Leadership that Gets Results: Lessons from Don Quixote
Salvatore Moccia, Universidad CEU Cardenal Herrera, Valencia, Spain

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Sylvia D. Clark, Peter J. Tobin College of Business, St. John’s University, Staten Island, NY
Craig A. Latshaw, Peter J. Tobin College of Business, St. John’s University, Staten Island, NY

The Impact of the Bailout of Fannie Mae and Freddie Mac on Mortgage and Housing Industries
Tung Hoang, The Peter J. Tobin College of Business, St. John’s University, NY
Anna D. Martin, The Peter J. Tobin College of Business, St. John’s University, NY

Examining Mentoring in Public Accounting Organizations
Alan Reinstein, Wayne State University, Michigan
David H. Sinason, Northern Illinois University, Illinois
Timothy J. Fogarty, Weatherhead School of Management, Case Western Reserve University, Ohio

The Duality of Social Enterprise: A Framework for Social Action
Brenda Massetti, The Peter J. Tobin College of Business, St. John’s University, NY

Factors that Impact Underpricing of Seasoned Equity Offerings
Juan M. Dempere, Metropolitan State College of Denver, Colorado

Five Necessary Attitudes of a Servant Leader
Larry W. Boone, The Peter J. Tobin College of Business, St. John’s University, NY
Sanya Makhani, The Peter J. Tobin College of Business, St. John’s University, NY

Lean Production Systems: Resistance, Success and Plateauing
Khim L. Sim, College of Business and Economics, Western Washington University, WA
Bea Chiang, School of Business, The College of New Jersey

Teaching Points
Recent Developments in Cloud Computing and High Speed Connections for Business Practices
Farok Vakil
The Peter J. Tobin College of Business, St. John’s University, NY
Victor Lu
The Peter J. Tobin College of Business, St. John’s University, NY
Andrew Russakoff
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# Table of Contents

**Volume 33, Number 1**

**Winter 2012-2013**

From the Editor ...............................................................................................................................3  
Igor M. Tomic

**Research Papers:**

Leadership that Gets Results: Lessons from Don Quixote ..........................................................5  
Salvatore Moccia, *Universidad CEU Cardenal Herrera, Valencia, Spain*

“Peeling the Onion” Called Student Performance: An Investigation into the Factors Affecting Student Performance in an Introductory Accounting Class .......................19  
Sylvia D. Clark, *Peter J. Tobin College of Business, St. John’s University, Staten Island, NY*  
Craig A. Latshaw, *Peter J. Tobin College of Business, St. John’s University, Staten Island, NY*

The Impact of the Bailout of Fannie Mae and Freddie Mac on Mortgage and Housing Industries ............................................................................................................................28  
Tung Hoang, *The Peter J. Tobin College of Business, St. John’s University, NY*  
Anna D. Martin, *The Peter J. Tobin College of Business, St. John’s University, NY*

Examining Mentoring in Public Accounting Organizations .................................................................40  
Alan Reinstein, *Wayne State University, Michigan*  
David H. Sinason, *Northern Illinois University, Illinois*  
Timothy J. Fogarty, *Weatherhead School of Management, Case Western Reserve University, Ohio*

The Duality of Social Enterprise: A Framework for Social Action ..................................................50  
Brenda Massetti, *The Peter J. Tobin College of Business, St. John’s University, NY*

Factors that Impact Underpricing of Seasoned Equity Offerings ..................................................65  
Juan M. Dempere, *Metropolitan State College of Denver, Colorado*

Five Necessary Attitudes of a Servant Leader ....................................................................................83  
Larry W. Boone, *The Peter J. Tobin College of Business, St. John’s University, NY*  
Sanya Makhani, *The Peter J. Tobin College of Business, St. John’s University, NY*

Lean Production Systems: Resistance, Success and Plateauing .......................................................97  
Khim L. Sim, *College of Business and Economics, Western Washington University, WA*  
Bea Chiang, *School of Business, The College of New Jersey*

**Teaching Points:**

Recent Developments in Cloud Computing and High Speed Connections for Business Practices ........................................................................................................................................111  
Farok Vakil, *The Peter J. Tobin College of Business, St. John’s University, NY*  
Victor Lu, *The Peter J. Tobin College of Business, St. John’s University, NY*  
Andrew Russakoff, *The Peter J. Tobin College of Business, St. John’s University, NY*

About the *Review of Business* and *Author Submission and Review Guidelines* .........................................................................................................................................................119  
*Global Review Board* .........................................................................................................................................................121
From the Editor

This issue provides a variety of business topics, from management to technology, from literature and mentorship, to our ailing housing industry; there is something of interest for all. And we all pray that examining problems and providing solutions will help economies around the world to begin a march toward prosperity in 2013.

Maybe you thought that Sancho Panza was just a funny character in the novel Don Quixote. He had an earthy wisdom, though, and became an excellent governor of a state in Spain. Salvatore Moccia, acting as a literary detective, analyzes this noble work and from it deduces important business lessons. The advice Suncho Panza received from Don Quixote contains many modern principles of management. Considering the emphasis placed on virtues, the model based on Don Quixote's ideas has practical implications in the field of recruitment, promotion, leadership and organization.

Most studies related to student performance have examined specific factors, in isolation or along with only a few other factors. Significance can often be affected when particular variables are excluded from the model. By excluding certain variables, the significance of other factors can be determined. In addition, often self-reported measures and various suspect surrogates have been used. Prior research methodologies have recently been questioned, partly because those studies had mixed results. The article by Sylvia D. Clark and Craig A. Latshaw intends to correct the past omissions by including more objective surrogates, such as computer-graded homework and attendance, to measure student effort. A full model using eleven independent variables is regressed on student course grade. The interrelationship of factors is investigated through progressive regression models.

The substantial size and importance of Fannie Mae and Freddie Mac in the U.S. housing market prompted the U.S. government to place these two government-sponsored enterprises into federal conservatorship in an attempt to maintain their solvency and restore confidence in the mortgage and housing markets. Tung Hoang and Anna D. Martin assess whether the financial market perceives these bailout benefits to extend beyond preventing the collapse of Fannie Mae and Freddie Mac, to indirectly benefit firms in related industries. They show that REITS, housing brokerage firms, residential construction firms, commercial banks, and securities firms experienced some positive valuation effects from the authorization of the bailout with the passage of the Housing and Economic Recovery Act and/or the conservatorship announcement. In addition, they find strong negative valuation effects from the conservatorship announcement for Fannie Mae and Freddie Mac. Since the terms of conservatorship included the elimination of common stock and preferred stock dividends, adverse reaction to this announcement is not altogether surprising.

Exploring the costs and benefits of implementing mentorship programs within professional organizations and using a public accounting firm as a general template, Alan Reinstein, David H. Sinason and Timothy J. Fogarty highlight mentoring contributions in developing employees, minimizing unwanted turnover and providing other organizational benefits. They examine personal and organizational costs and benefits and discuss areas of further research, such as mentoring developmental and psycho-social components and measurable performance enhancement for the organization as a whole—applied especially to CPA firms.
Social enterprises are organizations intent on using the power of the marketplace to solve social and environmental problems. Although their popularity as an approach to business is growing, they are beginning to face a variety of challenges. To help ensure their survival, Brenda Massetti argues that key business and ethical criteria need to be considered at key stages of the social-action selection process. The Social Action Framework (SAF) is introduced as a mechanism to help managers make more effective social-action choices. It is explained using anecdotal evidence from a variety of organizations. In addition, the criteria of the SAF are used to generate an action-based definition of social enterprise, and to differentiate it from other organizational approaches to social-welfare enhancement.

In a financial article, Juan M. Dempere examines statistical evidence concerning factors that explain the level of Seasoned Equity Offering (SEO) underpricing. A sample of 1,840 Seasoned Equity Offerings issued between 2003 and 2011 is analyzed in this study, which provides statistical evidence showing a negative relationship between the offer price and SEO underpricing. This relationship might result from the conventional underwriter pricing practice. Furthermore, this study reports a record level of SEO underpricing never measured before, particularly in the year 2009 when 270 SEOs had an average level of underpricing of 6.86%; it also finds that the level of SEO underpricing has dramatically increased since the 2008 financial crisis.

The term “servant leadership” was coined by Robert K. Greenleaf in his 1970 essay “The Servant as a Leader.” Describing servant leadership, he stated, "The servant-leader is servant first… It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead." Larry W. Boone and Sanya Makhani explore the servant leadership style through its treatment in the literature over the past few decades, including discussion of many characteristics, attributes, and behaviors of servant leaders. Through review of the ideas of several best-selling leadership authors, they attempt to identify the most important attitudes that fit well with the servant leadership approach, to aid readers to determine whether or not servant leadership may be a viable option for inclusion within their personal leadership style.

Many have claimed that “lean” is not a buzz word; nor is it only a cost reduction technique. In fact, proponents of “lean” often regard it as one of the most important strategies for business to achieve world class performance by doing more with less. Although some companies have achieved success in adopting the lean production system, many were not able to sustain the potential benefits from its adoption. Experts also claimed that “lean” is not easy to sustain. To better understand these issues, Khim L. Sim and Bea Chiang chose three manufacturing plants located in the eastern part of the United States as bases for their research study. The primary purpose of their work is to compare organizational issues in the three plants, to gain insight into the success, resistance/failure, or status of plateauing in lean implementation.

Farok Vakil, Victor Lu, and Andrew Russakoff examine new developments in the information technology discipline which provide new opportunities, not only for business communities, but also for individual entrepreneurship. In particular, they focus on the availability of “Secured High Speed Internet Everywhere with Mobile Cloud Enabled Devices” for corporate users, and its implication for business educators. Armed with new advances and the enormous amount of resources available, business educators can provide more dynamic activities while at the same time enhancing the quality of the delivery of materials in their perspective disciplines.
Leadership that Gets Results: Lessons from Don Quixote

Salvatore Moccia, Universidad CEU Cardenal Herrera, Valencia, Spain
salvatore.moccia@uch.ceu.es.

Abstract

Considering the excellent results that the illiterate Sancho Panza obtained as governor (In a word, he made so many good rules that to this day they are preserved there, and are called The Constitutions of the Great Governor Sancho Panza), the purpose of this paper is to analyze in depth the counsels that Sancho Panza received by Don Quixote and to probe whether these counsels could be still valid for modern leaders or not. The paper is conceptual. Considering the emphasis placed on virtues, the model can have some practical implications in the field of recruitment, promotion, leadership and organization.

Introduction and Purpose

The mystery of what leaders can and ought to do in order to spark the best performance from their people is age-old. In recent years, that mystery has spawned an entire cottage industry: literally thousands of “leadership experts” have made careers of testing and coaching, all in pursuit of creating businesspeople who can turn bold objectives into reality. Still, effective leadership eludes many people and organizations (Goleman, 2000). What is leadership – I mean, what is a possible definition of an effective leadership that has been really tested on the field several times with good results? U.S. Field Manual 6-22, Army Leadership, defines leadership as the process of influencing people by providing purpose, direction, and motivation while operating to accomplish the mission and improving the organization.

So, according to this definition, the objective of leaders is not only to reach the objective, but also to improve the consistency of the organization. These double objectives could only be reached when leaders are able to surpass their individualism and look after the benefits of the people and the entire organization. A sort of leadership like this could only be founded on strong character, based on virtues. In fact, virtues, as expressed by a lot of philosophers in the past, are the only way to excellence. Virtues represent the moral patrimony of man, since they help him to behave in all circumstances.

The 400th anniversary of the publication of the novel Don Quijote de la Mancha, fully titled Ingenious Gentleman Don Quixote of La Mancha, was celebrated in 2005. Written by Miguel de Cervantes, and published in two volumes a decade apart (in 1605 and 1615), Don Quixote is the most influential work of literature from the Spanish Golden Age literary canon. As a founding work of modern Western literature, and one of the earliest canonical novels, it regularly appears high on lists of the greatest works of fiction ever published.

Winner of the Best Paper Award at the 6th Annual Symposium of the Financial Services Institute, International Dimensions of New Regulations: Effects on Consumers, Corporate Governance, Financial Markets and Accounting Practice. Held at St John’s University, 101 Murray Street, New York City, September 8-10, 2011.
The protagonist of the book is Alonso Quijano, Don Quixote, a retired country gentleman nearing 50 years of age, who lives in an unnamed section of La Mancha.

(In a village of La Mancha, the name of which I have no desire to call to mind, there lived not long since one of those gentlemen that keep a lance in the lance-rack, an old buckler, a lean hack, and a greyhound for coursing),

who has become obsessed with books of chivalry. One day, he decides to go out as a knight errant in search of adventure. He dons an old suit of armor, renames himself "Don Quijote de la Mancha," and, later, asks one neighbor, Sancho Panza, to accompany him in his search for adventure and to be his squire, promising him governorship of an island.

Part Two, Cervantes – from Chapter XLII to Chapter LIII – tells about governor Sancho of the Barataria Island. In particular, the author dedicates the first two chapters of this part to describe the counsels which Don Quixote gave Sancho Panza to be a good governor.

En esto llegó don Quijote, y, sabiendo lo que pasaba y la celeridad con que Sancho se había de partir a su gobierno, con licencia del duque le tomó por la mano y se fue con él a su estancia, con intención de aconsejarle cómo se había de haber en su oficio.

(Here Don Quixote joined them; and learning what passed, and how soon Sancho was to go to his government, he with the duke's permission took him by the hand, and retired to his room with him for the purpose of giving him advice as to how he was to comport himself in his office.)

As Corteguera (2005) noted, “in the end, the unimaginable happens beyond anyone’s expectation: the mad Sancho gets his island and governs it better than even he could have imagined.” Considering the excellent results that the illiterate Sancho Panza accomplished as governor of the Barataria Island (he made so many good rules that to this day they are preserved there, and are called the Constitutions of the Great Governor Sancho Panza), the purpose of this paper is to analyze in depth the counsels that Sancho Panza received from Don Quixote and to probe whether these counsels could be still valid for modern leaders in order not only to accomplish the mission but also – definitively – to improve the organization, as Sancho did.

In view of extensive scholarly literature available on Don Quixote, it is rather surprising to see how little has been written about the novel and leadership. Olson (2009) summarizes this literature counting five works: two articles (Einseberg, 1987, Mullan, 2000) a movie (Passion and Discipline by James March), a case study (Hartwich Classic Leadership Cases series), and a book (Don Quijote Para Triunfar by Luis Cremades).

What can an old novel teach us today? The two chapters dedicated to the development of Sancho Panza to become governor of the Barataria Island contain many elements applicable to a type of effective and modern leadership which does not only determine to accomplish the mission, but also to improve the organization. And is this not, precisely, a tilt at windmills?

Don Quixote: Chapter XLII:

Of the counsels which Don Quixote gave Sancho Panza before he set out to govern the island, together with other well-considered matters.

Gratitude

Todo esto digo, ¡oh Sancho!, para que no atribuyas a tus merecimientos la merced recibida, sino que des gracias al cielo, que
Leadership that Gets Results: Lessons from Don Quixote

dispone suavemente las cosas, y después las darás a la grandeza que en sí encierra la profesión de la caballería andante.

(This I say, Sancho, that thou attribute not the favour thou hast received to thine own merits, but give thanks to heaven that disposes matters beneficently, and secondly thanks to the great power the profession of knight-errantry contains in itself).

Gratitude can be defined as a sense of thankfulness and joy in response to receiving a gift, whether the gift be a tangible benefit from a specific other or a moment of peaceful bliss evoked by natural beauty (Peterson and Seligman, 2004). It is a virtue showing appreciation, thankfulness, and gratefulness for what a person has received. According to Cicero (106 AC–43 AC), gratitude is not only the greatest of virtues, but the parent of all the others, while Seneca (4 AC–65BC) noted that “nothing is more honorable than a grateful heart.” St. Thomas Aquinas (1224–1274) describes gratitude as a virtue annexed to justice that, as justice, renders a person what is due to him.

Gratitude is an important element in developing leaders. Success comes more easily when we appreciate what we have been given, since such appreciation inspires others to go out of their way to help us (Gunn 2002). According to Wood et al. (2007), “throughout history, gratitude has been given a central position in religious and philosophical theories. The importance of gratitude has been a fundamental focus of religions…most recent research has focused on gratitude as a personality characteristic…multiple studies now suggest that people who feel more gratitude are much more likely to have higher levels of happiness, and lower levels of depression and stress.” So, from one perspective, gratitude, by increasing the level of happiness, can help leaders to have better social relationships and contribute more to the harmony of community.

In fact, the longitudinal study presented by Fowler and Christakis (2008) showed that the relationship between people’s happiness extends up to three degrees of separation. In particular, people who are surrounded by many happy people and those who are central in the network are more likely to become happy in the future.

Leadership is about how to be, not how to do.

On the other side, gratitude, by lowering depression and stress, is beneficial to leaders in helping them to be objective and to make better decisions. One of the major personality variables likely to thwart gratitude is narcissism. People with narcissistic tendencies erroneously believe they are deserving of special rights and privileges (Peterson and Seligman, 2004). It is worthy to mention that the first act of George H.W. Bush (the father), during his inaugural address as President of the United States on January 20, 1989, was the following prayer:

Heavenly Father, we bow our heads and thank You for Your love. Accept our thanks for the peace that yields this day and the shared faith that makes its continuance likely. Make us strong to do Your work, willing to heed and hear Your will, and write on our hearts these words: "Use power to help people." For we are given power not to advance our own purposes, nor to make a great show in the world, nor a name. There is but one just use of power, and it is to serve people. Help us to remember it, Lord. Amen.

Humility

Lo segundo, has de poner los ojos en quien eres, procurando conocerte a ti mismo, que es el más difícil conocimiento que puede imaginarse. Del conocerte saldrá el no hincharte como la rana que quiso igualarse con el buey (…) Haz gala, Sancho, de la
humildad de tu linaje, y no te desprecies de decir que vienes de labradores; porque, viendo que no te corres, ninguno se pondrá a correrte; y préciate más de ser humilde virtuoso que pecador soberbio.

(Secondly, thou must keep in view what thou art, striving to know thyself, the most difficult thing to know that the mind can imagine. If thou knowest thyself, it will follow thou wilt not puff thyself up like the frog that strove to make himself as large as the ox (...) Glory in thy humble birth, Sancho, and be not ashamed of saying thou art peasant-born; for when it is seen thou art not ashamed no one will set himself to put thee to the blush; and pride thyself rather upon being one of lowly virtue than a lofty sinner.)

Humility is a realistic virtue. It consists of being conscious of our limitations and insufficiencies and to act according to this fact; it is the quality of genuine modesty and unpretentiousness. Humility is the soil out of which other spiritual values such as love, justice, and hope grow (Klenke 2005). It appears as a source of human strengths, allowing the realistic appraisal of one’s strengths and weaknesses. As Doty and Gerdes (2000) noted, “[humility] is often disregarded when describing traits of good leaders because it seems to suggest a lack of toughness and resolve essential in an effective leader. However, the humble leader lacks arrogance, not aggressiveness. The will to serve others eclipses any drive to promote self.”

Saint Theresa of Ávila affirmed that “humility represents the truth,” meaning that humble individuals always see things as they are, the good as good, and the bad as bad. The more humble, the better the vision of reality.

On the opposite side of humility there is “pride,” which causes executive failure because it leads to impatience, an unwillingness to build consensus, the inability to receive criticism, and the unwillingness to endure periods of trial and uncertainty (Delbecq 1999). Vera y Rodríguez López (2004) noted that a humble leader is open to new paradigms, is eager to learn from others, acknowledges his limitations and mistakes and attempts to correct them, accepts failure with pragmatism, asks for advice, develops others, has a genuine desire to serve, respects others, shares honors and recognition with collaborators, accepts success with simplicity, is not narcissistic, repels adulation, avoids self-complacency, and is frugal.

Leaders who lead through virtue inspire people to follow suit.

The Center for Integrity in Business of the School of Business and Economics, at the University of Seattle, has determined the “Eight Traits of a Healthy Organizational Culture.” It puts humility and openness in the first place, noting that “arrogance kills off learning and growth by blinding us to our weaknesses. Strength comes out of receptivity and the willingness to learn from others.”

Humility in leadership serves several potential functions. First, humility may influence leaders to behave in a manner that is primarily other-enhancing, rather than self-enhancing. Second, possession of humility may shield the CEO from the need to receive public adulation, and may cause him or her to shun such attention. Similarly, humility may contribute to organizational performance through its impact on organizational learning and organizational resilience (Morris et Al., 2005).

Humility has been empirically tested by many researchers of business management, due to the relevance that this virtue can have in the formation of leaders. Reave (2005) shows that the most effective leaders are the humblest leaders, those who do not suffer the illness of prominence. They are the leaders who work patiently, actively and progressively, and are not used to being recognized as charismatic leaders.
The researcher, likewise, indicates that the connection between humility and effectiveness resides in the fact that leaders accept negative observations, an essential quality in an executive in order to know the state of health of the firm that he or she runs. As also noted by Collins (2001), “[A] Level 5 executive builds enduring greatness through a paradoxical combination of personal humility plus professional will,” whereas Baldoni (2009) signals that “a sense of humility is essential to leadership because it authenticates a person’s humanity.”

When authentic humility is applied in an organizational context, mutual trust, confidence and loyalty are developed, creating a successful environment.

Virtues

Mira, Sancho: si tomas por medio a la virtud, y te precias de hacer hechos virtuosos, no hay para qué tener envidia a los que los tienen de príncipes y señores, porque la sangre se hereda y la virtud se aquista, y la virtud vale por sí sola lo que la sangre no vale.

(Remember, Sancho, if thou make virtue thy aim, and take a pride in doing virtuous actions, thou wilt have no cause to envy those who have princely and lordly ones, for blood is an inheritance, but virtue an acquisition, and virtue has in itself alone a worth that blood does not possess.)

According to Trigo (2006), “with the term ‘virtue’ (from the Latin virtus, which corresponds to Greek areté) is designated the good and stable qualities of the person, who, upon perfecting his intelligence and his will, provides him to know better the truth and to realize, every time with freedom and joy, excellent actions, to achieve his human and supernatural fulfillment.” This definition can be compared with that of MacIntyre: “virtues must be understood as those dispositions which do not only maintain the practices and permit achieving the internal goods to the practices, but also sustain us in the appropriate type of search for the good, helping us to defeat the risks, dangers, temptations and distractions that we encounter, and procuring us to grow in self-knowledge and growing in the knowledge of the good.” Virtues, therefore, represent the moral patrimony of man, since they help him to behave in all circumstances. Yet they cannot be conceived as something static, but as qualities which tend to the growth.

As Pieper (1976) noted, “virtue, in completely general terms, is the elevation of the being in the human person. The virtue is, just like St. Thomas says, ultimum potentiae, the ultimate, the maximum honor that man can aspire, or the realization of the human possibilities in the natural and supernatural aspect. The virtuous man is such that he realizes the good obeying his most intimate tendencies.” Sison (2006) theorizes that the moral capital is the result of a profound compromise with values; it represents the excellence of the character, and depends in the first place from the promotion of good habits or virtues. “As what Aristotle teaches, as a result of the etymology of the ethical word, the virtue of character turns out as a habit, from there the name ‘ethics,’ a slight variation of ‘ethos.’ A virtuous character results from the promotion of good habits, and the virtuous habits stem from the repetition of virtuous actions.”

Looking at the relationships between virtues and leadership, it is interesting to note that leadership differs from management by the fact that it moves souls and hearts, not only brains. Leadership is about how to be, not how to do (Hesselbein, 2004). Leadership is irrevocably tied to morality (Safty, 2003). Virtue creates the space in which leadership occurs by instilling trust (Havard, 2007). Leaders who encompass virtues build trusts; and the greater the trust, the faster things get done (Duran, 2008).
Great leaders recognize the compounding effects and benefits of leading with virtues. Virtues beget virtues. Empirical investigations by Neubert et al. (2009) showed that managers can virtuously influence perceptions of ethical climate, which in turn will positively impact organizational members’ flourishing as measured by job satisfaction and affective commitment to the organization. Followers who aspire to lofty positions naturally emulate the behaviors of the people who lead them. Leaders who lead through virtue inspire people to follow suit. This creates several advantages. A culture built with virtue is resilient, capable of withstanding changes inspired from within and changes from the outside. A culture of virtue is also great for retention.

**Justice**

_Nunca te guíes por la ley del encaje, que suele tener mucha cabida con los ignorantes que presumen de agudos. Hallen en ti más compasión las lágrimas del pobre, pero no más justicia, que las informaciones del rico. Procura descubrir la verdad por entre las promesas y dádivas del rico, como por entre los sollozos e importunidades del pobre (…) Cuando te sucediere juzgar algún pleito de algún tu enemigo, aparta las mientes de tu injuria y ponlas en la verdad del caso._

(Never go by arbitrary law, which is so much favoured by ignorant men who plume themselves on cleverness. Let the tears of the poor man find with thee more compassion, but not more justice, than the pleadings of the rich. Strive to lay bare the truth, as well amid the promises and presents of the rich man, as amid the sobs and entreaties of the poor…If it should happen thee to give judgment in the cause of one who is thine enemy, turn thy thoughts away from thy injury and fix them on the justice of the case).

“Justice is the fundamental principle of the existence and coexistence of men, communities, societies and towns.”
_Pope John Paul II_

The word justice is derived from the Latin *iustus*, and this, in turn, from *ius*, which means what is just, what is due, and consequently, the right. Justice does not consist in giving or sharing out things to people, but in knowing to decide to whom that thing pertains by right, and to have the firm will of giving it to the proprietor. In short, justice represents the permanent will of giving to each one that which corresponds to him. The classical authors rendered much attention to this virtue, considering it as one of the essential conditions to attain not only the good, but also the well-being of both the family and the society. A just man – as Menander of Athens (342 BCE - 292 BCE) noted – “is not the one who does not commit any injustice, but the one who can be unjust but does not want to be.” It is this sense of rightness that governs the behavior of the just person and makes him recognize properly all the rights of others.

All the great philosophers of the past analyzed justice in depth. In particular, as Elders (1999) points out, “the first book of Plato’s Republic, the fifth book of the Nicomachean Ethics, texts of Cicero in his _De Officiis_ and _De Finibus_, and book XIX of Augustine’s _De Civitate Dei_, are eloquent witnesses to the general conviction of the importance of the virtue of justice for social life.” As Pope John Paul II noted, “justice is the fundamental principle of the existence and coexistence of men, communities, the societies and towns. It can be said that the same sense of the existence of man over the earth is bent to justice.”

