, ranging from two years to more than 50 years. The Internet companies also offered "risk-free" purchasing and "guaranteed" satisfaction or your money retuned to you. Obviously, they all offered the ability to pay by credit card, a required method when using the Internet. They also promoted their extremely large variety of music and one company (CDBABY) touted the volume of sales (2.163 million sold) and the number of artists represented (123,600) in a effort to convince customers of the size and stability of the company.

Summary and Recommendations

This observation study found that gift shops and other retail outlets cater to tourists and sell special interest music. Most retail outlets, especially Internet based outlets, have extremely large inventories that cover every aspect of recorded music and, while using suggested retail pricing, often offer discounts off those prices. There appears to be sufficient demand for selling special interest genres such as blues music and other specialty categories. It appears that a wide variety of music needs to be offered at a retail outlet to provide a selection as varied as the tourists and customers may want. Tourists will buy music while "touring" as evidenced by the Marriot Gift Shop and the Kaiser Convenience Store. The question, however, is whether these same tourists will buy music off the Internet after they return home? The study provided observations that support the contention that Internet based music stores are viable. The Internet based stores can carry both major label and independent label music and can support efficient and rapid a distribution. Therefore, it is reasonable to conclude that special interest and or small, independent label music can be successfully sold over the Internet, but substantial variety may be needed to attract sufficient customers for even an Internet based store to be profitable.

This observation study also supports the contention that retail stores should allow downloads of music in addition to CD recordings. The economics of the Internet, which allow world-wide advertising and promotions at small relative cost supports the position that the Internet is an excellent, low-cost vehicle for independent artists and music distribution. Key success factors to consider are 1) extent of library, 2) effective search engines, 3) easy purchase systems, 4) rapid shipping, 5) music sampling, 6) sale of individual downloadable tracks, 7) sale of downloadable CD's, and 8) effective consumer redress. The major deficiency Internet stores relative to physical stores is the lack of personal recommendations and contact, but even this might be addressed by effective strategic database marketing and customer relationship management systems (Hughes 2000, Peppers and Rogers 2004).

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Garbage Accounting: Accounting Controversy at the Landfill

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Abstract

Post-closure costs for municipal landfills should be estimated and treated as costs during the life of a municipal landfill, but there are divergent views on how this should be accomplished. This paper reviews some of the complex issues involved in accounting for the end-of-life environmental clean up costs by looking at changes in the standards over time and by comparing the very different approaches used by the Financial Accounting Standards Board and the Governmental Accounting Standards Board.

Introduction

Out of sight; out of mind. Citizens don't like to think about what happens to their trash after it is picked up from the road side. They just want it to magically and permanently go away. City governments incur high costs to make sure waste stays out of sight, out of mind, and out of future water supplies. To accomplish this goal, municipalities must comply with regulatory requirements and keep up to date on shifting trends in waste management technology. Further, proper accounting techniques must be in place to make sure fees charged during the life of a landfill will be sufficient to safely maintain the structure after it is closed. The practical and theoretical issues in estimating and reporting these costs on the financial statements are quite complex. Accountants tend to agree that however it is estimated, a liability for post-closure costs should be disclosure somewhere within the financial statements. But when should it be reported? Should it be reported gradually over time, at closure, or should the present value appear on the books as soon as the landfill is opened? Other controversies include how to deal with uncertainty in the timing of future payments and how to determine the proper interest rate for discounting the liability.

This paper will provide a brief overview of Environmental Protection Agency regulations for maintaining municipal solid waste facilities and making sure those landfills have minimal adverse effect on the environment after closure. The body of the paper will focus on an assessment of significant controversies in measuring and reporting post-closure costs in the financial statements. The assessment will compare the Government Accounting Standards Board recommended treatment for landfill post-closure costs to the Financial Accounting Standards Board requirements for clean up cost of known environmental hazards for businesses. Proper accounting for these post-closure costs impacts rate structures for landfills and affects the quality of information being reported to financial analysts and other financial statement users. The final section will suggest improvements in current accounting standards.

Overview of U.S. Landfill Regulation

In 2003, U.S. residents, businesses, and institutions produced more than 236 million tons of municipal solid waste. That adds up to 4.5 pounds per person per day, which is nearly 100 pounds a week for a household of three or over 2.5 tons per year. (EPA, Facts 2003, p. 2) Nearly 31% of Municipal Solid Waste was recycled in 2003 and 14% was combusted. While landfills should be a last resort after recycling, composting, and combustion, 55% of America's trash still made it to a landfill in 2003 compared to 67% in 1990. While the amount of waste is rising, many landfills are closing and it is hard to find sites for new landfills because of public opposition.

EPA Subtitle D regulations were put in place in October 1991 to assure that landfills had liners in place to protect against leakage into groundwater. The Preamble to the Subtitle D regulations noted that the EPA intended their regulations to increase public confidence that landfills would be designed to protect human health and the environment and therefore "reduce opposition to landfills and make the siting of new landfills less difficult." However, this has not happened, particularly after the more stringent conditions imposed in 1993. The March 1993 "Federal Regulations for Landfills" was issued to ensure that new landfills would be set up to minimize public health concerns. The guidelines covered six basic areas: 1) Location, 2) Operation, 3) Design, 4) Ground-water monitoring and corrective action, 5) Closure and post-closure care, and 6) Financial assurance. (EPA, Federal Regulations, March 1993, p. 8)

While these regulations are clearly needed to prevent future health problems, they nevertheless make it more difficult to open sites and more expensive to maintain. After 1993 landfills could not be established near airports because they may attract birds that interfere with airplanes. New landfills were also to be prohibited on floodplains, wetlands, seismic areas, and areas prone to sinkholes or other unstable land formations. The initial design must meet stringent requirements and ground-water sampling and analysis must be done at least twice a year. Landfills have to have operating procedures in place to exclude hazardous wastes or other forms of illegal dumping. Collections must be covered on a daily basis, methane gases must be controlled, air emissions from burning are strictly controlled, and various forms of liquids are restricted to minimize leaching. Final closure materials must be designed to keep liquid away from the buried waste. The owner/operator must then maintain the final cover, monitor ground water, monitor gases, and perform other required functions for 30 years. Landfill owner operators are required to show that they have the financial means to perform required site closure and post-closure operations either through insurance, surety bond, or letters of credit. Though not required by law, operators would be well advised to use cost accounting procedures that ensure the post-closure costs are estimated in advance in order to include them in the rates charged before the landfill is closed. The next section of the paper will consider accounting issues in estimating post-closure costs, matching them against current revenues, and reporting them on the financial statements.

Exhibit 1 below shows the rapid decline in the number of landfills as regulations have been come more stringent. The number of landfills in operation in 2002 (1767) was less than ¼ the number in place in 1988 (7924).

INSERT EXHIBIT 1 APPROXIMATELY HERE

Accounting for Landfill Closure and Post-Closure Costs

Cities or counties chose to operate their own solid waste landfills or they can contract out the service. If the city maintains the landfill directly their accounting procedures must follow the guidelines established by the Governmental Accounting Standards Board (GASB). Businesses providing contractual services to municipalities fall under the jurisdiction of the Financial Accounting Standards Board (FASB). These two standard setting bodies have established widely divergent policies for handling end of life costs for landfills and other assets with environmental cleanup issues. Looking at the rationales given for the FASB approach adopted in 2001 in contrast to the current GASB approach will highlight the major controversies in accounting theory related to landfills and other assets with end of life environmental cleanup costs.

The FASB Approach

The primary FASB documents that address environmental clean-up issues are Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies* (December 1977), Statement No. 143, *Accounting for Asset Retirement Obligations* (June 2001, effective for years starting after June 15, 2002), and a related Interpretation Statement No. 47. Statement No. 19 was written primarily to address the issue of full-cost versus successful-efforts accounting in the oil and gas business. However Paragraph 37, stated that

> "estimated dismantlement, restoration, and abandonment costs and estimated residual salvage values shall be taken into account in determining amortization and depreciation."

While these costs could be included in income as a debit to expense prior to dismantling, Statement No. 19 did not address how to report the offsetting credits. Consequently different procedures emerged in practice. Some practitioners treated the credits as a gradual accumulation of a liability for closure and post-closure costs. Others did not view the credits as clear and present liabilities until the end of the asset life. While netting of related assets and liabilities is not allowed in accounting practice, some accounting reports treated the future obligation for end of life clean up as a contra-account to the related asset.

The primary concern in Statement No. 19 was simply to match future costs against periods when the assets were in operation and earning revenues. Thus, a rather simplistic approach was used of adding up the total anticipated disposal costs and allocating them to income based on the percentage usage of the underlying asset. Thus if an oil well had pumped 20% of its total anticipated volume, 20% of the basic cost of the asset and 20% of the future dismantlement costs would both be treated as depreciation in the income statement. The primary purpose of the procedure was income measurement. The statement simply did not address any of the usual balance sheet concerns. No mention was made of presentation of a liability or a contra-asset either one. Further, no consideration was given to the possibility of displaying a present value amount for the overall obligation as soon as it was reasonably estimable. Yet just subsequent to the issuance of Statement No. 19, the FASB adopted a definite preference for a balance sheet valuation accounting approach for its conceptual framework project. Conceptual Framework Statement No. 3, *Elements of Financial Statements of Business Enterprises,* issued in December 1980 defined items on the income statement only in terms of their relationship to balance sheet elements.

The purpose of Statement No. 143, *Asset Retirement Obligations* was to diminish the diversity in practice and lead to more comparability between entities. Statement No. 143 expressed a clear preference for approaching the issue in terms of providing fair value estimates of existing liabilities. The definition of a liability in Statement of Accounting Concepts Statement No. 6 (an amendment of Concepts Statement No 3) was as follows:

> Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Par. 35

One of the problems in interpreting the definition above is in determining how likely something has to be before it is considered 'probable' enough to be recorded on face of the financial statements. FASB Statement No. 5 (March 1975) on recording contingent assets or liabilities interpreted 'probable' as a very high level of certainty. Although the exact probability is not spelled out in the statement some accountants seem to think that contingencies are not recorded until they are 95% certain. In contrast, Statement No. 109 (February 1992) for deferred taxes uses a criterion of 'more likely than not', or roughly 51% probable.

In FASB 143 the standard setters indicated that as long as there was a present legal obligation for end of life costs they should be recorded immediately. Rather than increasing the liability balance gradually over time, Statement No. 143 requires that the present value of the future obligation be recorded as soon as the company has incurred a definite obligation even if the timing and amount of the obligation are not precisely known. As long as some range of possible outcomes are known, a probability weighted amount called the 'expected value' can be used for discounting purposes. If an amount representing the entire present value of the end of life obligation is to be recorded as a credit in the liability section, the question then becomes what to do with the balancing debit. The Financial Accounting Standards Board opted to add this balancing amount to the value of the related asset. This value will then be amortized over time to spread the costs to periods while the asset is in operation.

In order to understand the flaw in this logic, consider the example in Exhibit 2. This example shows that while FASB's approach does get the liability recorded on the books, the effect is runs counter to common sense. While the liability is recorded, the ultimate effect is to make it look as though the asset is more valuable after the discovery of a toxic waste.

The FASB notes that the clean-up costs would affect the fair value of the asset. I agree, they would. But anyone who could recognize the Emperor's new clothes as looking suspiciously like underwear, will surely know that the way the FASB mandates for adjusting the Asset value is backwards. This approach gets the liability on the books in a way that makes seems to make sense, but fails to recognize that buyers in the real estate market are going to want to offer less, not more for the asset now that they know it has a toxic dump in the back yard. Parking the additional cost in the asset category is a way to increase the amortization base for income statement allocation purposes, but does not make sense at all if the purpose of the balance sheet is to present fair values of assets.

INSERT EXHIBIT 2 APPROXIMATELY HERE

The requirements in FASB 143 also imposed a unique method of handling uncertainty of future costs and the estimated inflation over time. Estimates for the costs of clean-up can vary widely because 1) the extent of the contamination often cannot be fully assessed until clean-up takes place, and 2) clean-up technology and associated costs may change before the time of asset retirement. Using the principles from Concepts Statement No. 7 *Using Cash Flow Information and Present Value in Accounting Measurements*, FASB 143 required that rather than using a single most-likely estimate, or a simple average of alternative scenarios, alternative costs projections should be made and weighted by the probability of each scenario. The expected cash flow is then adjusted using what Concepts Statement No. 7 called the *credit-adjusted risk free rate*.

Understanding what is entailed in the *credited-adjusted risk free rate* requires some background in economic and financial theory of interest rates. In the traditional approach to the theory of interest rates, Fisher (1906,1907,1930) suggested that a market rate of interest is implicitly made up of three components:

1. The real return,
2. An amount equal to the rate of inflation, and
3. An adjustment for credit risk.

It is clear in FASB 143 that the Board intends that entities with a lower credit rate should use a higher discount rate. This will result in a lower value after discounting. In measuring liabilities this results in another counter-intuitive result; riskier entities are rewarded by recording a lower liability number than a less risky entity with the same expected cash flows. Neither FASB 143 nor FASB Concepts Statement 7 is clear in its intent on how to handle the inflation component of the interest rate. Differences in interpretation on this issue could leave to significant differences in the computed present value. While the Asset and Liability are both initially recorded at present value, the present value should gradually increase as the payoff date gets closer. The asset value will not be adjusted for changes in present value, but increases in the liability account will be listed as a separate item, accretion expense, in the operating portion of the income statement using an interest method of allocation.

