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Academy of Accounting and Financial Studies

SUSTAINABILITY REPORTING FRAMEWORKS

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ABSTRACT

The am of this paper is to explore the literature regarding sustainability and extended reporting frameworks.

We starts by defining corporate social responsibility (CSR) and sustainability and adopting the view that these terms have similar meanings and are often used interchangeably to mean the same thing. Next, we outline a brief overview of the historical development of the concepts of sustainability, which will lead into an analysis of the five major frameworks covered in the literature: (1) agency view; (2) corporate social performance view; (3) resource-based view; (4) supply and demand view; and (5) the stakeholder view, which is the dominant view.

Following this, we look at understanding stakeholders and their importance in sustainability and conclude with some observations about sustainability frameworks, and the motivations of companies for increased disclosure with their stakeholders. These motivation focus on the long-run corporate benefits including improved financial performance of the firm, increased competitive advantage, profit maximisation, and the long-term success of the firm.

DEFINING CSR AND SUSTAINABILITY

Corporate Social Responsibility (CSR) is defined as operating a business on a reliable, sustainable and desirable basis that respects ethical values, people, communities and the environment (Anderson, 1989). The focus on this definition suggests a short-run view focusing the attention of the company on current issues. There are four constituent components (RepuTex, 2003) that together influence an organisation's ability to be socially responsible: (1) environmental impact; (2) corporate governance; (3) social impact; and (4) workplace practices.

Consistent with the definition that has been adopted in this paper, the terms CSR and sustainability are used inter-changeably to mean the same thing (e.g. Caswell, 2004). This is because CSR is a sub-set of sustainability. For any organisation to be sustainable in the long term it firstly needs to be financially self-sufficient. Once this primary need for financial capital has been met, the organisation then needs to be socially responsible. This is achieved by ensuring that its governance and workplace practices and its environmental and social impact are self-monitoring and conform to society's expectations and ethical values. Only then can a company achieve sustainability in the long term.

HISTORICAL DEVELOPMENT OF SUSTAINABILITY

The concept of social responsibility, or social responsiveness, is an evolving concept (Mays Report, 2003, p.12) and means different things to different stakeholders (Arlow & Gannon, 1982). However, the concept of social responsibility has been with us since the beginning of mankind (Anderson, 1989).

A significant amount of research has been undertaken over the past decades in understanding the nature of and motives for corporate social responsibility (e.g. Anderson, 1989; Arlow & Gannon, 1982; Carroll, 1979; Clarkson, 1995; McWillians & Siegel, 2001; Pava & Krausz, 1996; Waddock & Graves, 1997; Wood, 1991) Increasingly, the importance placed on corporate social responsibility by investors, analysts, commentators and academics has grown, indicating a shift in attitudes.

This shift in attitude started with the Agency view, which is the first framework identified in the literature. The next framework in the literature is the Corporate Social Performance (CSP) view, followed by the Resource-based view (RBV), the Supply and Demand view, and finally the Stakeholder view is identified.

The Agency View

Initially, the idea that a corporation was using shareholders' funds to engage in social projects was criticised (Gelb & Stawser, 2001, p. 3). Freidman (1962, 1970) is generally credited with the "agency view" of the corporation and its responsibility to society. Freidman, recipient of the 1976 Nobel Memorial Prize for economic science, proposed that engaging in CSR is symptomatic of an agency problem or a conflict between the interests of managers and shareholders. Freidman argues that managers use CSR as a means to further their own social, political or career agendas, at the expense of shareholders (McWillans & Siegel, 2001, pp. 118).

According to Friedman's agency view, the business entity is accountable only to its shareholders and its sole social responsibility is to maximise the value of the firm (Gelb & Stawser, 2001, p. 3). To paraphrase from Capitalism and Freedom (Freidman, 1962, pp. 133-135);

> *"The view has been gaining widespread acceptance that corporate officials and labour leaders have a 'social responsibility' that goes beyond serving the interest of their stockholders and their members…Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine…The claim that business should contribute to the support of charitable activities…is an inappropriate use of corporate funds in a free enterprise society."*

The agency view started to lose favour in the literature as the corporate social performance view gained attention in the 1980's.

The Corporate Social Performance (CSP) View

Early research by Preston (1978) and Carroll (1979) outlined a "corporate social performance" (CSP) framework, which includes the philosophy of social responsiveness, the social issues involved, and the social and economic responsibilities. Waddcock and Graves (1997) empirically tested the CSP model and reported a positive association between CSP and financial performance (McWillams & Siegel, 2001, p. 118). Researchers such as Pava and Krausz (1996) hypothesized that, according to the agency view, greater levels of CSR would lead to reduced levels of financial performance. Their findings persistently showed the opposite: that firms perceived as socially responsible performed as well as or better than their counterparts that do not engage in costly social activities. The authors concluded that "sometimes a conscious pursuit of corporate social responsibility goals causes better financial performance" (Pava and Krausz, 1996, p. 333).

Building upon Preston & Carroll's framework, another view, the Resource-based View (RBV) argues that CSP not only improves financial performance but it also adds a competitive advantage to the firm.

Resource-Based View (RBV)

Another framework has been developed by Russo and Fouts (1997). They examined CSR from a "resource-based view" (RBV) of the firm perspective. Using this framework, they argue that

CSP (especially environmental performance) can constitute a competitive advantage, especially in high-growth industries

Using the RBV framework as a foundation, the next framework, the supply and demand view, introduced the notion of optimising sustainability investment.

Supply And Demand View

McWillans & Siegel (2001) developed a 'supply and demand' framework and proposed that there is a level of CSR investment that maximises profit, while also satisfying stakeholder demand for CSR. While focusing the level of CSR investment is seen as important to maximise profits, the literature favours stakeholders as the primary focus.

Stakeholder View

A widely used framework for examining CSR is the "stakeholder" perspective. Developed by Freeman (1984), the stakeholder theory asserts that firms have relationships with many constituent groups and that these stakeholders both affect and are affected by the actions of the firm. Freeman (1984) argued that systematic attention to stakeholder interest is critical to firm success and management must pursue actions that are optimal for a broad class of stakeholders, rather than those that serve only to maximise shareholder interests (Gelb & Stawser, 2001, p. 3).

UNDERSTANDING STAKEHOLDERS

Freeman (1984, pp. 46) defines a stakeholder as *"…any group or individual who can affect or is affected by the achievements of an organisation's objectives"*. This definition is still widely acknowledged as the landmark position in stakeholder theory (Wood, 1991; Clarkson, 1995, Vos, 2003). The distinction between those who "can affect" (i.e. the involved) and "is affected" (i.e. the affected) is considered crucial in understanding and defining stakeholders. The involved have the possibility to directly influence the actions of the firm, while the affected do not have any influence over the actions of the firm.

From the firm's perspective, stakeholder identification is not easily solved, it comprises, at least, a modelling and a normative issue (Vos, 2003, p.141). The modelling issue refers to identification issues for management, such as "who are our stakeholders?" and "to what extent can we distinguish between stakeholders and non-stakeholders?". The normative issue refers to managerial implication, such as "what stakeholders will we take into account?" or "to what stakeholders are we willing to listen?". Vos (2003) argues that to identify stakeholders, both the modelling and the normative issue need to be resolved.

Mitchell *et al*. (1997) stresses the importance of risk in identifying stakeholders and points out that without risk, there is no *stake* (a stake in this sense is something that can be lost). As such, a stakeholder is a risk-bearer and from this perspective, the distinction can be made between voluntary and involuntary stakeholders. Voluntary stakeholders bear some form of risk as a result of having invested some form of capital (human or financial) or something of value in the firm. Involuntary stakeholders are placed at risk as a result of the firm's activities (Mitchell, *et al*., 1997).

The dominance of the shareholder among all stakeholders is consistent with Friedman's (1962, 1970) agency view, which largely is seen as untenable in the context of CSR. There is no denying that shareholders deserve their special position as voluntary stakeholders because of the property rights they enjoy with the organisation, and the fiduciary duty (which us based on trust) between management and the shareholders. However, the organisation should acknowledge that it also owes a moral obligation to all non-shareholder stakeholders (including involuntary stakeholders) where the freedom and well-being of stakeholders in affected by the organisation's activities (Goodpaster, 1998).

Donaldson and Preston (1995) refined the stakeholder paradigm by arguing that three aspects of this theory – normative, descriptive/empirical and instrumental – are "mutually supportive". Jones and Wicks (1999) propose converging the instrumental (social science) and normative (ethics) components of stakeholder theory to arrive at a normative theory that describes how managers can create morally sound approaches to business and make them work (Jones and Wicks, 1999, p. 206). For more recent developments in stakeholder theory, see Gelb & Stawser (2001).

CONCLUSION

Over the past few decades, the attitudes of some companies have changed, rejecting the agency view (Freidman, 1962, 1970), instead embracing stakeholders (Freeman, 1984) and sustainability concepts in their business practice. This has been motivated by a belief that adopting sustainability practices in the long-run will lead to the improved financial performance of the firm (McWilliams & Siegel, 2001; Pava & Krausz, 1996), increased competitive advantage (Russo & Fouts, 1997), profit maximisation (McWilliams & Siegel, 2001) and the long-term success of the firm (Freeman, 1984).

To achieve these goals, companies need to demonstrate to their stakeholders that they are meeting or exceeding those stakeholders' expectations of performance in the area of sustainability. To facilitate this, companies have adopted new reporting and disclosure frameworks to help them communicate with their stakeholders. These frameworks will be examined in the next section.

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THE ROLE OF IMPERSONAL DATA DISCLOSURE IN THE SELECTION OF AUSTRALIAN RETAIL INVESTMENT FUNDS

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ABSTRACT

The purchase decision for a retail investor is complex, and is based upon multiple attributes derived from impersonal and interpersonal information sources. In this paper we look at the important role that impersonal data disclosure plays in the selection and retention of Australia's 2,637 retail equity investment funds.

We find that fund size, past performance, agency ratings, and the management expense ratio (MER) are widely used by retail investors in investment decision making. We conclude that the only disclosure that provides any valuable utility to a retail investor is the MER. As such, the MER should be the key selection criteria for retail investors when making choices regarding investment funds.

AUSTRALIAN RETAIL INVESTMENT FUND SELECTION

Australian investment funds comprise a huge range of financial products including managed investment schemes, superannuation funds and allocated pensions, retirement savings accounts (RSA), investment life insurance products and deposit products. Australia has more investment funds than listed equites, and hundreds of new investment funds are being developed every year. The Australian Financial Review database lists 2,637 Australian sourced investment funds that have some asset exposure to Australian equities. In contrast there are 1,679 companies listed on the Australian Stock Exchange (Sykes, 2005). Simply, there are more than 1½ times the number of investments funds investing in Australian equities than there are Australian equities. Given this enormous range of equity based investment funds, how can investors reliably choose the most appropriate one?

The purchase decision for an investor is complex, and is based upon multiple attributes derived from two principle information sources: *impersonal* sources (advertising, published fund performance statistics) and *interpersonal* sources (family and friends, financial planners). Research into the buying behaviour of investors has observed that the impersonal performance-related variables are both the most important information source and selection criteria. Published performance rankings are the most important impersonal information source, and both historical investment performance and management fees are the two most common impersonal quantitative selection criteria for buyers of investment funds (Capon, Ftizsimons & Price, 1995).

In Australia, published performance rankings are a key criteria for investors making decisions regarding investment funds, and are widely available from newspapers, investment magazines, financial planners and the Internet. These rankings will generally provide qualitative data on four key performance metrics: (1) the fund size; (2) past performance; (3) the funds rating by a reputable rating agency; and (4) the level of fees (MER) that may be payable by the investor. The *Australian Financial Review Top Sector Performers* table is typical of the format used by retail investors to compare the performance of investment funds and the following includes impersonal data:

1. The fund size (FUM)
2. Investment performance
3. Where the fund is rated by Morningstar, the star rating
4. The estimated management expense ratio (MER)

Given the important role that these metrics may have in the selection and retention of investment funds by retail investors, we will review the utility of these disclosures.

Fund Size

The size of f*unds under management* (FUM) in an investment fund is a key metric commonly used by investors to assist them in decisions regarding investment selection. Many investors believe that fund size has implications for future performance especially related to higher transaction costs. These investors are of the view that size may act as a performance constraint in the long term for large equity funds and that smaller size funds should outperform larger size funds, after allowing for transaction costs. This view was popularised with Sharpe's law, which suggested that the probability of a large size investment fund achieving superior returns to the market must decline as their relative size increases (Sharpe, 1991).

However, in practise, this theory does not hold true. Analysis of investment returns and fund size in Australia of actively-managed equity investment funds over the period 1991-2000 finds no statistically significant performance differences between funds on the basis of portfolio size (Gallagher & Martin, 2005). These finding are consistent with other reported results internationally, and suggests the Sharpe's hypothesis that performance will decline with an increase fund size is not supported empirically. Given that small equity retail funds (typically the specialist and boutique fund managers) do not significantly outperform larger retail funds (typically the comprehensive fund managers), and portfolio size has been shown to be unrelated to portfolio performance, investors may be misguided in selecting investments based on the size of FUM.

Past Performance

Despite the disclaimers issued by investment funds and regulators about past performance not being an indicator of future performance, investors do use past performance as one of their most important guides (Rainmaker, 2004). Empirical research provides conclusive evidence that investors continually direct investments into funds that have had recent superior performance and out of those that have had recent poor performance (Kane et al., 1991; Patel et al., 1992; Sawicki, 2000).

Past performance can be misleading because it may not take into account risk factors and general market conditions. It is also possible that past performance accounts for chance as equally as it does skill in measuring the performance of an investment fund. The ability to predict the future performance of an investment based on ex-ante information has been the topic of intense debate. The efficient market hypothesis (Fama, 1965), implies that historical performance is no guide to future performance and that any excess performance achieved by an investment manager is the result of chance, not the skilful application of active stock selection techniques.

A growing body of empirical research continues to demonstrate that on both a raw and risk-adjusted return basis, that prior annual performance has little influence on returns (Drew, Stanford & Veeraraghavan, 2002). Therefore, investors may be misguided in selecting investments based on the past performance.

Rating Agencies

Rating agencies play an important role in informing investors and their advisers about the performance of managed funds. The agencies may issue a rating or ranking that might be helpful

in selecting an appropriate investment fund. The analysis by the rating agency may include historical returns, qualitative factors regarding the investment manager, investment style, and estimates of fees and charges. Yet these agencies only report on a small sample of the total universe of Australian investment funds. For example Morningstar, the largest independent managed fund rating agency in Australia (Finch, 2004, p. 46), monitors the performance of 303 retail and 242 wholesale funds (total 545 funds) which are managed by 187 different investment managers. This coverage represents around 20% of total number of Australian sourced investment funds and is dominated by large scale 'comprehensive' fund managers, with very little coverage of the 'specialist' and 'boutique' fund managers.

Despite the convenience that rating agencies may offer in the evaluation and selection of investment managers and products, their utility does not extend across the smorgasbord of choices in Australian sourced investment funds. Accordingly, investors cannot rely exclusively on a rating agency to help evaluate or select investment funds, especially in the fast growing 'specialist' and 'boutique' sectors of the market where these funds are not covered by the rating agencies.

Management Expense Ratio

The final technique that assists investors choose an appropriate investment fund is the *management expense ratio* (MER). This is an attempt to measure the ongoing management fees and expenses paid by an investment fund, as a percentage of the value of the fund's assets. It is widely used by investors and a key criterion in the selection of investment funds. In line with the market efficiency notion, evidence suggests an inverse relationship exists between ongoing manager fees and investment manager returns (Jensen, 1968; Elton et al, 1993; Malkiel, 1995; Carhart, 1997; Drew, et al, 2002). Simply, investment manager returns decline with higher expenses, so investors are mindful not to select managers with overly high ongoing fees. Up-front fees (also called front-end load fees, establishment fees and contribution fees) are fees that may be payable upon initial investment in an investment fund. These fees are not considered part of the ongoing fee structure of the investment fund, and tend to be excluded in the calculation of MER. Empirical studies (Barber et al. 2003; Sirri & Tufano, 1998) have show a significant negative relation between fund flows and fees, providing evidence that investors are sensitive to fees (in particular up-front fees) and investors base their investment decisions largely on the amount of fees payable.

With investors sensitive to the level of fees they pay to a manager for managing their investments, disclosure on the MER (and any other fees payable such as up-front fees) helps to informs investors of the cost of the investment given the range of investment options. The MER lies at the heart of fund manager evaluation and is the central criteria for investors when making fund selections (Drew, 2003, p.35).

CONCLUSION

In summary, investors will rely on the following disclosures to assist them in selecting an investment fund: (1) the fund size; (2) past performance; (3); the funds rating by a reputable rating agency and (4) the level of fees (MER) that may be payable by the investor

The fund size and past performance disclosures, although widely used, provide little utility to the investor to assist them in selecting an investment fund with strong future performance potential. The rating assigned to an investment fund may be a useful information source for the retail investor, but ratings are not available for all investments funds. The ratings that are published tend be limited to largest (FUM) investment funds which are dominated by the *comprehensive* investment managers.

The only disclosure that provides any valuable utility to an investor across all investment funds is the MER. Accordingly, the MER should be the key selection criteria for investors when making choices regarding investment funds.

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RATING THE RATINGS: THE ACCEPTABILITY OF INTERNATIONAL RATING METHODOLOGIES

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ABSTRACT

We explore the practices of international rating agencies and develop a framework based on the auditor independence model to understand the various rating agency methodologies.

Rating agencies methodologies are classified as solicited, unsolicited or co-operative depending upon: (1) whether the rating has been requested; (2) whether the rating agency receives a payment; and (3) what information source the agency uses to form its opinion. These different methodologies will affect the level of independence the agency has in forming an unbiased and objective opinion, and ultimately this will affect the acceptability of the rating.

The unsolicited and co-operative rating methods allow for independence to be maintained because independence is largely driven by agency remuneration. Ultimately, the most acceptable rating methodology is the co-operative rating method because of the greater reliability of the information source that is used in forming the rating opinion.

INTRODUCTION

The objective of this paper is to explore the academic and other literature associated with the development and practices of international rating agencies and to develop a framework to understand the various rating agency methodologies.

TYPOLOGIES OF INTERNATIONAL RATING AGENCIES

In the 1990s, the importance of international rating agencies became more pronounced among investors, creditors, regulators and other stakeholders who were interested in screening companies based on specific financial criteria. In this period, rating agencies experienced growth and developed new ratings products (Cantor & Packer, 1996).

Worldwide, there are numerous rating agencies providing financial ratings, however, the rating industry counts only two major world players both originating in the United States: Moody's Investor Services; and Standard & Poor's (S&P). They have become global following the dramatic growth of international financial markets and an increasing reliance upon credit ratings (Cantor & Packer, 1994).

The six major financial rating types and the focus of these ratings is shown below in Table 1:

Table 1
Major financial rating types and their focus

Column 1	Column 2
Rating type	Focus of rating
Life Insurance	Solvency
Credit	Default Risk (corporation)

Mutual Fund	Performance
Sovereign	Default Risk (nation)
Corporate Governance	

A brief description of each of the six rating types is provided below:

Life Insurance Ratings

Life insurance ratings rank the solvency of life insurance companies, and for stakeholders, such as policy holders and life insurance agents, provide a convenient reference point for comparing insurers.

Credit Ratings

Credit ratings are the most popular type of rating and rank the probability of default for a corporate issuer of debt, such as a private sector organisation or a public sector agency. Credit rating agencies are an integral part of modern capital markets and their ratings are used as benchmarks by regulators, lenders and investors.

Mutual Fund Ratings

Mutual fund ratings rank the probability of excess investment performance of investment funds within the same asset class. For investors and their advisers, mutual fund ratings offer a way to monitor the performance of individual fund managers and asset classes within the growing managed investments market.

Sovereign Ratings

Sovereign ratings rank the probability of risk of default of a sovereign country's obligation to repay its foreign debt. These ratings also set the maximum credit rating achievable for state and municipal agencies within that country's jurisdiction.

Corporate Governance Ratings

Corporate governance ratings rank the probity of information and decision-making systems within listed and multinational corporations. These ratings provide an assessment of an organisations performance based on the effectiveness of its command and control systems.

Sustainability Ratings

Sustainability ratings rank organisations effectiveness at meeting the expectations of stakeholders while maintaining sustainable financial, environmental and social performance. These ratings provide an assessment of an organisation's ability to deliver a sustainable future.

RATING METHODOLOGIES

Rating methodologies can be classified as either paid (solicited) or unpaid (unsolicited or co-operative). The issue of a payment to rating agency may: (1) create a conflict of interest between the rated company and the rater; and (2) provide a less accurate rating.

Because the rating agency receives a payment from the rated company when a solicited rating methodology is used, there exists the possibility of a conflict of interest. This conflict of interest can create an upward bias in the rating result, hence providing a less accurate rating (Cantor & Packer, 1997; Winnie, 2003). This accuracy issue is not present in unsolicited or co-operative ratings.

Maintaining independence for a ratings agency is important as this will influence the acceptability of the rater's opinion in relation to a company's disclosures. Another area in the academic literature where the independence and acceptability of an opinion regarding company disclosures is vitally important is the area of audit independence. This area will be examined in the next section.

There are many similarities between the roles of auditors and financial rating agencies. Both issue opinions based on company disclosures; both are fundamental to the operation of financial markets; both have the capacity to affect the behaviour of a company; and both need to maintain independence to ensure acceptability of their opinions. It is for these reasons that this paper analyses the issues of independence in rating agencies from the framework of audit independence.

ACCEPTABILITY OF RATING METHODOLOGIES

Rating issued by a rating agency can generally be classified as either a solicited, unsolicited or co-operative. This classification is used to distinguish the rating methodology upon three key attributes: (1) whether the company being rated has requested the rating; (2) whether the company being rated has paid the agency for the rating; and (3) whether the information source used by the rating agency relies on confidential and non-public information. The co-operative rating is a form of unsolicited rating where the rated organisation co-operates with the rating agency to provide additional sources of non-public information. This co-operation by the company to provide additional information helps to improve the reliability of the rating and therefore its acceptability to users.

Solicited ratings differ from unsolicited ratings in that the company seeking a rating requests the services of an agency to review its operations and issue a rating. An unrequested or unsolicited rating is where the rating agency issues a rating for a company, regardless of whether the company has requested the service or not. The co-operative rating is a form of unrequested or unsolicited rating.

The compensation structure, hence agency framework, for unsolicited ratings differs markedly from solicited ratings in that the rating agency is not compensated by the firm for an unsolicited rating, whereas solicited ratings are almost entirely paid for by the rated organisation. As a co-operative rating is a form of unsolicited rating, the rating agency is not compensated for performing the rating service.

The information source, hence rating methodologies, for unsolicited ratings differs markedly from solicited ratings in that an unsolicited rating is purely a statistical rating based on publicly available information published by the rated company. With a co-operative rating, the rating agency relies on publicly available information as its primary source, plus supplementary information that may include surveys, interviews and other types of specifically requested non-public data.

A comparison of the independence of rating methodologies is provided in Table 2 below:

Table 2
Comparison of the independence of rating methodologies

Column 1	Column 2	Column 3	Column 4
Activity	Solicited	Unsolicited	Co-operative

Requested by rated company	Yes	No	No
Payment to rating agency	Yes	No	No
Information source	Company confidential information	Public domain only	Public domain and company confidential
Maintained independence	No	Yes	Yes

Comparing the three different rating methodologies, it can be concluded that under the solicited rating method the rating agency has: (1) a more reliable information source to form an opinion however, (2) it is unable to maintain its independence because of the existence of conflicts of interest, particularly in relation to the terms of its engagement and the payment it receives. These issues of independence are not typical under an unsolicited or co-operative rating methodology. Issues such as these will affect the acceptability of the rating method.

The acceptability of the rating is ultimately the measure of it success, and this will be influenced by two key factors. The first issue affecting the acceptability of the rating methodology is maintaining independence and avoiding conflicts of interest. The second issue that influences the acceptability of the rating methodology is the range of relevant information that is relied upon in forming the rating opinion.

Different rating methodologies rely on different information sources to determine the rating (see Table 3 below), and this source of information will ultimately determine the acceptability of the rating. Unsolicited ratings rely entirely on information in the public domain and, as such, the ability of the rating agency to issue an accurate rating is determined by the range of relevant information and the timeliness of the information that has been publicly disclosed by the company. Where a company does not disclose information into the public domain that is required by the rater's rating criteria, it is probable that any rating opinion that may be issued has not formed using all relevant information. This absence of information creates an acceptability issue for stakeholders relying on the rating. This acceptability issue is not present in solicited or co-operative ratings.

A summary of the acceptability of the rating methodologies is shown in Table 3 below:

Table 3
Comparison of acceptability of different rating methodologies

	Solicited	Unsolicited	Co-operative
Conflict of interest	Yes	No	No
Range of information	Yes	No	Yes
Acceptable methodology	No	No	Yes

In summary, the co-operative rating type can be seen as being a more acceptable methodology because this method avoids any potential conflict of interest while maintaining a high degree of reliability in the information source.

CONCLUSION

Rating agencies methodologies are classified as solicited, unsolicited or co-operative depending upon: (1) whether the rating has been requested; (2) whether the rating agency receives a payment; and (3) what information source the agency uses to form its opinion. These different

methodologies will affect the level of independence the agency has in forming an unbiased and objective opinion, and ultimately this will affect the acceptability of the rating. The unsolicited and co-operative rating methods allow for independence to be maintained because independence is largely driven by agency remuneration. Ultimately, the most acceptable rating methodology is the co-operative rating method because of the greater reliability of the information source that is used in forming the rating opinion.

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THE USE OF EXTENDED REPORTING FRAMEWORKS IN AUSTRALIA

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ABSTRACT

This paper explores extended reporting frameworks, catalogues various typologies and investigates the use of one international framework in Australia. We outline the background to the development of new reporting frameworks by examining the academic literature in the area of sustainability research. We identify and catalogue 11 new reporting and social accounting guidelines and they are catalogued in table 1. Following this analysis, we focus on the development of one particular framework, the Global Reporting Initiative (GRI), and investigate its use in Australia. We find that 38 Australian entities have voluntarily adopted the GRI and these entities are disclosed in table 2.

THE INTRODUCTION OF NEW REPORTING FRAMEWORKS

Traditional accounting has long been criticised for providing an incomplete account of business. It fails to present the dynamics of business-value-creating activities and how politico-socio factors may affect or be affected by business value creating activities. This is evidenced by increasing research in Intellectual Capital Reporting (ICR) and Corporate Social Responsibility Reporting (CSR) and the introduction of new disclosure frameworks.

From the perspective of the CSR research, the traditional financial accounting framework is too narrow (Guthrie & Parker, 1993). The business income concept needs to be expanded (Bedford, 1965) because economic performance is not an index of total welfare (Bedford, 1965; Pigou, 1938). Since business activities have both economic and social impacts (Estes, 1976), businesses must meet societal expectations of both profit generation and contributions to the quality of life in general. This is also consistent with the concept of social contract of the legitimacy theory (CED, 1971).

A plethora of alternative reporting methods have been proposed in the sustainability literature (see Table 1 below), however there is no universally accepted framework.

Table 1
New reporting frameworks (Source: ICAEW, 2004, p. 9)

Column 1	Column 2
The Balanced Scorecard	The Balanced Scorecard: Translating Strategy into Action (1996; based on a 1992 article) – Professor Robert S. Kaplan and David P. Norton
The Jenkins Report	Improving Business Reporting – A Customer Focus (1994) – American Institute of Certified Public Accountants

Tomorrow's Company	Tomorrow's Company: The Role of Business in a Changing World (1995) – Royal Society of Arts and Sooner, Sharper, Simpler: A Lean Vision of an Inclusive Annual Report (1998) – Centre for Tomorrow's Company
The 21st Century Annual Report	The 21st Century Annual Report/Prototype plc (1998) and Performance Reporting in the Digital Age (1998) – both ICAEW
The Inevitable Change	Business Reporting: The Inevitable Change? (1999) – ICAS
Inside Out	Inside Out: Reporting on Shareholder Value (1999) – ICAEW
Value Dynamics	Cracking the Value Code: How Successful Businesses are Creating Wealth in the New Economy (2000) – Arthur Andersen
GRI	Sustainability Reporting Guidelines (2000; revised 2002) – Global Reporting Initiative
The Brookings Institution	Unseen Wealth: Report of the Brookings Task Force on Understanding Intangible Sources of Value (2001) and Professor Baruch Lev's Intangibles: Management, ,Measurement, and Reporting (2001) – both Brookings Institution
ValueReporting	The ValueReporting Revolution: Moving Beyond the Earnings Game (2001) and Building Public Trust: The Future of Corporate Reporting (2002) – both PricewaterhouseCoopers
The Hermes Principles	The Hermes Principles: What Shareholders Expect of Public Companies – and What Companies Should Expect of Their Investors (2002) – Hermes Pensions Management Limited

The idea to combine extended reporting frameworks with the traditional financial accounting framework has recently attracted a great deal of attention. One example of this synergy is the Triple Bottom Line reporting approach (TBL). TBL, a term coined by Elkington (1997), focuses *"corporations not just on the economic value they add, but also on the environmental and social value they add – and destroy"*. The idea is rooted in the concept, and goal, of sustainable development, which is defined as "development that meets the needs of the present world without compromising the ability of future generations to meet their own needs" (WCED, 1987). As Deegan (1999) indicated, *"for an organisation or community to be sustainable (a long-run perspective), it must be financially secured (as evidenced through such measures as profitability); it must minimise (or ideally eliminate) its negative environmental impacts; and it must act in conformity with society's expectations"*. That is, it is inadequate to measure and present only economic performance, which is the focus of the Intellectual Capital (IC) research. To be sustained in the long-run, organisations must strive to achieve better performance across the three dimensions of TBL.

An alternative is the codification of guidelines such as the Global Reporting Initiative 2002 guidelines, which is an initiative that is heading towards a common and acceptable reporting framework aiming to combine the reporting of financial, environmental and social performance within the same format (Environment Australia, 2000). In addition, as stated in GRI (2002), the initiative has enjoyed the active support and engagement of representatives of key constituencies and the guideline provides the most updated, in the GRI's view, of a consensus on a reporting framework at this point.

THE DEVELOPMENT OF GRI

The publication of *Cannibals With Forks* (Elkington, 1997) focused the business community on the links between environmental, economic and social concerns that had been highlighted previously in the Brundtland Report (WCED, 1987). Elkington coined the term 'Triple Bottom Line' and has convinced many leading companies to embrace sustainability using his Triple Bottom Line theory. The GRI builds upon the foundations of Triple Bottom Line to provide a framework for reporting and social accounting.

The Coalition for Environmentally Responsible Economies originally launched the *Global Reporting Initiative* (GRI) in 1997. The GRI is a voluntary set of guidelines for reporting on the economic, environmental and social aspects of an organisation's activities.

The GRI was established with the goal of enhancing the quality, rigour and utility of sustainability reporting. The initiative has enjoyed the active support and engagement of representatives from business, NGOs, accounting bodies, investor organisations and trade unions. Together, these different constituencies have worked to build a consensus around a set of reporting guidelines with the objective of obtaining worldwide acceptance (Fowler, 2002).

The sustainability reporting guidelines are a framework for reporting on economic, environmental and social performance. They (a) outline reporting principles and content to help prepare organisation-level sustainability reports; (b) help organisations gain a balanced picture of their economic, environmental and social performance; (c) promote comparability of sustainability reports; (d) support benchmarking and assessment of sustainability performance; and (e) serve as a key tool in the overall process of stakeholders' engagement. Sometimes referred to as triple bottom line reporting, the term sustainability reporting is used throughout the GRI guidelines.

The guidelines can be used simply as an informal reference document to assist organisations in developing a framework and indicators for measurement and reporting in an environmental fashion. Alternatively the organisation may choose to adopt them and prepare their report 'in accordance' with the guidelines.

The GRI recognises the complexity of implementing a sustainability reporting program and the need for many organisations to build their reporting capacity in an incremental fashion. Such organisations may choose not to prepare a complete GRI-based report in their initial effort. Instead, they may choose a step-by-step approach to adopting the guidelines over a period of time.

Increasingly, these voluntary guidelines are being adopted by companies worldwide, providing a common framework for sustainability reporting. This increasing trend with global companies can also be seen in the increased application of GRI among Australian organisation.

AUSTRALIAN APPLICATION OF GRI

A number of companies around the world have released reports indicating that they have referred to and followed the guidelines in preparing their disclosure reports. These include 38 Australian organisations, and along with their sector, are listed in table 2 below:

Table 2
38 Australian GRI reporters (Source: www.globalreporting.org)

Column 1	Column 2
Organisation	Sector
AMCOR	Other
Anglo Coal Australia (Anglo American)	Mining
Argyle Diamonds	Mining

Australia Commonwealth Department of Family & Community Services (FaCS)	Public Agency
Australian Ethical Investment	Financial services
Australian Gas Light Company (AGL)	Energy
BHP Billiton	Mining
British American Tobacco Australia	Tobacco
City West Water	Water utilities
Department of the Environment and Heritage (DEH)	Public Agency
Energex Limited	Energy utilities
Ford Australia - Broadmeadows Assembly Plant	Automotive
Ford Geelong Assembly Plant	Automotive
Forests NSW	Agriculture
Grampians Wimmera Mallee Water	Water utilities
Insurance Australia Group	Financial services
Integral Energy	Energy utilities
Landcare Australia	Non-Profit / Services
Landcom	Construction
Loy Yang Power	Energy utilities
MIM Holdings	Mining
National Australia Bank	Financial services
Newcrest Mining	Mining
Origin Energy	Energy
Port of Brisbane Corporation	Logistics
Ports Corporation of Queensland	Mining
QCL Group	Construction materials
Singtel Optus	Telecommunications
Sydney Water	Water utilities
Tarong Energy	Energy utilities
Telstra	Telecommunications
The Water Corporation	Water utilities
Thiess	Conglomerates
VicSuper Pty Ltd	Financial services
Visy Industries	Forest and Paper products

Western Mining Corporation Resource Ltd (WMC)	Mining
Westpac Banking Corporation	Financial services
Yallourn Energy	Energy

An analysis of this data shows that the utilities (water, energy and telecommunications), mining and financial services sectors are the most represented sectors in Australia comprising 25 of the 38 Australian organisations adopting GRI reporting.

CONCLUSION

There has been growing concern in the academic literature that the traditional financial disclosure framework by organisations is insufficient because: (a) it has failed to adapt to the changing nature of business; (b) that it no longer meets the changing needs of investors; and (c) that it fails to recognise a wide enough circle of users (ICAEW, 2004, p.6).

In attempting to satisfy this deficiency in traditional reporting, a number of new alternative sustainability reporting frameworks have been developed, however there is no universally accepted framework that allows universal comparison of sustainability performance. In the absence of legislative prescription, organisations have been adopting these new disclosure frameworks on a voluntary basis only. One of the frameworks that is being adopted globally, as well as in Australia, is the GRI. Currently, 38 Australian organisations have adopted GRI reporting.

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AN EVALUATION OF STATE RANKING SYSTEMS

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ABSTRACT

Numerous studies summarize data and provide rankings of items of interest. Well known rankings include the best universities, best places to do business, best sports teams, winners of scholarship pageants, Olympic games, and the best mutual funds to invest in. The importance of these rankings can not be overemphasized. Many millions of dollars are at stake as a result of these ranking systems. An example of the importance of these rankings is the Bowl Championship Series (BSC) ranking system for college football teams. The teams that will participate in key football games are selected based on the BCS ranking system. Those teams that participate in the games receive millions of dollars in compensation as well as prestige for their football program, University, alumni and local community. An error in the rankings can have million dollar consequences. Another ranking with significant economic impact is rankings of states as a place to conduct business. In these rankings, individual states are ranked on their desirability as a place to conduct business. Certainly business persons incorporate this information into their business location decision making process.

The importance of properly conducting these studies can not be overstated. An inappropriate "bad" ranking can have a significant negative economic impact on an area. Similarly an inappropriate "positive" rating can lead businesspersons to establish businesses in suboptimal locations. While the world relies heavily on ranking systems, developing these rankings is no simple task and surprisingly little research on the best techniques to use in developing ranking systems has been published. Rather, the task of creating a ranking system is fraught with minefields. The difficulty in developing an equitable rating system can be observed in the BCS rankings. Despite several modifications to the system, there are controversies concerning the appropriateness of the outcome in virtually every year. Many options can be incorporated into a ranking system at the discretion of the developer. While each of the options may be equally correct, he/she must select those options that offer the desired description and ranking of the data. Frequently it is a choice between simplicity of design and a more accurate ranking.

In this paper we examine the methodologies used to develop rankings. The methodologies utilized by three previous studies are examined. The sensitivity of one ranking system to changes in the methodology utilized is demonstrated. The demonstration shows that altering the methodology employed can have a significant impact on the resulting rankings and variable weightings. A change in methodology is found to result in ranking changes of up to twenty two places in a ranking of 50 items. Finally, a demonstration of the effects of incorporating additional variables is provided. The effects of adding a single additional variable are not dramatic compared the changes associated with a methodology change.

Academy of Marketing Studies

DIAGNOSTIC PERFORMANCE ASSESSMENT: A SALES MANAGER SURVIVAL TOOL

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ABSTRACT

Two primary factors are putting increasing pressure on American business, market saturation and globalization. These two pressures make it incumbent on sales-force managers to continue to increase productivity to maintain the status quo at minimum, and enhance overall company performance overall if possible. Good sales managers will continually seek new ways to assess performance. This paper explores sales force performance by linking three key variables as identified in the literature as essential for high performance. The three variables, Ability, Motivation, and Satisfaction are essential elements. When these three variables are placed in a two tiered two-by- two matrix, a sales manager can more conveniently identify strong and week areas in performance. This paper offers suggested remedies for several of the sixteen possible situations sales personnel might find themselves lacking or excelling. Suggestions are also given on how to enhance performance.

THE EFFECTS OF GENDER AND ARGUMENT STRENGTH ON THE PROCESSING OF WORD-OF-MOUTH COMMUNICATION

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ABSTRACT

We explore the effects of gender and message argument strength in a unique context: word-of-mouth (WOM) communication. While the common wisdom in marketing is that women are more receptive to WOM information than men, we found surprisingly few published empirical studies in marketing investigating this common belief, and none that measured actual influence of WOM on attitudes or beliefs rather than self-reported influence. We report the results of an experiment (n=130) in which communicator gender and argument strength are manipulated, and crossed with WOM recipient gender. The effects of these variables on WOM information processing and post-WOM brand evaluations of the fictitious brand discussed in the WOM conversation are examined. Our results show that while women describe themselves as being more receptive to WOM in general than males, when specific WOM information is received and processed both sexes rate that information as equally useful in forming product judgments.

As expected, argument strength showed powerful main effects in that stronger arguments led to more positive perceptions of the WOM information's diagnosticity (usefulness), higher post-WOM brand evaluations, and greater perceived communicator credibility (regardless of the sex of the speaker or the recipient). However, when considering the effects of speaker gender and argument strength collectively on brand attitudes, a significant interaction was found. Interestingly, male communicators presenting strong arguments fostered the most positive brand attitudes of all the conditions, but male communicators presenting weak arguments led to the lowest brand attitudes of all the conditions. Thus, argument strength had the greatest influence when the communicator was male, and was less important when the communicator was female.

Our results show evidence that positive WOM is most influential on brand evaluations when the communicator's sex and the WOM recipient's sex are opposite (i.e., males' brand evaluations were more influenced by WOM information communicated by a woman and women's brand evaluations were more influenced by WOM communicated by a male). Although these results were found in a WOM context, they may also have implications for advertisers selecting a spokesperson for their product. Specifically, our findings suggest that spokespersons of the opposite gender of the target audience may be more effective than individuals of the same gender, and that when male spokespersons are used, careful attention should be paid to the strength of the message they convey.

Exploratory analyses were also performed regarding the effect of gender identity traits (masculinity and femininity) on consumers' responses to WOM information. No clear pattern of results emerges from this analysis, but findings are presented for discussion purposes and suggestions for future research are presented.

SALES EFFECTIVENESS AND FIRM PERFORMANCE: A SMALL FIRM PERSPECTIVE

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ABSTRACT

The purpose of this exploratory study was to examine the relationship between sales effectiveness and small firm performance in a time when a proliferation of technological innovations are available for use by salespeople. One such innovation, CRM systems, will be focused on in this study. A muti-item construct of sales effectiveness was linked to three non-financial performance measures. Over sixty sales representatives were surveyed and the regression analysis was used to examine the data. The results suggested that different sales effectiveness variables—resource management, perceived usefulness, perceived ease of use, general attitude toward technology and comfort level are significantly and positively associated with small firm performance.

Academy of Information Sciences

AN ENTROPY-BASED APPROACH FOR MEASURING PROJECT UNCERTAINTY

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ABSTRACT

Because of dynamic, complex and competitive environments, many information technology (IT) projects are plagued by significant cost overruns and unexpected schedule slips. Research suggests that a major reason for project failures is management's inability to address uncertainty during the development of a new management information system. Dealing with project uncertainty consists of three main segments: identifying sources of project development uncertainty, quantifying project uncertainty, and using such uncertainty measure for improving decision making process with respect to projects. While the first segment has been a major concern for researchers and practitioners, very little progress in the way of theoretical development has been achieved in the areas of uncertainty quantification and its use in project management. This paper explores various aspects of project uncertainties and offers three entropy-based uncertainty measures: aggregate uncertainty, weighted aggregate uncertainty, and deviation uncertainty. Aggregate uncertainty incorporates a list of unknown risk factors into a single entropy-based measure. Weighted aggregate uncertainty considers the relative importance of unknown uncertainty factors. Deviation uncertainty is a relative uncertainty measure which indicates the degree of deviation of a given project from an ideal project in which all factors are certain. An actual project is used to demonstrate our measures. The paper also discusses managerial implications of such measure.

INTERNET PRICING: BEST EFFORT VERSUS QUALITY OF SERVICE

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ABSTRACT

This research uses Bertrand methodology to examine the influence of competition between companies that utilize Quality of Service (QoS) pricing strategy versus Best Effort (BE) pricing strategy for Internet Service Providers (ISPs). The Bertrand duopoly price competition model is effective at determining customer's willingness-to-pay and level of internet usage patterns in relation to price paid for service. The model also makes use of a two-part tariff consisting of a fixed rate for Best Effort (BE) service, and a usage-sensitive rate structure for premium QoS. Initial results indicate that an equilibrium market position for each ISP depends on a customer's preference for QoS and the price of BE service. Implementation of this research using a game simulation revealed an analytical framework for iterative, short-term, future QoS Internet pricing strategies.

Academy for Studies in International Business

LINKING MORAL JUDGEMENT AND ETHICAL DECISION-MAKING: A CROSS-CULTURAL COMPARISON

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ABSTRACT

This study examined the effects of moral judgment on ethical decision-making using data collected from Malaysian and New Zealand business students. The results provided partial support for a relationship between level of moral judgment and subjects' ethical intentions. Specifically, evidence of a relationship between subjects' level of moral judgment and their ethical intentions occurred in only three of six instances. In addition, no evidence was found of a relationship between respondents' level of moral judgment and ethical intentions toward software piracy. A discussion of these findings is presented, along with directions for future research.

THE CHALLENGE OF THE INTERNET ON THE WORLDS OF MAO AND FIDEL: TWO DIFFERENT APPROACHES TO HARNESSING THE INTERNET- INCREMENTAL CONTENT CONTROLLED ADOPTION VS. INCREMENTAL ACCESS CONTROLLED ADOPTION

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ABSTRACT

The Internet has an inescapably powerful influence on social, economic and political forces, especially in closed, authoritarian regimes. Clearly the unbridled nature of the Internet, the exposure to vast quantities of information and alternative views is problematic for the aging and foundering Marxist regimes of China and Cuba. However, as these fragile anachronisms struggle to survive in the modern world, they can't turn a blind eye to the vast possibilities of the Internet for promoting ideologies, tapping into global progress in science and technology, improving communications, e-government, and shoring up failing controlled economies.

This research compares the approaches to dealing with the Internet in China and Cuba. The empirical record indicates that China, in general, prefers to allow for relatively broad Internet access, but attempts to carefully limit the content available, or "Incremental Content Controlled Adoption" (ICCA). On the other hand Castro's anxiety about the deleterious impact of the Internet on his Cuba is betrayed by Cuba's much more circumscribed and controlled approach which strictly limits access to computers and the Internet. This author refers to this approach as "Incremental Access Controlled Adoption" (IACA).

This research concludes that the Chinese approach (ICCA) appears to be more successful at achieving the dual goals of constraining challenges to the regimes legitimacy while harnessing the vast potential of the Internet for their benefit.

INTRODUCTION

The Internet has an inescapably powerful influence on social, economic and political forces, especially in closed, authoritarian regimes. It is raising important challenges to the existing political economy in both of two authoritarian regimes which owe their foundations to revolutionary Marxist histories, China and Cuba. Clearly the unbridled nature of the Internet, the exposure to vast quantities of information and alternative views is problematic for these foundering, aging regimes based on anachronistic ways of arranging the relationships between population and polity. On the other hand, as these fragile anachronisms search for ways to survive in the modern world, they cannot turn a blind eye to the vast possibilities of the Internet for promoting their ideologies, tapping into global progress in science and technology, improving communications, improving inefficient government, and shoring up failing controlled economies.

Authoritarian regimes worldwide are taking diverse approaches to controlling the destabilizing impact of the Internet while, in many cases, trying to harness the incredible possibilities, and control the inevitable spread of the cyber world within their spheres of influence. This research looks at two different approaches to the dealing with the Internet in China and Cuba. The empirical record indicates that China, in general, prefers to allow for relatively broad Internet access, but attempts to carefully limit the content available. This author refers to this approach as

"Incremental Content Controlled Adoption" (ICCA). On the other hand Castro's anxiety about the deleterious impact of the Internet on his Cuba is betrayed by Cuba's much more circumscribed and controlled approach. Cuba prefers to strictly limit access to computers and the Internet in this Marxist regime within close proximity to the United States. This author refers to this approach as "Incremental Access Controlled Adoption" (IACA).

After examining the two approaches in more detail this author will make some observations on the efficacy and impact of the two different approaches in light of the dual goals of constraining the forces which might challenge the legitimacy of the current regimes and harnessing the benefits of the Internet.

AUTHORITARIANISM AT BAY?

The possibilities offered for Internet related products and services, as well as for e-commerce, especially within the still nascent but quickly developing and vast Chinese market are astounding. But clearly there is also keen interest in the virtually untapped, although not nearly as vast, Cuban market. These prospects make business people bristle with excitement, especially on this side of the ocean. Therefore, the progress of introduction of the Internet in both China and Cuba is of critical interest within the business community, especially here in the United States.

Indeed, the progress of the development of the Internet in China and Cuba is being carefully watched by Western governments worldwide as a force for liberalization and eventual democratization as well as marketization. For example, during the Clinton administration, the progress of the Internet was touted as a force which would "lead to the decay of authoritarian regimes, most notably in China" (Drake, Kalathil, Boas, 2000). As Clinton stated, "in the new century, liberty will be spread by cell phone and cable modem." (Drake, Kalathil, Boas, 2000) He went on to state that China's effort to control the Internet were like "trying to nail jello to the wall". Some have made the case that the Internet and global news and cable networks were instrumental in bringing down the Berlin Wall and authoritarian regimes such as Suharto in Indonesia. But the empirical record is far from crystal clear about the corrosive power of the Internet regarding authoritarian regimes. In none of the democratic transition in the past two decades can one claim a clear causal linkage between regime change and the Internet. At best anecdotal evidence has been marshaled to propose the case.

One might argue that a new civil society of sorts with its foundation on the Internet promises to rock the foundations of closed regimes and lead to their downfall in the near future. However, as we witness the spread of the global Internet and experience the varied reactions of authoritarian regimes world-wide, this unbridled optimism might be called into question. Although through the process of transnational advocacy, dissidents outside of China have initiated well publicized written crusades against human rights abuses as well as other issues, there is no clear evidence that these forays have played any more than a very tangential role in Chinese politics and no clear causal link between them and changes in Chinese or Cuban policy has been uncovered.

In fact, an argument can be made that, to date, authoritarian regimes world-wide have been fairly successful at constraining the problematic and shaping and selecting the beneficial aspects of the Internet for their own benefit (Lever, 2003). Basically the approaches taken by these authoritarian regimes can fall under two broad rubrics, either reactive or proactive strategies, although many vacillate between the two, or use a combination of both (Kalathil, Boas, 2001). Reactive strategies include limiting access to networked computers, filtering content, blocking websites, monitoring online behavior, and outright prohibition. In Burma, as was the case in China early on, the governments has been able to quash dissident discussion at any time by preventing popular Internet access and forbidding the use of faxes and satellite dishes for communication. Saudi Arabia routinely blocks access to sites which express values contrary to Muslim beliefs.