Empirical investigations suggest that there is a clear relationship between Justice and leadership. In fact, as Wang et al. (2010) noted, “research findings in the organizational justice
literature show that organizational justice is a significant predictor of work attitudes and behaviors.” Reave (2005) mentions two surveys which demonstrate that the highest priority for workers is justice in the workplace. Justice in the working environment favors a healthy competition among the members of the organization, because everyone knows that their achievements will be recognized and each employee will be given what he justly deserves.

Justice is the basis and, above all, the generator of confidence among the persons of the organization. Justice erases individualisms, egoisms, snares and lies; it guarantees that there may be equality, and that each person will receive what he really deserves. Finally, as other authors noted, “according to social identity theory, unfair treatment from superiors may arouse negative identification, which in turn leads to employees’ negative behaviors in organizations” (Duna et al. 2010).

Mercy and Compassion

“Si acaso doblas la vara de la justicia, no sea con el peso de la dádiva, sino con el de la misericordia.”

(If perchance thou permittest the staff of justice to swerve, let it be not by the weight of a gift, but by that of mercy).

Mercy is an essentially human attitude, necessary in the relationship between the one who commands and the one who obeys. It consists of “understanding” the errors of the others, of having a heart (cor) that knows its own miseries, and that is why it “takes charge” of the alienated miseries.

According to St. Augustine (cf. De civ. Dei 9,5: PL 41,261), “mercy is the compassion that our heart experiences by the alienated miseries, and that obliges us to help them if we can.” “It is called mercy – St. Thomas affirms – because one has the afflicted heart (cor miserum) by the misery of the other” (2-2 q. 30 a.1 c). Therefore, the greater the misery, the greater the mercy.

Compassion is born out of awareness that suffering is part of the human experience. Acting compassionately is not the same as covering for others who are not carrying their weight. Compassionate people can be tough-minded about a problem and still be warmhearted toward those who are causing the problem (Gunn, 2002). The Dalai Lama (2011) noted that “to avoid corruption and abuse, a good leader must possess compassion. With compassion we gain self-confidence and rid ourselves of our fears. Then we can have honesty, then we can have trust.” Compassionate leadership is an act of love which gives followers meaning and purpose in their lives.

A compassionate leader is one who seeks the greatest good for the individual, the group, and the mission.

According to Boyatzis, Smith and Blaize (2006), compassion is defined as having three components: 1) empathy or understanding the feelings of others, 2) caring for the other person, and 3) willingness to act in response to the person’s feelings. A compassionate leader is one who seeks the greatest good for the individual, the group, and the mission (Briner and Pritchard, 1997).

Prudence and Objectivity

“Si alguna mujer hermosa veniere a pedirte justicia, quita los ojos de sus lágrimas y tus oídos de sus gemidos, y considera de espacio la sustancia de lo que pide, si no quieres que se anegue tu razón en su llanto y tu bondad en sus suspiros”.

(If any handsome woman comes to seek justice of thee, turn away thine eyes from her tears and thine ears from her lamentations, and consider deliberately the merits of her demand, if thou wouldst not have thy reason swept away by her weeping, and thy rectitude by her sighs).
Those who lead people should develop the capacity to make the right decisions. Making the right decision requires prudence and objectivity. Prudent decision-making consists of three steps: gathering information, evaluating the information, and making a decision. In fact, etymologically, prudence stems from the Latin words *procul videre,* that means “predict.”

Prudence is one of the four cardinal virtues and is defined as the ability to act in a just and proper way. As Pieper (1970) and others point out, prudence can be equated to good judgment and right reasoning about people. Among the cardinal virtues, Pieper reasoned that prudence is the most important, since it is necessary in order to practice the other cardinal virtues. He argued that prudence is the first of the cardinal virtues, since none but the prudent person can be just, brave, and temperate, and the good man is good in so far as he is prudent. According to Pieper, prudence does not only occupy the first place in the list, but it represents something like the mother of all other virtues: the “breeder.”

Being prudent does not mean having the certainty of not committing mistakes; on the contrary, it means recognizing old and new failures, learning from them and avoiding repeating them in the future. The other characteristic of the prudent person is knowing how to rectify, to beg pardon when appropriate, and to ask for advice. Prudence helps to build a mature and complete personality which, in turn, generates confidence and stability in the persons who surround us.

Prudence has its own object: to deliberate, to judge and to decide about concrete, contingent, temporal actions that have to be realized here and now in order to achieve a good end. It is, therefore, an intellectual virtue that perfects practical reason.

Prudence entails figuring out how to create order out of disorder, realistically and practically. Prudence enables us to find solutions. As Guillén Parra (2006) says, the prudent person is the one who possesses the “practical wisdom to be right.” That, in turn, constitutes “knowing to act,” which implies being able to “diagnose the present,” “optimize the past” and “prevent the undesirable future.”

**Making the right decision requires prudence and objectivity.**

The definition of prudence used to be ‘deformed.’ Today, prudence is understood more as a sort of slowness to action. But this interpretation is completely wrong. In fact, the prudent person is the one who, upon finding the means to reach a good end, knows and deliberates with calmness (or with hurry, if there are no more remedies to consider), takes advice into account, bears in mind the lessons of the past and all the circumstances of the problem, predicts the consequences that can have different solutions and, once he chooses the best way to act, puts it in practice at the opportune time and adequate manner. Collins (2009) presents empirical proof that the positive leadership qualities of humility and prudence are leadership traits that make good companies great.

Classical philosophy shows eight conditions in which to act prudently:

1. Memory: it does not deal with accumulating data, but with extracting from them the truth that can lead us in the future.

2. Intelligence: to see things as they are and not how we like them to be.

3. Docility: to receive counsels from other persons.

4. Shrewdness: to prevent action, or performance, from being rushed when there is not much time to think.
Leadership that Gets Results: Lessons from Don Quixote

5. Reasoning out well: to know which action is, here and now, the good action.

6. Prediction: to see from afar, foresee, anticipate the future.

7. Knowledge of the circumstances: to find out if the actions are timely or not.

8. Precaution: to avoid the bad that prevents us from realizing the good.

Don Quixote: CHAPTER XLIII: Of the second set of counsels Don Quixote gave Sancho Panza

Magnanimity

"Toma con discreción el pulso a lo que pudiere valer tu oficio, y si sufre que des librea a tus criados, dásela honesta y provechosa más que vistosa y bizarra, y repártela entre tus criados y los pobres: quiero decir que si has de vestir seis pajes, viste tres y otros tres pobres, y así tendrás pajes para el cielo y para el suelo; y este nuevo modo de dar librea no la alcanzan los vanagloriosos."

(Ascertain cautiously what thy office may be worth; and if it will allow thee to give liveries to thy servants, give them respectable and serviceable, rather than showy and gay ones, and divide them between thy servants and the poor; that is to say, if thou canst clothe six pages, clothe three and three poor men, and thus thou wilt have pages for heaven and pages for earth; the vainglorious never think of this new mode of giving liveries).

The classical definition of magnanimity is extensio animi ad magna – the striving of the spirit towards great things. The Latin word magnanimitas derives from the Greek megalopsychia. Its opposite is micropsychia, which means pusillanimitas or small mindedness (Harvard, 2007). San José María Escrivá defines it as “the force that disposes us to go out from ourselves, to prepare us to undertake valuable works, in benefit of all. It does not nest the narrowness in the magnanimous; it does not intervene the stinginess, neither the egoistic calculation, neither the interested trickery. The magnanimous dedicates without reservations his strength to which he is worthy; that is why he is capable to give himself up. He does not conform to giving; he gives himself.” (Friends of God, Human virtues, n. 77).

Regarding the relationships between Magnanimity and Leadership, Kurke (2004) in his book The Wisdom of Alexander the Great suggests that “giving budding leaders who made an honest mistake, but who clearly learned from it, a second chance is another opportunity to exhibit great leadership. This type of magnanimity and trust creates loyalty out of indifference.” As Klein (1998) noted “the qualities that Bennis, Tichy, and Devanna, for example, attribute to true leaders are the qualities, in the main, that Cervantes would applaud in a leader.” Finally, according to Bennis (1989), the best qualities of real leaders are integrity (moral and intellectual honesty and willingness to act on principle), dedication, magnanimity (noble mind and heart), humility, openness, and creativity. He conjectured that our failure to tap into these qualities explains our leadership shortage.

Integrity

"- Señor - replicó Sancho -, si a vuestra merced le parece que no soy de pro para este gobierno, desde aquí le suelto, que más quiero un solo negro de la uña de mi alma que a todo mi cuerpo; y así me sustentaré Sancho a secas con pan y cebolla, como gobernador con perdices y capones; y más que, mientras se duerme, todos son iguales, los grandes y los menores, los pobres y los ricos; y si vuestra merced mira en ello, verá que sólo vuestra merced me ha puesto en esto de gobernar: que yo no sé más de gobiernos de ínsulas que un buitre;
y si se imagina que por ser gobernador me ha de llevar el diablo, más me quiero ir
Sancho al cielo que gobernador al infierno”.

("Señor," said Sancho, "if your worship thinks I'm not fit for this government, I
give it up on the spot; for the mere black
of the nail of my soul is dearer to me than
my whole body; and I can live just as well,
simple Sancho, on bread and onions, as
 governor, on partridges and capons; and
what's more, while we're asleep we're all
equal, great and small, rich and poor. But
if your worship looks into it, you will see
it was your worship alone that put me on
to this business of governing; for I know
no more about the government of islands
than a buzzard; and if there's any reason to
think that because of my being a governor
the devil will get hold of me, I'd rather go
Sancho to heaven than governor to hell).

The word integrity comes from the Latin
integritas, meaning wholeness, soundness,
untouched, whole, and entire (Peterson and
Seligman, 2004). The term integrity defines
a moral virtue of an upright man, who acts
 according to the principles established in his
 conscience, not minding if these principles go
 against his own benefits.

The features that characterize a person with
 integrity are:

1. Honesty: the opposite term to integrity is
corruption;

2. Reliability: the upright person is
irreproachable because he always acts
according to his principles, without
measuring the consequences;

3. The coherence between being and acting:
the upright person is such even when
nobody is watching him.

Covey (1992) defines integrity as “honestly
matching words and feelings with thoughts
and actions, with no desire other than the
good of others.” According to Azuka (2009),
“the greatest leaders of history, regardless of
their age, or platform, all share one quality
in common: absolute commitment to the
principles they serve. Integrity is individuals
conducting themselves by a code or standard
of moral virtue, which prevents undesirable
behavior in thought, word, or deed.”

The positive leadership qualities of
humidity and prudence make good
companies great.

Morrison (2001) defines integrity as “having
and demonstrating a strong commitment
to personal morals and company standards.
This definition reflects the need for both
absolute standards (personal morals) that
are independent of company context, and
relative standards (company policy and norms).
In practical terms it means that employees
are bound by company standards only when
these standards exceed their own personal
standards.”

The author notes that a leader who does not
have a strong commitment to personal morals
and company standards lacks integrity, and can
destroy a company much faster than a leader
who promotes a bad strategy. In fact, as well
investigated by Arredondo Trapero (2007),
there are statistical evidences to support the
idea that leadership and integrity are positively
correlated. Short term compromises – whether
in matters of environment degradation,
bribery, shoddy quality, or abusive treatment of
others – may bring temporary benefits to the
manager and perhaps to the overall business,
but invariably bring about huge costs and
penalties in the long run.

Business leaders and organizations with the
capacity for high integrity are more likely
than their competitors to be aware of and
more rapidly respond to stakeholders’ moral
concerns, arrive at balanced decisions that form
sound policies, and build supportive systems that sustain excellence. On the contrary, business leaders with low capacity for integrity erode their reputational capital and put themselves at a strategic disadvantage (Petrick and Quinn, 2001).

The Company as the Place to Live the Virtues

Character and its relationship to organizational performance and leadership success is an increasingly important area of discourse (Sarros and Cooper, 2006). These authors refer to Bass and Steidlmeier, who asserted that “in leadership, character counts…Leadership provides a moral compass and, over the long run, both personal development and the common good are best served by a moral compass that reads true.” Solomon (2001) points out the importance of the company in creating a stimulating environment for the experience of virtues. In particular, the author notes that “in the Aristotelian approach to business, a good company is that which is not only profitable, but, as well, provides a morally rewarding environment in which good persons cannot just develop their specialized knowledge, but also their virtues.”

Schneider (1987), pointing out that persons are those who create the place of work, notes that “we have tried to change the organizations, modifying its structures and its processes, when, in reality, it is the persons who have to change (…) We have been seduced by the idea that the causes of the aptitudes, emotions, experiences and behaviors are the processes and the organizational structures (…) Now is the moment to find the explanations in the persons, not in the results of their behaviors. Undoubtedly, the persons are the ones who constitute the place of work.”

This idea seems to us especially interesting. Maybe J.J. Rosseau has been one of those who have influenced more in creating the mentality of the social, political and economic structures which make man bad that – in his opinion – are good by nature. Just as it cannot be restored to the state of nature, the only way of making man to be less bad is to reform the structures. This idea is in the basis of diverse revolutionary movements and reformers of the eighteenth to twentieth century, and is founded in an erroneous anthropology. Schneider realizes this error, and returns, assuming it, to the classical thinking. As a result, those who constitute the structures are the persons; therefore, the structures will be better or worse according to persons who create them. Consequently, to improve the efficiency of structures it is necessary to start from the moral improvement of people, starting from those who manage it.

Short term compromises…may bring temporary benefits…but invariably bring about huge costs and penalties.

Bertaland (2009), basing his reasoning on the works of Amartya Sen and Martha Nussbaum about “capacities,” constructs his model of ethics from the virtues, and notes that the virtuous manager does not only comply with the law, but goes beyond the law. In particular, the author indicates that “the virtuous manager does not only pay well his employees and treats them with equality. The virtuous manager is capable of providing his employees the necessary resources and encouraging them to develop their abilities and their talents in a manner that they can live with dignity. The virtuous manager does not only limit himself to create good relations with his clients but worries in promoting the mutual growth. Likewise, the virtuous manager works to create a company where the shareholders do not only receive a salary to the invested capital but also participate in the management of a company that works for the construction of a better world. In few words, in this model of virtuous manager, the virtuous manager is the person who will make [it so] that everyone may work well better.”
Conclusion

“Si estos preceptos y estas reglas sigues, Sancho, serán luengos tus días, tu fama será eterna, tus premios colmados, tu felicidad indecible, casarás tus hijos como quisiere, títulos tendrán ellos y tus nietos, vivirás en paz y beneplácito de las gentes, y en los últimos pasos de la vida te alcanzará el de la muerte, en vejez suave y madura, y cerrarán tus ojos las tiernas y delicadas manos de tus terceros nietezuelos”.

(If thou followest these precepts and rules, Sancho, thy days will be long, thy fame eternal, thy reward abundant, thy felicity unutterable; thou wilt marry thy children as thou wouldst; they and thy grandchildren will bear titles; thou wilt live in peace and concord with all men; and, when life draws to a close, death will come to thee in calm and ripe old age, and the light and loving hands of thy great-grandchildren will close thine eyes).

According to General Alexander McCarrell “Sandy” Patch, commanding officer of Army and Marine forces during the invasion of Guadalcanal, and commanding officer of the U.S. Seventh Army during the invasion of France, “the foundation of leadership is character.”

In the same line, Peterson and Seligman (2004) signaled that “virtues are much more interesting than laws, at least to psychologists, because virtues pertain to people and the lives they lead.” Don Quixote in his probable madness has shown different times to be wiser than expected. The two chapters presented in this article are one of the expressions not only of the possible “sanctity” of Don Quixote, but also the representation that the chevalier has been accompanied by an illiterate but very judicious squire.

The two characters leave us with an old wisdom that, at the end, has never changed, because time passes, but man remains the same. This paper represents the first attempt to integrate the novel and leadership into the field of managerial theory. The contribution is the overtaking of the general suspicion that virtues, leadership, and organizational outcomes can coexist together. This being a first attempt, it may contain some limitations. In particular, it is important to underline the difficulties of moving among different fields of study (literature, ethics, philosophy, psychology, religion, etc.) and, above all, the inexistence of empirical data to validate the model.

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“Peeling the Onion” Called Student Performance: An Investigation into the Factors Affecting Student Performance in an Introductory Accounting Class

Sylvia D. Clark, The Peter J. Tobin College of Business, St. John’s University, Staten Island, NY
c Clark1094@aol.com

Craig A. Latshaw, The Peter J. Tobin College of Business, St. John’s University, Staten Island, NY
latch1@aol.com

Executive Summary

Student academic performance and learning have been investigated at every academic level and discipline. Accounting at the collegiate level is no exception. GPA, SAT scores, study and test-taking skills, effort, and learning and teaching styles are only a few of the factors used to understand student performance. Often, prior research has investigated only a limited number of these factors. In addition, a contention of this study is that many of these variables are highly correlated. Assuming that learning is multidimensional, Curry (1987) conceived of the “onion model” as a framework for different learning style theories. Furthermore Curry’s “onion” concept is used in this study to also include learning’s multidimensionality as it relates to factors beyond learning styles.

In this research, a model is developed that includes eleven independent variables related to student performance. Their interrelationships are investigated in an attempt to “peel the onion” called student performance. Results of this study reveal the most relevant factors affecting student performance. Furthermore, significant layering of variables yielding overall student academic performance is presented.

Introduction

In general, the amount of educational, business and accounting research related to student performance is extensive. In fact, academic research has investigated a multitude of student demographics, ability, and effort factors in almost every learning context and academic discipline. SAT scores, GPA, test-taking skills, hours studied, learning styles, learning/teaching styles, homework grades, gender, and major are just some of these related factors.

However, most studies have examined specific factors in isolation or along with only a few other factors. Significance can often be affected when particular variables are excluded.
Most teachers teach the way that they learned, tending to believe that this is the best way for their students.

from the model. By excluding certain variables, the significance of other factors can be determined. In addition, often self-reported measures and various suspect surrogates have been used. Prior research methodologies have recently been questioned, perhaps partly accounting for the studies’ mixed results.

Unfortunately, in some circumstances questionable research results have been used as an impetus to change teaching pedagogy. In particular, what has been termed the student learning style/teaching style interaction has been assumed to be a significant factor affecting student performance. The consequences have been that teachers have been asked to adjust their teaching styles to conform to student learning styles. Adoption of this concept has become widespread and dominates many academic institutions’ instruction. However, a growing number of academic authors have begun to question the validity of this assumption. Many have preferred to concentrate on the tried-and-true methods of improving student performance, rather than focusing on the learning/teaching philosophy given its scant research support.

Another void in prior research has been the interrelations of factors affecting student performance. Most prior literature merely uses individual variables to predict performance, with potential interrelationships largely ignored.

This study attempts to address many of these issues. More objective surrogates, such as computer-graded homework and attendance, are used to measure effort. A full model using eleven independent variables is regressed on student course grade. The interrelationship of factors is investigated through progressive regression models.

Literature Review

Student performance in academic endeavors is a highly complex subject. Student ability/aptitude, thought processes, note-taking, test-taking and study skills, and effort are just some of the factors that influence the student’s success. The complexity of the subject is evident by merely surveying the voluminous educational research on the subject.

Accounting literature is no exception. In fact, the academic and professional communities alike have been interested in the factors that affect student performance in accounting courses, performance on the CPA exam and, ultimately, success in the accounting profession (Vruwink, et al., 1987; Eskew, et al.; 1988, Lucas, et al., 2004). A host of other factors – including student learning styles, instructor teaching styles and the potential mismatch of the two – has been associated with overall student performance (Eskew, et al., 1988; Visser, et al., 2006). The matching of learning and teaching styles in order to increase student performance has been widely accepted in the educational community. In addition, business education research has investigated the influence of student effort on business student performance (Rich, 2006; Johnson, et al, 2002).

However, the cumulative results of academic research related to student performance, matching of student learning styles and teaching styles, and student effort have been mixed (Coffield, et al, 2004; Dembo and Howard, 2007; Rich, 2006; Johnson, et al, 2002).

The research stream examines several variations:

First, abundant learning styles research has been published. Therefore, the idea of student learning styles has become a well-known educational subject.

The number of learning styles instruments developed are possibly just as abundant. One
example, among the most widely-used and validity-tested of such instruments, is the *Felder-Solomon Learning Index* (FSLSM).

The four dimensions of FSLSM are: active/reflective, sensing/intuitive, visual/verbal, and sequential/global. *Active learners* learn by trying things out and prefer to work together with others, whereas reflective learners learn by thinking things through and working alone. Sensing learners like to learn from concrete material, like examples; they tend to be more practical, and are careful with details. *Intuitive learners* prefer to learn abstract material such as theories and concepts, like challenges, and tend to be more innovative than sensing learners. *Visual learners* remember best what they have seen, whereas verbal learners get more out of words, whether spoken or written. *Sequential learners* learn in linear steps, preferring to follow linear stepwise paths, and be guided through the learning process, whereas global learners learn in large leaps and prefer more freedom in their learning process (Kinshuk, et al, 2009).

An underlying assumption common to most learning style research has been the assumption that teachers should adjust their styles to accommodate student learning styles to yield improved student performance (Keri, 2002; Tucker, et al., 2003; Visser, et al., 2006). However, this learning/teaching style interaction has begun to receive serious criticism in recent years. One of the major issues is that educational institutions have adopted the idea of teachers adapting their teaching styles to match student learning styles when in fact very little methodologically-sound research supports the assumed benefits of this interaction (Coffield, et al, 2004). A second potential problem is that most teachers teach the way that they learned, tending to believe that this is the best way for their students (Brown, 2003). Therefore, teachers are reluctant to adjust their teaching styles.

The second widely-held belief is that student learning styles are static (Hein, 1999; Loo, 2002). Therefore, teaching styles need to be adjusted to fit student learning styles. At the same time, some longitudinal studies have supported the notion that student learning styles may be adaptable to teaching styles (Coffield, et al, 2004).

Third, most research on both learning and teaching styles has neglected the concept of student effort. The opposite is true of academic studies related to student performance and effort. These studies have concentrated on measures of student effort without considering the possibility that the match or mismatch of learning styles and teaching styles may also have an effect on student performance (Johnson, 2002; Rich, 2006).

Finally, very little academic research has attempted to investigate the salience that learning/teaching style interaction and student effort have on student performance within specific disciplinary settings (Lucas, et al., 2004).

**The learning/teaching style interaction gains significance only after several other, more significant variables are removed.**

**Research Methodology**

Survey data were collected from 77 undergraduate business students enrolled in introductory accounting classes at a branch campus of a major urban university.

In this study, progressive regression models were developed. The first model regressed several independent variables from previous studies (math and verbal SAT scores, student learning styles, learning/teaching style interaction, attendance, homework grade, and gender) on student performance. Student final course grade minus the impact of homework grade was used as the surrogate for student performance. The FSLSM was used
to determine student learning styles and the learning/teaching style interaction. Finally, a computer-graded student homework grade, allowing students multiple attempts for completion, was used as a surrogate for effort.

Since one of the assumptions of this study is that student performance variables are highly correlated, progressive regression models were used to determine the relative significance of the independent variables on one another. The study's attempt was to “peel the onion” called student performance – to analyze student performance in order to determine how students learn. A key element of this endeavor was to use full models as much as possible. The full model allowed for examination of each individual independent variable’s effect on the remaining variables.

Results

Sample descriptive statistics related to the study's 77 business student subjects are provided in Exhibit 1.

Exhibit 1
The Study’s 77 Subjects

<table>
<thead>
<tr>
<th>Gender breakdown</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>67% Male</td>
<td></td>
</tr>
<tr>
<td>33% Female</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SAT Scores</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SAT Math 550</td>
<td></td>
</tr>
<tr>
<td>SAT Verbal 523</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Breakdown by Major</th>
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</thead>
<tbody>
<tr>
<td>40% Accounting Majors</td>
<td></td>
</tr>
<tr>
<td>24% Finance Majors</td>
<td></td>
</tr>
<tr>
<td>20% Marketing Majors</td>
<td></td>
</tr>
<tr>
<td>11% Management Majors</td>
<td></td>
</tr>
<tr>
<td>3% Undecided</td>
<td></td>
</tr>
<tr>
<td>2% Other</td>
<td></td>
</tr>
</tbody>
</table>

Not surprisingly, attendance is the most significant factor related to student homework grade.

The study uncovered evidence of interrelationships among the variables used to determine academic performance, specifically:

1. Each independent variable was regressed on the dependent variable (student final grade) using simple linear regression, and the R-squared values were summated. The result was a total R-squared of 1.318.

2. The same independent variables were regressed on student final grade using multiple linear regression. The result was an R-squared of 0.660.

These results support the idea that the independent variables are interrelated. If the independent variables had measured completely separate constructs, the two R-squared values determined would be very close to each other. However, this is not the case. Also, the summated R-squared value of 1.318 is obviously impossible.

These results also support the premise that evaluating student performance requires the use of full models. Using simple linear regression, seven of the eleven variables were significant at 0.05. However, when all variables were included, only four of the eleven variables were significant at a 0.05 level. These results may explain some of the mixed results seen in prior research. By excluding some variables, the significance of selected variables can be obtained when in fact if a full model is used those variables may be insignificant. These results are summarized in Exhibit 2.
"Peeling the Onion" Called Student Performance

Exhibit 3 details the statistical results of the eleven independent variables on student final grade. Consistent with prior research, Grade Point Average (GPA) is the single most significant factor in predicting student performance. Also consistent with prior research is that the Scholastic Aptitude Test (SAT) math score would be significant in a quantitatively-oriented course such as accounting. An interesting result is that reflective and sensing learning styles contribute significantly to a students' accounting grade.

Equally important is one of the variables that is not significant. As mentioned in the introduction, the learning/teaching style interaction is assumed to be important. In this case, however, the interaction is not significant. This result is consistent with the contentions of current authors that little methodological research supports this assumption.

Since one of the premises of this study is that independent variables measure multiple constructs, the variables' correlations were examined. Exhibit 4 reveals that of all of the independent variables, prior GPA has the highest correlation with final grade.