The GASB Approach

The GASB addressed the issue of accounting for Post-closure costs for municipal landfills in Statement No. 18, *Landfill Closure and Postclosure Care Costs*. Written to specifically address EPA requirements established in October of 1991 and 1993, provisions of this statement became effective for fiscal years beginning after June 15, 1993. Statement 18 addressed a single type of environmental clean-up activity rather than the more general focus in FASB 143 and considered differences in operating procedures commonly used in landfills. Some landfills operate on a 'cell' basis with each cell being filled and capped off in succession. Others operate on an overall basis so that the final capping off procedures will not occur until all the cells are full. Either way the costs for capping the cells and monitoring groundwater leakage after closure should be accrued and matched against revenues while the landfill is operating rather than being treated as an expense when paid at the end of the life of the landfill.

Unlike the FASB approach, the GASB recommended accruing the clean-up costs gradually over time rather than for the full present value all at once. Under the GASB approach a percentage of usage formula is applied to the estimated costs for closure based on current costs. Under the GASB approach an expense and an accumulating liability are accrued each year using the formula below:

(Estimated total current cost X % Cumulative capacity used) less Amount Previous recognized.

Because the full amount of the end of life liability is not recorded, but only the portion that grows from the current year's use, the issue of a counter-intuitive debit to an Asset account never arises. Further, GASB 18 handles the inflation issue in such a manner that discounting and present value computations are side-stepped all together. The estimates each year will be based on the total costs if the landfill were closed that year. As costs change, the inflation and other uncertainty issues will be treated as a prospective adjustment to the landfill expense matched against current revenues each year.

Assessment and Suggestions for Change

FASB Assessment

Practical problems exist in applying an exclusive income statement or asset/liability model without thinking about the implications for the other statement.

Prior to FASB 143, the reported liability for known businesses' end of life asset obligations was undoubtedly understated. Disclosing major end of life obligations that currently exist on the face of the balance sheet was a worthy goal in FASB 143. Still, the approach selected for business statements is complex, raises significant questions of interpretation, and records an asset balance that is not representationally faithful. The future clean-up costs do not represent an increment in the fair value of assets, but are actually unrecorded costs. The nature of these debit values are more clearly that of a reduction in stockholders' equity than an asset.

Further, the accretion expense associated with the increase in the present value of the liability over time is problematic for decision making purposes. The interest method of allocating the difference between the initial liability balance and its eventual full cost at liquidation will result in greater accretion in the later years of the assets life because the interest element will grow with the growing liability balance. This means that if this expense amount is used in assigning tipping rates during the life of the asset with the intention of covering the final cost, rates will rise over time even though customers will not be receiving any greater benefits in later years.

Exhibit 3 shows an overall assessment of the FASB approach to recording known end of life environmental clean-up costs. The primary intent of the FASB 143 approach was to get a theoretically defensible value for know clean-up and other environmental obligations on the face of the balance sheet. Although there are differences of opinion about whether the discounting approach selected is appropriate or not, most would agree that if the full obligation currently exists, then full amount should be shown rather than an arbitrary, gradual accumulation over time. On the other hand there are certain aspects of FASB 143 that are counter-intuitive, impractical, and even embarrassing in the case of treating a toxic waste discovery as if it is an asset. The fair value approach makes sense on the asset side, but other past FASB pronouncements give clues that fair value and present value computations sometimes producing unexpected results on the liability side.

In addressing the issue of income tax allocation the FASB and its predecessors the Accounting Principles Board never applied discounting to the income tax assets or liabilities because it interferes with the practical interpretation of the income tax expense on the income statement. The accounting gains or losses from troubled debt restructurings used to be classified as extraordinary even though they were not necessarily unusual or infrequent. This classification was primarily an admission that present value changes in liabilities on the balance sheet do not necessarily make sense in the income statement. When a debtor is granted a concession that allows them to pay lower interest or decrease part of the principal because of their poor credit standing, it is counter-intuitive to reward a company with an operating gain on the income statement solely because they have become less credit-worthy. Until recently these types of gains were listed as "Extraordinary" in order to caution users to realize these gains were not comparable to other common sense gains. The APB used an income statement approach for its accounting standards with counter-intuitive results on the balance sheet. These examples show that the FASB's fair value, balance sheet approach results in counter-intuitive results and data that does not entirely meet the criterion of being decision useful when applied to liability accounts.

INSERT EXHIBIT 3 APPROXIMATELY HERE

GASB Assessment

Exihibit 4 compares the primary benefits and problem areas associated with GASB 18's approach to landfill closure and post-closure costs. The primary benefits of the GASB approach are that the goal of allocating costs to the income statement prior to closure are accomplished with minimal computational complexity without distort the costs to users over time as occurs under the interest allocation approach followed by FASB 143. Because GASB Statement No. 18 was written to address a more specific type of situation than the wide scope coverage in FASB Statement No. 143, the gradual accumulation of the liability over time may be adequate in a 'cell' operating environment. The primary problem with the GASB approach is that in the overall operating approach where multiple cells are being gradually filled with none of the cells being fully capped until the end of the landfill life, the gradual accumulation process may understate the known liability that currently would exist if the landfill were to be closed as of the balance sheet date.

INSERT EXHIBIT 4 APPROXIMATELY HERE

Suggestions for Change

While the FASB and GASB operate under similar conceptual frameworks, the degree to which they differ in their approach to similar problems is significant. It is interesting that the FASB has made significant recent strides in addressing differences in U.S. and international accounting procedures, but the little progress in coordinating FASB and GASB regulations even though the standard setters share the same building. One wonders if some of the problems with the FASB and GASB approaches to environmental clean-up costs might be solved by better communication and coordination of standards between the two bodies. While the FASB's approach on the liability side has a more elaborate theoretical justification for its use of the expected value approach, the GASB's approach is much more practical to compute and is more consistent with the manner in which these liabilities are likely to be funded. Further, in the case of cell-operated landfills the liability probably does grow only gradually over time since abandonment of the overall landfill prior to filling a portion of the cells would result in a liability that would be less than that for a landfill at full cell capacity. Even in the case of government run landfills operated on an overall basis, gradual accumulation of the liability would make the financial statements of cell operated and those run on an overall approach more comparable.

In spite of the practicality of the GASB approach the FASB is unlikely to adopt the gradual accumulation approach given the direction it has committed to for other related issues. The FASB has commitment to a project which is expected result in placing the full amount of defined benefit pension assets and liabilities directly on the balance sheets of the participating companies. This shows a clear commitment to record the full present value of known obligations in the liability section. The most significant problem with the FASB's approach to asset retirement obligations is in the embarrassing paradox of treating future clean-up costs as an asset. This same issue is likely to come up again when the FASB addresses how to display the off-setting debits related to under-funded pension liabilities. While FASB 87, *Employers' Accounting for Pensions* (December 1985) only recorded a small fraction of the overall pension liabilities, that statement like FASB 143 allowed companies to record the offset to unfunded liabilities as an intangible asset. Not unlike the concept of treating a toxic waste dump as an asset in FASB 143, FASB 87 essentially rewarded companies that fall behind on their pension fund with a boost in their level of total assets. While the counter-intuitive treatment of environmental clean-up costs and unfunded pensions as asset may be simply a product of a balance sheet and an income statement that refuses to articulate, in the post-Enron era a skeptical public might also conclude that treating future costs as assets today is evidence of regulatory capture. If these future costs do not increase asset values, they represent un-recorded expenses or losses. Future environmental clean-up costs should be listed as a contra-equity accounts either separately or as part of the overall balance of Other Accumulated Comprehensive Losses.

The major tenet of the FASB's current conceptual framework is that data in the financial statements should be decision useful. If one believes in the efficient market hypothesis, all data is useful to sophisticated users whether it is in on the face of the financial statements, in the footnotes, or even if it is classified as an asset when it is really a loss. On the other hand, another function of quality accounting standards should be to provide financial statements that are not embarrassing when viewed from the standpoint of common sense. As the profession as had its share of embarrassing scandals in recent years, perhaps the standard setters and the profession as a whole needs to take a look at whether there are other items hiding in the asset section of the balance sheets that made no more sense than the emperor's new underwear. Deferred tax assets and amounts paid for goodwill come to mind.

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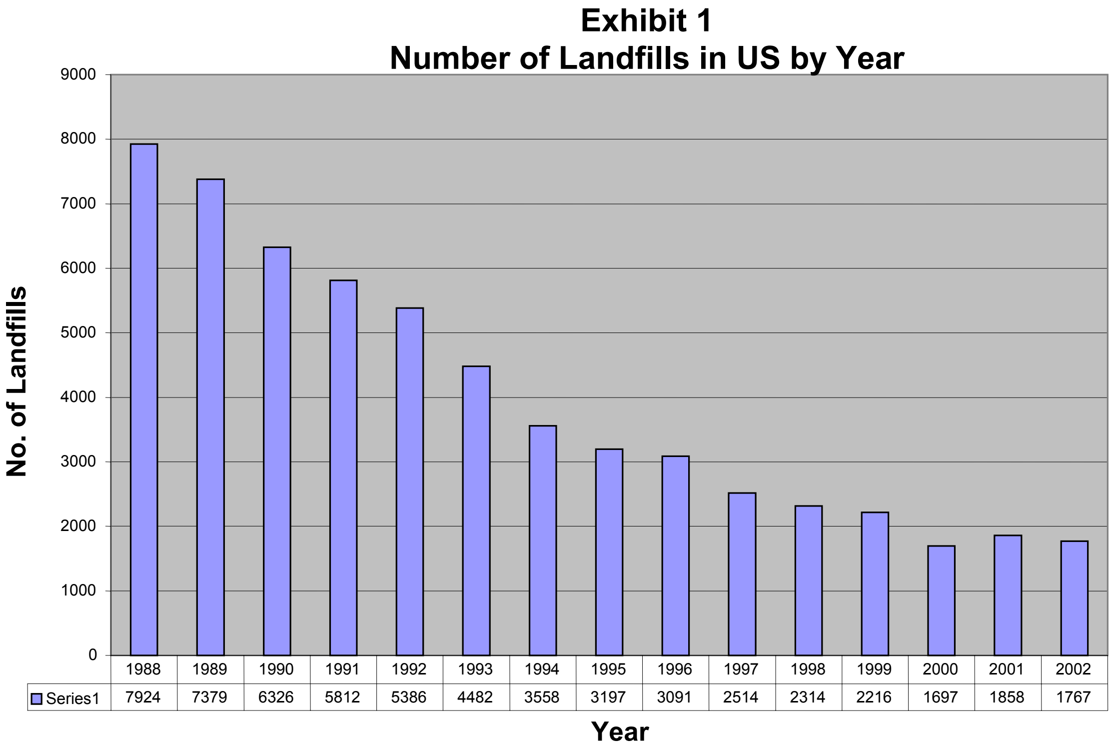

Adapted from : EPA, Facts 2003, p. 9

Exhibit 2
Beverly Hills Example of Asset Change
Due to Discovery of Toxic Waste

Jed Clampit has lived in Beverly Hills for 5 years. His oil and other investments are doing quite well so he decides to sell his mansion and get a bigger one. March 1, the real estate appraiser delivers a report that says his current mansion is worth $1 Million. That afternoon, Jed is shooting at some food in the backyard (again) and discovers not oil this time, but toxic waste barrels buried in his mansion's back yard. "Bad news," the real estate appraiser says, "that's going to cost $500,000 to clean up." What is Jed's mansion worth now?

Jed's Equity before the toxic waste discovery:

Mansion Asset $1,000,000 = Equity in Mansion $1,000,000

According to the FASB, Jed could record the event as follows:

Mansion Asset value	$500,000 dr	
Clean up liability		$500,000 cr

Then the balance sheet equation would appear as follows:

Mansion Asset $1,500,000 = Liability $500,000 + Equity $1,000,000

Exhibit 3
Assessment of FASB Approach

Beneficial effect:

1. Makes known environmental clear-up costs an explicit liability on the face of the balance sheet .

Problem areas:

1. Future clean-up costs are treated as if they add to the fair value of the related asset.

2. It is not clear how to handle inflation in the discount rate.

3. Riskier companies will be rewarded by recording a lower initial liability even though the overall costs will be eventually be the same.

4. The accretion approach is unduly complex and does not assign a level amount of expense to customers over time.

Exhibit 4

Assessment of GASB Approach

Beneficial effects:

1. Spreads closure and post-closure costs to periods of operation in a systematic and rational approach.

2. Handles inflation issues with minimal complexity.

3. Additional costs are more readily understandable than the FASB accretion approach.

Problem area:

1. May understate the liability in cases where the overall as opposed to the ‘cell’ operating approach is used.

Situational Predictors of Whistleblowing

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Abstract

Whistleblowing is an organizational phenomenon studied for more than twenty years but has received attention recently because of several high profile cases of corporate wrongdoing that were reported by whistleblowers. This increased public attention has sparked further research into the predictors of such behavior. This research attempted to identify situational determinants of whistleblowing. Situational variables examined were the seriousness of the offense, the supportiveness of the organizational climate, and the power of the culprit. Main effects of the independent variables on whistleblowing were predicted. Data was collected using a self-report survey. Analysis of the hypotheses employed MANOVA and chi square analyses. The strongest determinants were found to be the seriousness of the offense and the supportiveness of the organizational climate.

Introduction

A clerk uncovers evidence that her supervisor is embezzling corporate funds and questions what she should do with the information. A chemist discovers additives to his company's leading product are known carcinogens. A manager finds a colleague using the firm's postage meter to mail personal bills. An auditor determines that the firm has knowingly reported false earnings statements. In almost every organization there are times when employees witness actions such as these committed by other members of the firm, and the rate of occurrence of such instances is increasing (Figg, 2000). These actions are often questionable in terms of legality, morality, or ethicality.