Proactive strategies encompass efforts to develop the Internet, rather than focusing on constraints, and harness the benefits while limiting the challenges of unbridled development. For

example Singapore has been very successful at using a combination of social, legal and technical measures to carefully implement an ambitious ICT strategy, carefully unleashing the economic benefits while constraining the politically and socially destabilizing influences (Williamson, 2000, Kalathil, Boas, 2001). Proactive strategies use the Internet for propaganda, e-government to improve efficiency and citizen satisfaction, information warfare, build state controlled national intranets, and strengthen communication and control over provincial government at the national level. They may even attempt, as have both China and Cuba, use the Internet to serve central economic development goals, using it to spur economic growth and allay dissatisfaction with the current regime's ability to manage the economy.

Both China and Cuba have, to date, been fairly successful at controlling challenges to their legitimacy and their political-economic ideologies which might be unleashed by free access to the Internet (Williamson, 2000). And, one could argue that both China and Cuba have been successful at selectively harnessing some of the beneficial aspects of going "online". But as will be argued in subsequent sections, an initial inspection of the evidence clearly supports the conclusion that China's ICCA approach has been more successful at balancing the need for control with the need to harness the benefits of the Internet to serve the regime's purposes than Cuba's IACA approach.

INCREMENTAL CONTENT CONTROLLED ADOPTION (ICCA) VS. INCREMENTAL ACCESS CONTROLLED ADOPTION (IACA)

As was stated earlier, although China and Cuba are united in being authoritarian regimes with the dual goal of constraining the negative impact of the Internet and harnessing its vast potential to benefit their regimes, they take two fairly distinct approaches.

Although China has vacillated between limiting access and controlling content, its strategy has been, more so than that of Cuba, one of spurring developing, broad access, but limiting content (Lever, 2003, Drake, Kalathil, Boas, 2000). ICCA takes advantage of technology to filter out sites linked to dissidents, democracy activists and what the regime considers as "objectionable content". But the Chinese have not shied away from using administrative measures to control content. For example, the Chinese have in the past passed legislation giving the state widespread powers to control news sites and crush dissenting views in flourishing chat-room, formal prohibitions against publishing news from sources other than the state-controlled media. It was BBS's which were tied to the online activities of the outlawed "Falungong" spiritual movement as well as protests at Beijing University. China has stiffened laws making it a crime to use the Internet for promoting Taiwan's independence, display pornography, incite subversion against the state, destroy national unity, organize cults, slander individuals or corporations, tamper with email, spread computer viruses, or attempt to hack into government defense networks. China has used "cyber police force" for surprise inspections to force self-policing at Internet portals and "cybercafe's" (Banfe 2001). Chinese control also relies to a large degree upon "self-censorship" by users and Internet entrepreneurs who hire "Big Mamas" to police content on bulletin boards. China has also revived the idea of a national Intranet designed to substitute for the global Internet "while providing online services paired with acceptable content"(Kalathil, Boas, 2001).

On the other hand, China, in stark contrast to Cuba, has enthusiastically embraced market reforms within its economy. It clearly appreciates the need to spur on the growth of information technologies as a key to improving the functioning of its economy and therefore supporting regime legitimacy. For example, the state has supported the development of Internet driven development by creating economic zones to support innovation, cultivate home-grown talent, and nurture new technology startups. In terms of infrastructure, the government the has supported substantive investment to improve telecommunications networks. Initiated in 1993, the Golden Projects have successfully established a high speed backbone and payment project (. In mid 2000 China Telecom began construction of a new high capacity 911 kilometer fiber optic transmission backbone ring

connecting Nanjing and Wujan. The government is clearly taking proactive steps to bring Chinese telecommunications infrastructure into the 21st century.

China's policies have resulted in clear progress. For example, in the year 2000 less than 1% of the population were Internet users. By the year 2005 that had increased more than 7 fold to 7% (CNNIC). During this same period of time computers on the Internet rose from 3.5 million to a 41.5 million. And the scope of users has broadened. Since 1998 the number of female users on the Internet has increased 450% from 7% to close to 40% of all users. And users without a college education have increased by 30% during the same period of time. There has been phenomenal growth within the Chinese economy in general and in technology in particular. China will soon contain the largest number of Internet users of any nation on earth.

Finally, while constraining content, and facilitating astronomical growth in access, the Chinese government has been quite successful in co-opting the growth of the Internet for its own benefit. They have used the Internet to implement an ambitious e-government program not only to streamline operations but to increase communications between provincial government and central authority in Beijing. The government has also harnessed the Internet for use in propaganda and ideological warfare. China has plans to initiate a large scale online propaganda system in the future. The government has seized the opportunity to implement a strategy to use the Internet and its burgeoning online power for information warfare, including cyber attacks on data networks. And, clearly they are hoping that the increased economic development which is resulting from Internet related economic development will increase regime legitimacy.

The Cuban approach, on the other hand, has been characterized by meager, selective, incremental steps toward embracing the Internet, but one which uses access control as their main weapon. The Cuban approach involves relatively more central control and the user stats and progress are consistent with this observation. As of 2004, in a country of 11 million, there are only 750 websites, 480,000 email accounts, 270,000 computers and around 99,000 people with authorized access to the Internet (Williamson, 2000). Considering just the authorized users, this is less than 1% of the population compared to China's 7%. Taking even all of the email accounts into account, Cuba's Internet use is still much less than in China (CNN, 2004). Still, the use of email has grown substantially, from 60,000 in 2001 to 480,000 as of 2004 (Acosta, 2004). Cuba's 1% of users within the population compares to the Caribbean average of 6.2% and South America's 10.8%.

Cuba's first Internet connection was made in 1996. Since then severe access control has limited its development, and Cuba still faces an outdated telecommunications network which is sorely inadequate for the 21st century. Access is basically rationed to those who are politically trustworthy or in those areas where the government has a self interest, such as in tourism and biotechnology. For years the government has targeted development of the Internet to areas which generate much needed foreign exchange. After the failure of Castro's "Zafra de diez milliones" economic policy which focused solely on a single commodity, sugar cane, Castro unveiled yet another single industry focus, tourism, with equally unrealistic goals (Corbett, 2002). The Internet has been used by the regime to benefit Cuban Tourism, Cuba's largest source of foreign exchange, as well as for money transfer from the Cuban Diaspora hoping to send money to relatives in this economically depressed Marxist dictatorship (Corbett, 2002).

One could argue that Castro's regime survives based partly upon acquiescence, fear, control, and coercion. With the embargo, failed economic policies, political repression, and abject poverty, there is no question that Cubans suffer under the current regime. "Indeed the Cuban Government itself has realized the dangers of the Internet". The major problem of the Internet in Cuba is political, although a functionally obsolescent infrastructure also plays a part in naturally limiting access. The government of Cuba looms large on the Internet, using it for its propaganda purposes. Access control means that there is limited opportunity to influence Cuba or exert leverage on Cuba. The Internet provides a means to circumvent the United States' embargo and divert the transfer of foreign exchange through third countries. For example, Cubanet, the government's main website, offers a service called "Quick Cash", by which people can use a credit card to transfer money to a

Cuban bank account within 24 hours (Snow, 2001). The state tourism agency, Cubanacan, has a site which facilitates the purchase of gifts, including Cuban rum, for relatives in Cuba. In addition to Castro's focus on hard currency, the Cuban government has pinpointed priority for the social use of the Internet and has identified a number of areas of focus including: Health, education, press, science, television, banking and other important areas of the economy.

Cuba's policy of limiting access is facilitated in a number of ways. First is outdated and inadequate infrastructure. Although there are a number of projects in the works to improve on Cuba's outdated infrastructure, Cuba lags far behind China. Second is cost (Grogg, 2002, Anonymous, 2004). Email access is very expensive for the average Cuban. A prepaid $4.50 phone card equates to one third of the average Cuban monthly wage. And Cubans wanting to send emails to relatives overseas many times have a two hour wait to use the available computer rooms (UpFront, 2004). There are only about 100,000 people who have authorized access to the Internet. Legal access is limited to authorized users largely at their work places including universities, government offices, state media, research centers, artists and writers unions, hospitals and foreign companies (Staff, 2003). This has led to a fairly vibrant Internet black market. However the government has been cracking down on illegal users. For example, they have tightened controls on the illegal trade of phone cards at the beginning of 2004 and required home users to pay in cash at the prohibitive rate of 8 cents a minute. And in January 2004, the government gave Cuban telecommunications officials instructions to use surveillance techniques to detect unauthorized users.

CONCLUSIONS

Authoritarian regimes around the world face what many times are conflicting goals regarding the Internet. First is the need to constrain any forces which unbridled access to the Internet might unleash which might call into question regime legitimacy. Second is the inescapable need to embrace new technologies and move their economies forward into the 21st century. Failure to progress clearly could relegate their economies to backwardness and call into question the ability of their political system to attend to society's needs. Also, it is abundantly clear that there are benefits which might be selectively harnessed from the Internet to support regime survival.

While pundits have argued that the Internet is an uncontrollable force for openness and freedom, and will inevitably call into question the legitimacy of authoritarian regimes, there is no clear empirical basis for this optimism. In fact, one might argue that many authoritarian regimes have been quite successful at constraining the destabilizing influences of the Internet while co-opting the Internet to serve their own purposes.

China and Cuba are two examples of this. But these two aging Marxist regimes have taken distinct and characteristic approaches to dealing with the Internet with differing success. In this paper we referred to China's approach as ICCA or "Incremental Content Controlled Adoption". China's approach focuses on controlling deleterious content while allowing widespread access, stimulating innovation and investing substantial effort to improve telecommunications infrastructure. Content control is achieved in a number of ways including administrative measures, self policing and enforcement. On the other hand, this research has termed Cuba's approach as IACA or "Incremental Access Controlled Adoption". This signifies that Cuba, largely focuses on using tools to control access to computers and the Internet. Part of this access control is achieved naturally, through inadequate infrastructure, some through prohibitive pricing, and also through strict administrative controls.

Comparing the empirical record, one could argue, as was enunciated early on in this research, that China's ICCA approach has been more successful than Cuba's IACA. While clearly Cuba has been successful using access control to constrain the destabilizing influences of the Internet, and it has had some successful at harnessing the Internet to increase the influx of foreign exchange and for propaganda, its telecommunications infrastructure is aging and outdated, clearly

inadequate to take Cuba into the 21st century. And Cuba's economy due to the loss of Soviet support, the failed Castro policies and the American embargo. But, Cuba has not been very successful at harnessing the economic benefits of the Internet and Cuba's population languishes in poverty. Also, while China's economy is vibrant, its infrastructure being modernized at a rapid-fire rate, with vibrant innovation in high technology, one could argue that it has been just as successful at controlling the "harmful" forces of the internet which might question state power and much more successful at harnessing the incredible beneficial effects of the Internet in support of the regime's interests.

References available upon request.

THE WAY WE GOVERN: WHY THE CLERP 9 REGULATIONS IN AUSTRALIA MAY NOT ADDRESS GOVERNANCE ISSUES

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ABSTRACT

Corporate governance deals with the legal and organizational structures that determine the way that a corporation is managed and how power is exercised within the corporate entity. Although corporate structures have been around for some time, there are few examples of corporations that have exhibited exceptional behavior in this field.

As corporations fail, attention often focuses on the absence of sustainable corporate governance structures. To this end, regulators have intervened and imposed reforms on the way that corporations are governed. In Australia, the latest in a series of attempts to reform corporate governance is entitled CLERP 9.

In this paper, we will exam the historical context of corporate governance, the many factors lie at the root cause of corporate governance issues, the focus of the CLERP 9 regulations, and introduce some other initiatives that may advance self-sustaining and reliable corporate governance.

INTRODUCTION

The philosophical father of the market economy, Adam Smith, anticipated the problem of corporate governance in volume 2 of his Wealth of Nations, published in 1776.

> *…the directors of such 'joint-stock' companies, however, being the managers rather of other people's money than their own, it cannot be expected that they should watch over it with the same anxious vigilance with which the partners in a private partnership frequently watch over their own.*

Smith’s prophecy over 220 years ago still holds true. The concerns he raised about the viability of directors managing other peoples money, still to this day have not been adequately addressed. Over the years, disaffected shareholders sought to make changes to corporate direction and policy by removing the incumbent management. Generally speaking, the methods they employed were: acquisition, proxy challenge, tender offer and takeover. These methods are drastic and will result in a change of ownership.

Methodologies such as acquisition, proxy challenge, tender offer, and takeover allow us to understand how disaffected shareholders might attempt to make changes to the governance of an organisation. The next section will identify issues of corporate governance that may need to be addressed for shareholder issues to be resolved without the need for a change in ownership.

TARGETING ISSUES IN CORPORATE GOVERNANCE

Tricker (2000) comments that the time has come to focus on corporate governance and he predicts the twenty-first century promises to be the century of corporate governance:

> *...the twentieth century has seen massive growth in serious management thought: corporate governance was overlooked until recently. Organisation theories took great strides: but the board did not appear on the organisation chart. Important theoretical and practical dimensions have been developed of the management of finance, marketing, operations and other aspects of the modern organisation: yet little concern was shown for the role of the board of directors.*

To address this issue and develop a theory for corporate governance, we are reminded by Jensen (1993) that in doing so will require us to:

> *...break open the black box called the firm, and this means understanding how organisations and the people in them work. In short, we are facing the problem of developing a viable theory of organisation.*

What stands in the way? If we were to take Michael Jensen's advice and break open the firm, we would no doubt find a range of "unresolved issues" that have served as obstacles for us to develop a viable theory for corporate governance.

Inside many Australian and international companies these unresolved issues have been waiting patiently for the corporate governance practitioners to challenge them. The list of potential unresolved issues is exhaustive, and some of the more pressing and fundamental ones include: corruption (Turnbull, 1992), board performance (Sonnenfeld, 2002), CEO as chairman, board culture, lack of control systems, information problems, lack of expertise (Jensen, 1993), appointment of non-executive directors (Turnbull, 1995), the role of the director (Mace, 1971), the role of the auditor (Guthrie and Turnbull, 1995), the relationship between director and shareholder, structure of the board and, excessive remuneration.

With so many unresolved issues faced by shareholders and governors like, the stage has been set for many corporate failures and attempts by regulator to impose reforms.

A PRELUDE TO REFORM

The recent US accounting scandals and the behaviour of the boards of Australian firms such as HIH and One.Tel have created the perception of a crisis in corporate governance which has produced a flurry of responses, both in Australia and overseas. This exposure has created a crisis in confidence in the capital markets as investors are not only loosing money, but are also loosing faith in the existing regulatory framework that is there to protect their rights.

In response to the recent wave of corporate failures and accounting scandals in America, the likes of which include Enron and WorldCom, the US Congress chose a black letter approach to reform and passed the Sarbanes-Oxley Act of 2002. This Act includes many new requirements for public companies and their directors, officers, independent auditors and lawyers. A company wherever it is located will be covered by the Act if it has securities registered under section 12 of the US Securities Exchange Act.

In Australia, those most likely to be effected by the Sarbanes-Oxley Act (2002) are the 140 companies with American depositary receipt programs for their shares. Investors should benefit in the short-term from the Sarbanes-Oxley Act as one of its chief purposes is the restoration of trust in the US securities market. But will this patchwork piece of legislation address the "unresolved issues" and the culture that creates poor corporate governance in the United States?

In contrast to the US reform, the United Kingdom preferred a principles and guidelines approach. In the UK during the early 90s, following a number of spectacular frauds, the Cadbury Committee was formed to look at the financial aspects of governance. Several years later following the highly publicised remuneration excesses in the newly privatised utility companies, the

Greenbury Committee was setup to look at remuneration. Both committees suggested that after some time their conclusions should be reviewed.

While reforms by legislators may be helpful in promoting a change in the way organisations are governed, the another factor that is a catalyst for change in corporate behaviour is market pressure. The "crisis in confidence" is forcing corporations to rethink their corporate governance practices, become more transparent, and demonstrate they can self regulate.

Against this background of reforms and corporate failures, Australia introduced its own attempt at corporate governance reform, CLERP 9.

THE INTRODUCTION OF CLERP 9

The CLERP 9 (Corporate Law Economic Reform Program, review number 9) proposals on corporate disclosure and audit regulation suggest that Australia could be moving in direction of the United States and the rules based approach of the Sarbanes-Oxley Act. But critics argue that this approach will not result in best practice, and as Longstaff suggests people will only find ways around these new rules. The CLERP 9 paper puts forward recommendations covering matters such as auditor independence, disclosure of non-audit services, an expanded role for the Financial Reporting Council, reform of the Auditing and Assurance Standards Board, and amendments to the ASX Listing Rules. Lansley (2003) is critical of the CLERP 9 paper and suggest that one of its major problems is that it:

> *...reinforces the audit "expectation gap" - the gap between society's expectations of auditors and the reality of their obligations. Most of the CLERP 9...is about audit reform, whereas in reality auditors do not guarantee the accuracy of financial information. They are required only to exercise a reasonable degree of skill and care regarding the company's compliance with accounting standards, and to ensure that the financial reports give a "true and fair" view of the company's financial position and performance.*

Lansey goes on to say that:

> *...there is a danger, therefore, that the CLERP 9 proposals will give investors false comfort that the audit changes proposed will prevent future corporate collapses.*

In support of her argument, Lansey cites recent studies that show that audit failures were not the cause, of corporate collapses but rather the collapses were a result of:

> *...a failure of boards of directors to comply with national and international best practice guidelines and standards on corporate governance".*

Donaldson and Adam (2002) are also of the view that legislating more disclosure through CLERP 9 is not the answer, and favour a push towards clarifying the role of the director:

> *...(we) don't really think the trend towards more disclosure... will work...knowing that the head of a company was getting as much money as he was wouldn't tell you he was manipulating accounts and that the auditors were helping him...it's a question of raising directors' awareness of their responsibilities, and (we) think that is actually a better course to follow.*

While it is too early to determine if CLERP 9 regulations will reform corporate governance to Adam Smith's satisfaction and address many of the unresolved issues between shareholders and

governors, it should not be seen as a final attempt to reform. The next section will outline a number of other initiatives that corporations and regulators could consider to improve corporate governance in Australia.

SOME OTHER INITIATIVES TO ADVANCE CORPORATE GOVERNANCE REFORM

A black letter approach, such as CLERP 9, to corporate governance reform may not yield any lasting results. Many of the unresolved issues regarding corporate governance have been with us since the first incorporation and have survived decades of self-reform and legislation. Some other initiatives that may be useful in advance corporate governance are: director training; the role of professional bodies; licensing of directors; cumulative voting; understanding the social system of the board; a dynamic model of change; stakeholder representation; binary boards; governance rating systems and equity valuations.

> director training (Segal, 2001); the role of professional bodies (Segal, 2001); licensing of directors; cumulative voting (Bhagat and Brickley, 1984); understanding the social system of the board (Sonnenfeld, 2002); a dynamic model of change (Dunlop, 1998); stakeholder representation (Porter, 1992); binary boards (Turnbull, 1992); governance rating systems (Turnbull, 1995) and equity valuations (Finch, 2003).

CONCLUSION

Australia is at an important crossroad in this new century, a century Tricker calls "the century of governance". Yet we are about to repeat what we did last century, and continue with developing legislative amendments under the guise of "reforms". There is a very real risk that these reforms will inhibit Australia's opportunity to be an innovator and leader in the field of corporate governance, and disadvantage the nation in its ability to compete in world markets.

What we need is to establish structures that allow management creatively to flourish. And structures that acknowledge and support the increase in retail participation in the equities markets and, the different expectations of stakeholders. Like the Sarbanes-Oxley Act in the US, CLERP 9 may reinstate investor confidence in Australia in the short term. But CLERP 9 will not address the unresolved issues that continue to plague corporate governance since the days of Adam Smith.

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THE ECONOMIC AND REGULATROY ENVIRONMENT OF THE BIOTECHNOLOGY INDUSTRY IN EUROPE

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ABSTRACT

For decades European scientists set the pace of pharmaceutical discovery. In recent years Europe has suffered a declining global market share in the biotechnology sector. The loss of competitiveness is attributed to diminishing research and development. In addition, policymakers should refrain from price controls and continue to support strong patent incentives if they want economic growth in the biotechnology sector. The regulatory environment and national health care systems in Europe varies significantly from one country to another but regaining attention from domestic and foreign investors by encouraging a profitable environment is one way to ensure future product innovation.

INTRODUCTION

Biotechnology is poised to be one of the most influential industries of the twenty first century. Perhaps unique among industries, biotechnology is not defined by its products, but by the technologies used to make those products. U.S government publications have defined biotechnology as" techniques that use organisms or their cellular, subcellular, or molecular components to make products or modify plants, animals, and micro-organisms to carry desired traits." This broad definition includes methods of treating disease developed from recent research in molecular biology and other fields, as well as the centuries-old practices of animal and plant breeding and the use of microorganisms to make leavened bread and fermented beverages. Moreover, biotechnology is not a separate science but rather a mix of genetics, molecular biology, biochemistry, embryology, and cell biology- transmuted into productive processes by coupling with such practical disciplines as chemical engineering, information technology, and robotics. This paper is divided into five sections. First, the sectors of the biotechnology industry are reviewed. The next section offers a discussion of the development of the biotechnology industry. The third section puts forth a discussion of the business environment of biotechnology in Europe. The fourth section evaluates the regulatory environment in Europe. The final section offers concluding remarks.

THE SECTORS OF THE BIOTECHNOLOGY INDUSTRY

It is hard to find any clear and exhaustive categorization of the developing field of biotechnology. According to Paugh and Lafrance (1997), the biotechnology industry could be broadly classified into two segments: medical and non-medical markets. The medical market includes human therapeutics and human diagnostics as well as applications in veterinary medicine. Non-medical markets encompass both agricultural and industrial applications. Agricultural applications include making plants and crops pest resistant, providing improved seed quality, modulating growth and ripening times, enhancing nutrient content of foods, and providing simple and inexpensive diagnostics for use in field testing for contaminants and toxic materials. Industrial uses of biotechnology involve many different sectors and include industrial enzymes, waste management, bioremediation, energy biomass, cosmetic formulations, and diagnostics for toxicity determinations. Another example is provided by Oliver (2000) who categorizes biotechnology into

human health care, agriculture, instruments and suppliers of lab products, and chemical and environmental.

THE DEVELOPMENT OF THE BIOTECHNOLOGY INDUSTRY

In 1953 British scientists James Watson and Francis Crick published a report on the helical structure of DNA and a basic understanding of how DNA's four chemicals carried the code for making living things. A major component in the protein synthesis machinery, RNA, was discovered shortly thereafter, leading to the cracking of the genetic code in the mid 1960s. For the next twenty years scientists demonstrated with increasing precision how genes made proteins, and how proteins were the body's working units, the gears, motors, levers, and transporters that came together like mechanized Lego blocks at a molecular level (Abate, 2003). In 1970 scientists Herbert Boyer and Stanly Cohen discovered the property that would turn DNA from scientific research into the foundation of an industry (Olli 2001). They found that DNA could be cut, recombined and inserted into a foreign bacterium, which could then express a new gene. This suggested that human genes could be spliced into the DNA of fast-growing organisms like bacteria. As the bacteria multiplied they would produce medicinal proteins, such as insulin. In 1976, the venture capital firm Kleiner and Boyer started a company named Genentech to use genetic engineering techniques to make medicines and other products. Genentech spent several years researching that medicinal proteins could actually be made in bacteria. A successful FDA approval for a bio-engineered insulin convinced Wall Street to invest into this new way of making medicines. Others soon followed, including Chiron Corporation, Cetus, Amgen, and Biogen Corporation. The 1980s can be considered the first full decade of biotechnology with alliances and cooperation between small biotech firms and big established pharmaceutical companies became a norm. The 1990s were the decade of expansion, growth, and legitimacy for the biotech industry as investments translated into market products. Companies raised a lot of financial capital through initial public offerings of stock. The biggest breakthrough during this decade was Human Genome Project (HGP) launched in 1990 by an international effort to map all the genes in the human body. The U.S. Department of Energy and the National Institutes of Health coordinated the 13-year project. During the early years of the HGP, the Wellcome Trust (U.K.) became a major partner; additional contributions came from Japan, France, Germany, and China. The multinational, publicly funded Human Genome Project announced completion of the genomic mapping in 2003. Many opportunities and challenges are at the forefront of the future of biotechnology research and products.

THE BUSINESS ENVIRONMENT OF BIOTECHNOLOGY IN EUROPE

In 1990 the European market was the world's largest market with a 37.8% share versus 31.1% for the North American market. By 2003, North America accounted for 49.2% of the world pharmaceutical market, versus 27.8% for the European market. The European market's compound annual growth rate was 8.2% between 1997 and 2002, with the market expanding by 50% during the same timeframe, reaching a value of $124 billion by 2002. Germany and France are the largest European markets, combining for about 40% of domestic pharmaceutical sales in 2000. The United Kingdom and Italy combine for another 28% of the market total. The European market also has increasingly been challenged by government imposed price cuts and generic product substitution being encouraged through legislation, particularly in Sweden and Germany where substitution became compulsory in 2002. Companies operating in Europe also find that markets in northern Europe have being adversely impacted by imports from southern European countries, as prices in the southern part of Europe are generally lower than in the north.

The pharmaceutical industry is the fifth largest industrial sector in the European Union (EU), accounting for 3.5% of total manufacturing. The largest therapeutic areas within the European market in 2002 was cardiovascular drugs followed drugs used in the treatment of the central nervous

system. Multinational corporations, such as Pfizer, Merck and GlaxoSmithKline (GSK), dominate the European pharmaceutical market. In 2002, the top ten pharmaceutical companies across the world accounted for 45% of global market revenue. Within the European market, GSK, the largest European company, reported revenues of $5.7 billion in 2002. According to a study from Olli (2001), Europe has 1,579 biotech firms versus 1,273 in the United States. Germany, France and the United Kingdom are host to 915 of the 1.579 European companies. The percentage of public companies in Europe is only 7% versus 24% in the United States. On a revenue basis, the biotech industry in the United States realized about $25 billion in 2001 compared to $8 billion in Europe.

European scientists and companies played a dominant role in medical research and drug development in the late nineteenth and early twentieth centuries. In 1878, French scientist Louis Pasteur discovered the theory that germs cause disease. In 1885, German scientist Theodor Escherich found that a particular bacterium causes infant diarrhea and gastroenteritis. European scientists also made the first scientific medicines that were based on plant extracts and chemicals synthesized. In 1910, the Germany company Hoechst produced Salvarsan, a medicine that chemist Paul Ehrlich developed to treat syphilis. In 1928, Scotland scientist Alexander Fleming observed that colonies of the bacterium Staphylococcus aureus could be destroyed by the mold Penicillium notatum and invented antibiotics. In 1953, England scientist James Watson and America scientist Francis Crick discovered the molecular structure of DNA at Cavendish Laboratory in England.

The loss of European biotechnology competitiveness is attributed to a lack of innovation on the part of European research institutions, universities and companies, as reflected in the diminishing research and development (R&D) investment and a drop in the number of new drugs launched in the market (Bergeron and Chan, 2004). R&D expenditure represented 1.99% of the European Union's GDP in 2002 against 1.95% in 2000. The gap with regard to R&D expenditure in the United States and Japan remains significant since these countries spent respectively 2.80% and 2.98% of their GDP on R&D. Among European countries, the lowest R&D ratios were registered in the southern countries (Greece, Portugal, Spain and Italy) while Sweden and Finland, with respective shares of their GDP of 4.27% and 3.49%, made the greatest research effort. European global share of R&D expenditures was 22.7% in 2002. Many European pharmaceutical and biotechnology companies are relocating their research labs to the United States or looking for cooperation with U.S. companies. It is the main reason that European research achievements lag behind the United States. Within European biotech market, in 2001, the United Kingdom was the clear leader in R&D spending ($5.5 billion), followed by France ($3.7 billion), Germany ($3.7 billion), and Switzerland ($2.4 billion).

The European educational system includes academic centers that are arguably the best in the world. Bergeron and Chan (2004) state that Switzerland, Netherlands, Ireland, and Germany are aggressively approaching the biotechnology industry. Ireland has one of the fastest growing high-tech economies in Europe based on government funding of education. However, the biotech labor market does not fully reflect Europe's educational infrastructure, given the European brain drain. Three out of four Europeans who acquire a Ph.D. in the United Stated stay in the United States because of higher salaries and better professional opportunities than offered in Europe.

THE REGULATORY ENVIRONMENT OF BIOTECHNOLOGY IN EUROPE

The legal and regulatory environment within Europe and the evolving European Union is mixed. The region is slow to resolve the debate over the labeling of genetically modified foods and often sets price controls on drugs. On the other hand, the drug approval process in Europe is relatively streamlined, compared with the arduous, lengthy process in the United States. The shorter drug development cycle is an advantage to companies serving the European market. However, because the streamlined European guidelines may not satisfy FDA guidelines, drugs cleared for European consumption might be barred from the lucrative U.S. market. European Union pharmaceutical regulations are hampering innovation because they parallel trade in medicines

between EU countries. They also permit some nations to impose price cuts or unilateral price controls. There is no doubt that a vigorously competitive pharmaceutical market provides an incentive for scientists or researchers to be the first to bring a new product to market and enjoy enormous rewards after costly and time consuming innovation process. Price controls destroy this incentive. In fact, European price controls also restrict patient access to medicines that U.S. doctors cite as essential for proper patient care due to drug makers delay in creating new drugs. According to Oliver (2000), patients must wait as long as two years for new medicines to enter the market while bureaucrats decide on price level. Difficultly accessing essential new drugs creates a negative impact on the health care system and the quality of health treatments. It is believed that a steady decline in research and development of new medicines would result if the U.S. government imposed price controls on new drugs. For example, if price controls had been implemented between 1980 and 2001, there would be between 330 and 365 fewer new medicines today. More importantly, most pharmaceutical companies have moved their center of drug development to the United States so they can enjoy the most profitable innovation.

According to Gambardella's study (2000), European national healthcare systems are hugely diversified in terms of the way they are organized and financed, ranging from national health schemes funded out of general taxes (the UK-Italy-Spain model) to mandated personal insurance with pluralist providers (the Germany-France-Netherlands model). National health care systems are believed to generate inconsistencies, inefficient uses of resources, uneven standards of medical care, and distortion in the functioning markets.

CONCLUSION

Science and medical innovations have long been part of European history. Despite a solid number two position in the global biotechnology sector, the European Union faces market threats from the United States and Asia, especially China. Lack of innovation and price controls impacting profitability are at the root of the European competitiveness problem. Europe does have the advantage of a shorter drug development process compared to the United States. Future research should explicitly compare the market and regulatory environments in Europe to the United States and Asia.

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Academy of Educational Leadership

SEX STEREOTYPING OF THE MANAGERIAL ROLE: ATTITUDES OF ACADEMIC STAFF AT A NEW ZEALAND UNIVERSITY

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ABSTRACT

The relationship between sex role stereotypes and the characteristics required for middle management success were examined with academic staff at a New Zealand university. The 92-item Schein Descriptive Index was used to investigate the resemblance between the characteristics of men in general and successful middle managers, and women in general and successful middle managers. Results of the study showed that both male and female staff members associated the characteristics of men with those required for a successful middle management career. Males, however, did not associate the characteristics of women with those required for middle management success, while females strongly associated the characteristics of women with the attributes required for a successful middle manager.

THE EFFECTS OF AUTOMATED ASSESSMENTS ON STUDENT LEARNING AND MOTIVATION

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ABSTRACT

This study examines the effects of using a course web site to give automated assessments on homework information prior to covering the information in class. Prior research has proposed benefits of automated assessments including time and cost savings for instructors, among others. We investigated whether these assessments benefits students by increasing their motivation for the course and their performance in the course.

We propose that the assessments may increase student motivation to complete assignments prior to class time, encourage mastery of basic homework assignments and facilitate student self knowledge about course material. These effects should result in improved student performance. Results show benefits in both student motivation and performance from using automated assessments.

COMPETITIVE INTELLIGENCE IN HIGHER EDUCATION: OPPORTUNITIES AND THREATS

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ABSTRACT

Despite widespread use of strategic planning processes in universities, few leaders in higher education have taken advantage of competitive intelligence techniques. This paper : This paper highlights operational threats faced by today's higher education leaders and illustrates how competitive intelligence can help mitigate threats in a university environment. The paper provides an overview of operational threats in universities along with aA useful framework for identifying appropriate competitive intelligence analytical techniques that could may be utilized to minimize the overall impact of the each threat is provided..

INTRODUCTION

Competitive intelligence (CI) techniques systematically and ethically gather, analyze and disseminate represents the ethical and systematic gathering, analyzing, and dissemination of external information that can assist with organizational decision-making and the design of strategic and operational plans. information that can affect the plans, decisions and operations of an organization (SCIP, 2004). Examples of CI include benchmarking, background checks, competitor assessments, network analysis, war gaming and won-loss analysis.

The useUse of competitive intelligence practices by corporations continues to grow at a substantial pace among US corporations with spending for CI estimated in excess of $2 billion annually in 2001 . It is currently estimated that corporations spend in excess of $2 billion annually on competitive intelligence activities (SCIP, 2001). A 2004 survey revealed that 15.3% of companies reported expenditures of over $500,000 and another 11% reported spending more than $1 million that year on CI (SCIP 2004) . Yet interest in CI in higher education has remained primarily focused on the development of educational programs and curricula to prepare accredited competitive intelligence professionals (Blenkhorn & Fleisher, 2003; Miller, 2003, Gubeno et, al, 2003; Shelfer, 2003; Gilad, 2003). In a more recent 2004 survey, 15.3% of respondents to a Society of Competitive Intelligence Professionals (SCIP) indicated that their companies spend over $500,000 annually on competitive intelligence activities; 11% spend over $1 million annually.

However, As the interest and need for these services grows, numerous educational institutions have entered the marketplace to take advantage of the surging demand for accredited competitive intelligence professionals. In 2004, the number of colleges and universities offering formalized degree or certification courses has increased to nineteen in the United States alone (SCIP, 2004).

Despite this increased interest in training competitive intelligence professionals, universities still represent a small minority of groups that are actively utilizing these risk management techniques for their own environment. The discussion of how competitive intelligence can be utilized in higher education environments remains limited to a great extent by a confluence of factors: lack of resources, lack of a for-profit orientation, fears of academic turf wars, general disagreement about what competitive intelligence really means and the lack of integration of competitive intelligence principles and practices into the university's business environment (Fine, 1987; Giguere, 1999; Wagner, 2003; Horne & Parks, 2004). This conundrum exists despite the

increasing pressure from an external environment that threatens practically every element of a university's operational environment. Uuniversities face a category of emerging threats including shrinking enrollment, rising costs, demographic changes, online competition, increasingly competitive fund-raising environments, accreditation pressures, recruiting needs, onerous regulatory requirements and shrinking state and federal funding opportunities. Indeed, the uncertainty emerging from these threats necessitates that universities place a strong emphasis on improving efficiency and effectiveness in how they structure, manage and deliver these services to its constituents. Competitive intelligence activities, as part of a broader strategic planning process, can assist a university with improving oversight of the environments by implementing competitive assessment techniques across university departments.

STRATEGIC PLANNING IN UNIVERSITIES

Strategic planning has been a relatively recent phenomenon in higher education as changing environments have forced universities to reinvent themselves to survive (Hughes and White, 2005). It has been argued that Despite widespread use of and support for strategic planning in for-profit organizations, uuniversities have been slow to adopt these techniques because of the lack of consensus in the utility of these practices for this environment (Rowley et al., 1997).

Lerner (1999) suggested that universities have had limited success in applying traditional strategic planning models because of differences in the orientation of those implementing such models. For example, individuals who lack a traditional for-profit orientation may not understand or feel comfortable adapting some of these variables and processes for their non-profit environments. Finally, from an historical perspective, it appears that most university strategic planning efforts have not reached their potential either due to a lack of institutional support, appropriate planning coordination or institutional fortitude (Rowley, et al., 1997).

With a few exceptions, most of the discussion of strategic planning in universities has occurred at the functional level in areas such as human resources and information technology. Finally, Zajac and Kraatz (1993) examined the environmental and organizational forces impacting strategic restructuring in higher education by assessing the performance consequences of these changes on the organization. The author proposed a model of likely antecedents and consequences of strategic restructuring and change and found that restructuring is a predictable, common and performance-enhancing response to change in the environment.

Overall, the general consensus is that strategic planning has been only partially successful in university environments due in part to the differences in definitions of the variables of the strategic planning model for university environments (Lerner, 1999). Identifying the customer base, competitive motivation, relevant timeline, appropriate value and reward system, and a quantifiable set of outcomes are enormously difficult for groups attempting to adapt the traditional strategic planning model to non-profit environments (Lerner, 1999; Wagner, 2003). In addition, while some universities have utilized strategic planning to transform themselves dramatically, other institutional planning groups have stumbled, dissolved into controversy or lost their nerve entirely (Rowley, et al., 1997).

Competitive Intelligence in Universities

The discussion of how competitive intelligence can be utilized in higher education environments remains limited to a great extent by a confluence of factors: lack of resources, lack of a for-profit orientation, fears of academic turf wars, general disagreement about what competitive intelligence really means and the lack of integration of competitive intelligence principles and practices into the university's business environment (Fine, 1987; Giguere, 1999; Wagner, 2003; Horne & Parks, 2004). This conundrum exists despite the increasing pressure from an external environment that threatens practically every element of a university's operational environment.

While few in number, each of these studies suggests the importance of universities becoming more aware of the need to develop a more university-wide assessment process for collecting, analyzing and disseminating information to deal more appropriately and effectively with the increasing threats to their business operations.

Competitive Threats in University Environments

Universities face considerable threats to their operational environments including pending legislative actions, increasing costs, new entrants, scandals involving high profile athletic department representatives, and employee misrepresentation among others. By raising the organization's level of awareness, standard competitive intelligence techniques can help to mitigate the risk posed by these threats. These techniques are outlined in Table 1.

Table 1
Framework for Competitive Intelligence Utilization in University Environments
Competitor Intelligence Techniques

Functional	Benchmarking	Background	Won-Loss	Competitor	War	Network
Pending Legislation	♦			♦	♦	
Increasing Costs	♦		♦	♦		♦
Athletic Scandals	♦	♦		♦		
Employee		♦			♦	
New Entrants	♦			♦	♦	♦

CONCLUSION

This paper provides a few examples of how CI tools and techniques may be useful in strategic planning processes in universities; however CI is not limited to the operational areas discussed here. These techniques can be valuable across a broad range of operational areas within the university. Additional operational areas where CI tools and techniques may prove valuable include the recruitment of faculty, staff, board members and prospective students

Universities can no longer avoid the fact that they operate in an increasingly competitive marketplace. As the potential impact of these environmental threats increase, universities must look to their for-profit brethren and begin towill need to take advantage of the full range of information gathering and processing techniques available in order to remain viable to their constituencies. The opportunity to utilize long-standing competitive intelligence techniques to assist them in evaluating and mitigating the implications of these threats is available to forward-thinking higher education administrators and leaders. In today's ultra-competitive environments, institutional stakeholders demand more of their organizational leaders and the techniques offered in this paper represent legitimate threat-mitigating strategies that should included in the strategic planning processes of leaders in higher education.

Ignorance of these issues is no longer a viable defense. Competitive intelligence activities are not limited to the operational areas previously discussed. These techniques can be valuable across a broad range of operational areas within the university. Additional operational areas where competitive intelligence techniques may prove valuable include the recruitment of faculty, staff, board members and prospective studentsIn today's ultra-competitive environments, institutional stakeholders demand more of their organizational leaders and the techniques offered in this paper represent legitimate threat-mitigating strategies for the more risk-averse industry participants.

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THE EFFECTS OF PART-TIME INSTRUCTION ON FINAL GRADES IN THE ENGLISH COMPOSITION COURSE

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ABSTRACT

This paper studies the effect that part-time instruction has on students' final grades in the English Composition course at a comprehensive IIA university. We find that part-time instructors assign grades 0.61 points higher than those assigned by full-time instructors. Using a multiple linear regression, in which the response variable is students' grades, the explanatory variable instructor status--i.e., full-time or part-time--is statistically significant at less than a 0.01 level of confidence (p-value approaches zero). Additionally, the explanatory variable GPA is also significant at an alpha level less than 0.01 with p-values approaching zero. The model yielded an adjusted R^2 value of 0.285, indicating that 28.5 percent of students' grades are accounted for by the explanatory variables included in the model.

INTRODUCTION

Grade inflation can be seen as the result of conflict between university attempts to correlate student grades with student performance and the negotiation between grade provider and grade consumer. A factor in this conflict may be faculty rank. Wyles (1998) finds that 75 percent of new hires in higher education are "contingent workers," a statistic consistent with national business trends. Further, Carney, Isakson and Ellsworth (1978) demonstrate that increased use of student assessment in salary, promotion, and tenure processes contribute to grade inflation. In a consumerist environment grades reward students for positive course evaluations (Edwards, 2000). If part-time faculty members' positions are tenuous, the case for their grading practices being a factor in grade inflation is compelling (Sonner 2000). Cross and Fray (1993) show that instructors factor non-achievement related issues into grading. These studies, and the awareness that English Composition instructors have a broader exposure to students than colleagues not teaching undergraduate general education courses, suggest a connection between grade inflation and faculty rank.

LITERATURE REVIEW

Studies reporting the link between grades and course evaluations are varied in their results, in part due to the associational meaning of "high grades." Holmes (1971) finds that students who expected high grades were more likely to indicate they learned more and were more interested, challenged, and stimulated by their instructor. However, students expecting lower grades were not more critical of their instructor's performance. Consistent with these results is another study (Schuerich, Graham & Drolette, 1983) indicating that the expected grade is the least predictive factor in a positive student evaluation of faculty, falling well below "helps to understand" and "sincerely interested" in students' evaluative comments. Pascale (1979) finds no correlation between students' knowledge of course grades and students' evaluation of faculty. Garverick and

Carter (1962) and Feldman (1976) find no evidence of a bias in students' evaluation of faculty based on student grades.

While the literature points to several factors contributing to grade inflation, this study analyzes the impact of instructor rank--as it pertains to full-time or part-time employment status--on student grades in the English Composition course. Does enrollment in an English Composition course taught by a part-time instructor improve a student's ability to get a higher grade than enrollment in the same course taught by a full-time instructor? In addition, we examine several student characteristics in order to determine whether those variables interact with instructor status.

METHODOLOGY AND RESULTS

Data were collected from all sections of the English Composition course taught at a private comprehensive IIA university. Seven full-time and five part-time instructors were employed to teach the course. Part-time instructors were classified as adjunct faculty. For the sample of 3,017 students, the following data, which we believe to include explanatory factors for student grades, were obtained:

1) The dependent variable, *grade* in the English Composition course (*A*, *B*, *C*, *D*, *F*)
2) The independent variable, *status of the instructor* (full-time or part-time)
3) The independent variable, *status of the student* (day or evening student)
4) The independent variable, *student major*
5) The independent variable, *student gender*
6) The independent variable, *student age*
7) The independent variable, *student class standing* (freshman, sophomore, junior, senior)
8) The independent variable, *student GPA*

The dependent variable, *grade*, which is recorded on the students' record as an alpha character, was numerically represented in the model as: A = 4.0, B = 3.0, C = 2.0, D = 1.0, and F = 0.0. Although the dependent variable, *grade*, is ordinal data, and since the interval between the grades can be estimated as being ten point intervals (except for the *F* category), the data is considered to closely approximate interval level data. The use of the values 4, 3, 2, 1, and 0 for the letter grades of *A*, *B*, *C*, *D*, and *F* is similar to using the midpoint of a class to estimate descriptive statistics for a frequency distribution. Students who withdrew from the course were deleted from the sample data. Since student withdrawal data was omitted, the results of the study are subjected to survival bias. The lack of control for such bias is recognized as a limitation of the study.

Table 1 examines and compares the sample variances of the grades given by part-time and full-time instructors. Since the F-test value of 36.684 is greater than the F-critical value of less than 1.16 (least value allowed by reference table), it cannot be assumed that the population variances are equal. Thus a two-sample hypothesis test for the equality of population means would employ the t-test, assuming unequal population variances (see Table 2).

Table 1
F-Test: Two-Sample for Variances

	Full-time	Part-time
Mean	2.41	3.02
Std. Deviation	1.168	1.094
Observations	1102	1915

df	1101	1914
F	36.681	
P(F f) one-tail	~0	
F-Critical one-tail	<1.16	

Table 2 analyzes the relationship between the status of the instructor, i.e., part-time or full-time, and the grade received in the English Composition course. The hypothesis tested was one of no difference in the average grades awarded by part-time vs. full-time instructors (in the population). The p-value, which approaches zero, represents the probability that both populations, i.e., part-time instructors, and full-time instructors, award grades equally. This contention is rejected at any reasonable level of alpha.

Table 2
T-Test: Two-Sample Assuming Unequal Variances

	Full-time	Part-time
Mean	2.41	3.02
Std. Deviation	1.168	1.094
Observations	1102	1915
Hypothesized Mean Difference	-0.61	
df	2174.659	
t-Stat	-14.175	
t-critical one-tail	1.645	
P(Tt) two-tail	~0	
t-critical two-tail	1.96	

Several studies have analyzed relationships between student grades and various student characteristics such as age, gender, class standing, attendance on a full-time or part-time basis, and academic major (Chan, Shum & Wright, 1997; Sen, Joyce, Farrell & Toutant, 1997). We decided to include these variables, along with our variable of main concern, i.e., whether the course was taught by a part-time or full-time instructor, and measure their relationships with a multiple linear regression model. In this way, we can analyze the relationship between student grades and the employment status of the instructor (part-time or full-time) while controlling for the various student demographic characteristics mentioned above.

The multiple regression approach will be utilized here (Kamery, Williams & Kugele, 2004). Using the coding method of A = 4 (or 95), B = 3 (or 85), etc., is similar to estimating the mean or standard deviation of data that has been summarized into a frequency distribution. Table 3 presents the results of a multiple regression analysis.

Table 3 Regression Results							
Multiple R	0.535						
R^2	0.287						
Adjusted R^2	0.285						
Standard Error	1.006						
Observations	3017						
ANOVA							
	SS	df	MS	F	Significance F		
Regression	1072.496	7	153.214	151.377	~0		
Residual	2670.010	2638	1.01				
Total	3742.506	2645					
		Correlations					
			Zero-				
	Coefficients	Std. Error	t-Stat	Sig.	order	Partial	Part
(Constant)	0.319	0.117	2.713	0.007			
Day or Evening	-0.061	0.083	-0.730	0.465	0.087	-0.014	-0.012
Age	0.004	0.005	0.782	0.434	0.089	0.015	0.013
Gender	0.184	0.040	4.607	0.000	0.114	0.089	0.076
Major	-0.006	0.002	-3.613	0.000	-0.075	-0.070	-0.059
Student Class	0.019	0.030	0.628	0.530	0.107	0.012	0.010
Cumulative GPA	0.523	0.020	26.729	0.000	0.475	0.462	0.440
Instructor	0.555	0.042	13.155	0.000	0.270	0.248	0.216

Student major, class standing, day or evening attendance, and student gender were included as indicator variables. None of these indicator variables were significantly related to the grade received. A graphical analysis of the residuals did not indicate serious violations of the model's assumptions. There are no extreme points (outliers). At each grade level, residual variance does not indicate the presence of homoscedasticity; the residuals approximate a normal distribution. The adjusted coefficient of multiple determination shown in Table 3 is equal to 0.285, indicating that 28.5 percent of the change in the dependent variable, grade, is explained by the set of independent variables (which are student characteristics, except for the instructor status variable). The F-statistic's high value of 151.377 corroborates the existence of a significant relationship between student grades and the set of independent variables. Independent variables that would be significant at a 0.01 level of confidence include the following:

1) Instructor status (full-time or part-time) t-Stat value = 13.155
2) Grade point average (GPA) t-Stat value = 26.729

None of the other independent variables showed a significant relationship to the course grade. During the analysis, several issues of interest were identified for possible future research. There was insufficient information derived from this study to explore those issues here. Those issues include the following:

1) Do part-time and full-time instructors employ similar methods of teaching?
2) Do part-time and full-time instructors use similar methods of testing and grading?
3) Is there coverage by part-time and full-time instructors that is consistent with the prescribed courses of study?
4) Is the performance of students in courses that have a writing component different for those students taught by part-time vs. full-time instructors?

CONCLUSION

The primary objective of this paper was to examine the relationship between students' grades in the English Composition course and the employment status of the instructor, i.e., whether part-time or full-time. A multiple regression model, which allowed for the inclusion of many student characteristics, did report a significant relationship between the two factors. We find that a student's cumulative GPA was the strongest predictor of success in the English Composition course. Next in importance was the employment status of the instructor, part-time or full-time. It is recognized that our sample may include selection bias since part-time instructors may teach predominantly at times and places where non-traditional students are enrolled. Our data was collected at a single university; thus, our results may lack universal application.