It is misguided to presume that student performance will improve if teachers adjust their teaching styles.
Based on the results from Exhibit 4, prior GPA was removed from the final grade model. Again, reflective and sensing learning styles were significant. Intuitively, it is also understandable that student homework grade would influence final grade. Once more, it is noteworthy that the learning/teaching style interaction was not significant.1

The next step in the analysis was to remove both GPA and learning styles from the model. The results are presented in Exhibit 6. Again, SAT math and homework grades are significant. It is important to note that the learning/teaching style interaction gains significance only after several other, more significant variables are removed. This result further supports the current controversy that student performance is improved when teachers adapt their teaching style to match student learning styles.

Exhibit 5
Final Grade Model – Without GPA

<table>
<thead>
<tr>
<th></th>
<th>R-Square</th>
<th>Adjusted R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.582</td>
<td>0.485</td>
</tr>
<tr>
<td>Standardized Beta</td>
<td></td>
<td></td>
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<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td>Constant</td>
<td>4.703</td>
<td>0.000</td>
</tr>
<tr>
<td>Learning/Teaching</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active (-)/Reflective (+)</td>
<td>0.319</td>
<td>2.300 0.025</td>
</tr>
<tr>
<td>Sensing (-)/Intuitive (+)</td>
<td>-0.234</td>
<td>-2.189 0.032</td>
</tr>
<tr>
<td>Visual (-)/Verbal (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sequential (-)/Global (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender: Male = 1</td>
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<td></td>
</tr>
<tr>
<td>SAT - Math</td>
<td>0.267</td>
<td>2.510 0.015</td>
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<tr>
<td>SAT - Verbal</td>
<td></td>
<td></td>
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<tr>
<td>Attendance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homework</td>
<td>0.339</td>
<td>2.898 0.005</td>
</tr>
</tbody>
</table>

Exhibit 6
Final Grade Model – Without GPA and Learning Styles

<table>
<thead>
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<th>Adjusted R-Square</th>
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<tr>
<td></td>
<td>0.507</td>
<td>0.433</td>
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<tr>
<td>Constant</td>
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<td>0.000</td>
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<tr>
<td>Learning/Teaching</td>
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<td>-2.043 0.045</td>
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<tr>
<td>Gender (Male = 1)</td>
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<tr>
<td>SAT - Math</td>
<td>0.223</td>
<td>2.074 0.042</td>
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<tr>
<td>SAT - Verbal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attendance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homework</td>
<td>0.307</td>
<td>2.578 0.012</td>
</tr>
</tbody>
</table>

Exhibit 7 provides the results when all independent variables are regressed on students’ prior GPA. The results indicate that the SAT verbal score is significant. This appears consistent when the course composition of prior GPA is revealed.

Exhibit 7
GPA Model – All Other Variables

<table>
<thead>
<tr>
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<th>R-Square</th>
<th>Adjusted R-Square</th>
</tr>
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<td></td>
<td>0.43</td>
<td>0.343</td>
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<tr>
<td>Standardized Beta</td>
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<tr>
<td>Constant</td>
<td>4.236</td>
<td>0.000</td>
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<tr>
<td>Learning/Teaching</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active (-)/Reflective (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sensing (-)/Intuitive (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visual (-)/Verbal (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sequential (-)/Global (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender: Male = 1</td>
<td>-0.162</td>
<td>-1.674 0.099</td>
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<tr>
<td>SAT - Math</td>
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<td></td>
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<tr>
<td>SAT - Verbal</td>
<td>0.253</td>
<td>2.390 0.020</td>
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<tr>
<td>Attendance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homework</td>
<td>0.432</td>
<td>3.801 0.000</td>
</tr>
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</table>
Last, the study looked at the relationship of student homework grade to the other independent variables. Not surprisingly, attendance is the most significant factor related to student homework grade.

<table>
<thead>
<tr>
<th>Exhibit 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homework Model – All Other Variables</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>R-Square</th>
<th>Adjusted R-Square</th>
</tr>
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<td>0.24</td>
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</tbody>
</table>

<table>
<thead>
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<th>Standardized Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning/Teaching</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active (-)/Reflective (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sensing (-)/Intuitive (+)</td>
<td></td>
<td></td>
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<tr>
<td>Visual (-)/Verbal (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sequential (-)/Global (+)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender: Male = 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAT -Math</td>
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<td>2.652</td>
</tr>
<tr>
<td>Attendance</td>
<td>0.382</td>
<td>3.490</td>
</tr>
</tbody>
</table>

Discussion

This research points to several inferences regarding student performance in introductory accounting courses. Most importantly, this study contributes to the growing concern that it is misguided to presume that student performance will improve if teachers adjust their teaching styles. The learning/teaching style interaction was consistently determined to be insignificant.

However, this does not mean that learning styles are not important. A consistent study result was that reflective and sensing learning styles were important in determining student performance in introductory accounting courses. Sensing learners like to learn from concrete material, like examples, tend to be more practical, and are careful with details, whereas intuitive learners prefer to learn abstract material such as theories and concepts, enjoy challenges, and tend to be more innovative than sensing learners (Kinshuk, et al, 2009). Felder-Solomon’s characterizations of reflective and sensing learners appear to be consistent with traits that would be beneficial in accounting courses.

Strong support was provided that student effort significantly affects student performance. In this study, computer-graded homework was used as a surrogate for effort. Even though homework was not significant when GPA was included as an independent variable (Exhibit 3), homework significantly influenced student performance when GPA was removed (Exhibit 5).

Student effort appears to influence student accounting course performance. It also can be inferred that student effort contributes to student performance in all college courses regardless of course content. In this study, the introductory accounting students were sophomores. At that level, the vast majority of these students’ prior college GPA is based on liberal arts courses.

It could be argued that the only possible explanation for students’ accounting homework grades affecting their liberal arts course grades is that the accounting homework grade is actually measuring student effort. Therefore, these results support the universal importance of student effort on academic performance regardless of course content. Although this may seem obvious, as noted earlier, prior business research has been mixed regarding student effort and performance (Johnson, Dean L., et al, 2002; Rich, Steven P, 2006).

Although this study does not support the idea that attendance affects student final grade, it does indicate that attendance significantly affects student homework grade. This research also finds evidence of the link
between students’ homework grade and final performance. Therefore, since attendance affects homework grade and homework grade does influence students’ final grade, it can be inferred that attendance has an indirect impact on student final grade.

Finally, it should be stressed that this study does not minimize the importance of student learning styles on student performance. In fact, the opposite is true. This study supports the concept that specific learning styles may be more beneficial in certain learning contexts.

Reflective and sensing learning styles were important in determining student performance in introductory accounting courses.

Limitations of the Study

One potential criticism of this study may be the small sample size. However, as Coffield stated in his comprehensive study on learning/teaching style prior research published in 2004, “When evaluating variables that affect student performance, results should be robust, before teaching pedagogy is changed.”\(^2\) A small sample size actually provides support of variables’ practical significance.

Future Research

This study opens several future research opportunities.

1. Research that investigates the learning style preferences that correlate favorably with student performance could be examined across different academic disciplines.

2. Since contemporary research has posited that learning styles are flexible, future research to investigate the possibility that students may be educated to strengthen discipline-positive learning styles would be fruitful.

3. Finally, future research studies that investigate cause and effect rather than mere correlation would be advantageous.

Endnotes

\(^1\) For ease in viewing the significant statistical results the remaining figures present only those independent variable that are significant at the 0.10 level. All other variables were included in the models. However, since they were not significant their results were not presented.

\(^2\) Coffield, et al, 2004 inferred that robust results moved beyond mere statistical significance and be considered when the results could be considered practically significant.

References


The Impact of the Bailout of Fannie Mae and Freddie Mac on Mortgage and Housing Industries

Tung Hoang, The Peter J. Tobin College of Business, St. John’s University, NY
tunghoang38@gmail.com
Anna D. Martin, The Peter J. Tobin College of Business, St. John’s University, NY
martina@stjohns.edu

Executive Summary

The substantial size and importance of Fannie Mae and Freddie Mac in the U.S. housing market prompted the U.S. government to place these two government-sponsored enterprises into federal conservatorship in an attempt to maintain their solvency and restore confidence in the mortgage and housing markets. We assess whether the financial market perceives the bailout benefits to extend beyond preventing the collapse of Fannie Mae and Freddie Mac to indirectly benefit firms in related industries.

Our analyses show that REITS, housing brokerage firms, residential construction firms, commercial banks, and securities firms experienced some positive valuation effects from the authorization of the bailout with the passage of the Housing and Economic Recovery Act and/or the conservatorship announcement.

Additionally, we find strong negative valuation effects from the conservatorship announcement for Fannie Mae and Freddie Mac. Since the terms of conservatorship included the elimination of their common stock and preferred stock dividends, their adverse reaction to this announcement is not altogether surprising.

Introduction

It has been estimated that Fannie Mae and Freddie Mac held responsibility for half the value of all mortgages in the U.S. housing market – more than $5 trillion in 2008. With the real estate crisis in 2008 and subsequent defaults of subprime and prime rate mortgages, these two firms suffered to the point of ruin. The share prices of Fannie Mae and Freddie Mac both traded at over $70 in the 2006-07 period, but dropped to less than $1 by the beginning of September 2008. Since Fannie and Freddie constituted such a large and important component of the housing market and they were unable to absorb their huge losses, the government decided to take over the two enterprises and to place Fannie and Freddie into conservatorship on September 7, 2008, in an attempt to restore confidence in both of the firms and the market.

Conservatorship transferred legal control to the Federal Housing Finance Agency (FHFA) to operate both firms until the point they are stabilized. Other key components of the conservatorship include 1) replacing the CEOs, 2) eliminating the common stock and preferred stock dividends, and 3) altering the financing and investing relationship between Fannie and Freddie with the U.S. Treasury.
Previous studies have examined the systemic risks posed by Fannie Mae and Freddie Mac and described the federal government bailout of these firms (Eisenbeis, Frame and Wall, 2007; Frame, 2008; Tung, 2009; Reiss, 2010). Eisenbeis, Frame and Wall (2007) focus on the systemic risk posed by Fannie and Freddie and evaluate policy options to mitigate their systemic risk. Frame (2008) describes the sources of financial distress at Fannie and Freddie and discusses the effectiveness of the bailout on stabilizing these firms.

Tung (2009) discusses the bailouts of financial firms over 2008-2009. In addition to the roles played by the subprime mortgages, bank risk taking, and deregulation that are often mentioned as culprits to the financial crisis, Tung (2009) emphasizes excess liquidity as the main driver. Furthermore, the author believes that executive compensation packages could be structured to control risk taking behavior. Reiss (2010) describes the unique relationship of Fannie and Freddie with the federal government and how it led to their financial distress. The author believes that these firms should be privatized.

Our study is unique from previous studies with our goal of examining, from the capital market perspective, the direct impact of the bailout on Fannie Mae and Freddie Mac as well as the indirect impact on firms in related industries. We quantify the impact by empirically estimating the stock price valuation effects of the bailout, not only on the two directly-affected firms but on firms in the mortgage and housing industries. Essentially our study assesses whether the financial market perceives that the benefits expected to result from the bailout will extend beyond preventing the collapse of Fannie Mae and Freddie Mac.

Ever since Fama, Fisher, Jensen and Roll (1969) introduced the event study methodology, this approach has been widely used to assess the impact of an event on the wealth of shareholders. MacKinlay (1997) provides a review of event studies applied to the areas of economics and finance. Earliest applications of event study methodology centered on measuring the effects of various events on the announcing firms. In more recent times, a stream of literature has been generated that demonstrates that events also trigger wealth effects for the rivals of the announcing firms (e.g., Lang and Stulz, 1992; Szewczyk, 1992; Firth, 1996). The majority of these relatively recent intra-industry event studies investigate effects for rival firms within the same industry based on standard industrial classification (SIC) codes.

In our study, to the extent that the bailout of Fannie and Freddie not only affected securities firms but also increased confidence in the real estate market, firms that are affected by the mortgage and housing market conditions should also be positively affected. We examine the bailout impact on firms in the following related industries: real estate investment trusts (REITs), housing brokerage, residential construction, commercial banks, and securities firms.

Our analyses show that authorization of the bailout with the passage of the Housing and Economic Recovery Act had positive and significant valuation effects for Fannie Mae and Freddie Mac, as well as for firms in related industries. It appears that the financial market perceived the expected benefits of a bailout to extend beyond the directly bailed out firms. We also find the firms in related industries to have experienced positive and significant valuation effects on the conservatorship announcement. Again, our results demonstrate that the benefits of the bailout extend to firms in the mortgage and housing industries. Interestingly, we find negative and significant valuation effects from the conservatorship announcement for Fannie Mae and Freddie Mac. We believe this occurred because the terms of conservatorship
included eliminating their common stock and preferred stock dividends.

**Background on Fannie Mae and Freddie Mac**

The initial creation of the government-sponsored enterprise (GSE), Fannie Mae, occurred in response to the 1930s housing market crash brought on by the Great Depression. At that time, President Franklin D. Roosevelt and Congress were faced with the enormous challenge of restoring faith in the American people. They aimed to help relieve some of the pressures from the high number of foreclosures by enacting the National Housing Act of 1934. This Act was expected to fortify the housing market and eventually led to the formation of the Federal Housing Administration. In 1937, the Act was amended to create the Federal National Mortgage Association, commonly referred to as Fannie Mae.

Fannie Mae was established to help mortgage lenders gain access to capital. Fannie Mae’s operation involves the purchasing and guaranteeing of mortgages that meet their funding criteria to create mortgage-backed securities. They 1) buy mortgage loans, 2) repackage the loans as bonds, and 3) sell these mortgage-based securities to investors with a guarantee. In the event of a default, the payments are made by Fannie Mae for these guaranteed mortgages. This process of securitization created a large and liquid secondary mortgage market, which in turn expanded the flow of mortgage money.

In 1968, President Lyndon Johnson converted Fannie Mae to a privatized company; it is no longer controlled by the government but is still a government-sponsored enterprise. It holds a line of credit from the government as well as having the advantage of tax benefits that no genuine private company receives. Soon after in 1970, the Federal Home Loan Mortgage Corporation, Freddie Mac, was created to break Fannie Mae’s monopoly and expand the secondary mortgage market. Fannie Mae and Freddie Mac were instrumental in creating the U.S. secondary mortgage market and have significant influence over the housing market.

It was often reported in the popular press in the 1990s that Fannie Mae and Freddie Mac were pressured by the Clinton administration as well as mortgage originators to ease the credit requirements on loans that they would purchase. Based on the Wallison and Calomiris (2009) view that the two companies heavily focused on retaining congressional support (for subsidies and a weak regulatory environment), it is plausible that this pressure led them to greatly expand their exposure to the subprime market.

The most common of these subprime loans are adjustable-rate mortgages (ARMs) (Chomsisengphet and Pennington-Cross, 2006). ARMs charge a fixed rate for an initial period of the mortgage (usually 2 or 3 years) before converting to a higher floating rate for the rest of the life of the loan. When interest rates are reset to a higher floating rate, subprime borrowers may have difficulties meeting the significantly higher mortgage payments.

**executive compensation packages could be structured to control risk taking behavior**

ARMs tended not to be problematic prior to 2006, since home values were appreciating. However, when home prices stopped rising millions of subprime loans started defaulting. By 2007, Citigroup estimated that Fannie and Freddie’s retained portfolios contained $182 billion of subprime bonds. It should be no surprise that they would incur huge losses as subprime mortgages, the assets backing those bonds, deteriorated.

The importance of Fannie Mae and Freddie Mac in the mortgage market reaches beyond
The Impact of the Bailout of Fannie Mae and Freddie Mac on Mortgage and Housing Industries

subprime mortgages. At the time of the real estate crisis in 2008, it was estimated that these two GSEs held responsibility for half the value of all mortgages in the U.S. housing market, between what they guaranteed to their customers and the mortgages that they held.

To restore confidence in both GSEs as well as the market, the U.S. government placed Fannie and Freddie into conservatorship on September 7, 2008. Because Fannie and Freddie constituted such a large and important component of the housing market and they were unable to absorb the huge losses, the government decided to place Fannie and Freddie into conservatorship to help restore confidence in both GSEs and the market. By placing both companies into conservatorship, legal control was transferred to the Federal Housing Finance Agency (FHFA) to operate both GSEs until the point they were stabilized. The press release announcing the details of the takeover on September 7, 2008 is available on the FHFA website.8

Hypotheses

A. Fannie Mae and Freddie Mac

Clearly a U.S. government bailout would assure the market about the solvency of the two giant mortgage guarantors. Thus, a bailout announcement was expected to have a positive impact on shareholder value for Fannie Mae and Freddie Mac as the market reduced its expectation of bankruptcy.

While the formal announcement of conservatorship occurred on September 7, 2008, there was previous groundwork for the takeover of Fannie Mae and Freddie Mac on July 30, 2008 with the passage of the Housing and Economic Recovery Act (HERA). This Act authorized the U.S. Secretary of Treasury to purchase obligations issued by the two GSEs, and created FHFA. Therefore, we also hypothesize that positive valuation effects could have been generated on the expectation of a bailout formed with the HERA passage on July 30th, which is prior to the actual bailout on September 7th.9

The bailout of Fannie Mae and Freddie Mac...positively impacted the valuation of firms in the mortgage and housing industries.

B. Related Industries

We examine whether the benefit of the bailout extends beyond the increased firm value of Fannie Mae and Freddie Mac. To the extent that the bailout is perceived to improve the overall mortgage and housing market conditions, firms with linkages to these markets are hypothesized to experience increases in firm value in response to the authorization of the bailout when HERA was signed into law on July 30, 2008 and in response to the conservatorship announcement on September 7, 2008.10

Sample Selection

We examine the impact of the bailout of Fannie Mae and Freddie Mac on firms in the mortgage and housing industries. We identify firms in five related industries to analyze:

• real estate investment trusts (REITs)
• housing brokerages
• residential construction
• commercial banks, and
• securities firms

The related industries are selected to represent the mortgage and housing industries that may be impacted by the bailout of Fannie Mae and Freddie Mac. All firms are identified using Compustat SIC codes and are included in the sample if there are adequate stock return data in the CRSP (Center for Research in Security Prices) database for the analyses. Table 1 lists the number of firms in each industry that we examine, the percent of all firms in the industry that comprise our sample after the filtering
process, and the average market value for the sample firms in each industry as of the end of 2007. It can be seen that the average commercial bank and average securities firm are larger than the average REIT, housing brokerage and residential construction firm.

Table 1
Description of Sample Used in the Analyses

By industry, this table reports the number of firms included in our sample, the percent of all firms in the industry that we are able to include in our sample, and the average market value of the firms as of the end of 2007. The industries are selected to represent the mortgage and housing industries that may be impacted by the bailout of Fannie Mae and Freddie Mac.

<table>
<thead>
<tr>
<th>Industry/Portfolio</th>
<th># of Firms Included</th>
<th>% of All Firms</th>
<th>Avg Market Value (in $Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fannie Mae and Freddie Mac</td>
<td>2</td>
<td>100.0</td>
<td>30,823</td>
</tr>
<tr>
<td>Real Estate Investment Trusts (REITs)</td>
<td>152</td>
<td>70.0</td>
<td>1,988</td>
</tr>
<tr>
<td>Housing Brokerage Firms</td>
<td>12</td>
<td>57.1</td>
<td>904</td>
</tr>
<tr>
<td>Residential Construction Firms</td>
<td>20</td>
<td>66.7</td>
<td>1,273</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>396</td>
<td>50.8</td>
<td>3,145</td>
</tr>
<tr>
<td>Securities Firms</td>
<td>40</td>
<td>48.2</td>
<td>7,910</td>
</tr>
</tbody>
</table>

1. **REITs** (SIC code 6798) – The SEC defines REITs as entities that invest in a variety of real estate (e.g., shopping centers, hotels, etc.) or real estate-related assets (e.g., mortgages secured by real estate). Equity REITs take ownership positions in real estate and earn returns from appreciation and rent. Mortgage REITs lend to real estate investors and/or invest in mortgage-backed securities. Clearly REITs revenues and assets are directly tied to the mortgage and housing market conditions.

2. **Housing Brokerage Firms** (SIC code 6531) – These brokerage firms include real estate agents that engage in renting, buying, selling, managing, and appraising real estate. Due to the nature of their business activities, improvement in the mortgage and housing market conditions would benefit these firms.

3. **Residential Construction Firms** (SIC code 1531) – Companies classified in the residential construction businesses construct and renovate single-family homes and other buildings, which they then sell. (They do not act as contractors for a private home owner.) This group of firms has their revenue and assets directly affected by the strength of the housing market and credit conditions.

4. **Commercial Banks** (SIC code 6020) – Traditionally, the main line of business of commercial banks is to accept deposits from the public and lend to the public. The lending activities include originating and selling home mortgages. The health of the two giant mortgage guarantors (Fannie Mae and Freddie Mac) impacts the volume of mortgages that banks are able to sell.
5. Securities Firms (SIC code 6211) – These firms broadly engage in the purchase, sale, and brokerage of securities. Fannie Mae and Freddie Mac essentially are involved in the same business as securities firms. Examining this group allows us to investigate the intra-industry effects of the Fannie and Freddie bailout.\textsuperscript{12}

*Firms in the REIT, housing brokerage, commercial bank and securities industries...show positive and significant two-day CARs...*

**Valuation Methodology and Results**

We use the standard event study methodology to estimate valuation effects for both events: passage of the Housing and Economic Recovery Act (HERA) on July 30, 2008, and conservatorship on September 7, 2008.\textsuperscript{13} The standard event study methodology generates abnormal stock returns, which reflect valuation effects from events. The model used to estimate the abnormal returns is the single factor market model with the CRSP equally-weighted index as the market portfolio. The period over which the model is employed is 255 trading days ending 20 days before the announcement date. For a firm to be included in our sample, they are required to have at least 15 daily stock returns.

We use two approaches to capturing the valuation effects of the GSEs and five related industries. First, we evaluate the average valuation effects of the individual firms in the industry. Since there may be correlation across the individual firms within the industry, it is advantageous to use portfolios. Thus, our second approach evaluates the valuation effects for the equally-weighted portfolio of the firms in the industry. The disadvantage with the portfolio approach is that the statistical tests are less powerful. Nevertheless, both approaches capture the average wealth effect across the firms in the industry.

Cumulative abnormal returns (CARs) for the GSEs and each of the five related industries over the two-day event window (-1, 0) and three-day event window (-1, 1) are reported in Table 2 for the passage of HERA and in Table 3 for the conservatorship announcement.\textsuperscript{14} A potentially important concern for our analyses is that Lehman Brothers declared bankruptcy on September 15, 2008, which is fairly close to the takeover of Fannie Mae and Freddie Mac. Fortunately, these two events create opposite impacts (the conservatorship announcement tends to generate favorable reactions while Lehman’s bankruptcy generates negative reactions), which increases our confidence in interpreting our results. Thus, when we focus on the narrow two-day event window that ends on September 8th, we are relatively certain that our results capture the reaction to the conservatorship announcement and not the Lehman bankruptcy.
Table 2
Valuation Effects from Passage of HERA

This table presents the two-day and three-day cumulative abnormal returns (CARs) in response to the passage of the Housing and Economic Recovery Act (HERA) on July 30, 2008 which authorized the bailout of Fannie Mae and Freddie Mac. In Panel A, the average CARs of the individual firms by industry are reported. In Panel B, the CARs for the equally-weighted portfolio of the sample firms by industry are reported. To test the significance of the CARs, the parametric Patell Z and nonparametric generalized sign Z statistics are reported where relevant. *, **, and *** denote statistical significance at least at the 0.10, 0.05, and 0.01 levels, respectively, based on a one-tailed test.

**Panel A: Average CARs by Industry**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Event Window</th>
<th>Average CAR%</th>
<th>Patell Z</th>
<th>Generalized Sign Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fannie Mae &amp; Freddie Mac</td>
<td>(-1, 0)</td>
<td>9.02%</td>
<td>2.120**</td>
<td>1.567*</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.77%</td>
<td>0.723</td>
<td></td>
</tr>
<tr>
<td>REITs</td>
<td>(-1, 0)</td>
<td>0.40%</td>
<td>2.006**</td>
<td>2.636***</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>0.08%</td>
<td>0.459</td>
<td>0.688</td>
</tr>
<tr>
<td>Housing Brokerage Firms</td>
<td>(-1, 0)</td>
<td>0.87%</td>
<td>1.918*</td>
<td>-0.499</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.10%</td>
<td>3.093***</td>
<td>1.234</td>
</tr>
<tr>
<td>Residential Construction Firms</td>
<td>(-1, 0)</td>
<td>-0.02%</td>
<td>0.220</td>
<td>1.260</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>2.52%</td>
<td>2.132**</td>
<td>3.055***</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>(-1, 0)</td>
<td>1.42%</td>
<td>9.509***</td>
<td>4.210***</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>1.47%</td>
<td>8.586***</td>
<td>5.014***</td>
</tr>
<tr>
<td>Securities Firms</td>
<td>(-1, 0)</td>
<td>3.74%</td>
<td>5.809***</td>
<td>2.831***</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.78%</td>
<td>4.629***</td>
<td>2.831***</td>
</tr>
</tbody>
</table>

**Panel B: CARs for Equally-Weighted Industry Portfolios**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Event Window</th>
<th>CAR%</th>
<th>Patell Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fannie Mae &amp; Freddie Mac</td>
<td>(-1, 0)</td>
<td>9.02%</td>
<td>1.545*</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.77%</td>
<td>0.525</td>
</tr>
<tr>
<td>REITs</td>
<td>(-1, 0)</td>
<td>0.38%</td>
<td>0.275</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>0.05%</td>
<td>0.026</td>
</tr>
<tr>
<td>Housing Brokerage Firms</td>
<td>(-1, 0)</td>
<td>0.79%</td>
<td>0.553</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.03%</td>
<td>1.765*</td>
</tr>
<tr>
<td>Residential Construction Firms</td>
<td>(-1, 0)</td>
<td>-0.02%</td>
<td>-0.008</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>2.52%</td>
<td>0.533</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>(-1, 0)</td>
<td>1.40%</td>
<td>1.521*</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>1.46%</td>
<td>1.291*</td>
</tr>
<tr>
<td>Securities Firms</td>
<td>(-1, 0)</td>
<td>3.72%</td>
<td>2.799***</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.76%</td>
<td>2.307***</td>
</tr>
</tbody>
</table>

Table 2 displays the CARs related to the passage of HERA and Table 3 displays the CARs related to the conservatorship announcement. Across both tables, Panel A summarizes the average CARs of the individual firms by industry and Panel B summarizes the CARs for the equally-weighted portfolio of the sample firms by industry.
...the reaction reflects the belief that larger firms will continue to be given added government support...