During these instances, many of the witnessing employees will question what they should do in response to the observed wrongdoing. Many do nothing, telling themselves something along the lines of it is "none of my business" or "everyone does it." Some may confront the alleged culprit. Others try to get the company to correct the wrongdoing. Still others file reports with law enforcement or regulatory agencies. This question of whether to report the wrongdoing or not, known as whistleblowing, is of growing interest to the academic and business communities and is the focus of this work.

Recent high profile corporate scandals have brought increased attention to whistleblowing. This attention has included that of the U.S. Congress who enacted the Sarbanes-Oxley Act of 2002 in an attempt to protect the public from corporate mismanagement. This came in the wake of historic corporate scandals such as WorldCom and Enron. Prior to Sarbanes-Oxley, state law was used to determine the level of protection for whistleblowers in publicly traded companies (Block & Hoff, 2003). The Sarbanes-Oxley Act brings with it new protections for the whistleblower, certification of financial statements by corporate officers, and a broad range of measures which seek to increase accountability and transparency (Watchman, 2004).

Model of Whistleblowing

Starkey (1998; Starkey & Wiebe, 2000) developed a model of whistleblowing (Figure 1) that introduces three potential situational variables that affect the decision to blow the whistle. The model also provides alternative methods of reporting once a decision to blow the whistle has been made.

A Taxonomy of Whistleblowers

The combination of the decisions to either blow the whistle to internal or external complaint recipients and whether or not to let one's identity be know provides us with taxonomy with which to describe different types of whistleblowers. This taxonomy is shown in Figure 2. The first type of whistleblower is publicly known and uses internal channels for making his/her complaint. This type will be referred to as a "Citizen" because their objectives are assumed to be prosocial, or loyal to the firm, and intended to improve the organization (Dozier & Miceli, 1985). The Citizen may be characterized as simply wanting a better place to work. The second type of whistleblower also has their identity publicly known but employs an external channel. This type will be referred to as an "Evangelist" because they are often called upon to "preach" on the evil ways of the organization. The Evangelist is assumed to seldom be afraid of retaliation, discloses his/her identity to legitimize his/her claims, and feels that an external channel will have more power to take action in correcting serious wrongdoings (Miceli & Near, 1985).

Anonymous whistleblowers who choose internal channels will be referred to as "Cautious Helpers" because they are assumed to be afraid of reprisals but tend to exhibit prosocial motivations for their actions, seeking to provide the firm an initial opportunity to address the wrongdoing (Callahan & Collins, 1992; Dworkin & Callahan, 1991). The last type of whistleblower keeps their identity anonymous and employ external channels. These will be referred to as "Deep Throats" in reference to the whistleblower who made the Watergate scandal public (Woodward & Bernstein, 1974). Deep Throats are assumed to choose this behavior because of fear of reprisal from the organization (Jensen, 1987; Miceli & Near, 1985), the seriousness of the wrongdoing (Miceli & Near, 1985), and the feeling that public can better correct the wrongdoings and should know what has happened (Callahan & Dworkin, 1994).

Predictors of Whistleblowing

There has been a significant amount of research in the past seeking clarification of the general causal variables in reporting wrongdoings (Barnett, 1992a, 1992c; Dozier & Miceli, 1985; Miceli, Near, & Schwenk, 1991; Miceli, Van Scotter, Near, and Rehg, 2001). Much of this previous research focused primarily on organizational variables such as size of the firm (Miceli & Near, 1984, 1985, 1989), availability of reporting channels (Aron, 1992; Keenan, 1990, 1995), and implied threat of retaliation (Egler & Edwards, 1992; Miceli & Near, 1985, 1989, 1994; Rehg, Miceli, Near & Van Scotter, 2004). Others focused on those blowing the whistle, seeking to develop a profile of the typical whistleblower. Variables examined include gender (Miceli, Dozier, & Near, 1991;

Wise, Barnett, & Brown, 1997), religion (Barnett, Bass, & Brown, 1996), and position in the organization (Casal & Zalkind, 1995; Miceli & Near, 1984; Keenan, 1990, 1995).

The primary purpose of this research was to evaluate the influence of several situational variables on decisions of organization members on whether or not to blow the whistle on wrongdoings. Seriousness of Offense, Supportiveness of the Organizational Climate, and Relative Power of the Culprit are hypothesized to directly influence the choice of whistleblowing behavior as situational variables in previous research conducted by the authors (Starkey, 1998; Starkey & Wiebe, 2000). A brief explanation of their choice follows.

Seriousness of Wrongdoing

It is thought that the more serious the act is, the more likely it is to be reported through whistleblowing (Dozier & Miceli, 1985; Jensen, 1987). Empirical support for this position is also available (Miceli & Near, 1985; Wise, Barnett, & Brown, 1997).

Sarbanes-Oxley doubles and even triples some penalties and fines for intentional financial fraud. This provides a direct relationship between the seriousness of the offense and whistleblowing. This also suggests that the Sarbanes-Oxley Act is appropriate legislation and is in line with this research. Sarbanes-Oxley's increased protection of whistleblowers and strengthening of penalties for corporate wrongdoing elevates the level of seriousness for inappropriate acts (Brickley, 2003). The relationship between the seriousness of the offence and

whistleblowing suggests that Sarbanes-Oxley creates a greater likelihood of an employee coming forward with concerns of wrongdoing(Watchman, 2004).

Hypothesis 1 - *More as opposed to less serious offenses are more likely to result in intentions to engage in whistleblowing.*

Supportiveness of the Climate for Whistleblowing

One organizational factor that may influence the whistleblowers' decision is the climate of the firm (Barnett, 1992a; Miceli, et al., 2001; Trevino & Victor, 1992). The internal support provided by the firm for members choosing to voice their concerns is the element of the firm's climate most relevant to acts of whistleblowing (Barnett, 1992b). One means of providing this support is to make responsibilities for such reporting clear (Figg, 2000; Trevino &Victor, 1992).

Sarbanes-Oxley requires that companies develop procedures for the confidential reporting of suspicious auditing or accounting practices (Salem, R., & Franze, 2002). The need for this provision is supported by the positive relationship between the level of support within the organization and the decision to report suspicious activity. The use of internal reporting procedures allows for organizations to identify problems early and minimize negative effects. Whistleblowers identified as Evangelist or Deep Throat can choose internal disclosure rather than going outside the company. Evidence for this need was seen during the Enron and WorldCom fiascos, when the whistleblowers in each case tried to bring the wrongdoing to light within their organizations (Watchman, 2004).

Hypothesis 2 - *More as opposed to less supportive organizational climates are more likely to result in intentions to engage in whistleblowing.*

Relative Power of the Culprit

The power of the culprit of the wrongdoing is likely to influence the reporting decision (Jensen, 1987). Of particular interest is the power relationship between the culprit and the potential whistleblower. It is likely that observers consider the power relationship as one of the key elements in the determination in blowing the whistle, especially for those at lower levels of the organization (Jensen, 1987). Others concur, suggesting this may be due to an implicit threat of retaliation (Miceli & Near, 1994; Rehg, et al., 2004).

The effects of Sarbanes-Oxley on this situational variable are less prominent. Low-level and unsophisticated workers might not be aware of protections provided by Sarbanes-Oxley. These workers might be hesitant to come forward about wrongdoing because of a lack of understanding of the law and a higher dependence upon their job because of less financial solvency (Banynes, 2002).

Hypothesis 3 - *Less as opposed to more powerful culprits are more likely to result in intentions to engage in whistleblowing.*

Method

A research instrument was developed to measure the influence of the independent variables on the decisions in question. This instrument contains original scenarios that allowed for the manipulation of the situational variables. The development of the research instrument included a series of pretests to validate the original scenarios. Respondents were asked to indicate their likelihood of responding in any of four whistleblowing behaviors or to do nothing. They were then asked which of the five behaviors they were most likely to do.

The research instrument was then administered to employees of four hospitals in Mississippi and Alabama. The hospitals employed 1,829 persons at the time the surveys were distributed. Of the 1,829 surveys distributed, a total of 580 usable responses were received for a response rate of 31.71%. Analysis of the hypotheses employed MANOVA and chi square analyses. Two separate MANOVA designs were conducted to examine both the overall effect of the full factorial design and to determine the effect of the structure of the research instrument. The multivariate results of the MANOVA analyses are presented in Table 1.

The situational variables evaluated were the seriousness of the observed wrongdoing, supportiveness of the firm's climate for whistleblowing, and the relative power of the culprit in relation to the observer.

Results of both MANOVA analyses and the chi square analysis all indicate a significant relationship between seriousness of offense and whistleblowing. MANOVA results are presented in Table 2 and chi square results are presented in Table 3. The seriousness of the offense was found to have a strong influence on whether or not the wrongdoing would be reported, supporting previous proposals (Dozier & Miceli, 1985) and findings (Harrington, 1997; Wise et al., 1997). One can conclude that actions perceived as serious, as opposed to minor, wrongdoings are more likely to be reported.

The supportiveness of the organizational climate was also found to have a positive influence on the choice to report, supporting most previous findings (Barnett, 1992a; Callahan & Collins, 1992; Miceli, et al., 2001; Rehg, et al., 2004). Results of the MANOVA analyses regarding the supportiveness of the climate are presented in Table 4 and chi square results are presented in Table 5.

The final situational variable examined was the relative power of the culprit in relation to the observer, which was expected to be positively related to reporting. The expected relationship did emerge, but the differences in the rates of reporting with culprits of different levels of power were slight. There was mixed support in the MANOVA analyses and the chi square analysis. Of the three, significant support was found in only one of the MANOVA analyses. MANOVA results are presented in Table 6 and chi square results in Table 7. These findings provide some support for previous proposals (Jensen, 1987; Near & Miceli, 1987), but caution should be taken in generalizing the extent of the relationship between culprit power and whistleblowing.

Discussion & Implications

There are several contributions this research makes, especially from the practitioners' perspective. First, our results provide insights for organizations regarding the primary factors that contribute to an individual's decision to blow the whistle. What the organization should be able to do is provide these individuals with opportunities to constructively criticize actions the firm is taking in a form that will prevent wrongdoings from occurring.

One proposal from previous research, and supported in this work, is that a clear pattern of support by the organization is necessary for members of the firm to perceive the climate as supportive (Barnett, 1992b; Callahan & Collins, 1992; Figg, 2000; Miceli, et al., 2001; Rehg, et al., 2004). This strengthens the argument that firms wishing to avoid public disclosure of wrongdoings must provide means for internal reporting and make clear the support of the firm for using these channels (Callahan & Collins, 1992; Callahan & Dworkin, 1994; Sims & Keenan, 1998; Watchman, 2004). Organizations using this research will also be able to understand that providing internal means of blowing the whistle is beneficial for all concerned. These internal alternatives will allow the firm to police it self and improve relations among stakeholders. Callahan's (1990) studies comparing legal protection under employment-at-will and expectations of the public provide further support. She found that most members of the public at large believe whistleblowers to be protected from retaliation and/or discharge when they report wrongdoings. Courts, though, are much slower to offer this protection under the public policy exception to employment-at-will. Employers should note, however, that legislation has now followed public opinion with the enactment of Sarbanes-Oxley (Salem & Franze, 2002; Watchman, 2004) which would lead one to think that there may soon be even more laws and court rulings that offer whistleblower protection.

Dandekar (1991) suggests that there is, and will continue to be, serious opposition to blowing the whistle. She notes that there is significant retaliation and ostracism directed towards the whistleblower, even when there is ample evidence of wrongdoing, primarily due to the ambiguity regarding the whistleblower's motives. The research presented here may provide a means of reducing the ambiguity regarding the motives of whistleblower.

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Figure 1

An Abbreviated Model of Whistleblowing

Figure 1

Situational Variables

Seriousness of Offense
Supportiveness of Climate
Relative Power of Culprit

⇓

Whistleblowing Decision

Yes ⇓ **Choice of Action** ⇓

No ⇓ ⇓ ⇓

		Identification of Whistleblower	
		Public	Anonymous
	Internal	*Citizen*	*Cautious Helper*
	External	*Evangelist*	*Deep Throat*

Figure 2

Figure 2
Taxonomy of
Types of Whistleblowers

		Identification of Whistleblower	
		Public	**Anonymou s**
	Internal	***Citizen***	***Cautious Helper***
	Externa l	***Evangelist***	***Deep Throat***

Table 1

Table 1
MANOVA Within Cells Regression - Multivariate Results

Repeated Measures Design

Test Name	**Value**	**Approx. F**	**Degrees of Between Group**	**Freedom Within Group**	**Significance of F**
Pillais	.193	1.32	20	520	.162
Hotellings	.221	1.39	20	502	.123
Wilks	.814	1.35	20	422	.142
Roys	.152				

Full Factorial Design

Test Name	**Value**	**Approx. F**	**Degrees of Between Group**	**Freedom Within Group**	**Significance of F**
Pillais	.083	2.33	20	2208	.001
Hotellings	.087	2.37	20	2190	.001
Wilks	.919	2.35	20	1822	.001
Roys	.058				

Table 2

Table 2 **MANOVA Tests of Significance for Seriousness of Offense**						
	Repeated Measures Design			**Full Factorial Design**		
Multivariate Results						
Test	**Value**	**$F_{(5, 131\ d.f.)}$**	**Signif**	**Value**	**$F_{(5, 549\ d.f.)}$**	**Signif**
Pillais	.510	27.29	<.001	.291	45.14	<.001
Hotellings	1.042	27.29	<.001	.411	45.14	<.001
Wilks	.490	27.29	<.001	.709	45.14	<.001
Roys	.510			.291		
Univariate Results						
	$F_{(1, 135\ d.f.)}$	**Signif**		**$F_{(1, 553\ d.f.)}$**	**Signif**	
Citizen	63.76	< .001		101.82	< .001	
Cautious Helper	1.33	.251		.07	.784	
Evangelist	35.04	< .001		40.41	< .001	
Deep Throat	23.99	< .001		17.40	< .001	
Do Nothing	71.64	< .001		120.28	< .001	
Note: d.f. = Degrees of Freedom						