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INSTRUCTOR AND STUDENT PERCEPTIONS OF THE ONLINE TEACHING/LEARNING ENVIRONMENT: A CROSS-CULTURAL STUDY

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ABSTRACT

This study compared instructors' and students' perceptions of online teaching/learning in the United States and South Korea and examined the impact of selected demographic variables on the participants' responses. Results showed that there was an agreement among the four sample groups for all statements regarding strengths and weaknesses of the online teaching/learning environment. However, pairwise comparisons revealed significant differences in means among instructor and student groups with respect to the degree of agreement or disagreement with each statement. American instructors and students showed stronger agreement or disagreement with the statements than their Korean counterparts. Similarly, the instructor groups showed stronger agreements or disagreements than the student groups. The demographic variables that were examined in the study had a little impact on participants' responses. While the preferred learning mode (face-to-face, online, and hybrid) had the strongest impact on American students' perceptions, previous experience with online environment and students' classification had the strongest impact on Korean students' perceptions. Teaching mode had the strongest impact on American instructors' perceptions, teaching mode and self-reported knowledge about computers had the strongest impact on Korean instructors' perceptions. Instructors' and students' major concerns about online teaching/learning were reported, and suggestions for administrators were also provided.

SCHOOL PLACE VIOLENCE: KEY HAZARD INDICES

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ABSTRACT

School violence has been on the increase for the two decades and it is the leading cause of death for faculty in higher education. This paper explores university-classroom violence as it relates to education in general and higher education specifically. Trends in K-12 lead the authors to believe that these problems will be surfacing in higher education this decade as this shift in American culture takes root in colleges and universities. Teaching strategies and classroom discipline now employed may be inadequate to combat future discipline and violence problems. Suggestions are given as to how and when to modify teaching styles so that classroom control and learning can be maintained. Training must be given to faculty to understand the leading causes of violence in universities: a sense of injustice, stress, and situations where individuals (students and staff) are being micro-managed. When, and if a student or fellow faculty member decides to use violence to remedy a perceived injustice, faculty and staff need to know the do=s and don't's of handling this unique situation.

KEYS TO SUCCESS WHEN GOING GLOBAL WITH ACADEMIC PROGRAMS

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ABSTRACT

Going into off-campus locations for academic programs is an old and difficult process. This manuscript puts forth suggestions for a regionally accredited university seeking off-campus sites. Experience is drawn from programs offered in Taiwan, Singapore, Canada, Mexico, China, Abu Dhabi, and with the Department of Energy. Keys to success discussed include the following: (1) Receive local approval from accrediting body and establish student contract with rights and responsibilities; (2) Seek a good partner that will advertise, promote, pre-screen applicants, facilitate the distribution of information to locals, and assist with local education regulators but maintain complete ownership of the program in a formal Memorandum of Agreement; (3) Validate program acceptance from university and business accrediting bodies without creating an off-site satellite campus; (4) Carefully screen students for language skills, maturity, and career goals because you do not want to get a reputation of admitting people, taking their money, and then not allowing them to earn the degree; (5) Carefully select faculty that realize that the global environment is different than teaching on campus and requires more flexibility without degrading the rigor of the degree program; (6) Define your market niche of highest quality, job placement, facilitate the transition into the United States, personal contact with faculty, flexibility, or low cost; (7) Create positive relationship with continuing education or campus extension services to handle travel, faculty compensation, and possibly academic credit; (8) Virtual delivery can help transmit notes, assignments, and communicate before the class meets and upon return plus eliminate an excessive amount of travel; (9) Formally acknowledge the completion of the first class since the hardest to complete are first and last classes; (10) Encourage students to attend campus graduation upon degree completion and become a stakeholder in the future success of the program

THE EFFECTS OF THE EVOLUTION OF SKILLED LABOR AND ITS ECONOMIC IMPACT

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ABSTRACT

An aspect of skilled labor often overlooked is the impact of its evolution within society. Technology increases production capability and fuels the demand for skilled labor. This paper broadly discusses two major elements affecting skilled labor: technological change and the public opinion of society.

INTRODUCTION

Economically, the status of skilled labor is a constant relative to overall society. The relative wages and employment of skilled workers has increased in recent years primarily due to the evolution of skilled labor. This evolution involves the replacement of highly skilled workers with equally skilled workers trained in new production techniques or equipment. Workers that are unable to keep pace with this evolution are gradually dropped from the skilled labor pool, and as a result, receive depressed wages. Reports of these depressed wages make the recruiting of new workers more difficult, and eventually that entire group slips into obsolescence. The workers of tomorrow will have to be as dynamic as skilled labor itself.

SKILLED LABOR AND SOCIETY

There are several questions unresolved in the evolution of skilled labor. Skilled labor in the literature is often too generically defined and the societal impact of skilled labor virtually undefined. A greater understanding of the essence of the evolution of skilled labor is needed to understand discrepancies felt to exist in the literature.

A trend toward boosting productivity by replacing unskilled manufacturing workers with a combination of better educated, higher skilled workers and machines is evident. If the inverse of this were true and the artisans were being replaced with less skilled workers, the U.S. would have observed a decline in the entire skilled labor pool, and by now the U.S. would be fortunate to find workers capable of performing even simple tasks. Practical observation of this occurrence reveals another type of phenomenon. Manufacturing positions previously held by highly skilled artisans are being filled by equally skilled operators of more efficient machinery. Because this machinery is more efficient than the artisans, the productivity levels increased and the demand for artisans decreased. The artisans are not less skilled; they are simply archaic. Generally, the relative wages and employment of skilled workers have increased. This may hold true upon a broad examination of skilled labor markets. However, when specific skilled labor positions were examined more closely, it was found that the wages reached a peak and then stagnated. These elements can be explained by the evolution of specific areas of skilled labor.

Gibson (2001) states: “When technology changes by a factor of ten it is called a revolution.” An example of this was the replacement of the horse by the automobile. When this occurred, society began to view the horse as having little production value by comparison. The horse thus became an unskilled worker. This redistribution of labor and responsibility did not show up in logistics analysis--it was simply viewed as the growth of technology and the phasing out of an outmoded means of transportation. The first automobile mechanics were revered. Today, many automobile mechanics are facing the same dilemma as the horse. Most modern automobiles are managed by

computer and serviced by factory-certified technicians or even through satellite connections. The mechanic of yesterday, who had years of experience and could diagnose a problem by ear, is considered archaic. The U.S. is entering an age where the most valuable skill any worker can possess is the ability to learn new skills. Colleges, universities, and businesses are having a difficult time keeping up with advances in technology, and the personally attained industry certification is becoming ever more valuable to the worker. Skilled labor is being redefined and the skills needed to survive today will be inadequate tomorrow.

THE INFORMATION TECHNOLOGY INDUSTRY

Trade unions have always been a good indicator of the status of skilled labor. The unions representing the building trades are struggling to keep work and membership because of rapidly disintegrating relative wages (Taranto et. al, 1996). Occupations once considered professional are now forming labor unions. One of these occupations is in the rapidly growing Information Technology (IT) industry. Industry professionals have felt the need to band together for wage and benefit protection and for standardization. Legislation has been passed to remove from these workers some of the federal wage protections that many workers take for granted. For example, WAC 296-128-535 was adopted as written on December 31, 1997. It became effective February 1, 1998. It is an amendment to the Washington Minimum Wage Act, reclassifying IT labor as professional employees and removing minimum wage protection and overtime pay from those reclassified employees. Some labor scholars view this as model legislation.

While there is no current data available for such a view, historical data is abundant. By careful review of this type of data, this paper discusses the actions of the economic markets and the views of society with relationship to skilled labor. Skilled labor is shown as more than a generic term describing the most productive workers in any given period. We demonstrate that the definition of skilled labor is that of a dynamic and evolving workforce in which every member of that workforce eventually reaches a position of obsolescence. Bartel and Sicherman (2000) reached similar conclusions in their research.

SKILLED VS. UNSKILLED

The economic status of skilled labor is commonly viewed as middle class. Workers identified as skilled labor have occupied the same relative social position throughout history. In the late 1970s and early 1980s, Americans were concerned with the apparent disappearance of the middle class. This was a crucial time in the modern evolution of skilled labor. Today, the U.S. appears to be nearing the end of that evolutionary cycle and the middle class is once again prevalent. However, the make up of the new middle class is markedly different from that of previous eras. The major fluctuations of change appear to be within the identification of required skills. As technology changes, the skill sets of the workers that make up the skilled labor pool change also. Old skills become archaic and new ones take their place. Workers that are able to adapt and acquire new skill sets remain in the labor pool, while others fall out and become obsolete.

While they may be considered stagnant by modern standards, some primitive societies were better equipped to cope with natural disasters than modern ones. The skilled labor within these societies evolved to a point of balance and remained constant. Within the original form of these societies, it was common to find an even distribution of skills and class structure based largely on age. Other than members of the ruling class, the elders of the tribe tended to be revered and provided-for based on their value as teachers and caregivers. Introductions of unnecessary technology can at the least threaten and in some instances even destroy this delicate balance. Evidence of this can be seen by even a casual examination of many of these societies' modern counterparts.

The U.S. has been a model of technological evolution. Whereas other countries limited themselves with religious beliefs, such as Iran, America's limitations have been bounded by technology. Each technology revolution has brought about a resettling of America's skilled labor force.

The U.S. agricultural economy slowly transformed into an economy driven by technological advances that gave rise to increased trade and an insatiable desire for goods. This created one of America's first revolutions concerning the need for skilled labor. It is undeniable that writing played an immeasurable role in the creation of this revolution. Writing as a skill was reserved for only the most educated members of society. Even without the ability to write, there would still have been a significant portion of the population considered skilled labor. These would have included, among others, blacksmiths, stonemasons, and carpenters. Because of the complexity of analyzing each trade individually, only the carpenters are discussed.

RECLASSIFICATION OF INFORMATION TECHNOLOGY WORKERS

The changing makeup of the skilled labor pool gives rise to the question of who will replace the reclassified workers. Where will the new middle class come from? The labor shortage in the IT industry is well documented. When did workers in the IT industry lose their professional status and become skilled labor? That answer involves the personal computer.

Familiarity breeds contempt. As Americans became increasingly familiar with computers, the mystery of computers diminished. Where employers once considered the worker capable of operating a computer to be something of note, today that same person is just another employee.

IT workers are now skilled laborers because they are represented by their own trade union, the Washington Alliance of Technology Workers. In addition, legislation has been adopted to officially reclassify IT workers as professional employees in order to skirt various labor laws. The rise of dot.com businesses in the mid-1990s created a labor shortage within the IT industry. This shortage has been blamed for the high wages paid to workers in this industry. Matloff (1998) stated in his testimony to the House Judiciary Committee Subcommittee on Immigration that the hiring practices of all types of software employers do not reflect a labor shortage. His research showed that these firms were actually hiring only two percent of their total applicant pool. This apparent contradiction led to the conclusion that other forces were responsible for the IT labor shortage. One such force was the Information Technology Association of America (ITAA), which presented a public relations campaign in order to increase the number of work visas issued annually by Congress. This campaign succeeded in 1998 and 2000.

This type of legislative action appears to have little to do with the argument concerning the evolution of skilled labor--one simply has to look back over U.S. history in order to see the connection. In the past, U.S. legislation introduced labor deals almost exclusively with skilled labor in mind. Many U.S. immigration laws are designed to admit immigrant labor only when workers possess special skills. Therefore, by association with the historical context, the IT industry has become a member of the skilled labor pool. This evolution is logical. Electricians were not members of the pool until technology made electricity common and useful. Electricians, as we know them, may also become less prevalent as technology evolves.

THE DECLINE OF SKILLED LABOR

During the period 1880-1900, the number of unskilled and semiskilled manufacturing workers doubled (Nash, Howe & Davis, 1994). Industry was changing and skilled workers were facing the possibility of obsolescence due to new production methods. The increases in production, coupled with the strengthening of labor unions and advances in technology, brought affluence to the middle class. The economy boomed and people invested. This same effect happened in the postwar

boom that began just before 1950. Discharged service members returned home with new skills. Thus, the war effort provided U.S. industry with new technology.

Skilled labor settled into a comfortable growth pattern following 1955. Around 1974, another dip occurred about the same time that computers became commonplace in industry. Skilled labor was threatened. The U.S. developed new technology at a rapid pace and the stock market climbed steadily until the wave of dot.com investment hit in 1994. Each of these large market swings had been precipitated by a substantial change in the skilled labor market. The slowdowns occurred as the obsolete members of the skilled labor pools were being forced out, and the market increased again as their replacements entered the market.

What are the mechanisms that drive the evolution of skilled labor? There are essentially two mechanisms that create fundamental skilled labor change. The first is technology. As available technology changes, the labor needed by that technology must also change. However, if that were the only mechanism, then all aspects of skilled labor would receive retraining and never reach obsolescence. The other factor affecting skilled labor is public opinion. People shape their opinions of the skill required to perform any given task based upon their exposure to that task. If an individual learned how to operate a personal computer, their opinion of the skill that is required of a computer operator would be lower. Once a significant portion of the population believes that they can adequately perform the task, the societal perception of the skill set required is lower. A partial exception to the rule is found within areas related to health. Findings demonstrate that required skills are rated higher where people perceived a direct health effect.

Throughout history, equally skilled operators of more efficient machinery have replaced highly skilled artisans. Employment areas once considered professional are now becoming skilled labor. As the technology of any given society changes, the skill sets of the workers must also change. Workers that are able to adapt and learn new skill sets become the new skilled laborers. Skilled labor has always been a dynamic and evolving workforce in which every member of that workforce eventually reaches a position of obsolescence.

CONCLUSION

The skill sets of today will do little to prepare the workers of tomorrow. Because of America's ever increasing rate of technological advancement, employers expect cognitive and adaptability skills to be the most valuable. Knowledge will become a precious commodity. Workers that are best able to keep pace with technological advances will remain in the skilled labor pool. Individuals able to reach out and attain the most current training on their own will be successful. The academic system Americans are accustomed to will give way to the largely self-taught and industry certified training programs of tomorrow.

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CORPORATE ANTI-TAKEOVER PROVISIONS: PRO AND CON

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ABSTRACT

This paper reviews the correlation between the invocation of corporate anti-takeover provisions and the leadership of the board of directors, and the impact on stockholder wealth. Six types of corporate anti-takeover provisions are reviewed. The evidence cited shows that stockholder wealth is affected negatively when the chairman and the CEO are one and the same. This is viewed as an attempt at management entrenchment and not an action that is concerned with the financial well-being of the stockholders.

INTRODUCTION

Since the mid-1980s, there has been a trend of corporate takeovers occurring throughout the U.S. and other countries. Most takeovers are the result of fallout from the crashing technology markets of the 1990s. The many takeovers of the late 1990s are reminiscent of the takeover events of the mid-1980s. Due to the large number of takeovers, there is a renewed interest in corporate anti-takeover provisions. Anti-takeover provisions come in as many forms as do the reasons behind a takeover. However, there are six key types of anti-takeover provisions: 1) the supermajority approval, 2) classified boards, 3) fair price amendments, 4) reduction in cumulative voting, 5) anti-greenmail provisions, and 6) poison pill amendments. These will be discussed in greater detail.

The various provisions and their impacts on stockholder wealth have been extensively studied. Another variable in the equation--the structure of the board--is receiving increased attention from practitioners and academics. More specifically, this paper will concentrate on the position of chairman of the board. There is reason to believe that traders and stockholders could expect different returns from these aforementioned provisions if the chairman and the CEO of the organization are one and the same. Many people believe that the chairman and the CEO should have different roles in the company, and in fact, the jobs of each are quite different. Therefore, how could a CEO assume the role of chairman and run a board meeting, and then change back to her role as CEO? Many investors question CEOs' abilities. They are questioning whether CEOs' loyalty lies with shareholders or with management. These investors are quicker to draw out their money when a takeover threat arises as well. Apparently, the market is signaling that it expects CEOs to try and preserve their own jobs rather than act in the best interest of the shareholders. This paper presents evidence to that effect, but first examines the different types of corporate anti-takeover provisions. The focus then shifts to the effects on stockholder wealth when these are enacted, while also considering the CEO-chairman relationship.

Types of Corporate Anti-takeover Provisions

The six primary types of corporate anti-takeover provisions are assigned to classes: 1) operating vs. non-operating, and 2) provisions requiring stockholder approval vs. those not requiring approval. Operating refers to provisions that actually cause some change to take effect in the corporation. Non-operating measures are those that do not cause some change in the event of a takeover attempt. Just because an effect is not precipitated from a takeover attempt does not mean that these provisions are any less effective. These provisions govern the way a firm operates,

striving to make it either a less attractive target or more difficult to take over. The following section reviews how each anti-takeover provision works, and what each tries to accomplish.

Fair-Price Amendments

These amendments to the corporate charter specify a minimum price that a hostile bidder must offer in order for the company to be sold to that bidder. If this *fair price* is not met, then a supermajority vote will be required for the acquisition to occur. The basis of the fair price can be elaborate. In its simple form, the price could be some predefined premium above market price. In other cases, complex algorithms and growth models are employed. In other cases, outside appraisals from one or more investment banking firms are required to determine what a fair price would be. Amendments like these reduce management's flexibility in negotiations during merger talks; however, the probability that the potential gain of thwarting a raider would be worth the stalemate is high. This is an example of a management entrenchment approach to anti-takeover provisions. Experiencing a stalemate like this is preferable to leaving the company's fate up to stockholders in the event of a tender offer. This course of action attempts to separate stockholders from decision-making, apparently in order to preserve management's employment.

Supermajority

This provision is written into the corporation's charter and requires that a supermajority of the votes be attained in order to grant merger approval. These supermajorities are usually in the 60-66 percent range. Therefore, even with total control of the board, a bidder may not be able to take over a company due to lack of approval. Oftentimes, *board-out* clauses are written into a charter, providing a method for the board to skirt the supermajority provision. These clauses are written in order to give management its much-needed flexibility in takeover negotiations.

Classified Boards

This provision calls for boards to be divided into classes or hierarchies in order to keep board members from attaining a majority for at least two years. Generally, the board is divided into three levels, each up for election every three years. Since the board is staggered into thirds, no one can attain a majority until he has waited for two cycles of voting to cycle through.

Reduction in Cumulative Voting

Some requirements restrict stockholders' rights to accumulate votes for an individual director or board of directors. The system works by multiplying the number of shares owned by a stockholder by the number of directors to be elected in a given year. This would provide the opportunity for a group of shareholders with a smaller number of shares to elect some members to the board. The more useful effect of this provision is that it makes the company a less attractive target by reducing the minority shareholders' ability to elect their own nominees to the board of directors.

Poison Pills

Poison pills are often the most complex anti-takeover provisions executed. They are the only operating provisions discussed in this paper, and the only provisions that do not require stockholder approval. These provisions essentially make it prohibitively expensive for a raider to take over a corporation that has accepted a poison pill. The easiest provision to understand and enact is a voting plan. Under this plan, a preferred stock dividend is issued. These shares are issued to the

shareholders before a certain date. Anyone acquiring a large block of shares after this date is not included. These preferred shares have supermajority voting rights over common stock, and, therefore, the voting rights of the raider are diminished.

This form of poison pill is not the only type. Two other types of poison pills are the *flip-over* and *flip-in* plans. These plans activate either when the firm is taken over or when an individual attains a threshold ownership percent. When one of these plans activates, shareholders are entitled to purchase stock at a significant discount compared to market price. The goal of this plan is to force a potential bidder to negotiate with the firm's board of directors. Under a flip-in plan, a bidder would be committing financial suicide by crossing the threshold because flip-in plans exclude the bidder from taking part in this discounted stock sale. Flip plans tend work in tandem, although if a firm only has one in place, it will usually be a flip-over plan.

There are other forms of poison pills, but the above plans are the most common. Poison pills are set apart from other anti-takeover provisions for several reasons. Primarily, poison pills are usually set up before a takeover is imminent. This allows the board the comfort of knowing that there is a clause in the charter protecting them. This protection results from an unsolicited bid. Board members do not have to worry about when to enact the plan or keep a watchful eye on potential *barbarians*. This automatic triggering is probably the most beneficial aspect of a poison pill. As demonstrated by the movie *Barbarians at the Gate*, once a bid appears imminent for a company, the stock is instantly in play--everyone wants a piece. Poison pills tie the board's hands, forcing a standard response to the raider.

Perceived Reason for Invocation and its Goals

There are essentially two theories surrounding the invocation of anti-takeover provisions. These are the *stockholder interests* hypothesis and the *management entrenchment* hypothesis. The stronger hypothesis is that of stockholder interests. Unfortunately, it seems that the more commonly used hypothesis is that of management entrenchment. This would almost be the default case in the situation where the CEO is also the chairman. When these two share a position, it would be very easy for the anti-takeover provision to be set up in a fashion that would promote the entrenchment of current management.

The stockholder interests hypothesis states that anti-takeover provisions are enacted for the benefit of the shareholder. The theory behind this is that the corporation needs to carry on its operations in order to continue to provide shareholders with dividends and capital appreciation that is due. The stockholder in question is one that is a long-term stockholder. Day traders and those who purchase stock that is in a takeover fight are not considered in this hypothesis. These long-term stockholders are owners of the company. They support the company with words and deeds. The company in turn should support them with its own actions. Therefore, the company and its board should take all possible actions to keep the corporation intact and operating for as long as possible. As long as the corporation is in existence, the potential for wealth accumulation for the stockholder exists. The stockholder can accumulate this wealth through dividends and capital appreciation of the stock. In this respect, the corporation owes a debt to the shareholders for their continued support of the company. Shareholders not only own the company's outstanding stock, but by not selling off their shares, long-term shareholders keep the market capitalization of the firm high, and, therefore, ward off possible bidders. High stock value also increases the company's ability to take over other companies for itself.

By adopting an anti-takeover provision under the stockholder interests hypothesis, corporations seal their relationship with shareholders. The company is viewed as trying to protect the stockholders from raiders who may want to break apart the corporation and sell off its divisions. Anti-takeover provisions may give shareholders a quick return when their shares are liquidated, but they forfeit all of the potential for future dividends, stock splits, and the greater capital appreciation of the stock.

Unfortunately for stockholders, the implementation of an anti-takeover provision may cause a negative effect on the stock price. The costs of fighting off a raider can be expensive. Additionally, if a bidder has acquired a large block of shares, the sell-off of her shares and their subsequent influx into the market will cause the price of the stock to go down. This effectively locks many shareholders into longer-term ownership of the company. If stockholders lost money when the provision was enacted, they would tend to hold their shares, waiting for the price to rise to its previous level.

The stockholder interests hypothesis reads well on paper, but is rarely executed properly or to its fullest extent. Most firms employ the *management entrenchment* hypothesis. The management entrenchment hypothesis theorizes that management works in its own best self- interest. Naturally, that best self-interest would be to preserve the jobs of those in management. This would be a key assumption if the CEO were also the chairman. This hypothesis argues that anti-takeover provisions protect inefficient management that is already in place at a corporation. Management makes the decisions, and these decisions are not made with regards to stockholder wealth, but rather to the steady income of the management team already in place. Corporate takeovers often result in management being fired or replaced by a new management team.

Evidence

Regressions performed that include the stockholders' and the stock prices' response to an announced amendment are discussed in this section. Consideration is given to the CEO's relationship with the board. Data was reviewed from several sources. "Results suggest that the market requires a balance of power between the CEO and the board, as agent of shareholders. Anti-takeover amendments have the potential to change that balance of power, thus, the shareholders react to amendment proposals depending on the leadership and ownership structure of the firm" (Engine research subsidies slashed, 2000). The ownership/leadership model that the previous quotation refers to is that of CEO-chairman and a chairman who may be a significant shareholder in the firm. When a chairman is a significant shareholder, her goals are more in line with those of the other shareholders. The CEO may be a large shareholder, and she may be entitled to potentially lucrative stock options, but she is still viewed as an agent of the corporation, and not an owner.

Sundaramurthy (2000) studies board monitoring. He states: "The board is charged with important internal governance mechanism ... responsibility of monitoring corporate management." How can a board that is led by a manager effectively monitor top management? It would appear logical that the board should not be biased toward anyone, especially when the topic is job security of people who are likely be associates. "The ability of boards to effectively monitor CEOs depends on board power, and the ability of CEOs to engage in activities that are not profit-maximizing depends on CEO power" (Engine research subsidies slashed, 2000).

In the corporate world, takeovers and attempted takeovers are unavoidable. There will always be a company trying to buy out another, and more companies trying to defend themselves. Unfortunately, in holding with the idea of *survival of the fittest*, a company defending itself is often not in the best interest of the market. Certainly, defending oneself against an attack is a costly undertaking. The invocation and implementation of anti-takeover provisions is a company's best defense against these raiders. However, these provisions often hurt the company, and thereby hurt the stockholders.

CONCLUSION

The examples throughout the paper are all different types of anti-takeover provisions that companies employ to fend off hostile takeover attempts. Companies have many other ways to defend themselves, but these provisions are the most common. These provisions are not necessarily the most effective in protecting the corporation, but have proven themselves at least more effective

than no provision at all. Depending on which anti-takeover provision is chosen, the stock price reaction will vary. More precisely, the reaction will come as a result of the perceived reason for invocation.

Is a CEO incapable of performing well as the chairman? There is no evidence that an acting CEO cannot fill the chairman's position well, but the reaction of the stockholders to decisions made by someone in this role are viewed differently. This should be taken into account before the CEO accepts the position of chairman.

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HOW ACCURATE IS M_2? A BASIC REVIEW AND ANALYSIS OF THE MEASUREMENT OF THE MONEY SUPPLY

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ABSTRACT

Money talks, but in first few years of the 21st century it is hard to know exactly what it is saying. In particular, among professional money watchers there is a debate over which measure of the money supply is the most accurate. An analysis of each of the measures, as well as an analysis of the one measure used most often and considered the most accurate, will be reviewed.

INTRODUCTION

Money is just what you think it is--what you spend when you want to buy something. Money is used in three basic ways. The first use is as a means of payment or medium of exchange. The second usage of money is as a store value (people hold onto it). The last usage of money is as a standard of value when people place relative values on something or in comparing prices.

The money supply includes more than just coins and paper money. It also includes checking account deposits. About 80 percent of all payments are made by check. Thus, the money supply is defined in various ways. The most widely cited measures of the money supply are M_1, M_2, and M_3.

M_1 includes currency in circulation and demand deposits in commercial banks. M_2 includes the components of M_1 plus the savings deposits and small-denomination time deposits in commercial banks. M_3 includes M_2 plus savings accounts in thrift institutions (Thomas, 1986).

THE BASIC MEASUREMENT: M_1

In order to understand the measurement M_1, one must define the components. M_1 includes demand deposits (excluding those of foreign and official institutions), plus currency in circulation, plus other checkable deposits at banks and thrift institutions (NOW--Negotiable Order of Withdrawal--and Super NOW accounts), Automatic Transfer Services (ATS) savings accounts, credit union savings accounts, and demand deposits at mutual savings banks.

In 1982, the Federal Reserve Board removed the emphasis on M_1 as a guide to policy. When the NOW accounts were introduced in 1981, economists found it helpful to introduce a shift into the M_1 series. This shift came in the form of M_{1A}, which was defined by the Federal Reserve Board as "the sum of currency held by the nonbank public and demand deposits at commercial banks less cash items in the process of collection and the Fed float" (Koenig, 1990).

In addition to the sum of M_{1A}, N was introduced (additional components making up the total of M_1). N includes the weighted sum of Super NOW and non-Super NOW OCD (other checkable deposits) accounts (Koenig, 1990). Adding the assets of N together in order to obtain a measure of transaction balances is no longer appropriate unless the NOW account balances are perfect substitutes for cash and demand deposits (Koenig, 1990).

Further study reveals the fact that M_1 received the most attention in the money demand literature until the 1980s. The usage of M_1 prior to the 1980s was due in part to M_1 being the closest measurement for pure transaction balances--it appeared to be most closely related to economic activities. Moreover, the velocity of M_1 represented a high degree of stability. In the 1980s,

however, the behavior of velocity changed sharply, causing the specifications for M_1 to fail (Carlson, 1989).

The Federal Reserve System has relied less on monetary aggregates and more on economic and financial variables to guide the implementation of monetary policy. This began around 1987 when the Fed ceased specifying an annual growth range for M_1. Although it had been the most reliable variable in the early 1980s, it is now considered unstable. In the early 1990s, the long-run relationship between M_2 and the price level has raised more interest (Ebrill & Fries, 1991).

ANOTHER MEASUREMENT: M_2

Another component of the money supply, M_2, is commonly defined as including everything in M_1, plus most types of savings deposits at commercial banks and thrift institutions, including money-market deposit accounts, money-market mutual funds, overnight repurchase agreements, and Eurodollars.

Further study reveals that M_2 demand provides evidence of stable specifications in the short run as well as in the long run. Since a significant share of M_2 deposit rates adjust sluggishly, changes in market interest rates have a substantial effect on its demand and the opportunity costs of M_2 in the short run. The relationship between M_2 velocity and opportunity cost are quite closely related. Some evidence indicates that M_2 velocity is, in the long run, independent of interest rates (Carlson, 1989). Hallman (1991) states: "The absence of a trend, not evident for the velocities of M_1, M_{1A}, or the monetary base, provides a relatively reliable long-run link between M_2 and the price level, particularly in the period since the Korean War." For this reason, it is more advantageous to use the specification of M_2 in determining the growth of the money supply.

Some economists have begun to specify the theories of an error-correction model of U.S. M_2 demand. In this model real Gross National Product (GNP), not real consumer spending, enters the long-run part of the model. In the short-run model, real consumer spending appears more appropriate. Mehra (1991) states: "The error-correction model with real consumer spending as a short-run scale variable provides more accurate out-of-sample forecasts of M_2 growth than does the model with real GNP."

Although M_2 is not a perfect indicator, it is far better as a guide to the future growth in the U.S. economy. As a rule of thumb, past experience indicates that the growth rate of total nominal Gross Domestic Product (GDP) to the rate of increase of M_2 (is approximately equal) (Fieldstein, 1992).

By using the M_2 specifications, one can also see the relationship between interest rates and velocity. When interest rates fall, M_2's velocity does likewise. Tatom (1990) states: "The financial innovations hypothesis that the introduction and acceptance of other checkable deposits, especially NOW and super-NOW accounts, have seriously, and perhaps permanently, distorted the measurement and effectiveness of M_1, but not M_2, is widely accepted today."

Due to the Federal Reserve System's softening and declining short-term interest rates, growth was experienced in both M_2 and M_3 in the early 1990s. Unlike the second half of 1990, the first half of 1991 showed relative strength in both M_2 and M_3. "The continued muted response of M_2 to the easings in short-term interest rates probably reflected the ongoing rerouting of credit outside of depositories and an effort on the part of savers to maintain yields on their assets by turning to the stock and bond markets, sometimes via mutual funds" (Monetary policy report to the Congress, 1991).

The Federal Open Market Committee (FOMC) established long-run operating ranges for M_2 and M_3. FOMC decided to omit a target for M_1 because of prevailing economic uncertainties. M_1's relationship to the behavior of the economy and to a variety of economic and financial situations prompted the FOMC to omit a target for M_1 (Hafer & Haslag, 1988).

FINAL MEASUREMENT: M_3

The final component to the money supply analyzed is M_3, which is commonly defined as including all the components of M_2, plus certain types of liquid assets that are considered to be less liquid than the types of assets included in M_2. The FOMC continues to analyze the effects of M_3 to the economy by setting a target for its growth. Although targets are being set to analyze this component, less emphasis is given to M_3 than to M_2.

The strength of M_3 and its relative attractiveness tends to rise when market rates are falling. Fund owners receive returns based on average portfolio yields that decline only as fund holdings mature and must be replaced with lower-yielding instruments (Monetary policy report to the Congress, 1991).

MOST PREFERRED MEASUREMENT OF THE MONEY SUPPLY

Belongia and Chalfant (1990) state: "The de-emphasis of M_1 as a policy guide has prompted many observers to seek a replacement. Some analysts have argued that financial innovations and deregulation have altered the relationship between interest-bearing and non-interest-bearing assets."

On one hand, some argue that M_2 is the best monetary aggregate for policy actions because of the interest-bearing components that make up M_2. Others argue that the narrower measure of M_1, known as M_{1A} in the early 1990s, should be used because interest-bearing accounts act more as savings balances than transaction accounts. Still others argue that the weighted monetary aggregates should be used because the individual assets included in M_1, M_2, and the broader aggregates poses "different degrees of *moneyness* according to the interest they pay" (Belongia & Chalfant, 1990).

M_2 is most preferred measurement by the Federal Reserve and others who maintain an economic eye for the growth of the money supply. The next section briefly discusses its accuracy.

MOST ACCURATE MEASURE OF THE MONEY SUPPLY

Throughout this discussion, M_2, the broader aggregate, is the most preferred measurement in considering long-run economic impacts of changes to the money supply as well as to monetary policies; however, no research states that M_2 or any of the other measures are actually accurate. It is safe to state, however, that M_2 is the most used, and therefore it is currently the most reliable measure.

CONCLUSION

From the discussion presented, M_2 is most preferred and watched variable by the Federal Reserve, and therefore continues to be the most accurate relative to the other measures. As stated in *The Economist*, "Unless velocity is stable, money figures make useless guides" (Monetary misery, 1991). Fieldstein (1992) states: "The change in the growth of the money supply is a good indicator of where the economy is likely to be headed in the near future." This is the purpose of the Federal Reserve reporting on its target for interest rates.

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WILL THEY STILL BE NUMBER ONE IN THE COMING DECADES? THE WORLD'S LARGEST FULL-LINE SPORTING GOODS RETAILER

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ABSTRACT

The Sports Authority, Inc. (TSA) is the world's largest full-line sporting goods retailer, ending 1997 with 212 1ocations across the U.S., Canada, and Japan, and sales of approximately $1.6 billion. Each store features an extensive selection of name brand sporting goods, active-wear, and footwear, with everyday low prices for a one-stop shopping experience. Stores average between 40,000 and 45,000 square feet with over 45,000 items in all major categories including apparel, footwear, team sports, golf, racquet sports, cycling, snow sports, hunting, fishing, fitness, camping, and marine. TSA strives to create a shopping experience establishing itself as the first choice for consumers in sports, leisure, and recreational purposes (Anonymous, 1997). This paper discusses the financial and strategic management status of TSA as of the late 1990s.

INTRODUCTION

Founded in Fort Lauderdale, Florida in 1987, TSA went public in late 1994 and is listed on the NYSE under trading symbol TSA (Anonymous, 1997). In 1999, TSA had approximately 6,700 full-time and 7,200 part-time non-union associates. Of these, about 13,000 were employed in the company's stores and approximately 900 were employed in corporate office, district, and distribution center positions. TSA's business is highly seasonal, with its highest sales and operating profitability occurring in the fourth quarter, which includes the holiday season.

In the mid-1980s, Jack Smith watched the retail warehouse concept bring in big sales at The Home Depot and Toys "R" Us. Thinking that the concept would work for sporting goods, in 1987 he quit as COO of Herman's World of Sporting Goods and opened the first TSA in Fort Lauderdale. By 1990, the chain had eight stores and had agreed to a buyout by Kmart. Kmart Corporation provided additional capital to fund the company's expansion program as well as its continual investment in infrastructure and technology. TSA had 56 stores by the end of 1992. TSA's relationship with Kmart ended when turmoil within Kmart led them to spin off the company in 1994. TSA quelled NIKE's concerns about the quality of service found in warehouse-type stores and began to carry NIKE in its stores in 1995. In 1996, TSA became the first full-line sporting goods retailer to hit $1 billion in sales. That year the company also acquired southeastern locations from Sportstown and northeastern stores from Herman's.

Financially, 1997 and 1998 were most challenging as TSA faced some over-supply in the industry and increased competition in channels of distribution, especially during the holiday period. The 1997 earnings included $4.3 million in store closing charges and $1.2 million in related inventory write-downs. In 1998, unseasonably warm weather had an impact on sporting goods retailers, and their net income exhibited a $64 million loss. It was too warm to buy skis, and the recently ended NBA lockout made spurned fans give team licensed merchandise and branded apparel the cold shoulder (*The Sports Authority*, 1999, March 31).

INDUSTRY OVERVIEW

According to the National Sporting Goods Association, total U.S. retail sales of sporting goods (including sporting equipment, athletic footwear, and apparel) exceeded $41 billion in 1996. The retail sporting goods industry is comprised of four principal categories of retailers:

1. traditional sporting goods retailers,
2. specialty sporting goods retailers,
3. large format sporting goods retailers, and
4. mass merchandisers (*The Sports Authority*, 1999, February 15).

The sporting goods industry in the U.S. is characterized by fragmented competition, limited assortments from traditional sporting goods retailers, customer preference for one-stop shopping convenience, reduced mall shopping, and a growing importance of delivering value to the customer through selection, service, and price. These characteristics of the sporting goods industry make the large format operators particularly well suited to grow and increase their market share relative to the traditional sporting goods retailers, specialty goods retailers, and mass merchandisers (*The Sports Authority*, 1999, March 16). The entire retail specialty business suffered a downturn in 1998.

INTERNAL STRATEGIC SITUATION

TSA's business strategy is to consistently offer the extensive selection and competitive pricing associated with category dominant retailers, while at the same time offering name brands and professional service associated with smaller specialty shops and pro shops. The key elements of this strategy are:

1. *Megastore format*--TSA operates large format stores, virtually all of which are in excess of 40,000 gross square feet. This format enables the stores to provide an extensive selection of merchandise for sports and leisure activities (such as golf, tennis, snow skiing, fishing, hunting, and bowling) that ordinarily are associated with specialty shops and pro shops. They also provide for activities such as team sports, physical fitness, and apparel for the whole family. Each megastore offers 45,000 items in stock, keeping units across 17 major departments. The megastores are well designed to provide ease of shopping.

2. *Quality brand name sporting goods*--TSA's merchandising strategy is to offer a massive selection in quality name brand sporting goods. TSA has 1,200 classifications and an assortment of over 900 brand names. TSA utilizes a sophisticated inventory management system in conjunction with strong store operating controls in order to achieve optimal in-stock levels of brand name merchandise.

3. *Premium customer service*--TSA emphasizes the higher levels of customer service that are generally associated with smaller specialty stores and pro shops. The company believes that this is what distinguishes it from other large format sporting goods retailers, traditional sporting goods retailers, and mass merchandisers. The company claims to hire sales associates who are sports enthusiasts skilled in various sporting endeavors. TSA provides extensive training for its sales associates and offers incentives that reward achievement of customer service goals.

4. *Everyday fair prices*--TSA maintains a policy of consistent everyday fair pricing that focuses on its massive selection and strong customer service relative to price in order to assure customers that they will receive good value at TSA stores. TSA's policy is to maintain prices that are generally below those of specialty sporting goods retailers but comparable to prices at traditional sporting goods retailers and other sporting goods superstores. TSA seeks to be a price leader on certain highly identifiable items and generally does not take temporary price reductions to promote product sales like many of its large format competitors.

5. *Focus on multi-store markets*--TSA's strategy is to focus on putting multiple stores in its markets in order to establish a significant presence in each of its markets. This allows TSA to obtain significant market penetration and to leverage management and advertising expenses, thereby achieving economies of scale. TSA also believes that this multi-store expansion strategy will yield greater name recognition and improved customer convenience in each market. With greater market penetration, greater name recognition, and more convenience, TSA believes that it can compete more effectively, increase profitability, and increase return on its capital over the long term. TSA will also consider entering smaller markets where the anticipated returns justify opening a single store, but its expansion strategy will remain primarily focused on multi-store markets (Troy, 1998).

6. *Expansion strategy*--TSA demonstrates that it has engaged in a rapid expansion program. In 1993, TSA had 80 stores and in 1997 it opened 199 stores, which included six stores in Canada, seven stores in Japan operated by a joint venture 51% owned by TSA, and three smaller format stores in New York City under the name TSA, Ltd. TSA planned to open between 60 and 70 new stores in 2001. The rate of TSA's expansion will depend on many things, such as general economic and business conditions affecting consumer confidence and spending, the availability of qualified management personnel, desirable locations, adequate capital, and the ability to manage the operational aspects of its growth. Other expansion also depends on the negotiation of acceptable lease or purchase terms and how well the current stores perform in the international arena.

In November 1997, TSA opened its first regional distribution center (RDC) located outside of Atlanta. The RDC serves as a flow-through facility, receiving and allocating merchandise to the TSA stores. Merchandise is received at the Atlanta RDC, made "floor" ready, and subsequently allocated and distributed to 90 TSA stores

CURRENT COMPETITIVE SITUATION

The retail sporting goods industry is highly competitive and is comprised of the following four principal categories of retailers.

1. *Traditional sporting goods retailers*--They tend to be smaller stores located in strip centers or malls. They usually carry limited quantities of each item and have a more limited selection at higher prices than large format stores. Stores of this type stores include Modell's Sporting Goods, Champs, Dunham's, MVP Sports, and Hibbett Sporting Goods.

2. *Specialty sporting goods retailers*--These include specialty shops, usually located in malls, and include pro shops that are often single store operations. These stores carry a wide assortment of one specific product category, such as athletic shoes or golf equipment, and they usually have higher prices than large format stores. Edwin Watts, Foot Locker, The Athlete's Foot, The Finish Line, and Bike USA are examples of specialty sporting goods retailers.

3. *Large format sporting goods retailers*--TSA is in this category. These are the largest stores and offer a broad selection of name brand sporting goods merchandise. They tend to be either anchor stores in strip malls or freestanding locations. Some of these stores include Gart Sports, Jumbo Sports, Oshman's, Dick's Clothing and Sporting Goods, and Just for Feet.

4. *Mass merchandisers*--These are usually large stores that feature sporting goods equipment as only a small portion of all merchandise carried. Mass merchandisers are also primarily in strip centers or freestanding locations. Stores of this type stores include Wal-Mart, Target, and Kmart. The sporting goods industry in the U.S. is characterized by increasing competition from new channels of distribution, such as catalogs, electronic commerce, and consolidation among vendors (Anonymous, 1999).

In July 1998, TSA was the object of a bidding war due to a lackluster stock price, poor sales projections, and turmoil in the executive suite. TSA rejected both Venator Group, Inc. and the Denver-based Gart Sports in a takeover bid. Anthony Crudele, CFO at TSA, stated, "We were never out to sell the company, but at the time the Venator deal was arranged, it made strategic sense. Barring a deal that makes sense, TSA will remain independent. Currently, TSA's major focus is on

improving its core business" (Stickel, 1998). Stephens Inc. analyst Rick Nelson stated, "With the distraction of a merger out of the way, TSA can now concentrate on improving performance at its stores" (Stickel, 1998).

TSA has several formidable competitors with many locations. Gart Sports, which offered to buy TSA for $442 million in 1998, has acquired SportMart, Inc. With SportMart, Gart Sports now has 123 stores in 16 states and is considered number two behind TSA in the full-line sporting goods retailer business. Oshman's Sporting Goods has transformed its business by focusing its efforts on opening and operating SuperSports USA megastores.

CONCLUSION

TSA must become profitable again in order to possess enough working capital to have options for growth in the future. Multiple store markets might not be the answer; sales could be increased through proper advertising and marketing. Multi-stores can work depending on the size of the market, but TSA cannot over saturate cities. However, TSA must find a stronger method in order to differentiate itself from its many competitors and attract customers into its stores.

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THE U.S. CANDY INDUSTRY AND ITS COMPETITION- A STRONG PRICE LEADER

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ABSTRACT

Milton Hershey was a visionary who built a vast empire of candy through the force of his imagination and self-determination. Hershey was a dreamer who wanted to create not just a business, but an industrial paradise. After making a fortune, he gave it all away. To this day, Hershey Foods Corporation is controlled by a charitable trust organized by Hershey. Its profits fund the wealthiest orphanage in history. This paper discusses the strengths and weaknesses of the corporation.

INTRODUCTION

What began as an alliance of small family-owned businesses has grown into a multi-billion dollar industry increasingly dominated by corporations fighting for shelf space and over-taking their smaller competition. Gone are the small businesspersons who delighted in making candy for children. Gone are the penny candy traditions. Today, Tootsie Roll Industries is the only U.S. company that continues to manufacture a penny-sized candy.

In place of the traditional industry are two enormous competitors, Hershey and Mars, which together control 75% of the candy rack. In fact, Hershey and Mars were once partners. The separation of their partnership left bitter feelings within each company, which have only deepened over time and developed into one of the fiercest competitive battles in business today.

THE CHANGE IN THE INDUSTRY

In the beginning when penny candy dominated, one could tour factories and manufacturing centers of hundreds of candy makers. Today, most of the candy factories are off limits to tours. The FDA has enforced this due to health regulations and concerns for safety, but there is more to it than that. It is all about the threat of a leak detailing the manufacturer's competitive advantage. The candy industry has turned into a secretive business.

Candy makers today have to worry about marketing plans, production technology, advertising budgets, shelf space, and takeovers. Mars, a privately held company, does not share any information with the public. PEZ Candy, a private company, does not have a spokesperson and there is no printed information about its products and no interviews with its personnel. Even Hershey, which is a publicly traded stock, is as secretive as possible. Richard Zimmerman, Chairman and CEO of Hershey Foods Corporation in 1993 stated, "Just because we are publicly held does not mean we have to talk openly about what we do. Our competition is largely private and that gives them an advantage. They do not have to say anything about their business, so why should we?" (Brenner, 1999).

With Hershey and Mars firmly in control of the majority of the market and the other approximately 300 candy firms trying to find or keep their niche, it is tough for the other companies to succeed. The industry averages approximately 150 new products a year, yet only a handful of those become popular enough to stay on the shelf. In order to increase profits, candy companies must do one of two things: increase their market share or become more efficient than the competition. Generally, the key to success over the years has not been new product introduction, but in getting the product to the market before the competition.

Market mergers and consolidation have also played a role in the major contenders' success. *Confectioner Magazine* estimates that at the current rate of consolidation, fewer than 150 candy companies will be operating by the year 2010, down from 6,000 firms at the industry's peak in 1945 (Brenner, 1999).

Hershey Foods Corporation took over as the price leader in 1988 with its purchase of Peter Pauls. Mars has been struggling ever since to reclaim the dominant position. Together they account for eight of the 10 top selling candy bars in the country, and it has been that way for more than 30 years. Although Nestle is considered a major contender, candy is a small percentage of the company's total portfolio. The overall number of products and the competitors' product mix strengthens the competition. To gain that competitive edge, the price leader must dominate smaller companies.

STATISTICS AND TRENDS

Throughout history people have created and consumed candy purely for its utility. Despite warnings about sugar and fat, consumers are eating more candy and there is no indication that this will change. Candy consumption reached 11.7 pounds per person in 1997, up one percent from the prior year. In fact, candy consumption has increased steadily since 1991.
Retail sales statistics also indicate that candy is a very lucrative business. Since 1991, candy sales are up 7.6% and chocolate sales are up 6.5%. Retail sales are boosted by seasonal selling trends, with Halloween leading the pack of seasonal promotions.

Candy companies are creating cross-promotions with entertainment ventures to boost sales. Hershey has formed an alliance with Saban Entertainment and a tie-in with the Casper cartoon character. In order to promote its Sweet Escapes brand, Hershey commissioned Disney to place four million coupons in Aladdin's lunch box kits, a move intended to convince parents that Sweet Escapes is a healthy brand. Mars has its own motor sports web site, racing crew, and racing car that displays the M&M's and Skittles brand logos.

With the majority of advertising in this industry coming from print ads or coupons, co-advertising with other products increases brand awareness. It has proven to be a productive and effective move for the industry.

HERSHEY'S VISION AND MISSION

To fully understand the mission of the Hershey group, the visionary and philanthropist Milton S. Hershey must be studied. Hershey grew up poor but determined. He failed at numerous businesses before finally succeeding at making caramel candy, which earned him his first million dollars. He had the vision to foresee a potential market in the U.S. for chocolate and worked at perfecting his chocolate knowledge and skills. He sold his caramel company and began to devote his energies to making chocolate.

In search of a perfect location for a plant, Hershey developed the town of Hershey, Pennsylvania. Hershey built a town where everyone, regardless of status, could prosper. It was Hershey's boast that no one was laid off in the town of Hershey during the Depression. Hershey also believed that an individual is morally obligated to share the wealth of success with others, resulting in significant contributions to society. Hershey and his wife established the Hershey School Trust, which is today the school is the most prosperous orphanage in the U.S. This is due to the fact that the Hershey Trust Company, which oversees the Hershey School Trust, owns controlling stock in the profitable Hershey Foods Corporation and Hershey Entertainment and Resorts.

Hershey died penniless, leaving all his wealth to the trust fund. Hershey had the foresight to develop the chocolate industry in the right place at the right time. His personal convictions about

the obligations of wealth and the quality of life in the town he founded have made the company, community, and school legendary.

The name Hershey is synonymous with quality chocolate. It is what Hershey believed in and what Hershey Food Corporation has maintained as its mission and core competencies. Moore (2003) states, "Food is something, especially (Hershey's) that is very consistent in quality. Have you ever had a bad experience with Hershey's? No."