We report the parametric Patell Z and nonparametric generalized sign Z tests.\textsuperscript{15} It is typical for event studies to report both parametric and nonparametric statistics. Both Z-tests evaluate whether the CARs are statistically significant, using a one-tail test of our hypothesis that our sample firms benefit from the bailout. Since Panel B includes the assessment of each industry portfolio abnormal return, and not a group of firms, the generalized sign Z test is not used in this panel.

**Table 3**

Valuation Effects from Conservatorship Announcement

This table presents the two-day and three-day cumulative abnormal returns (CARs) in response to the conservatorship announcement for Fannie Mae and Freddie Mac on September 7, 2008. In Panel A, the average CARs of the individual firms by industry are reported. In Panel B, the CARs for the equally-weighted portfolio of the sample firms by industry are reported. To test the significance of the CARs, the parametric Patell Z and nonparametric generalized sign Z statistics are reported where relevant. *, **, and *** denote statistical significance at least at the 0.10, 0.05, and 0.01 levels, respectively, based on a one-tailed test.

**Panel A: Average CARs for Each Industry**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Event Window</th>
<th>Average CAR%</th>
<th>Patell Z</th>
<th>Generalized Sign Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fannie Mae &amp; Freddie Mac</td>
<td>(-1, 0)</td>
<td>-81.51%</td>
<td>-14.315***</td>
<td>-1.349*</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>-53.08%</td>
<td>-7.686***</td>
<td>-1.349*</td>
</tr>
<tr>
<td>REITs</td>
<td>(-1, 0)</td>
<td>2.61%</td>
<td>10.254***</td>
<td>9.165***</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.83%</td>
<td>11.949***</td>
<td>10.788***</td>
</tr>
<tr>
<td>Housing Brokerage Firms</td>
<td>(-1, 0)</td>
<td>0.36%</td>
<td>0.775</td>
<td>0.117</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>1.23%</td>
<td>1.183</td>
<td>1.272</td>
</tr>
<tr>
<td>Residential Construction Firms</td>
<td>(-1, 0)</td>
<td>7.96%</td>
<td>7.199***</td>
<td>3.811***</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>7.23%</td>
<td>5.729***</td>
<td>3.811***</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>(-1, 0)</td>
<td>2.16%</td>
<td>11.623***</td>
<td>7.810***</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.57%</td>
<td>14.998***</td>
<td>10.622***</td>
</tr>
<tr>
<td>Securities Firms</td>
<td>(-1, 0)</td>
<td>0.68%</td>
<td>1.578*</td>
<td>1.236</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>0.02%</td>
<td>0.378</td>
<td>2.185**</td>
</tr>
</tbody>
</table>

**Panel B: CARs for Equally-Weighted Industry Portfolios**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Event Window</th>
<th>CAR%</th>
<th>Patell Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fannie Mae &amp; Freddie Mac</td>
<td>(-1, 0)</td>
<td>-81.51%</td>
<td>-10.545***</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>-53.08%</td>
<td>-5.64***</td>
</tr>
<tr>
<td>REITs</td>
<td>(-1, 0)</td>
<td>2.60%</td>
<td>1.814**</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.84%</td>
<td>2.176**</td>
</tr>
<tr>
<td>Housing Brokerage Firms</td>
<td>(-1, 0)</td>
<td>0.34%</td>
<td>0.207</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>1.11%</td>
<td>0.548</td>
</tr>
<tr>
<td>Residential Construction Firms</td>
<td>(-1, 0)</td>
<td>7.96%</td>
<td>1.934**</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>7.23%</td>
<td>1.435*</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>(-1, 0)</td>
<td>2.16%</td>
<td>1.908**</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>3.58%</td>
<td>2.573***</td>
</tr>
<tr>
<td>Securities Firms</td>
<td>(-1, 0)</td>
<td>0.68%</td>
<td>0.458</td>
</tr>
<tr>
<td></td>
<td>(-1, 1)</td>
<td>0.02%</td>
<td>0.018</td>
</tr>
</tbody>
</table>
...a reduction or elimination of dividends is met by the market with severe adverse valuation effects

In comparing the results between Panels A and B for both Tables 2 and 3, it can be seen that the valuation effects for the equally-weighted portfolio of the firms in the industry (Panel B) are quite similar in magnitude to the average CARs of these individual firms (Panel A). While the strength of the Z scores for the portfolio CARs in Panel B is reduced relative to those for the average of the individual firm CARs in Panel A, we are still able to draw the same conclusion across both panels: the bailout of Fannie Mae and Freddie Mac extended beyond these two firms and positively impacted the valuation of firms in the mortgage and housing industries.

Since the Patell Z and generalized sign Z both provide nearly identical conclusions across the industries, our discussion of the results will center on the parametric test results. Furthermore, since the two-day and three-day event windows both lead to nearly identical conclusions across the industries, our discussion mainly focuses on the two-day CARs. It can be noted that the three-day event window CARs are typically more positive than the two-day CARs.

Panel A of Table 2 shows that Fannie and Freddie on average experience a statistically significant 9.02% two-day CAR in response to the passage of HERA. Firms in the REIT, housing brokerage, commercial bank and securities industries also, on average, show positive and significant two-day CARs of 0.40%, 0.87%, 1.42%, and 3.74%, respectively. Firms in the residential construction industry do not generate a statistically significant two-day CAR but the three-day CAR of 2.52% is statistically significant.

In Panel B of Table 2, in addition to a favorable and significant two-day response by the GSE portfolio, the portfolio of commercial banks and portfolio of securities firms are shown to have favorable and significant responses to the passage of HERA. As previously mentioned, the strength of the Z scores for the portfolio CARs (Panel B) is weaker compared to the Z scores for the average of the individual firm CARs (Panel A).

Taken together, the results in Table 2 allow us to conclude that the passage of HERA generated favorable valuation effects not only for Fannie Mae and Freddie Mac, but also for firms in related mortgage and housing industries. The firms directly benefiting from the bailout, Fannie and Freddie, should obviously experience the most favorable valuation effects. Finding that firms in the commercial bank and securities industries also experience the strong reactions may occur because the success of these industries is directly tied to the recovery of the mortgage market thus these industries are expected to benefit more directly.

Furthermore, it can be noted that the industries comprised of relatively larger firms benefited significantly from the passage of HERA. Commercial banks and securities firms have the most clearly significant reaction in both panels of Table 2, and are comprised of relatively large firms as reported in Table 1. It is plausible that the reaction reflects the belief that larger firms will continue to be given added government support and resources to reduce their likelihood of failure. This view is sometimes referred to as the “too big to fail” doctrine.

The favorable reaction for the portfolio of securities firms indicates there may be an intra-industry contagion effect. This finding is consistent with the expectation that bailouts by the U.S. government will continue to be provided, and thus other firms in the securities industry may be expected to receive government support in the future.
In Panel A of Table 3, in response to the conservatorship announcement, we find that the GSEs have a statistically significant negative reaction, -81.51% two-day CAR. When we scrutinize the individual abnormal returns for day -1 and day 0, we see that the day -1 abnormal return is positive and significant but the day 0 abnormal return is negative and significant. The day -1 abnormal return depicts market optimism for the bailout, but the day 0 details of the takeover failed to meet market expectations. It is likely that the adverse day 0 reaction occurred because the terms of conservatorship revealed that the FHFA would eliminate the common stock and preferred stock dividends of Fannie Mae and Freddie Mac. It is well known that a reduction or elimination of dividends is met by the market with severe adverse valuation effects (e.g., Aharony and Swary, 1980).

Panel A of Table 3 shows that REITs, residential construction firms, and commercial banks experience the greatest benefit from the conservatorship announcement. The passage of HERA did not impact REITS and residential construction firms to the same extent. With the conservatorship announcement, firms in the REIT, residential construction, and commercial bank industries have average two-day CARs of 2.61%, 7.96%, and 2.16% respectively. Since firms in these industries have their revenue and assets directly affected by the strength of the housing market and credit conditions, the market appears to believe that the bailout will help this industry experience less of a decline than previously expected or achieve some growth.

We do not find housing brokerage firms and securities firms to react significantly to the conservatorship announcement. We believe the lack of significance for the securities firms is due to a favorable intra-industry effect from the takeover of Fannie Mae and Freddie Mac that is offset by an unfavorable intra-industry effect from the elimination of the common stock and preferred stock dividends and/or deteriorating Lehman Brothers.

As in Table 2, the Z scores for the portfolio CARs (Panel B) are weaker compared to the Z scores for the average of the individual firm CARs (Panel A). In Panel B of Table 3, we find an unfavorable two-day reaction by the GSE portfolio to the announcement of their conservatorship. Additionally, we document that the REIT, residential construction and commercial bank portfolios react positively to the Fannie Mae and Freddie Mac conservatorship announcement. Based on the findings reported in both panels of Table 3, our assessment of the valuation effects associated with the conservatorship announcement shows that the market expects benefits to extend to REITs, residential construction firms, and commercial banks.

This view is sometimes referred to as the “too big to fail” doctrine.

Summary

The real estate crisis in 2008 and subsequent increase in defaults on subprime and prime rate mortgages severely impacted the viability of Fannie Mae and Freddie Mac. Given the substantial size and importance of their role in the housing market, the government decided to place Fannie and Freddie into federal conservatorship in an attempt to maintain their solvency and restore confidence in the market.

This study examines the direct impact of the bailout on the valuation of Fannie Mae and Freddie Mac, as well as the indirect impact on the valuation of portfolios of firms in related mortgage and housing industries. We assess whether the financial market perceives that the bailout benefits are expected to extend beyond preventing the collapse of Fannie Mae and Freddie Mac.

To the extent that the bailout of Fannie and Freddie increased confidence in the real
estate market, firms that are impacted by the mortgage and housing market conditions are hypothesized to be positively affected from the bailout. Using a sample of firms in five related industries of real estate investment trusts (REITs), housing brokerage firms, residential construction firms, commercial banks, and securities firms, we find support for this main hypothesis.

More specifically, our analyses provide some evidence that authorization of the bailout with the passage of the Housing and Economic Recovery Act had positive valuation effects for Fannie Mae and Freddie Mac, as well as REITs, housing brokerage firms, commercial banks, and securities firms. At the time of the conservatorship announcement, we find strongly favorable impacts on REITs, residential construction firms, and commercial banks.

Lastly, we document strong negative valuation effects from the conservatorship announcement for Fannie Mae and Freddie Mac. Since the terms of conservatorship may have unexpectedly included eliminating their common stock and preferred stock dividends, it is not an altogether surprising reaction.

References


Endnotes


2 The Case-Shiller home price index showed its largest price drop in its history in December 2008.


4 The inclusion of security firms allows us to analyze the more traditional intra-industry effects.

5 For example, see Russell (2008) at http://online.wsj.com/article/SB122298982558700341.html.

6 Citigroup also estimated that Fannie and Freddie had $4.7 billion in unrealized losses from subprime mortgages. See http://www.marketwatch.com/story/fannie-freddie-face-47-billion-in-subprime-losses-citigroup.

7 It should also be recognized that White (2003), long before the housing market collapse, warned of the risk and opportunity costs associated with the GSEs and argued for change, “Privatization, accompanied by targeted federal assistance for potential first-time, low- and moderate income home buyers, would be a superior policy direction.”


9 It is feasible that the bulk of the information related to the bailout may have been revealed at the introduction of the bill. When we examine these wealth effects, we find some evidence that the introduction of the bill was likely a signal of further decline in the mortgage and housing markets since there are negative responses by the REIT and Housing Brokerage portfolios. We conclude that the market did not yet perceive much, if any, expected benefits to firms in the mortgage and housing market industries. The negative transmission could result because 1) expectation of passage may have been considered to be low probability, 2) the bill was not expected to provide much benefit or relief, and/or 3) the bill was a signal of further decline in the mortgage and housing markets.

10 Alternately, if either of the bailout events signaled further decline in the mortgage and housing markets, the portfolios of firms in related industries would experience negative valuation effects.

11 The numbers listed in Table 1 are those firms we are able to examine with our first event, the passage of HERA. For example, when we examine the second event, conservatorship announcement, the number of firms in the housing brokerage portfolio is reduced from 12 to 11 and the number of firms in the commercial banks’ portfolio is increased from 396 to 397.

12 However, since some security firms are not involved in the mortgage or real estate businesses, it may be more difficult to detect statistically significant valuation effects for this portfolio.

13 The conservatorship announcement occurred on a Sunday, therefore we use September 8, 2008 at day 0 since it is the first trading day following the information event.

14 We considered the -5 to +5 window as well as the -10 to + 10 window, but there are several confounding events that make these CARs unreliable and detract from our ability to test our hypothesis. Also, longer windows have the disadvantage of potentially including a day with no relevant, new information, potentially making the cumulative wealth effects statistically weaker. Shorter windows have the disadvantage of potentially excluding a day with relevant, new information, potentially causing the cumulative wealth effects to be weaker. However, we find relatively strong results with shorter windows. Taken together, we believe the relevant, new information is best captured by shorter windows.

15 The Patell Z test uses a standard abnormal return approach and estimates a separate standard error for each security-event (see Patell, 1976). Standardizing the abnormal returns helps when residuals are cross-sectionally correlated. Compared to para metric testing, nonparametric testing does not require a stringent return distribution assumptions. The generalized sign Z test is similar to the sign test but does not require symmetry of the cross-sectional abnormal return distribution (see Cowan, 1992).
Examining Mentoring in Public Accounting Organizations

Alan Reinstein, Wayne State University, Michigan
a.reinstein@wayne.edu
David H. Sinason, Northern Illinois University, Illinois
dsinason@niu.edu
Timothy J. Fogarty, Weatherhead School of Management, Case Western Reserve University, Ohio
tjf@case.edu

Executive Summary

This study explores the literature regarding the components, costs and benefits of implementing mentorship programs within professional organizations. Using a public accounting firm as a general template, we highlight mentoring’s contributions in developing employees, minimizing unwanted turnover and providing other organizational benefits. It examines personal and organizational costs and benefits and discusses areas of further research, such as mentoring’s developmental and psycho-social components and measurable performance enhancement for the organization as a whole—applied especially to CPA firms.

The literature shows that mentors and protégés view mentoring experiences differently, finding opportunities and pitfalls of this process. For example, mentoring can improve the ethnic and gender diversity of CPA firm employees, but this process creates special problems including a general lack of available minority mentors. Next, given the high turnover in a CPA firm environment, mentoring is especially useful as a means to alleviate stress; to help guide new employees through the firms’ political and organizational processes; and to help minimize unwarranted turnover of their “best and brightest” employees.

Examining Mentoring in Public Accounting Organizations

While many studies discuss the general importance of mentoring, few focus on its application for CPA practitioners, who have well-defined hierarchies of occupational advancement. The need for mentorship within public accounting firms is apparent due to the intermittent supervision of engagements and staff visibility and to the variety of different clients and supervisors unique to this profession. Public accounting firms face the same diversity and talent retention issues as other industries and professions, and as in most other professional service organizations, costs and benefits accrue in implementing the mentoring process. This study summarizes the relevant mentoring literature, focusing on how accounting practitioners can apply many of its suggestions.

Originating in ancient Greece, mentorship denotes a primarily educational relationship between two people in an organization (Garvey 1994). More recently, mentorship has become a business strategy and semi-permanent structure for many types of entities, including industrial corporations, professional service firms and academic institutions. In mentorship a senior, more experienced individual (the mentor) provides advice, counsel, or guidance to a junior, less seasoned
person (the protégé). This relationship helps
to develop protégés’ skills and careers, while
producing essential benefits to the employing
organization by yielding a sustainable supply of
human capital.

The Nature of Mentoring

Mentorship differs from supervision. Supervisors can directly control what work is
done and how it is performed and are often
critical of those they supervise. Supervisors
must create uniform broad behavioral
parameters and provide formative and
evaluative feedback. Mentors, however,
occupy “non-judgmental” positions vis-à-vis
the protégé (McDermott et al. 2007). Mentors
tend not to be proximate to the protégés’
performance of specific task duties or job
functions (Renwick, 2007), and instead will
likely learn about these acts from protégés or
collateral sources after the fact. Moreover,
while those subject to supervision are
likely motivated to engage in self-serving
communications with their bosses, dialogues
with mentors are predicated on the absence of
immediate gain possibilities (Fagenson, 1994).

The mentoring process also differs from
training. While training and mentoring both
focus on learning, training typically implies
a formal time, usually early in employment,
for employees to learn their job and the
organization’s culture. Training tends to
be more standardized, specific to current
positions, task-oriented, and with little view
toward long-term career development.

Mentoring tends to be customized, focused
on the protégé’s career and oriented toward
intangible attributes useful in the long- and
short-term. While training aims to produce
predictable results, mentorship seeks the
independence of thought that might deliver
extraordinary success. Training tends to
have quite explicit, measurable costs, while
mentoring’s costs are generally implicit,
especially the time that mentors and protégés
spend together. Differences also arise in
coverage: few employees escape training for
their jobs but mentoring is purposefully more
selective (Allen et al. 2006a).

Unlike mentoring, coaching tends to be more
transactionally specific, as when firms provide
coaches to smooth the transition for a unique
work assignment (Black et al. 1992). Coaches
generally provide specifically requested
support rather than a long-term investment in
the protégé’s future (Gibson 2005). Renwick
(2007) adds that coaches typically possess
line management evaluation duties that
disqualify them from mentoring’s confidential
relationships.

Mentoring relationships can be formal or
informal. Formal mentoring programs involve
assignment of a mentor to a protégé and are
typically shorter lived than informal ones.
Informal mentoring works best when it is at
least partially clandestine, involving little or no
organized effort. Informal protégé and mentor
relationships usually develop on their own, but
lack the organizational assistance of formal
mentoring programs (Ragins and Cotton 1999).
Viator (2001a) adds that informal mentoring
helps to clarify individuals’ organizational roles.

Both formal and informal mentoring
relationships have drawbacks. When mentors
and protégés are assigned to one another
as in a formal mentoring relationship, they
might not work well together. But informal
mentoring can lack the structure that provides
positive feedback mechanisms for the protégé
and mentor, causing a lack of recognition or
sense of appreciation. Both Viator (1999) and
Alan et al. (2006a) find that mentor-protégé
relationships are more successful when both
individuals have input into the selection
process. Therefore, some organizations
have developed hybrid programs, allowing
individuals to find their own mentors, but
providing organizational support after the
relationship is formed.
Mentors help form protégé aspirations and identify specific career opportunities

Mentor Perspectives
A successful mentoring relationship can enhance the mentor’s job satisfaction and organizational commitment (Waters 2002). Mentors also learn in the process of teaching, perhaps becoming more effective outside of the relationship (Gregg 1999). Successful mentors tend to have an increased sense of their own achievements (Bozionelos 2004). And even without official recognition, the knowledge of helping another person’s career is intrinsically rewarding. While mentors may not get as much credit for their advice as protégés get for implementation, the mentor is also shielded from much of the risk if the advice does not work well (Gregg 1999). But indications exist that mentors receive larger salaries, higher promotion rates and stronger subjective career success than individuals that do not act as a mentor (Allen, et al., 2006b)

Some organizations provide meaningful tangible benefits to mentors. Incorporating the mentors’ activities into their annual performance appraisal or providing them some year-end incentives foster interest in some who are reluctant to serve as mentors.

Protégé Perspectives
Hezlett and Gibson (2007) suggest that mentoring relationships work as social capital for protégés, providing them with increased information and influence; in a competitive managerial field, mentorship buttresses their visibility in the organization (Dreher and Cox 1996). Bozeman and Feeney (2009) indicate that public sector protégés with high levels of social capital are more likely to report satisfaction with their mentor-protégé relationship.

Mentors help form protégé aspirations and identify specific career opportunities (Cunningham 1993). Without some clarity as to career trajectory, work-conducive attitudes will rarely develop (Dreher and Ash 1990, Kram 1985). Mentors also help protégés avoid the mistakes or transgressions that would create negative reputations (O’Reilly 2001).

The length of the relationship also increases when mentors are successful in their own careers (Tonidandel, et al., 2007). This may indicate that protégés recognize the advantages of associating with a successful mentor and hold on to that relationship, and recognize the diminished benefits of associating with mentors with declining careers and even terminate such relationships.

As an individual rises through an organization, his or her mentoring needs change. Therefore, many protégés now form an intelligence network of multiple mentors with diverse knowledge and experiences (de Janasz, et al., 2003). Protégés recognize the limitations of having only one mentor and the pitfalls of having an ineffective mentor. Viator and Dalton (2011) indicate that multiple mentors are a remedy to these limitations.

Mentor Influences on the Protégé
Mentors convey knowledge about organizational routines and systems. In larger organizations, the “big picture” is not always available through official channels. Public accounting firms, like other entities, are marked by political behavior. Mentors can provide information to help protégés navigate a confusing political environment. This type of mentoring role is sometimes labeled “sage on the stage” (Poulsen, 2006) since it treats the mentor as a bank of job-related and organization-specific knowledge (Swap et al. 2001).

Mentoring should also convey institutional knowledge to new employees who have
garnered experience from other organizations. A mentor can advise the experienced protégé on how their new work environment may differ from their prior place of employment to help them acclimate to the new organization. Lester, et al. (2011) add that mentoring has been shown to enhance leadership development. Over time protégés exposed to mentorship demonstrated an increased leadership efficacy that in turn influenced independent ratings of protégé performance.

Since organizational attitudes and expectations often change as protégés accept promotions or new positions, protégés may need to change mentors to access the requisite knowledge and perspective. Further, since some young professionals in public accounting firms may have multi-dimensional duties (e.g., responsibilities for compilations, tax work, and audit engagements) there may be a need for multiple mentors with knowledge and perspectives in each of the areas of responsibility.

Benefits of Mentoring

The benefits derived from mentorship ultimately depend on the mentoring relationship’s dynamics (Bozeman and Feeney, 2009).

- Developmental mentoring aims to extend protégés’ skill set to help them become more seasoned professionals.

- Psychosocial mentoring seeks to develop the protégé’s social capital within the workplace, including providing positive feedback mechanisms. Mentors can make salient contributions to the protégés important psycho-social needs—especially early in their careers (Allen et al.1997).

Evidence suggests that mentoring has interpersonal and psychological benefits for both parties and the organization. The literature generally agrees that mentored protégés tend to be more satisfied than non-mentored employees (Ensher et al.2001). More satisfied employees should be more committed to the organization’s objectives and thus less likely to voluntarily terminate their employment (Sketch 2001).

But job satisfaction is not a strong outcome in its own right. Mentoring defends against the departure of promising employees to create a positive organizational recruiting advantage. Hidenberger and Watson (2008) suggest that such programs can convert a “stepping stone” employment opportunity into a “destination” choice for young talent. This reward is particularly important for organizations within traditionally high turnover industries such as public accounting. CPAs with substantial firm work experience are highly marketable, creating a voluntary turnover problem for accounting organizations.

How Mentoring Can Improve Diversity within Organizations

While accounting has long sought to compete for every generation’s “best and brightest,” it has struggled to draw adequate talent from women and minority groups (Ragins, 2007; Viator, 1999). While more women than men now earn accounting degrees and are correspondingly well-represented in the ranks of newly hired staff, identifying appropriate mentors can be difficult. Since females are still underrepresented in the ranks of senior management, the number of female mentors is often inadequate. This is extremely important as Whiting and Wright (2001, p. 208) point out:

“Correlations indicate that increasing mentoring support is significantly associated with higher career aspirations, higher levels of personal qualities (attributes-structure) and higher job status and salaries for females but not for males.”
Allan et al. (2005) show that interpersonal comfort in mentor-protégé relationships improve in same gender relationships. Evidence that gender differences challenge mentor-protégé relationships (Iyer et al. 2005) is difficult to ignore. Women often underestimate their true workplace capabilities, perhaps due to a negative self-image fostered by inadequate feedback. Mentorship can then be especially corrective for women. Women thrust suddenly into a male-centric environment may also face an improperly perceived steeper learning curve regarding technical matters than do men, which can be compounded by the common misconception that women lack competence or commitment to the organization (Parker et al. 1998). Mentors can be instrumental in designing strategies to overcome this resistance and help women develop successful careers.

Mentors can be instrumental in designing strategies to...help women develop successful careers

For the above reasons, mentoring becomes a special benefit for women, along with such other programs as flexible scheduling and low-cost daycare (Hayes and Hollman 1996). Compared with their male counterparts, female accountants seem more receptive to using mentoring (Kaplan et al. 2001). Unlike males, who seem to believe that they need to be self-sufficient in career management matters, women seem to pursue both emotional support and informed consultation. Providing emotional and professional support could mitigate the negative effects of their inter-role conflicts (Hooks and Cheramy, 1994). Further, women perceive formal mentoring programs as superior to informal mentoring programs, including the realization that informal mentoring often has a lower institutional status than formal mentoring, and therefore informal mentoring could become a barrier to their professional advancement (Washington, 2011).

Since CPA firms generally employ many more women than minority group members, mentoring is problematic for the latter. Viator (2001b) shows that African-Americans in public accounting are less likely to have informal mentors and are more likely to perceive barriers to obtaining mentors, including a perception of a lack of mentors and their unwillingness to serve. Mentors may be less willing to enter into relationships with people who do not resemble themselves (McDonald and Hite, 2005). Despite good intentions and specific incentives, the CPA profession’s historical paucity of non-white entry-level positions limits the number of them who can move up to the ranks of management and become viable mentors (Weisenfeld and Robinson-Backmon, 2001).

**Mentoring can help integrate a minority group manager into a still predominantly white organization**

Mentoring minorities creates special organizational problems and benefits. Schwiebert (2000) shows that mentoring minority group members can overcome some major hurdles in the psycho-social support arena. The organization’s dominant culture may seem alien to talented people from some ethnic and racial groups. Mentoring can help integrate a minority group manager into a still predominantly white organization. Sheldon (1982) shows that, controlling for variations in the process, protégés from minority groups obtain benefit in similar measure to those obtained by their non-minority protégé counterparts. Carlozzi (1999) shows that mentorship and other programs that integrate women and minorities into the management ranks of CPA firms increase the earnings of both employees and employers.