Table 3

Table 3 **Cross-Tabulation of Seriousness of Offense by Reporting**			
	Most Likely To		
	Do Nothing	Blow the Whistle	
Minor	164 (28.28%)	416 (71.72%)	580 (100%)
Serious	25 (4.32%)	554 (95.68%)	579 (100%)
Total	189 (16.31%)	970 (83.69%)	1159 (100%)
Note: Pearson $\chi^2 = 121.86$, d.f. = 1, $p < .001$			

Table 4

Table 4 **Tests of Significance for Supportiveness of Climate**						
	Repeated Measures Design			**Full Factorial Design**		
Multivariate Results						
Test	**Value**	**$F_{(5, 127\ d.f.)}$**	**Signif**	**Value**	**$F_{(5, 549\ d.f.)}$**	**Signif**
Pillais	.107	3.049	.012	.056	6.494	<.001
Hotellings	.120	3.049	.012	.059	6.494	<.001
Wilks	.893	3.049	.012	.944	6.494	<.001
Roys	.107			.056		
Univariate Results						
Behavior	**$F_{(1, 135\ d.f.)}$**	**Signif**		**$F_{(1, 553\ d.f.)}$**	**Signif**	
Citizen	.000	.985		3.474	.063	
Cautious Helper	3.800	.053		10.343	.001	
Evangelist	.025	.874		1.361	.244	
Deep Throat	.008	.930		2.187	.140	
Do Nothing	12.363	.001		13.992	<.001	
Note: d.f. = Degrees of Freedom						

Table 5

Table 5 **Cross-Tabulation of Supportiveness of Climate by Reporting**			
Most Likely To ...			
Level of Support	Blow the Whistle	Do Nothing	**Total**
Supportive			580 (100%)
Not Supportive			579 (100%)
Total	970 (83.69%)	189 (16.31%)	1159 (100%)
Note: Pearson $\chi^2 = 22.37$, d.f. = 2, $p < .001$			

Table 6

Table 6 **Tests of Significance for Power of Culprit**						
	Repeated Measures Design			**Full Factorial Design**		
Multivariate Results						
Test	Value	$F_{(5, 127\ d.f.)}$	Signif	Value	$F_{(5, 549\ d.f.)}$	Signif
Pillais	.026	.668	.648	.032	3.622	.003
Hotellings	.026	.668	.648	.033	3.622	.003
Wilks	.974	.668	.648	.968	3.622	.003
Roys	.026			.032		
Univariate Results						
Behavior				$F_{(1, 553\ d.f.)}$	Signif	
Citizen				9.963	.002	
Cautious Helper				3.912	.048	
Evangelist				.443	.506	
Deep Throat				5.715	.017	
Do Nothing				.622	.430	
Note: d.f. = Degrees of Freedom						

Table 7

Table 7 **Cross-Tabulation of Culprit Power and Method of Reporting**			
	Most Likely To ...		
	Blow the Whistle	Do Nothing	
More Powerful	470 (84.23%)	88 (15.77%)	558 (100%)
Less Powerful	500 (83.19%)	101 (16.81%)	601 (100%)
Total	970 (83.69%)	189 (16.31%)	1159 (100%)
Note: Pearson χ^2 = .227, d.f. = 1, p = .634			

The Socioeconomic Demographics and Health Status in Alabama's Black Belt Counties

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Abstract

This report examines the relationship between socioeconomic status (SES) and health status indicators in the Alabama's Black Belt Counties (ABBC). The ABBC are the most economic depressed areas of the state characterized by severe economic deprivation and lack of infrastructure. This report includes twelve ABBC as identified by executive order number 22 by the governor of Alabama. Using demographic data from the 2000 U.S. census and 2000 county health profile data (Center for Health Statistics, Alabama Department of Public Health), our objective was to examine (1) the connectedness between SES and health status indicators (life expectancy, infant mortality, low-birth weight, heart disease, cancer, diabetes, stroke, and homicide mortalities etc.); (2) differences between the counties and the state (3) racial and ethnic differences and (4) health status indicators that are most affected by low socioeconomic status. The results indicate that the ABBC lag far behind the State in SES and health status indicators examined. Compared to the State, the ABBC have lower levels of education and higher unemployment, poverty and mortality rates. These conditions have resulted in lower economic well-being and lower quality of life in the ABBC.

Introduction

The Alabama Black Belt extends from Mississippi's border through the heart of the state. Alabama's Black Belt is the most economic depressed area of the state characterized by severe economic deprivation and lack of infrastructure. Although, the Alabama Black Belt includes nineteen counties, our report includes only twelve of Alabama's Black Belt counties (ABBC) as identified by executive order number 22 issued by the governor of Alabama (Bob Riley, Governor, 2004). These counties are Bullock, Choctaw, Dallas, Greene, Hale, Lowndes, Macon, Marengo, Perry, Pickens, Sumter, and Wilcox. These twelve ABBC are considered to be the most economic deprived area of the state and eight of these ABBC are among the 100 poorest counties in the United States. Additionally, the ABBC is confronted with economic stagnation, declining population, and insufficient health care and schools. Poverty rates in the ABBC are among the poorest 13 percent of counties in the United States.

Research has shown that socioeconomic status (SES), education, employment and social networks are important indicators of a community's health. Lower SES is associated with a greater burden of disease and shorter life expectancy. Additionally, there is a relationship between SES and the prevalence of disability, chronic and degenerative diseases such as cardiovascular diseases, diabetes, cancer, and Alzheimer's disease. For example, research has shown that in the U.S., the SES of women with diabetes is lower than women without diabetes (MMWR, CDC, 2002).

In this report, we examined the relationship between socioeconomic status and health status in the Alabama's Black Belt Counties in comparison with the state of Alabama. Our objective was to examine (1) the connectedness between socioeconomic status and health indicators (life expectancy, infant mortality, low-birth weight; heart disease, cancer, stroke, and homicide mortalities etc. (2) differences between the counties and the state (3) racial and ethnic differences and (4) health status indicators that are most affected by low socioeconomic status.

Demographic and Health Data

Demographic data was obtained from the Bureau of the Census, United States Department of Commerce, 2000 Census. Health data was obtained from Center for Health Statistics, Alabama Department of Public Health, 2000 County Health Profiles.

Demographic Data

With the exception of Choctaw and Pickens counties the ABBC have a predominant Black population with White and other races in the minority (Table 1).

Table 1: Population by Race/Ethnicity (by percentage)
Source : US Census Bureau, 2000.

County	Black	White	Other
Bullock	73.10	25.3	4.3
Choctaw	44.10	55.10	1.40
Dallas	63.30	35.6	1.80
Greene	80.30	19.10	1.20
Hale	59.00	39.80	2.10
Lowndes	73.40	25.90	1.40
Macon	84.60	14.00	2.10
Marengo	51.70	47.30	2.70
Perry	68.40	30.90	1.70
Pickens	43.00	55.90	1.80
Sumter	73.20	25.90	2.00
Wilcox	71.90	27.50	1.30
Alabama (State)	26.00	71.00	4.60

Many economists believe that the level of educational attainment has the most impact on health. Educational attainment for persons 25 years of age and older is lower in the ABBC than in Alabama (Table 2).

Table 2: Level of Education (individuals age 25 and above by percentage)
Source: US Census Bureau, 2000

County	High School Graduate	*Bachelors/ higher degree*
Bullock	60.25	7.70
Choctaw	65.00	9.60
Dallas	70.30	13.90
Greene	64.80	10.50
Hale	65.20	8.10
Lowndes	64.30	11.00
Macon	70.00	18.80
Marengo	71.90	12.10
Perry	62.40	10.00
Pickens	69.70	9.80
Sumter	64.80	12.40
Wilcox	59.50	10.10
ABBC Average	65.68	11.17
Alabama (State)	75.30	19.00

Table 3 displays the average annual unemployment rate and percentage of persons below the poverty level for the ABBC and Alabama. The table shows that the unemployment rate and the poverty level for the ABBC is higher than Alabama. Poverty is the greatest problem in public health. Research has shown a strong relationship between poverty and health outcomes. The number of individuals living below poverty is much higher for the ABBC than Alabama.

Table 4 presents the median household income and per capita personal income for ABBC and Alabama. The median household income and the per capita personal income for the ABBC are much lower than in Alabama. There is disparity and inequality between household income and per capita personal income for the ABBC and the state of Alabama.

Health Data

Table 5 depicts the average life expectancy in years, crude mortality (death) rate, low birth weight and Medicaid births for the ABBC and Alabama. With the exception of Pickens county (75 years), the average life expectancy is lower than for Alabama (74 vs. 71.8 average for ABBC). The mortality rate for the ABBC is 12% more than in Alabama and the low birth weight (per cent of total births) for the ABBC is 12.8 compared to the state average of 9.7 (32% higher than Alabama). There are 34% more Medicaid births in the ABBC than in Alabama. Low birth-weight is an important health outcome as it has a high association with the risk of infant mortality. Low birth-weight infants are also susceptible to several developmental abnormalities that can persist into adolescent life and adulthood. The high medicaid births in the ABBC is indicative of low SES of women in the ABBC.

Table 3: Average Annual Unemployment Rate and Persons Below Poverty Level (by percent)

Source: US Census Bureau, 2000

County	Avg. Unemployment Rate	*Persons Below Poverty Level*
Bullock	9.90	33.70
Choctaw	8.60	23.60
Dallas	10.50	33.80
Greene	10.30	40.10
Hale	7.60	30.80
Lowndes	11.80	35.00
Macon	6.10	34.40
Marengo	4.70	27.30
Perry	11.70	41.30
Pickens	10.60	25.70
Sumter	13.20	35.90
Wilcox	11.80	40.00
ABBC Average	9.73	33.47
Alabama (State)	4.60	17.60

Table 4: Median Household Income and Per Capita Personal Income (in dollars)
Source: 2000 United States Census

County	**Median Household Income**	**Per Capita Personal Income**
Bullock	20,605	16,164
Choctaw	24,749	18,512
Dallas	23,370	19,949
Greene	19,819	16,035
Hale	25,807	17,328
Lowndes	23,050	16,329
Macon	21,180	15,678
Marengo	27,025	21,616
Perry	20,200	16,476
Pickens	26,254	18,503
Sumter	18,911	17,284
Wilcox	16,646	15,754
ABBC Average	22,301	17,469
Alabama (State)	34,135	23,521

Table 6 presents the infant mortality per 1000 births for ABBC and Alabama. The infant mortality rate is often used both as an indicator of the general health of the population and level of community development. Although there are variations in the infant mortality rate among the ABBC we report only the ABBC average in comparison with the state average. The overall infant mortality rate and infant mortality rates stratified by race within the ABBC are higher than the comparable state infant mortality rates.

The overall ABBC infant mortality rate of 14.9 is higher than Alabama's 9.4 (59% higher than Alabama). Disparities are seen when infant mortality rates for the ABBC are broken down by race. Infant death rates for Blacks and other races are 4 times higher than for Whites in the ABBC. In comparison the ABBC infant death rate for Blacks and other races is higher than for Blacks and other races in Alabama (17.6 versus 15.10). In contrast, the infant death rates for Whites in the ABBC is lower than the overall infant death rates for Whites in Alabama (4.3 versus 6.5).

Table 5: Life Expectancy, Mortality Rate, Low Birth Weight and Medicaid Births

INDICATOR	ABBC	ALABAMA
Life Expectancy (years)	71.80	74.00
Mortality Rate (per 100,000 population)	11.35	10.10
Low Birth Weight (percent of total births)	12.80	9.70
Medicaid Births (percent of total births)	59.60	44.40
Source: Center for Health Statistics, Alabama Department of Public Health. 2000 County Health Profiles.		

Table 6: Infant Mortality Rate per 1000 Births by Race (percentage)

Section	**White**	**Black and other**	**Total**
ABBC	4.30	17.6	14.90
Alabama	6.50	15.10	9.40
Source: Center for Health Statistics, Alabama Department of Public Health. 2000 County Health Profiles.			

Mortality

The health of a community is influenced by various socioeconomic, environmental and personal factors. One way of assessing the health of the community is through examining death and disease rates, known as mortality and morbidity rates respectively. In this section of the report we compare the overall crude mortality rate and crude cause-specific mortality rates for ABBC and Alabama (table 7). The top five leading causes of death in the ABBC are the diseases of the heart, cancer, stroke, accidents, and diabetes. The mortality rates for the ABBC are higher compared to rates for the state for most causes of mortality. One interesting finding is that compared to the state the ABBC has a 64% higher death rate due to homicide. Homicide death rates have been used as an indicator of the general level of violence in a community.The auto death rate is 76% higher in the ABBC than in Alabama.

Table 7: Mortality Rate for Selected Deaths per 100,000 Populations

Cause	**ABBC**	**Alabama**
Heart	373.50	300.30
Cancer	239.70	219.70
Stroke	89.00	71.40
Accidents	66.70	47.20
Diabetes	35.40	29.60
Homicide	16.20	9.90
HIV	7.60	4.50
Motor	39.60	22.50
Source: Center for Health Statistics, Alabama Department of Public Health. 2000 County Health Profiles.		

Health disparities are evident when mortality rates are stratified by race (table 8). Whites in the ABBC have a higher mortality rate due to heart disease, cancer and accidents than Blacks and other races. In contrast, Blacks and other races in the ABBC have a higher death rate due to stroke, diabetes, and HIV infection.