HERSHEY'S FINANCIAL POSITION

Hershey Foods Corporation is unique in the aspect that 99.5% of the Class B common stock is held by the Hershey Trust Company. The trust was established by Hershey in order to ensure that the majority of the profits were directed to the Hershey School Trust. Hershey Foods Corporation announced in 1997 a repurchase agreement with the Trust--Hershey's will repurchase over an extended period of time a total of $230 million in common stock. Hershey Trust stated that it intends to retain voting control of the corporation and that it sold the shares in order to diversify the School Trust's investment holdings. A review of Hershey Foods Corporation's financial position for the 1990s indicates that the company was profitable.

December 1, 1997 marked the 70th anniversary of the listing of the corporation's common stock on the NYSE. Hershey Foods Corporation has paid a dividend on the common stock every quarter since the first quarter of 1930, for a total of 273 consecutive quarterly dividends. A 10% increase paid in September 1997 was the 23rd annual increase of the dividend rate for the corporation's common stock. Since 1993, Hershey has repurchased through open market and private transactions 37.5 million shares of common stock for $1.3 billion. Due to its strong cash flow, Hershey was able to reduce total outstanding shares by almost 21%.

The 1990s proved to be an outstanding decade for Hershey Foods Corporation. This can be attributed to what the company does best: producing and marketing quality products, providing first-class service to its customers, and managing a low-cost, effective operation. In 1997, Hershey restructured its business organization into three components: business units (primary sales and marketing units), operations shared units (encompassing the supply chain and focusing on product quality, customer service, and financial returns), and shared staff services (traditional staff functions). In order to ensure that the best information processing could be obtained for the organization, Hershey invested $80 million in a new enterprise-wide information system enhancing customer service. These are all positive moves that are bound to produce positive results.

Hershey Chocolate North America, the largest division, acquired Peter Pauls in 1988. Since then, Hershey has introduced a number of new products including Reese's Crunchy Cookie Cups, Hershey's Classic Caramels, Hershey's Sweet Escapes, and Hershey TasteTations. Hershey also introduced its first boxed chocolate, Hershey's Pot of Gold, which created a new sensation. Hershey's biggest move was the acquisition of Leaf North American, which manufactures Jolly Ranchers, Milk Duds, and PayDay. However, the acquisition caused some erosion in profit due to the duplication in marketing and administration between the two companies. Hershey International is not as profitable as the North American group. The majority of the holdings are through licensing agreements.

STRATEGIC OVERVIEW

In order to increase profits, firms must do one of two things: become more efficient than the competition or increase their market share. Hershey's production facilities are currently state-of-the-art and have been for years. The main plant in Hershey, Pennsylvania uses about 1.5 million pounds, or 700,000 quarts, of milk each day--enough to supply everyone in a city the size of Philadelphia. The storage silos hold 90 million pounds of cocoa beans--enough for about 5.5 billion

Hershey milk chocolate bars. Everything is computerized, including the cooking temperature of the chocolate, the mixing time, shaping, and packaging.

"It used to be that anybody with a good recipe and a catchy name could get their product into the candy aisles. But that is not true anymore. You need lots of muscle and deep pockets to compete against the Mars and Hersheys of the world" (Brenner, 1999). Hershey Foods Corporation has aggressively increased its U.S. market share through acquisitions. Over a period of four decades, Hershey has completed five large candy acquisitions, more than any other competitor. This aggressive move pushed Hershey over the top.

Although Hershey's branded products are in 90 countries worldwide, financially the international market has not been as good as the U.S. market. The biggest challenge is the production of a quality product that meets the international consumer's taste, which varies greatly from region to region. In addition, the manufacturing process varies depending on the quality of the milk and storage of the chocolate. It would appear to be the best fit for Hershey to partner with an existing manufacturer in order to gain international recognition and acceptance.

CONCLUSION

Hershey Foods Corporation should actively seek an acquisition that would broaden its product line and distribution channels, including retail establishments and premium brand candy. It must focus on controlling cost of goods and decreasing administrative expense in order to produce a higher increase in net income. Hershey Foods Corporation should partner with an existing manufacturer in order to gain international recognition and acceptance.

Merrill Lynch stated, "This is not the staid old candy company of the old days gone by. Hershey is making a run for the candy aisle" (Brenner, 1999). The industry insiders know that Hershey is the price leader. Hershey should concentrate on what it does best, and that is making quality chocolate products.

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THE DEBATE CONCERNING THE VIABILITY OF CHARTER SCHOOLS

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ABSTRACT

"Charter schools are tuition free public schools which abide by all local, state, and federal laws and regulations regarding discrimination, religion in the classroom, and health and safety" (Berryhill, 1999). These innovative public schools operate under a contract--the charter--with the local Department of Education. The charter school must demonstrate that it is meeting the educational standards; in exchange, each charter school receives a certain level of autonomy from the state. Charter schools are required to follow educational requirement but are free of the burdensome rules and regulations of government. This paper discusses the status of charter schools in the U.S.

INTRODUCTION

Charter schools are based on a European and New England model of education. The concept offers an improvement in the quality of existing programs without an increase in funding costs. Generally, charter schools are formed when a group of teachers or parents apply to open their own school. Like traditional public schools, charter schools are funded by the state. Charter schools allow the group to operate with relative autonomy, fire and hire instructors at will, and offer an educational emphasis in any chosen area without sacrificing quality. Charter schools are subject to the same scrutiny as traditional public schools, but state law provides them greater flexibility from the usual red tape (Banerji, 2003).

Hirsch (1998) summarizes the arguments heard by most legislators and education administrators concerning the charter school debate. Proponents of charter schools state that:

1. Charter schools will act as laboratories of reform, identifying successful educational practices that could be replicated by traditional public schools.
2. Charter schools provide families with alternatives within the public schools. Parents can choose the school best suited for their children.
3. Through school choice, competition within the public school system is created, pressuring districts to reassess educational practices.
4. Charter schools will lead to overall systemic reform through the pressure and competition of the marketplace.
5. Charter schools, unlike traditional schools, are held accountable. If the schools do not educate students, their charters are not renewed.

Opponents of charter schools state that:

1. Charter schools, due to their small size and limited numbers, provide only some families with school choices, thereby raising issues of fairness and equality.
2. If rules are so burdensome, they should be waived for all public schools. Charter school reforms can be attempted in existing public schools.
3. Charter schools have an unfair advantage when competing against traditional public schools because they are free from many regulations.
4. Not enough charter schools exist to adequately pressure the entire school system.
5. Charter schools are not accountable because they are free from rules and regulations intended to ensure quality in public education.

Supporters claim that market-based education is the needed reform in education. The growth of charter schools proves that "to fulfill the education mandate of the people of the United States, the schools of tomorrow should be challenged to improve by operating in a free-market, competitive environment" (Shokraii & Youssef, 1998). Schools should attract students based on curriculum and the quality of the teaching staff, not geographical boundaries or available funds. So why do some states use government regulations to prevent the opening of charter schools? Montana Rep. Kim Gillian states, "There is no real sense of urgency to try charter schools" (Hirsch, 1998). While parents, students, and educators are motivated by the possibility of charter schools, the legislation is taking a "do not fix what is not broken" approach. This approach has merit, but if the same approach were used in technology, science, and the medical industry, the results could be less than satisfactory. Innovation and marketing techniques are useful in education; education should focus on consumer needs.

A central issue of the debate about charter schools vs. traditional schools is funding. Several groups argue that the decision as to which school is best should be made by the free market and not government regulation. Most state boards of education limit the number of charter schools. Arizona does not limit the number of charter school openings; the people of Arizona have decided to trade government regulation for market regulation (Flake, 1998).

STUDIES CONCERNING CHARTER SCHOOLS

Traditional public schools are allotted millions of dollars each year to create new and innovative learning techniques. These techniques, while they have good intent, often fail both the school administration and the students. As a result, the same state funds spend millions more on remedial programs at universities and colleges. Charter schools have the ability to add innovation without the cost. State funding of student education is solely based on enrollment and attendance. Whether or not the child is attending a traditional or charter school is not figured into the equation. The only policies that are affected are those that apply to administration and the autonomy that they are granted (Berryhill, 1999, March 7). Clearly, the purpose of the debates between public traditional and public charter schools are in the best interest of the administrators and not the students.

Charter schools are not tuition based and are operated on a rolling enrollment basis, allowing anyone acceptance based on a first-come, first-served policy. However, charter school opponents propose the question, "Is a charter school that does not provide pupil transportation truly open to all children on an equal basis?" (Berryhill, 1998). This question does present the possibility of elite groups forming schools in areas only accessible by select students. However, most charter schools are targeted toward inner city or urban at-risk youths.

Studies across the U.S. illustrate that the charter school system serves the needs of a higher percentage of minority students than the traditional public school system (Anonymous 1998, June 17). A broad-based study by researchers from the University of California at Berkeley and Stanford University found that charter schools served higher percentages of minority students. African-Americans account for 27% of all charter students, compared with 16% in traditional schools (Tomsho, 2003). Minority parents tend to favor the charter concept over non-minority parents. A significant number of the charter schools have been opened to serve minority populations. African-American and Latino populations are demanding a reform in the educational policies affecting minority students. "The U.S. Department of Education reports that half of charter school students are minorities. In Arizona, 45% of charter school students come from low-income families" (Anonymous, 1998, June 17).

Minority business owners are especially involved with the charter school movement. They recognize a need for a well-trained work force. "In Detroit, automakers supported a charter high school that turned inner-city youths into certified mechanics" (Berryhill, 1999, March 7). One business owner stated that the charter school movement is "the civil rights movement of my

generation" (Anonymous, 1998, June 17). African-American and Latino politicians have reported that their constituents are demanding better schools because competition is inevitable. "Educational choice is becoming a reality in the U.S." (Anonymous, 1998, June 17).

Society is changing and the traditional neighborhood schools that educate everyone in a certain geographical area are not succeeding. These geographically based institutions actually present more opportunity for elite groups to target specific groups of students. Since charter schools are based on an open admission policy, there may be greater opportunity for various students to experience the same quality education.

Another point of concern is what prevents hate groups from starting charter schools and then teaching hate with state funds? First, a charter school must be approved by the local school board and/or state. Second, a charter school can only operate if it attracts enough students to receive operating funds. In Tennessee, the amount is approximately $5,000 per student (Berryhill, 1999). Third, any institution that violates federal civil rights laws will lose its charter. The idea of civil rights is above the burdensome regulations of everyday traditional public schools. The autonomy of charter schools does not put them above the U.S. Constitution.

One of the most attractive features of the charter school concept is the issue of accountability of the administration. "Charter schools surpass the accountability standards of every other public school in a critically important way: they are schools of choice. No child is compelled to attend [a charter school]" (Reed, 1997). Year after year, government funded and regulated schools failed at the educational process, yet these failing schools reopened their doors, teachers received payroll checks, and students attended class after class of the same ineffective instruction. Clinton (1998) stated that, "The Department of Education is to give priority in awarding grants to states in which the performance of every charter school is reviewed at least once every five years [in order] to ensure [that] the school is fulfilling the terms of its charter and students are meeting achievement and goals."

"If a charter school fails to live up to the standards and abide by the practices set forth in its charter, then that charter may be revoked by the state" (Berryhill, 1999). In Arizona, a non-charter school whose eighth graders scored in the 35th percentile in reading, 29th percentile in language, and 34th percentile in math was regarded as an A-plus school. Not only were the tests in the lower percentile, the scores dropped in the following year. However, this school remained open for business. "It is far easier for bad schools to survive under the government's clumsy thumb than under the market's invisible hand" (Flake, 1998).

A charter school in Boston became the first public school in the nation to offer a learning guarantee to parents. The Academy of the Pacific Rim Charter School promises that if a student does not pass the 10th Grade State Assessment Test, his or her parents have the right to send the student to another school of their choice. The Academy will transfer the $7,400 per-pupil state expenditure to that school. However, parents must sign weekly progress reports on their child, and if the school believes that a student is lagging behind, the student must consent to work with a tutor. The Academy's innovative approach to serving the needs of students and guaranteeing them a good education provides an excellent model for other schools to follow (Anonymous, 1998, April 13).

A UCLA study of 17 charter schools found that the largest benefit of charter schools is the fact that they are held accountable for the success of their programs (Wells, 1998). This new system moves schools away from the current rule-based accountability system driven by regulation of inputs, and toward a system of outcome, or performance-based accountability, wherein schools that do not perform according to a set of standards are closed. However, this same study found that enforcing a system of accountability is another matter.

Each charter school has a different curriculum and agenda. Therefore, the measurements of success and accountability are all different. The state cannot hold every charter school to the same level and academic standard. In the end, each charter school found that the level of accountability is set by the needs of the students and parents. "[T]hree quarters of the charter schools in California require parents to sign a contract [and] 40% [of these contracts] state that parents must be involved

at the school in various capacities for a certain number of hours per month or per year" (Wells, 1998). Parents sacrifice in order to give to their child's education, but according to many studies, parents appreciate the end result. Manno & Stern (1998) reported that several studies of charter schools were conducted during the late 1990s, but one in particular offered the best insight into the impact of charter schools in boosting parental involvement and improving the schools. A study by the Pioneer Institute's Massachusetts Charter School Resource Center found that Massachusetts charter school parents reported more involvement with their children's education than the parents of children in traditional schools (Anonymous, 1998, June). Specifically, these parents:

1. Reported twice as many in-person meetings with their child's teacher as did district school parents.
2. Received more phone calls from their child's school and averaged 3.3 forms of written communication from the school, compared with 1.7 for district school parents.
3. Were more confident that their children could easily obtain extra help (90%) than were district school parents (71%).

In the area of efficiency, the UCLA California-based study found that most public charter schools were highly efficient. The per pupil operating budget system worked for the charter schools studied. In some of the schools studied, "As much as 40% of the operating revenue came from private funds. In that way, charter school reform is, in part, a form of privatization of public education. It allows the government to pay less per child overall for education" (Wells, 1998).

CONCLUSION

Government regulation has its place in U.S. society. The foundation of this system was built on order and procedure, and without the checks and balances that regulation provides, it would be impossible to live in a democratic, capitalist society. Yet regulation needs boundaries. The transformation of regulations from helpful to hurtful affects every aspect of consumers' lives.

In the U.S., education is regarded as a right. By regulating decisions regarding education, politicians are controlling a child's future. In the long run, the quality of primary education is critical to the country's ability to produce. If government regulations do not allow a choice in education, how can consumers of education be held responsible for the result?

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HYPOTHETICAL RESPONSES TO ECONOMIC QUESTIONS CONCERNING EVENTS IN THE LATE 20TH CENTURY: THE PRE-CLASSICAL AND CLASSICAL ECONOMISTS

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ABSTRACT

Why do free markets promote economic growth? What are the proper functions of government? Can barriers to international trade ever be justified? How should education be financed? What characterizes a fair and efficient tax system? Answers to these and many other vital questions were provided over 200 years ago by Adam Smith, David Ricardo, Thomas Malthus, and others. Many early classical and pre-classical economists were the radicals of their era and were true champions of the consumer. This paper proposes five questions and addresses how select pre-classical and classical economics might answer them.

INTRODUCTION

"Analytical work begins with material provided by our vision of things, and this vision is ideological almost by definition. It embodies the picture of things as we wish to see them, and wherever there is any possible motive for wishing to see them in a given rather than another light, the way we see things can hardly be distinguished from the way we wish to see them. The more honest and naive our vision is, the more dangerous is it to the eventual emergence of anything for which general validity can be claimed" (Schumpeter, 1954). The inference for economics as a social science is obvious. Ideology shapes political and social thinking, and vision has no logical contradiction. However, without the analytical work, economics could not have begun (Heilbroner, 1988).

The ideology of classical doctrine is based on personal liberty, private property, individual initiative, private enterprise, and minimal government interference. The vision of classical economics served all society because the application of its theories promoted capital accumulation and economic growth. Entrepreneurs were assured that by seeking profit they were serving society. The ideas led to more material benefits for owners and managers of business, since they helped create the political, social, and economic climate that promoted industry, trade, and profit.

The following questions explore the strengths of classical thinking and apply them to the economy of the 1990s. While not every application is perhaps best, the ideas discussed are noteworthy.

INTEREST RATES

Question one: If lower interest rates are good for the economy, then why has the overall economic outlook deteriorated? During the economic development of the early 18th century, there was an improved understanding of the determination and the behavior of the rate of interest. North characterized lending and borrowing to a skewed wealth distribution and to differential skills and preferences (Marshall, 1967). It was North's view that the majority of borrowers demand funds not for trading purposes, but for luxury consumption. While a negative demand function seems to be taken for granted, any responsiveness to a lowering of the interest rate was attributed largely to the category of consumer borrowers. North stated, "...Higher interest will bring money out from hoards,

when low interest will keep it back" (Marshall, 1967). In North's analysis, a positive slope is explicitly attributed to the loanable-fund supply curve; thus, the traditional capital stock and interest fund theory illustrates this concept (Marshall, 1967).

In a similar view by Locke, emphasis was placed more on the inadvisability of attempting to raise the rates artificially and the idea that the profitability of investment was considered the underlying determinant of the demand for loanable funds (Staley, 1989). In subsequent years, these general ideas were further elaborated by Cantillon and Hume.

In Cantillon's formulation, interest is discussed in the case of a primitive society as a function of the need of borrowers governing the demand for funds and the fear of avarice of lenders governing the supply price (Staley, 1989). In an advanced society, the productivity of capital is introduced; interest is paid from this point of view because of the profits that can be derived from investment of borrowed funds. In this context, the emphasis is placed on pure profits as the source of interest and as the reason for borrowing. Cantillon demonstrated that changes in expectations regarding profits might alter the interest rate even if the money supply is constant; conversely, a change in the money supply has no effect upon the interest rate. Cantillon did emphasize alternative patterns depending upon the point of injection of the increased money supply (Staley, 1989).

Similarly, Hume's analysis of interest represented a position of relevance as it tried to recognize that differential effects on interest will follow an increase in the money supply depending on how the increase is introduced (Staley, 1989). Hume believed that interest is a function of the demand for borrowing, the supply of funds, and the profits for commerce. This availability for high profits was thought to be related to the supply of funds rather than the demand for them. In contrast to what Cantillon believed, Hume placed an emphasis upon borrowing for business purposes. He recognized that great profits created heavy competition for those profits, and that this rivalry would force profits to decline with accumulation. However, a low yield would entail a greater willingness to lend, so that the interest rate is likely to be reduced.

Classical economists generally did not treat interest as a separate distributive share; it was handled simply as a deduction from profit. The interest that borrowers can afford to pay is in proportion to the net or clear profit only, and the rate must be generally lower than the rate of profit in order to induce borrowing. As profits rise, more money is sought by borrowers and interest rates rise, and as profits fall, interest rates fall with them (Brue & Oser, 1963).

FISCAL POLICY--TAX REVENUES

Question two: If higher taxes raise revenues, then why were there fewer tax revenues in 1993? While it is true that higher taxes raise revenues, this depends greatly on whether or not taxes are derived from the same tax base. The lack of increase in revenues for 1993 is a direct result of a lower income base due to increased competition for fewer jobs, lower wage job availability, and higher unemployment. An increase in population during this time escalated an already slowing economy. In addition, tax increases on the wealthiest Americans and businesses simply reduced investment and led many to shelter their money, taking much of it as 1993 income and removing it from the economy.

In the days of the classical economists, Smith conveyed his concern that the heavy taxes needed to pay the interest on the debt would induce merchants and manufacturers to invest their capital abroad to the detriment of the home country, and this indeed happened. Americans were spending more on foreign-made products, and companies were building capital in overseas businesses. Assuming full employment, Smith felt that government debt and interest charges represented resources that might have been used productively by private individuals if government had not diverted them to its own purpose. This illustrates that there are as many ways to misuse government resources as there are to use them. The point is that government has become a challenge to control because many citizens have lost all perspective of government. This supports the classicals' theory on laissez-faire, at least to a limited degree.

As the population increased, Ricardo's theory of the distribution of income illustrated that an increase in population interacts with diminishing returns and causes profits to decline. Once profits are reduced, little capital investment is provided. Capital investment means jobs. If, in addition to this theory, higher taxes are levied on businesses and wealth, then there is a disincentive to invest and create jobs. Jobs become scarce and the tax base declines.

FISCAL POLICY--BUDGET

Question three: If the budget agreement worked, then why was spending so much higher than the amount forecasted only one year previously? Taxation is only half of government's fiscal activity. The other half, and second issue, is whether the volume of government spending is high enough and efficient enough to achieve the desired results in public policy. Until the U.S. determines appropriate government spending, the proper amount of taxation is unknown. Certainly government's non-defense spending has out-paced any receipt of funds and has contributed to the growing federal deficit.

All governments need revenue. The question is how much is needed and where to get it. Then more importantly, how will the money be spent once received? With militaristic, corrupt, and wasteful governments far removed from the people and partial to special interests, such a diversion of resources would certainly not serve society. Smith predicted that the growing debts would, in the long run, probably ruin all the great nations (Smith, 1937). He did not envision the contemporary practice of deficit spending as away to counteract recessions.

Smith stated that participants in the economy tend to pursue their own personal interests. Smith (1937) stated that the person of business pursues profit: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interests." The consumer looks to find the lowest price for goods, given their quality. The worker tries to find the highest pay, considering the other aspects of the job. However, as Smith alluded to, hidden within the apparent chaos of economic activity is a natural order. There is an invisible hand which channels self-interested behavior in such a way that the social good emerges.

The key to understanding the invisible hand is the concept of competition. The action of each producer or merchant is an attempt to gain profit, but it is restrained by others who are likewise trying to gain profit. Competition drives down the prices of goods, and in doing so, reduces obtainable profits. The result is that resources get allocated to their highest value uses and economic efficiency prevails. Additionally, as businesses and individuals save and invest, again out of their own best interests, capital accumulates and the economy grows. This pursuit of self-interest, restrained by competition, tends to produce a working application of Smith's social good-maximizing output and economic growth model. This implies that intrusion by government into the economy is unnecessary and undesirable. Classical economists would probably support the privatization of government functions today.

FISCAL POLICY--DEFICIT

Question four: Why has the budget deficit increased by more than the size of the Reagan era tax cut and the U.S. has little to show for it? There are two real issues here. The first was determining the level of taxation best suited to moving the economy out of a recession. This hinges on whether economists think that businesses and households would respond to a tax cut by spending all they saved in taxes, creating employment and income, or whether they would save the extra money, making the level of employment and income lower than if government had spent the money. The fact that the U.S. has a preferential or discriminating taxation system stifles many opportunities of investment towards profitability and maximization of full employment.

The Reagan era tax cuts were based on the assumption that the additional tax savings would turn into spending and fuel investment. This worked to fuel the expansion of the economy from

1982 to 1988. However, after the tax increase in 1990, the reduction in business and consumer investment was dramatic. Thus, the second issue was the problem of increased government spending continuing to go unchecked and unnoticed because the U.S. economy was perceived to be strong. When government implemented fiscal policy to take advantage of this, the tables turned. International advantage has been reduced and the national economy is struggling. Reasons for this shortfall include: 1. A government that has followed deliberate policies of tight money and fiscal restraint, hoping to hold down the rate of inflation.
2. Productivity that has been dropping for some years, evidenced by the decline in the standard of living in the U.S. 3. The mediocre performance of the economy itself.

FREE TRADE

Question five: Will NAFTA encourage free trade between the U.S., Canada, and Mexico, or will it cost the U.S. jobs? In several passages in the Wealth of Nations, Smith explains the advantages of foreign trade in terms of the "vent for surplus" argument, according to which trade absorbs the output of factors otherwise employed. Smith stated, "When the produce of any particular branch of industry exceeds what the demand of the company requires, the surplus must be sent abroad, and exchanged for something for which there is demand at home. Without such exportation, a part of the production of labor of the country must cease, and the value of its annual produce diminish" (Smith, 1937).

Smith (1937) stated, "Between whatever places foreign trade is carried on, (they) all of them derive two distinct benefits from it. It carries out that surplus part...for which there is no demand among them, and it brings back something else for which there is demand. It gives value to their superfluities…which may satisfy their wants, and increase their enjoyments. By opening a more extensive market for whatever part of the produce of their labor may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby increase the real revenue and wealth of society."

Smith's theories did not avoid the issues of tariffs, and he believed that tariffs should be levied on imported goods when the domestic production of the same goods was subjected to higher costs by special taxes, so that competition might be equalized. Tariffs could also be used for bargaining purposes. Finally, reduction in tariffs might justifiably be made slowly, instead of all at once, if sudden change would cause undue hardships (Soule, 1952).

In contrast to Smith's trade theory, Ricardo felt that resources were initially in full employment. The introduction of trade would involve a reallocation of activities. Ricardo further elaborated on Mun's observations on foreign exchange, where Mun argued that the ordinary means to increase our wealth and treasure is by foreign trade (Blaug, 1986). Thus, the net result brought money into the country.

CONCLUSION

Classical economists had good basic theories for their time, and they were probably closest to reality because they based their principles on vision, whereas economic thought today is driven by history. The problem with most economic theory is that it focuses on symptoms rather than causes. Every indicator that is used currently to predict the economy is based on factors that follow the economy, such as jobless rates, business starts, and interest levels. These are just symptomatic factors.

The classical view that laid the foundation of modern economics as a social science would indeed focus on expectations of future events. The classicals' vision led to economic analysis and their ideology shaped political and social order. If ideology is to be criticized, vision is to be celebrated (Heilbroner, 1988).

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WHAT ROLE SHOULD GOVERNMENT AND THE MARKET PROCESS PLAY IN PRESERVING THE ENVIRONMENT?

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ABSTRACT

Over the past decade, dissatisfaction with government regulations and intervention has been growing. During this period, economic growth has slowed and Americans have become uncertain about the future. As a result, an increasing number of Americans question the costs of environmental protection and the need for government intervention. Should the government play a large role in resolving environmental externalities, or should these externalities be resolved through the market process? Additionally, how can the environment be preserved while allowing industry to grow? This is the dilemma that will be addressed in this paper as it relates to public policy.

INTRODUCTION

Since 1970, there has been a substantial increase in environmental regulations costing U.S. industries billions of dollars annually. U.S. companies are spending more than $124 billion per year on environmental compliance (Kellogg, 1994). In the future, environmental expenses are anticipated to grow to 3% of the GNP (Russell, 1994). U.S. industries claim that this is being done with little benefit to environmental improvements and at a disproportionate cost. Some claim that this is a result of inefficient government policies.

Firms make investment and production decisions based on the maximum benefit (profit) gained at the least cost. Without environmental market incentives, those decisions often conflict with what is best for the environment. Consequently, industrial processes have resulted in damage to the environment. By 1968, over 200 million tons of the five main classes of pollutants were being pumped into the nation's air each year (Bandow, 1986).

THE MARKET PROCESS

The market process mandates economic growth. Growth means more jobs, higher incomes, and more goods and services. Prior to the 1970s and the influx of government regulations, growth in the market process often involved environmental destruction. Strict emission standards on coal-fired generators cost jobs for many miners. Consumers pay higher electric bills if utilities are prevented from polluting. Consequently, industrial growth led to the destruction of many forests, depletion of the ozone layer, growth in volumes of chemical wastes, and other environment-depleting activities.

Companies usually do not pay the cost of environmental externalities; therefore, they do not account for those costs in profit calculations. Firms only consider the costs actually incurred and income actually received. Also, GNP does not measure the cost of environmental degradation. It does not include the costs of polluted air, unclean waterways, smog, or damage to human health. Society usually bears the cost of externalities. Since companies do not pay these costs, there is little incentive to invest in equipment to prevent pollution. In the market process, competition inhibits it. If one company pays the cost to eliminate pollution but its competitor does not, the company is placed at a competitive disadvantage. Therefore, because there are no environmental market

incentives or environmental property rights, the market process has contributed to the environmental policy dilemma.

Whenever market conditions do not account for all costs of each transaction, inefficiency occurs in the market. However, when firms pay all private costs (costs that the private firm pays to produce the product) and social costs (costs, such as pollution, that the producing firm imposes on others and does not have to pay) associated with producing the product, efficiency occurs in the market. In terms of environmental pollution, this means that if industry bears the cost of the environmental degradation it produces, this will be reflected in the cost to buyers, whereby market conditions will force production efficiencies to meet buyer demands.

The market process also bears the cost of environmental regulations. The 1980s brought about a change in the attitude of U.S. businesses toward the importance of clean air and proper waste disposal (Parrish, 1989). This was brought about in part due to clean-up opportunities that resulted from governmental regulations. For example, every three years the EPA lists 25 or more contaminants that must be tested and removed. This practice has increased the opportunities for labs and environmental consultants. Other opportunities emerged from efforts to clean up asbestos-plagued buildings around the country (Parrish, 1989). This is not representative of real growth, however, since costs are simply transferred from one industry to another (for example, from polluting industry to environmental firms, recycling facilities, emission reduction suppliers, and labs).

Buyer demands dictate the market process. In environmental matters, most Americans are concerned about the environment. In 1991, a *Gallup* survey indicated that 78% of the people polled said they were environmentalists, while four years later, 63% considered themselves to be environmentalists (Anonymous, 1996). This might suggest that concern for environmental issues has dropped. However, according to a 1994 *Times-Mirror-Roper* study, Americans believe that the federal government should be putting more money toward environmental programs (Anonymous, 1996).

According to the *Times-Mirror-Roper* study, Americans support stricter environmental regulations and an increase in federal funding of environmental efforts. Additionally, 48% of those polled were willing to pay an extra 25 cents per gallon of gasoline if the money went to help the environment. An opposing view is that there is too much government intervention already, and it is responsible for fueling extensive environmental clean-up costs with minimum improvement. Yet, regardless of the view taken, most Americans are concerned about the environment even though there may be different opinions on the amount of government intervention. Almost all persons surveyed in the *Times-Mirror-Roper* study (90%) believed that a balance could be reached in which economic progress could occur without harming the environment. Most Americans favor industrial growth as well as environmental preservation. Buyer demands dictate the market process. Therefore, the market process has responded to these demands with such things as "green marketing," in which companies are producing environmentally friendly goods and services. Consulting firms also offer surveying services to detect and correct wasteful practices. Where incentives are in place, such as buyer demands for environmentally friendly goods and services, the market process has provided solutions to the policy dilemma.

Some market incentive approaches include the following measures: 1) Taxes--Taxes can be imposed on emissions of products that contain pollutants (for example, fertilizers and pesticides). 2) Deposit-and-refund laws--These laws require consumers of products that degrade the environment (for example, glass and aluminum) to pay an extra charge at purchase and provide an incentive for them to recycle the product after use. 3) Information disclosure--These rules that require companies to inform the public about their environmental activities, a practice that forces companies to create more ecologically responsible goods and services. 4) Emission trading programs--These programs set limits on the emissions of pollutants and then allow companies to trade rights at market prices to emit established pollutant levels.

Overall, the market process failed to correct the policy dilemma when there were no property rights or environmental market incentives in place and when environmental externalities were not included in the market process.

EVALUATION OF GOVERNMENT POLICY

There are two opposing views on the effectiveness of government intervention in improving the market process. Since the first Earth Day in 1970, the federal government has enacted several laws to protect the environment. Some have been successful, while others have failed. Yet, some people believe that government intervention has improved upon the market process and others believe that it has not. These two opposing positions are further explained in this section.

Viewpoint --government intervention can protect the environment. In a few areas, environmental laws have brought some progress. Steiner (1997) cites the following pollution reduction measures: 1) Exposures to air-borne lead, polychlorinated biphenyls (PCBs) in electric transformers, and the pesticide DDT have been eliminated, 2) Emissions of chlorofluorocarbons implicated in ozone depletion are being rapidly reduced, and 3) The unpermitted discharge of toxic effluents from factories into waterways has virtually ceased.

Additionally, data from both the Conservation Foundation and the U.S. Council on Environmental Quality indicate that there has been a decline in air pollution. While the number of motor vehicles in the U.S. has increased and the economy has expanded until 2001, emissions of most major air pollutants have continued to decline (Kenski, 1986). Data from 23 metropolitan areas illustrate that emissions dropped 56% between 1970 and 1980. There has been a 24% decline in ambient sulfur dioxide levels from 1974 to 1980 (Kenski, 1986). Some cities have made progress at reducing the number of days a year during which their air is in the unhealthy and hazardous ranges.

Viewpoint--government intervention cannot protect the environment. This viewpoint advocates that little progress has been made in environmental protection despite strict laws and high compliance costs. The Superfund Law is one example. By 1995, the EPA had finished cleaning up only 324 sites out of approximately 3,500 sites needing clean-up. The agency has spent $15 billion on clean-ups (Steiner, 1997). It is estimated that if all Superfund sites are remediated, the cost could be as high as $75 billion. Another criticism of the Superfund is that it is surrounded by lawsuits. Approximately one third of corporate clean-up costs, which average $1.5 million per site, are spent on litigation and not on clean-up (Steiner, 1997). The high incidence of litigation is a direct result of the way the Superfund law is structured. The Superfund law is based on strict liability, which means that anyone who has ever dumped hazardous waste on a site can be held responsible for the full clean-up cost regardless of negligence or percentage of waste discharged. Often the EPA picks out one or two large corporate dumpers with vast financial resources and bills them, and these corporations in turn sue other parties who dumped at the site.

There are numerous other examples of how government intervention has not improved the market process. These deal mostly with the cost versus benefit of environmental compliance measures. Advocates of free market note that even if the Clean Air Act has reduced air pollution, these emission levels could have been cut more, and at less cost, if the regulations were more flexible. Bandow (1986) states that the petrochemical industry could save 86% of current costs if firms could buy and sell emission rights.

EQUITY/EFFICIENCY TRADEOFF

In order to answer the question of how environmental policy has addressed the equity/efficiency tradeoffs, explanations are given on the equity and efficiency concepts as they relate to public policy and the market process. Equity occurs under the following conditions: 1) The process is fair, 2) All participants know the rules, and 3) The rules apply to all participants. If

these conditions are met, the outcome will be fair. The concept of efficiency is using as few resources as possible to produce an output. In policy terms, efficiency considers the value of resources versus the output.

In the market process, all decisions or trades are made on net gain or efficiency and not equity. Decisions are also based on unanimous consent in which all participants act voluntarily and will not trade unless all participants think they have value and gain from the trade. This is a contrast to public policy where there will always be someone (or a group) who does not agree with the decisions made. Because there is no unanimous consent, some form of coercion is exercised to achieve the desired outcome. Public policy issues usually involve a tradeoff between equity and efficiency.

Environmental policy is no exception. In the nation's environmental policy, some efficiency has been lost in an attempt to achieve equity or fairness. Environmental policy attempted to balance the equity/efficiency tradeoffs with cost-benefit analysis. The EPA began conducting cost-benefit analysis in the 1970s and built this into some environmental statutes. However, some laws, such as the Endangered Species Act, prohibit cost-benefit analysis.

In 1981, former President Reagan issued an executive order that new regulations which cost more than $100 million must include a cost-benefit or regulatory impact analysis (RIA) before going into effect. The $100 million threshold was later lowered to $25 million. However, typical RIAs contain several hundred pages and cost thousands of dollars. Some people have criticized that this is simply a means to slow the regulatory process; however, it does force regulators to consider the impact of cost to relative risk or cost to relative benefit to society.

Equity/efficiency tradeoffs have not been balanced because of criticism of cost-benefit analysis. Some believe that nature and human life have intrinsic value, which cannot be calculated in monetary ways. There is no way to estimate the value of human life without losing fairness and equity. Based on the egalitarian principle or Judeo-Christian belief, all persons are equal before the law and God; therefore, placing value on life versus other costs to society belittles its intrinsic value. This principle values equity over efficiency. By contrast, the utilitarian principle assumes that moral rights can be balanced against the greatest benefit to the most people in society.

CONCLUSION

The policy statement that is addressed in this paper is environmental policy and the role government and the market process should play in preserving the environment while maintaining industrial growth. The examination of the market process indicated that it contributed to the problem of environmental degradation because the market process lacked environmental property rights and incentives. This resulted in market inefficiency because all social costs were not included in industrial processes. In an attempt to correct this market failure, the federal government implemented policy oriented, command-and-control regulations that lacked flexibility and market incentives. This has resulted in numerous regulations that have not corrected the problem. These regulations have caused rising environmental costs that add minimum benefit to environmental preservation.

Can the goal be obtained in this policy area? As most Americans believe, yes, this goal can be achieved. Market forces will dictate that environmental considerations be included in industrial growth. Consumers are more environmentally conscious; therefore, buyer demands will dictate that producers provide goods and services that provide environmental preservation.

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WHY HAS THE FED FAVORED OTHER INDICATORS OVER GOLD?

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ABSTRACT

The Bretton Woods monetary system was established in order to prevent future chaos of the variety the world experienced in the 1930s, when the foreign exchange rates fluctuated wildly and created havoc. Sixty years following Bretton Woods, financial markets are again coping with floating exchange rates, weak dollars, and volatile gold prices. When the gold standard was abandoned and replaced with a fiat money system, U.S. currency was immediately faced with a credibility problem. It has been the Federal Reserve's responsibility to shoulder that problem and to contain the value of the U.S. dollar. This paper discusses the role of gold as a target variable post-Bretton Woods.

INTRODUCTION

Since President Nixon cut the U.S. dollar's fast link to gold in 1971, the U.S. has experienced unprecedented interest rate and bond yields. Some savings & loan associations have failed. Others have remained only through the protection of the federal government. Banking institutions and government were forced to redefine themselves in order to adjust to the new economic environment. Nixon's decision to no longer exchange dollars for gold will be the least remembered aspect of his term in office, yet nothing has had as large an impact. Nixon's 1971 announcement received more attention for its message regarding tax cuts and wage and price freezes than for severing the link to gold.

The public's attachment to gold is still strong. A few economists insist that the U.S. must return to the gold standard in order to keep inflation in check. Other economists believe that gold prices can guide the Fed in its attempt to control the money supply. It is that emotional and sentimental attachment to gold that created excitement when Chairman Greenspan referred to the metal as he did in his Congressional testimony during February 1994, confirming U.S. sentiment that people want to hold hard assets. Greenspan piqued the public's curiosity when he stated that gold is better than commodity prices for gauging inflationary expectations (McGee, 1994). Should the public expect to see monetary policy based on gold prices? If so, how will the new link to gold be established and how strong will it be?

DO RISING GOLD PRICES SIGNAL MARKET INFLATION FEARS?

Market analysts frequently relate the changes in precious metal prices to the public's expectations regarding inflation. As the December 1994 gold commodity price fell one dollar an ounce on the New York Mercantile Exchange, Levingston (1994) stated: "Speculators may have overshot the mark on their inflation concerns. Reality is starting to sink in and we are starting to get some fund liquidation." The relationship between gold and inflation exists, but do gold prices signal inflation or does inflation drive up the price of gold?

In April 1994, former Reserve governor W. Angell correctly predicted the vote of the 12 regional Fed banks on interest-rate policy. Angell based his prediction on his view of the link between gold and inflation. Angell observed an increase in the price of gold as the first sign of excess liquidity that was brought about by delays in tightening monetary policy when inflationary pressures were growing. Considering that theory, Angell rated gold prices to be the best single

predictor of inflation and interpreted changes in gold prices by equating each lasting ten dollar increase in gold to a two-tenths of a percentage rise in prices within the following twelve months. Considering current gold increases, inflation would be due to increase one and two-tenths percentage points (McGee, 1994).

Angell recalled the peak gold prices of 1979 and 1980 and noted that inflation rose to 14.7 percent following the peak of $825 per ounce. Again in the mid-1980s, gold rose to $500 per ounce and inflation surpassed five percent (McGee, 1994). Gold and general prices tend to be closely correlated over the long run. Gold supplies are characteristically price-elastic, resulting in relatively stable prices over the long run. As gold prices climb, gold producers find it profitable to allocate more resources towards its production. Some producers take the added opportunity to sell. This small incremental increase in the supply of gold will dampen the price. In periods of lower prices, increased demand for the precious metal will raise the price. As a result, fluctuations tend to be short-run in duration and have kept the gold price within the $320 to $400 per-ounce range since the mid-1980s.

With the stable demand for gold in industrial and ornamental usage, demand as a store of value is the primary cause of the metal's erratic short-run behavior. As an alternative to fiat money, gold is relatively price-insensitive. Critical to this behavior is the public's attitude concerning what money can buy and how the value of money is expected to change in the near future. Traditional culture has placed more value on gold than fiat money. Gold's lustrous appearance, malleability, and non-corrosive nature identifies it as a hard tangible store of value. Any significant change in demand from the large amount of fiat money to the limited quantity of gold results in sharp changes in the price of gold. Inflation fears, market instability, or war can weaken the attractiveness of a country's fiat money, thus making gold a more attractive investment.

THE FED'S OTHER FAVORED INDICATORS OVER GOLD

Gold prices are affected by international as well as domestic demand. When gold is adjusted for exchange rates between countries, the price is relatively stable. Increased demand for gold in another country is likely to increase the price worldwide. Recent political changes in China have allowed farmers to sell their crops and adjust their prices to the open market. Instead of buying their home, these farmers purchased gold with their profits based on their strong religious and sentimental attachment to gold. The gold is sold to Chinese farmers from wealthy Hong Kong cotton producers who desire China's real estate. This new market for gold has driven gold's price up worldwide; thus, using the price of gold as a domestic indicator of economic stability within the U.S. would be misleading for monetary policy.

The volatility of gold prices also weakens its effectiveness as an indicator. The use of gold prices could cause erratic and unjustified tampering with the money supply. Goods and services historically have followed the rise and fall of gold prices, but never to the same degree, and gold has not demonstrated itself as a leading indicator of goods and services.

Gold prices tend to change only after inflation has changed and only when interest rates have been set as to indicate the change will last for some time. In the 1990s, gold prices tended to follow or match inflation changes rather than lead. As a result, gold prices would be more suitable for accessing the public's attitude regarding the value of their fiat money and their expectations of how that value will hold in the future. Changes in the price of gold would be a better measure of the effectiveness of past changes in monetary policy than predictive of needed future adjustments.

Some predictive value might be perceived from looking at the comparison of gold prices to consumer prices since 1969. Since 1990, the rate of change of gold prices has minimized its lag behind the change in consumer prices and tended to be more predictive. However, comparisons of gold prices to other indices have not shown any superior predictive abilities of gold. Regression analyses performed on changes in the previous 24 months for the period of January 1972 to

November 1993 illustrated that at least two other commodity indices performed as well as gold. This is based on the degree of variation in the CPI as explained by the variables.

Gold prices are fairly indicative of inflationary expectations, but are not considered as a precise and early indicator of economic activity. In perspective, gold has behaved more like a commodity. It illustrates sensitivity to market price changes and inflationary expectations. At any point in time, the price will be up on some goods and down on others, but no one good indicates inflation. Sustained price increases on a wide array of goods would be more indicative of inflation. One single good, especially gold with its wild price fluctuations, would not signal the direction of the economy. Instead, speculation of gold's predictive value should consider that as inflation rises, so does uncertainty concerning the future value of fiat money. These sentiments affect the price equilibrium and lead to inefficient demand satisfaction. Gold is a limited resource; thus, a small shift in the quantity demanded will lead to erratic price changes.

METAL TRACKING BY THE FEDERAL RESERVE

Will the Fed track the price of gold and other metals for guidance in setting future interest rates? The Fed will be tracking metal prices to determine just how stable consumers perceive the dollar. Higher gold prices send the message that the U.S. is interested in substituting holding gold in place of fiat money. If the Fed perceives uncertainty regarding the dollar's value, it will continue to raise interest rates.

Greenspan's remarks also send the message that metal prices may be too high or have the potential of climbing too high. Continued price increases tend to send a negative message to the public. Uncertainty raises prices and high, prices increase uncertainty.

Greenspan has been more vocal than his predecessors regarding Fed policy. He may be sending a warning that the Fed will continue to raise interest rates until general prices stabilize, or he may be simply testing the power of a subtle message to see how much the market will react to a hint that the Fed may target gold as a variable.

Another perspective on Greenspan's intention has been raised by those hoping for a gold-based dollar. In 1991, some economists believed that Greenspan's monetary policy was based a target gold price of $350 per ounce. Some economists credited this policy for the low inflation and the earlier declining interest rates (Shelton, 1994). Proponents for targeting gold as a variable view the method as a solution to eliminating the discretionary features of the U.S.'s current money control policies. The Fed could focus on the price level in order to indicate whether monetary policy is accommodating consumers' demand to hold money. If gold's target price were set at $350 and gold increased to $355, the Fed would contract the money supply.

The simplicity and directness of targeting the gold price has its advantages. It stands as a direct policy rule with which to achieve a stable dollar price for gold. Any deviation away from the targeted price, either high or low, would bring about prompt Fed monetary control in order to steady the price. A policy of this nature would send a clear message as to the Fed's intentions and would thus increase public confidence. However, even if gold price targeting was adopted, the monetary tools of the Fed are not powerful enough to control the price of gold in a timely manner. Targeting the price of gold for determining the money supply is subject to the same problems as any other target variable, that of timing lags and impact measurement.

WOULD THE ECONOMY BE BETTER IF THE DOLLAR REMAINED LINKED TO GOLD?

Interest rates and the dollar's value would be different had the U.S. remained under the Bretton Woods system. The exchange rates between currencies would also be stable. Based on that one factor, international currency exchange has changed. Global electronic network trading has

intervened and *mega-byte* money was created (Kurtzman, 1993). High volumes of money are traded daily.

Mega-byte money has no intrinsic value, but it is a good accounting unit. It requires no storage space, but also stores virtually no value. It resides only on magnetic computer tape that transforms it instantly from bands to stocks and future options. Its efficiency of speed is also its biggest risk. Because it holds no value, it must be traded quickly. *Mega-byte* money has been linked to the market crash of 1987 and three subsequent mini-crashes. No one has been able to attach a cost to the speculative uncertainty of electronic trading, but individuals and companies have protected themselves by raising prices. As people interpret gold prices with uncertainty regarding the currency system, protection measures are strengthened. This results in higher volatility in trading and prices.

CONCLUSION

To reestablish a gold system would be difficult at best. It would depend on steady increases in the world's gold supply for increases to occur in real economic growth. It would, however, end the problems of floating rates, pegged exchange rates, and the confusion of competitive currencies.

Under a gold standard, the government would be pressured to balance the budget. Expenditures exceeding taxes would require government financing. Accountability would be necessary, and those who failed would be identified.

Central bankers have demonstrated a strong responsibility of late towards establishing stable money without formalizing an agreement that would impose disciplinary measures for violations. Central bankers view the gains of orally dropping informal announcements to instill public confidence and test public reaction. Inflation may be low now, but Greenspan will not serve forever. Watching gold for economic direction is quaint; the real test would be an international monetary rule and agreement.

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DOING BUSINESS IN MEXICO: SOME USEFUL INFORMATION

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ABSTRACT

Present-day Mexico has seen its share of problems, many shared with other countries in the world: student protests, national labor organizations, liberation armies, nationalization of the petroleum industry, devaluation of the peso, and many others. All of this has shaped Mexico and its inhabitants, redefining a country that, at times, is at odds with its own people and culture. This paper offers a brief introduction to Mexico's business environment.

INTRODUCTION TO MEXICO

Mexico extends along the entire southern border of the U.S., from Tijuana to Matamoros. It is more than 1,200 miles wide along the northern border that it shares with the U.S., with an area of 761,600 square miles. Mexico is one-fifth the size of the U.S., but at one time, the territory it covered reached as far north as Utah and Nevada. This land, as well as the current states of California, Arizona, and New Mexico, was lost to the U.S. in 1848. Texas, another sizeable piece of old Mexico, was lost in 1836.

Mexico is a country steeped in culture, old and new. The Maya, Olmec, and Zapotec people thrived in Mexico between 1200 B.C. and 900 A.D., building many monuments that have survived the test of time. Present-day Mexico City is the site of Tenochtitlan, an ancient metropolis built by the Aztecs. The Aztecs controlled the country until they were defeated by the Spaniard conqueror Cortes in 1521. Mexico was ruled by Spain for several hundred years, winning its independence in 1821. France took over in 1863, but Mexico prevailed, and a short time later, in 1867, Mexican forces regained control of the country.

Mexico's Management Style

Mexico's management style usually conflicts with that of the traditional U.S. business. While Americans will typically work long hours in order to rise to the top, Mexicans believe that leisure is much more important and that their jobs give them the means to pursue that leisure.

Most managers are autocratic, although the younger managers tend to delegate more responsibility than was traditionally done in the past. Promotion within a company usually depends on personal relationships with managers, with family and friends picked over newcomers for many of those jobs.

Common Documents

Some common documents that are needed for exportation of goods from the U.S. are listed below with a brief description. A forwarding agent can assist companies with the documentation to be sure the correct ones are completed correctly.