**Benefits of Mentoring to Public Accounting**

Mentoring of CPAs is especially cost effective because of the high cost of recruiting and training CPAs and the constant threat of
Putting a firm’s best and brightest. Given the profession’s high turnover and the shortage of competent, experienced professionals, CPA firms should foster mentoring programs to maximize their resources and to help meet the challenge of inter-generational succession.

Sikka (2009) also finds that the current financial crisis has led to many clients who failed shortly after they received unqualified audit reports, although they had paid large audit fees to their auditors. This scenario will surely lead to increased litigation and otherwise add stress to CPA firms. The financial crises will also lower private sector employment opportunities for non-stellar employees. Thus, despite possibly looking to end the costs of mentoring programs due to this crisis, CPA firms may well want to use mentoring techniques to buttress employee moral, increase job satisfaction and minimize employee turnover of competent employees.

The strongest argument for adopting mentoring in CPA firms is simply that such firms are pure service providers, and the skills of their staffs are the only material generator of a firm’s income. Staff development, which is what mentoring fosters, should therefore be a prime concern in accounting. Since public accounting organizations are organized as partnerships, mentoring fits naturally into a system that has systemic prospects for upward mobility in joining the ranks of the firm’s equity owners.

Mentoring should also convey institutional knowledge to new employees

Mentoring can even strengthen ties with those who leave the firm to work for clients—a major source of CPA firm revenues (Iyer et al. 1997). But no benefit comes without risk: mentorship may also increase the very market skills that make accountants valuable to other employers, possibly increasing turnover (Hall and Smith, 2009).

Public accounting is a high stress environment (Senatra, 1980). Staff accountants face heavy workloads, and pressures intensify during “busy season” (Sweeney and Summers, 2002). Staff members recognize the need to signal their competence by not complaining about the work and sometimes underreport their actual hours (McNair, 1991). Such high stress levels can lead to such undesirable consequences as burnout (Fogarty et al. 2000), unprofessional behavior (Margheim and Pany, 1985), and deteriorated health (Heian, 1985). Many who leave public accounting cite work-life balance concerns relating to such pressures (Scheuermann et al. 1998).

Manning et al. (1996) and Laws (1996) show that CPAs effectively mentoring and counseling their staff can help reduce stress and minimize turnover. Kleinman et al. (2001) show that effective mentoring can ameliorate stress in public accounting. Staff with mentors reported lower levels of role ambiguity and job burnout, which confirms the general expectations that mentoring becomes critical when role-related stress becomes extreme (Brockner et al. 1992).

CPA firms generally operate in challenging mentoring environments. Client service requirements and professional responsibilities may create circumstances where the protégé and mentor are not at the same location for weeks at a time. Many organizations use virtual mentoring (e.g., relying greatly on email and other electronic communication tools to supplement physical contact) to help solve this problem, as well as help match minority and female mentors and protégés. Virtual mentoring can expand the potential pairings beyond physical proximity. However, the success of virtual mentoring is predicated on the technical sophistication and comfort of the parties involved and the technology at their disposal (Zey, 2011).
Who should mentor and when?

While some organizations engage in peer mentoring, many firms seek experienced, high-level mentors who often are much older than their protégés who, in turn, often use “electronic relationships” that could cause some discomfort in their mentors. Baby boomers often feel “threatened” in using technology to transfer knowledge. Current seniors and managers are likely to be Gen Xers, who view communications as short and informal and prefer asynchronous communication. Meetings are structured and to the point.

This contrasts with the communication culture of current entry level accountants (Millennials). Millennials prefer meetings that are interactive with a blend of technology (Houck, 2011). CPA firm management should recognize that these generational differences can make genuine communications difficult and threaten a successful protégé-mentor relationship.

Next, regarding the timing of mentoring relationships, Siegel et al. (2001) report that mentoring in public accounting is more pronounced at mid-career, reflecting CPA firms’ particular career ladders. Entry level-staff (juniors) often are not mentored, as the large numbers at this rank could over-tax mentoring resources. Firms often wait for the strongest candidates to emerge from an essentially laissez-faire environment.

Few resources are devoted to partner mentoring, perhaps in the mistaken belief that all partners are fully formed, self-sufficient professionals. Partners also form a pyramidal structure in which one progresses from the low to the higher ranks. Historically, firms devote mentoring attention to the passage from senior staff to junior partner. Thus, CPA firm management should consider the benefits of mentoring at different points in their employees’ careers and allocate such resources accordingly.

The shape of mentoring in public accounting reflects sub-disciplinary assumptions of a bygone era. Historically, staff self-sorted into one of three specialties (audit, tax, consulting) and worked wholly within that specialty. More recently, track shifting has occurred, perhaps influenced by client demands. More people now enter firms at mid-career to respond to sudden changes in demand.

Management should consider the benefits of mentoring at different points in their employees’ careers and allocate such resources accordingly.

The consultancy track has also splintered and created the need for many more unpredictable personnel changes. The classic grooming-for-partner mentoring model should become more flexible to accommodate lateral movement. With much less preordained career paths, career mentoring in public accounting has to become more customized and more available on a just-in-time basis. Again, CPA firms should recognize their staff’s different needs and experiences when assigning them proper mentors.

Summary and Conclusion

Mentoring provides an excellent method for motivating staff, increasing productivity, reducing turnover and enhancing the protégés’ and mentors’ self-worth. CPA firms often use mentoring primarily as a means to work closely with the “best and the brightest” to cultivate the next cohort of partners, placing less focus on the needs of lower level staff, perhaps aggravating turnover in those ranks. Today’s competitive environment should cause CPA firms to review the management and other literature to find methods to capitalize on this resource to benefit themselves, their staff, and their clients.
References


The Duality of Social Enterprise: A Framework for Social Action

Brenda Massetti, The Peter J. Tobin College of Business, St. John’s University, NY
massettb@stjohns.edu

Executive Summary

Social enterprises are organizations intent on using the power of the marketplace to solve social and environmental problems. Although their popularity as an approach to business is growing, they are beginning to face a variety of challenges. To help ensure their survival, the paper argues that key business and ethical criteria need to be considered at key stages of the social-action selection process. The Social Action Framework (SAF) is introduced as mechanism to help managers make more effective social-action choices. It is explained using anecdotal evidence from a variety of organizations. In addition, the criteria of the SAF are used to generate an action-based definition of social enterprise and differentiate it from other organizational approaches to social-welfare enhancement.

Introduction

Defined as organizations seeking to achieve social goals through sustainable profits, social enterprises are becoming a popular new approach to business (Hamm, 2008; Lynch and Walls, 2009; Meyskens, Robb-Post, Stamp, Carsrud, and Reynolds, 2010). They propose to use the power of the marketplace to solve all types of social and environmental concerns. Take, for example, Tom’s Shoes, a rapidly growing social enterprise. Every time it sells a pair of shoes to a paying customer, it gives a pair to a needy individual (www.toms.com). Its business model is based on a one-donation for one-sale arrangement, altering traditional approaches to both corporate social responsibility (CSR) and not-for-profit charities (Lynch and Walls, 2009). Its sales are directly linked to charity and it must remain profitable to survive. Because this novel approach has the potential to change the way business is done, the current paper explores social enterprise as a concept and introduces a framework to help manage social action within organizations.

While the notion of social enterprise has an obvious appeal for many, its ultimate impact in the marketplace has yet to be established (Trexler, 2008; Paris Tech Review, 2011). Challenges are emerging that may prevent the concept from realizing its full potential (Akwagyiram, 2008). First, the bleak economic outlook has not only decreased access to credit and investors but has also reduced the availability of donors and customers (Strom, 2010). Now everyone has to do more with less.

Second, traditional enterprises, firmly grounded in free-market, profit-seeking practices are responding to societal pressure by stepping up their own efforts to help
... the Social Action Framework (SAF) uses social-action as the unit of analysis

the environment, reduce poverty, and make the world a better place (Werner, 2010). For example, Wal-Mart has not only begun using renewable energy sources to power its retail stores (Wal-Mart’s Public Image, 2009) but has also begun encouraging customers to purchase more energy-efficient light bulbs (Wal-Mart Surpasses Goal, 2007). Perhaps a more focused, better funded CSR effort by traditional enterprise is all that is needed to secure the long-term welfare of humanity (Schuler and Cording, 2006). We may not need a new organizational form to solve our social problems.

Third, governments, organizations, researchers, and other relevant parties have been unable to reach consensus regarding the fundamental differences between CSR efforts, not-for-profit charity work, and social enterprises (Warwick, 2008; Spence, 2007; Nehme and Wee, 2008). Without a consistent, agreed-upon way to determine what is and is not a social enterprise; the potential of the concept is weakened (Kerlinger and Lee, 1999).

At present, there is no comprehensive guidance mechanism for connecting social concerns with capitalism drivers to enhance social welfare. Therefore, the current paper introduces a framework for dualistically analyzing social action within organizations. It can be used by any organizational form and is designed to support a variety of social-action decisions. Its aim is to improve the social performance of all organizations. The paper begins by grounding the concept of social enterprise and highlighting the need for a framework. It then introduces the Social Action Framework (SAF) and describes each component in detail using a variety of organizational examples. Finally, it provides an action-based definition of social enterprise useful for categorizing organizational approaches to social welfare enhancement.

Conceptually Grounding Social Enterprise

With the Internet and other forms of global media increasing access to vast amounts of information, we are now more aware of the myriad problems facing our world (Arvidsson, 2009). From pollution, to resource depletion, to social injustice, to overpopulation, to climate change, to stagnating economic opportunities, we are all becoming aware of how much we need social-welfare enhancement (Prud’homme, 2011). As a result, the economic value we place on societal concerns is increasing. And, organizations of all types are responding by stepping up efforts to address these concerns (Clark and Ucak, 2006; Buckley and Goldstein, 2008; Tapsell and Woods, 2008). While definitions of social enterprise vary tremendously (Prahlad, 2005; Massetti, 2008; Nehme and Wee, 2008; Lynch and Walls, 2009; Yunus, 2010; Wikipedia, 2011; Paris Tech Review, 2011), in effect, they represent organizational responses to changes in the economic value of social-welfare enhancing efforts (Goldstein, Hazy and Silberstang, 2008; Schultz, 2010).

Fundamentally, definitions of social enterprise consistently reflect the interplay of three powerful societal forces:

- **Ethics, Business, and Social Action** (Nehme and Wee, 2008; Yunus, 2010; Prahlad, 2005; Veblin, 2011). Ethics is defined as concern for the suffering or welfare of others (Harris, 2005). As a concept, it serves as a core building block for society (Newall, 2005). Ethical conduct establishes the trust needed between people to sustain long-term relationships (Cialdini, 2001).

- **Business** is defined as a value-for-value exchange (Businessdictionary.com), and serves as a core building block of our economic system (Whitney, 1996; Veblin, 2011). Because value is a perception-based phenomenon, it can vary across people, places, things, and time. Typically, it is established through
experience (Whitman, 2008; Mailath and Postlewaite, 2006).

- **Social Action** is defined as behavior which accounts for the conduct of others (Weber, 1978). It is an interactive process that varies according to context, and can be guided by consequences (Skinner, 1976). As a concept, it serves as the foundation of identity. In effect, we rely heavily on how we act to determine who we are (Cooley, 2008; Mead, 1938).

Depending on how these three forces are emphasized, specific definitions of social enterprise vary. For example, some definitions emphasize using business techniques to achieve social goals within traditional not-for-profits (Hamm, 2008; Whitman, 2008) while others emphasize using more philanthropic behavior within traditional corporate structures (Spence, 2007; Scherer, Palazzo, and Matten, 2009). Still others emphasize the criticality of maintaining a proper balance between generating profits and achieving social goals (Yunus, 2008). With mounting pressure for organizations of all types to address social concerns, we can expect the resulting social actions to blend business and ethical considerations in increasingly complex ways.

**The Need for a Framework**

Unfortunately, the emerging complexity in organizational responses to social concerns increases both marketplace confusion and unpredictability (Scherer, Palazzo, and Matten, 2009; Lee, Faff, and Langfield-Smith, 2009). Moreover, the pressure to adapt is producing strategic conflicts-of-interest (Westhues and Einwiller, 2006; Nehme and Wee, 2008), tactical execution challenges (Joop, Charles and Neal, 2009), and operational concerns for resource use (Meyskens et al, 2009) and outcome clarity (Van Rekom, Van Riel, and Wierenga, 2006; Lee, Faff, and Langfield-Smith, 2009).

For instance, J.C. Penney, a long-standing, for-profit corporation, has joined with the Salvation Army, a long-standing, not-for-profit, to provide needy families a happier holiday experience. As a result, J.C. Penney’s website accepts financial donations for the Salvation Army. In addition, J.C. Penney advertising encourages customers to purchase gifts for the Salvation Army. And, J.C. Penney takes logistic responsibility for delivering any purchased gifts directly to needy families (angel.jcpenney.com). Noticeably, these efforts produce public relations and tax benefits to J.C. Penney while supporting the Salvation Army’s mission and enhancing society’s welfare. However, they also blur established organizational boundaries as they increase the Salvation Army’s reliance on J.C. Penney to solicit donors, provide value propositions, perform transactions, and deliver charitable outcomes. Moreover, they make tactical execution more complex as two separate organizations must now coordinate efforts to achieve outcomes previously handled by one. And, to ensure that customers, donors, and investors perceive the joint gift-giving effort as a generous and worthy idea, increased marketing costs are required for both organizations.

Although it is highly likely the benefits accruing to both organizations outweigh the costs in this example, other combinations of social-welfare enhancing efforts may not produce positive results. Because actions containing both business and ethical components are so complex, a method for assessing the strategic, tactical and operational impacts of these actions would be helpful.

**The Social Action Framework Defined**

Rather than focus on the suitability of various organizational forms for managing and assessing effective social-welfare enhancement, the Social Action Framework (SAF) uses social-action as the unit of analysis. Social action is a useful mechanism because it can be applied to any organizational form and allows for comparisons both over time and across organizations (Schuler and Cording, 2006).
In general, the SAF emphasizes the duality of key business and ethical concerns driving decisions regarding social action within organizations. Table 1 relates the key business and ethical criteria included in the SAF at key stages in the social action decision process. By considering both business and ethical criteria during key decision stages in the social-action selection process, a fuller understanding of social action implications emerges.

### Table 1  Key Criteria at Key Decision Stages

<table>
<thead>
<tr>
<th>Business Criteria:</th>
<th>Ethical Criteria:</th>
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<tr>
<td>Strategic</td>
<td>Strategic</td>
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<tr>
<td>• Mission Congruence</td>
<td>• Social Legitimacy</td>
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<tr>
<td>Tactical</td>
<td>Tactical</td>
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<tr>
<td>• Compliance Obligation</td>
<td>• Community Inclusion</td>
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<tr>
<td>Operational</td>
<td>Operational</td>
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<tr>
<td>• Resource Use</td>
<td>• Outcome Clarity</td>
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**Key Strategic Considerations.** At a strategic level, a key business criterion for considering whether to pursue a social action is how congruent that action is with the organization’s mission (Pearce and Robinson, 2009). Actions which are Mission Congruent are aligned with the organization’s mission. For example, GE’s choice to build wind turbines to produce electricity is completely congruent with its “ecomagination” mission. From a strategic viewpoint, the action is not likely to create confusion in the marketplace or cause concern for GE stakeholders. Actions which are Mission Incongruent are out of step with the organization’s mission. Take, for example, Pepsi’s Refresh Project, where Pepsi Corporation invests millions of dollars of profits in social projects selected by individuals who vote for the projects on its website (refresheverything.com). This action is noticeably incongruent with Pepsi’s recognized mission of providing convenient, quality snack foods.

Pepsi has chosen to invest millions of dollars of profit creating a financial support system for all types of community projects and social enterprises. Strategically, this action is likely to cause a quite a stir in the marketplace and raise questions of mission focus in the minds of stockholders (Pearce and Robinson, 2006; Westhues and Einwiller, 2006).

A key ethical consideration at the strategic level is how socially legitimate the action is perceived to be. An action is considered socially legitimate to the extent that it is deemed welfare-enhancing by prevailing social institutions (Vidaver-Cohen and Bronn, 2008). In general, the more established the action, the more socially legitimate it is considered to be. (Mailath and Postlewaite, 2006; Vidaver-Cohen and Bronn, 2008). Socially established actions are “tried and true” ways to make the world a better place. McDonald’s Corporation creating and supporting the Ronald McDonald House is a good example of a socially-established action. Giving families a place near the hospital to stay when a child is sick is widely considered a socially legitimate action. It is not likely to create conflict in the marketplace or be viewed negatively by stakeholders.

Social actions which are innovative also have legitimacy but are new and unfamiliar to society. APOPO’s landmine-sniffing rats are an example of an innovative social action. APOPO offers a service which uses rats to locate landmines in war-torn fields so that the fields can be re-established as farmland. Although the rats are reusable, in that they only locate the mines for humans to defuse, significant investments in training, feeding, housing, and transporting the rats have been needed to get this Mozambique enterprise off the ground. And, while APOPO is currently profitable, it is heavily dependent on grants and other funding not intended to last long term. It needs more sales to survive (Manbeti, 2010). But the service is so unconventional that many who need it may not understand it well enough to desire it. Moreover, because places that need land-mine removal are typically war-torn and poor, there may not be money available for the service even if it is desired.
Key Tactical Considerations. At a tactical level, a key business criterion is how obligated the organization is to perform the action. Regardless of whether an action is or is not strategically congruent with its mission, tactically, the organization may be required to perform it anyway. For example, General Electric is required to clean-up PCBs from the Hudson River (Prud’homme, 2011) whether it wishes to or not. Specifically:

- **Compliance-driven social actions** are those required by law, industry standards, significant stakeholder-interests, or other social institutions.
- **Choice-driven actions**, on the other hand, are those the organization has no obligation to perform, but freely chooses to undertake. For example, Siemens AG choosing to invest in research and support programs to develop sustainable cities is a Choice-Driven social action (Reams, 2012).

A key ethical criterion at the tactical decision-level is the extent to which the action accounts for the welfare of the community it impacts.

- **Community-internalizing actions** support the welfare of the community at least as much as the welfare of the organization. For example, Patagonia provides paid environmental internships to its employees and agrees to bail them out of jail if they get arrested for protesting for a cause they feel deeply about (www.patagonia.com).
- **Community-externalizing actions** are those where the community supports the welfare of the organization at least as much as its own. Take, for example, the over $66 million in tax subsidies and other financial benefits Goldman Sachs received from both New York City and State to build its world headquarters in lower Manhattan. Rather than use the money for public services such as schools, government officials chose to support Goldman Sachs’ construction costs (Solman, 2010). The action is community-externalizing in that the lower-Manhattan community had no direct input into how their tax money would be spent and will not have the opportunity to benefit from the expenditures until Goldman Sachs’ has.

Key Operational Considerations. At the operational level, a key business consideration is the degree to which resources are needed for a particular social action. Managerially speaking, resources include people, equipment, materials, information, and time (Certo and Certo, 2006).

- **Social actions which are low-resource consumption** do not require significant amounts of people, equipment, materials, information, and/or time. For example, Cold- Stone Creamery’s sponsoring the Adopt-A-Highway program does not require a lot of resources from Cold-Stone as the clean-up activities can be performed by volunteer employees using low-cost materials.
- **Social actions which are considered high-resource consumption** require substantial amounts of people, equipment, materials, information, and/or time. For example, ING’s sponsoring the New York City Marathon would be an example of a social action requiring substantial resource outlays, including money, time, people, and information for planning, coordination, and other support activities.

A key ethical criterion at the operational decision-level is how readily the social action’s welfare-enhancing contribution can be determined.

- **Actions with clear social contributions have readily measurable outcomes.** For example, Tom’s Shoes makes a clear and measurable social contribution by selling shoes. Every time it sells a pair of shoes, a poor person who cannot afford shoes gets a free pair.
- **Actions with unclear social contributions do not have readily discernable outcomes.**
For example, Haagen Dazs has a program to support honeybees. Scientists have noted for years that the honeybee is in decline as a species and Haagen Dazs has graciously made a significant resource commitment to help resolve this problem (www.helpthehoneybees.com). However, it is difficult to determine how well the program they support is working as the honeybee population continues to decline (Michels, 2011).

Social action is a useful mechanism because it can be applied to any organizational form and allows for comparisons both over time and across organizations.

The Social Action Framework Explained

Displayed as a series of matrices (See Figure 4), the SAF represents the interplay of ethical and business considerations relevant for adapting to a more socially conscious marketplace. By juxtaposing the core business and ethical issues relevant to selecting social actions, a richer consideration of actions can occur. In specific, actions can be portrayed along continua with respect to how they rate regarding the factors included in the SAF. Moreover, by linking these considerations in a logical progression, it becomes possible to develop and manage a comprehensive approach to social-action efforts. However, before demonstrating the comprehensive power of the SAF, a discussion of each of the framework’s matrices is provided with a variety of organizational examples.

A Strategic View of Social Action

An organization’s strategy represents its long-term game plan for developing a competitive advantage in the marketplace (Pearce and Robinson, 2009). The diagram in Figure 1 depicts the key decision criteria that are most relevant for considering social action at a strategic level: Mission Congruence and Social Legitimacy. Portrayed along continua and juxtaposed so that these strategic business and ethical criteria can be considered simultaneously, four quadrants emerge. Each has distinct characteristics regarding social actions and a brief discussion of each follows.

In Quadrant S1 of Figure 1, actions are mission incongruent but socially innovative. An example would be American Express lending financial, marketing, and management support to fledgling social enterprises through its Members Project. This action is not entirely mission congruent in that American Express’ strategy, historically, has been to charge slightly higher rates and fees in return for enhanced services and a sense of status only available to the most elite and financially successful. Catering to fledgling social enterprises somewhat contradicts this elite-status image. The action is socially innovative in that American Express has potentially found a way to gain from the social enterprise movement. However, if more fledging social enterprises fail than grow and flourish, American Express may take a strategic loss.

In Quadrant S2 actions are socially established but mission incongruent. For example, Duane Reade, a full-service pharmacy in the New York Metropolitan area, has its check-out staff regularly request charitable donations from customers as they pay for purchases. While seeking charitable donations is a socially legitimate practice, making a request for...
donations as customers pay for purchases is not mission-congruent for Duane Reade. In fact, this action introduces the potential for awkwardness, confusion, and/or conflict as the customer finalizes his or her transaction with the pharmacy. By considering both the ethical and business aspects of the action from a strategic viewpoint, Duane Reade is in a better position to decide the effectiveness of this action.

In Quadrant S3, social actions are considered mission congruent and socially established. Whole Foods promoting local farmers’ produce in its stores is a good example of an action in this quadrant. Here, Whole Foods’ mission is supported in that it acquires high-quality, fresh produce. The action is socially legitimate because local farmers, rather than the Agra-industrial complex, gain notoriety and prosperity (Solman, 2008).

Actions in Quadrant S4 are mission congruent and socially innovative. GE’s using electric cars for its employee fleet is a good example of an action in this quadrant (Smith, 2010). Because GE wishes to be a significant provider of charging stations for the electric car market, having its employees drive electric cars on a regular basis is a novel way to gain the experience needed to secure a competitive advantage. It actually makes it easier for GE to plan its strategy for achieving leadership in the charging station market.

A Tactical View of Social Action

Tactical decisions entail developing initiatives to ensure that an organization’s strategy is achieved (Certo and Certo, 2006). Figure 2 depicts the duality of business and ethical factors tactically relevant for planning an organization’s social actions: Compliance Obligation and Community Welfare. Compliance Obligation is portrayed as a continuum ranging from Choice Driven to Compliance Driven, and Community Welfare is shown as a continuum ranging from Community Internalizing to Community Externalizing. By combining these factors in a way that allows them to be considered simultaneously, four quadrants emerge. A brief discussion of each follows.

Quadrant T1 represents actions which are chosen by the organization but are also community-externalizing, meaning the organization chose an action considering community impacts primarily from the viewpoint of the organization’s benefit. Wal-Mart’s legal resistance to 1.5 million of its female employees claiming discrimination is an example of an action qualifying for this quadrant. Rather than tactically address the nature of the claims against it, Wal-Mart chose to challenge the structure of the claims. In specific, it argued that allowing class-action status to the 1.5 million claims against it was unfair. The U.S. Supreme Court agreed with Wal-Mart, ending class-action status for case (Fisher, 2011). However, many of the hundreds of thousands of women are continuing to pursue their grievances in new law suits, adding to the already over-burdened community-based U.S. court system (Levine, 2012; Wolf, 2011).

In Quadrant T2 social actions are choice-driven and community internalizing, meaning that the organization selected the action freely and considered the community impacts from the viewpoint of the community. Greyston Bakery’s
hiring practices are a good example of a social action in this sector. From the beginning, founder Bernard Glassman chose to build the bakery by employing those traditionally considered too risky to hire, such as ex-convicts and the homeless (Reeve, 2012). Not only do the less fortunate benefit greatly from this choice but everyone in the community of Yonkers has gained from the support and training efforts provided by Greyston Bakery.

Actions contained in Quadrant T3 are driven by compliance but are community-internalizing. The organization is being required to behave in a certain way and is considering the welfare of the community at least as much as its own in doing so. Nike’s actions toward fair-labor practices would be a good example for this quadrant. Nike, a sports apparel company, has a variety of labor standards it is expected to meet. On several occasions it has been found out-of-compliance with those standards and received negative press among other penalties as a consequence. In response, it has developed an extensive, comprehensive program to help its hundreds of suppliers treat employees fairly. Moreover, it has instituted community-involvement methods for ensuring that these standards are met (Lynch, 2009; Dess, Lumpkin and Eisner, 2010).

Quadrant T4 represents actions which are compliance-driven and community-externalizing. BP’s offering people living along the Gulf of Mexico $5000 in return for signing not-to-sue agreements for damages it caused with its oil disaster is an example of an action in this quadrant. BP offered a short-term financial break to the community, hoping for a long-term lack of liability. Unless handled very carefully, actions in this quadrant can cause more problems than they solve for an organization. Ultimately, BP not only created additional community ill-will by this action but it also had to stop and publicly apologize for it (Mulkern, 2010).