Table 9 shows the crude cancer mortality rates by site per 100, 000 population for the ABBC and Alabama. Lung cancer is the leading cause of cancer death for both the ABBC and Alabama, however lung cancer mortality rate is lower for the ABBC than Alabama. Mortality rates for colorectal, breast, prostate and uterine-cervical cancers are higher for the ABBC than Alabama.

Table 8: Mortality Rate for Selected Deaths by race per 100,000 Populations

Cause	**ABBC**		**Alabama**	
	White	Black	White	Black
Heart	421.40	346.80	327.50	233.30
Cancer	289.80	208.20	238.70	173.10
Stroke	88.80	89.90	74.10	64.90
Accidents	76.00	62.70	49.50	41.30
Diabetes	26.90	41.0	26.30	37.60
Homicide	10.30	18.60	5.00	22.0
HIV	0.00	11.50	1.60	11.70
Source: Center for Health Statistics, Alabama Department of Public Health. 2000 County Health Profiles.				

Table 9: Cancer Mortality Rate by Site per 100,000 Populations

Type	ABBC	Alabama
Lung	59.70	66.50
Colon/Rectum	26.43	20.10
Breast	35.9	29.80
Prostate	57.9	28.30
Uterus/Cervix	17.00	8.00
Source: Center for Health Statistics, Alabama Department of Public Health. 2000 County Health Profiles.		

Table 10: Selected Notifiable Diseases per 100,000 Populations

Disease	ABBC	Alabama
Aids	10.20	10.60
Syphilis	12.90	16.80
Gonorrhea	391.90	271.70
Chlamydia	645.10	345.00
Tuberculosis	10.10	6.90
Source: Center for Health Statistics, Alabama Department of Public Health. 2000 County Health Profiles.		

In general, incidence of sexually transmitted and communicable diseases is higher in the ABBC than in Alabama; however syphilis and AIDS incidence is slightly lower in the ABBC than in Alabama (table 10). The ABBC has a substantial higher incidence for gonorrhea and chlamydia than Alabama with chlamydia being the most common sexually transmitted disease (87% higher).
Table 11 shows the number of health care providers per 10,000 populations. The data shows that compared to Alabama, there is a severe lack of and access to medical services in the ABBC. Lack of access to medical services often leads to poor health.

Table 11: Healthcare Providers per 100,000 Populations (2002)

Provider	ABBC	Alabama
Physician	12.10	40.60
RN	57.80	95.1
Dentist	1.60	4.30
Source: Center for Business and Economic Research, The University of Alabama.		

Discussion and Conclusion

This report examined the differences in socioeconomic and health status between Alabama's Black Belt Counties (ABBC) and the State of Alabama. The ABBC lag far behind the State in socioeconomic and health status indicators examined. Compared to the State, the ABBC are characterized by lower level of education, higher unemployment rate, higher poverty level, lower per capita personal income and lower median household income. Comparing health status indicators between the State and the ABBC, it is evident that the ABBC lags behind the State. The ABBC have a shorter life expectancy, higher low birth-weight, higher death rate, and higher infant mortality rate. Additionally, the ABBC have a higher mortality rate due to heart disease, cancer, stroke, accidents diabetes, homicide, and HIV. There is a higher incidence of sexually transmitted and communicable diseases in the ABBC than the rest of Alabama.

There is a strong relationship between socioeconomic status (SES) and health and well-being (Kaplan and Lynch, 1997). Research has shown that low socioeconomic status can have a negative impact on health status (Nazroo, 2003) and that people with low socioeconomic status have poorer health than other persons (Adler and Ostrove, 1999). Thus health affects SES and SES affects health. The primary components of SES are income, occupation and education level. The median household income of a community is used as a measure for the economic well being of the entire community. However, educational attainment is the commonly used indicator of SES in health studies (Ross and Wu, 1995). Further research has shown that limited literacy is associated with poor health status (Weiss et al., 1992). Higher educational attainment leads to high-paying jobs and income. Some researchers believe that income is the strongest predictor of health as income affects other SES indicators (House and Williams, 2000).

In conclusion, higher poverty, unemployment and mortality rates and lower levels of education characterize the ABBC. These conditions have resulted in low economic well-being and low quality of life in the Alabama Black Belt Counties.

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Competitive Balance and Sports Management: Can an NBA Team Be Competitive on the Court While Maintaining a Good Bottom Line? The Case of the Los Angeles Clippers and Salary Cap Accounting

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Abstract

The collective bargaining agreement between the National Basketball Association's players union and the franchise owners offers opportunities for creative thinking and planning in the creation of success. One would think that success lies in the winning of games and ultimately championships. But twist the collective bargaining agreement's fine print and couple that with some creative accounting thinking, teams in the bottom half of player salary spending make a much higher profit than those in the top half of player salary spending. This paper studies the case of the Los Angeles Clippers, a team with a losing record year after year, and the team's use of the player salary cap and tax system detailed in the collective bargaining agreement to turn a profit.

Introduction

Over the past thirty years, the professional sports environment has grown exponentially. The economic boom of the sports industry can be seen in the sheer size of the industry today compared to the industry just a few decades ago. Each of the four major sports (baseball, football, basketball, and hockey) has expanded the number of its teams; for example, the National Hockey League (NHL) quintupled the number of its franchises. More regional markets are being influenced across the board. NHL teams are now located in southern cities such as Atlanta, Nashville, Dallas, and Raleigh. The National Football League (NFL) now sports thirty-two teams from every part of the contiguous United States. Major League Baseball (MLB) now has teams in Phoenix, Miami, and Tampa Bay, cities that had traditionally been spring training facilities for northern teams. Perhaps the biggest growth has come from the National Basketball Association (NBA). The NBA has taken their game global. Basketball is now the second most popular sport in the world behind soccer, and is gaining ground very rapidly (Eisenberg 2003).

A combination of factors have attributed to the growth of the sports industry. The biggest among these factors is sports marketing. The introduction of cable television networks dedicated solely to sports as well as the evolution of billion dollar television contracts have now become standard (Bandyopadhyay 1997). Rather than read a small sports section in a newspaper or watch a five minute segment on the local news to find information on their favorite team, a person can now watch the whole game live on broadcast or cable television networks. This has led to more opportunities for the team to promote itself and other products. When a football team takes a timeout, the home viewer sees the star quarterback in a fast food commercial. The games are played in multi-million dollar stadiums named for failed energy service providers, national airline firms, and other non-sports related companies (Newnham 2001). Sports marketing has both helped increase revenues for teams and owners and increase players' salaries (Bandayopadhyay 1997). Player salaries have become the biggest cost of professional sports. The average salary in the National Basketball Association has increased from $900,000 a year in 1983 to over $4,000,000 a year in 2002 (Windhorst 2003).

However, not everything is better in the world of sports. Today, a team owner faces many issues. Player salaries are increasing at a faster rate than overall revenues. This has caused owners to look for new and different revenue streams. Thanks in part to this search, sports licensing has also become a multi-billion dollar a year business. In each of the four major sports, licensing revenue is divided equally among the teams. Ticket prices have increased dramatically, as well. While a good way to increase revenue, many fans do not like nor appreciate this practice. Fan support for a franchise is a key issue for owners since these are the people that not only buy the product, but also represent the brand. Generally, fans are happy when the team they cheer for is winning and will pay a premium price for the experience. Fans are generally not happy when the team loses and will usually not spend as much money on the team. However, in order to have a winning team, owners must spend money on talent. In today's sports environment it is becoming financially evident that money spent on star players will have a negative effect on the team's bottom line. Many teams will spend huge amounts of money on these players. This amount will be more than the amount of revenue generated by having the player on the team. These teams spend money to gain talent on the field, not to show a return on the bottom line.

All of these factors have led to a new problem for owners. Financially speaking, it is better for a team to lose and turn a profit than win and show a loss. The introduction of salary caps, luxury taxes, and player escrow accounts has also helped persuade owners to keep winning percentages down and profits up.

This paper will look at this issue through the eyes of one professional basketball team. The Los Angeles Clippers have a history of losing and a history of profits. The Clippers' owner Donald Sterling has made it very evident that his team is not playing to win on the court, but playing to win at the bank. This paper will examine the Clippers as a case to illustrate the situation faced in today's economic environment in the NBA.

New Financial Environment of the NBA

The National Basketball Association has shown the most financial growth of any professional sports league over the last twenty years. (Bandyopadhyay 1997) Average value of NBA franchises has grown from $20 million in 1983 (Bandyopadhyay 1997) to over $200 million in 2000. The latest expansion basketball team in Charlotte entered the league in the 2004-2005 season and paid

the franchise fee of $300 million. This franchise fee is money paid to the NBA just to field a team. It does not include revenues towards facilities, salaries, or any other costs that the team will incur in its first years of competition. Compare Charlotte's $300 million fee to the $6.15 million franchise fee that the New Orleans Jazz paid in 1974 and it is easy to see that inflation is not the only factor affecting revenues in the NBA (USA Today 2003).

Players have wanted their fair share of these new revenues and have been receiving them. The average NBA salary has climbed by 1000% over the same period of time (Bandayopadhyay 1997) (Mravic 2000). Players feel that they deserve even more. Owners have not been sympathetic and in 1998 the NBA Players Union declared a strike. A collective bargaining agreement was reached in early 1999. While players would make more money, owners and NBA management put some interesting clauses in the agreement. One of these arrangements is the NBA luxury tax, a combination of a payroll cap and one-way revenue sharing that is quickly becoming a controversial tool for owners to financially justify a losing team.

The luxury tax is a redistribution of total payroll for the whole league. It only occurs if total player salaries reach 61% or more of total NBA revenues. When this happens, the teams that spent more than the league average on salaries must pay the dollar for dollar difference to the teams that spent less than the league average. For instance, assume the Dallas Mavericks spent around $72 million on player salaries this year while the Los Angeles Clippers spent around $33 million. If the league average was $51 million and salaries exceeded 61% of revenue, then the Mavericks would have to pay $21 million into the luxury tax account while the Clippers would receive an extra $18 million dollars from the account. So, in essence the total cost for salaries this year for the Mavericks would be $93 million while the total cost for the Clippers will only be $15 million. The league is currently made up of 29 teams. According to University of North Carolina Greensboro economist Dan Rosenbaum, the 2001-2002 season saw the total profit for the 15 highest spending teams reach $125 million, roughly the same as the 14 lowest spending teams which saw a $122 million profit. The first year of the luxury tax was implemented was the 2002-2003 season. The effects drove the profits for the top fifteen teams down to around $65 million while the profits of the lowest spending fourteen teams reached $290 million (Alm 2003).

Another bargaining tool the league office and NBA owners used was the introduction of an escrow tax account that players had to pay ten percent of their salary into if total salaries exceeded 55% of total revenues. This escrow account would be redistributed directly to the owners and the league. Players have had to pay the tax every year since the collective bargaining agreement (Mravic 2000).

Another huge issue surrounding players and owners are salary structures. Some teams choose to divide their payrolls pretty evenly while others spend huge amounts on star players and leave the scraps for the rest of the team. This was also addressed in the collective bargaining agreement of 1999 through the introduction of salary scales for players with different amounts of service times. First round draft picks have become a big concern for the league. Before the agreement, draft picks were making huge sums of money and signing long term contracts before setting foot on an NBA court. The new draft pick structure allows for a sliding pay scale, but a maximum of a three year contract with an option for a fourth year. The sliding pay scale has the first pick making the most money, the second pick making the next most, and so on. The money is also guaranteed. In other words, if you are drafted as the number one pick, you will probably know how much you will be making each year. Rookie contracts do have a cap on them, but the cap continues to rise each year due to inflation. This provision was written into the agreement reached in 1999. LeBron James was the top draft pick of the 2003 draft. He agreed to a three year, $12.96 million deal with the Cleveland Cavaliers. This is a little more than the league average salary (Windhorst 2003).

Another provision in the agreement was veteran's minimum salaries. If a player has played in the league for ten years or longer, he cannot make less than $1 million a year. This helps prevent older players from being overlooked and allows them to be rewarded for long-term service to the league. These are both ways to control the always-increasing salary costs, but players have a way to continue to raise salaries through free agency. After a player plays out his first rookie contract he becomes a restricted free agent. This means he can listen to offers from other teams, but his current team can match any offer if they choose. If the current team matches or exceeds the offer from the other team, the free agent has to stay with his current team. If a player's contract runs out after six years of service, a player is considered to be an unrestricted free agent and he is free to leave his team for less money and go to another team that might have a better chance of winning. His current team can still match any offer, but he does not have to accept it. Often teams will not even try to match offers and will allow players to leave in order to free up payroll room for other players. Free agency has allowed players to play for the highest bidder. Often, these teams are the one that are competing for the title. It has not forced owners to pay the highest price for talent, but it has driven salaries of talented players to a new point (Vrooman 1995).

All of these steps were taken by the league, players, and owners to promote parity in the league. The results have not been exactly as expected. A study by Vrooman (1995) shows that no matter what steps are taken to promote parity, a large market team will always have an unfair advantage against a small market team. A large market team has a greater chance of making money since the revenue opportunities in large market far outweigh the opportunities in a small market. The large market team can then use the money to buy the best players or retain their best players (Vrooman 1995). The only way for a small market team to win is to have fans that have a higher elasticity of demand for winning than fans in a large market team (Vrooman 1995). In other words, a small market team can prosper if fans are willing to pay more money for winning.