1) Shippers Export Declaration (SEP or Form 7525-V)--This is required for shipment into Mexico and is used by the U.S. Census Bureau to compile trade statistics and to help prevent illegal exports. To correctly complete the form, the U.S. requires either a general export license or an IVL (individually validated license) as determined by the Department of Commerce. The code *NLR* means no license required, and if the DOC has assessed this to be the case, then *NLR* should be

entered on Item 21 and the code *99* should be entered in Item 22. Otherwise, enter the assigned license number.

2) Commercial Invoice--A commercial invoice (a bill from the buyer to the seller) should include basic information about the transaction including a description of the goods, the address of the shipper and seller, and the delivery and payment terms. The buyer needs the invoice to prove ownership and arrange payment. The goods must arrive in Mexican Customs within 90 days of the date of the original invoice, or a new invoice will be required.

3) The Bill of Lading--This is a contract between the owner of the goods and the carrier. There are two types. A straight bill of lading is non-negotiable. A negotiable, or a shippers order bill of lading, can be bought, sold, or traded while goods are in transit and is used for letter of credit transactions. The customer usually needs the original or a copy to take possession of the goods.

4) Global Internet Strategy--Some of the greatest challenges faced with expanding business outside U.S. borders include distance and language. The Internet offers the ability to overcome these challenges as businesses enter global markets. One factor corporations should consider as the company enters international markets is how to strategically establish Internet presence. If a U.S. corporation is currently considering expanding into Mexico, Latin America, and potentially South America, then Internet presence should be considered in these regions as well.

During this expansion, the corporation must first evaluate the Internet demographics of the various regions and determine if the user base in these countries can support such an expansion. Corporations should consider the specific content to post to the site. Other Internet-based services/applications can make the site more functional, using various Internet marketing techniques to help drive traffic to the site, and serve to both gain and retain a strong customer base.

Central/South American Internet Demographics

The Internet provides the ability to gain exposure on a global basis. Before beginning to invest in such an expansion, the company must understand the Internet users in Mexico and the surrounding regions. A localized Spanish corporate site would have the potential to support customers in several Latin American markets, including Argentina, Columbia, Costa Rica, Peru, and obviously Mexico, since they all have Spanish-speaking populations.

The Latin American region leads other regions in terms of rapid growth of the Internet. There are between 10 and 12 million users, and the population was expected to triple to 34 million users by 2000. Somewhere between 2.5 and 3.2 million of these users have actually used the Internet to execute an online purchase. Mexico has the second largest population of users in Latin America behind Brazil (Murillo, 1999). There were an estimated one million users in 2000 and a projected increase to 4.8 million in 2003 (Perez, 1999).

The typical Latin American user is a 26 year old, middle-class man who has been online less than one year. A class breakdown analysis shows that 30 percent belong to the upper class, 47 to the middle class and 24 percent to the lower class, with 33 percent being white-collar workers. Usage habits are different from those in the U.S. In Latin American countries, 53 percent of the users log on from home, while 31 percent log on from work. Users are online an average of 11 hours a week. Many people use the Internet every day, with sessions of varying lengths. Twenty-seven percent of the user's sessions last between 31 and 60 minutes, and 23 percent of users are online between 61 and 90 minutes. The top two online activities are e-mail and research. Another important fact to consider is that 51 percent of users indicate that they prefer Web sites from their own country, 29 percent indicate preference for U.S. sites, and 20 percent prefer sites from other countries. This indicates that localization will play an important role in attracting local users (Murillo, 1999).

Much of the increase in the region is being fueled by two factors: improvements in communications infrastructure and PC sales. The cost of access has dropped dramatically in Latin America over the last year, driving more usage. In 2000, there were 4.2 million Internet accounts

in the region. Growth is expected to continue at a rate of 42 percent per year through 2004 (Latin American market continues to boom, 2000). Mexico has the second largest number of Internet Service Providers (ISPs) in Latin America at 45. While still expensive compared to the U.S., the cost of a dial-up account is down to an average of $26.10 per month (Latin America invests in telecommunications, 1999). A survey of Latin American ISPs in 2000 indicated that investment in telecommunications equipment was about $6.3 million. Dial-up accounts were expected to increase by 87 percent, and dedicated accounts (office accounts) should be up 124 percent. Many users were seeking broadband solutions, such a cable modems, to combat the high cost of telephone access charges. Cable market forecasts indicated much growth in the number of cable users over the next several years (Latin America invests in telecommunications, 1998).

Mexico led the region in PC sales in the third quarter of 1999. This factor also contributed to the growth in the Mexican online user community. PC shipments rose 87 percent in the third quarter compared to the previous activity for the same period in 1998. Fast adoption of new technology, new computers bought to replace aging equipment, and expanded distribution channels are the driving factors. Mexico PC shipments accounted for 34 percent of the region's volume with 433,000 of the region's 1.3 million units.

Growth in the business-to-business market in Latin America is expected to be strong over the next several years. Revenue from business to business transactions online was expected to grow from $1 billion in 2000 to $124 billion by 2004. This further indicates that the Latin American market is preparing for rapid growth (Huge global growth for B2B e-commerce, 2000).

All of these factors indicate that the Latin American Internet market, and specifically Mexico, is growing at a fast pace. During this period online advertising should become less expensive, and new users are expected to become more responsive. In 1999, about 83 percent of Latin American users clicked on banner ads (One in four Latin American users buy online, 1999). If U.S. corporations are serious about expanding into Latin American markets, web presence can improve exposure in these new markets.

Internet Marketing Strategy

One of the most common mistakes companies make is simply building a web site, posting to the net, and then waiting for the orders to pour in. Unfortunately, this is not how it works. Just like other forms of advertising, companies need to get their web site "in front" of people. A web site should be a complementary marketing piece used with other marketing collateral to create a more compelling sales pitch. Corporations should take any one or all of the following steps to market its site in Mexico.

Index Registration

The corporation needs to register the site with search engines and indexes like Yahoo. There are several indexes that are extremely popular in Latin America. Starmedia tops the list as the first Latin American portal. Traditional indexes like AOL, Yahoo, and Lycos also have portals dedicated to Mexican users. Mexican phone giant Telemex has its own portal, Telefonos de Mexico SA de CV.

Press Releases

Corporations should include its web site address in any press releases, especially if they are announced in Mexico. The URL listed should point directly to the Spanish jump page or Spanish translated content on the site. If the corporation secures a com.mx domain, this domain should be used in press releases and other printed material, such as business cards or letterhead tailored for the Mexican market.

Banner Advertising

Banner advertising is still a novelty for many new users in countries with emerging markets. Strategically placed Internet banners can effectively drive traffic to a Web site. The corporation needs to carefully select locations for these banners. Banner ads should be placed in portals where users may be seeking products that the corporation manufactures. Many search engines sell banner space associated with keyword searches. This could be effective for keywords and others that may be pertinent. Many banners are sold by exposure or "how many times a user sees it." It is best to base banner space where usage is determined by "click through" when possible. This means a user has to actually "click" on the banner and arrive at the site.

Magazine Ads in Overseas Publications

Corporations may also want to buy space in overseas trade publications. One advantage of having a Web site is that smaller ad space can be purchased and the company can then include its Web address. The most compelling ads spur the user's curiosity to actually go visit the site. This can be accomplished through announcing specials or using crafty campaigns that leave users questioning where the URL in the magazine ad may take them.

Trade Shows

If the corporation demonstrates its products at overseas trade shows, marketing collateral should show images of the site in the local language and show the country-specific URL if possible. This type of marketing collateral shows that the company is committed to doing business in the local market.

CONCLUSION

For an American business to be successful in Mexico, there are many cultural factors that must be considered. The people are very nationalistic and proud of their history and traditions (Kras, 1999). Perhaps the most difficult concept for Americans to understand is that of time. Mexicans do not believe in rigid timeframes, preferring to be flexible to a much greater degree than most Americans can tolerate. To Mexicans, time is only relative (Arzac, 1999).

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A DISCUSSION OF ISSUES INVOLVING THE RESTRUCTURING OF A COMPANY

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ABSTRACT

Technological innovation forces companies to continually upgrade their products and services in order to remain competitive in the marketplace. Failed attempts at restructuring teach that immediately pleasing shareholders often renders companies too lean to compete efficiently in their industry. However, when companies plan well, restructuring can enhance the their profitability. This paper discusses many of the issues involved in the restructuring of a company.

INTRODUCTION

The term *restructuring* has become synonymous with inflated stock valuations, industry hype, and an overall sense of excitement surrounding earnings projections. However, investors are now beginning to reevaluate their positions after many recently restructured firms have struggled to stay solvent after posting several quarters of increased revenue. Perhaps the hype itself is facilitating the gains by creating a *bubble*, which can quickly deflate, leaving shareholders justifiably bitter. Overall, the denotation of the word *restructuring* is problematic. The word leads people to believe that the entire process of restructuring has been revamped. In fact, the majority of restructurings are simply cutting costs under the guise of something much nobler. In essence, this perceived value is artificially inflated due to market sentiments, and it is further bolstered when earnings are understandably higher due to the short-term effects realized from the selling off of assets, downsizing the workforce, and streamlining management.

THE BASIS OF RESTRUCTURING

Restructuring companies can take on many forms. The rewards can be fleeting or lasting, depending on the model chosen, the reason for implementing the changes, and the overall outlook of the company. Financial restructurings attempt to move from short-term debt to long-term debt. The process is simple and leaves little to debate, except for noting that many analysts often fail to include short-term liabilities when evaluating a company for investment quality. Hence, a company could possibly undermine its appeal to investors by becoming less attractive on paper when, in reality, the company will realize benefits from the partial relief of alleviating the promptness with which pending short term notes must be satisfied. In contrast, restructurings that manipulate assets and human resources can have vastly different approaches and marked differences with regard to overall economic performance.

Unfortunately, the organization's focus has changed from efficiency to immediate profitability, which is shortsighted, and in the long run, damaging to the company's ability to compete within its industry. Gains in efficiency act to increase output and decrease input over the long run, thereby giving shareholders more value. However, consumers thrive on immediate gratification, which, in this case, often serves to undermine the efficiency of the company, damaging it long-term. With profit in mind, companies should increase their focus on strengthening the total revenue rather than dwelling entirely on reducing costs, which can limit capacity and the overall ability to compete. Evidence of this exists in the cases of Xerox and Unisys (Corporate liposuction, 2000), where too much emphasis was placed on cutting costs and necessary assets were eliminated.

Overzealous shareholders and critical analysts are partly to blame for the surge of failed corporate restructuring efforts--their constant demands for increasing earnings has led to serious miscalculations of what is necessary to compete consistently in the marketplace. Companies attempt to provide immediate earnings quarter after quarter, while ignoring technological advances within their industry. After satisfying shareholders for a short term, it becomes obvious that changes must be made in order for a company to continue to compete with others in its market. The problem is that normally a company has already liquidated some of its capacity in order to bolster earnings, which is needed to regain market share. With many options available, settling to please Wall Street should be secondary to reinforcing the company's capacity to excel indefinitely. Given time and introspection, companies could very well overcome immediate obstacles and strive towards building lasting shareholder wealth.

THE FACTORS INFLUENCING A NEED TO RESTRUCTURE

Since the mid-1980s, many corporations have undergone massive facelifts in an attempt to strengthen returns and satisfy shareholders. Many underlying influences guide the decision-making process. Historically, restructurings often attempt to negate damaging economic pressures, such as inflation; however, since 1987 the Federal Reserve has all but eliminated inflation as a credible concern (Filippello, 1999). Additionally, numerous companies had become top-heavy and desired to eliminate unwanted divisions, consuming more than they were producing.

Filippello (1999) stressed the need for companies to move out of activities in which they were not competitive and to concentrate resources towards areas in which they had a competitive advantage. Successful companies are defined as "... those that were able to increase profit margins without relying on product price increases, that adapted to a rapidly changing business environment, and that invested heavily in the technologies of the future" (Filipello, 1999, p. 25). Uncommon to any of these characteristics are the downsizing attempts that deprive companies of the groundwork required to advance their market share.

In addition to market pressure, many non-market factors are influential in signaling a need to restructure (Anslinger, Bonnini & Pasalos-Fox, 2000). Although the market does not directly influence these concerns, it carries certain peripheral issues particular to a company's growth. Anslinger, Bonnini and Paslos-Fox state these secondary effects as follows: 1) a failure to attract highfliers, 2) mismatched business models, 3) more efficient decision-making, and 4) subsidiary growth needs.

Other dynamics signaling companies to reorganize attempt to maximize profitability with regards to market activities. Filippello (1999) cites the intricacies of capitalizing economic profit and cash flows: 1) improve operating efficiencies by reducing costs and enhancing productivity, 2) liquidate low return capital, including divesting or eliminating sluggish operations, 3) add value through alliances, joint ventures, mergers and acquisitions, and through investing in internal research and development programs, and 4) incorporate an element of financial restructuring. Through optimizing the company's cost of capital by using optimal debt leverage and consistent performance, risk will be reduced and the company's credibility with investors will be reinforced (Filippello, 1999). All of these factors help in creating a company ready to compete and succeed in a global environment and in capturing a majority of the market share.

Inefficient management can also provide a catalyst for restructuring. Walker (1998) includes several aspects in his discussion of inefficient management. Walker notes that inefficiency can be due to excessive staffing, salaries, and over-consumption of company perks. Another area, which can be costly, is risk aversion and remaining engaged in strategies that prevent the firm from reaching its full potential (Walker, 1998). If the company's management is unwilling to take risks or reluctant to change its ways, then restructuring efforts could ultimately prove to be futile. It takes commitment on all levels of production to implement plans to invigorate a company and break free from limiting activities.

Problems with Traditional Restructuring and Downsizing

In the late 1990s, investors supported companies that announced plans to reorganize, merge, or spin off new divisions. Research has shown that, in the majority of cases, the resulting increase in stock valuation is usually unfounded, and almost inevitably short-lived. Krishnan and Park (1998) note that reorganization often results in *organizational trauma*. Krishan and Park cite a 1990 survey conducted by the American Management Association on downsizing where "... it was found that more than 50 percent of the firms which downsized to become lean and mean, became lean and lame because they were not prepared for the event" (1998, p. 303).

According to Walker (1998), restructuring often increases stockholder wealth while possibly jeopardizing the viability and competitive integrity of the corporation. The term *corporate liposuction* was coined by *BusinessWeek* and visually alludes to the idea of removing excess structure within the corporation (Corporate liposuction, 2000). The problem with corporate liposuction is that it often has detrimental effects to the overall well being of the organization. In the case of humans, liposuction can unintentionally damage organs--removing too much fat and forcing the body into trauma--and serious complications may result. The same is true in business: remove too much of the inner workings and, inevitably, impede the company's ability to survive. "The cost-cutting measures that may generate a quick earnings boost can make it difficult or impossible for companies to engage in the kind of radical innovation necessary for survival" (Corporate liposuction, 2000).

Krishnan and Park (1998) argue that high levels of downsizing immediately negate the effects of any positive ground gained due to eliminating duplication. When large-scale restructurings are announced, many would rather leave on their own accord than face the uncertainty of continued employment (Krishnan & Park, 1998). Another related issue is that when employees see their colleagues terminated or forced out of the organization, it demoralizes them by instilling a sense of job insecurity (Krishnan & Park, 1998). This has a negative impact on the overall effectiveness of the company. Unstable employees inevitably will not be as efficient as the permanent workforce. Undermining the position of the workforce provides an uncomfortable work environment, which lends itself to less production. There is no way to appease the majority of a workforce and not discourage the remaining employees. This is a disruptive atmosphere that manifests itself because of the restructuring attempts of a company.

Another problem forcing companies to reevaluate their position is *disruptive technologies* (The myth of corporate reinvention, 2000). Many innovations are initially overlooked by large companies wishing to maintain their higher profit margins with an already established clientele.

STRATEGIES FOR IMPLEMENTING CHANGE

There are many options available when companies seek to change their performance in the marketplace. According to Bittlestone (1998), deciding what processes to change and the intuitive process is a one-man business. However, the stakes are much higher and the information is much more varied in large corporations with multilevel management. Bittlestone (1998, p. 88) states: "Production does not understand the difficulty of selling; finance does not appreciate the dynamics of R&D; in fact nobody apart from the chief executive gets to see the whole picture, and he or she has neither the time nor the grasp of detail to master these interactions." Additionally, many companies ignore factors such as customer satisfaction because of the balance sheet.

Bittlestone (1998) states that companies cannot measure productivity as compared to customer satisfaction through monthly management reports. If productivity and customer satisfaction could be correlated with improving revenues and visual observations could be made of the point at which returns become diminishing, "we could see by how much the gain in customer satisfaction translates into sales" (Bittlestone, 1998, p. 88). Without this knowledge, there must

exist a strong understanding of what factors influence what in the business as far as the bottom line is concerned (Bittlestone, 1998).

Restructuring also should have a clear focus in mind. Liquidating low return capital is futile without making arrangements to improve overall efficiency. There should be a clearly defined model, which includes enhancing operating efficiency, liquidating low return capital, investing in value through alliances, joint ventures, mergers and acquisitions, research and development, and optimizing the costs of capital through the use of debt leveraging (Anslinger, Bonini & Patsalos-Fox, 2000). Companies must avoid using financial statements to define what made them successful. "Believing you can improve your bottom line by tinkering with your profit and loss (P&L) is like thinking you can make a car go faster by pushing up the speedometer needle with your finger" (Bittlestone, 1998, p. 88).

Historically, the driving performance behind an effort to restructure has been to refocus, to turn a company's lagging financials around, and to adjust to economic conditions. However, other situations can encourage companies to restructure as well. When faced with a unique division of the company that either outperforms or significantly underperforms compared to the company as a whole, the corporation may wish to grant that division freedom to explore the financial markets on its own. According to Anslinger, Bonini and Patsalos-Fox (2000), there are several ways for a company to spin off a division: 1) it can spin off the subsidiary by selling its entire stake to the public--usually, as a special stock dividend--and creating a new company with a separate and independent board, 2) it can undertake an equity carve-out, issuing or selling a portion of its equity in the subsidiary to the public and (usually) keeping a majority stake in the company, which has a separate board, assets, liabilities, and officers, or 3) it can create a tracking stock--a separate class of the parent company's stock that has a claim on the cash flow generated by the tracked unit and is intended to reflect that unit's performance. In the case of tracking stocks, no separate legal entity or governance structure is created (Anslinger, Bonini & Patsalos-Fox, 2000).

CONCLUSION

Corporate restructuring is a force that continually reshapes the face of the marketplace. The corporate world is changing; therefore, the need to adapt is integral to the success of business. Technology outdates itself in a marketplace of expanding knowledge and innovation. Companies must be willing to invest in their future to reap the benefits and live on perpetually.

The statistics are noteworthy. Companies that downsize the internal workings of their workforce without a clearly defined mission inevitably will fail. Walker (1998) states that 31 percent of companies that undertake a massive restructuring suffer severe financial distress, including bankruptcy. Success stories are written from well-researched plans and efficient execution. Instead of cutting its capital when restructuring, the Corning corporation doubled its investment in research and development, built a new plant, and hired over 700 new engineers and scientists (Corporate liposuction, 2000). Within two years of Corning's restructuring, sales increased from 4.7 billion to 7 billion (Corporate liposuction, 2000).

Companies are taking more risks by downsizing their firms than by carefully planning an implementation strategy. Corporations are reluctant to disappoint shareholders. Hasty decisions are being made which take the guise of restructuring, but in reality are cost-cutting schemes. Executives should be aware of the long-term opportunity costs associated with corporate liposuction. After the immediate gains have been distributed, the very part of the company that is needed to compete may well have been downsized. After all, once the initial plan fails, the next step is to replace the company's officers.

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Academy of Creativity and Innovation

TAKING A HOLISTIC APPROACH FOR SERVICE LEARNING PROJECTS–THE IMPORTANCE OF REFLECTION AND COMMITMENT DEVICES–THE EXAMPLE OF THE GLOBAL VILLAGE CAFÉ

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ABSTRACT

The subject of this research is the Global Village Café, a unique service learning experiment which has run for four years at a small AACSB accredited Mid-Western business school. In the face of intense competition for tuition dollars, competition from cheaper online options, and greater demands for relevant skills from employers, traditional paradigms which propose educators as transmitters of knowledge and students as passive recipients are quickly being challenged by new experiential pedagogies.

The Global Village Café (GVC) is an intense one quarter undergraduate, senior level service-learning project run under the auspices of the entrepreneurs/small business class in the Fall of each academic year. The students have one quarter to design, plan and run a restaurant for two very exciting nights as their final exam. In this paper the author will first develop a list of good service learning projects and then analyze the Global Village Café to see how well it conforms to those characteristics. The findings highlight the importance of analyzing the project in a "holistic" way in terms of the effect of its specific characteristics on the learning environment, building opportunities for reflection, and structuring commitment devices within the project.

INTRODUCTION

Educators continually search for that magical essence which when injected into the learning experience promise to energize students and maximize retention. This need has become even more immediate as the costs of formal university education skyrocket, competition for students has become even more intense, affordable and effective online options multiply, employer training programs multiply, employers demand more from high paid graduates and current methodologies appear to be failing to produce adequate results (Weiss, 2003/2004, AMA Research 2004). Traditional paradigms which propose educators as transmitters of knowledge and students as passive recipients are quickly being challenged by new pedagogies. Many of these new pedagogies posit the student/teacher relationship to be one of interaction and mentoring and the role of the educator to be one of facilitating experiences which create personal relevance and real world linkages (Dudderar, 2003, Steffes, 2004).

Academics have been increasingly turning to the "experiential education" literature in search of answers. The emerging academic service learning paradigm has been debated as one proposed solution to the search for more effective ways of designing the learning experience. The subject of this research is about a very successful four year experimentation at a small AACSB, undergraduate, Mid-Western business school, with a variant of academic service learning, one with some interesting twists and turns, which has had some striking empirical results. The experiment is called the "Global Village Café".

The Global Village Café (GVC) is an intense one quarter undergraduate, senior level project run under the auspices of the entrepreneurs/small business class in the Fall of each academic year. The students have one quarter to craft a full service restaurant from scratch, from concept and design, cuisine to theme, operations to financials, permits, rentals, charities, outside events, expenses

and long term investments, suppliers, flow charts, selecting team leaders and associates with appropriate skills, hiring entertainers, public relations, marketing, and the myriad of tasks involved in such an enterprise, under extreme time constraints, and intense pressure for excellence and innovation. The experience culminates with the final exam, opening night, when dignitaries and other customers arrive, the lights dim, the music and aroma of food waft through the air, glasses "clink" together, and its show-time.

A BRIEF SYNOPSIS OF WHAT ONE SHOULD LOOK FOR IN A GOOD ACADEMIC SERVICE LEARNING PROJECT

Empirical studies provide support for the effectiveness of experiential learning approaches in general, service learning pedagogies in particular (Madsen, 2004, Russel & Sibthorp, 2004, Slavkin, 2003, Lizzio, 2004, Anonymous, 2004). Research on brain-based pedagogies (BBP) largely supports the premises of service learning (Slavkin, 2003). BBP proposes a view of cognition that envisions the brain as a complex interrelated ecosystem. This approach asserts that the stronger the interaction between information and skills, and the more individually relevant and meaningful the experiences, the greater the likelihood that students will engage in higher order thinking, and the more likely knowledge will become nested and accessed to effect thinking and behavior. Learners learn better in environments which are intriguing, multi-sensory, and with dynamic problems with multiple solutions. BBP states that a good learning environment allows students to:

1. Demonstrate knowledge
2. collaborate
3. incorporate curricula

Furthermore BBP maintains that it is critical that participants be offered the opportunity to reflect (Steffes, 2004). Without it, the learning process cannot be enhanced through thoughtful reconsideration, abstraction and experimentation with modified perspectives and approaches. Petkus, et al (Petkus, 2000), maintain that a good academic service learning project must contain each of the learning phases identified by Kolb (Kolb, 1984). In other words, a good service learning project must present the student with not only reflective opportunities, but concrete experiences, a chance for abstract conceptualization, and active experimentation. Therefore:

4. Must offer opportunities for exposure to concrete experience, reflection, abstract conceptualization, and active experimentation

Furthermore, BHP asserts that when learners become involved in decision-making and applying curricular knowledge to real life, the more likely the information appears meaningful and relevant and is retained. The environment should be one which is:

5. Multiple sensory, as opposed to a pure lecture format
6. Presents dynamic multi-causal issues with multiple solutions

Also any service learning project must be analyzed "holistically" as each project creates its own dynamic which has an immediate effect on learning outcomes. It must also have clearly delineated goals and be thoughtfully constructed in a way which assures benefits to both the students and the recipients of the service.

7. Must be considered "holistically" and have thoughtfully constructed with goals and limits delineated and the project environment carefully considered.

A final critical characteristic, also highlighted by BHP theory, is that the project must "intrigue" and "interest" student participants. However, this author's experience suggests, that it is critical that student participants go well beyond interest and intrigue and develop a sense of ownership in the project and begin to associate their own fortunes, their own sense of integrity, with the project.

8. Is aware of the need for projects to "intrigue" and "interest" participants, and includes effective tools to motivate students to feel personal ownership of the projects and have an intimate personal concern with its success or failure.

GVC EMPIRICAL EVALUATION: THE BIG EIGHT- EVALUATING THE GVC

Below I apply the "big eight" characteristics of good service learning projects to an analysis of the GVC. Of course by the fifth iteration we have ironed out many of the bumps and addressed many of the problems which we encountered.

1. Demonstrate Knowledge: The GVC is set up into sub-teams, one for each of Accounting, Operations, Design, Public Relations, and Marketing. Before being selected for employ in any one of the departments, students have to submit a full resume and cover letter explaining why they believe they are qualified for the position for which they are applying. These resumes and letters are read by the professor, and in consultation with students and other faculty, positions are filled. Majors and experience are matched to functional position requirements. For example, it is traditional for accounting majors to be selected to run the accounting operations of the GVC. Accounting is in charge of setting up financial statements, budgets, a purchase order system, managing petty cash, managing working capital, managing cash the night of, collecting and consolidating timelines and producing a GVC critical path model and/or other charts. As a result of this set-up students get ample opportunity to demonstrate knowledge.

2. Collaborate: The entire GVC is a collaborative exercise. The organizational structure of the GVC is quite flat and collaborative inter-team meetings are highly encouraged. Many are structured into the format of the project itself. The GVC team coordinators set up a Yahoo group web-space where each department places all of its meeting minutes for every other group to see, where group emails are posted, polls are taken about concepts, where group emails can be sent and recorded for access and email addresses and cell phones are listed. The entire GVC meets on a weekly basis during which each sub-team gives a short 10 minute presentation regarding progress and challenges after which they invite associate input from all of the GVC. After this, the GVC separates into department/teams and sub-team coordinators use this time to integrate new ideas, discuss challenges and address critical current items.

3. Incorporate Curricula: The first six weeks of class are when the more traditional lecture PowerPoint presentation, text reading, and quizzes take place focusing almost exclusively on the sections of the business plan relevant to sub-team responsibilities (finance, marketing, etc.). Past analogies drawn from previous years' experiences and other small business cases are used to illustrate the concepts taught. The final chapters of the course focus on customer service and include a debate of "Raving Fans" by Blanchard ( ). The GVC team is given a challenge to design a unique and innovative service plan for that year's GVC along the lines of the extraordinary examples in the book by Blanchard.

4. Reflection: First, the weekly meetings during which each group presents its progress, challenges and ideas is a great chance for them to reflect upon decisions and options as a group. Secondly, we have also noticed that the web space has become a vibrant reflective vehicle for GVC associates to

reflect upon decisions, poll GVC associates, and test new approaches. Thirdly students participate in a fairly complete trial run during the last week, testing out and modifying plans for opening night's operations. Fourth, students meet after the first night in a serious discussion of mistakes and triumphs, and make modifications for incorporation during the final night. This last year, the chefs made breakfast for all associates after the first night at which problems were discussed and solutions decided upon. The final source of reflection is the requirement that each department create a history, with contacts, forms, emails, problems and solutions, recommendations for future "GVC'ers", meeting minutes, and other important issues.

5. Multiple Sensory as Opposed to Pure Lecture Format: As previously discussed, the GVC uses a combination of traditional lecture, PowerPoint presentations, quizzes and direct experiential immersion. Also, we shortened the traditional course content, freeing up more time during the course for application and experience.

6. Presents Dynamic Multi-Causal Issues with Multiple Solutions: We have observed that over the years this seems to be a natural outgrowth of the operation of the GVC project. In fact this presents the greatest challenge to young sub-team coordinators (team leaders). The entire event forces students to make difficult decisions under fire, not only night of, but due to the compressed time-frames of the entire project. Students learn that suppliers and vendors do not always do what they say when they say they will. Then they are faced with having to design alternatives or compromises from the optimal solution. A caution here is to tread lightly and only intervene when absolutely necessary. Let the real life education roll whenever possible.

7. Must be considered "holistically" and have thoughtfully constructed with goals and limits delineated and the project environment carefully considered.: In a sense there are two levels of learning going on, one with students of the event during the 10 week project, and with us as educators in a longer term way, about the project's design. The reader is encouraged to visit our website located at www.globalvillagecafe.org . The goals of the GVC are clearly outlined and explained to the students. The syllabus itself is about 12 pages long, a large portion dedicated to the global village café. The ten week timeframe along with the course content requirements has led us inevitably to the decision that we could not start each year's project without a beginning framework. On the other hand we would like each year to have to struggle with most of the major questions. Therefore, each year the GVC is presented with the prior years histories, contacts, a reservation database, access to past GVC employees for advice. And most importantly, the back of the house (the culinary operation) is pre-arranged for the students, although students play an important part in the selection of the cuisine and presentation. This last year the GVC partnered with a professional culinary university.

8. There are many effective ways to generate student commitment: I believe that this, partially not by plan, has turned out to be one of the GVC strong-points. Getting student commitment from seniors in their final year of undergraduate education, while they are juggling jobs and school, looking for permanent employment, and involved in extra-curricular activities can be a challenge as any undergraduate professor will admit. However, somehow the GVC seems to have the power to get student commitment well beyond what is expected. Students will work 20-30 hours, on occasion, just on this project, because they choose to. I can find students hanging around the business building after hours discussing plans for the event, having group meetings, and brainstorming.

The first possible, though clearly only partial, explanation is the student evaluation system. 50% of the final class grade is the GVC. This author is considering raising this to 60% for the next year. Each individual is graded based on two components. The first is the team component. The

second is the individual component. Students receive the overall team score unless there is some individual deviation from that score. The penalties are clearly delineated.

Other commitment devices include the peer awards given after the final meal in a meeting with all of the GVC associates. Awards include the coveted top GVC associate, sales awards and others. These awards come with cash or prizes, a plague or certificate, and the guarantee of a raving letter of recommendation from faculty.

Clearly the substantial independence and decision making authority for students within the GVC was an important reason for student ownership and commitment. The trick is to walk the fine line between intervention and total independence without snuffing out enthusiasm.

It has become unambiguously clear that the grade is only of peripheral explanatory value when analyzing the reason for the high level of commitment. Another commitment device is the philanthropic mission of the GVC. Philanthropy has remained the raison de-E'tre of the GVC. The 2004-2005 year was labeled "Year of the Global Child". In fact, it appears that this theme has turned out to be the most compelling for students of all genders, and one which motivated and incredible amount of commitment from them. The GVC was able to generate thousands of dollars for children's causes.

The effectiveness of personal involvement with the philanthropy as a commitment device, as opposed to solely participating in the generation of funds, has been revealed to us over the years. For example, this year the students organized a party for a local school for disabled children, cooking for them, arranging a story-teller and magician, as well as clowns. Students were paired with individual children for the meal. The personal exposure to these children with the students, many of whom had never been exposed to special needs children, clearly had an emotional impact.

Certainly all of the media attention has had an impact on student commitment. Every year the event gets news coverage in the local news as well as in media with more statewide coverage. Sometimes there is also television coverage live at the event.

Another motivator is the fact that real customers attend the event. Many are fellow students, past GVC alumni, parents, university employees, dignitaries, and successful Alumni. The President and his wife and the Dean of the School of Business always attend with many Advisory Board members. This puts pressure on students to excel and try to surpass the results of previous years.

Over the years, the GVC has become a highlight for the student experience for at least 25 to 40 students each year. These students have begun to perceive themselves as part of a special club, a fraternity/sorority of "GVC'ers". This year, the communication between the GVC staff for this year continued on until graduation day with students exchanging phone numbers. Every year many of the patrons at the GVC are past alumni, coming to enjoy a meal and to size up this year's GVC compared to their project. Again, this is an unplanned unforeseen development which we greet with enthusiasm.

CONCLUSIONS

Business educators are faced with an environment in which they deal with competition from other schools in an environment of rising tuition and the appearance of new lower cost on-line options. Indeed they are also facing increased demands for real-world skills from public and private employers in order to justify higher paid degreed applicants. Traditional MBA programs have experienced decreased demand for their programs. Over the past few decades we are experiencing increasing questions regarding the reigning pedagogical paradigm which view students as passive recipients of lecture and textbook driven learning environments.

This research focused on one variant of this experiential paradigm known as service learning. The author presented the Global Village Café, a fairly successful service learning project which takes place each fall at a mid-western undergraduate AACSB accredited business school. The paper identified eight criteria that identify good service learning projects and analyzed how well the Global Village Café met those criteria. The findings support the conclusion that the GVC does indeed,

fairly well, fulfill the "big eight" criteria for successful service learning projects. One could argue that the GVC has excelled in three areas, reflection, taking a "holistic" approach and commitment devices. In terms of reflection, the GVC has evolved into one which has institutionalized opportunities for reflection.

It is this author's opinion that one of the important characteristics of good service learning projects is that they be intentionally designed which considered the environment which that projects unique framework and dynamics create. Second and probably the most significant finding was the identification of the critical importance of another key to successful service learning projects less frequently discussed in the literature. That is the need to carefully build multiple commitment devices into the service learning project to draw the students into the project. These must be crafted with the clear goal transforming perceptions of the project from one of being another academic responsibility to personal involvement, one in which they begin to perceive that the success of the project is directly related to their own sense of integrity. It should be a project that is not only seen as having real world relevance and one that interests students, but one that creates commitment to the goals of the project, loyalty, ambition, interest and enthusiasm.

References available upon request.

Academy of Entrepreneurship

CEO CASH COMPENSATION IN SMALL, YOUNG, GROWING FIRMS

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ABSTRACT

This study examines factors related to CEO cash compensation for a sample of publicly-held firms that are small, young, and growing. Our key finding is that founder CEOs accept lower cash compensation than non-founder CEOs. This evidence suggests that, for small, young, and growing firms, founder CEOs do not extract unusually large private benefits that harm outside shareholders. Weaker evidence suggests: firms with greater growth opportunities pay higher cash compensation to CEOs; firms with greater outsider representation on the board pay lower cash compensation to CEOs; and firms with greater inside director share ownership pay higher cash compensation to CEOs.

INTRODUCTION

CEO compensation is one mechanism by which outside shareholders can mitigate the agency conflicts between managers and outside shareholders. Researchers have long been interested in the determinants of CEO compensation (see, e.g., Jensen and Murphy, 1990a; Mehran, 1995; and Core, Holthausen, and Larcker, 1999;). However, most of these studies focus on the sensitivity of CEO compensation to firm performance in larger, older, and slower-growing firms. The sensitivity of CEO compensation derives from that compensation which is equity-based. Because CEO cash compensation is not sensitive to shareholder wealth, relative to equity-based compensation, cash compensation is viewed as inherently more likely to increase agency conflicts between managers and shareholders. All things equal, as the level of CEO cash compensation increases, the more CEO incentives and shareholder incentives diverge.

Because the nature of agency conflicts can differ for small vs. large firms, young vs. old firms, and high-growth vs. low-growth firms, the mechanisms for resolving these conflicts also can differ. Consequently, the determinants of CEO compensation documented in studies of larger, more mature firms cannot necessarily be generalized to other types of firms. No studies (to our knowledge) have examined CEO cash compensation in small, young, and growing firms.

The goal of this study is to investigate the determinants of CEO cash compensation in small, young, and growing firms. We gathered 144 firms from the 1999 Compustat file. Each firm had a book value of assets less than $45 million, had been incorporated 15 years or less, and had experienced at least a 40% total increase in sales over the previous 5 years. We then analyzed the relationships between the status of the CEO as firm founder, growth opportunities, board of director composition, financial leverage, ownership structure, and total CEO cash compensation. Our sample period covers the years 1996-1999.

This analysis is designed to determine whether firm founders use their position as CEO to extract higher cash compensation, whether firms with greater growth opportunities pay higher cash compensation for managerial talent, whether inside board members use their influence to increase CEO cash compensation, and whether outside board members use their influence to limit CEO cash

compensation. We focus on the cash compensation of CEOs, rather than stock or stock options that CEOs receive, specifically because cash compensation does not increase the sensitivity of CEO wealth to the wealth of outside shareholders. Thus, cash compensation is more likely than equity-based compensation to be a source of agency conflicts between managers and outside shareholders.

Examining whether founder CEOs receive higher cash compensation is particularly appealing for our sample of small, young, and growing firms. We argue that founder CEOs of these firms should be more valuable than founder CEOs of larger, older, and slower growing firms. This would lead founder CEOs in our sample to extract high cash compensation. However, we also argue that founder CEOs in our sample of firms are often in relatively weak negotiating positions with external financiers. This would lead founder CEOs in our sample to accept low cash compensation. Because the net effect of these forces is unclear, the relationship between founder status and CEO cash compensation presents an interesting empirical issue.

POTENTIAL DETERMINANTS OF CEO CASH COMPENSATION

We test whether the following firm-specific factors are related to CEO cash compensation.

Founder. If the CEO of the firm is also the firm's founder, then the variable *Founder* is set equal to one.

Market-to-book. *Market-to-book* ratio is the market value of equity divided by the book value of equity, and is used as a proxy for the growth opportunities of the firm.

Outside directors. *Outside directors* is the percentage of directors who are outsiders. Outsiders are not: officers and former officers of the firm; relatives of officers; and those directors who have known business relationships with the company.

Financial Leverage. *Financial Leverage* is long-term debt divided by the book value of assets.

Outside ownership. *Outside ownership* is the percentage of firm shares held by outside directors on the firm's board.

Inside ownership. *Inside ownership* is the percentage of firm shares held by all directors, except the CEO, who are current officers of the firm.

CEO ownership. *CEO ownership* is the percentage of shares held by the CEO.

RESEARCH METHODS

As described in the introduction, we gather a sample of firms that are small, young, and have fast growing sales. In our first series of tests we regress the logarithm of CEO cash compensation on all variables discussed in the prior section. In addition, we control for firm size by including the log of total assets as a right hand side variable. We refer to this variable simply as *Firm Size*. Finally, we control for the year in which the data are relevant. Because CEO salaries may have changed over our sample period, we control for this possible effect by including the indicator variable *Year* in all regressions. This indicator variable takes a value of one if the data were current for 1998 or 1999, the later half of our sample period. In our second series of tests we regress CEO cash compensation, scaled by firm size, on all variables discussed in the prior section as well as *Year*. Because CEO cash compensation is scaled by firm size, we omit firm size as a right hand side variable in these regressions. The first series of tests addresses factors related to the level of CEO cash compensation. The second series of tests addresses factors related to the proportion of firm assets devoted to CEO cash compensation.

RESULTS

For our first series of tests we discuss (but do not show in table format) the results of regressing the log of CEO cash compensation on all variables discussed in the "POTENTIAL DETERMINANTS" section, in addition to the variables *Firm Size* and *Year*. The only variables significantly related to CEO cash compensation are *Firm Size* and *Founder*. As expected, *Firm Size* is positively related to cash compensation ($p = 0.0115$). More importantly, *Founder* is negatively related to cash compensation ($p = 0.0022$). As tests of robustness, we duplicated the first regression (which includes all right hand side variables) using various, alternative model specifications. *Founder* retains its sign and statistical significance in each model. No other variables, except *Firm Size*, are significantly related to CEO cash compensation. The adjusted R-Square values for these tests range from 8.98% to 12.77%. Overall, these results suggest that founders are willing to accept lower cash compensation to be CEOs.

For our second series of tests we discuss (but do not show in table format) the results of regressing CEO cash compensation, scaled by firm size, on all variables discussed in the "POTENTIAL DETERMINANTS" section and on *Year*. Using this alternative measure of CEO cash compensation, the negative sign on *Founder* ($p = 0.0416$) again suggests that founders are willing to accept lower cash compensation to serve as CEO. Consistent with relatively high-growth firms competing more aggressively for managerial talent and paying a risk premium (to compensate CEOs for bearing greater employment and equity risk), *Market-to-book* is positively related to CEO cash compensation ($p = 0.0023$).

Agency theory generally predicts that outside director influence on the board mitigates shareholder-management conflicts whereas inside director influence on the board exacerbates such conflicts. Our evidence on CEO cash compensation is consistent with those predictions. *Outside directors* is negatively related to CEO cash compensation ($p = 0.0805$). This finding suggests that outside directors use their influence to limit CEO compensation that is not equity-based. *Inside ownership* is positively related to CEO cash compensation ($p = 0.0487$). This evidence indicates that inside directors with greater voting control use their influence to benefit the CEO. Taken together, our findings regarding board control and share ownership support existing evidence on other types of firms that suggests outside directors are more likely than inside directors to serve the interests of outside shareholders (Brickley and James, 1987; Hermalin and Weisbach, 1988; Weisbach, 1988; Byrd and Hickman, 1992; and Brickley, Coles, and Terry (1994). None of the remaining variables, which include *Year*, *Financial Leverage*, *Outside ownership*, and *CEO ownership*, are significantly related to CEO cash compensation.

For tests of robustness, we specified several different models to include those variables initially found related to CEO compensation. In these alternative specifications all variables retain their original sign and most retain statistical significance. In particular, *Founder* is always significant at the 0.087 level or better. The adjusted R-Square for the model that includes all right hand side variables is 10%.

Because the negative relationship observed between *Founder* and CEO cash compensation is robust across multiple model specifications and across alternative measures of CEO cash compensation, we view this result as the most reliable and interesting one from this study. Although our findings concerning *Market-to-book*, *Outside directors*, and *Inside ownership* are suggestive, they should be interpreted with caution because they are sensitive to different measures of CEO cash compensation.

SUMMARY AND CONCLUSION

In this study we investigate the determinants of CEO cash compensation for a sample of publicly held firms that are: (1) small; (2) young; and (3) growing. These three firm characteristics describe the type of firm that many people envision when they think of firms run by "entrepreneurs."

Although numerous studies have investigated CEO compensation in larger, older, more established firms, none to our knowledge have focused on the type of firms that are sampled in this study.

The main finding from this study is that, for a sample of small, young, and growing firms, founder CEOs accept lower cash compensation than non-founder CEOs. The evidence regarding founder CEO cash compensation is robust to numerous model specifications and alternative measures of cash compensation. We conclude that founder CEOs cannot use their special status to extract unusually large benefits at outsider shareholders' expense when firms are in an early, dynamic stage. A reasonable interpretation of the evidence is that CEO founders of these firms are unproven and have a greater need for external financing. These two factors weaken the ability of CEO founders to negotiate high cash compensation.

Weaker evidence from this study suggests that small, young, growing firms pay CEOs greater cash compensation when the firm's growth opportunities are relatively high and when inside directors have more control over the firm's shares. In contrast, these types of firms pay CEOs lower cash compensation when outside directors control more board seats. Although our findings regarding these other factors are less robust, they are broadly consistent with agency theory predictions.

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SOURCES AND TYPES OF OPPORTUNITIES FOR NEW ENTERPRISE ESTABLISHMENT AMONG RURAL COMMUNITIES: A CASE STUDY OF 10 FARMING COMMUNITIES IN GHANA

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ABSTRACT

This paper presents the findings of a research conducted to determine the sources and types of opportunities for new enterprise establishment among people living in rural communities of Ghana. In all 71 entrepreneurs and 32 prospective entrepreneurs were selected from 10 rural communities and interviewed using interview schedules and recording of life stories. The data was analysed qualitatively. The findings revealed that even though entrepreneurs in rural communities do recognise the existence of opportunities for new enterprise establishment in innovations, this usually happens after they had acquired self-employable skills and are in the process of mobilising financial and material resources. The research also revealed that the most predominant sources of opportunities frequently recognised and used by prospective rural entrepreneurs are parents and spouses. Through social interaction between parents, spouses and their dependents, prospective rural entrepreneurs identify three types of opportunities for new enterprise establishment namely; opportunities to acquire self employable skills; opportunities to apply self employable skills to establish new enterprises and opportunities to regenerate latent skills for new enterprise establishment. These types of opportunities improve upon entrepreneurs ability to use available technical innovations for new enterprise establishment.

THE STATE OF THE ART OF ACADEMICALLY BASED ENTREPRENEURSHIP CENTERS

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ABSTRACT

This paper describes the results of a national survey of directors of academically based entrepreneurship centers at colleges or universities. The results will be of interest to current and prospective center directors, faculty associated with such centers and administrators responsible for directing organizational resources to entrepreneurial activities.

We describe the general profile of current centers with regards to institutional resources (human and financial), activities in which the centers engage, levels of student involvement, composition of advisory boards, funding sources and means by which success is measured. We also describe the activities and structure of the typical center director's job. Attributes of centers are correlated with reported measures of success and levels of recognition. Content analysis of open-ended questions provides suggestions as to how excellence is achieved in centers and what challenges the future holds. The paper concludes with summary observations from the results and implications for centers in development or early in their operations.

The sampling frame was developed from a general Internet search, use of Entrepreneur magazine lists and the membership list of the National Consortium of Entrepreneurship Centers, and yielded a list of 120 centers. We received responses from 53 entrepreneurship centers for a response rate of 44%.

SMALL BUSINESS GROWTH: DEVELOPMENT OF INDICATORS

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ABSTRACT

While small businesses continue to flourish in the private sector, there still continue to be small businesses that either do not experience the success that the owners desire or that ultimately fail. In order to better understand the conditions that indicate when a small business is growing or ready to grow, not only do indicators of growth need to be developed, additional indicators concerning the organization's plans, communication, and human resource management issues of trust and challenges need to be examined, since these issues might influence organizational growth. This article attempts to develop instruments that can be used to assess small businesses and the conditions that need to be present in the business in order to enhance the likelihood of successful growth of the business.

INTRODUCTION

A large component of the U.S. economy is the result of successful small businesses. To illustrate the role that small businesses play in the U.S. economy, statistics found in small business textbooks (e.g., Scarborough & Zimmerer, 2003) indicate that small businesses account for 98.5 percent of all businesses; 75.8 percent of the nation's new jobs; 52 percent of the private sector workforce; 51 percent of private sector GDP; and 47 percent of business sales. These facts provide evidence that small businesses are important to the health of the U.S. economy.

The present study attempts to extend preliminary research conducted by Howard (2001), where the focus was to begin to determine when a small business owner might consider expanding his or her workforce. Planning, communication, trust and additional human resource management concerns that might influence organizational growth in areas such as profits, sales and market share will also be considered. First, this study will briefly discuss the literature to date, focusing on growth, planning, communication, trust and human resource problems. Second, the research method will be described. Third, the results of the scale development will be presented, to include a brief description of the items included in each scale. Finally, a discussion of the implications of the scales will be presented.

LITERATURE REVIEW OF SMALL BUSINESS GROWTH

Given that the present study focuses on the development of instruments that are designed to measure conditions within a small business that may be related to profits, sales and market share, all functions of firm growth, the literature review will also focus on firm growth. Additionally, references will be made to human resource management issues, such as the expansion of the workforce, planning, trust, communication in organizations and human resource problems that small businesses face, given that these issues can influence the growth of small businesses.

Flamholtz (1990) has laid out a framework describing how businesses grow. While Flamholtz (1990) identifies seven stages of organizational growth, the first 3 stages are of particular importance and interest to small business (Howard, 2001). The first stage is that of new venture, which is when a small business is just beginning. Markets and products are being defined and developed in this stage. The second stage is expansion, and can focus on increased sales, revenues, market share, and ultimately the number of employees (Flamholtz, 1990). The third stage is

professionalization, and focuses on formalizing the goals, processes and functions of the organization, and is considered to be closely related to expansion (Howard, 2001).

Examining stages two and three more closely, human resource management concerns begin to enter the picture in these stages. During expansion there may be a need for an increase in the number of employees. This can be a result of trying to increase sales and market share, as well as organizations having to battle turnover of employees (Flamholtz, 1990). Additional problems result because of the increased growth, resulting in situations where employees believe that they know what the status of the inventory of the product, only to find out later that the product they believed to be in the inventory is gone (Flamholtz, 1990).

During professionalization, management systems focusing on planning, organization, management development and control are developed (Flamholtz, 1990). The formalization places an emphasis on organizational planning, which may include the number of employees in the organization. Additionally, control measures could also include enhancing communication in the organization, as well as addressing human resource management problems.