In Quadrant O1 the actions use a lot of resources with unclear social contributions. For example, Suez, a French water and sanitation multinational corporation, joined forces with the South African government to provide clean fresh water to some of the poorest residents in three East Cape towns. It expended vast resources to develop water provisioning systems; then, found that the majority of townspeople for which the water was intended could not pay their water bills. After violence broke out, and the townships sought relief in the High Courts, Suez was forced to vacate the townships. Here, Suez lost business; and the...
poor communities, for the most part, never got access to fresh water ("South Africa: Metered", 2003; Salina, 2008).

The SAF emphasizes the duality of key business and ethical concerns driving decisions regarding social action within organizations.

Quadrant O2 represents actions which have high resource consumption but clear social contributions. For example, Starbucks has a program for supporting coffee growers in South America. It has invested significant resources over the years to ensure that the coffee growers are properly trained and properly paid for the coffee they provide Starbucks. The outcome has been an increase in the quality of the coffee and an increase in living standards for coffee growers associated with Starbucks.

Quadrant O3 contains actions which have clear social contributions and consume few resources. For example, Pret-A-Manger, a company which stakes it reputation on freshly-made food, donates its daily leftovers to homeless shelters. This action consumes few additional resources as Pret-A-Manger would otherwise be throwing the food out. It also has a clear contribution in that homeless shelters are getting a regular supply of healthy free food.

Actions in Quadrant O4 consume few resources but have unclear social contributions. For example, Philip Morris has a section of its website dedicated to providing information on smoking cessation. The resources required to support this section are not extensive. And, while it might be helpful to read about techniques and support services for stopping cigarette smoking, it is not certain that reading this website section will break a user’s cigarette habit. It is even less probable that people trying to quit smoking will be likely to visit the website of a cigarette manufacturer to get help on how to stop purchasing that company’s product.

The Framework in Action

In addition to allowing a variety of actions to be considered at a strategic, tactical and operational level, the Social Action Framework can also be used to compare the same action at each decision stage. The diagram in Figure 4 depicts, for example, a social action analysis of Food Network’s encouraging viewers to have bake sales to end hunger in America. The Network runs ads and provides ideas for ways to generate money that is then donated to the charity Share Our Strength. Strategically, the action is highly mission-congruent in that Food Network’s purpose is to inform, educate and entertain viewers about food. It is also socially established as bake sales are a very common way for charity organizations to generate revenue. As a result, these qualities are represented by the dot placed in the lower section of quadrant S3 of the Strategic Duality Matrix.

![Figure 4 The Social Action Framework](image)

On the tactical level, the action of encouraging bake sales to end hunger is choice-driven in that Food Network does not need to take on charity work. The action is also very community internalizing in that it encourages viewers to participate in baking and interacting with neighbors and friends in ways that will benefit the greater good. For these reasons the dot representing this action is placed in the upper right quadrant of the Tactical Duality Matrix.
Operationally, the action uses moderate amounts Food Network’s resources. In specific, a variety of celebrity chefs use their shows to offer bake-sale recipes and the ads for the effort run fairly frequently. However, its social contribution is not entirely clear. It is doubtful that having bake sales in a variety of communities is going to end hunger in America, although the action does raise awareness and offer people a way to try to help. To reflect these conditions, the action-dot is placed close to the middle of both the Social Contribution and Resource Consumption continua of the Operational Duality Matrix.

The SAF can also be used to compare different actions at one level or across different decision-levels. Actions can be measured and tracked over time to determine if conditions are changing. And action comparisons can be made within and across organizations. Overall, the SAF has the potential to be a very versatile tool for planning and managing social action within organizations.

A key business criterion for considering whether to pursue a social action is how congruent that action is with the organization’s mission

**Toward a Definition of Social Enterprise**

For the concept of social enterprise to strengthen its position in the marketplace, clear distinctions between it and traditional approaches to social welfare enhancement need to be established. The criteria upon which the SAF is built have the capacity to distinguish between social enterprise, CSR (Corporate Social Responsibility), and not-for-profit organizational approaches. Because each approach varies in its intentions, expectations, and implications for social action, the emphasis each places on the ethical and business criteria of the SAF differs. In essence, social action plays a different role for each approach. And this role variance can be used to distinguish between organizational approaches. Table 2 depicts these distinctions and a discussion regarding each follows.

**Table 2**

<table>
<thead>
<tr>
<th>Organizational Approach/ SAF Criteria Requirements</th>
<th>Social Enterprise</th>
<th>Corporate Social Responsibility</th>
<th>Not-for-profit Charity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Mission congruence</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Tactical</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Always Community internalizing</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance-driven Community internalization</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Operational</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits required from resources consumed</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clear social contributions</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

According to the criteria of the SAF, a social enterprise is an organization where the majority of its social actions:

1. Are congruent with the organization’s mission and have some degree of social legitimacy;
2. Are community internalizing regardless of whether they are required or chosen;
3. Make clear social contributions while producing financial contributions (i.e. profits) that exceed their resource consumption.

This definition focuses attention on the factors most relevant for effectively operating a social enterprise.
• Condition 1 establishes that for an organization to be considered a social enterprise, the majority of its social actions must be in accordance with its mission; and be socially valid, whether they are time-honored or novel in nature.

• Condition 2 highlights the criticality of a social enterprises’ community perspective. For an organization to be a social enterprise, it must always use decision processes that consider the community’s welfare at least as much as the organization’s.

• Condition 3 emphasizes the delicate balance needed between accountability and sustainability. In order to remain a viable social enterprise, an organization needs to show the marketplace how the majority of its social actions produce clear social benefits and generate acceptable investment returns.

Traditional Corporate Social Responsibility actions occur within for-profit organizations and are intended to enhance both the reputation of the organization and the welfare of society (Schuler and Cording, 2006). However, CSR actions are ancillary to a for-profit organization’s primary purpose of maximizing shareholder wealth. Hence, according to the criteria of the SAF, the majority of CSR actions:

1. Need some level of social legitimacy but do not have to be in line with the organization’s primary mission;
2. Do not have to be community internalizing, unless required by compliance obligation;
3. Do not need to make clear social contributions or produce financial contributions that exceed their resource consumption.

This definition clearly points out how traditional CSR efforts differ from social enterprise actions. Other than needing some degree of social legitimacy, CSR actions are not bound by the same conditions. First, they do not need to be in line with the organization’s primary mission. For example, Philip Morris’ act of supporting a smoking-cessation website is actually in direct contradiction to its primary organizational mission.

**Socially established actions are “tried and true” ways to make the world a better place.**

Second, CSR actions do not need to include community input unless there is a regulation or mandate requiring the organization to do so. It is perfectly acceptable for management to consider the organization’s welfare at least as much as the community’s when selecting CSR actions.

Third, CSR actions do not need to generate profits. Profit is expected to come from actions directly linked to the organization’s primary mission. For example, profit from Philip Morris’ cigarette sales is not expected to come from its smoking-cessation website. Furthermore, it is not necessary for a CSR action to have a clear social contribution as long as it has the potential for a perceivably positive effect. The fundamental issue for CSR actions is that they not significantly detract from maximizing shareholder wealth (Friedman, 1970).

Based on the business and ethical criteria of the SAF, a not-for-profit organization is one where the majority of its social actions:

1. Are congruent with the organization’s mission and have some degree of social legitimacy;
2. Are community internalizing regardless of whether they are required or chosen;
3. Do not need to make clear social contributions, or produce financial contributions that exceed their resource consumption.

This definition highlights how similar and how different not-for-profits are from social enterprises. For all intents and purposes not-
for-profits and social enterprises are the same regarding Conditions 1 and 2. Their differences become apparent in Condition 3. First, they differ on how clear the social contributions of their actions need to be. Not-for-profits face less pressure to have their actions make clear social contributions. While they do have to clearly state the intentions of their social actions, and clearly demonstrate efforts aimed at achieving those intentions, they do not have to consistently succeed. As long as they can show progress, hard work, and dedication, they are likely to continue to be funded. Basically, donors and oversight agencies decide their effectiveness, not customers. Social enterprises, on the other hand, need customers to survive. They have to effectively manage competition from both the marketplace and philanthropic enterprises to receive their funding. Hence, they face more pressures to directly link their actions to specific social enhancements.

Second, they differ regarding their emphasis on resource consumption. For social enterprises to pay dividends and attract investors, they must consistently produce financial contributions which exceed the resources they consume. Not only are not-for-profits not allowed to offer dividends but they also face restrictions on the extent to which they can use sales to generate revenue. Moreover, they face tax burdens if an action’s surplus is not directly mission related (Lynch and Walls, 2009). Consequently, not-for-profits have less pressure to consistently generate surpluses.

While these action-based definitions highlight key differences in how each organizational approach uses social action, they also help pinpoint potential problem areas for approaches. For example, if a significant stakeholder group, such as loyal customers, demands that a corporation become more socially responsible, the organization is likely to do so. However, the organization is free to determine how it wants to respond since its social actions do not always have to be community internalizing. So, if the organization chooses a social action different from the one the stakeholder group was expecting, that group may ultimately feel more alienated than appeased (e.g. BP’s $5000 immediate-aid offerings). Moreover, since CSR actions do not have to be mission congruent, the chosen social action may seem out-of-step to many in the marketplace (e.g. PepsiCo’s Refresh Project). And, because CSR actions do not have to make clear social contributions, the success of a chosen action may be hard to determine (e.g. Haagen Dazs’ Honeybee Project). Interestingly, social enterprises are less likely to face these potential difficulties as their social actions must be mission congruent, community internalizing, and have clear social contributions.

**Conclusion**

Conceptually, social enterprise represents a distinctly different approach to social welfare enhancement. By combining the motivating aspects of capitalism with our increasing need for social and environmental improvements, it has the potential to make a tremendously positive impact. However, integrating crucial aspects of ethics and business into effective social action is a complex proposition. Traditional organizational approaches have struggled with this dichotomy for a very long time. It is still an open question whether any or all of these approaches can mobilize rapidly enough to stem the rising tide of our social ills. Improved planning and analysis are needed to ensure social action really does make our futures brighter. To help organizations better understand and manage their social-action selection processes, the paper introduced the SAF (Social Action Framework). It is a conceptual tool able to dualistically consider key strategic, tactical, and operational concerns relevant for integrating ethics and business into social action. By using numerous examples to explain how the SAF works, the paper further uses its criteria to define social enterprise and differentiate it from CSR (Corporate Social
Responsibility) and not-for-profit organizations. The SAF allows managers in any organization to improve their social performance.

References


McDonald’s Corporation creating and supporting the Ronald McDonald House is a good example of a socially-established action.
Integrating crucial aspects of ethics and business into effective social action is a complex proposition.


Schultz, H. 2004. Speech given at Entrepreneur of the Year Award, Lloyd Grief Center for entrepreneurial Studies at Marshall School of Business, University of Southern California.


Endnotes

1 In order to make consistent comparisons among and between these different constructs, they are typically translated into a general management concept of “cost” (Krajewski, Ritzman, and Malhotra, 2009).

2 An organization may perform functionally useful actions which are not considered socially legitimate. If the action is not considered socially legitimate, then it is not relevant for analysis in the SAF. It is the nature of the action’s social legitimacy (i.e. established or innovative) that is considered in the SAF.
Factors that Impact Underpricing of Seasoned Equity Offerings

Dr. Juan M. Dempere, Metropolitan State College of Denver, Colorado
jdempere@mscd.edu

Abstract

The main goal of this article is to provide statistical evidence about factors that explain the level of Seasoned Equity Offering (SEO) underpricing. We study a sample of 1,840 Seasoned Equity Offerings (SEO) issued between 2003 and 2011. The most significant contribution of this article is the statistical evidence about a negative relationship between the offer price and SEO underpricing. This relationship might result from the conventional underwriter pricing practice. We report record levels of SEO underpricing never measured before, particularly in the year 2009 when 270 SEOs had an average level of underpricing of 6.86%. We also find that the level of SEO underpricing has dramatically increased since the 2008 financial crisis.

Introduction

The main goal of this article is to analyze some factors that impact the level of Seasoned Equity Offering (SEO) underpricing calculated based on the pre-issue closing price. This is a phenomenon that has intrigued many financial professionals for decades, but no consensus exists about the specific factors that explain this type of underpricing. We analyze 1,840 SEOs issued between 2003 and 2001. Among the firms in our sample, 1,591 SEOs set an offer price different from the last closing price before the SEO date and only 249 firms used such a closing price as the relevant value for the share of stock.

This paper provides statistical evidence about the negative relationship between offer price and SEO underpricing. The lower the offer price, the higher the level of SEO underpricing. Also, we test some factors that impact the probability of underpricing a SEO. Although this is not the first paper to report a negative relationship between offer price and SEO underpricing, to the extent of our knowledge this paper is unique in that it provides statistical evidence on the significant increment of SEO underpricing after the financial crisis of 2008.

Some academic studies have reported and analyzed SEO underpricing. Smith (1977) compares two methods to raise additional equity capital: right offerings versus employing underwriters. He finds that regardless of the clear advantages of right offerings, most firms choose underwritten offerings. Smith studies 328 SEOs listed in the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX) from 1971 to 1975 and finds an average underprice of 0.54%. Parsons and Raviv (1985) propose a model of underwritten offerings of new SEOs where the offering price selected by the investment bank is lower than the market price. They argue that the underwriter must set an SEO price low enough to lure investors with high valuation of the issuer's new investment projects.

Bhagat and Frost (1986) study all primary public offerings of utility companies made from 1973 to 1980. They find an average underpricing...
level of -0.25%. Loderer, Sheehan, and Kadlec (1991) study 1,608 SEOs from 1980 to 1984. They find an average level of SEO underpricing of -1.41%. These results are driven by the level of SEO underpricing in the NASDAQ market where more than 80% of their SEOs are underpriced. They also find substantial variability in the SEO underpricing with ranges from -25 to +33%. Gerard and Nanda (1993) study the possibility of trading manipulation in SEOs. They argue that informed investors may attempt to influence offering prices by selling shares before the SEO, and profit subsequently from lower prices in the SEO.

Safieddine and Wilhelm (1996) study the nature and magnitude of short-selling activity around SEOs of 474 NYSE and AMEX listed firms. In particular, they study the impact of the SEC adoption of the Rule 10b-21 to address concerns about manipulative short-selling practices. Using the close-to-offer return, they find an average SEO underpricing of -0.55% prior to the adoption of Rule 10b-21, and -0.46% after the adoption of such rule. Kim and Shin (2001) study a sample of 3,304 SEOs from 1983 to 1998. They find a mean of only 1.34% of SEO underpricing during the period before the adoption of Rule 10b-21 in 1988, but a mean of 2.99% after that year. Such a mean has been gradually increasing since 1988. They also find a more severe level of SEO underpricing in NASDAQ listed stocks. They conclude that Rule 10b-21 has raised discounts on SEO issues.

Bowen, Chen, and Cheng (2007) study 4,766 SEOs from 1984-2000 and find that more analyst coverage is associated with reduced SEO underpricing. They find a mean underpricing of 2.38% in their sample. They find a SEO underpricing level of 4.05% for firms covered by one or zero analyst, to a level of 0.00% for firms covered by 31 or more analysts.

To the extent of our knowledge, the only previous articles that report a negative relationship between offer price and SEO underpricing are Altinkilic and Hansen (2003) and Corwin (2003). Indeed, Altinkilic and Hansen (2003) find significant levels of SEO discount for issues with low prices and for those with greater stock returns volatility. They also report larger discounts in offers by NASDAQ firms than those in NYSE/AMEX firms. They report an average level of SEO underpricing of around 3% that has been stable throughout the 1990s.

Similarly, Corwin (2003) studies a sample of 6,637 SEOs between 1980 and 1998. She finds a positive relationship between SEO underpricing and the level of uncertainty about the firm value, the relative offer size, the implementation of Rule 10b-21, and the concurrent level of underpricing in the IPO market. She also finds large underpricing for low-priced stocks and suggests that this phenomenon results from the conventional pricing practice of most underwriters.

The original contribution of this paper is that we report record levels of SEO underpricing never measured before, particularly in the year 2009 when 270 SEOs had an average underpricing of 6.86%. The level of SEO underpricing has increased dramatically after the financial crisis of 2008. We provide statistical evidence about the negative relationship between price and SEO underpricing. This relationship might result from conventional underwriter pricing practice.

Indeed, Lee, et al. (1996) suggest that SEO underpricing might result from the underwriter’s practice of pricing the offering at the bid price rounded down to the nearest eighth or integer. This notion is reinforced by Mola and Loughran (2004) who find evidence of significant clustering of offer prices at integers. We test the probability of underpricing an SEO by using a logistic regression model. We find that this probability is negatively related with the SEO offer price.
Also, our results suggest that underpricing is more likely to happen among firms listed in NASDAQ, among SEOs issued after the financial crisis of 2008, and in SEOs with high levels of stock price volatility.

The rest of this paper is organized as follows: section 1 describes our methodology and proposed models; section 2 explains our sample and provides some summary statistics; section 3 provides details of our empirical results; section 4 provides some interpretations of our findings, section 5 summarizes the major conclusions about our research work; and the last section lists the bibliographic references cited in this article.

The lower the offer price, the higher the level of SEO underpricing.

1. Methodology

The level of SEO underpricing \( (UP_i) \) is measured by the 1-day holding period return for SEO \( i \), as \( (P_1 - P_0)/P_0 \), where \( P_0 \) is the offer price and \( P_1 \) is the closing price of the day before the SEO date. The level of underpricing is determined for each firm in our sample of SEOs. We also use the difference-in-mean test (parametric) and the Mann-Whitney test (non-parametric) to analyze differences in the level of underpricing in our sample. The cross-sectional variations of the level of underpricing \( (UP_i) \) are determined using the following ordinary least square (OLS) model:

\[
UP_i = a_1 + b_1 \ln(Proc)_i + b_2 \text{Price}_i + b_3 \text{NASDAQ}_i + b_4 \text{Supply}_i + b_5 \text{Crisis}_i + b_6 \text{UR}_i + b_7 \text{SD}_i + e_i
\]

where \( a_1 \) is the intercept term of the model.

The variable \( \ln(Proc)_i \) is the natural logarithm of the total proceeds in U.S. dollars of SEO \( i \).

\( \text{Price}_i \) is the offer price of SEO \( i \).

\( \text{NASDAQ}_i \) is a dummy variable that takes the value of one if SEO \( i \) is offered in the NASDAQ exchange and zero otherwise;

\( \text{Supply}_i \) is the ratio of total shares offered in SEO \( i \) to total share outstanding after the offering;

\( \text{Crisis}_i \) is a dummy variable that takes the value of one if SEO \( i \) is offered after 2008 and zero otherwise;

\( \text{UR}_i \) is the underwriter reputation measured by the adjusted Carter-Manaster rankings from Jay Ritter’s website at http://bear.cba.ufl.edu/ritter/rank.htm (see Carter and Manaster, 1990);

\( \text{SD}_i \) is the standard deviation of daily returns in the 180 days prior to the offer;

finally, \( e_i \) is the error term.

We also apply a logistic regression model (probit model) to determine the factors that impact the probability of underpricing a SEO. Indeed, out of 1,840 SEOs in our sample, 249 SEOs did not experience any level of underpricing. The following probit model is considered:
In \[ \ln \left( \frac{p_i}{1-p_i} \right) = \alpha_1 + \beta_1 \ln(\text{Proc})_i + \beta_2 \text{Price}_i + \beta_3 \text{NASDAQ}_i + \beta_4 \text{Supply}_i + \beta_5 \text{Crises}_i + \beta_6 \text{UR}_i + \beta_7 \text{SD}_i + \epsilon_i \]

where \( p_i \) is the probability that SEO \( i \) will be underpriced and all variables and symbols at the right side of the equations are the same as those described above.

2. Sample and Summary Statistics

Our sample consists of 1,840 SEOs offered between 2003 and 2011; 402 firms have two consecutive SEOs; 160 firms have three consecutive SEOs; 68 firms have four consecutive SEOs, and 32 firms have five consecutive SEOs. The SEO-related data is obtained from Securities Data Corporation’s (SDC) Global New Issues database. The firms in our sample have stock price data available at the Center for Research in Security Prices (CRSP). The closing price of the day before the SEO is obtained from CRSP. Those SEOs without price data at CRSP were eliminated. We excluded SEOs of American Depositary Receipts (ADRs), enhanced income securities, stocks with warrants, income depositary shares, unit SEOs, and foreign companies.

This paper provides statistical evidence about the negative relationship between offer price and SEO underpricing.

Data for our control variables is retrieved from the Securities and Exchange Commission (SEC) filings at the Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) database. Following the same methodology of prior research, we use the daily volume as a reference to correct possible errors in the offer date. We apply this methodology when the trading volume is twice the average trading volume of the previous 250 days.

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEO Underpricing</td>
<td>2.96%</td>
<td>2.77%</td>
<td>2.81%</td>
<td>3.04%</td>
<td>3.22%</td>
<td>3.38%</td>
<td>6.86%</td>
<td>6.69%</td>
<td>5.03%</td>
</tr>
<tr>
<td># of SEOs</td>
<td>160</td>
<td>226</td>
<td>177</td>
<td>237</td>
<td>210</td>
<td>65</td>
<td>270</td>
<td>352</td>
<td>143</td>
</tr>
<tr>
<td>Std. Dev.</td>
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<td>0.039</td>
<td>0.043</td>
<td>0.041</td>
<td>0.045</td>
<td>0.058</td>
<td>0.064</td>
<td>0.080</td>
<td>0.073</td>
</tr>
</tbody>
</table>

Exhibit 1: SEO Underpricing per Year, Descriptive Statistics
Exhibit 1 shows the average SEO underpricing per year. The average was increasing slightly between 2003 and 2008, but jumped to more than 6% after 2008. This record level of SEO underpricing has never been recorded before and constitutes evidence that the financial crisis of 2008 had a significant impact in the underwriting activity of securities firms. Exhibit 2 shows the results of T-tests to verify if the level of underpricing is statistically different from zero for the full sample and several sub-samples. Another important result is that there are not significant differences between the underpricing levels of consecutive SEOs.

Exhibit 3 provides summary statistics about our dependent and independent variables. The average level of SEO underpricing is 4.42%, which ranges between -10.26 and 33.18%. The average dollar amount raised in the SEOs is $182 million. The mean offer price was about $20 and the average ratio of shares offered was 18.78%.

Exhibit 4 shows the independent sample tests of two independent variables per exchange. The offer price was not included since statistical differences exist due to differences in the listing requirements. The only significant result is the average dollar amount raised in the SEO. Those firms that offer their shares in NASDAQ raised an average of $88.25 million, which is statistically different from the average of $293.7 million in those firms that listed their shares in other exchanges. There are no significant differences in the percentage of shares offered when comparing NASDAQ with other stock exchanges.
3. Empirical Results

Exhibit 5 shows the independent sample tests of the level of SEO underpricing before and after the 2008 financial crisis. The average SEO underpricing before the 2008 financial crisis is 2.96%. This average is statistically different from the average underpricing after the 2008 crisis, which is 6.2%. These results are significant at 0.1% level of significance for both the parametric and non-parametric tests.

Exhibit 6 shows the independent sample tests of the level of SEO underpricing for SEOs listed on NASDAQ versus those listed in NYSE and AMEX. The average underpricing for firms listed in NASDAQ is 5.54%. This average is statistically different from the average underpricing in those firms listed in NYSE/AMEX which is 3.16%. These results are significant at a 0.1% significance level for both the parametric and non-parametric tests. These results are higher than those of Kim and Shin (2001) who find an average SEO underpricing of 2.21 to 4.35% from 1983 to 1998 for firms listed in NASDAQ. These results are also similar to those of Loderer, Sheehan, and Kadlec (1991) who find SEOs listed in NASDAQ more severely underpriced than those listed in NYSE and AMEX.
We ranked our sample based on the SEO offer price from lowest to highest. Then we compare the average SEO underpricing of the upper quintile versus that of the lower quintile, the upper quartile versus the lower quartile, and the first half of low-priced SEOs against the second half with high-priced offerings.

Exhibit 7 shows the independent sample tests of the average SEO underpricing for each group. The average level of underpricing of the first half of our sample with low offer prices is 6.45% while the second half with high offer prices has an average underpricing of 2.40%. Similarly, the average underpricing above and below the upper and lower quartiles are 8.60% versus 2.03%, and the upper and lower quintiles are 9.20% versus 1.94%.

All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests. These results clearly suggest a positive relationship between the level of SEO underpricing and the offer price. This positive relationship is significant because the group (half, quartile, or quintile) with the lowest offer price exhibits the highest level of SEO underpricing, and the opposite is also true regarding the group with the highest offer price.
In order to discard the possibility that the results above are driven by the stock exchange in which the offering takes place, we repeat the same analysis, splitting our sample into two groups: firms listed in NASDAQ versus firms listed in other exchanges (NYSE and AMEX). We ranked each group based on the SEO offer price from lowest to highest. For each new group we compare the average SEO underpricing of the upper quintile versus that of the lower quintile.

**Exhibit 8: Independent Sample Tests of SEO Underpricing per Offer Price in NASDAQ**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Levene’s Test</th>
<th>t-test for Equality of Means (Sig. 2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1st vs. 5th quintile (N: 196 vs. 196)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quintile</td>
<td>10.68%</td>
<td>F = 248.748 (0.000)***</td>
<td>Equal variances not assumed <strong>t = 10.74 (0.000)</strong>*</td>
</tr>
<tr>
<td>5th Quintile</td>
<td>2.47%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-parametric test (Mann-Whitney Test): Z-value = -8.0614 (0.000)</strong>***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1st vs. 4th quartile (N: 245 vs. 245)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quartile</td>
<td>10.34%</td>
<td>F = 266.268 (0.000)***</td>
<td>Equal variances not assumed <strong>t = 11.76 (0.000)</strong>*</td>
</tr>
<tr>
<td>4th Quartile</td>
<td>2.57%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-parametric test (Mann-Whitney Test): Z-value = -9.10355 (0.000)</strong>****</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1st half vs. 2nd half (N: 490 vs. 490)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Half</td>
<td>7.98%</td>
<td>F = 281.929 (0.000)***</td>
<td>Equal variances not assumed <strong>t = 12.23 (0.000)</strong>*</td>
</tr>
<tr>
<td>2nd Half</td>
<td>3.10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-parametric test (Mann-Whitney Test): Z-value = -10.5235 (0.000)</strong>****</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Notes: The p-values are shown in parentheses. *, **, ***, and **** denote statistical significance at the 10%, 5%, 1%, and 0.1% significance levels, respectively.*

Exhibit 8 shows the independent sample tests of the average SEO underpricing of firms traded in NASDAQ. The average level of underpricing of the first half of this group (low offer prices) is 7.98%, while the second half (high offer prices) has an average underpricing of 3.10%. Similarly, the average level of SEO underpricing above and below the upper and lower quartiles are 10.34% versus 2.57%, and the upper and lower quintiles are 10.68% versus 2.47%. All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests. These results suggest a positive relationship between the level of SEO underpricing and the offer price for firms listed in NASDAQ.