Vrooman (1995) also talks about how parity can be a bad thing, as well. The NBA shares all of the revenue from broadcasting deals equally with its twenty-nine member teams. This means in order for them to maximize profits from broadcasting deals, a consistent winner in a big market is better than many winners from many different markets. For instance, assuming both teams have the same winning percentage, a large market NBA team will carry a higher price for broadcasting deals than a small market team since there is a greater population in the larger market. This stems from more opportunity for outside advertising to pay for the broadcasting rights in the larger market since there are more people for advertisers to go after. Now, assuming two teams have the same market size, a winning team will receive a better deal than a losing team since more people will watch a team that is winning than losing. Granted, many fans cheer for a consistently bad team, but if a team is winning they will draw the marginal fans that would not watch the team if they were losing. If you combine these two variables, a large market team that has a great winning percentage is the best overall way to generate broadcast revenue for the league since more people will watch in a larger area. If a small market team starts to win, more people in the market will watch, but it will not be as many people as a losing, large market team would have. Therefore, it is in the NBA's and all of the team's best financial interest to have as many consistent large market teams' games be broadcast as they can since this will mean greater overall broadcast revenue (Vrooman 1995).

The same argument can be used for licensing revenues that are also split evenly among the teams. More fans will buy licensed products if a large market team is winning compared to a small market team winning. A good example of how large markets affect television deals is the 2003 NBA Championship Finals. The Finals were between the San Antonio Spurs and the New Jersey Nets, two small market franchises. While many NBA fans and insiders were glad to see the two best teams get to the finals, the television audience share was the worst it had ever been (Romano 2003). Advertisers will have this in mind the next time a broadcasting deal is put on the table.

"Entertainment Marketing Company" of the NBA

Despite internal financial irregularities, the NBA has become one of the most impressive marketing ventures in sports history. According to NBA Commissioner David Stern, the league is not a group of individual basketball players or teams. The NBA is, "an entertainment marketing company" (Patton 2002). The NBA has taken an interesting strategy in being an entertainment marketing company. Rather than market the teams playing in the league, the NBA promotes individual players. Rather than market a game between the Los Angeles Lakers and the San Antonio Spurs, the match would be marketed as a game between Shaquille O'Neal and Tim Duncan (Bandyopadhyay 1997).

The league has had new opportunities in the past few years as well. The biggest of these new markets is females. The NBA has a 40% female audience (Herek 2003). This is due in large part to the league owned Women's National Basketball Association, or WNBA. Unlike other professional sports such as football and baseball, basketball is widely played by female athletes. The WNBA was set up as a way to promote women's basketball in cities that already had an NBA team. WNBA team names and uniforms are similar to NBA uniforms in the same city. Many teams are cross-promoted allowing season ticket packages for both NBA and WNBA teams in each city. The league is also starting a line of licensed apparel for women called nba4her. The line will include everything from replica jerseys to halter tops with team logos (Herek 2003).

Perhaps the biggest group upon which the NBA will need to capitalize is the relatively new international market the league is currently courting. The 2002-2003 season saw 65 foreign players from 34 different countries play in the NBA. The biggest player both in physical and financial size is the Houston Rockets' Yao Ming, a 7' 5" center from China. The NBA and the Rockets have begun to market the team and the game to its sizable Asian population as well as the millions of Chinese watching (Herek 2003). This all stems from the NBA taking the game to different parts of the world in the early 1990's. The NBA is now reaping the rewards of their travels with international players that are just as good as Americans (Eisenberg 2003).

The NBA also does a good job of offering fans many different officially licensed products to purchase. The licensing retail business is cyclical in nature and tends to be fueled more by fashion trends than winning percentages (Bhonslay 2003). After a recent decline in merchandise sales, a fashion trend has helped stimulate growth in sales. Professional teams in the four major sports leagues in North America have started to wear older uniform styles either as a special promotion or in some cases as their official uniform for the year. These uniforms have become known as "retro" or "throwback" uniforms and are the most popular selling items in today's licensed sports product world (Bhonslay 2003). The NBA is a big part of this trend. Many teams wear throwback uniforms as a way to not only relive good years for the team, but to generate sales for the league. All money generated by the sales of licensed products is split between the league and teams. The teams' share is divided equally among the teams and counts towards revenue for the league when determining the luxury tax and the escrow tax. The league does not release licensing revenue figures, but it is believed to be around $2 billion annually (Eisenberg 2003).

The biggest part of league revenues comes from broadcasting deals that allow games to be televised or broadcast on the radio or internet (Zbar 2002). Just like licensing revenues, television and radio revenues are divided equally among the teams and count toward total league revenue. The last broadcasting deal gave ABC Television, a Disney owned company, and TNT broadcasting, an AOL Time Warner company, the exclusive rights for national broadcasting of NBA games. The deal was worth a reported $4.6 billion (Zbar 2002). In addition to national broadcasting deals most NBA teams have local broadcasting deals that televise the games in the team's home market. While these deals are not as lucrative as the national broadcasting deals, they still provide ample revenue for each team since this money is not divided.

History of the Los Angeles Clippers

The Los Angeles Clippers have been an NBA franchise in one form or another since 1970. In that year the NBA expanded by three teams. One of those teams was the Buffalo Braves in Buffalo, New York. After a few successful seasons, the team went into a decline. Following the 1978-1979 season, the team was allowed to move to San Diego where the team was renamed the Clippers. The team's new owner, Irv Levin, carried out the move that sent the team west. Levin owned the Boston Celtics but wanted to own a team in his home state of California. He traded places with Braves owner John Y. Brown and took the team west. After three seasons in which the team did not make the playoffs, Levin sold the team to Beverly Hills attorney and real estate man Donald Sterling. Sterling decided to move the team to Los Angeles in 1984. The Clippers moved into the Los Angeles Sports Arena for the next fifteen years. While there the team struggled to put together a winning franchise having only one winning season and making the playoffs only three times. Over the past twenty-five years, the Clippers have had the worst winning percentage of any team in the league (NBA.com).

Many NBA analysts and fans blame the owner of the Los Angeles Clippers for their dismal record. Donald Sterling started his career as an attorney in the very rich section of Los Angeles known as Beverly Hills. After a short legal career, Sterling became a real estate mogul in the same part of town. He made his fortune by being an excellent real estate salesman. He bought pieces of property at a very low price, put a small investment into the pieces of property, and resold them for a much greater profit. He is estimated to be worth around $500 million. Much of that worth has come from the appreciation in value of the Clippers. He paid $12.5 million when he bought the team in 1981. The franchise is now estimated to be worth around $205 million. This represents an annualized gain of 14% (Badenhausen 2003). Sterling uses the same strategy in basketball that he does in real estate. He buys young stars when they are first available and avoids spending money on older, more established players. Using the rookie contracts mentioned earlier in the paper, he keeps his team's salaries low. The players develop into stars and become popular with fans in both Los Angeles and in the rest of the country. When it comes time to sign these players to longer more expensive contracts, he allows them to leave and saves money, simply replacing their roster spot with new talent that he can sign for significantly less money. The league's revenue sharing policies as well as the luxury tax and escrow tax help line his wallet and keeps his team as one of the most profitable on the court (Badenhausen 2003). The players on the Clippers know Sterling tactics and understand how he runs the team. The Clippers talented center, Michael Olowokandi, has been quoted as saying, "I know what his (Sterling's) history is. Any reason, no matter what it is, any reason to validate or justify his intentions, he will use. And his intentions are, what? Not to pay people, right? The bottom line is he wants to keep as much money as possible for himself" (Deveney 2002).

The Los Angeles Clippers spent around $42.7 million on team salaries for 2003-4. The Clippers will receive $26 million from the broadcasting deals of the NBA and $15 million from the NBA luxury and escrow taxes. Add to this the $24 million from ticket sales plus undisclosed amounts from two local television networks, two local radio networks, and various sponsorship deals and it is clear to see how profitable the team really is (Rovell 2003).

The Los Angeles Clippers have always had a young team. The 2002-3 team had an average age of only 25.6 years old. This is due in large part to the way the team is run. Los Angeles Clippers players often find themselves playing not for the team but for themselves. Players who know they are not going to stay on the team often try to increase their individual statistics in order to impress scouts from other teams looking to sign them. Often this means a sacrifice of teamwork, which can lead to bad playing and bad winning percentages (Rovell 2003). However, the team stays marketable especially to young fans because this plays into the NBA strategy of promoting individuals over teams. Teamwork also suffers from lack of a consistent lineup. It is hard to develop teamwork and know your teammates when they continue to change each year.

The Clippers are often looked at as a "farm" team for other NBA franchises. In essence, the Clippers introduce young players from college and high school to the style of play in the NBA. The players become better adapted to professional basketball and the lifestyle of being an NBA player. Other teams can then capitalize on the playing experience of a young, three-year veteran rather than take a chance on an unproven prospect (Badenhausen 2003). To equate this to the business world, the Clippers represent a small business where a person can develop skills that he or she will use at a better job with a bigger company. The team had eight free agents on the market in the spring of 2003.

Unfortunately for the Clippers, in their world, there are no "bosses." The team has always lacked veteran leadership. Veteran NBA players can sometimes be more valuable than a great head coach. They provide young players with experience and motivation much the same way a department head can do for a business. There are older veterans on the team, but these players do not have the name recognition of most of the young stars that come through the ranks every year. One need only look to Michael Jordan, playing at the age of forty, to see that young players respect an older, recognizable player.

The Los Angeles Clippers have become one of the worst teams while staying one of the most profitable teams in the NBA. The combination of equal merchandise and broadcast revenue sharing along with the one-way revenue sharing of the luxury tax has not helped to improve parity for the team, but has helped to improve the bottom line. The Clippers' management and owner Donald Sterling have found a way to exploit the steps the NBA has taken to give each team in each market a level playing field and use them for their own financial gain. According to executive vice president Andy Roeser, the Clippers, "…don't set out to make money. When it comes to winning versus profits, I don't think a well-managed team should have to choose, they should be able to do both. And that's what we want to do" (Rovell 2003). So, how does the team improve on the court success while maintaining a good bottom line?

Ways the Clippers Can Improve Performance

The Los Angeles Clippers have a long road ahead of them if they want to become competitive. In an ESPN.com poll called "SportsNation", 34,000 sports fans of the four largest sports from across the country were interviewed and asked how to rate their favorite team in twenty-one different areas. Clippers fans ranked the team overall 105th out of 118 teams. Management was ranked 117th on the list (ESPN.com 2003).

The biggest on-court problem the Clippers face is lack of a strategy. Just like a business that has no strategy, the Clippers have been trying to scrape by, making the best with what they have, which is not much. If the team wants to improve then certain steps should be taken to increase the amount of talent on the team as well as how to best utilize that talent.

The first and most crucial step is to sign talented free agents that will bring a higher skill level and a desire to win to the team. The most important free agents are the ones on the team. These are players that are familiar with one another and know how the others play. Management needs to sign them to long-term contracts in order to show that they mean business about turning the franchise around. If the players stay in Los Angeles under long-term contracts, they will not have to worry about impressing scouts and can grow together as a team. Plus, as these players become older they can help new talent that the Clippers acquire. By that same token, the Clippers should also try to sign a veteran who has playoff experience and is a proven winner. During the 2001-2 season, there were no players on the roster who have played in the playoffs (McCullum 2002). A proven veteran could bring a ton of experience for the other players to learn from. It would also help improve morale. It is difficult to talk about going to the playoffs when nobody on the team has ever gone. A veteran player can motivate the younger players on the Clippers and lead them to being a better team.

Signing free agents may be costly for the Clippers since free agents' prices have continued to increase. However, plenty of good players with playoff experience in the market are available and can be signed at a relatively low cost. The problem the Clippers face is attracting talented free agents to come to Los Angeles to improve the team. Many players consider the Clippers' struggle a lost cause.

The second step the Clippers need to take is hiring a big name head coach. The Clippers have had numerous coaches in the past and none have stayed longer than four years. This also contributes to the lack of teamwork and poor offense. If the Clippers could find a recognizable coach and sign him to a long-term deal, then the players could grow with the coach rather than wait for another one to come along. The Clippers constant merry-go-round of coaching has also contributed to no specific offensive strategy. If the same coach stays with the team then a consistent strategy could be developed that would best fit the mix of players that are staying, as well. Common sense would say, the longer the team and coach stay together, the better the team should become. This will be a difficult job since many coaches do not want to take on the responsibility of turning around a franchise.

Both the signing of free agents and the signing of a good coach should help to contribute to better teamwork on the court through increased leadership and less individual play. However, the players are the deciding factor in how the team plays. Many player contracts are laden with incentives that reward a player for reaching a certain level of points, assists, or rebounds. Much like sales commissions and bonuses, these contracts can often reward a player for being an individual rather than part of a team (Vrooman 1995). The Clippers need to have stars on their team, but these stars needs to work together for a better team, not for better individual statistics. One way this can be combated is making the incentives in the contract based on total team wins or rounds of the playoffs reached. If a player gains a bonus from being part of a better team, then he should work harder to help the team rather than himself.

Another way to make the Clippers a better team is to make the facilities better. The cost cutting owner, Donald Sterling, has made sure the facilities the Clippers train in are some of the worst in the league. While the Clippers do have everything the team needs to train and prepare for games, the team might improve if given better training facilities. The better facilities would increase morale the same way better working conditions can help increase worker productivity. The Clippers also play in the same arena as the Los Angeles Lakers. In the 1999-2000 season, the team moved from the Los Angeles Sports Arena to the new Staples Center. Rather than stay in a second rate stadium, Donald Sterling saw an opportunity to share the rent costs of a big arena with other teams. The Los Angeles Lakers, the WNBA Los Angeles Sparks, the Arena Football League's Los Angeles Avengers, and National Hockey League's Los Angeles Kings all play in the Staples Center (Zoltak 1998). In 1999, Donald Sterling was offered a chance to move the team to Anaheim, California, as part of a deal with the Walt Disney Company. Sterling refused the move knowing that ticket revenue would decline and rent costs would rise if the move went through (Rovell 2003). While moving to a new or different arena may not affect the on-court performance, it would definitely improve the players' psyches. At each home game the Los Angeles Clippers have to look up and see the numerous championship banners the Lakers have won throughout the years. This has to be a grim reminder of how far the team is from the top and how far they have to go to get there.