While formal planning may not be prevalent in small business, there is evidence that planning is related to the successful growth of small businesses (Gray, 1999). In two different qualitative studies (Barringer & Greening, 1998; Greening, Barringer & Macy, 1996) evidence was found that in order to successfully expand the workforce of a small business, planning for growth must be carefully done, considering a wide variety of human resource management issues, such as revision of compensation plans and providing realistic expectations to new employees. All of this evidence indicates that planning in small business may be an indicator of when a small business should expand its workforce (Howard, 2001).

A second area of interest as small businesses expand their workforce is the importance of communication. Communication with employees should be focused at ensuring that employees understand the direction of the organization, leading to a sharing of the organization's vision and objectives (Dyer, 1996). When organizations expand, communication difficulties have developed, and it is important to attempt to proactively address potential communication issues before and during the time when expanding the workforce (Greening et al., 1996; Nichols-Nixon, 2005). Consistent with these findings, Howard (2001) found that communication of the organization's plans through meetings demonstrated a positive, significant correlation with growth of organizational profits.

Trust is an issue that has not been widely studied in relation to growth in small business. However, trust has been found to have a significant, positive correlation with organizational profits (Howard, 2001). Small business owners and managers in small business need to be able to trust their employees. If they do not develop some level of trust in their employees, they may find themselves attempting to complete tasks and jobs themselves rather than delegating tasks to employees. This can lead to an underutilization of employees, as well as contributing to the burnout of small business owners and managers.

As a small business expands its workforce, it is reasonable to expect that the organization will experience some problems of a human resource management nature (Kotey & Slade, 2005). In an exploratory study by Howard (2001), a wide variety of human resource problems were identified by owners, managers and employees of small business. Most notably, staffing problems and appropriate salaries were noted as contributing to problems in the organization.

METHOD

Sample

To establish the reliabilities of the scales, a systematic, random sample was drawn from a 10 county area in the Midwestern section of the United Sates. A list of 4000 small businesses was obtained from the State of Illinois Department of Commerce and Community Affairs. Selection of

organizations was based on a rule of selecting every other organization, resulting in a sampling of 2000 small businesses. Responding organizations ranged in size from 2 to 600 full time equivalent (FTE) employees, with a mean of 48.6 FTEs. Organizational sales ranged from $60,000 to $175 million, with a mean of $9,373,840.

Procedure

Surveys were sent to the owners of small businesses. If the owner could not be identified, the surveys were mailed to the president of the small business. A cover letter describing the study accompanied the surveys. The cover letter indicated that participation was voluntary and that responses would be kept confidential. Of the 2000 surveys mailed to small businesses, 154 usable surveys were returned, resulting in a 7.7 percent response rate. While the response rate is low, enough data was collected to allow for the effective analysis and development of scales to measure organizational growth, planning, communication, trust and human resource problems.

Measures

As part of a comprehensive survey, participants evaluated several statements associated with their small business concerning firm growth, planning, communication, trust and human resource problems. The participants rated these items on 5-point scales, ranging from 1 (strongly disagree) to 5 (strongly agree).

Analyses

Data were analyzed using SPSS 12.0 for Windows. First, correlation coefficients were calculated to determine if any preliminary relationships existed among the variables associated with each scale. Second, factor analyses were conducted to determine if the items loaded on the proposed scales. Factor analyses were conducted with growth and planning, growth and communication, growth and trust, and growth and human resource problems. This was done to ensure that none of the items in the growth scale loaded with items in the scales proposed to influence growth. Finally, reliability analysis was conducted for each proposed scale based on the results of the factor analyses, in an attempt to determine the reliability of the scales.

RESULTS

Correlation coefficients were significant and positive between the items proposed to be in each scale. Factor analyses were conducted on the growth scale items four times, once each with the planning scales items, communication scale items, trust scale items, and human resource problems items. In each of the factor analyses, the items loaded onto components as proposed, with two exceptions. When the items for the firm growth and communication scales were factor analyzed at the same time, a third component was identified, on which one item from the firm growth scale and one item from the communication scale loaded. Given that these two items did not load on the appropriate scales as proposed, these items were dropped from the scales.

Reliability analyses indicated that each scale was reliable. The reliability coefficient of the firm growth scale was 0.87, while the reliability coefficient of the planning scale was 0.88. The communication scale resulted in a reliability coefficient of 0.79, while the reliability coefficients for the trust and human resource problems scales were 0.83 and 0.81, respectively.

DISCUSSION

The results associated with the present study begin to reveal some of the underlying concepts that comprise indicators of issues facing small business. The study establishes scales that are intended to be used to study small businesses as they grow, extending the research of Howard (2001). These scales can be used to further the examination of what the major issues are as a small business grows, as well as potentially identifying when a small business should expand its workforce.

The firm growth scale was found to be reliable, and focuses on growth over a five year period, an increased number of employees, increased sales, increased profits, increased market share, and continued growth. In order to gain a full understanding of the total firm growth in a business, taking into account market share, profits, sales and the number of employees provides a more complete picture of the current state of the small business, and is consistent with various models and theories associated with firm growth (Flamholtz, 1990).

The planning scale developed in the present study incorporates both formal and informal planning, recognizing that not all plans in small businesses will be formalized in a written format. Additionally, a variety of plans can exist in organizations, such as strategic, operational and contingency plans, which have also been incorporated into the scale in an attempt to understand the extent of planning in small businesses. Monitoring progress, resources to support a plan, employee understanding of the plan and rewards associated with plan achievement have also been included as items in the planning scale. The inclusion of each of these items provides a more complete view of not only the plans, but the organization's intent to support the plans.

Most communication in small businesses is verbal, and the communication scale incorporates items that focus on verbal communication, as well as the effectiveness, efficiency and orderliness of meetings where information is communicated to employees. These items were specifically incorporated into the scale since communication of organizational plans in meetings has been found to have a positive, significant correlation with growth of organizational profits (Howard, 2001).

Small business owners cannot always address all of the issues that their small business faces themselves. This means that small business owners need to trust their employees to do their assigned tasks, make solid decisions that support organizational success, and that an employee can step in where needed. Trust has not been studied often in small business research, but has been found to have a significant, positive relationship with organizational profits (Howard, 2001).

Human resource problems are encountered by all types and sizes of businesses, including small businesses. The predominant human resource problems identified by Howard (2001), focused on hiring employees, obtaining the right number of employees, having enough employees to complete the jobs necessary to the organization, and having effective compensation for employees. Each of these items was incorporated into the human resource problems scale.

CONCLUSION

The present study extends prior research by establishing scales that can be used to examine small businesses (Howard, 2001). Future research should utilize these scales and focus on determining how planning, communication, trust and human resource problems might influence firm growth. Future research should also begin to attempt to determine when a small business should increase the size of its workforce, attempting to determine if a causal relationship exists between the various items within the firm growth scale. By focusing research on these two areas, valuable information will be gained, further assisting the growth of a major engine in the U.S economy.

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AN ANALYSIS OF RESOURCE DEVELOPMENT AND PERFORMANCE IN THE SMALL FIRM

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ABSTRACT

The strategic development of resource stocks and their effects on firm performance was tested in small firms. Specifically, analysis was made of the impact on performance of strategic planning mechanisms (mission statements and strategic plans) and the differential impact of the types of resources available for development (tangible and intangible). Examination was also made of the performance effects of investments in non-professional versus managerial and professional workers. Results show that flexible, short-term strategic planning positively influences firm performance. But, the greatest effect was identified in investments in managerial and professional employees, especially those investments aimed at selection (through unstructured interviews) and later training (after the first year of employment).

Our findings underscore the unique management challenges of small firms. They face a critical reliance on establishing and maintaining informal methods of control and communication while undertaking sensitive investments in resources under conditions of scarcity. Our results point to clear patterns of management and investment in top-performing small firms, and should interest researchers aiming to extend our understanding of small-firm resource development and practitioners attempting to make often difficult resource management decisions.

VALUE AND PERCEPTIONS OF FORMAL TRAINING IN SMALL BUSINESSES

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ABSTRACT

Past research has indicated that the smaller the business the less likely the business would be to engage in formal training for employees. However, much of the past data overlooked formal training in the smallest of small businesses. This study investigated, within the manufacturing industry, the following claims: (a) small manufacturing businesses provide less training than the average small business, (b) the smaller the business the less likely formal training is to occur, (c) regardless of the business size the importance of formal training remains the same, and (d) small businesses that value formal training will budget for that formal training. Three of the four hypotheses were supported with the remaining hypothesis being partially supported ($p < .10$).

THE ROLE OF SPIRITUALITY IN THE DEVELOPMENT OF AFRICAN AMERICAN, FEMALE-OWNED ENTREPRENEURIAL FIRMS

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ABSTRACT

An upsurge in the interest of the role of spirituality in the workplace has taken place in recent years. Studies have concluded that spirituality has played a part in the progression of corporate cultures, work force development, and long-term business success. However, little attention has been devoted to the impact of spirituality on entrepreneurial small firms. This phenomenological qualitative study focused on investigating the impact of spirituality on the business practices of African-American, female entrepreneurs.

In-depth interviews with over forty such entrepreneurs were conducted to obtain data on the subject matter. The data were then coded and analyzed using content analysis. This inductive research approach allowed the details from the participants' interviews to be framed in relevant themes. The research findings indicated the presence of four essential personal principles—the presence and acceptance of stable support, passion as a motivating factor, success in purpose with profit as a byproduct, and excellence as an antithesis to obstacles. The implications behind this research extend beyond those targeted in this research undertaking to all existing and aspiring entrepreneurs.

International Academy for Case Studies

NOVACO: THE CHALLENGE OF INTERNATIONAL ENTREPRENEURSHIP OF A NEW FIRM

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CASE DESCRIPTION

The primary subject matter of this case concerns the international public birth and development of a pioneering internet firm with a short existence before its slow but positive growth in a market dominated by large multinational firms which also made it the prime target for takeover and purchase. The issue of valuation of the firm's initial public offering shares is the central focus for the case evaluator and student. How should the stock market value a firm whose major competitors are virtual giants in the internet world and specifically, the multinational dot.com world? The case has a difficulty level of five, appropriate for first year graduate level. The case has both current and historical applicability for MBA students concentrating in corporate finance, international financial management, or multinational corporate entrepreneurial relations and serves as a pedagogically sound tool for applied valuation of shares for multinational high-tech firms. The case is designed to be taught in three class hours and is expected to require 6-8 hours of outside preparation by students.

CASE SYNOPSIS

This case affords students an opportunity -- from both a strategic and financial point of view -- to evaluate Novaco's decision to go public while simultaneously assisting the fledgling firm decide from an international perspective the best alternative approach of market survival. The appraisal hinges on the analysis of two kinds of restructuring: 1) the restructuring of other major players in the industry (Microsoft, HP and others) and the forces that motivate it and 2) the restructuring of a single firm's residual-ownership interest or equity restructuring of a new firm in a potentially saturated industry whose primary product simply known as the "Internet" which was widely known and accepted now. Of primary concern throughout is why firms go public domestically and internationally and how the offering price can be estimated and evaluated, especially when the forces of international markets are involved. Further, a peripheral issue is the impact of capital restructuring -- the design of the firm's debt and equity claims with an emphasis on changes in and additions to its clientele and investors, the allocation and determination of asset value, and the real potential for failure in new markets by upstart firms. All data elements and statements were derived from public internet data and public financial data, and NOVACO represents a fictitious firm although its financials may resemble others in the industry. No private or insider information was provided or extracted from company files or other such cases that reference this firm.

THE FUSION ENERGY EXPERIMENTAL TOKAMAK SITE NEGOTIATION

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CASE DESCRIPTION

The purpose of this case is to provide an international negotiation simulation exercise, derived from a specific setting adapted from a real situation, that tests the ability of students to overcome cultural and political obstacles while engaging in coalition building in order to structure an integrative and mutually beneficial agreement. The case is appropriate for upper division undergraduate students or graduate students, depending upon the depth with which the instructor wishes to explore the case and the instructor's comfort level with the issues included in the case. The negotiation exercise is designed to take about two to three hours (including the debrief), although more time may be spent on it. The case requires that students devote approximately one hour of preparation for the case, but this time can be spent outside class if necessary.

CASE SYNOPSIS

The Fusion Energy Experimental Tokamak ("FEET") Site Negotiation simulation is a multi-party and coalition building negotiation exercise. Inspired by the real-world negotiations surrounding the International Thermonuclear Experimental Reactor (ITER), this fascinating multi-party negotiation simulation provides outstanding lessons in coalition building, difficulties in maintaining coalitions, intercultural communication, real world politics and, of course, negotiation skills. The real-world ITER negotiations (pronounced "ee-ter", which is Latin for "the way") had their roots in a 1984 proposal by the Soviet Union seeking a method to harness nuclear fusion as an energy source. More specifically, the proposed ITER reactor would essentially be a gigantic vacuum vessel surrounded by super-conducting coils that magnetically confine hydrogen plasma in the shape of a doughnut. Once accomplished, the temperature of the plasma will then be increased to the point of igniting fusion, a method that scientists view as a credible first step to capturing fusion as a feasible commercial energy source.

Despite having had its genesis in 1984, the real-world negotiation involving ITER was not completed until June of 2005. Distilled to its essence, the ITER negotiation resulted in France being designated as the location for the reactor with Japan being granted the lead role in managing and directing the effort. Accordingly, the research related jobs primarily will go to Japan, and the construction jobs will go to France. This real-world outcome – after such protracted negotiations spanning over 20 years – is provided for informational purpose only and is not at all suggestive of what should or should not happen when conducing the FEET simulation.

FEET, while inspired by ITER, is nevertheless separate and distinct from ITER and, in fact, the outcome with the most possible points for ALL of the parties in the FEET simulation would be for the parties to agree to build two reactors. Interestingly, none of the six parties individually has the allocated resources to fund one FEET reactor, but collectively the six parties actually have the resources to fund two FEET reactors. Despite intense disagreement by the parties over where to

build any FEET reactor, the parties nevertheless share a desire to fund FEET. Given that, no one party has enough money its budget to fund a FEET reactor on its own, the parties are required to negotiate over 1) where to locate the FEET reactor, and 2) how to apportion the cost.

While none of the parties knows for certain whether there are sufficient funds for two FEET reactors, if any one party withdraws from the negotiation it is certain that there will only be enough money for one FEET reactor. In addition to each party's primary motivation to fund at least one FEET reactor, each party has a secondary motive: For Russia it is to procure funding for a second FEET reactor, for all others it is to advance their preference for the site location.

Each party's tertiary goal is to minimize cost (i.e., to reduce its financial contribution to FEET). While this cost reduction motive may lead some parties to withdraw from the negotiations and let other parties bear the full financial burden of FEET, this is balanced by the risk of triggering a cancellation of FEET (which requires $15 Billion to fund) and the lost opportunity to influence the site location of FEET (or in the case of Russia, the funding of a second FEET reactor).

Given that the best outcome for ALL parties is to agree to build two reactors, the scoring component in this simulation operates less as a pie-expansion or trade-off mechanism and more as an incentive to prioritize. In addition to the specific prioritizing function of getting at least one reactor funded (if not two), the scoring component also provides a modest incentive for the participants to assume various cultural and political roles during the simulation. A remarkable phenomenon to observe during the simulation is how the secondary cultural and political components can overtake what should be the dominant objective of agreeing to fund at least one FEET reactor.

GENERAL INFORMATION

The year is 2003 and the issue is site selection for the $15 Billion Fusion Energy Experimental Tokamak (FEET) (A donut-shaped fusion reactor that confines plasma with a magnetic field; tokamak is a Russian acronym of *Toroidalnaya Kamera Magnitnaya*). Negotiators, having in previous rounds of negotiation narrowed the site list down to just three candidate locations, have now been tasked with selecting the site for FEET and with apportioning the cost among the six participating countries.

FEET will not produce power, but is instead a stepping-stone to an actual fusion power plant. Scientists from around the globe will conduct experiments on FEET over a 20-year operational period, and use the results of these experiments to advance understanding of fusion energy. All FEET research is made public, so all countries will benefit from its construction. The country that hosts the FEET reactor will benefit from increased prestige, so competition to host the experiment is fierce.

FEET construction will take 10 years and cost $5.85 Billion. In addition, there will be $1.15 Billion in management, engineering, and R&D costs over the 10-year construction period. Operations will last 20 years with operating costs averaging $375 Million per year. The plant will employ 300 professionals and 600 support staff during this time. After the 20 year operational period, the reactor will be decommissioned at a cost of $500 Million. Thus the total cost of FEET is $15 Billion.

There are six parties to the FEET negotiations: the E.U., China, Russia, Japan, South Korea, and the U.S. Previous rounds of negotiation have established that each country must contribute at least $1 Billion to the $15 Billion project or withdraw. Previous negotiations have also winnowed the list of FEET sites to just three locations: Rokkasho, in Northern Japan; Cadarache, in the South of France; Vandellós, in Northeast Spain. Each of these locations is perfectly suited for a FEET reactor. Identifying possible FEET sites is a lengthy and expensive process; finding an alternative site would take 1 year and cost $6 Million.

Previous rounds of negotiation have indicated that each country is keenly interested in at least one FEET reactor, and that Russia strongly prefers two FEET reactors. A second FEET reactor would cost an additional $15 Billion.

This round of negotiation is being held in Vienna, Austria over a three day period. The E.U. negotiator will serve as chair and is tasked with running the meeting according to rules of order.

WERE THE SEVEN HABITS HIGHLY EFFECTIVE? THE FRANKLIN COVEY MERGER

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CASE DESCRIPTION

This case explores the merger between Franklin Quest and the Covey Leadership Center, along with its aftermath. The objective is to provide students the opportunity to consider the many facets of the merger including the impact of the backgrounds and corporate cultures of the merging parties, the subsequent financial and operating results, and external factors including the economy and competition. This case also provides students the opportunity to sharpen their analytical and research skills as they access the SEC website and EDGAR database as well as other websites that provide economic and industry related information for the answers to specific questions.

This case is appropriate for use in an advanced business policy, strategy, or management class, in an organizational behavior class, or in a corporate finance or entrepreneurship class. The case has a difficulty level of four, and should take from one to two hours of class discussion. Students will require three to four hours of preparation time.

CASE SYNOPSIS

If the popular business press identified "rock stars" of management gurus, former college professor Stephen R. Covey would be a leading candidate for the title. Author of The 7 Habits of Highly Effective People—a mega-hit which has sold over 15 million copies and has been cited as one of the top 10 most influential management books ever—Covey was named by Time magazine in 1996 as one of the 25 most influential Americans. For Covey and his consulting company, 1996 was a record year.

Meantime, Franklin Quest, founded by Hyrum W. Smith, had become a market leader in time management products and training and had aggressively expanded. Franklin had over 5,000 institutional clients and had trained 1.7 million individuals in the use of its Franklin Day Planner System.

In 1997, the Covey and Franklin organizations merged. While the founders of each company anticipated . . . "taking advantage of the many areas of synergy that exist so naturally between our companies", after a short honeymoon, it became painfully apparent that the marriage was off to a rocky start. Record sales of $585 million were achieved in 2000, but have declined each year since then. Annual profitability was last achieved in 1998.

This case presents an example of how the merging of two separate companies—even in the same industry with perceived complimentary products and services, similar cultures, and optimistic senior executives—can often take years to determine whether the merger was a good decision or not.

In addition to presenting an overview of each of the pre-merger companies, the merged company—with many of its subsequent internal developments, financial and other operating results—is also presented for analysis. External factors, such as the possible impact of 9/11 as well as economic and other changes since the merger are also presented. The question to be addressed is: Was the Franklin Covey merger successful or not?

DISASTER RECOVERY AT MERRILL LYNCH FOLLOWING THE EVENTS OF SEPTEMBER 11, 2001

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CASE DESCRIPTION

This case analysis examines the process of developing and implementing a disaster recovery plan. The case (1) discusses some of the inherent problems that large organizations face in developing an effective disaster recovery plan, and (2) highlights the challenges of implementing a disaster recovery plan in the face of real world events that vary from the plan's initial assumptions. This material is appropriate for undergraduate and graduate courses in risk management, information systems, and business continuity planning. The case is designed to supplement a general discussion of disaster recovery planning, and disaster risk management.

CASE SYNOPSIS

Developing a disaster recovery plan is a challenging process for most organizations, requiring plan developers to strike an appropriate balance between breadth and detail. In 2001, the Chief Financial Office organization began a disaster recovery process that was completed in the early part of September 2001. This case reviews the process used by Merrill Lynch's CFO organization to develop a disaster recovery plan, and the challenges faced in implementing this plan following the events of September 11, 2001.

THE AMERICA'S CUP DEFENSE: TEAM NEW ZEALAND

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CASE DESCRIPTION

The primary subject matter of this case is the effectiveness of risk management strategies associated with the staging of a major international sporting event. A secondary issue examined in the case concerns the proprietary rights of employers to the intellectual capital and skills acquired by employees. The case requires an understanding of strategic risk management and good corporate governance principles.

This case has a difficulty level of three or four and would be most suitable for senior level students in a Corporate Governance/Business Ethics course. The case is designed to be taught in three class hours and would require about eight hours of out-of-class time which includes reading the case material and the articles listed in the references.

CASE SYNOPSIS

Team New Zealand (TNZ) is a syndicate that specialized in defending the title to a major international sporting event, the America's Cup Yacht Challenge (America's Cup). The America's Cup is on a comparable level with Formula One motor racing. Title to the America's Cup is challenged and defended in the home waters of the title-holder nation. The implications for the title-holder's national economy are significant and positive, particularly for its tourism and boat-building industries. In early March 2000, TNZ successfully defended its title to the America's Cup. But by the end of March the contracts of all TNZ team members had expired and the sailors and boat designers were facing an uncertain future. The yacht skipper, the tactician, and four other long-time sailors all unbeaten in two America's Cup Yacht Challenges joined a competitor syndicate, the Swiss challenger, Alinghi. As well as their considerable crewing ability, these ex-TNZ team members took with them considerable knowledge of the design of the 2000 America's Cup winning boat. TNZ was left without an overall leader responsible for balancing the needs of boat development and sailing. The TNZ syndicate failed in its defense of the America's Cup in the 2003 Challenge, losing all races in a series of five to Alinghi.

This case focuses on the many challenges encountered by management of the TNZ syndicate in mounting their defense in a highly competitive environment and their ability to choose the appropriate organizational structure and personnel necessary to meet those challenges. The initial task for the student is to review the current organizational structure of the managing syndicate along with the challenges and opportunities it faces. Students can then use the information provided in the case information and references to develop risk management and corporate governance strategies for success in an environment characterized by uncertainty.

BACKGROUND

Since the America's Cup challenge commenced in 1851, it has been traditional that the defender faces the challenger in the defender's home waters. In 2000, the Team New Zealand (TNZ) syndicate successfully competed in the Americas Cup Yacht Challenge held in Fremantle, Australia. This resulted in the transfer of the 2003 challenge to the new title-holder's home waters

– the Waitemata Harbour in Auckland, New Zealand. Following are a series of events and strategic decisions that shaped the planning and organization for the 2003 America's Cup defense by TNZ.

Following the win by TNZ in 2000, ongoing discussions about management succession for the 2003 America's Cup Yacht Challenge of TNZ from outgoing syndicate trustees to two team members - the skipper Russell Coutts and race tactician Brad Butterworth - failed. By the end of March 2000, the contracts of all team members had expired and the managing syndicate abruptly changed the access of the team members to the yacht-base. The team members found themselves locked out of the base and facing an uncertain future. As a result the TNZ managing syndicate failed to secure the team as an ongoing operation. Coutts, Butterworth and four other highly experienced sailors, all of whom were unbeaten in two previous America's Cup challenges decided to join a competitor syndicate, the Swiss team, Alinghi. TNZ was left without an overall leader responsible for balancing the demands of boat development and sailing needs. Subsequently Dean Barker, also a team member in the successful 2000 challenge, skippered the TNZ sailing crew in the 2003 defense. Barker's crew comprised a number of very experienced sailors, but they generally lacked experience in successful America's Cup challenges. The TNZ syndicate failed in its defense of the America's Cup in the 2003 challenge, losing all races in a series of five to Alinghi.

In assessing the strategic management of risk and corporate governance principles, a number of important issues need to be considered by the student. These include the organization's management structure, its strategy of choosing a design-led defense for the 2003 match, and the personalities involved and their accumulated experience.

Management structure

A charitable trust structure (Team New Zealand Trust) controlled all TNZ entities. These included a company responsible for defending the America's Cup and a company responsible for organizing the America's Cup Challenge match. Coutts and Butterworth wanted to take over responsibility for running the companies involved with the America's Cup defense but could not reach agreement with the existing trustees. After more than two years of discussion and a matter of weeks after TNZ won the America's Cup in 2000, the discussions failed. Subsequently Coutts and Butterworth left TNZ and joined a competitor team.

The trust structure remained intact and a number of new trustees were appointed in place of some outgoing trustees. Three individuals with specific, self-contained areas of operational responsibility (for sailing, administration, and boat design) were appointed. These individuals reported to a four-person board of directors. A key missing element in this structure was a managing director with overarching knowledge and responsibility.

Shortly after the loss of the America's Cup in 2003, TNZ released a report on the Trust's unsuccessful management of the event. In many respects the report was damning of the management strategies that were adopted and a clear link was drawn between management failure and the loss of the America's Cup. 'Team New Zealand has admitted that the management structure they adopted after the sudden departure of Coutts and Butterworth cost them the America's Cup' (The New Zealand Herald, 6 May 2003). The report said that 'the most critical weakness was that no one individual had a total overview of where the team was at and final responsibility and authority over decision making'.

Corporate governance

Although the economic implications for the title-holders' national economy of mounting the America's Cup defense are generally considered to be positive, this may not be the case for the owners of the defender rights. Mounting a defender series is an expensive undertaking and has the potential to 'divide resources, tax sponsors and create division in a small country' (The National Business Review, 2003). The beneficial ownership of the TNZ Trust was not clear, and whether the

Trustees desired to hold a defender series was debated in the popular press (The National Business Review, 2003).

'Corporate governance refers to the method by which an organization is governed, administered, directed or controlled, and the goals for which it is governed' (Dellaportas et al., 2005). A good corporate governance structure such as that envisaged under the Sarbanes-Oxley Act, outlines the rules and responsibilities of participants involved in governing an organization, improves the accuracy and reliability of disclosures made, and should lead to goal congruence between managers and stakeholders. Corporate governance models introduce controls designed to reconcile conflicts of interest between managers and stakeholders. If TNZ had a sound corporate governance structure in place, management objectives would have been transparent and the prolonged conflict with key personnel may have been avoided.

Strategic management of the 2003 defense

Shortly after the 2000 win of the America's Cup the employment contracts of TNZ personnel expired. Some sailors and designers began accepting contracts with other organizations. Two months later the yacht skipper and the tactician also formally left TNZ to join a competitor organization, the Swiss challenger Alinghi. Thus not only did TNZ adopt a weak management structure, it also lost critical talent who possessed considerable intellectual knowledge.

As well as their considerable crewing ability, the ex-TNZ team members took with them considerable intellectual capital by way of their knowledge of the design of the 2000 America's Cup winning boat. TNZ was left with the need to have a faster boat to counter the loss of intellectual property. The TNZ design team determined that to be competitive in 2003 they had to take a major step forward in boat design. They worked on a number of revolutionary concepts and eventually chose a radically new design for the team's training and racing boats. Thus TNZ mounted a design-led campaign for the 2003 challenge. The process of becoming design led was gradual and design was able to dominate through the absence of an overall leader responsible for balancing the demands of boat development and sailing needs.

The TNZ boatbuilder Mick Cookson, who also built TNZ's 2000 cup-winning yacht, warned the trustees of flaws in the structures of their America's Cup boats months before the 2003 races series commenced, but was ignored. Cookson twice raised his concerns about the structural elements of the boats with Team New Zealand designers. Problems with the training boat were experienced during pre-match testing, and the boat suffered crippling hull and deck structural damage, in the areas that Cookson had predicted, in the months leading up to the races. The damage meant that TNZ had nothing to trial their race boat against and this undermined their confidence in the race boat. Furthermore, the delivery of the boats was late (possibly due to the complexity of the design). This meant the testing and training period was severely reduced and race preparation was inadequate. As a further result of the equipment failure on the training boat, the race boat was never tested in the extreme conditions that prevailed during the five races comprising the actual match. As a result the TNZ boat failed to finish two of the five match races through equipment failure.

SUMMARY

The departure of its experienced skipper (Russell Coutts) and tactician (Brad Butterworth) was a significant factor in Team New Zealand's failure to defend the America's Cup in the 2003 challenge matches. Their presence in the ranks of the winning team Alinghi (the Swiss competitor) was a crucial difference in building a cup-winning team from a zero-base, in the same time that team New Zealand had. The departures also played a part in Team New Zealand believing that it had to take a major step forward in boat design. It was clear that the crew had little confidence in their boat especially after the crippling structural damage to the training boat in the two months prior to the races comprising the 2003 challenge. A sound corporate governance system may have aided in

retaining the experienced crew and avoided a clearly flawed design-driven, and uncoordinated, management strategy.

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PIXELON: A STRATEGIC EXAMINATION OF CORPORATE GOVERNANCE AND ETHICS

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CASE DESCRIPTION

The primary subject matter of this case concerns corporate governance and ethics. Secondary issues include technical managerial, financial, and marketing knowledge, communication skills, critical thinking skills, and coping with uncertainty and unstructured problem-solving. The case has a difficulty level of four, appropriate for senior level. The case is designed to be taught in two class hours and is expected to require 10 hours of outside preparation by students.

CASE SYNOPSIS

Organizations with an interest in improving business education continue to increase awareness of the broad range of skills that businesspeople must have to be successful. In addition to technical managerial, financial, and marketing knowledge, communication skills, critical thinking skills, and coping with uncertainty and unstructured problem-solving are often listed as critical skills that students should be developing.

Pixelon was a real online broadcasting and online content startup that initiated its existence with the most expensive launch party ever – iBash '99. In this series of four critical incidents, students are presented with a brief history of Pixelon and several significant decision points for the company's executives and board of directors.

One of the main objectives of this case is to provide an opportunity for students to practice their written and oral communication skills. The case is assigned as a writing assignment which is then followed up with class discussion about the case when the paper is turned in. Since the case builds in facts and detail, the case provides a relatively deep learning environment over time.

Another objective of the case is to allow students to demonstrate their technical business knowledge via discussion of management, finance, and marketing strategies. Since new facts are introduced in each of the four critical incidents, the students must deal with uncertainty in answering the case questions in the first three critical incidents, which fulfills the objective of giving students a chance to participate in problem-solving in an unstructured setting.

QUIK SIX CONVENIENCE STORES: THE ANATOMY OF AN EXPENSE REDUCTION PROJECT

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ABSTRACT

The primary focus of this case is on the problem solving processes and tools used by a large retail organization as it attempts to reduce legal expenses and improve efficiency. Secondary issues include action planning, teamwork, and organizational behavior change following the implementation of a new strategy. The case is appropriate for undergraduate and graduate level students. It is designed to be taught in a two-hour course segment and does require several hours of outside preparation by students. The case requires a good understanding of management practices and quality management techniques.

WHEN DOES SALES TALK BECOME AN EXPRESS WARRANTY? WHEN DOESN'T IT?

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ABSTRACT

The law of warranty developed as a protection for buyers. If goods were warranted by the seller and did not live up to the warranty, the buyer had a course of action for the breach of warranty. If the seller just made statements of commendation about the goods, they were not warranties, just innocent sales puffing. How can you tell the difference? Recovery for buyers under a warranty was not possible unless a way existed. The case covers whether sales statements made by the seller are to be considered sales puffery or whether the statements are considered an express warranty. Failure of the goods to conform to an express warranty subjects the seller to damages for breach of warranty. Sales puffery will not incur a liability. This case examines various scenarios where the courts have decided whether the statements made by the seller created an express warranty or the statement were considered sales puffery. Students are asked to examine each case, and determine whether the statements made by the seller are sales talk or sales puffery or whether they constitute an express warranty and why. The main focus of this case is to make students aware of the subtle differences.

CASE DESCRIPTION

The primary subject matter of this case concerns the sale of goods, particularly whether an express warranty is made during the sale negotiations by a company or individual, the seller, to a consumer, the buyer. The key factors are statements made during negotiations by the seller to describe their goods to the buyer. This case has a difficulty level of three to four, and is appropriate for an upper division, undergraduate class. This case is designed to be taught in a one hour class, and is expected to require one to two hour of outside preparation by students.

CASE SYNOPSIS

The case covers whether sales statements made by the seller are to be considered sales talk or sales puffery or whether the statements are considered an express warranty as specified in the Uniform Commercial Code (U.C.C.). Failure of the goods to conform to an express warranty subjects the seller to damages for breach of warranty. Sales puffery will not incur a liability. This case examines various scenarios where the courts have decided whether the statements made by the seller created an express warranty or the statement were considered sales puffery. Students are asked to examine each case, and determine whether the statements made by the seller are sales talk or sales puffery or whether they constitute an express warranty and why. The main focus of this case is to make students aware of the subtle differences.

INTRODUCTION

Warranty has a long and complex history. Following is a synopsis of the relevant historical background leading to the UCC warranty provisions. The central principle of business dealing in law is freedom of contract. Parties are generally left free to contract for goods in the manner they see fit. The great shortcoming of this, for the buyer, certainly not the seller, was the doctrine of

caveat emptor--let the buyer beware. If you, as a buyer, agree to a purchase, you had few rights if the product did not meet your expectations. The law of warranty developed as a protection for the buyers. That is, if goods was warranted by the seller and did not live up to its warranty, the buyer had a course of action for the breach of warranty.

The law of warranty was built on the distinction between affirmations and promises. If the seller just made statements of commendation about the goods, they were not warranties, just innocent puffing. If the statements were presented as facts or promises, then you have a warranty. How can you tell the difference? Usually the court required some evidence that the buyer extracted words of promise from the seller or written words such as "I promise" or "I warrant." Otherwise, recovery for buyers under a warranty was not possible.

This was no longer the case after The Uniform Sales Act (USA) of 1906. USA recognized express warranties as "any affirmation of fact or any promise by the seller relating to the goods....if the natural tendency of such affirmation or promise is to induce the buyer to purchase the goods, and if the buyer purchases the goods relying thereon."

The adoption of the Uniform Commercial Code in the early 1950s also provided for express warranty. The Uniform Commercial Code supplanted the Uniform Sales Act. Uniform Commercial Code section 2.313 provides that a warranty arises from any affirmation of fact or promise. Whereas the Uniform Sales Act of 1906 made buyer reliance on express words of seller necessary for warranty to attach, USA makes any affirmation of fact or promise which becomes "part of the basis of the bargain" to be a warranty. "Affirmations of fact made by the seller about the goods during a bargain are regarded as part of the description of those goods; hence no particular reliance on such statements need be shown. Rather, any fact which is to take such affirmations, once made, out of the agreement, requires clear affirmative proof." That is, an affirmation of fact is a warranty, unless clear proof, with the burden on the seller, is forthcoming that it is not a basis of the bargain. The basis of the bargain test, therefore, is very broad. It is meant to be more inclusive than the USA concept of reliance.

It first appears as if almost every statement or description made before a sale is actually concluded would be an express warranty. The UCC provides a large exception for puffing, however. After stating that it is not necessary for a seller to use "magic words" such as "warrant" or "guarantee" to create an express warranty, as would have been the case before 1850 at common law, the Code provides that an "affirmation of the value of the goods" or a "statement purporting to be merely the seller's opinion or commendation of the goods" does not create a warranty.

The common law courts needed to work diligently to define the difference between an affirmation and a promise. Again, current courts interpreting UCC 2-313(2) have to define the difference between the "seller's opinion" and an "affirmation of fact.”

A representation that copiers would need only "infrequent" repair would probably not be an express warranty, while a statement which said that repair was necessary "every 10,000 copies," probably would be read as an express warranty.

Valley Datsun v. Martinez states it this way, "The test of whether a salesman's statement constituted 'affirmations of fact' going to the very 'basis of the bargain' is whether the salesman was asserting a fact of which the buyer was ignorant, or whether he was merely declaring his belief with reference to a matter of which he had no special knowledge and of which the buyer may also be expected to have an opinion”. This opinion states that express warranties consists of statements about the goods where the seller has "special or superior knowledge."

As courts have ruled, statements such as "this is a great car" would not be seen as warranties. Although some courts have added to complexity of determining puffery from express warranty by allowing that "the car is in excellent condition" does create such a warranty. As a result, the rules are not hard and fast.

CASE I – Jenkins v. Landmark

In 1989, Jimmy L. and Annie L. Jenkins filed a complaint against Landmark Chevrolet concerning the condition of a used automobile they had purchased from Landmark. The Jenkinses alleged Landmark failed to uphold the warranties pertaining to the automobile. The Jenkins argued that Landmark made statements that the vehicle was "in good shape" and that they (Landmark) had checked the vehicle out. Landmark contended that the Jenkinses purchased the vehicle "AS IS – NO WARRANTY".

CASE II –Performance Motors v. Alva Alan

In 1969, Performance Motors instituted action against Alva Jane Alan to recover the balance allegedly due on a note executed by the defendant (Alva Jane Alan) incident to the purchase of a mobile home. The defendant admitted execution of the note, and answered by way of a counterclaim, alleging that the home was defective in many ways. The defendant alleged that Performance Motors, through its agent, expressly warranted the mobile home stating the mobile home was in "perfect condition" and "was of sound construction, free from all defects of workmanship and material, and would remain in first class condition for a period of many years after its purchase".

CASE III – Warzynski v. Empire

In October, 1985 Jenkins Gas Company of Pollockville, NC sold two Empire gas heaters to the Warzynskis. Jenkins employees installed the heaters in the Warzynskis' home. In January, 1986, a fire, allegedly caused by one of the Empire Comfort Systems gas heater destroyed the Warzynski residence. The Warzynskis brought suit against Empire alleging breach of express warranty. Empire advertised that the gas heat was "reliable". Empire advertised that it sold "America's most complete line of reliable, economical gas heating appliances".

CASE IV – Serbalik v. General Motors et al

In July, 1984, the plaintiff (Serbalik) purchased a new 1985 General Motors Cadillac Coupe DeVille from defendant (Queensbury Motors). Shortly after taking possession of the vehicle, it began exhibiting various mechanical problems, including stalling, bucking, surging, loss of power, emission of black smoke, and "explosion". The plaintiff contends that statement made by Queensbury employees, that induced him to purchase the vehicle constituted an express warranty. The Queensbury employees allegedly made statements that the car was of "high quality" and would "perform excellently".

CASE V – Scaringe v. Holstein

The defendant placed an advertisement in an Albany newspaper as follows: "1975 Fiat X-19, hardtop convertible, "Excellent condition". Plaintiff responded to the ad and while test driving defendant said that the car had recently been repainted, that a valve job had been done four months ago, and the manual transmission had a problem. When shifting from second gear to third gear, the manual transmission did not shift in the standard "H" pattern, one needed to shift in a diagonal line. The plaintiff agreed to purchase the vehicle, even though the car was defective and was not in "excellent condition". The buyer further argued that the seller's assurances that the car was in "excellent condition" induced him to buy the automobile.

CASE VI – Valley Datsun v. Martinez

In 1977, Martinez purchased a 1971 Volkswagen Camper from Valley Datsun. Prior to purchasing the vehicle, Martinez was told by a Valley Datsun salesman that the vehicle was in "good mechanical condition", that the engine had recently been refitted with new heads. When the salesman was questioned by the buyer concerning unusual engine noises, the buyer was told that this was the normal sound for a Volkswagen. The day after the buyer took possession of the vehicle, after driving less than 150 miles, the car began losing power and shortly after a loud noise was heard and smoke began pouring from the engine compartment. The cost to fix the vehicle was to be over one-third the cost of the vehicle.

QUESTIONS – ANSWER THESE FOR EACH CASE

1) What do you think the court rule? Did the statements made by the seller create an express warranty or were they considered sales "puffery"?

2) Why, or why not, do you think that?

DISCUSSION

1) After reviewing all six cases and after the instructor summarizes the court's rulings, discuss the consistency and rationale of the court's decisions. Were the court consistent?

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CUSTOMER RELATIONSHIP MANAGEMNT AT CLUB CAR DIVISION

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CASE DESCRIPTION

The primary subject matter of this case concerns using technology to help improve sales and marketing functions. The case has a difficulty level of three, appropriate for junior level. The case is desinged to be taught in two class hours and is expected to require four hours of outside preparation by students.

CASE SYNOPSIS

This case explores issues that arise when a large organization turns to technology to help it improve its sales and marketing functions. The case is set at Ingersoll-Rand, a diversified manufacturer of products used in a number of different industries, in its Club Car Division. Students are asked to review the situation at Club Car Division, analyze the recent history of its experience with technology-enabled marketing systems, and make recommendations based on that analysis.

ABOUT INGERSOLL-RAND CLUB CAR DIVISION

Ingersoll-Rand is a $9 billion diversified manufacturing company that sells its products to customers in a number of different industries throughout the world. Its brands include Ingersoll-Rand (used for its tool and portable power generator products), Bobcat (used for its construction equipment), Thermo King (used for refrigeration systems sold to the transportation industry), Dexter and Schlage (used for locks sold to the building trades, and ARO (used for equipment sold to customers in the industrial fluids industry). Ingersoll-Rand's Club Car division manufactures and sells a variety of electric cart vehicles to golf courses and industrial users. The division also sells a rough-terrain version of the vehicle designed for farm, ranch, and construction industry applications.

SALES AND MARKETING INFORMATION AT CLUB CAR DIVISION

In 2001, the Club Car Division was experiencing a sales decline. The slowing of the general economy was affecting golf courses, which, in turn, were reducing the size and frequency of their golf cart orders. Club Car had a general sense that this major market segment was causing their revenues to decline, but their marketing information systems were not providing enough data about exactly which sales were being most affected by the economic downturn (Siebel Systems, 2004).

Club Car sales managers relied on their sales representatives for information about likely future sales. Sales forecasting was mostly a matter of judgment and guesswork. Some of the regional sales offices maintained spreadsheet software models that they used to predict and monitor demand in their regions, but no integrated systems were maintained by central Club Car sales management. Schuff and Saint Louis (2001) advise that managers carefully evaluate the efficacy of decentralized information systems when centralized systems offer clear advantages. In the case of Club Car Division, sales representatives had little to say about how carts were customized for particular customer segments or for individual customers. Club Car managers decided to investigate ways to

use technology to improve the prediction and monitoring of sales for the entire division (Siebel Systems, 2004).

ABOUT CUSTOMER RELATIONSHIP MANAGEMENT SOFTWARE

Many companies use marketing approaches that involve helping potential customers find information about their products and services easily. Companies often do this by customizing the depth and nature of that information as it is delivered (Schneider, 2004). For example, companies can track and examine the behaviors of potential customers who visit their Web sites and then use that information to provide customized, value-added products and services to those customers. Companies that use these and other technology-enabled relationship management tools to improve their contact with customers are often more successful in all of their customer contact activities. Most technology enabled or aided customer enhancement systems are called customer relationship management (CRM) systems (Dyche, 2001).

The goal of CRM is to understand each customer's specific needs and then customize a product or service to meet those needs. The idea is that a customer whose needs are being met exactly is willing to pay more for the goods or services that are meeting those needs (Schuster, 2005). Although companies of all sizes can practice CRM techniques, large companies can afford to buy and implement expensive software products that automate many of CRM's principles (Schneider, 2004).

Customer relationship management (CRM) software must obtain data from operations software that conducts activities such as sales automation, customer service center operations, and marketing campaigns. The software must also gather data about customer activities on the company's Web site and any other points of contact the company has with its existing and potential customers (Rigby and Ledingham, 2004). CRM software uses this data to help managers conduct analytical activities, such as gathering business intelligence, planning marketing strategies, customer behavior modeling, and customizing the products and services to meet the needs of specific customers or categories of customers (Dyche, 2001). In its most basic form, CRM uses information about customers to sell them more (or more profitable) goods or services. More advanced CRM is about delivering extremely attractive and positive experiences regularly to customers (Bailor, 2004).

CRM can be very important in maintaining customer loyalty in businesses where the purchase process is long and complex. Companies that design and install custom machinery, software products, or office workflow systems often find themelves involved in these types of long and complex processes. CRM software can help maintain positive and consistent contacts with multiple employees at the purchasing company (Agarwal, Harding, and Schumacher; 2004).

Some companies create their own CRM software using outside consultants and their own IT staffs. In recent years, software vendors have increased the quality and variety of their offerings and today, most large companies are likely to buy a CRM software package. Other companies might turn to a company that offers the use of its CRM software through a Web interface; that is, the company does not have to buy and install CRM software (Cowley, 2005). Siebel Systems (2005) offers a series of leading comprehensive CRM software packages. Siebel was the first company to specialize in CRM software and it has a large share of the market. Other major software firms have created products that compete with Siebel's, including Oracle CRM (Oracle, 2005), and MySAP CRM (SAP, 2005). Prices for these systems start around $50,000 (on average, about $2000 per user); large implementations can cost millions of dollars. Updates on current developments in CRM can be found at the IntelligentCRM Web site (IntelligentCRM, 2005).

THE EVOLUTION OF CRM SOFTWARE

In the early days of CRM software implementation (approximately 1996 through 2000), companies spent many millions of dollars to buy CRM systems that promised to monitor and

improve relationships with existing customers. Most of these systems were focused on giving companies the information they needed to identify changing customer preferences and respond very quickly to those changes. By responding quickly, companies hoped that they would be able to gain sales that might otherwise be lost to competitors that could respond better to the new customer preferences. In addition to gaining sales, the use of CRM software would help retain customers and reduce the need to spend money on marketing to find new customers. The goal was to instantly make available perfect information about all customer behaviors from all customer-interaction points throughout the company.

Most companies did not realize these benefits and CRM software sales dropped from 2000 through 2003. Many industry analysts were announcing that CRM was just another business fad that was dying as quickly as it had become fashionable (Rosenberg, 2004).

Starting in 2003, however, CRM software sales began growing again (Rigby and Ledingham, 2004). Companies had learned from the bad experiences in which they invested large amounts of money to revamp their customer interaction strategies completely. Those companies became less likely to view CRM software as a tool for changing their overall customer strategy, and instead began using CRM software to solve smaller and more specific problems. For example, a cable company might use CRM to track service outages and repair team responses in real time, but would not expect the CRM system to calculate the profitability of on-demand video services on a continual basis (Rigby and Ledingham, 2004).

One of the most popular targets for these new focused CRM applications has been call center operations. By examining problems that arise in their call centers, many companies have identified specific applications where CRM software can improve response times, accuracy, and effectiveness (Rosenberg, 2004).

CRM AT CLUB CAR: ROUND ONE

After reviewing available CRM software solutions available in 2001, Club Car decided it needed better information about all of its sales and marketing activities, so it spent more than $2 million to install a comprehensive CRM system. This system was designed to automate the entire customer sales cycle: prospect evaluation, proposal writing, product configuration, and order entry. However, the users at Club Car division found the new system to be difficult to use and therefore were reluctant to spend much time learning how to use it. Thus, the promised benefits of improved productivity and more detailed reports were not forthcoming (Siebel, 2004).

Sales managers did not see the ultimate benefits that the system might provide. Salespeople found that the new system was requiring them to spend time entering data into the system rather than seeing customers. The order entry staff found the system to be cumbersome and unfamiliar.

When Club Car's president realized that the CRM system was not delivering on its promise, he had the management team go back and re-examine the key elements in the division's customer relationships and asked them to choose one or two issues that needed attention. The management team identified two major issues. First, the order entry process required the time of salespeople and order entry staff, but it did not include any interaction with customers. Second, the division was not producing accurate and timely sales forecasts.

CRM AT CLUB CAR: ROUND TWO

In 2002, Club Car division re-launched its CRM initiative and focused on the two problem areas that it had identified. The new effort included the sales representatives in redesigning the order entry process. The division was able to reduce the data entry time and effort required, especially the time of salespeople. Salespeople do have remote access to the system, so they can work on-site with customers to configure the carts to the customers' exact specifications. Salespeople can obtain pricing information and explore various alternatives with customers while they are at the customer's

site. They can also examine manufacturing schedules and provide more accurate delivery date estimates. All of this remote, real-time information access helps salespeople close deals and increase sales volume and profitability (Siebel, 2004).

Sales forecasts are more accurate now because the information about sales orders is automatically collected when the sales representatives close sales at the customers' sites. The CRM system combines this real-time sales order information with general industry information on cart demand, cart replacement cycles, and economic trends in their customers' industries. The increased accuracy of sales forecasts allows the company to create more stable production schedules, which means that more customers receive their carts on the delivery date they were promised (Siebel, 2004).

QUESTIONS

1. List the types of information that Club Car Division's new CRM system makes available to sales representatives in the field.

2.. For each type of information you identified in the previous question, briefly explain how salespeople's remote access to that type of information can help them close sales while they are at their customers' locations.

3. In its second CRM launch, Club Car Division focused on two elements of CRM systems. Explain why focusing on two elements (especially these two elements) would, in general, work better than implementing a comprehensive CRM system that could track all of the division's sales activities and related information in real time.