**Exhibit 9: Independent Sample Tests of SEO Underpricing per Offer Price in NYSE/AMEX.**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Levene’s Test</th>
<th>t-test for Equality of Means (Sig. 2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1st vs. 5th quintile (N: 171 vs. 171)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quintile</td>
<td>6.56%</td>
<td>F = 95.22217 (0.000)****</td>
<td>Equal variances not assumed <strong>t = 8.043 (0.000)</strong>**</td>
</tr>
<tr>
<td>5th Quintile</td>
<td>1.72%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-parametric test (Mann-Whitney Test): Z-value = -7.882 (0.000)</strong>****</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1st vs. 4th quartile (N: 214 vs. 215)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quartile</td>
<td>5.89%</td>
<td>F = 113.324 (0.000)****</td>
<td>Equal variances not assumed <strong>t = 8.067 (0.000)</strong>**</td>
</tr>
<tr>
<td>4th Quartile</td>
<td>1.72%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-parametric test (Mann-Whitney Test): Z-value = -7.7788 (0.000)</strong>****</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1st half vs. 2nd half (N: 429 vs. 430)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Half</td>
<td>4.35%</td>
<td>F = 110.5069 (0.000)****</td>
<td>Equal variances not assumed <strong>t = 7.597 (0.000)</strong>**</td>
</tr>
<tr>
<td>2nd Half</td>
<td>1.96%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-parametric test (Mann-Whitney Test): Z-value = -7.3526 (0.000)</strong>****</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Notes: The p-values are shown in parentheses. *, **, ***, and **** denote statistical significance at the 10%, 5%, 1%, and 0.1% significance levels, respectively.*
Exhibit 9 shows the independent sample tests of the average SEO underpricing of firms traded in NYSE and AMEX. The average level of underpricing of the first half of this group (low offer prices) is 4.35% while the second half (high offer prices) has an average underpricing of 1.96%. Similarly, the average level of SEO underpricing above and below the upper and lower quartiles are 5.89% versus 1.72%, and the upper and lower quintiles are 6.56% versus 1.72%.

All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests. These results suggest a positive relationship between the level of SEO underpricing and the offer price for firms traded in NYSE and AMEX.

In order to discard the possibility that the results above are driven by penny stocks, we repeat the same analysis splitting our sample into two groups: firms with an offer price below the median ($16.5) and firms with an offer price above the median. We ranked each group based on the SEO offer price from lowest to highest. For each new group we compare the average SEO underpricing of the upper quintile versus the lower quintile, the upper quartile versus the lower quartile, and the first half with low offer prices against the second half with high offer prices.

Exhibit 10 shows the independent sample tests of the average SEO underpricing of firms with an offer price less than or equal to $16.5 (median). The average level of underpricing of the first half of this group (low offer prices) is 8.60% while the second half (high offer prices) has an average underpricing level of 4.30%. Similarly, the average level of SEO underpricing above and below the upper and lower quartiles are 10.34% versus 3.6%, and the upper and lower quintiles are 10.33% versus 3.63%. All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests. These results confirm a positive relationship between the level of SEO underpricing and the offer price for firms priced at less than or equal to $16.5 (median).

**Exhibit 10: Independent Sample Tests of SEO Underpricing per Offer Price for Firms with Offer Price Below the Median ($16.5)**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Mean</th>
<th>Levene’s Test</th>
<th>t-test for Equality of Means (Sig. 2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st vs. 5th quintile (N: 184 vs. 184)</td>
<td>1st Quintile 10.33%</td>
<td>F = 213.797 (0.000)***</td>
<td>Equal variances not assumed t = 7.626 (0.000)***</td>
</tr>
<tr>
<td></td>
<td>5th Quintile 3.63%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Non-parametric test (Mann-Whitney Test): Z-value = -5.386 (0.000)***

| 1st vs. 4th quartile (N: 203 vs. 230) | 1st Quartile 10.34% | F = 230.055 (0.000)*** | Equal variances not assumed t = 9.082 (0.000)*** |
|                                     | 4th Quartile 3.60% |          |                                             |

Non-parametric test (Mann-Whitney Test): Z-value = (0.000)***

| 1st half vs. 2nd half (N: 460 vs. 460) | 1st Half 8.60% | F = 201.288 (0.000)*** | Equal variances not assumed t = 9.226 (0.000)*** |
|                                     | 2nd Half 4.30% |          |                                             |

Non-parametric test (Mann-Whitney Test): Z-value = -7.7378 (0.000)***

Notes: The p-values are shown in parentheses. *, **, ***، and **** denote statistical significance at the 10%, 5%, 1%, and 0.1% significance levels, respectively.
Exhibit 11 shows the independent sample tests of the average SEO underpricing of firms with an offer price greater than $16.5 (median). The average level of underpricing of the first half of this group (low offer prices) is 2.76%, while the second half (high offer prices) has an average underpricing of 2.03%. Similarly, the average level of SEO underpricing above and below the upper and lower quartiles are 2.94% versus 1.90%, and the upper and lower quintiles are 3.28% versus 1.88%. All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests. These results confirm a positive relationship between the level of SEO underpricing and the offer price for firms with an offer price greater than $16.5 (median).
Exhibit 13: Independent Sample Tests of SEO Underpricing per Offer Price for Offerings After 2008

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Levene’s Test</th>
<th>t-test for Equality of Means (Sig. 2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st vs. 5th quintile (N: 153 vs. 153)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quintile</td>
<td>10.24%</td>
<td>F = 277.603***</td>
<td>Equal variances not assumed t = 6.91***</td>
</tr>
<tr>
<td>5th Quintile</td>
<td>3.52%</td>
<td>(0.000)***</td>
<td>(0.000)***</td>
</tr>
<tr>
<td>Non-parametric test (Mann-Whitney Test): Z-value = -4.5113 (0.000)***</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| 1st vs. 4th quartile (N: 191 vs. 192) |       |               |                                             |
| 1st Quartile | 10.46% | F = 272.536*** | Equal variances not assumed t = 8.30*** |
| 4th Quartile | 3.60%  | (0.000)***     | (0.000)***                                 |
| Non-parametric test (Mann-Whitney Test): Z-value = -6.1999 (0.000)*** |

| 1st half vs. 2nd half (N: 382 vs. 382) |       |               |                                             |
| 1st Half | 8.59%  | F = 223.66*** | Equal variances not assumed t = 8.397*** |
| 2nd Half | 4.30%  | (0.000)***     | (0.000)***                                 |
| Non-parametric test (Mann-Whitney Test): Z-value = -6.888 (0.000)*** |

Notes: The p-values are shown in parentheses. *, **, ***, and **** denote statistical significance at the 10%, 5%, 1%, and 0.1% significance levels, respectively.

In order to discard the possibility that the results above are driven by the impact of the financial crisis of 2008, we repeat the same analysis splitting our sample into two groups: SEOs issued during or before 2008 and SEOs issued after 2008. We ranked each group based on the SEO offer price from lowest to highest. For each new group we compare the average SEO underpricing of the upper quintile versus the lower quintile, the upper quartile versus the lower quartile, and the first half with low offer prices against the second half with high offer prices.

Exhibit 12 shows the independent sample tests of the average underpricing of SEOs that took place during or before 2008. The average underpricing of the first half of this group (low offer prices) is 4.21%, while the second half (high offer prices) has an average underpricing of 1.76%. Similarly, the average level of SEO underpricing above and below the upper and lower quartiles are 5.71% versus 1.51%, and the upper and lower quintiles are 6.11% versus 1.53%. All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests. These results confirm a positive relationship between the level of SEO underpricing and the offer price for offerings that took place during or before 2008.

Exhibit 13 shows the independent sample tests of the average underpricing of SEOs that took place after 2008. The average level of underpricing of the first half of this group (low offer prices) is 8.59%, while the second half (high offer prices) has an average underpricing of 4.3%. Similarly, the average level of SEO underpricing above and below the upper and lower quartiles are 10.46% versus 3.6%, and the upper and lower quintiles are 10.24% versus 3.52%. All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests. These results confirm a positive relationship between the level of SEO underpricing and the offer price for offerings that took place after 2008.
The level of SEO underpricing has a significant and negative relationship with the offer price (Price): the higher the offer price, the lower the level of SEO underpricing.
Mola and Loughran (2004). The size of the SEO measured by the natural logarithm of the offering proceeds \((\text{Ln}(\text{Proc}))\) has a negative and significant relationship with the level of SEO underpricing. The relative SEO size \((\text{Supply})\) is not significant at conventional levels of confidence. This result is consistent with those of Kim and Shin (2001), who find no significant relationship between relative offer size and SEO underpricing.

The dummy variable to control for the effect of the financial crisis of 2008 \((\text{Crisis})\) has a positive and significant relationship with the level of SEO underpricing. This last result confirms those of Exhibit 1 and 5 that show a significant increase in the level of SEO underpricing after 2008. The volatility of the stock price \((\text{SD})\) has a positive significant relationship with the level of SEO underpricing. This result is consistent with those reported in prior research (see Bowen, Chen, and Cheng, 2007). Finally, the underwriter reputation \((\text{UR})\) has a negative relationship with the level of SEO underpricing, which is consistent with the findings of Mola and Loughran (2004).

The second model tests those SEOs issued after 2008. The results are the same as those using our full sample, except that the size of the SEO \((\text{Ln}(\text{Proc}))\) and the underwriter reputation \((\text{UR})\) have no significant impact on the level of SEO underpricing.

The third model tests those SEOs issued before 2009, and the results are the same as those of our full sample. The fourth model tests those SEOs listed in NASDAQ, only, and the results are identical to those using our full sample. Finally, the fifth and last model tests those SEOs listed in NYSE and AMEX. In this last model the only significant results are the offer price \((\text{Price})\) and the dummy variable to control for the effect of the financial crisis of 2008 \((\text{Crisis})\).

We also test whether the control variables of our panel study have explanatory power on the probability of underpricing a SEO. We test five logistic (probit) regression models. The results provide evidence that the probability of SEO underpricing is negatively related with the offer price \((\text{Price})\): the higher the offer price, the lower the probability of SEO underpricing. Also, the results suggest that underpricing is more likely to happen among firms listed in NASDAQ, among SEOs issued after the financial crisis of 2008, and in SEOs with high levels of stock price volatility \((\text{SD})\). These control variables are statistically significant at conventional levels of confidence. The second model tests those SEOs issued after 2008.

The results show that after 2008 no control variable has explanatory power on the probability of SEO underpricing, except for the ratio of total shares offered to total share outstanding after the offering \((\text{Supply})\). This result suggests that the higher the proportion of shares offered, the higher the probability of underpricing the SEO. The third model tests those SEOs issued before 2009, and the results are the same as those obtained using the full sample.
The fourth model tests those SEOs listed in NASDAQ, only, and the results are the same as those obtained using our full sample, except for the offer price \((\text{Price}_i)\) that has no significant influence in the probability of SEO underpricing.

Finally, the fifth and last model tests those SEOs listed in NYSE and AMEX. The results are the same as those using our full sample, except for the underwriter reputation \((\text{UR}_i)\) that has a significant negative impact on the probability of SEO underpricing.

Exhibit 15: Probit Regression Model of the Probability of SEO Underpricing

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.071746 (0.0927)</td>
<td>0.390292 (0.341593)</td>
<td>1.336847 (1.250939)</td>
<td>1.825944 (1.531487)</td>
<td>-0.77762 (-0.753515)</td>
</tr>
<tr>
<td>\text{Ln(Proc)}_i</td>
<td>0.046852 (1.0405)</td>
<td>0.070639 (1.0054)</td>
<td>-0.029163 (-0.487756)</td>
<td>-0.036394 (-0.523423)</td>
<td>0.097605 (1.56414)</td>
</tr>
<tr>
<td>\text{Price}_i</td>
<td>-0.01445 (-3.52)**</td>
<td>-0.009156 (-1.03206)</td>
<td>-0.013789 (-2.880)**</td>
<td>-0.008738 (-1.630483)</td>
<td>-0.016406 (-2.544334)**</td>
</tr>
<tr>
<td>\text{NASDAQ}_i</td>
<td>0.373825 (3.65)***</td>
<td>-0.02477 (-0.145)</td>
<td>0.528651 (4.105)***</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>\text{Supply}_i</td>
<td>-0.01951 (-0.267)</td>
<td>1.768224 (2.0396)**</td>
<td>-0.05111 (-0.74721)</td>
<td>-0.053825 (-0.7759)</td>
<td>1.058972 (1.310676)</td>
</tr>
<tr>
<td>\text{Crisis}_i</td>
<td>0.677991 (6.44)***</td>
<td>-</td>
<td>-</td>
<td>0.36052 (2.531)**</td>
<td>0.964792 (6.303)***</td>
</tr>
<tr>
<td>\text{SD}_i</td>
<td>0.10248 (3.51)***</td>
<td>0.080611 (1.4077)</td>
<td>0.098717 (2.797)***</td>
<td>0.070305 (1.7951)*</td>
<td>0.11254 (2.5678)**</td>
</tr>
<tr>
<td>\text{UR}_i</td>
<td>-0.01647 (-0.84)</td>
<td>-0.041007 (-1.315796)</td>
<td>-0.007379 (-0.278711)</td>
<td>0.012634 (0.527711)</td>
<td>-0.059316 (-1.807)*</td>
</tr>
<tr>
<td>McFadden R²</td>
<td>0.101468</td>
<td>0.030786</td>
<td>0.069205</td>
<td>0.028366</td>
<td>0.148823</td>
</tr>
<tr>
<td>LR statistic</td>
<td>101.1398</td>
<td>8.162754</td>
<td>46.31862</td>
<td>11.83655</td>
<td>82.64819</td>
</tr>
<tr>
<td>N</td>
<td>1407</td>
<td>691</td>
<td>716</td>
<td>775</td>
<td>632</td>
</tr>
<tr>
<td>No. Underpricing</td>
<td>160</td>
<td>33</td>
<td>127</td>
<td>59</td>
<td>101</td>
</tr>
</tbody>
</table>

Notes: The Z-statistics are shown in parentheses. *, **, ***, and **** denote statistical significance at 10%, 5%, 1%, and 0.1% significance levels, respectively. Model 1 includes shelf registrations while model 2 excludes them. We found no multicollinearity problems with Allison’s (1999) methodology by estimating the equivalent linear regression model and evaluating the tolerance and the variance inflation factor for each independent variable. The standard error was estimated by using the generalized linear model method. The Z-statistics are estimated using the quasi-maximum likelihood (Huber/White) method.

4. Interpretations and implications

The results above provide statistical evidence that SEO underpricing is a phenomenon driven primarily by the offer price. There is a negative and significant relationship between the offer price of an SEO and its probability and magnitude of underpricing. The lower the offer price, the higher the level of SEO underpricing. The control variables also confirm this negative relationship. The higher level of SEO underpricing for firms listed in NASDAQ versus that of firms listed in NYSE and AMEX also suggest this relationship. Firms listed in NASDAQ have an average offer price lower than those
listed in NYSE and AMEX, and this might explain the difference in SEO underpricing. Exhibit 16 provides evidence that the average offer price of firms listed in NASDAQ is ($16.77) significantly lower than that of firms listed in NYSE and AMEX ($24.22).

**Exhibit 16: Independent Sample Tests of Average SEO Offer Price per Exchange**

<table>
<thead>
<tr>
<th>Exchange</th>
<th>Mean</th>
<th>Levene’s Test</th>
<th>t-test for Equality of Means (Sig. 2-tailed)</th>
</tr>
</thead>
</table>
| NASDAQ            | $16.77 | F = 16.664   | Equal variances not assumed  
| (981 vs. 859)     | (0.000)*** | t = -7.45   | (0.000)**** |
| Others            | $24.22 |               |                                             |

*Notes: The p-values are shown in parentheses. *, **, *** and **** denote statistical significance at the 10%, 5%, 1%, and 0.1% significance levels, respectively.

Similarly, the significant difference in SEO underpricing between issues offered before and after the financial crisis of 2008 is also driven by offer prices. The negative impact of the financial crisis on the stock market is well known. In 2008, the Standard and Poor’s 500 stock index, a broad barometer of the stock market, fell 37.2%. Not surprisingly, the average offer price of SEOs issued after 2008 was lower than the average for SEOs issued during or before that year. Correspondingly, the average SEO underpricing peaked in year 2009 and continued at high levels in 2010 and 2011. The chart below shows the average level of underpricing per year for firms listed in NASDAQ and those listed in NYSE and AMEX. The pattern is similar for both sub-samples.

![Level of Underpricing per Year and Exchange](chart)

Similarly, the size of the issue measured by the natural logarithm of the offering’s proceeds is also related with the offer price. Large issues usually have relatively high offer prices, and penny stocks commonly need to sell millions of shares to raise modest amounts of capital. The negative relationship between the natural logarithm of the proceeds and the level of underpricing also reinforce this notion that SEO underpricing is driven primarily by the offer price.

Large issues usually have relatively high offer prices, and penny stocks commonly need to sell millions of shares to raise modest amounts of capital.
To test this interpretation, we ranked our sample based on the SEO offer price from lowest to highest. Then, we compared the average SEO proceeds of the upper quintile versus that of the lower quintile, the upper quartile versus the lower quartile, and the first half of low-priced SEOs against the second half with high-priced offerings. Exhibit 17 shows the independent sample tests of the average SEO proceeds for each group. The average dollar proceeds of SEOs with low offer prices have associated lower proceeds than SEOs with high offer prices. All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests.

Exhibit 17: Independent Sample Tests of SEO Proceeds per Offer Price.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Levene’s Test</th>
<th>t-test for Equality of Means (Sig, 2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st vs. 5th quintile (N: 369 vs. 365)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quintile</td>
<td>$42.8M</td>
<td>F = 125.74 (0.000)***</td>
<td>Equal variances not assumed</td>
</tr>
<tr>
<td>5th Quintile</td>
<td>$373M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-parametric test (Mann-Whitney Test): Z-value = -16.2 (0.000)***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st vs. 4th quartile (N: 461 vs. 461)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Quartile</td>
<td>$49M</td>
<td>F = 139.95 (0.000)***</td>
<td>Equal variances not assumed</td>
</tr>
<tr>
<td>4th Quartile</td>
<td>$342M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-parametric test (Mann-Whitney Test): Z-value = -17.54 (0.000)***</td>
<td></td>
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<tr>
<td>1st half vs. 2nd half (N: 904 vs. 869)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st Half</td>
<td>$82.7M</td>
<td>F = 95.037 (0.000)***</td>
<td>Equal variances not assumed</td>
</tr>
<tr>
<td>2nd Half</td>
<td>$286M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-parametric test (Mann-Whitney Test): Z-value = -19.85 (0.000)***</td>
<td></td>
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</tbody>
</table>

Notes: The p-values are shown in parentheses. *, **, *** and **** denote statistical significance at the 10%, 5%, 1%, and 0.1% significance levels, respectively.

Correspondingly, the underwriter reputation measured by the adjusted Carter-Manaster rankings is also related with the SEO’s offer price. SEO of small companies and penny stocks are rarely underwritten by prestigious investment banks. In the same way, underwriters with high reputations will prefer to underwrite large offerings to maximize the underwriting fees. The negative relationship between the underwriter reputation and the level of underpricing also reinforces this notion that SEO underpricing is driven primarily by the offer price.

To test this interpretation, we ranked our sample based on the SEO offer price from lowest to highest. Then, we compared the average underwriter reputation of the upper quintile versus that of the lower quintile, the upper quartile versus the lower quartile, and the first half of low-priced SEOs against the second half with high-priced offerings. Exhibit 18 shows the independent sample tests of the average underwriter reputation for each group. The average underwriter reputation of SEOs with low offer prices is lower than that of SEOs with high offer prices. All these results are statistically significant at conventional levels of confidence for both the parametric and non-parametric tests.

Corwing (2003) suggests that the rounded offer prices suggested by Lee et. al (1996) results from the inaccurate nature of the SEO pricing process. She argues that offer
price rounding implies a negative relationship between SEO underpricing and offer price since the rounded portion of the price represents a larger fraction of a lower price. She provides evidence that SEOs of low-priced securities are more underpriced than offers of high-priced securities. If price is a critical factor in SEO underpricing, additional analyses based on offer price would contribute to validating the most accepted hypothesis about SEO underpricing.

Exhibit 18: Independent Sample Tests of Underwriter Reputation per Offer Price

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Levene’s Test</th>
<th>t-test for Equality of Means (Sig. 2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st vs. 5th quintile (N: 369 vs. 365)</td>
<td></td>
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</tr>
<tr>
<td>1st Quintile</td>
<td>4.08</td>
<td>F = 136.72</td>
<td>Equal variances not assumed t = -15.45</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.000)****</td>
<td>(0.000)****</td>
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<tr>
<td>5th Quintile</td>
<td>7.54</td>
<td></td>
<td></td>
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<tr>
<td>Non-parametric test (Mann-Whitney Test): Z-value = -13.87 (0.000)****</td>
<td></td>
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<tr>
<td>1st vs. 4th quartile (N: 461 vs. 461)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1st Quartile</td>
<td>4.48</td>
<td>F = 192.44</td>
<td>Equal variances not assumed t = -14.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.000)****</td>
<td>(0.000)****</td>
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<tr>
<td>4th Quartile</td>
<td>7.51</td>
<td></td>
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<tr>
<td>Non-parametric test (Mann-Whitney Test): Z-value = -13.73 (0.000)****</td>
<td></td>
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<tr>
<td>1st half vs. 2nd half (N: 920 vs. 920)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1st Half</td>
<td>5.7</td>
<td>F = 225.01</td>
<td>Equal variances not assumed t = -12.06</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.000)****</td>
<td>(0.000)****</td>
</tr>
<tr>
<td>2nd Half</td>
<td>7.38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-parametric test (Mann-Whitney Test): Z-value = -11.5 (0.000)****</td>
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Notes: The p-values are shown in parentheses. *, **, ***, and **** denote statistical significance at the 10%, 5%, 1%, and 0.1% significance levels, respectively.

5. Conclusions

The most significant contribution of this article is the statistical evidence about the negative relationship between the offer price and the level of SEO underpricing. This relationship might result from conventional underwriter pricing practice. We report record levels of SEO underpricing never recorded before, particularly in the year 2009 when 270 SEOs had an average underpricing of 6.86%. We find that the level of SEO underpricing has dramatically increased since the 2008 financial crisis. We also provide statistical evidence that the probability of SEO underpricing is negatively related with the offer price. Also, our results suggest that underpricing is more likely to happen among firms listed in NASDAQ, among SEOs issued after the financial crisis of 2008, and in SEOs with high levels of stock price volatility.
References


or consultative approaches, and still others call for transformational leadership – and so on. One of the most intriguing leadership approaches receiving a great deal of current attention regarding implementation effectiveness and its fit within contingency theory involves the servant leadership concept.

The term “servant leadership” was coined by Robert K. Greenleaf in his 1970 essay “The Servant as a Leader.” Greenleaf spent his forty year career at AT&T working in the fields of management, research, development, and education. When describing servant leadership in his essay, he states, “The servant-leader is servant first… It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead. That person is sharply different from one who is leader first…” According to Greenleaf servant leaders intend to help followers “grow healthier, wiser, freer, more autonomous, and more likely themselves to become servants” (Greenleaf, 1977:13-14).

Let’s look at one example of a servant leadership approach. Suppose a CEO is faced with the difficult situation of necessary cutbacks and/or layoffs in tough economic times. An autocratic leader might issue a directive to all personnel explaining that a decision has been made to reduce operations and staffing levels by 10%, and that implementation would be immediate. The CEO may assume that employees would
understand and accept this course of action based on his/her formal authority to implement such decisions and well-established corporate objectives of maximizing shareholder return, profitability, and efficiency.

A servant leader, on the other hand, might address the tough economic times and the need for change by communicating a compelling vision of how the firm will look and feel after the challenge has been addressed, attempting to build community by stressing that everyone is in this together, including the CEO, stating that the yet-to-be-determined courses of action will be true to the well-established corporate values of shareholder return, profitability, and loyalty to employees, and might solicit suggestions from departments and/or individual workers. Each approach may produce desired results, but significant differences may be realized in terms of implementation time, total expense, organizational morale, employee motivation, and ability to retain/attract key organizational skills.

This article will review some basic leadership concepts; explore the servant leadership style through its treatment in the literature over the past few decades, including discussion of many characteristics, attributes, and behaviors of servant leaders; and, through review of the ideas of several best-selling leadership authors, attempt to identify the most important attitudes that fit well with the servant leadership approach. If one possesses or can willingly adopt these attitudes, servant leadership may be an effective style to influence others toward achieving organizational goals.

**Leadership: Skills, Behaviors, and Attitudes**

Leadership is not comprised of a single characteristic or trait. It is not, as some may incorrectly assume, the hard-to-define attribute of “charisma.” Rather, leadership consists of a large set of well-recognized skills, behaviors, and attitudes. Skills and behaviors can be learned, then honed through practice. A few, among many, commonly recognized leadership skills and behaviors include establishing credibility or trustworthiness, managing time productively, being proactive, empowering others to act, and networking (Boone and Peborde, 2008).

Servant leaders...recognize the empowerment of their people as an important goal.