All of these steps will cost money. The Clippers will have to find new revenue streams to finance these moves.

Ways the Clippers Can Maintain Financial Success

Obviously, all of the steps taken to improve on court success will cost the team money. If there is one thing the Clippers and owner Donald Sterling have, it is expendable capital. However, some of this money comes from the revenue sharing plans of the NBA. The Clippers only receive this money if they stay below the salary cap and total players' salaries stay higher than fifty five percent of league revenues. New ways to generate revenues for the team must be discovered to maintain a good bottom line.

One way to increase licensed merchandise revenue is from the sale of uniforms. One of the biggest fashion trends right now is throwback or retro uniforms. The Los Angeles Clippers may have a hard time with a throwback uniform since the team's uniforms have been virtually the same since they moved to Los Angeles. However, they could use a uniform similar to the Buffalo Braves uniforms from the 1970's or the early Clippers' uniforms from the early 1980's. This could combine the retro fashion trend with the marketability of the young stars on the Clippers roster. Another way to generate sales is to develop a new uniform. The NBA stipulates that home teams must wear white or a lighter color as the primary color for home uniforms. The Los Angeles Clippers have always worn very simple white home uniforms with red and royal blue striping down the sides and around the sleeves. The away uniforms have always been red with white and royal blue striping down the sides and around the sleeves. Recently, the team has started to wear a similar uniform in royal blue with white and red striping. A uniform redesign could help generate sales of the Clippers uniforms in both Clippers fans and fashion forward fans of the NBA (Bhonslay 2003).

Just like a new uniform design, a new logo design often stimulates sales of a team's license merchandise. A recent trend in the sports world the past ten years is changing the logo of teams (Bohnslay 2003). For instance, when Mark Cuban purchased the Dallas Mavericks in 1999, he changed the uniform color scheme and logo of the Mavericks. No longer did the logo simply have a scripted letter "M" with a cowboy hat. Now the logo was a menacing black horse's head with flared nostrils in front of a dark blue basketball. The updated logo helped move the Mavericks to one of the best sellers of merchandise in the NBA (Alm 2001). If there is one team that needs an updated logo, it is the Los Angeles Clippers. The Clippers logo is a simple red basketball with red motion stripes coming off the left side. The name "Los Angeles Clippers" is written in blue italic script in the center of the logo. This logo has not changed since 1982. Not only would a change of logo be helpful for the Clippers bottom line, but a good move for the spirit of the team. A sports team's logo is, in essence, the brand. The best part about a logo is the identity and strength that fans can derive from it (Underwood, Bond, & Baer, 2001). Fans can identify with a brand and the feelings it evokes. In the case of the Los Angeles Clippers, it is definitely time to rid themselves of a logo that represents twenty years of a losing tradition. This is a key step in the team recognizing the importance of the Clippers' fans and developing a better relationship with them (Underwood et al., 2001).

While new uniforms and logos are a good way to increase revenue from licensed merchandise sales, all merchandise revenue is divided equally among the teams in the NBA. This means that while Clippers merchandise might go up, another team's merchandise might go down by the same amount, thus having no effect on total merchandise sales. However NBA sales increased by 35% in 2003 and are expected to continue rise (Bhonslay 2003). A new logo and uniform for the Clippers can only help to increase sales.

Another way to help generate revenue is to move into a new arena. While building a state of the art arena would require a tremendous investment, the rewards reaped would far outweigh the costs. Part of building the identity of a sports brand is the experience the fan has at the facility (Underwood et al. 2001). While the Staples Center is only five years old and one of the largest state of the art stadiums currently in the league, the Clippers could have a difficult time making the fans feel like a they are at a Clippers game. The Los Angeles Lakers also play at the Staples Center and this is very evident even when the Clippers are playing a home game there. The seats are painted in the Lakers' color scheme of yellow and purple while the Lakers' championship banners hang from the rafters. The Clippers do not feel at home even when they are playing at home. For the same reason a new brand could do away with years of a losing tradition, a new stadium could strengthen fan association with the Clippers brand and bring new fans along with it (Underwood et al. 2001).

Financially, a new stadium could help the bottom line through increased ticket sales. While the Clippers had good attendance figures for the last season, the team still had room for improvement averaging ten percent less than capacity of the Staples Center for attendance (Rovell 2003). The Clippers average ticket price of $40 was well below the $52 league average (Rovell 2003; Amusement Business, 2002). It was also roughly half of what the average Los Angeles Lakers' ticket costs. The Clippers can take advantage of this and market the team as a cheaper form of family entertainment. Once new fans arrive at the new arena, there will be even more chances to sell merchandise, generate revenue from food vendors, use special promotions to guarantee future attendance, and use the new arena for other sporting events and entertainment. An increasingly important factor in the building of new arenas is luxury suites that can be rented out by corporations or individuals. The Charlotte Hornets moved to New Orleans when the New Orleans Arena was built simply because the Charlotte Coliseum had only ten luxury suites. The Hornets moved from a city with a median income of $42,000 a year to a city with a $26,000 a year median income. The New Orleans Arena has forty luxury suites and space available to build twenty more (Speizer 2002). These suites can generate even more money than regular yearly ticket revenue. All of these factors can generate revenue for the Clippers and be used to offset the investment in both arena and players.

The Los Angeles Clippers can also look to other teams to find a way to better support the club and fans. The San Antonio Spurs won the NBA title this year and stand to make a $10 million profit in doing so. The Spurs accomplished this by keeping salaries right at the $52 million mark and selling out most of their games in the new SBC arena. The Spurs expected to break even trying to save money to buy free agents at the end of this year. They did not expect to have a good year on the court, but wound up with one of the best records in the NBA. The Spurs entered the playoffs and went through each of the four rounds of the best of seven games format. While they narrowly escaped each time, the Spurs generated money from the sellout crowds that saw each of the home games. In essence, because the Spurs lost a few games in the playoffs, it only gave them the opportunity to generate more money at home. This shows how profitable the NBA playoffs can be for an NBA team (Chan 2002). Because the Spurs did not have to pay anything for luxury taxes and will receive money from the escrow tax account, the major costs for the team were covered by broadcast and merchandise sales. The money made from playoff attendance was the source of the $10 million profit. If the Clippers make the playoffs, this will be a big way to generate more revenue for the team.

Conclusions

The Los Angeles Clippers have continuously lost while maintaining financial success. The NBA has geared its business to reward teams such as the Clippers who spend less on player salaries through the luxury tax, escrow tax, and revenue sharing plans currently adopted by the league. In order for the Clippers to become better they will have to redesign not only the policies surrounding player salaries, facilities, and free agency, but also the team as a whole. Exterior components such as uniform and logo designs will help to not only generate more sales, but also redefine who the Clippers are as a team in the NBA. A new arena could also help generate greater attendance figures and allow fans to better affiliate the Clippers with a winning tradition. Interior components such as players and coaches signing long-term contracts will help the team improve the on court product that the brand represents. Overall, the Los Angeles Clippers need to improve the team as a whole. It is not just management's fault nor is it completely the players' fault for the troubles of the Clippers. Both sides need to come together in an agreement to improve the quality of the team.

This may be easier said than done. Despite the rapid improvement of some teams in the NBA, this will not be an overnight process. Also, a team may spend a lot of money and have it translate to little success. The New York Knicks spent $85 million on salaries in 2002-3 and finished one game ahead of the Clippers in the overall standings (Rovell 2003). It can take many years for players to develop relationships with each other. The Clippers need to be completely committed to trying to improve or they will fall back into their losing ways.

Donald Sterling and the Clippers' management should look at this as a long term investment and should stop being concerned about the short term return on investment. If the team starts to win more, the Clippers can gain financially from the increased ticket and television revenues and will no doubt be able to charge higher ticket prices and sell more merchandise. Remember, the Clippers are not a small market team. They play in the second largest market in America and can use this to leverage more lucrative deals, if they start winning. The Clippers will also gain even more revenue, if the team makes the playoffs. The Clippers can follow the steps outlined above to produce a winning team and create a different type of continued financial success. Additionally, the value of the franchise will rise based on its winning and its marketing success and this increase may be a much more significant factor to Donald Sterling's net worth!

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A SUMMARY OF—STUDENTS' PERCEPTIONS OF ETHICAL CLASSROOM BEHAVIOR: A CLOSER LOOK

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Abstract

Over the last decade, ethics in the business world has received an enormous amount of attention due to some high profile situations such as Enron, WorldCom and HealthSouth. Therefore, business schools, the government and individual organizations have focused on the ethical components of the decision-making process, as well as perceptions of what is ethical and unethical within the business community. While there is a significant amount of research investigating ethical perceptions in the workplace, a limited amount examines students' perceptions of ethical behavior in the classroom. The purpose of this research study is to examine how business students perceive behaviors in the classroom; both for themselves committing an act and about how others would perceive the act.

Background and Hypotheses

Business students viewed themselves more ethical than their peers in past research (Forrest and Pritchett, 1990). That is, students consistently and significantly rated their peers as more willing to engage in unethical activities, such as cheating on exams and having others complete one's assignments. The same results were found with students evaluating their own behaviors compared to managers and supervisors (Tyson, 1990). Students forecasted their behavior would be more ethical than most managers already in the workforce. Thus, the authors of this study predict:

H1: Students perceive themselves as more ethical than their peers.

Other studies have examined students' perceptions of classroom behavior based on various demographic variables including age, gender and work experience. Age, for one, has produced mixed results with some studies finding older students having been identified as having less tolerance for unethical classroom behavior (Allmon, Page, and Roberts, 2000) and younger students seem to cheat more (Diekhogg, LaBeff, Clark, Williams, Francis, and Haines, 1996; Nonis and Owens-Swift, 2001). However, Lane and Schaupp (1989) found no significant relationship between ethical perception and age, and Nonis and Owens-Swift (2001) found the same only for those already in the workplace. In addition, gender and work experience have consistently been found to be significantly related to ethical perceptions (Allmon, et al., 2000; Lane and Schaupp, 1989; Nonis and Owens-Swift, 2001; Smyth and Davis, 2004). Females seem to be more ethical in their behavior than males, and those who have been in the workforce longer have stronger ethical beliefs.

Today's graduate students are generally older and more likely to have spent time in the business world than undergraduates. Therefore, their ethical perceptions may more closely mirror ethics in the business environment. Nonis and Owens-Swift (2001) found significant differences between undergraduate and graduate students on seven statements with graduate students being less tolerant. However, accounting undergraduates perceived some situations as less ethical than accounting alumni in another study (Bell, 1990). This study predicts:

H2: Undergraduate students perceive ethical situations as more ethical than those applied by MBA students.

When comparing college majors, studies have found that non-business students are generally more ethical in their behavior and attitudes than business majors (Harris, 1989), and more business students (54%) than non-business students (41%) consider cheating as socially acceptable (Smyth and Davis, 2004). D'Aquila, Bean, and Procario-Foley (2004) found similar results in that business students believed American business is ethical, while arts and sciences students believed ethics would be a problem in the future for American business. They also found that ethical standards differed among college majors with arts and sciences students being more ethical than business students. Thus, this study predicts:

H3: Business students apply lower ethical standards than non-business students.

Taking a closer look at differences between specific business majors, those business majors still were found to be less ethical in their attitudes and perceptions than students in other majors (St. Pierre, Nelson, and Gabbin, 1990; Hosmer, 1999; Frank and Gilovich, 1993). St. Pierre et al. (1990) found that accounting students scored lower on the DIT, a test of moral reasoning, than psychology students. Hosmer (1999) noted that accounting and finance students, as compared to other students, were more likely to view business ethics and social responsibility as generally unimportant. Frank and Gilovich (1993) concluded that economics students grew increasingly self-interested as they progressed through their program. The current study examined the specific business majors of the 21st century to determine whether students in one business major are more ethical than students in other business majors. The hypothesis tested is:

H4: Different ethical standards are applied by students majoring in different business disciplines.

Method and Results

This study uses a survey instrument to collect students' perceptions of ethics in the classroom. The survey is based on that used by Forrest and Pritchett (1990). Students enrolled in a variety of business courses were asked to complete the survey. The demographics of the resulting 332 usable surveys included 215 upperclassmen, 94 freshmen and sophomores, and 23 graduate students. Caucasians made up 64.2% of the students surveyed and 56% of the sample were female.

The mean scores for questions 1 through 25, in general, indicate that students believe themselves and their peers to be ethical. In Table 1, results support Hypotheses 1 with students rating themselves as more ethical than their peers (at the 1% level). In addition, Table 2 shows that graduates differed from undergraduates on 4 questions partially supporting Hypotheses 2.

Insert Table 1 about here

Insert Table 2 about here

When examining only undergraduates, and comparing business with non-business majors, the results show minimal support for Hypothesis 4. The mean scores for undergraduate business majors and non-business majors are provided in Table 3 with the 1-tail p-value for the tests of differences between the mean scores.

Insert Table 3 about here

To test Hypothesis 5, undergraduate business students are classified by their majors: accounting (ACCT), general business (BUSA), computer information systems management CISM, finance (FINC), management (MGMT) and marketing (MKTG). The means by major and question and their ANOVA p-values are provided in Table 4.