4. Examine CRM alternatives, such as Salesforce.com, that do not require the installation of CRM software. Outline the reasons that Club Car Division might or might not want to consider these alternatives.

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Academy of Family Business

THE ROLE OF NON-FAMILY MANAGERS IN PROMOTING BUSINESS CONTINUITY IN FAMILY-OWNED ENTERPRISES: PRACTICAL CONFLICT RESOLUTION TECHNIQUES FOR INDEPENDENT MANAGERS AND NON-EXECUTIVE DIRECTORS

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ABSTRACT

This paper describes the conflict that is typical in a family business and highlights some of the major factors that make family business conflict unique from other types of interpersonal conflict in the workplace.

Failure to adequately control conflict in family business may contribute to the high mortality rate of family-owned firms. This is due to a management failure to come to grips with the inevitable discord that arises when family members work closely together. The difficulty for family business arises when family rules do not apply after they are transferred to the business system.

This paper identifies common causes of conflict and it explores ways to manage or resolve this conflict in family business, with the view to preserving the existing business, ensuring its continuity in the short term and assuring succession for the long term.

INTRODUCTION

This paper is intended to aid practitioners and third party or non-family members, such as non-executive directors, identify some of the common root causes of conflict in family business.

CONFLICT IN FAMILY-OWNED BUSINESS

At the root of John Burton's universal model of conflict resolution is the premise that unmet needs results in a greater likelihood of conflict. Tillett (2001, pp.8) says conflicts relate to deep human needs and values. Sometimes they are expressed through problems or disputes, which may be superficial manifestations of a conflict, and unless the conflict is addressed, the dispute or problem will continue, or new disputes or problems will arise. Tillett (2001, pp. 24) explains, it is essential to recognise that almost all conflicts have both visible, manifest aspects and invisible, unmanifest aspects. Tillett (2001, pp. 24) differentiates the two interdependent aspects by describing them as:

> *The visible conflict is usually the one described by the participants. It will probably involve a focus or focal conflict, and there will often be a further level of manifest conflict underlying the focus. The unmanifest conflict includes both disclosed and undisclosed factors (which are nevertheless known to either or both the participants) and factors that are unconscious. The participants may or may not be prepared to discuss the underlying or unmanifest conflict, and, indeed, may not be consciously aware of some of the manifest aspects.*

The family business is the oldest form of multi-party business enterprise. In fact the world's oldest continuously operated family business, Japanese temple-builder Kongo Gumi, began in 578 (Hutcheson, 2002, pp.119).

With this definition, family empires such as those founded by the Rockefellers, or Australia's Murdoch or Packer families sit side by side amongst the most modest of rural farms and mum-and-dad corner stores. Clearly, family businesses can, in at least some instances, be as big and sophisticated as any non-family firm. Not all are, but neither are all of them crudely managed and poorly led. Family businesses are as diverse as business itself. They come in all kinds and generally defy useful categorisation.

In Australia, the Bureau of Statistics (ABS) estimate that there were 1,233,200 private sector *small businesses* during 2000–01 which represented 97% of all private sector businesses. These small businesses employed almost 3.6 million people, 49% of all private sector employment (Trewin, 2002, pp.10).

Despite the absence of quantitative data on family business in Australia, they do play a vital role and are unique institutions in the socioeconomic environment. They also have a complex set of problems not completely addressed by classical management theory (Davis and Stern 1980). One such problem is the effect of conflict in the family.

A critical problem faced by family business is the tension that exists between their personal lives and career pursuits of the family members. This tension may be viewed as a form of *interrole conflict* in which the role pressures from the work and home domain are incompatible. Interrole conflict occurs when an individual is assigned simultaneous roles with conflicting expectations. Essentially, involvement in one role becomes more difficult because of involvement in the other role.

The consequences of conflict in family business can be extreme, resulting in behaviors destructive to both the firm and the family, and conflict within the family frustrates adequate planning and rational decision making (Levinson, 1971, p. 96).

Beckhard and Dyer (1983) suggest that the failure to adequately control conflict may contribute to the high mortality rate of family-owned firms. Family businesses are, in fact, rather fragile. Roughly two-thirds of family-owned and family-controlled businesses do not survive the founders' generation (Beckhard and Dyer 1983; Dyer 1986), with only 10 to 15 percent surviving to a third generation (Applegate 1994).

The incidence of conflict in the workplace is high and dealing with it is time consuming. Managers have been found to devote more than 20 percent of their time to managing conflict, which they rate as equal in importance to their other managerial activities (Thomas and Schmidt, 1976).

Conflict is inevitable in any business, and often it's not a bad thing. Few people in business enjoy conflict but without it, a company may not have the impetus to change and develop.

Conflict can be beneficial when it helps to expose all possible solutions to a problem and forces business leaders to think through their options in an effort to deal with any objections and reservations (Hutcheson 2002). Conflict can act as a valuable sounding board for ideas and help keep the overall vision of the company alive (Davies 1998, p. 113). But conflict within a family is a different matter. Conflict that energises a business may destroy the family that created it. Put business and family together and the potential for trouble is clear.

In the next section we identify some of the causes of conflict, which are often unique to the family business environment.

CAUSES OF CONFLICT IN FAMILY BUSINESS

In this section we identify some of the unique causes of conflict in family business as well as other contributing factors that contribute to conflict in family business. The key difference between family business and non-family business is the unique nature of the relationship between

family members and their co-workers, employees or employers. This unique relationship poses three complex factors that can be the cause of conflict: rules, roles and dual relationships.

Rules are an important concept in family and Rosenblatt et al. (1985) have stated that verbalized or assumed rules are something all families have. The difficulty arises when family rules do not apply after they are transferred to the business system. For example, at home, a parent may be nurturing, solicitous, and advice-giving to a child. Although these may not be the best rules, they are the accepted rules in the family context. In the business, these parenting style rules may be embarrassing to the offspring and disrupt a productive working relationship between parent and child.

Cole (2000, pp. 352) says that a common assumption exists that family business relationships pose many problems for family business members. Some believe that the potential for problems arises because family businesses encompass business and family, two competing systems (Lansberg, 1983; Rosenblatt et al.,1985). The business context encourages productivity and profitability, whereas the family context encourages nurturing and acceptance. For example, a husband and wife who are co-owners of a company may not be able to make business decisions without marital problems turning the discussion into an argument. They may confuse their roles of spouse and business partner.

Cole (2000, pp. 352) says family business members share a bond dealing with each other in both a work and family context and this creates a dual relationship in which two people are managing two relationships simultaneously. For example, when a mother works with her son, she is a mother/boss working with her son/employee.

The underlying problem with conflict in family business stems from confusion or the inability to manage the complex rules, roles and dual relationships that need to be maintained between family and business. Yet the focal conflicts in a family business may revolve around a different set of issues, such as money, personalities or trust. The focal conflicts in a family business will be as diverse and varied as each enterprise is unique. These focal conflicts will range from the trivial to the disastrous and include differing vision, succession, jealousy amongst family, poor communication, poor conflict management skills, introducing a full-time role for a family member, equality in rewards, and spillover theory.

With so many unique causes and other contributing factors to conflict in a family business, and with evidence to suggest that conflict is a major contributor to family business failure, practitioners in this area would be served by effective techniques for managing this conflict. In the next section, we offer several techniques designed to abate destructive conflict and to address the root cause of the conflict.

ADDRESSING FAMILY-BUSINESS CONFLICT

We offers some practical techniques to address the family-business conflict including; solving issues promptly, effective communication, separating family and business, succession planning, formalizing the family business, sibling succession teams, defined roles, third party involvement, rewards system, retirement planning.

CONCLUSION

Conflict is inevitable in any business, but unresolved conflict in family business may contribute to the high mortality rate of these family-owned firms when management fails to come to grips with the inevitable discord that arises when family members work closely together.

Practitioners and other third party or non-family members, such as non-executive directors, are well placed to help facilitate resolution in family business conflict with the view to preserving the existing business, ensuring its continuity in the short term and assuring succession for the long term.

We provide a useful introduction to the unique causes and other contributing factors that drive family business conflict, and we offer practical techniques for practitioners to help manage and resolve the conflict, and improve business performance.

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ECONOMIC ANALYSIS AND POLICY IMPLICATIONS OF FERTILITY IN MIDDLE EAST AND NORTH AFRICAN COUNTRIES

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ABSTRACT

This paper attempts to provide an economic analysis of fertility interrelationships using pooled cross-country data from the Middle East and North African region, 1982-2000. Regression results provide strong confirmation that family planning, urbanisation and female labour force participation rates are inversely related to fertility rates. Income, infant mortality rates and female education are found to have a strong positive correlation with fertility. The results of several variables are also consistent with the results obtained in earlier studies involving countries and regions other than the Middle East and North Africa. Some policy implications are drawn.

INTRODUCTION

The twenty countries in the Middle East and the North Africa (MENA) region had a combined population of approximately 283 million in 1997 (The World Bank, 1999, Table 1), contributing to approximately 4.9 percent of world total population. The majority of the countries are in the middle-income and medium human development categories (Table 1). The overall level of economic development of MENA is comparatively much better than many regions elsewhere (UNDP, 1999, Table 1). The level of achievement in per capita incomes and human development is largely attributable to several of the MENA countries rich natural resource base. Theoretically, as countries become rich, they tend to go through a *demographic transition* in which fast-improving medical conditions and high birth rates combine to give rapid population growth, a phenomenon that characterised most of Asia almost thirty years ago (*The Economist*, September 13, 1997). Demographic indicators provide evidence of similar demographic transitions taking place in several of the MENA countries (Table 2).

Although the indicators of per capita income and human development look satisfactory for MENA, the population and population growth rate give cause for concern. Although MENA ranks the lowest in terms of the share of total world population, such is not the case in terms of the growth rate (World Bank, 1999, Table 1). MENA annual average population growth rate of 3.0 percent during 1990-2000 period was the highest when compared with East Asia and the Pacific, Europe and Central Asia, Latin America and Caribbean, South Asia and Sub-Saharan Africa. Although annual average population growth rate declined to 2.5 percent in the 1990-97 period, it was second to that of Sub-Saharan Africa which recorded a growth rate of 2.7 percent (The World Bank, 1999, Table 3) during the same period. Almost all MENA countries experienced higher population growth rates than 1.5 percent, the world average (Table 1).

While it is noted that the transition from a less developed economy to one which is more developed is not only feasible and can be attained in a relatively short period of time (Stiglitz, 1996), the MENA high rate of population growth can have a retarding effect on the pace of the development process. Of main importance is the high fertility rates in MENA. High rates of fertility can have several direct effects on a country's long-term development: contribute to lower standard of living; reduces per capita land and resource availability; greater under-employment and open

unemployment; demand pressures on social capital like education, health and housing; increases dependency; environmental destruction and contributes to inequalities in income distribution (Ghatak, 1995, pp. 231-233).

Data in Table 2 shows MENA fertility rate trends. For the high-income countries, the fertility rates in 1980 were above 1.9, the average for all of the high-income countries (The World Bank, 1999, Table 7). In 1996, after a span of fifteen years, the average fertility rate for high-income countries was 1.7 (The World Bank, 1999, Table 7). In the same year, for United Arab Emirates, the fertility rate was 3.5, many times higher than 1.7. While the fertility statistic for 1996 is not available for Qatar and Kuwait, it is quite likely that they followed similar patterns as noted for the United Arab Emirates.

For the three upper-middle-income countries (Oman, Saudi Arabia and Bahrain), fertility rates in 1980 and 1996 have been many times higher than 3.8 and 2.6, respectively, the average for upper-middle-income countries (The World Bank, 1999, Table 7).

For the seven lower-middle-income economies in Table 2, the fertility rates have again been many times higher in 1980 compared to 3.1, the average for all the lower-middle-income economies (The World Bank, 1999, Table 7). In 1996, the trend remained the same with fertility rates higher than 2.2, the average for all lower-middle- income economies (The World Bank, 1999, Table 7).

While the fertility rates are high for all countries in Table 2, compared with the average for all countries in similar income categories, one common feature has been a declining pattern in fertility rates as shown in the percent change 1975-96 column of Table 2. Algeria and Tunisia have made tremendous progress in reducing their fertility rates while Iran, Oman and Yemen have made least progress.

Attention needs to be focussed towards controlling high levels of population growth. Of vital importance is a close check on fertility rates because they can be a strong factor contributing to a speedy rate of decline in population growth. Such forms of checks on population growth can improve the quality of human capital, in particular through improving maternal productivity. It is noted by Shultz (1997), that any investments able to increase individual lifetime productivity can contribute to economic growth and socio-demographic development.

In this spirit, this paper aims to provide an economic analysis of fertility inter-relationships on the basis of pooled cross-sectional data for the MENA region. The next section presents a theoretical discussion of the channels through which fertility is affected. Sample size and data are discussed in section three followed by empirical regression results in section four. A conclusion is presented in section five.

CHANNELS THROUGH WHICH FERTILITY IS AFFECTED

This section presents a discussion of several economic and non-economic factors that are likely to influence MENA high fertility rates.

Income

The level of income can influence fertility rates. Economic choice models (Becker and Lewis, 1973; Schultz, 1976) argue that if babies are regarded as consumption goods than their demand will compete against the demand for other consumption goods. Therefore, the benefits of having babies must be outweighed against the cost: the allocation of parental time for raising the babies and the possible associated loss of income. In particular, a rise in real income would tend to reduce the fertility rate as rising income means children are needed less as producer and investment goods. In a similar vain, Temple (1999) notes that if people perceive that incomes are likely to rise, and possibly the returns to human capital, they may decide to have a fewer children. Thus, theoretically, the demand for babies and eventually fertility should be inversely correlated with income.

Infant Mortality Rates

The relationship between fertility and infant mortality rates is likely to be bi-directional, that is, infant mortality may affect fertility and fertility may affect infant mortality (Rosenzweig and Schultz, 1983 and Schultz, 1993). In this study, high infant mortality rates are hypothesised to influence fertility rates, that is, if large numbers of children die, parents must have large numbers of children to ensure at least some survive.

Female Education

Educating females is one of the best investments for future socio-economic welfare (The World Bank, 1980) and is found to be associated with lower fertility (Barro, 1991 and Schultz, 1993). Greater female literacy could reduce fertility rate in several ways: (1). Literate women are more likely to know how to plan family size; (2). Literacy confers status on women, and women can use this higher status in the family to advance the interests of the family, including size; (3). The acquisition of education delays the age of marriage; and (4). Education also complements the effectiveness of family planning programs and the opportunities for work. Hence, higher education is expected to reduce fertility as educated women are likely to comprehend more clearly the logic of fertility control including a re-think of age-old customs resulting in a change of attitudes and motivations (Ghatak, 1995). It is also noted that educated mothers would be expected to value more highly education for their children, and would more likely make a conscious trade-off between quality of life and the number of children (Dasgupta, 1993). Thus, female education is hypothesised to promote decline in fertility and to act as a force behind the demographic change.

Urbanisation

Urbanised populations have lower fertility rates than rural populations in developed nations (Eberstadt, 1980 and Schultz, 1993). Urbanisation is expected to depress aggregate fertility rates as the level of awareness of the consequences of higher fertility rates is expected to be greater. Urban areas provide better access to education, wider employment opportunities, higher incomes, more comprehensive information flows, and offers family planning services. Therefore, these factors contribute positively towards parental decision making with an expected smaller family. Thus, fertility should be inversely correlated with urbanisation.

Female labour force participation rate

A factor that is likely to influence the rate of fertility is the status of women. A change in status of women can be brought about through education and their levels of participation in the labour market. With greater participation in the labour market, it is likely that young, married couples are in a better position to bargain over family size, where *smaller* is better, eventually influencing the fertility rates.

Family Planning

Schultz (1997) notes that the capacity to avoid unwanted fertility is a form of human capital which enhances female market productivity by allowing women to continue their education, to migrate to where their skills are most valued, or to allocate time to their most rewarding work. An active family planning service is expected to influence fertility as it brings about greater awareness of birth control and is effective in helping eliminate inefficiency with the introduction of modern contraceptive methods. This should result in a drop in fertility rates. Effective family planning programs are known to result in longer birth spacing and a reduction in infant mortality (Dasgupta, 1993).

DESCRIPTION OF DATA

The countries chosen in this study for the empirical work comprises a sample of ten MENA countries: Algeria, Bahrain, Egypt, Iran, Morocco, Oman, Saudi Arabia, Syria, Tunisia and United Arab Emirates. While there are twenty countries in the MENA region (The World Bank, 2003), the choice of these ten countries was solely dictated by the availability of published data on variables of interest as discussed in section two. Unfortunately, not all MENA countries have a consistent set of data, and where data is available the time span is limited. Since the sample time frame for the dependent variable has to be consistent with the explanatory variables, all variable measures were restricted to 1990-2000, with all data taken from the World Bank World Development Indicators CD-ROM (2003).

In terms of variable measures, fertility rate is the average number of children that would be born alive to a woman in her lifetime. Income is measured by real per capita GNP. Infant mortality rate is the number of infants per thousand live births, in a given year, who die before reaching one year of age. Female education is measured by gross enrolment of females of all ages at primary level as a percentage of children in the country's primary school age group. Urban population as a percentage of total population measures urbanisation. Female labour force participation is female labour force as a percentage of total labour force. Because measures of family planning are deficient across MENA countries, a dummy was used. A value of *one* was allocated to Algeria, Egypt, Syria and Tunisia, supported by the fact that these countries revealed contraceptive prevalence rate. For example, the contraceptive prevalence rate during 1990-96 was 51 percent in Algeria, 48 percent in Egypt, 40 percent in Syria and 60 percent in Tunisia (The World Bank, 1999). It was assumed that contraceptive prevalence rates existed in these countries even prior to 1990 but perhaps at a lower rate. *Zeros* were allocated to countries other than Algeria, Egypt, Syria and Tunisia. This means absence of effective family planning programs.

EMPIRICAL REGRESSION ANALYSIS AND RESULTS

The model is estimated using SHAZAM 7.0 Econometrics Computer Program (White *et al.,* 1993) following the model outlined by Kmenta (1986). Descriptive statistics are provided in Table 3 while the regression results are reported in Table 4.

The model performs highly satisfactorily. Its robustness and adequacy based on diagnostic statistics is considered to be satisfactory for models utilising cross-sectional data. In terms of coefficient of determination (Buse R-square), the six explanatory variables explain over 86 percent of the variation in MENA fertility rates. Given the use of pooled data, such an outcome is considered to be highly satisfactory. The F-Statistics is established as significant. This led to a conclusion that there exists a strong statistical relationship between the six-predictor variables and the criterion variable at alpha 0.05 level. Of critical importance is the issue of heteroscedasticity. The Engle's conditional test on residuals did not reveal any serious heteroscedasticity problems. The coefficients are statistically significant at the 1- percent level. The signs of the regression coefficients have several implications as discussed below.

An issue crucial to the findings obtained for the MENA countries is an attempt to shed some light on the discussion of results from previous studies addressing similar issues thus providing some comparisons. However, comparisons are difficult, for a whole host of reasons: differences in countries economic structures, variable selection, measurements, the sample size, the choice of countries and the methods of estimations. Thus, only those aspect that are most comparable and appropriate in this context are discussed.

The coefficient of *income* is surprising and does not meet priori expectations. It is positive and statistically significant, providing strong evidence that MENA fertility rate positively correlated with income: increases in incomes are associated with increases in fertility rates. This result contradicts the arguments of the economic choice models (section 2), including Becker and Lewis

(1973) and Shultz (1978). Studies involving other countries and regions have shown an inverse relationship between fertility and income (Gani, 1999). However, in an earlier study, Eberstadt (1980) noted that nations like Mexico, Brazil and Philippines, with relatively high-income levels and growth rates, showed little sign of fertility decline. Today, of course, it is obvious that fertility has declined rapidly in these three countries. It seems that individual decisions on family size in MENA countries have much to do with the level of income. The results of the income variable leading to the conclusion higher average incomes mean more resources available to support large families, thus, a higher demand for children.

The coefficient *infant mortality rate* is, as expected, positive and most significantly related to fertility. The results provide confirmation that high fertility rates are associated with high infant mortality rates. The results indicate that in the MENA region the chances of child survival are less in comparison to developed countries. For example, the current, average infant mortality rate in high-income countries is 6 per 1,000 live births, while in low-income countries it is 59 per 1,000 live births (The World Bank, 1999, Table 7). MENA countries have high infant mortality rates. In 1980 the average infant mortality rate in the MENA region was 96 per 1,000 live births and in 1996 it had declined to 50 per 1,000 live births, still higher than the average for low and middle-income countries in 1980 and 1996, respectively (The World Bank, 1999, Table 7). The result obtained for infant mortality rate is consistent with earlier studies involving different countries and regions. Blau (1986), Rosenzweig and Schultz (1985 & 1993) and Gani (1999) show infant mortality rate and fertility rate in developing countries is significantly positively correlated.

The coefficient, *female education*, is positive and statistically significant and inconsistent with our a priori expectations. Barro (1991), using data for 100 countries, shows that high school enrolment rates contributed to lower fertility rates. Similarly, Shultz (1993) found that female education is also associated with lower fertility. High levels of female education is also found to be negatively correlated with fertility in a cross-section of Pacific Island countries (Gani, 1999). The results obtained here for the variable female education is not surprising given low female literacy rates. For example, current average female literacy rate for Arab states is 46.4 percent, much lower than 62.9 percent, the average for all developing countries (UNDP, 1999, Table 2).

Evidence of a fairly strong impact of *urbanisation* on fertility was found. The coefficient urbanisation is consistent with theoretical expectations. At the standard 1 percent level of significance, the coefficient of urbanisation is negative and statistically significant; giving strong evidence that urbanisation is inversely associated with fertility. Urban areas provide better accessibility to health, education and gainful employment.

The coefficient for *female labour force participation* rate is consistent with *a priori* expectations, negative and statistically significant, providing strong evidence that increases in female labour force participation rate is associated with lower levels of fertility. The trend in the developing world is for women to become better educated. While MENA female literacy and employment rates are still lower than their male counterpart, the gap is gradually narrowing. As MENA women gain skills and abilities, this is likely to shift their position in the labour force. The increase in female participation in the MENA labour force is revealed in the participation rates. For example, the average MENA female percent of the labour force in 1997 was 26 compared to 24 in 1980 (The World Bank, 1999, Table 3). Although this number is lower than the average for the low and middle-income economies, the existing level of female involvement in the labour force is a positive development in terms of improving the status of women.

Family planning as measured by dummy variable is consistent with *a priori* expectations; the negative and statistically significant coefficient providing confirmation that family planning services are associated with lower fertility rates. The results are consistent with that of Shultz (1993) and Gani (1999) where the association between family planning and fertility is found to be negative.

SUMMARY AND CONCLUSION

This study provided economic analysis of fertility interrelationships in MENA, and has helped to identify the relative contributions of the different influences reasonably well. Our results provide strong evidence that family planning, urbanisation and female labour force participation are confirmed as inversely related to fertility rates. Surprisingly, a strong positive association is found between fertility rate, incomes, infant mortality rate and female education. Several outcomes of the empirical analysis are similar to results obtained by earlier studies involving non-MENA countries and regions. The analysis presented has some policy implications. One reservation is that while cross-sectional regression analysis as adopted in this study is a popular method, the appropriate policies will depend on a country's particular demographic situation.

The important policy outcome is to allow improvements in the status of woman, which could contribute to improvements in human capital and thus economic development and demographic improvements. Expanding the opportunities for women in the educational system, participation in the out-of-house labour market, infant and general health care services, and access to family planning programs should be a matter of priority among the MENA policy makers. This may also bring about beneficial externalities as a healthy population with higher levels of education and income-earning opportunities can also lead to increases in the marriage age. To reduce infant mortality, public expenditure on infant health care is an obvious area for improvement: more resources should be devoted to primary health care facilities, increasing the number of health care personnel and establishing maternal education programs directed toward health, nutrition and basic hygiene, coupled with effective, population responsive, family planning programs. Family planning is an important health policy instrument and awareness of its benefits should be increased enabling parents to make the right decisions in terms of achieving their fertility targets and family size. Public resources effectively directed towards family planning programmes can provide vital information about birth control, enabling a woman to avoid unwanted pregnancy and enhancing their market productivity. Generally, this will lead to lower desired fertility. It is not surprising that family planning is viewed as a means to *empower* women because it is likely to increase their economic opportunities.

While several studies on fertility concerning the developing world have made important contributions in the past, the conclusions of earlier studies may not be applicable in current times to the developing world given the economic and demographic transitions several developing countries have experienced or are going through. For example, in an earlier study on fertility in less developed countries, Eberstadt (1980) concluded that there is "no economic evidence to show that rapid population growth stifles economic growth, or even per capita economic growth, that models generate meaningless numbers and if there is any international correlation between population growth and per capita economic growth in LDC's, and many are not convinced there is, it would be positive, not negative".

While such conclusions may have had their place some two decades ago, it should be noted that tremendous advancements have taken place in both theoretical and applied economics over time and several nations have a good statistical records on economic and demographic variables. As a result of such advancements, studies of recent times provide convincing outcomes of the correlation's between population and economic growth that makes conclusions of earlier studies like Eberstadt (1980) redundant. With much certainty, high fertility rates may have negative consequences on overall level of growth and development. In recent times researchers have noted negative (although weak) correlation between population growth and growth of per capita income (Mankiw, Romer and Weil, 1992). Other effects of high population growth are also noted. There is some evidence of students in countries with higher population growth recording lower achievement (Hanushek, 1992), and a weak negative relationship between population growth and changes in total factor productivity (Temple, 1999), who further notes that some researchers have looked at the link from fertility rates to subsequent growth, sometimes finding a negative correlation.

In general, achieving an improved fertility rate depends to a great extent on achieving economic development, which in turn depends upon sound and effective economic and social policies and fiscal expenditure. As such, fiscal expenditure directed toward the welfare of women should be increased and insulated from cuts within the development budget.

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Table 1: *Development Indicators - Middle East and North African Countries*

Country	GNP per capita - $US 1997	HDI value – 1997	Population (Millions – 1997)	Population growth rate (1990-97)
Algeria	1490	0.665	29	2.3
Egypt	1180	0.616	60	2.0
Jordan	1570	0.715	4	4.8
Morocco	1250	0.582	28	1.9
Oman	4950	0.725	2	5.0
Saudi Arabia	6790	0.740	20	3.4
Syria	1150	0.663	15	2.9
Qatar	11570	0.814	0.675	…
Tunisia	2090	0.695	9	1.8
Kuwait	22110	0.833	1.6	…
United Arab Emirates	17360	0.812	3	4.9
Bahrain	4514	0.832	0.619	…
Yemen	270	0.449	16	4.5
Iran	1780	0.715	60	…
Middle East and North Africa	3880	0.626*	283	2.5
Lower Middle Income	1230	0.637**	2285	1.2
Upper Middle Income	4520	…	571	1.5

Note: * - refers to Arab states; ** - refers to all developing countries; and … indicates that data is not available.
Source: The World Bank (1999) and United Nations Development Program (UNDP, 1999).

Table 2: *Fertility Rate - Births Per Woman*

Country	Total Fertility Rate				
	1975	1980	1985	1996	Percent Change 1975-96
Algeria	7.3	6.7	5.8	3.4	53.4
Egypt	5.4	5.1	4.6	3.3	38.9
Jordan	7.8	6.8	6.5	4.4	43.6
Morocco	6.3	5.4	5.1	3.3	47.6
Oman	7.2	7.2	7.2	7.0	02.8
Saudi Arabia	7.3	7.3	7.2	6.2	15.1
Syria	7.5	7.4	7.0	4.0	46.7
Qatar	…	…	…	…	…
Tunisia	5.9	5.2	4.4	2.8	52.5
Kuwait	6.3	5.3	4.3	…	31.7*
UAE	5.9	5.4	5.0	3.5	40.7
Bahrain	5.7	5.3	5.0	…	12.2*
Yemen	7.1	7.9	7.6	7.2	1.4
Iran	6.2	6.1	6.3	…	1.6*
MENA	…	6.1	…	4.0	34.4**
LMI	…	3.1	…	2.2	29.0**
UMI	…	3.8	…	2.6	31.6**

Note: … indicates that data is not available; MENA = Middle East and North Africa; LMI = Lower Middle Income; UMI = Upper Middle Income; * refers to 1975-85; ** refers to 1980-1996.
Source: The World Bank (1992 and 1999).

Table 3: *Descriptive Statistics*

Variable	N	Mean	Standard. Deviation	Minimum	Maximum
Fertility Rate	90	6	1.1	3.6 (Tunisia)	7.4 (Syria)
Income	90	4001	3841.0	600.0 (Egypt & Iran)	14500.0 (UAE)
Infant mortality rate	90	62	23.4	23.0 (UAE)	119.0 (Egypt)
Female education	90	88	18.5	53.0 (Oman)	117.0 (Tunisia)
Urbanisation	90	54	20.1	7.9 (Oman)	83.0 (Bahrain)
Female labour force participation	90	13	5.8	5.4 (UAE)	24.4 (Tunisia)

Table 4: *Results*

Variable	Coefficient	Standard Errors	T- Value
Constant	3.750	0.301	12.440
Income	0.00118	0.000167	7.065
Infant mortality rate	0.0284	0.00207	13.700
Female education	0.0233	0.00286	8.141
Urbanisation	-0.0389	0.00266	-14.630
Female labour force participation	-0.0271	0.0131	-2.066
Family Planning	-0.307	0.0923	-3.325

Buse R-square = 0.86., F – Statistics = 71.4., Durbin Watson = 1.57, Jarque Bera = 0.48.

NAFTA: ITS FRAMEWORK AND IMPLICATIONS

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ABSTRACT

The North American Free Trade Agreement (NAFTA) was set up between the United States and neighboring countries Canada and Mexico in order to remove barriers to trade and promote investment among the three countries. The passage of this free trade agreement was greatly debated and contested, but ultimately was passed by Congress on January 1, 1994. This paper will discuss the development and negotiations leading up to the creation of the North American Free Trade Agreement, as well as the implications of NAFTA on the United States, Canada, and Mexico since 1994.

Academy of Legal, Ethical and Regulatory Issues

CROSSING THE LINE: EXPRESS WARRANTY OR MERE SALES TALK?

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ABSTRACT

The words used by sellers to describe their goods to induce buyers to purchase them can land the seller in court if the goods fail to measure up and the language is deemed to create an express warranty. Not all representations, however, create an enforceable express warranty. Sellers are given leeway to praise the value of their goods and to express opinions or commendations about them without exposure to liability. This freedom to praise is variously called "puffing", "shop talk", "salesmanship", and the like. The task of distinguishing sales talk from warranting is not an easy one and conflicting court decisions have resulted. Nevertheless, an actionable express warranty has structure and is comprised of the simultaneous existence of three elements. When these elements are applied to specific sales language a reasoned conclusion about whether the language is puffing or warranting can be determined. The purpose of this paper is to commend a process and identify the tests for distinguishing permissible salesmanship from actionable warranting. This paper also suggests an additional approach for determining whether warranty language fulfills one of the essential requirements that it be a part of the basis of the bargain.

INTRODUCTION

In Moore v. Berry (1995) the buyer was informed by the seller that a tree climbing stand was "probably the safest one on the market" and there was "no way you can fall in this stand". Based in part on these statements, the buyer purchased the stand. The tree stand collapsed and the buyer was injured in a fall from a tree. The buyer sued for breach of express warranty. The trial court decided that the seller's statements about the stand did not create an express warranty because the statements were mere sales talk or "puffing". The appellate court disagreed and reversed. The appellate court stated: "We find the representations that the tree stand is "probably the safest one on the market" and "there is no way you can fall" from it, upon which Moore relied, sufficient to raise a jury question as to whether they were an intentional affirmation relating to the quality of the tree stand such that an express warranty was created". This case illustrates the uncertainty about express warranty liability for statements made by sellers in the sales arena. The trial court decided that the statements were mere salesmanship and were not actionable. The appellate court decided otherwise. How, then, does one distinguish innocent sales talk from actionable warranting?

DISCUSSION

In the context of contracts for the sale of goods, a warranty has been defined as a promise or an agreement by the seller that the article sold has certain qualities (Chanin v. Chevrolet Motor Co., 1935). Failure of the goods to conform to the promise or agreement subjects the seller to liability for damages proximately caused by the breach (Lindemann v. Eli Lilly and Company, 1987). Pursuant to the Uniform Commercial Code – Sales (U.C.C.), an express warranty is created when the seller makes an affirmation of fact or promise that relates to the goods and becomes a part of the basis of the bargain between the parties that the goods will conform to the affirmation or promise (Uniform Commercial Code 1978, §2-313(1)(a); Royal Business Machines, Inc. v. Lorraine Corp., 1980). Cases interpreting the Uniform Commercial Code, however, frequently find that

certain kinds of statements made by sellers are mere "puffing" and that these kinds of general statements of salesmanship do not create enforceable express warranties (Omega Engineering, Inc. v. Eastman Kodak Company, 1998). Section 2-313(2) of the U.C.C. specifically provides that statements purporting to be merely the seller's opinion or commendations of the goods or relate only to the value of the goods do not create a warranty (Uniform Commercial Code 1978, §2-313(2). Making the distinction between statements about goods that are warranting because they constitute an affirmation of fact or promise that are part of the basis of the bargain from statements that mere puffery is problematic (Meadows, Dessin, and Garvin, 2004). Cases interpreting the U.C.C have provided a framework that can be employed to reach reasoned conclusions about whether a seller's representations are puffing or are enforceable express warranties.

Express Warranty: The Elements.

An express warranty is comprised of three elements. The elements are: (1) an affirmation of fact or a promise; (2) which relates to the goods; (3) and becomes a part of the basis of the bargain (Royal Business Machines, Inc. v. Lorraine Corp., 1980). When each of these elements is present, an enforceable express warranty is created that the goods will conform to the affirmation of fact or to the promise. A reasoned approach for distinguishing warranting language from mere sales talk is to apply each element to the questioned sales language in the order enumerated.

Element One: Affirmation of Fact or Promise.

The courts have employed several tests in determining whether sales language is an affirmation of fact or promise. The tests include the Ignorant Buyer Test; the Inducement Test; Factors Tests; and Precedent.

Ignorant Buyer Test.

One test applied by some courts for determining whether a given representation is an affirmation of fact or a promise is "whether the seller assumes to *assert a fact of which the buyer is ignorant* or whether he merely states an opinion or expresses a judgment about a thing as to which they may each be expected to have an opinion and exercise a judgment." (Overstreet v. Norden Laboratories, Inc., 1982, emphasis supplied). Generally, when the sales statements relate to certain performance capabilities of the goods about which the seller has superior knowledge and where the buyer is comparatively less informed, such statements will likely be deemed affirmations of fact and not mere opinions (Tralon Corporation, Soil Remediation Service, Inc. v. Cedarapids, Inc., 1997). The key inquiry here is whether the sales language contained statements about which the buyer was uninformed, or whether the statements were something about which both the buyer and the seller could have an opinion (Mazzuocola v. Thunderbird Products Corp., 1995 U.S. Dist LEXIS 6883, 1995). In the latter case no affirmation of fact or promise will be found to exist.

Inducement Test.

The affirmation of fact or promise can also be distinguished from mere opinion by determining if the natural tendency of the statement is to induce a reasonable buyer to purchase (Daley v. Mc Neil Consumer Products Co., 2001). For example, phrases like "Premium Quality" and "Made in the U.S.A." to the extent that they connote superior quality are not the kind of descriptions or characteristics of the goods upon which a reasonable consumer would rely as statements of fact (Anderson v. Bungee International Manufacturing Corp., 1999). The inducement test focuses on whether it is apparent from the sales language that the claim made by the seller was

in the mind of the buyer and that the buyer contemplated the claim and reasonably accepted it as true in making the decision to purchase (Spiegel v. Saks 34th Street, 1964).

Factors Tests.

It has been held that the more specific the statement the more likely it will be deemed to constitute an affirmation of fact (Downie v. Abex Corporation, 1984). In addition, courts also consider whether the sales statement was written or oral the latter being more likely to be considered puffing (Omega Engineering v. Eastman Kodak Company, 1998).

Precedent.

Courts appear to be most comfortable with citing precedent involving the same or similar sales language in support of their conclusion that the language at bar is or is not an affirmation of fact sufficient to create an express warranty. The difficulty with this approach is that courts have reached decisions that are inapposite when determining the legal effect of sales statements that involve similar language. Use of precedent is a common practice but one fraught with ambiguity.

Element Two: Relates to the Goods.

This element is straightforward and requires a nexus between the sales statement and the particular goods at issue. For example, where a boat seller furnished the buyer with speed data for one type of boat which data did not relate to the particular type of boat ultimately purchased by the buyer the court held that the speed data did not create an express warranty because the data did not relate to the goods at issue (Bayliner Marine Corporation v. Crow, 1999).

Element Three: Basis of the Bargain.

In the mainstream, it has been held that in order for the seller's statements to become part of the basis of the bargain the statements must be relied upon by the buyer as one of the inducements for purchasing the goods (Overstreet v. Norden Laboratories, Inc., 1982). In short, the traditional rule is that there exists little difference between "basis of the bargain" and a finding that the buyer relied upon the seller's statements in making the decision to purchase (Royal Business Machines, Inc. v. Lorraine Corp., 1980). This mainstream treatment of the issue continues despite the apparent intention of the drafters of the U.C.C. not to require a strong showing of reliance. A split of authority has arisen about whether an official comment to U.C.C. 2-313 dispensed with a reliance requirement (Uniform Commercial Code 1988, §2-313 cmt. 3; McManus v. Fleetwood Enterprises, Inc., 2003). Notwithstanding the comment, courts have continued to hold that a buyer's reliance to some extent upon the seller's statement is required in order for the statement to be part of the basis of the bargain (Henry Schein, Inc. v. Stromboe, 2003).

Basis of the Bargain: Mutual Assent.

In light of the split in authority concerning "basis of the bargain" it is submitted that the inquiry should involve whether the minds of the seller and buyer met upon the affirmations or promises made by the seller and, if so, then such affirmations or promises would be a part of the basis of the bargain. In support of this kind of analysis, reference is made to comment one to U.C.C.2-313 which provides in part that: "Express' warranties rest on 'dickered' aspects of the individual bargain." (Uniform Commercial Code 1988, §2-313 cmt. 1). "Dickered" connotes that the parties engaged in negotiations and the offer/acceptance process in forming the sales contract. Thus, where the parties negotiated over the seller's sales message and reached a meeting of the

minds about it then surely it can be argued that the sales language is part of the basis of the bargain.

SUMMARY AND IMPLCATIONS

The language selected and used to induce the purchase of products can result in liability if the goods fail to measure up to the claims. It makes no difference if the sales language is verbal and takes place on the sales floor or is found in written or media materials, liability will be imposed if the language is found to create an express warranty. The U.C.C. plainly establishes a seller's liability for language that is deemed to be an affirmation of fact or a promise when that language is part of the basis of the bargain. The U.C.C. also provides that no liability shall exist for sales language that relates only to the value of the goods or constitutes the mere opinion or commendations of the goods by the seller. The problem is that despite this statutory law the line between puffing and warranting is difficult to draw.

Nevertheless, business professionals, both sellers and buyers, wishing to manage express warranty and practitioners wrestling with the import of specific sales language after an express warranty claim is made, can profit from analyzing the given sales language against the framework and factors identified above. The elements for express warranty suggest that three questions be posed about the sales representation at issue. One: Does the sales message contain performance claims or include specific product characteristics about which the seller has superior knowledge that would induce an ordinarily prudent consumer to buy? Two: Does the sales message relate to the specific product? Three: Is the sales message believable so that it would reasonably induce consumer assent and will consumers rely in some measure on the message in making a decision to buy? An affirmative response to all three questions will be an indication that the sales language under review will likely be deemed an express warranty.

In the final analysis, the objectives of either buyer or seller concerning express warranty can be furthered by use of the framework and factors analysis posited here. It is submitted that the foregoing template can provide a useful and reasoned approach to determining whether specific sales language has or will cross the line between puffing and warranting.

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THE RUNING OF COLLEGE STUDENTS' AND OTHER CONSUMERS' CREDIT HISTORY: WHEN ARE GOING TO STOP THIS PRACTICE?

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ABSTRACT

This study emphasis the fact that college students, teenagers and low income families are not well educated about the pitfalls and abuse of credit cards, yet they are the target of sale pitches and other promotions to trap them into getting a vicious cycle of credit card debt. The study will then discuss the alliance between retail and credit card corporations that has cornered millions of Americans into impulse shopping and ultimately living far beyond their needs. The study then argues that educating and cautioning American citizens of the potential dangers of credit card abuse could decrease the percentage of consumers in debt. A further aspect of the study discusses a need for knowing and understanding the strategies that are being used to promote the use of credit cards and that it is vital in creating effective and unbiased ways to safely promote the education of credit cards.

THE ECONOMIC AND REGULATROY ENVIRONMENT OF THE BIOTECHNOLOGY INDUSTRY IN ASIA

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ABSTRACT

Industrial policy of many counties in Asia is focused on establishing an important role in the future of the biotechnology industry. This paper reviews the business and regulatory environment of the biotechnology industry in China, Taiwan, and Japan. China is identified as having strategic advantages based on a low cost drug development, a large and diverse patient population, rapid approval process, and local tax incentives. Related industry experience, geography, and a strong legal framework are identified as strategic advantages for Taiwan. Abundant financial capital, well-established research centers, and ability to retain trained scientist are fundamental to the Japanese future expansion in the biotechnology sector.

INTRODUCTION

Biotechnology is poised to be one of the most influential industries of the twenty first century. The Asia-Pacific's biotechnology industries are at vastly different stages of development, with at least 10 public companies in Japan, Australia, Hong Kong, Korea and India for which biotechnology is core business and just a few in Taiwan, China and New Zealand. There are no public biotech companies in Thailand, Malaysia, Indonesia and the Philippines. Merger and acquisition activity has been negligible, with most public companies at the start-up stage. Many have products for which clinical trial results are not yet fully realized. However, alliance activity has been high, with many global chemical, pharmaceutical and agribusiness companies forming distribution deals with Asian companies. Three Asian counties with an industrial policy focus on the biotechnology sector are China, Taiwan, and Japan. This paper is divided into four sections. First, the business environment of biotechnology in China is reviewed. The next section explores the business environment of biotechnology in Taiwan. The third section puts forth a discussion of the business environment of biotechnology in Japan. The final section offers concluding remarks.

THE BUSINESS ENVIRONMENT OF BIOTECHNOLOGY IN CHINA

In China, nearly half of GDP is derived from manufacturing, a painful reality to Japan, Taiwan, Singapore, Malaysia, and other countries that compete with China in the manufacturing of electronics, automobiles, clothes, and other goods. China is the single largest exporter of goods to the United States. According to the United Nations, China acquired approximately $50 billion in foreign direct investment in 2002. In order to maintain its high growth momentum, the government of China has started to target the potentially lucrative international biotechnology market. The number of biotech companies in China varies from a few hundred to several thousand, depending how the sector is defined. For example, there are several thousand biotech companies if small pharmaceutical firms with a dozen or fewer workers are included in the category. Similarly, the several hundred companies involved in amino acid production, brewery, and chemical production can be considered part of China's growing biotech industry. Even a very conservative definition of biotechnology places the number of firms at about 200 moderate-sized pharmaceuticals companies and at least another 100 companies involved in agricultural biotech.

The Chinese pharmaceutical market has experienced massive growth in recent years. According to the data from Business & Company Resource Center, the Chinese market reached a value of $8.25 billion in 2003, achieving an amazing compound annual growth rate of 15.7% in the 1999-2003 period. By 2008, the market is forecasted to reach a value of $16 billion. Given the country's high growth rate, foreign companies like Pfizer, Novartis and GSK have sought to extend their operations in China. In addition, China is also the largest manufacturer of antibiotics, with a production of 11,000 metric tons annually, or about half of the global total. Similarly, China produces 75,000 metric tons of amino acids and 2,000 metric tons of enzymes, placing it among the top producers in the world for these products. According to the World Health Organization, the biotech industry in China was born in 1998 when the Ministry of Science and Technology established two institutes so that China could participate in the International Human Genome Sequencing Consortium. The goal of Chinese government is to improve their infrastructure capacity to meet the level of world-class genomic work. China tends to use this infrastructure to stimulate their commercial activity in biotech field and establish the foundation of their research ability. However, the intellectual property protection is considered poor by multinational foreign investors that deter the development of biotech. There is a shortage of trained scientists and science managers in Mainland China. One reason for the shortage is the brain drain of scientists leaving China to train and often work in the United States.

The three main advantages for biotechnology research in China are extremely low cost of drug development, enormous patient population, and a fast approval process (Dublin, 2004). China could further benefit from revenue generated by providing outsourcing services to foreign biopharmaceutical companies. The cost-efficiency of developing drugs in China could give homegrown biotech companies a big advantage over international firms. As a result of lower cost of labor, clinical trials and real estate, developing drugs in China costs far less than the estimated hundreds of millions necessary to develop a drug in the US. Developing drug costs approximately $120 million in China compared to $800 million in the United States. The second advantage that Chinese biotech companies could enjoy is huge patient population for clinical trial. Neighbor countries like Taiwan, Japan and Singapore do not have a broad and diverse patient population. The third advantage is Chinese biotech companies have shorter and more controlled approval process. In theory, the approval process takes from five to eight years in contrast to an average of eight to ten years in the US. The approval process in the People's Republic of China is similar to that of the United States and includes applications as well as three clinical trial phases.

In order to attract direct investment from multinational foreign biotech companies, the Chinese government released a new policy whereby foreign investment undergoes a 30-day fast-track approval process in October 2004. Investments below $100 million need ratification only by local authorities; previously, approval by the central government was required. These investments are scrutinized solely on the basis of their potential to interfere with environmental or state safety considerations (Jia, 2005). In addition, in the latest Catalog for the Guidance of Industries for Foreign Investment in 2005, China listed biotech research, development, and production as a sector in which the country is keen to stimulate and encourage foreign investments. Any companies in that sector are eligible for a low rate of corporate income tax. The Chinese government also provides low rate on loans direct from Chinese banks. Moreover, there are no tariffs are Chinese agent requirements on imported equipment and technology from foreign research centers. Biotechnology companies can reinvest their revenues generated from research or out-licensing in China free of taxation. As result, many leading biotech companies in the world have been seeking Chinese partners for business from outsourcing research to forming venture capitals.

The legal and regulatory environment within China is often daunting to foreign investors. China's political leaders are often involved in corporate decision-making. There are also issues such as currency transfer restrictions and roadblocks to capital exit of investments that deters many investors. In order to resolve these problems, the Chinese government is establishing centers that

are relatively free of government intervention and establishing a stock market system that mirrors those in Hong Kong, Japan, and the United States.

THE BUSINESS ENVIRONMENT OF BIOTECHNOLOGY IN TAIWAN

Taiwan has concentrated on developing its high-tech industries over the past 20 years and is now a world leader in the development and production of electronic, information technology (IT), computer, and semiconductor products. The government of Taiwan has set up a goal that Taiwanese biotechnology industry can achieve the same kind of success. Taiwan has several competitive advantages over other Asian countries. The advantages include existing expertise in high technology that is easily transferred to biotechnology, strategic location close to China and straddling Northeast and Southeast Asia, strong legal framework, highly educated workforce in IT and biology, world-class research facilities, abundant capital and Asia's most vibrant venture capital industry, and herbal medicine knowledge and extracting experience. Taiwan’s pharmaceutical industry has always included the Chinese medicine industry, a treasured ancestral heritage. In fact, many Western pharmaceutical manufactures in Taiwan are also producing Chinese medicinal ingredients and formulations. In addition, many biotechnology start-ups are conducting research on modern medical uses of traditional Chinese herbs and medicines.

Currently there are 223 private venture capital firms in Taiwan, of which 61 have invested in biotechnology over the past three years. Their scale of investment is relatively small and they lack expertise in evaluating biotech investment opportunities. Even though global venture capital has grown dramatically, most of it has been invested in the United States. In 1995, Taiwanese government published and released a Biotech Promotion Plan defining national biotech industry goals and detailing the corresponding action steps. The goal of Biotech Promotion plan is to establish Taiwan as the center for genomic research and development in Asia, as the leading location for human clinical trial, as a worldwide subtropical floriculture center, and build the most vibrant biotech-focused venture capital industry in Asia. In addition, the Taiwan government plans to invest $4.5 billion in new capital into the biotechnology and pharmaceutical industry by the year 2010. In recent years, the Taiwanese government has realized that China is also aggressively involved in capturing biotechnology opportunities. Cooperating with Chinese biotechnology community is probably the inevitable trend, even though there is still a severe political conflict between China and Taiwan. If Taiwan could offer its high-technology knowledge and abundant capital resources with China’s low cost of labor, the two could establish a formidable biotechnology industry.