Insert Table 4 about here

Significant differences are indicated by major for responses to nine of the items including cheating on exams (Question 1), reporting a classmate who is cheating on an exam (Questions 3 and 4), submitting a published article (Question 5), having classmates complete term papers (Question 7), having classmates complete computer assignments (Question 9), letting another student take blame (Question 17), rating their peers' beliefs in honesty being more important than grades (Question 20), and rating the severity of punishment that should be imposed (Question 23).

Summary and Future Research

The authors of this research determine that a limited amount of empirical research exists examining students' perceptions of ethical behavior in the classroom, therefore attempt to add insight into the differences in ethical perceptions between business and non-business students, and between specific business majors. The findings support earlier research by Forrest and Pritchett (1990) that students, for all question pairs, rate themselves as more ethical than their peers.

When undergraduate business students are compared to MBA students, this study found limited support that a higher level ethical perception is associated with graduate students because they are generally older. In this study, these results may also be tied to the work experience of the students surveyed. Prior research has shown that students who have been in the workforce for longer periods of time have higher ethical standards (Allmon, et al., 2000; Lane and Schaupp, 1989; Nonis and Owens-Swift, 2001; Smyth and Davis, 2004). Because our undergraduate student population has a high concentration of students who are working adults, the population of MBA students and undergraduate students may not be that different with respect to their tenure in the workforce. Therefore, their ethical standards are similar.

When comparisons were made between undergraduate business and non-business majors in past research, business students were found to be less ethical than non-business students (Harris, 1989; Smyth and Davis, 2004; D'Aquila, et al., 2004). The current research partially agrees. Then on a closer examination, the current study supports accounting as more ethical of the business disciplines. This is especially interesting considering the negative publicity the accounting profession has received due to frauds such as Enron and World Com. This result may also be tied to the discussion of codes of ethics in the core accounting classes. Further study is needed to understand these differences among business majors.

Implications for future research also include expanding the current analysis to include age and gender as different bases for ethical perception. Since a number of studies used age as a basis for ethical tendencies of students, with mixed results, (Allmon, et al., 2000; Diekhogg, et al., 1996; Nonis and Ownes-Swift, 2001; Smyth and Davis, 2004) this expansion could find support for these demographic factors in the differences found between majors and between business and non-business students. For example, a higher percentage of accounting majors are female, and females have been found to have higher ethical standards in previous studies; this may be a factor in the results of this study. Lastly, religious background or beliefs may also affect the results of this study. Further exploration into the implications for ethical standards needs to be conducted.

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Table 1: Differences in Mean Scores

Question Topic	Mean Score, Self	Mean Score, Peer	1-Tail p-Value
Cheating on an exam	6.6867	5.0813	0.0000*
Reporting a classmate for cheating on an exam	4.5512	3.6084	0.0000*
Submitting a published article	6.5964	5.2590	0.0000*
Classmate writing a term paper	6.2560	4.8253	0.0000*
Classmate doing a computer assignment	6.1416	4.8253	0.0000*
Using a death in the family as an excuse	6.5090	5.3765	0.0000*
Using supplies from work to complete assignments	4.0120	3.2500	0.0000*
Not telling the instructor about a math error	4.0843	2.8825	0.0000*
Letting another take blame	6.5512	4.9880	0.0000*
Honesty more important than good grades (reverse coded)	2.9669	4.0602	0.0000*

*Significant at the 1% level

Table 2: Mean Score by Undergraduate Students and MBA Students

	Question Topic	Undergraduate Students	MBA Students	1-tail p-Value
1.	Cheating on an exam (self)	6.6921	6.5882	0.3304
2.	Cheating on an exam (peer)	5.0667	5.3529	0.2196
3.	Not reporting others (self)	4.5460	4.6471	0.4109
4.	Not reporting others (peer)	3.6000	3.7647	0.3602
5.	Submitting published articles (self)	6.5841	6.8235	0.0186+
6.	Submitting published articles (peer)	5.2571	5.2941	0.4619
7.	Classmate writing paper (self)	6.2381	6.5882	0.0930#
8.	Classmate writing paper (peer)	4.7905	5.4706	0.0473+
9.	Classmate doing computer work (self)	6.1143	6.6471	0.0247+
10.	Classmate doing computer work (peer)	4.6540	5.5294	0.0201+
11.	Using death in family excuse (self)	6.5206	6.2941	0.2215
12.	Using death in family excuse (peer)	5.3810	5.2941	0.4191
13.	Using supplies from work (self)	4.0222	3.8235	0.3337
14.	Using supplies from work (peer)	3.2571	3.1176	0.3239
15.	Not correcting math error (self)	4.0667	4.4118	0.2531
16.	Not correcting math error (peer)	2.9016	2.5294	0.2255
17.	Letting other take blame (self)	6.5492	6.5882	0.4300
18.	Letting other take blame (peer)	4.9810	5.1176	0.3476
19.	Honesty more important than grades (self)	2.9841	2.6471	0.2629
20.	Honesty more important than grades (peer)	4.0667	3.9412	0.3580

21. College professors’ concern with students’ ethics	2.5143	1.8235	0.0035*
22. Severity of punishment at school	3.0571	3.0000	0.4428
23. Severity of punishment that should be applied	2.7079	2.1176	0.0152+
24. Business professors compared with non-business professors	3.3746	3.0588	0.1187
25. Accounting rank	2.0540	1.7059	0.1654
CISM rank	3.7206	3.2353	0.0762#
Finance rank	2.6540	2.4118	0.1426
Management rank	3.6889	4.4118	0.0035*
Marketing rank	2.8667	3.2353	0.0756#

* Significant at the 1% level; + significant at the 5% level; # significant at the 10% level.

Table 3: Mean Score by Undergraduate Business Majors and Non-Business Majors

	Question Topic	Business Major	Non-Business Major	1-Tail p-Value
1.	Cheating on an exam (self)	6.6972	6.6452	0.3923
2.	Cheating on an exam (peer)	5.0775	4.9677	0.3431
3.	Not reporting others (self)	4.5528	4.4839	0.4232
4.	Not reporting others (peer)	3.5986	3.6129	0.4845
5.	Submitting published articles (self)	6.5669	6.7419	0.0876#
6.	Submitting published articles (peer)	5.2148	5.6452	0.0473+
7.	Classmate writing paper (self)	6.2289	6.3226	0.3455
8.	Classmate writing paper (peer)	4.7993	4.7097	0.3901
9.	Classmate doing computer work (self)	6.0845	6.3871	0.0853#
10.	Classmate doing computer work (peer)	4.6268	4.9032	0.1900
11.	Using death in family excuse (self)	6.5282	6.4516	0.3763
12.	Using death in family excuse (peer)	5.3486	5.6774	0.1555
13.	Using supplies from work (self)	4.0880	3.4194	0.0598#
14.	Using supplies from work (peer)	3.2676	3.1613	0.3945
15.	Not correcting math error (self)	4.0246	4.4516	0.1608
16.	Not correcting math error (peer)	2.8627	3.2581	0.1559
17.	Letting other take blame (self)	6.6056	6.0323	0.0367+
18.	Letting other take blame (peer)	5.0070	4.7419	0.2314
19.	Honesty more important than grades (self)	2.9754	3.0645	0.4152
20.	Honesty more important than grades (peer)	4.0458	4.2581	0.2440
21.	College professors’ concern with students’ ethics	2.4613	3.0000	0.0686#
22.	Severity of punishment at school	3.0317	3.2903	0.1981
23.	Severity of punishment that should be applied	2.7042	2.7419	0.4396
24.	Business professors compared with non-business professors	3.3592	3.5161	0.2860
25.	Accounting rank	2.0070	2.4839	0.0329+
	CISM rank	3.7465	3.4839	0.1849
	Finance rank	2.6585	2.6129	0.4222
	Management rank	3.7007	3.5806	0.3179
	Marketing rank	2.8592	2.9355	0.3802

* Significant at the 1% level; + significant at the 5% level; # significant at the 10% level.

Table 4: Differences in Mean Scores by Major

Question Topic	ACCT Mean Score	BUSA Mean Score	CISM Mean Score	FINC Mean Score	MGMT Mean Score	MKTG Mean Score	ANOVA p-Value
1. Cheating on an exam (self)	6.9595	6.3256	6.7500	6.7391	6.5588	6.6842	0.0020*
2. Cheating on an exam (peer)	4.8919	5.1163	5.1563	5.2609	5.1765	5.1184	0.8513
3. Not reporting others (self)	5.0811	4.4419	4.0938	4.3043	4.9118	4.2500	0.0551#
4. Not reporting others (peer)	3.7027	3.5814	3.2813	3.4348	4.4412	3.3684	0.0642#
5. Submitting published articles (self)	6.7838	6.2558	6.7188	6.7826	6.1765	6.5658	0.0080*
6. Submitting published articles (peer)	5.1081	5.3256	5.3750	5.1739	5.4412	5.1184	0.8508
7. Classmate writing paper (self)	6.5946	5.8837	6.3125	5.9565	5.8824	6.2632	0.0466+
8. Classmate writing paper (peer)	4.7973	4.7674	5.0625	4.3478	4.9706	4.8026	0.6573
9. Classmate doing computer work (self)	6.6216	5.6047	6.0000	6.2609	5.7059	5.9737	0.0014*
10. Classmate doing computer work (peer)	4.5270	4.7674	4.9375	4.3478	4.6471	4.6053	0.8032
11. Using death in the family as excuse (self)	6.6081	6.2326	6.7500	6.3478	6.5294	6.5658	0.4117
12. Using death in the family as excuse (peer)	5.0811	5.2093	5.8125	5.0000	5.5294	5.5132	0.1971
13. Using supplies from work (self)	4.35	3.95	3.843	4.82	4.1176	3.7632	0.2502

	14	35	8	61			
14. Using supplies from work (peer)	3.4460	3.0465	3.2813	3.0435	3.5000	3.1711	0.7693
15. Not correcting math error (self)	4.5270	3.6047	3.9375	3.8700	4.3529	3.7368	0.1878
16. Not correcting math error (peer)	3.1216	2.7907	3.1875	2.7391	2.9412	2.5658	0.5192
17. Letting other student take blame (self)	6.7868	6.4186	6.2813	6.8261	6.5882	6.6053	0.0368+
18. Letting other student take blame (peer)	4.9054	4.7442	5.2500	4.7826	5.0000	5.2237	0.5656
19. Honesty more important than good grades (self)	2.6081	3.2791	3.0625	2.5652	3.6471	2.8553	0.1778
20. Honesty more important than good grades (peer)	3.7432	4.4651	4.3125	4.2174	4.6176	3.6711	0.0187+
21. College professors concern with students' ethics	2.4595	2.5349	2.8438	1.8261	2.5294	2.4211	0.3600
22. Severity of punishment at school?	3.0405	3.3023	3.3750	3.0435	2.7647	2.8553	0.2646
23. Severity of punishment that should be applied	2.3108	2.9302	2.6563	2.7826	3.0882	2.7763	0.0842#
24. Business professors compared to non-business professors.	3.3243	3.4651	3.7813	3.3913	3.1765	3.2368	0.3012
25. ACCT rank	1.5676	2.0233	2.5938	2.2609	2.1176	2.0263	0.0025*
CISM rank	3.5811	3.8140	2.6250	4.0000	4.1765	4.0658	0.0000*
FINC rank	2.6622	2.3983	2.9375	2.5217	2.6765	2.7105	0.4072
MGMT rank	4.1216	3.9535	3.5938	3.6522	3.8529	3.1711	0.0001*

MKTG rank	3. 06 76	2. 81 4	3.2 18 8	2. 56 52	1.97 06	3.02 63	0.000 3*

* Significant at the 1% level; + significant at the 5% level; # significant at the 10% level.

ABSTRACTS

High School Business Educators and the Accounting Profession

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Abstract

Given that the Taylor Report (2000) found two-thirds of college students had considered their college major prior to attending college, and that Daidone (1991) discovered teachers and friends are second behind parents in influence with regard to career choice, high school business educators (HSBEs) in Arkansas were surveyed concerning their perceptions and knowledge of the accounting profession. We found that they view public accounting as a poor career choice with private accounting being slightly better. Also, the majority of HSBEs do not know or are incorrect as to the educational requirement to sit for the CPA exam. Finally, they have an adequate understanding as to the skills needed by accountants. The study concludes with a discussion of ways to improve HSBEs' knowledge and perception of the accounting profession.

THE FOUR HORSEMEN OF THE APOCALYPSE: HOW HIGHER EDUCATION IS BEING DESTROYED FROM WITHIN

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ABSTRACT

The operating principles which have served to guide higher education for many years have lately been pronounced invalid. This coup d'état has been staged by administrators and accreditation agencies with support provided by the ever ubiquitous schools of education in the guise of experts in "higher education." The revolution has disenfranchised university faculty. In this paper, the authors discuss the views of a counter-reformation - dissenting voices which have, until now, been censored or not easily located and compiled. The topics examined are (1) student-as-customer, (2) technology and delivery systems, (3) outcomes assessment, and (4) faculty disenfranchisement.

Evaluating Student Assessment of Advising Program Quality: A Pre-registration advising Analysis

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ABSTRACT

Student advising and guidance is a critical activity at most colleges and Universities. This study reviews and evaluates the result of a recent assessment of an advising process that is guided by an online rubric for program design, schedule development and course selection. The data from the first use of the system evaluates the student's perception in three critical areas: advising and the registration process, Student engagement in the process and guidance for other critical areas. The evaluation is of the student, advisor and the available adjunct programs. Pre-registration allows students to register for classes early affording time for review and design of a comprehensive program. Advisors are full time faculty at the University and have been coached in using the online system and are restricted to advising students in the program where they teach.