THE BUSINESS ENVIRONMENT OF BIOTECHNOLOGY IN JAPAN

The biotechnology industry of Japan biotech is the largest in Asia-Pacific, generating an estimated $11 billion in annual revenue. The market for biopharmaceuticals alone is the third largest in the world, as are the markets for bio-chemicals and environmental products. Many of Japan’s large and established companies such as Sumitomo Chemicals, Hitachi, and Mitsui have intensified efforts to integrate biotechnology research and development into their existing business, which are pharmaceuticals, chemicals, and scientific equipment and diagnostics. Even information technology players Fujitsu and NEC are developing technology for high-speed gene analysis (Mergent, 2003). Almost all public companies engaged in biotechnology are a subsidiary of, or joint venture involving, a major company - some of which have grown from traditional medicine or brewing and fermentation companies dating back to the 1800s. This is typically not the pattern in countries such as Australia or Korea, where public biotechnology companies tend to focus on biotechnology as a core business. Most of Japan’s biotechnology activities are located in certain cities with established research centers or scientific parks. Tokyo, Kobe, Kyoto, and Osaka are considered the most active cities for biotechnology industry cluster growth. For example, Tokyo, the site of Tokyo University and its various affiliated laboratories, host numerous corporate

headquarters and the influential National Institute of Advanced Industrial Science and Technology. Adequate salaries and state of the art research facilities defers Japan from the brain drain loss to the United States that inhibits industry growth throughout much of Europe and China.

Japan is relatively flexible in biotechnology research and development. For example, under rules established in 2002 researchers in Japan can conduct stem cell research on human embryonic stem cells, as long as the host university and the education-ministry committees approve the research. This flexibility made it possible for Kyoto University to become a major site of human embryonic stem cell research. Government financial support of the biotechnology industry and research cluster centers are expected to increase the number of biotechnology firms in Japan to over 1,000 by the year 2010.

Despite steady growth in the biotechnology sector, Japanese companies face several challenges including falling drug prices, increasing global competition, and regulatory controls. According to Mergent (2004), one of the major blows cited by Japanese pharmaceutical companies was the Japanese government's decision to cut the national health insurance drug prices in 2001. The move was part of an effort to reform the Japanese prescription drug market. Additional changes in the drug market include a relaxation of licensing requirements for clinical trial data, which has made it easier for foreign players to enter the market directly, rather than getting a local partner to navigate the regulatory requirements. Despite recent government reforms, the Japanese biotechnology industry has complained that the pace of deregulation combined with new regulatory controls over activities such as cloning and food engineering have restrained the domestic industry. Another growing concern for the industry is that although Japanese people have been traditionally quick to embrace science and technology, they are increasingly concerned about the use of genetically modified food. In Japan, the Ministry of Health and Welfare sets the prices of all drugs, using suggestions from the drug makers based on the drug's efficacy and the prices of comparable products. Once set, the price will rarely change over the life of the drug. The advantage of the price setting policy is that a Japanese drug maker is able to earn huge profits from that lucrative innovation long after a patent has expired. However, the disadvantage is that Japanese pharmaceutical companies have reduced incentives to introduce or create new medicines to replace the old.

CONCLUSION

The paper has explored the business and regulatory environment of China, Taiwan, and Japan. China has the second largest economy in the world, as measured on a purchasing power parity basis, behind the United States. China is identified as having strategic advantages because low cost drug development, a large and diverse patient population, rapid approval process, and local tax incentives. Development of a new drug in China could cost as little as $120 million versus an average of $800 million in the United States. Direct involvement of the central government, currency transfer restrictions, and numerous impediments to foreign capital flight are identified as problems for the growth and development of the biotechnology sector in China. Taiwan is the largest exporter of computer component and laptop, designed, produced and assembled by Taiwan's high-technology companies. Related industry experience, geography, and a strong legal framework are identified as strategic advantages for Taiwan. Competition and political conflict with China are obstacles facing the Taiwanese market. Japan has the third largest economy and the third strongest pharmaceutical industry in the world. Abundant financial capital, well-established research centers, and ability to retain trained scientist are fundamental to the Japanese future expansion in the biotechnology sector. Falling drug prices, increasing global competition, and regulatory controls are challenges facing the Japanese biotechnology sector. Future research should explicitly compare the Asian market and regulatory environment in Asia to the United States and Europe.

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POLICY ISSUES IN THE GENDER EQUITY VERSUS PROFIT DEBATE IN COLLEGE ATHLETICS

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ABSTRACT

Title IX has become a central figure in the profit structure of Division I-A college athletics. This research discusses three possible modifications to Title IX. First, the issue of expanding compliance to include all extracurricular activities is explored. Second, the proposal of separating football from other sports as part of the Title IX compliance estimation is discussed. Finally, the implication of reducing the number of football scholarships is analyzed.

INTRODUCTION

Title IX has been the greatest contributing factor that has put forth gender equality in athletics but at the possible cost of many non-profit-generating male athletic programs such as swimming, baseball, and wrestling. Recently the controversy about the efficacy of Title IX and the impact it has on the profitability of collegiate sports has been debated in the media by the National Wrestling Coaches Association, Title IX supporters, and by elite college football programs. The purpose of this research is to determine the factors that influence the profitability of college athletics and apply the results to the Title IX gender equity versus profit controversy. This paper is divided into six sections. First, background on Title IX and its contributions toward gender equality in sports is discussed. The next section offers a discussion on the role of Division I-A football in collegiate athletics. The third section evaluates Title IX versus profit proposals. The final section offers concluding remarks.

TITLE IX BACKGROUND

Title IX was initiated by the 1965 Presidential Executive Order 11246 that prohibits contractors from discrimination in employment on the basis of race, color, religion or national origin. President Johnson later amended this in 1968 to include discrimination based on gender. In 1970, Rep. Edith Green drafted legislation prohibiting gender discrimination in education. The original bill was an amendment to Title VII, but was later changed to become Title IX. On June 23, 1972, Congress enacted Title IX as part of the Educational Amendments. President Richard Nixon signed this portion of the Educational Amendment into law, which prohibits any type of gender discrimination in any educational programs or activities, within an institution receiving federal financial assistance (Curtis & Grant, 2000). The act applies to both public and private schools, from kindergarten through graduate school, and covers admission, recruitment, educational programs and activities, course offerings and access, counseling, financial aid, employment assistance, facilities and housing, health and insurance benefits and services, scholarships, and athletics (Valentin, 2003).

In 1978, DHEW issued proposal policy "Title IX and Intercollegiate Athletics" for notice and comments. This policy had presumed compliance based on substantially equal average per capita expenditures for men and women athletes and future expansion of opportunity and participation for women. The final policy focuses on an institution's obligation to provide equal opportunity detailing the factors to be considered in assessing actual compliance (currently referred to as the 3-Prong-Test). Proportionality, program expansion, or accommodating the interest and

abilities of the student body are the three standard ways that compliance can be achieved. First, proportionality means that the percentage of women who participate in sports at a university should approximate the percentage of female undergraduates enrolled at the school. Second, is to show program expansion. This is achieved when a college demonstrates that it has increased, and continues to increase, opportunities for women. Finally, colleges may show that they have fully accommodated the desire to participate in athletics. In 1994, Equity in Athletics Disclosure Act (EADA) was passed. It states that any coeducational institution of higher education that participates in any federal student financial aid program and has an intercollegiate athletics program must annually disclose certain information concerning that intercollegiate athletics program. All institutions must have compliance information available to all who inquire about specific information on their intercollegiate athletics department as required by the Equity in Athletics Disclosure Act.

THE ROLE OF FOOTBALL IN DIVISION I-A COLLEGIATE ATHLETIC

College football is big business. During the 2001-2002 academic year Division I-A college football earned a combined profit of over $225 million. Fans provide financial funding to football programs by attending games, purchasing licensed merchandise, watching television, and contributing to the alumni association. Division I-A football is considered to be a revenue sport. A revenue sport is actually a misnomer, as the term does not mean that they generate revenue, but that they generate revenue in excess of their costs (Leeds & Von Allen 2002). With the profit, football is able to subsidize other non-revenue sports such as swimming, gymnastics, and wrestling. Paul "Bear" Bryant, former football coach at the University of Alabama, justified the prominence of his program by claiming it was unlikely that 50,000 people would show up to watch an English professor give a final exam (Zimbalist, 1999). Robert Brown (1993) conducted a study showing that a player with the potential to play in the NFL brings a college football team between $539,000 and $646,000 per year, more than $2 million over a four year career. Football carries the financial load in Division I-A athletics. The average annual profit is close to $5 million for football, while the average profit for the entire Division I-A athletic program is below $2 million. Football profits spill over and helps other sports. Football profits mean better basketball facilities, higher-profile coaches, and more TV exposure, all of which help attract the best talent (Fitzpatrick, 2002). This creates a domino effect where all athletic programs benefit from football profits.

The perceived conflicts between gender equity and profits have been debated for over thirty years. Athletic administrators argue that they have been slow to respond to Title IX requirements because they barely break even as it is. Therefore, either non-profit-generating men's programs will have to suffer or profits will have to come out of men's programs that generate profits, primarily football. Some argue diverting money from football could weaken the ability of the football program to continue to prosper and subsidize other sports, making all of the athletic programs at any college worse off. The solution has been to cut non-profit-generating men's programs. The University of Kansas athletic department cut men's swimming and tennis in 2001 to stay in the black, saving about $600,000 per year and reducing participation by 50 male athletes. Among the reasons cited for the cuts were increasing scholarship costs, increases in team travel costs for other sports, increases in coaches' salaries, and to meet gender equity requirements. Title IX defenders put forth the argument that non-revenue-generating men's sports are not being eliminated because of gender equity but because a disproportionate amount of athletic resources are distributed to football programs. The extension of this argument is that instead of eliminating men's wrestling, swimming, and tennis programs many universities could reduce the resource base of football instead of blaming gender equity.

Scholarship limitation to men's athletic programs in order to meet Title IX compliance has also had an impact on the salaries of football coaches. The profits from football and, to a lesser extent, men's basketball has increased the demand for successful coaches. In the past, elite football

programs like Notre Dame and the University of Alabama were able to stockpile talent on the bench in reserve that could often defeat the front line at many other colleges. Scholarship reductions has increased the competitive balance associated with football but it has also created a premium for coaches with a proven track record of winning. Hence, the elite programs have replaced the propensity to stockpile talent with the practice of hiring a coach that can get more out of a talent pool that is not as deep.

GENDER EQUITY VERSUS PROFIT PROPOSALS

Title IX has become a central figure in the profit structure of college athletics. The empirical analysis put forth in this study clearly verifies the importance of college football with respect to the profit structure of Division I-A athletic programs. The results also provide evidence that women's programs are indeed a financial drain for many athletic programs. Despite the financial considerations it is clear based on anecdotal evidence that the impact of Title IX on women's athletics has been immensely positive. The number of women participating in intercollegiate athletics has gone from approximately 30,000 to more than 150,000 since 1972. In the last 20 years alone the number women's college teams has nearly doubled. Before Title IX only tennis and golf had established professional league tours. Now there are also women's professional leagues for soccer, volleyball, basketball, and bowling. Women have even made inroads in the traditionally male sport of boxing. In this section we look at three possible approaches to addressing the gender equity versus profit debate.

One approach to the Title IX issue is to expand compliance to all extracurricular activities, not just college athletics. Most colleges offer extracurricular activities in art, dance, speech, band, and miscellaneous other areas. Female participation in non-athletic activities is often equal to or greater than male participation. Title IX interpretation could be expanded in a way that tabulates all extracurricular activities and funding as part of the compliance equation. The proportionality issue with Title IX would not be such a headache and might prevent the loss of many male non-revenue-generating sports. The counter argument against the extracurricular expansion proposal is that it could setback many of the gains made by women in collegiate athletics during the last thirty years. For example, major strides have been achieved in women's basketball during the last ten years. Women's college basketball programs at the University of Connecticut, University of Tennessee, and Texas Tech University are examples of programs that have turned the corner and make a profit. The women's college basketball championship tournament has continually earned more profit each year from the tournament broadcast rights. The examples of successful women's programs suggest that a little short-term pain while investing in the promotion of women's sports can pay off.

The second proposal revolves around the idea that Division I-A football is unlike any comparable women's sport and should be separated from other sports as part of the Title IX compliance estimation. The uniqueness of football is primarily derived from the large number of athletes needed to field a team plus the profits generated by the sport. Variations on this proposal are not new. On May 20, 1974, the Tower Amendment was proposed but rejected. This amendment attempted to exempt profit-generating sports from being tabulated when determining Title IX compliance. The Tower Amendment and related proposals have never been able to convince the courts that gender inequality is acceptable in the name of profits. There is little doubt that on the Division I-A level, football programs subsidize many other male and female athletic programs. But the courts have recognized that subsidies are a key component of a well functioning institution of higher learning, not just in athletics but also in academics. The average enrollment for a Division I-A institution is over twelve thousand. Pursuance of a degree in higher education requires that student take university and major core requirements. The enrollment and subsequent funding derived from introductory core classes in history, math, and English subsidizes upper-level courses and specialty fields like philosophy and Latin. The high enrollment from principles of

microeconomics and macroeconomics often subsidize upper-level and graduate economic courses at many universities. Football programs can be viewed as unique entities that need to be separated from the Title IX compliance tabulation but they can also be viewed as providing a subsidy umbrella; they generate profits that help pay and maintain the existence of other athletic programs.

At any given time in a football game a team is only allowed eleven players on the playing field. The majority of Division I-A football programs are compromised of one hundred football players not including the coaching staff and trainers. Football programs offer as many as eighty-five scholarships to players during an academic year. This vast number of football scholarships counts toward Title IX compliance requirements and is one of the primary reasons that non-profit-generating men's programs are often eliminated. There is no comparable women's program to balance the athletic scholarship numbers. This is where the primary problem starts for men's athletic programs other than football. Football has been left untouched and is held as the golden goose. Football runs through the veins of sports fans and the money it generates is the life force of college athletic departments. The third proposal acknowledges the popularity of football and puts forth the suggestion that the number of players offered full athletic scholarships be reduced by approximately twenty spots and reallocated to other sports. Cutting football scholarships and redistributing the money could prevent the loss of other athletic programs. Reduction in the number of football scholarships in the past has improved the competitive balance in the sport, which in turn increased profits. There is no reason to believe that there would be an appreciable decline in the profit from football in the future if this proposal were applied. The primary weakness of this proposal is that it might exasperate racial inequality problems. Leeds and Von Allen (2002) report that 59.1 percent of Division I college athletes are male. Interestingly, the race gap in college sports receives quite a bit less attention. In Division I men's sports, 61.6 percent of the athletes are white and 25.5 percent are African-American, even though the latter has a higher percentage of players in basketball and an equal share of football. The reduction of football scholarships would probably have a positive impact on Title IX compliance without hurting football profits but it would also have a tendency to deprive African-American athletes an opportunity at obtain higher education. Reducing football scholarships might also be economically inefficient. An efficient allocation normally provides more resources to profit centers, assuming there is ability to achieve profit growth.

CONCLUSION

There is little doubt that women have benefited greatly since the implementation of Title IX. Collegiate compliance with Title IX has allowed many more women the opportunity to participate in sports. Future research endeavors should include Division I-AA and Division II colleges in order to determine if the dominance of college football extends beyond the elite programs in major Division I-A conferences.

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CURRENT ISSUES WITH CHILD ADOPTION

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ABSTRACT

Domestic and international adoptions allow many couples and singles to build a family or add to an existing family. This manuscript examines legal, economic, and pragmatic issues relating to domestic and international adoptions. The primary strength of domestic adoptions is the accuracy of information regarding child health and emotional development. The primary concern put forth regarding domestic adoptions is the loss of custody should a biological parent change his or her mind about relinquishing parental rights. International adoptions provide greater access to healthy infants and toddlers but child theft and trafficking are growing as a global concern with respect to international adoptions.

INTRODUCTION

Massachusetts passed the first modern adoption law in 1851, recognizing adoption as a social and legal operation based on child welfare. Today, domestic and international adoptions total approximately 150,000 placements per year and are growing. The purpose of this research is to compare the efficacy of domestic versus international child adoption. This paper is divided into five sections. First, background on legal issues and challenges associated with child adoption are discussed. The next section offers a discussion of supply and demand considerations for child adoption in the United States. The third section puts forth a comparative discussion of domestic versus international adoption issues.

LEGAL RIGHTS, ISSUES, AND CHALLENGES IN CHILD ADOPTION

United States courts have traditionally touted rights of biological parents. The rights of the biological parents to rear and have custodial control of their children has been found to be fundamental and entitled to constitutional due process and equal protection (Troxel v. Granville, 2000, p. 67). Further, the U.S. Supreme Court has required close consideration when a family association so undeniably important is at stake and termination of parental rights must meet the standard of clear and convincing evidence, rather than the normal civil evidentiary standard of preponderance of evidence (Santosky v. Kramer, 1982, p. 769). State laws govern the parent-child relationship and vary greatly in detail. This alone may be enough to discourage the prospective adoptive parent, combined with inconsistent enforcement in and amongst the states. The ability to permanently sever the relationship between the biological parent and the child is of utmost importance to the adoptive parent. If the laws are not followed correctly or if there is fraud in the process, the birth parent may be able to reclaim the child or, at least, tie the matter up in court for years. In Texas, for instance, the relationship may be terminated voluntarily through a suit to terminate the relationship or, more commonly, by affidavit of relinquishment or waiver of interest (Dorsaneo, 2003). A voluntary relinquishment by the mother or father must be signed after the child is born, but not before 48 hours after birth, witnessed by 2 credible persons and verified by a person authorized to take oaths and not interested in the case, and a copy of the document must be given

to the parent who signed at that time (Terrell v. Chambers, 1982, p. 802). Whether by affidavit or petition, there are extremely technical and detailed requirements as to what the documents must contain, even a list of the child's property (Dorsaneo, 2001). Relinquishment of parental rights may either be revocable for 10 days or irrevocable for up to 60 days (this presumes the baby will be adopted within that period) or permanently irrevocable if the state or a child-placing agency is taking custody. Further, a suit for involuntary termination may be brought for a myriad of reasons, including abandonment, endangerment, failure to support, voluntarily relinquished parental rights, or conviction for certain felonies. Notice of voluntary or involuntary relinquishment must be provided to interested parties, including any person alleged to be the father and, if there is more than one, all must be notified. The biological father's rights may be terminated without his participation if he is served with citation and doesn't respond, if he is not registered with a paternity registry and, after the exercise of due diligence, he can not be located, or if he is registered, but no one can locate him at the address provided. Also, if relevant, notice may be given of a pending termination suit by publication, though such notice is not required in many cases after 1998.

With cases ripped from the headlines as incentive, many state legislators are moving to cut back on the ability of a biological parent to challenge an adoption, particularly one that has already been completed. In an effort to achieve this goal, in addition to eliminating inconsistencies in state laws and providing some certainty to adoptive parents, the National Conference of Commissioners on Uniform State Laws finalized the Uniform Adoption Act in 1994 (Green, 2005). The states, however, have not moved to adopt the law as a whole, instead opting to stick with efforts written into their own laws. Texas law, for instance, provides for irrevocable affidavits of relinquishment in most case, which, as opposed to states allowing only revocable relinquishment, will provide for certainty at an earlier date, lacking fraud (Dorsaneo, 2003). Texas courts further hold that the relinquishment is valid, though signed by a minor and provide for a waiver of interest without admission of paternity, attempting to eliminate the case where the father may withhold consent simply because he does not want to admit paternity.

Though meritorious efforts have been made to put a stop to drawn out legal battles, and many states have moved toward cutting off a biological father's rights to make a claim on his child post-adoption, adoptive parents should not find much comfort in the efforts. In the U.S. legal system, the possibility always remains that the courts will find any new, untested legislative efforts contrary to parental rights. Cases may be caught up in court and appeals for years, all the while the child growing older and more attached to the custodial parents. There are likely just as many advocates of paternal rights now as in the 1970's who will want to ensure that these are not chipped away. There is also a movement to gain the right to an appointed attorney in civil cases such as parental right disputes. The argument is that biological parents may not be able to effectively protect their fundamental rights if they cannot afford an attorney. Therefore, it is argued, a free attorney should be provided as in criminal cases. Some states currently appoint attorneys in limited cases.

SUPPLY AND DEMAND CONSIDERATIONS

Many people who choose adoption to build their families do so after a diagnosis of infertility. Others who are not infertile choose adoption to build a family or to add to their existing family. There are several recent trends influencing the number of children available for adoption. The first explanation is the declining number of women placing children for adoption (Bachrach, Stolley & London, 1992). Approximately 51,000 children born in the United States each year are placed for adoption. In contrast to this number there are approximately a million parents in the United States strongly interested in adopting and over 250,000 prospective parents that have taken concrete steps towards adopting. One of the key reasons for the declining number of women placing children for adoption is the declining stigma of unwed motherhood. Less than 1% of unwed mothers place their children for adoption (Freundlich, 1998). Second, there are a declining numbers of teens placing

children for adoption. Over half a million teenagers give birth in the United States each year. Most teens decide to raise their own children or let their families raise them. In fact, the trend with unwed mothers is consistent within the teen cohort as less than 1% elects to place their children for adoption. The third explanation is the declining pregnancy rate. In 1957 the United States fertility rate hit a record at 3.68. The fertility rate bottomed at 1.74 in 1976 and has stabilized around 2.0 in recent years (Kotlikoff & Burns, 2004). Personal choice, demand for smaller families, urbanization, and career path delays in the decision to start a family are often cited as reasons for the declining fertility rate in the United States. Fourth, there has been an increase in the use of contraceptives. In 1995, 10.7 million women were using female sterilization, 10.4 million were using the birth control pill, 7.9 million used condoms, and 4.2 million were using male sterilization as a contraceptive technique (Freundlich, 1998). Another significant factor indirectly impacting the supply and demand for adoption is the declining stigma associated with raising children that are not biologically related to one or more parents. Rising divorce rates combined with second marriages have created a positive trend in society at large when at least one adult in a household is not biologically related to one or more children residing under the same roof.

COMPARING DOMESTIC AND INTERNATIONAL ADOPTION

In this section we describe several broad based issues describing the promises and challenges of domestic versus international adoption. The first issue is the expense associated with adoption. The financial cost of adopting internationally varies by country. However, the cost is generally between $13,000 and $30,000; which ranges as slightly more to approximately the same costs of adopting domestically. International adoptions costs tend to rise faster because travel to the child's home country is nearly always required at least once and often twice. In addition, the prospective parents are paying for the overhead costs of two agencies and two lawyers instead of one when adopting internationally. Federal tax credits are offered to adoptive parents regardless of adoption location. Specifically, the Hope for Children Act provides a $10,000 tax credit for both domestic and international adoptions when families have adjusted gross earnings of $150,000 or less.

Domestic adoptions have a reputation for being a very lengthy process versus a more streamlined international adoption process. The reality is that both domestic and international adoptions vary greatly across each specific case, state, and country. The home study that most American agencies require will usually last between two and four months, as well as the time needed to find a child and get through the legal paperwork for the adoption regardless of adoption destination. International adoptions usually require time in the child's home country for the adoptive parents to get to know the child and birth culture. These requirements differ greatly from one country to the next, ranging from multiple visits to only a few days of extended stay. It is also important to note that United States citizens are not well received in many countries and language barriers often lead to communication failures, delays, and frustration.

While it is always much easier to adopt disabled and emotionally disturbed children, regardless of whether it is domestically or internationally, most adoptive parents want healthy children. Often healthy children are difficult to get domestically. Many families prefer infants or toddlers in order to minimize emotional and developmental problems associated with long-term abandonment and orphanage care. The limited number of infants and toddlers available from domestic adoption sources results in many families focusing on adopting a young child from international locations. There is a greater access to lower health risk children when looking internationally because of a larger total supply of available children for adoption. On the other hand, many international countries are high-risk locations for physical and mental development problems or HIV and AIDS, especially Eastern Europe and Central Asia.

Although it does vary, there are some countries that have lower adoptive parent restrictions for who can and cannot adopt. Single individuals, homosexual partners, and adoptive parents above the age of forty often face numerous restrictions with respect to domestic adoptions. One particular

example is that homosexual couples in the state of Florida are not permitted to adopt, however if they chose to adopt internationally they would be welcomed. Also, there are age restrictions for seniors that often do not apply for international adoption. On the other hand, China has limited the number of single parent placements for each agency to a maximum of 5% of an agency's adoptions.

Domestic adoption agencies and orphanages are usually forthcoming with health, physical development, and emotional development information about prospective children for adoption. For example, the state of Texas includes an extensive and updated health, physical development, emotional development, and intellectual development report on children available for adoption. Children available for adoption internationally are often subject to information problems. Medical records are often scarce in international localities. Information about maternal alcoholism and drug abuse, neglect, and emotional detachment issues are normally forthcoming with domestic adoptions but subject to large errors in the international environment. Orphanages realize that families are less like to adopt a child with a history of medical, emotional, or physical illnesses and are more likely to withhold information in foreign than in domestic centers. The orphanages goal is to place the child as soon as possible. Eastern Europe is a prime location for international adoptions where there are serious concerns about maternal alcohol and drug abuse having a negative impact on the child. A second information problem with international adoptions is that an adoptive parent could be interested in a certain child and it is not uncommon for the international orphanage to promise this child to several agencies. A third information concern is that international locations can and do shut down all adoptions in their country. This means any adoptions in the process are stopped. Even if adoptions are not shutdown in a country it is still very possible that significant and unpredictable delays may exist in foreign countries.

The single biggest concern with international adoption is the possible ethical dilemma created by a market exchange for human beings. Over the past thirty years over 250,000 children have been adopted from foreign countries. Little is known about the children prior to their arrival in the U.S. and limited research is available on the parents that adopted them and the long-term outcome. There is little doubt that the adoptive parents usually have altruistic intentions toward the adoptive child and are certainly not practicing a modern form of slavery. On the other hand, the international adoption process does generate an exchange of money with several different players involved in the game. There has been concern regarding the illegal trafficking of children worldwide as a commodity. These children may or may not have family that can care for them. The possibility of rural families having children stolen without consent and brought into an urban area as an orphan for adoption is a growing concern in several countries including Cambodia, Vietnam, and Guatemala.

In the United States, depending on the state, adoptions used to be declared final up to twelve months after the adoption decree was issued. This is not always the case, based on numerous recent adoption court cases in the United States there is serious doubt whether any domestic adoption can be considered final once a birth parent changes his or her mind and initiates a custody suit. American parents considering domestic adoption have a well-warranted fear of having the child they have partially raised taken away and given back to the biological parent. These highly publicized cases have been national news over the past decade and often result in the return of the child to the birth parent. A major benefit to international adoption is that the possibility of having a child taken from the adoptive parent is unlikely to occur.

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OPTIMAL DYNAMIC HEDGING WITH FOREIGN CURRENCY FUTURES

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ABSTRACT

This study develops a hedging model appropriate when asset returns have time varying distributions, in particular when variances are changing through time. Using conditional estimates of variances, the conditional hedging model is evaluated using the spot and futures exchange rates of the British pound, the Canadian dollar, the German mark, the Japanese yen and the Swiss franc, vis-a-vis the U.S. dollar. Both within sample and out of sample comparison reveal that the conditional hedging model outperforms the conventional hedging model. The proposed model has useful implications for hedging other financial assets as well.

INTRODUCTION

If an investor holds one unit of a commodity which he plans to sell at some time in the future then, since the future price level is unknown, he is exposed to risk. The desire on the part of investors to alleviate their exposure to this risk led to the establishment and proliferation of futures markets in the late 1980' and 1990s. Academic interests in the futures markets have also led to a considerable amount of research in the development and application of risk minimizing hedging models. The goal of these hedging models is to find an optimal hedge ratio, the proportion of the asset or the portfolio's spot value being hedged in the futures market. As we shall see below, if asset returns display time dependent distributions (i.e., variances and covariances are changing through time) then conventional models do not produce risk minimizing hedge ratios. This inability to account for time changing distributions in asset returns raises important concerns regarding the risk reduction properties of conventional hedging models.

This study proposes a *conditional hedge* model as an alternative to the conventional hedge models. This conditional hedging model modifies a conventional hedge model to allow for time dependent distributions in the spot and futures exchange rates under the assumption that the returns in these assets follow a generalized autoregressive conditional heteroskedasticity (GARCH) process. We estimate the model for the British pound (BP), the Canadian dollar (CD), the German mark (DM), the Japanese yen (JY) and the Swiss franc (SF). Since conditional estimates of the covariance matrix are utilized to calculate the optimal hedge ratio, the conditional hedge model reduces risk by more than the conventional hedge models. As shown below, a comparison of the percentage reduction in within sample and out of sample portfolio variance favors the conditional hedge by a noticeable margin.

This study is organized as follows: in section II we discuss the conventional hedging model and emphasize why a conditional hedge is the optimal hedge when asset returns have time changing distributions. Section III presents a model for estimating the optimal hedge. Sections IV and V offer empirical results. The final section concludes the study.

THE CONVENTIONAL HEDGE

The simplest hedge is produced by a naive hedging strategy. This strategy suggests that to minimize exposure an investor who is long in the spot market should sell a unit of futures (i.e. go

short in futures) today and buy the futures back when he sells the spot. To the extent that spot and futures prices move together, this strategy will result in the losses arising from holding the spot being offset by the gains from holding futures. If the spot and futures prices both change by the same amount, the hedger's net position will be unchanged.

Since spot and futures prices do not always move together, conventional hedging models focus on minimizing the basis risk, i.e., the movement in the difference between the spot and futures over the life of the contract (see Johnson, 1960, Ederington, 1979). Most conventional hedging models have been cast in terms of a two-period expected utility maximizing investment decision subject to a Markowitz criterion. These models can be described in the following way: Let F_0 and F_1 be the purchase and the settlement prices, respectively, of a futures contract, and let S_0 and S_1 be the spot market price at the time the futures contract is purchased and at the time it is settled, respectively. Also, suppose the investor has fixed long position of one unit in the spot market and a short position of b units in the futures market. The random return to this portfolio, x, is

(1) $$x = S_1 - S_0 + b(F_1 - F_0) = S + bf$$

where s and f refer to changes in the spot and futures prices, respectively. The first two return moments are then

(2) $$E(x) = E(s) + bE(f)$$

and

(3) $$\sigma^2_x = \sigma^2_s + b^2\sigma^2_f + \sigma^2_x + 2b\sigma_{sf}.$$

If the investor's two moment utility function is

(4) $$U(x) = E(x) - r\sigma^2_x,$$

Then the utility maximizing investor solves

(5) $$max\ U(x) = E(s) + bE(f) - r\,[\sigma^2_s + b^2\sigma^2_f + 2\sigma_{sf}],$$

Where r is the degree of risk aversion ($r>0$). Differentiating with respect to b yields the optimal number of futures contracts in the investor's portfolio:

(6) $$b^* = E(f) - 2r\sigma_{sf} / 2r\sigma^2_f$$

Assuming that the futures rate follows a martingale process[3] (i.e., $E(F_1) = F_0$), equation (6) can be rewritten to yield the minimum-variance hedge ratio b^*:

(7) $$b^* = -\sigma_{sf} / \sigma^2_f$$

Equation (7) can be estimated as the slope parameter from an ordinary least squares (OLS) regression of s on f. Furthermore, since spot and futures prices tend to move in the same direction, b^* will positive. Notice that if $b^* = 1$ then the *naive hedging* model is returned.

Because of its computational simplicity and its effectiveness in minimizing risk the conventional hedging model has been applied to many different commodities and financial instruments. The model is not, however, without its shortcomings. First, the conventional model has been criticized for its usage of unconditional variance as a measure of risk. Since unconditional variances include the variances of systematic and predictable components, a better representation of risk would be the variance of the unforecastable or unpredictable part of the series -- i.e. the conditional variances (see Duffie (1989)).

Second, in light of the recent findings that foreign exchange conditional variances are time varying (see Bollerslev, et. Al. (1991) for a survey), the conventional models which assume time invariant

distributions are necessarily misspecified. This perhaps accounts for the intertemporal instability in the hedging effectiveness of the conventional models (see Figlewski (1984) and Eaker and Grand (1987), because if the distribution of spots and futures is changing through time then, by equation (7), b^* must also change through time. Adler and Simon (1986) recognize this and suggest that locally perfect hedges at each point in time may be possible with a continuously adjustable dynamic hedge ratios. Yet, the assumption that return distributions are constant across time precludes conventional models from capturing this new optimal hedge ratio at each point In time. This could prove costly for those who, for various reasons such as maturity mismatch, are required to update their hedge. Therefore, given the need for portfolio rebalancing and the evidence of time dependent distributions of asset returns, the conventional approach to hedging contrasts sharply with reality and highlights the need to develop more realistic models. It is to this task that we turn our attention.

THE TIME VARYING HEDGE

Note that if the bivariate distribution of spot and futures is constant over time, then one can extend the model developed in Section II to a multi-period hedging strategy with a time-separable utility function. The solution for the optimal sequence of hedge ratios $\{b_1,...b_T\}$ would result in the same hedge ratio being computed for each period. Under these assumptions the optimal hedge (7) could be calculated as the least squares estimator from a time series regression of changes in spot prices on changes in futures prices, multiplied by -1. But because this model is clearly misspecified, let us consider the following alternative model which allows for time dependence in the distributions of the spot and futures (cf. Ederington, 1979). Let f_t and s_t be the changes in the price of the futures and the spot between time t' and t, respectively, and define $b_{t'}$ as the holdings of futures at time t'. Then

(8) $$x_t = s_t + b^1{}_t f_t \qquad t^1 < t,$$

is the payoff at time t to purchasing one unit of the spot and $b_{t'}$ units of the futures at some time t' in the past. The investor chooses his optimal one-period holdings of futures at each time t by maximizing the utility function.

(9) $$U_t(x_{t+1}) = E_t(x_{t+1}) - r\sigma^2{}_t(x_{t+1}),$$

where the expectation and variance operators are subscripted with t to emphasize that they are calculated conditional on all information available at time t. Notice that unlike conventional models, risk is measured by *conditional,* not unconditional, variances. The risk minimizing hedge ratio at time t is

(10) $$b_t^* = E_t(f_{t+1}) - 2r\sigma_t(S_{t+1},f_{t+1}) / 2r\sigma^2{}_t(f_{t+1})$$

Assuming that futures prices are martingale (i.e., $E_t(F_{t+1})=F_t$)) simplifies equation (10) to

(11) $$b_t^* = - \sigma_t(S_{t+1},f_{t+1}) / \sigma^2{}_t(f_{t+1})$$

which is similar to the conventional hedge ratio except that time varying conditional moments replace the time invariant unconditional moments. Note that because conditional moments are changing as the information set is updated, the optimal hedge ratio will change through time --hence the t subscript on b^*_t. This conditional model is the same as the conventional model if the joint distribution of spot and futures is constant through time, i.e., the covariance matrix is stationary.

Until recently, the assumption of a time invariant covariance matrix may have stemmed from a lack of available estimation techniques robust to autocorrelation in the second moments. The autoregressive conditional heteroskedasticity (ARCH) model of Engle (1982) or its generalization, the generalized ARCH (GARCH) model of Bollerslev (1986), allows one to model the time dependence in the second moments (see Bollerslev, et. al. 1991 for a survey). Multivariate generalization of the GARCH model are used in hedging models by Cecchetti, Cumby and Figlewski (1988,) Baillie and Myers (1991), Myers (1991) and Kroner and Claessens (1991). Baullie and Myers (1991) and Cecchetti, et. al. (1988) use their models to find the optimal dynamic hedge for commodities and financial futures, respectively, while Kroner and Claessens (1991) use their model to compute the optimal debt portfolio for a country facing time varying exchange risk and terms

of trade shocks. Baillie and Myers (1991) find that their time varying hedge outperforms the time invariant hedge, while Cecchetti, Cumby and Figlewski (1988) show that the time invariant hedge is superior to a dynamic hedge. Myers (1991) estimates time varying hedge ratios in the wheat futures market and finds that the time varying hedge performs marginally better. Though their models perform with varying degrees of effectiveness, these authors agree that the optimal hedge ratio is time varying, and care must be taken in calculating optimal hedging strategies.

The time varying conditional moments of s_t and f_t can be parameterized with a bivariate constant correlation GARCH(1,1) model, as originally proposed in Bollerslev (1991) and applied in Baillie and Bollerslev (1990), Schwert and Seguin (1990) and Kroner and Claessens (1991). This model parameterizes the conditional variances as ARMA models in squared residuals, while assuming constant correlations. The model is:

(12) $$s_t = \alpha_s x_t + e_s$$

$$f_t = \alpha_f x_t + e_f$$

(13) $$\begin{bmatrix} e_s \\ e_f \end{bmatrix} \Psi_{t-1} \sim N(O, H_t)$$

(14) $$H_t = \begin{bmatrix} h_{ss\$} & h_{sf\$} \\ h_{sf\$} & h_{ff\$} \end{bmatrix} = \begin{bmatrix} h_{s\$} & 0 \\ 0 & h_{f\$} \end{bmatrix} \begin{bmatrix} 1 & \rho \\ \rho & 1 \end{bmatrix} \begin{bmatrix} h_{s\$} & 0 \\ 0 & h_{f\$} \end{bmatrix}$$

(15) $$h^2_{s\$} = c_s + a_s e^2_{s\$-1} + b_s h^2_{s\$-1}$$

$$h^2_{f\$} = c_f + a_f e^2_{f\$-1} + b_f h^2_{f\$-1}$$

where, Ψ_{t-1} is the information set at time *t-1* and ρ is the correlation coefficient. The variable X_t in equation (12) can contain a constant, moving average terms, lagged dependent variables, and other weakly exogenous variables. A number of observations are worth mentioning here. First, the OLS model is nested within this GARCH(1,1) model. In particular, setting $a_s = b_s = a_f = b_f = 0$ produces the conventional model. This permits a statistical test of the conventional model against the conditional model. Second, the optimal time varying hedge ratio at time *t* can be computed as the ratio of the conditional covariance between *s* and *f* at time *t* to the conditional variance of time *f* at time *t*, i.e., as

(16) $$\hat{b}^*_t = \frac{\hat{h}_{sf\$}}{\hat{h}_{ff\$}}$$

This gives us the time varying hedge ratios which are based on condtitional moments. Third, forecasts of the variances and covariances can be computed in much the same way as forecasts from vector ARMA models. This facilitates out of sample forecasts of the optimal time varying hedge ratios.

THE DATA

Exchange rates used in this study are Thursday's spot and futures data from February 8, 1996 to February 23, 2001, obtained from Dunn and Hargitt, Inc., giving 264 observations. This particular period coincides with the fact that beginning February 2, 1990 the International Monetary Market (IMM) removed

limit move restrictions on currency futures trading. The spot exchange rates are reported in terms of the dollar and are closing prices in New York, and the futures rates are IMM closing prices. Of the four futures contracts that are outstanding at any given time, we use the price of the nearest contract. To avoid thin markets and the expiration effects, however, we roll over to the next nearest contract three weeks prior to expiration of the current contract.

Several diagnostic checks on the distributional properties of the data were performed. Nonstationarity was verified using the Phillips and Perron (1988) test. We could not reject the null hypothesis of a unit root for any of our data series. Hence, $1nS_t$ and $1nF_t$ should be differenced to induce stationarity. This leaves 263 pairs of observations in each currency to be used for the remaining empirical test.

Further diagnostics such as skewness, kurtosis, Ljung-Box and ARCH were performed on log-differenced data ($\Delta 1nS_t$ and $\Delta 1nF_t$). The unconditional distributions of data $\Delta 1nS_t$ and $\Delta 1nF_t$ were found to be non-normal.. Tests for autocorrelation were also performed on the data. We could not reject the null hypothesis of no autocorrelation for the exchange rates.

Finally, tests for time dependence in the second moments were conducted using Engle's (1982) LM statistic for ARCH. We found that our foreign exchange data does follow an ARCH process. Overall, the existence of a unit root and the existence of ARCH suggest that the procedure for finding the optimal hedge outlined above has the potential to be an effective strategy.

A COMPARISON AMONG HEDGING TECHNIQUES

In this section we evaluate the potential usefulness of the proposed optimal hedging strategy and compare it to three alternative strategies: no hedge, a naive hedge and the conventional hedge. The theoretical model presented above is cast in terms log-first differences, and the Phillips-Perron tests indicate that differencing is required, so we focus here on log-first differences.

The model defined by equations (12-16) is estimated, first with restriction $H_0 a_s=b_s=a_f=b_f=0$ imposed, then without the restriction imposed. Recall that when H_0 is imposed we have the conventional hedging model, with a constant hedge and no GARCH. This model is estimated by the seemingly unrelated regression procedure (SUR), with the results reported in Table 1 (t-statistics in parentheses). The implied hedge ratio for each currency is quite similar, ranging between .95 and 1.0, except for the Canadian dollar, which at .89 is much lower than the others. As previously indicated, the implied hedge ratios are calculated using the unconditional estimates of the covariance matrix. Of course, these hedge ratios could have been obtained from an OLS regression of s_t on f_t, but that method does not enable us to statistically test the validity of the restriction H_0 that is imposed. If the variances and covariances were constant through time, then the hedge ratios given in Table 1 would be the risk-minimizing hedge ratios. However, variances and covariances are continually changing, implying that the hedge ratios are also changing. Dropping the restrictions imposed by H_0 gives us a model which allows the variances and covariances, and therefore the hedge ratio, to change through time. Therefore, the model (equations 12-16) is estimated without the restrictions, and the results are reported in Table 2.

Maximum likelihood estimates of the model indicate that the GARCH parameters a_s, b_s, a_f, and b_f are statistically significant for all currencies, though the evidence is weak for JY. Correlation (p) between the cash and the futures market is positive and large, suggesting that the futures market has the potential to provide an effective hedge for the spot market. The likelihood ratio test statistic (ξ) for the validity of the restrictions H_0 is reported in Table 2. Each one of these estimated statistics exceeds the X^2 critical value (9.48) at the 95% level of significance. This means that, in a statistical sense, GARCH(1,1) equations describe the depreciation rates of the spot and futures better than the constant covariance model. It also means that the parameters a_s,.... b_f belong in each of the five models, which implies that the variances and covariances, and therefore the optimal hedge, are indeed changing through time. Post estimation diagnostics using the standardized residuals from the GARCH models reveal that most of the serial correlation in the squared residuals has been removed. As Table 3 shows, Ljung Box statistics suggest that autocorrelations in the level and squared residuals are low. The standardized skewness and kurtosis remain high, suggesting that conditional normality might not be the appropriate assumption for our models. Further analysis along the lines, however, is left for future research.

WITHIN SAMPLE COMPARISON OF HEDGING PERFORMANCE

Of course, from an investment standpoint, what concerns us is not the statistical performance of the model, but rather the hedging performance of the model. To this end, the time-varying hedge ratios can be computed from equation (11) and their performance compared to the constant hedge ratio obtained from the conventional model. Each week we construct the portfolios implied by the computed hedge ratios and calculate the variance of the returns to the constructed portfolios over the sample, i.e., we evaluate:

$$VARS(s_t\text{-}b^*_t f_t)$$

Where b^*_t are the computed hedge ratios (recall that for conventional models $b^*_t = b$). The portfolio variances are reported in Table 4. The conditional model outperforms the naive hedge and the improvement is noticeable. The highest variance reduction using the conditional hedging strategy relative to the naive hedge is achieved in the case of the CD where there is a 15.6% decline in the nonsystematic risk in the portfolio. In addition, the conditional hedge performs 7.9% better than the naive hedge in the case of the BP. Notice that over this period, naive hedging, where spot market positions are matched dollar for dollar in the futures market, is the worst hedging strategy. The conditional hedge also dominates the conventional hedge. The improvement over the conventional hedge varies from 1.4% in the SF to 3.7% in the BP. Overall, the within sample comparison shows that our conditional hedge dominates the conventional hedge and the naive hedge suggesting that the conditional hedging has the potential to be a viable strategy when return distributions are changing through time.

OUT OF SAMPLE COMPARISON OF HEDGING PERFORMANCE

To compare the out of sample hedging performance of the two strategies, we perform the following calculations; Suppose that approximately the last quarter of the sample (63 observations) is withheld, so that the conventional and the conditional hedge models are estimated using the first 200 observations (i.e. until December 2, 1998). Using each of these two estimated models, we forecast the optimal hedge for the following week (December 2 to December 9). For the conventional model the forecast will be the within sample b^*. For the conditional model, the forecasted b^*_{t+1} will be the one-period forecast of the covariance divided by the one-period forecast of the variance. The following week (December 9) the exercise is repeated, with the new observation included in the data set. I.e. an optimal hedge is forecast for the week of December 9 to December 16 using data available on December 9. We continue updating the model and forecasting the hedge ratios on a weekly basis until the end of our data set, giving us a series of 63 forecasted optimal portfolios.

Table 5 reports the out of sample variances using smoothed hedge ratios. The conditional hedge outperforms conventional hedge for all currencies except the DM. Out of sample forecasting shows that the conditional hedge of CD has the highest percentage variance reduction compared to either the conventional hedge or the naive hedge. This is followed by BP where the conditional hedge reduces the portfolio variance by 5.3% compared to the conventional hedging. In general, the conditional hedge is shown to be superior in reducing portfolio variance compared to conventional hedging methods. Both within sample and out of sample comparisons show that conditional hedge outperforms conventional hedge with varying degrees of effectiveness except in the case of the DM.

OPTIMAL PORTFOLIO REBALANCING OVER TIME

Conditional hedging is functionally flexible and offers investors the ability to rebalance their portfolios. To determine the frequency with which investors are willing to readjust their portfolios we perform an additional exercise assuming that the forecasted portfolio is rebalanced every four weeks. In this exercise we assume that the naive, the conventional and the GARCH hedging models are reestimated every four weeks using the first 200 observations and forecasts of the optimal hedge ratio are made for the coming four weeks. Performing this exercise would give variance estimates that can be compared to those calculated for the weekly rebalancing strategy. If they turn out to be similar to the results reported in Table 5 then it would suggest that the frequency of rebalancing is not important. Table 6 reports the results from a 4-week portfolio rebalancing strategy. The results are strikingly similar to the out of sample performance reported in Table 5. In this case the conditional hedge again outperforms the naive hedge and the conventional hedge. The results

also suggest that the frequency of the portfolio rebalancing is not crucial as long as the optimal hedge is calculated using conditional estimates of the variance rather than the unconditional estimates of the variance.

CONCLUSIONS

Evidence presented in this paper and elsewhere that return distributions of many assets are nonstationary over time raises concerns regarding the risk reduction properties of conventional hedging models. The conventional approach assumes that the distributions of spot and futures remain constant over time. However, if this assumption is violated then conventional models may not be appropriate. The objective of this study is to present an alternative hedging model for calculating optimal hedge ratios in foreign currency futures, and to compare the hedging effectiveness of this conditional hedging model with that of a conventional method. Evidence presented in this paper indicates that the optimal hedging strategy proposed here is methodologically correct when return distributions are changing over time, and it offers investors an improved ability to manage foreign exchange exposure. Both within sample and out of sample comparisons reveal that the conditional model outperforms both the naive hedge and the conventional hedge.

For effective risk management, portfolio managers need to be functionally flexible. In terms of reducing the foreign exchange exposure of account receivables and accounts payables, one needs to monitor the stochastic distributions of foreign exchange market on a continuing basis. The conditional hedge improves functional flexibility of money managers. Unlike the conventional hedging models, optimal hedging proposed in this paper addresses the stochastic nature of the financial market. Future studies using other financial assets may provide more reassuring evidence of the effectiveness of the conditional hedging.

References and Tables Available on Request

Academy of Production & Operations Management

A SURVEY OF INVENTORY HOLDING COST ASSESSMENT AND SAFETY STOCK ALLOCATION

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ABSTRACT

Inventory holding cost (IHC) and safety stock inventory (SSI) are critical to the effective management of inventory, and their quantification has impact at the highest levels of many manufacturing and service industries. This study demonstrates the necessity of accurately measuring and monitoring IHC. It is further demonstrated that knowledge of the underlying statistical pattern of supply and demand variations can significantly improve forecasting and impact the appropriate the levels of safety stock inventory in a variety of industries.

Academy of Health Care Management

THE USE OF SIX SIGMA IN HEALTH CARE OPERATIONS: APPLICATION AND OPPORTUNITY

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ABSTRACT

Six Sigma provides healthcare organizations a framework for performance improvement as an application and measurement. This study describes the benefits of Six Sigma in terms of reducing variability in the delivery of clinical services. A brief historical summary of the use of Six Sigma in this industry is presented. The managerial and political motivations for adopting the Six Sigma methodology are presented for the reader's consideration.

Two specific applications of Six Sigma are examined in the clinical setting. Using previous work, the use of Six Sigma in a radiology department is presented as a positive demonstration of this technique. A second application for the use of Six Sigma is proposed as a performance improvement tool in the medication administration process. The presentation of an actual and theoretical application of this methodology in these two distinct settings demonstrates how versatile this tool can be for the health care entity.

Finally, the organizational challenges faced in implementing a Six Sigma program are described and examined.

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