Attitudes, on the other hand, are determinants of behavior. They are linked commonly with personality, perception, feelings, and motivation. An attitude is a mental state of readiness learned and organized through experience. Exerting specific influence on a person’s response to other people, objects, and situations, attitudes provide the emotional basis of one’s interpersonal relations and identification with others. Therefore, attitudes relate directly to one’s comfort and willingness to apply specific leadership styles. As previously stated, the major purpose of this article is to identify and examine five important attitudes that fit well with the servant leadership approach. If one possesses or can willingly adopt these attitudes, servant leadership may be an effective style to influence others toward achieving organizational goals.

Specific applications of many leadership styles, including servant leadership, can be quite challenging to identify and differentiate. Before introducing the attitudes compatible to servant leadership, typical characteristics and attributes of this style will be identified through a review of their treatment in the literature. This should aid the reader’s understanding of what servant leadership looks like, sounds like, and feels like.

**Review of the Literature**

Kent M. Keith, CEO of the Greenleaf Center for Servant Leadership, addresses the basis of
servant leadership: “It means that ‘servant’ is a fundamental, essential, continuing characteristic of a servant-leader. If we are going to be servant-leaders, we need to start by being servants. That must be our true nature. That must be who we really are” (Keith, 2010). The main motivating factor for servant leaders is to serve first, and this is what distinguishes it from other forms of leadership. The leader’s attitude is that “I am the leader, therefore I serve” rather than “I am the leader, therefore I lead” (Sendjaya and Sarros, 2002).

Transforming from conventional leader to servant leader is not a simple task. It requires a conscious effort to change one’s way of thinking, acting, and reacting. According to Autry (2001), it is important to realize that servant leadership is not a spiritual concept, but a way of “Being.” The five most important ways of Being are to be authentic, vulnerable, accepting, present, and useful - making it easier for leaders to develop an attitude of service.

A vital prerequisite to servant leadership is credibility, which is the foundation of leadership. People must believe in their leaders and know that they are worthy of trust. To build credibility leaders must be honest, forward-looking, inspiring, and competent (Kouzes and Posner, 2007). Leaders who put their organization and people before themselves and don’t lead from the top are true servant leaders. They listen, have empathy, help people heal, know the value of learning, possess foresight, are persuasive and flexible, lead with a vision, work hard to gain trust, are passionate about helping their people progress and reach their potential, and work hard to build a community within their organization (Burrell and Grizzell, 2010). These skills, behaviors, and attitudes set leaders apart as servants who recognize the empowerment of their people as an important goal.

As a servant leader one does not force people to follow but walks among them and moves in a direction that can unite all in a common vision.

When Greenleaf first introduced the servant leadership concept, religious groups readily identified with the approach, recognizing the core principles of service and community development as scriptural values as well as recognizing, of course, that Jesus served as the best example of servant leadership. Many non-religious not-for-profit organizations also embraced the servant leadership style due to its emphasis on service and the development of purposeful, passionate communities within organizational ranks. Many business leaders, though, found it challenging, even puzzling, to develop the skills and, most importantly, the attitudes of servant leadership. However, as numerous scholars began writing about servant leadership, and as leaders slowly explored the advantages of serving their employees rather than directing them, this new leadership style began to permeate mainstream management techniques even within the business arena (Kelly, 2010).

Servant leaders have a vision for the future. They communicate the desired direction of the organization with regard to its mission, values, and beliefs. Servant leaders break down this vision into small attainable goals that accumulate to their inspiring “big picture,” maintaining the progress of people and the organization at its core (Vinod and Sudhakar, 2011).

The servant leadership style has been compared to other leadership approaches such as charismatic and transformational leadership as well as leader-member exchange, but what differentiates servant leadership is the moral objective of serving others (Mayer et al.,
2008; Barbuto and Wheeler, 2006; Graham, 1991). Discussing the effectiveness of servant leadership, Smith et al. (2004) argue that a servant leadership style is better suited for a more static business environment that has a stable external context, not for dynamic fast paced environments. However, Searle and Barbuto (2011) propose that the adoption of servant leadership adds to the ethical, moral behavior in any organization in any environment as it supports positive behavior on both micro- and macro-levels.

An early criticism of the servant leadership concept as a philosophical theory involved sparse empirical research to advocate its effectiveness in an organizational setting. Servant leadership “lacks sufficient scientific evidence to justify its widespread acceptance at this point in time” (Russell and Stone, 2002). Since then a number of models have been developed to test the effectiveness of servant leadership. Barbuto and Wheeler (2006) developed and validated a scale for measuring servant leadership behavior identifying five dimensions: 1) altruistic calling; 2) emotional healing; 3) wisdom; 4) persuasive mapping; and 5) organizational stewardship. Their results indicated servant leadership can produce increases in subordinates’ organizational commitment, community citizenship behavior, and in-role performance.

Liden et al. (2008) developed a multi-dimensional measure of servant leadership by identifying nine dimensions:

1. Emotional healing - the act of showing sensitivity to others' personal concerns;
2. Creating value for the community - a conscious, genuine concern for helping the community;
3. Conceptual skills - possessing the knowledge of the organization and tasks at hand so as to be in a position to effectively support and assist others, especially immediate followers;
4. Empowering - encouraging and facilitating others, especially immediate followers, in identifying and solving problems, as well as determining when and how to complete work tasks;
5. Helping subordinates grow and succeed - demonstrating genuine concern for others' career growth and development by providing support and mentoring;
6. Putting subordinates first - using actions and words to make it clear to others (especially immediate followers) that satisfying their work needs is a priority. (Supervisors who practice this principle will often break from their own work to assist subordinates with problems they are facing with their assigned duties);
7. Behaving ethically - interacting openly, fairly and honestly with others;
8. Relationships - the act of making a genuine effort to know, understand, and support others in the organization, with an emphasis on building long-term relationships with immediate followers; and
9. Servanthood - a way of being marked by one's self-categorization and desire to be characterized by others as someone who serves others first, even when self-sacrifice is required.

Additional empirical work on servant leadership has been carried out (Russell and Stone, 2002; Neubert, Kacmar, Carlson, Chonko, and Roberts, 2008; Sendjaya et al., 2008). Additionally, it is interesting to note that when describing his level-5 leadership concept and the qualities of a “Good to Great” leader, Collins (2001) observes, “Self-efficacy, quiet, reserved, even shy – these leaders are a paradoxical blend of personal humility and professional will.” These level-5 leader qualities relate well to those of a servant leader.

It is evident that effective organizational leadership is enhanced by developing a clear understanding and thorough adoption of
service qualities. When compared to other leadership styles, servant leadership can be seen to involve similar skills and behaviors. However, servant leadership requires a particular set of attitudes towards one’s colleagues. The leader sees him/herself not at the top of the pyramid, but in a position within the pyramid. As a servant leader one does not force people to follow but walks among them and moves in a direction that can unite all in a common vision. A servant leader listens and comprehends, refraining from the constant issuance of orders.

Servant leadership is not just a management style but also a set of attitudes that need to be developed by leaders who choose to adopt it. There is a certain frame of mind that must exist for a leader to act as a servant and be successful at managing the organization and people who depend upon him/her. From vast practice and abundant research it is evident that effective leaders must master a very wide set of skills, behaviors, and attitudes. The encouraging news is that leadership skills, behaviors, and attitudes are learnable and adoptable (Maxwell, 2007; Drucker, 2006; Kouzes and Posner, 2002).

The purpose of this paper then is to identify and explore five important attitudes that an individual needs to adopt in order to become an effective servant leader:
1) visioning isn’t everything, but it’s the beginning of everything;
2) listening is hard work requiring a major investment of personal time and effort – and it is worth every ounce of energy expended;
3) my job involves being a talent scout and committing to my staff’s success;
4) it is good to give away my power; and
5) I am a community builder.

Attitude #1:
“Visioning isn’t everything, but it’s the beginning of everything.”
David McAllister-Wilson, 2004:56

Kelly writes that both Robert Greenleaf and Steven Covey (1998) recognize that the goal of servant leadership is to institutionalize the virtue of serving others first, not serving oneself. This can only be accomplished, Greenleaf and Covey contend, “if the leader ‘leads’ with a compelling vision, sets clear behavioral expectations, and serves as an authentic practitioner of the values proclaimed” (2010:10). First and foremost, servant leaders lead through their vision, their mental picture and oral description of what tomorrow will be like. Their vision gives focus to human energy. It expresses high ideals and values. A servant leader’s vision inspires both the leader and his/her followers to act and to accomplish (Kouzes and Posner, 2002).

Visions incorporate hopes, dreams, and aspirations. They are ambitious and optimistic. “Vision isn’t everything, but it’s the beginning of everything” (McAllister-Wilson, 2004:56). Visions are sometimes leaps of faith. McAllister-Wilson describes visions as “necessarily hyperbolic, unrealistic, and irresponsible. They express goals that have a rainbow quality” (2004:58). To practice visioning effectively one must learn to aim high and allow for wind and elevation.

A vision is a good story. Among many valuable suggestions for developing a leader’s teachable point of view, Tichy (1997) proposes that a leader must be capable of communicating three kinds of stories to his/her constituents:

1) “Who I Am” stories that relate one’s own personal values and experiences in order to reveal oneself to followers and earn their trust;
2) “Who We Are” stories that provide a sense of group identity, either through common
experiences or mission; and

3) a “Future Story” that describes where the group is going, why the group must (or must not) change, and how they will get there. A “Future Story” is a vision, an organizational story that hasn’t happened yet.

Where do visions come from? Often they emanate from followers themselves. Kouzes and Posner (2004) write that leaders know what inspires their constituents because they spend time listening to constituents’ needs and desires. (See Attitude #2 – Listening.) Leaders listen deeply with their ears, eyes, and hearts, not just to followers’ words but to their emotions. They know how to enlist others in a common vision by appealing to shared aspirations that can be shaped into a unified purpose. Effective servant leaders apply what they hear from constituents to formulate an appealing vision that demonstrates how individual’s personal needs can be met while serving the common good of the organization and/or the constituents served by the organization.

Leaders know what inspires their constituents because they spend time listening to constituents’ needs and desires.

Through listening and assimilation, leaders identify their followers’ common themes (also concerns, desires, and dreams), then serve as the unifying force for their organizations by expressing these themes as a vision for a better tomorrow. They develop the vision, the “big picture,” through effective listening. “Like a carpenter working with a fine piece of wood, there is a grain to every group, and an effective leader reads the grain” (McAllister-Wilson, 2004:63). Of course, leaders also must be motivated personally by the vision. Therefore, they may infuse the “big picture” with their own personal desires to which they can commit and from which they can derive personal pride.

A vision then may meld the best of what constituents desire and what the servant leader wants to achieve. Consider this vivid image: As spokespersons for their organizations, “leaders hold up a mirror and reflect back to their constituents what they most desire” (Kouzes and Posner, 2004:18). In this way servant leaders know that the secret to winning the support of numerous followers is to lead them (at least in part) where they already want to go. The servant leader assimilates the collective vision, then empowers constituents to achieve it.

Visions are often described as fulfilling the role of the North Star. They provide a constant bearing as leader and followers are buffeted by the day-to-day challenges of achieving something new. Not only do visions energize but they help leaders and followers stay focused on their desired direction.

Visions can also serve as very useful recruiting tools. A well-communicated vision will aid in attracting those who share the values and aspirations expressed in the vision. Attracted followers are strong “fits” for the community the servant leader is seeking to build (see Attitude #5 – Community Building). Conversely, those who do not share the vision’s expressed values and aspirations will realize that this is not the purpose that will help them fulfill their personal passion – and in the long run, decisions not to join a team can be just as important as decisions to join.

Without doubt, visioning requires courage. It involves communicating an ennobling picture of a better tomorrow without necessarily knowing how the vision will be achieved. Servant leaders rely on themselves and their team members to supply the strategies and talents, as well as accumulate the resources necessary for achieving the vision. Leaving ample opportunities for others to contribute creates an environment for empowerment, and that is a vital element of servant leadership.
But it also creates risk. What if we cannot identify effective strategies, raise sufficient resources, and the like? We may fail! Imagine leaping off a cliff while counting on others to construct a safe landing pad while you are falling. That’s how many people interpret visioning.

The possibility of failure prevents many would-be leaders from establishing an energizing vision with organizational reach. Servant leaders take the risk. However, they don’t see themselves as falling off a cliff. Rather they see themselves building a team to enact a promising future that will better serve the common good.

Consider what many managers (not leaders) frequently do. They carefully plan a future that is incrementally better than today. They devise prudently a series of sequential steps that will lead to their future. Before they begin, they know what they will do, where they will attain the resources, and how success will be achieved. In other words, they play it safe, avoiding much chance of failure. In many instances this may be effective management, but it is not leadership. Servant leaders possess courage: they risk failure, they provide leadership that will take followers to places they have never been before (Kouzes and Posner, 2004).

That is not to say that servant leaders take wild chances when they establish visions. In his book The 21 Irrefutable Laws of Leadership (2007), Maxwell introduces his Law of Navigation. In Maxwell’s law, good leaders (navigators) assess potential costs before making commitments. Not only do they investigate measurable costs such as finances, talent, and resources, but they also examine intangibles such as timing, momentum, organizational culture, and the like. They gather information from many sources, listening to members of their own management team, other people in their organization, and leaders from other organizations. Maxwell goes on to say that one who navigates for others must have a positive attitude. “You’ve got to have faith that you can take your people all the way. If you can’t confidently make the trip in your mind, you’re not going to be able to take it in real life.” (2007:41)

The first step on a servant leader’s success journey involves expressing a vision that will unify, energize, attract, and guide followers to what everyone can recognize will be a better tomorrow. The vision itself can be a single word, a slogan, a paragraph, or a page. Passion matters, not length. An effective servant leader realizes that “visioning isn’t everything, but it’s the beginning of everything.” Servant leadership starts by expressing how you and your followers will serve others in a meaningful way.

**Attitude #2:**
*Listening is hard work requiring a major investment of personal time and effort – and it is worth every ounce of energy expended.*

Maxwell offers another irrefutable law of leadership: the Law of Addition. He observes that we add value to others when we know and relate to what others value. How do we know what others value? We listen. “Inexperienced leaders are quick to lead before knowing anything about the people they intend to lead. But mature leaders listen, learn, and then lead” (2007:55).

By asking questions and giving others the opportunity to relate their “Who I Am” and “Who We Are” stories as well as attending to the emotions accompanying these stories, servant leaders can identify their followers’ dreams and aspirations. Listening allows the servant leader to sense the purpose in others, enhancing the leader’s ability to implement Attitude #1 and incorporate their followers’ hopes and desires into a compelling vision that gives voice to followers’ feelings. Kouzes
and Posner state, “Leaders find the common thread that weaves the fabric of human needs into a colorful tapestry. They develop a deep understanding of collective yearnings; they seek out the brewing consensus among those they would lead” (2002:149-150).

Servant leaders are present – that is, available to their constituents. They “walk the shop,” engaging in informal conversations in order to know and be known by followers. Servant leaders ask open-ended questions about work-related and personal issues to draw out constituents’ opinions and attitudes. As mentioned previously, they listen deeply with their ears, eyes, and hearts (Kouzes and Posner, 2002) to glean the emotional content of their followers’ conversations so they can align the organization’s vision with the professional and personal goals of constituents.

Of course, when the number of followers is too large to permit informal conversations with all, attitude and/or opinion surveys can be utilized as supplemental listening mechanisms. They can help canvass large numbers of followers efficiently and effectively – and help the servant leader perceive changes in dreams and desires over time.

Effective servant leaders are willing to adhere to the 2:1 ratio of questions to commands often suggested by trainers during listening skill development sessions. That is, when auditing their personal behaviors, it is apparent that servant leaders ask two questions for every direct order or instruction they deliver to their followers.

Perhaps the most significant direct effects of listening involve: 1) building trust between the servant leader and followers, and 2) increasing the self-esteem of followers. When a leader listens intently to followers’ ideas he/she demonstrates respect for their opinions, helping to develop a bond of trust. And trust is a foundation block of the leader-follower relationship. Also, when a leader listens, followers conclude their ideas are important, helping to raise their self-esteem and its related outcomes such as higher job satisfaction, productivity, and organizational commitment. More directly, listening can inform servant leaders of their followers’ experiences and lead to adapting such experiences to enhance organizational innovation.

Servant leaders maintain a very strong commitment to listening. They share the understanding that listening is very hard work which demands a considerable investment of their personal time and cognitive effort, and they share the attitude that the numerous positive outcomes of listening to one’s followers are worth every ounce of energy expended.

**Attitude #3:**
*My job involves being a talent scout and committing to my staff’s success.*

Often people do not see in themselves what someone else sees in them. Effective servant leaders share a common attitude that “everyone is great at something” and it is their responsibility to help followers realize how they can apply whatever special talent(s) they can offer toward achievement of the organization’s vision. This can be a powerful approach to human resource development. Followers’ organizational contributions are not limited by their formal organizational role or by their specific job description but are enabled by their special talent to take the organization toward its vision via a new, perhaps unplanned, direction. Servant leaders see themselves as talent scouts. They believe that everyone has a unique contribution to offer, and it is their job to recognize it (even if the follower does not), and direct it toward vision achievement.

The support of a servant leader can make a difference in the careers and lives of their followers. Servant leaders let followers know they will be working with them to help them grow. “Over time, as you’re overseeing (your)
task, I will watch you and call character and competency issues into the conversation. At the same time, I will encourage you, and I promise you I will do everything to develop you. If I sense there is something in you I can’t develop, I will find other people who can and I will bring them into play in your life. I will make sure that your gift is fanned into flame so it becomes strong and vibrant and serves others well” (Ortberg, 2004:95). Followers, in turn, come to believe in their leaders and trust their intentions to help them develop skills that will lead to improvements in their organizational positions as well as their contributions to the organization’s vision.

Strong leaders stand apart because they assess the abilities of others and assist them in capturing the best of those abilities. “Exemplary leaders can, figuratively speaking, bring others to life. These leaders significantly improve others’ performance quite dramatically because they care deeply for their constituents and have an abiding faith in their capacities. Constituents are able to respond positively to these expectations not only because they have the abilities; they also respond because leaders are more nurturing, supporting, and encouraging toward people whom they believe” (Kouzes and Posner, 2007:282-283).

Of course, scouting and facilitating followers’ talents has a payoff for the organization’s long term success as well. Maxwell offers his Law of Reproduction: “It takes a leader to raise up a leader.” Focusing on the growth of others and helping them develop their skills is what helps develop the next generation of organizational leaders. “It takes one to know one, show one, and grow one” (Maxwell, 1998:141). According to Ortberg (2004), some of the most powerful words a leader can offer to a follower are, “I am committed to your success.”

In Gung Ho! Blanchard and Bowles (1997) point to the animal kingdom to demonstrate the power of encouragement through their Gift of the Goose concept. As wild geese fly thousands of miles annually, they cheer each other every step of the way by honking encouragement to one another. “A leader who cheers those around him, offering specific praise for things done right, is a leader who will win the hearts of others and see great things accomplished” (Blanchard, 2004:115).

“… mature leaders listen, learn, and then lead.”

Greenleaf purports that servant leaders are motivated by the intention of serving others and are committed to develop their followers. When leaders work toward building character and competence among their followers, they add to their own credibility as well as the credibility of their team members (Kouzes and Posner, 2007). By directing followers’ special talents toward accomplishing the organization’s vision, servant leaders create a collaborative and effective team environment by utilizing everyone’s strengths.

An important prerequisite to developing followers’ talents is trust. Liden (2008) points out that the servant leadership style contributes to trust building with employees, customers, and communities. Ortberg (2004:89) concludes, “We have to learn to put the same trust in other people that we put in ourselves and then release them to do the work … Trust is the foundational element of any good leader, and it has to be earned. You have to lay a foundation of trust before people can individually do their best.” Leaders can earn trust by working hard to recognize each follower’s special talent, helping them see how it can be applied toward achieving the vision, and committing to the success of each follower. When this is accomplished, the leader’s credibility increases, each follower’s contribution grows, and the organization thrives.
Attitude #4: 
*It is good to give away my power.*

Many people are motivated to attain positions of leadership because they seek the legitimate authority associated with a leader’s position. They conclude that formal authority within their organization will allow them to issue commands, implement their ideas, allocate resources and rewards, and, generally, make things happen. Servant leaders, however, are motivated by their desire to serve others and view leadership as the best way to achieve this service objective. It is a paradox of servant leadership that those probably least motivated by the legitimate power base frequently find themselves building more referent and goodwill power as they give away their power to their constituents through delegation, empowerment, and the practice of subsidiarity.

“Leaders accept and act on the paradox of power: you become more powerful when you give your own power away. Long before empowerment was written into the popular vocabulary, exemplary leaders understood how important it was that their constituents felt strong, capable, and efficacious. Constituents who feel weak, incompetent, and insignificant consistently underperform, they want to flee the organization, and they’re ripe for disenchantment, even revolution” (Kouzes and Posner, 2007:251).

Maxwell (1998) underscores this attitude through his Law of Empowerment, stating, “Only secure leaders give power to others.” He explains that leaders who give power away to others make themselves indispensable by making themselves dispensable. By giving their followers power, leaders are empowering followers to reach their potential. Maxwell goes on to state, “When a leader can’t or won’t empower others, he creates barriers within the organization that people cannot overcome. If the barriers remain long enough, then the people give up, or they move to another organization where they can maximize their potential.” For servant leaders, giving away power contributes to their goal of facilitating others in growing to their maximum potential.

*some of the most powerful words a leader can offer to a follower are, “I am committed to your success.”*

Good leaders give away power by applying the organizing principle of subsidiarity. They believe that matters ought to be decided and dispatched by the smallest, lowest, or least centralized competent authority and that higher level leaders should maintain a subsidiary function, performing only those tasks which cannot be performed effectively at the local level. Therefore, servant leaders tend to pass along as much decision-making authority and control as possible to the organizational level closest to those whose needs are being served.

“Creating a climate in which people are fully engaged and feel in control of their own lives is at the heart of strengthening others. People must have the latitude to make decisions based on what they believe should be done. They must work in an environment that both develops their abilities to perform a task or complete an assignment and builds a sense of self-confidence. They must hold themselves personally accountable for results as well as feel ownership for their achievements” (Kouzes and Posner, 2007:250). Giving away power to followers may be challenging for many leaders, but a true servant leader doesn’t lead from the top and does not hesitate to give power away to his or her followers.

Leaders who give their power away do not blindly agree with the decisions and opinions of their followers. Giving power away does not mean letting the inmates run the prison (Blanchard, 2004), which is an often-encountered misrepresentation of servant leadership. Rather, it is about accepting the
views of others and giving them the ability to practice power. A servant leader applies the law of acceptance which, as described by Autry (2001:17), “does not imply that you (the leader) accept everyone’s ideas without critical analysis, discussion and judgment – only that you accept ideas as valid for discussion and review, and that you focus on the ideas themselves, not on the person who presented them.” Giving followers the opportunity to express their ideas makes them feel like they are in control and have a say in organizational decisions, bolstering job satisfaction as well as team and organizational success.

Servant leaders fulfill the roles of coaches and facilitators by moving from “in control to giving control away” (Kouzes and Posner, 2007:251). A servant leader walks with his/her followers and helps them realize their true potential. Fulfilling the coach’s role, the servant leader learns to trust each follower with the work that they are doing. Leaders are willing to delegate their authority while maintaining their organizational responsibility, standing on the sidelines helping followers achieve their best results. “A wise leader strengthens people by giving power away. Leaders place constituents, not themselves, at the center. Leaders use their power in service of others, not in service of themselves” (Ortberg, 2004:90).

...create a collaborative and effective team environment by utilizing everyone’s strengths.

Referring to servant leaders’ desire to serve others’ interest and not their own, Blanchard warns that power holders have to learn to be servant leaders and not self-serving leaders. Humility is the key to a servant leader’s heart and approach. Servant leaders “don’t think less of themselves, they just think of themselves less” (2004:105).

Related closely to their practice of humility, servant leaders adopt the attitude that they need not be right all the time. They know and act on the concept that other people have good ideas, too. Further, servant leaders demonstrate their humility by admitting their mistakes. In a work environment characterized by trust, leaders and followers are open to feedback, admit their mistakes, and work together to pursue continuous service improvements (Ortberg, 2004). By including others in decision-making and creative endeavors, by knowing they need not be right all the time, and by admitting mistakes when appropriate, servant leaders build trust with followers, facilitate followers’ effectiveness, and enhance their own influence over the long term. In other words, they grow stronger by giving away their power.

Attitude #5: I am a community builder.

Servant leaders recognize that their success derives from the attitude that they are leading an organizational effort to develop a productive community. They strive to build a community centered around members’ shared values and vision and through their collaborative decision-making and action-taking. Kouzes and Posner discuss this concept in terms of the leader-constituent relationship: “Leadership is a relationship between those who aspire to lead and those who choose to follow. It’s the quality of this relationship that matters most when we are engaged in getting extraordinary things done. A leader-constituent relationship that’s characterized by fear and distrust will never, ever produce anything of lasting value. A relationship characterized by mutual respect and confidence will overcome the greatest adversities and leave a legacy of significance” (2007:24). Drucker points out that organizations are built on trust, and trust develops from effective relationships between executives and followers. “Taking responsibility for relationships is an absolute necessity. It is a duty” (2005:108).
To build community successfully, it is imperative to select the right people. For a servant leader it is vital to know who to retain or recruit, extricate, and develop. Collins explains that “Good to Great” leaders “… first got the right people on the bus, the wrong people off the bus and the right people in the right seats” (2001:13). Strong communities are built around people who share the values of the organization, are passionate about and motivated by the vision, and whose strengths match the organization’s execution needs (or who can be trained to develop such skills through additional organizational investment).

Drucker discusses the importance of looking for people’s strengths. Developing the attitude to ask “What can a man do?” instead of “What can he not do?” helps a leader to see strengths clearly and direct those strengths toward the common vision. “In every area of effectiveness within an organization, one feeds the opportunities and starves the problems. Nowhere is this more important than in respect to people. The effective executive looks upon people including himself as an opportunity ... The task of an executive is not to change human beings. Rather, as the Bible tells us in the parable of the Talents, the task is to multiply performance capacity of the whole by putting to use whatever strength, whatever health, whatever aspiration there is in individuals” (Drucker, 2006:98-99).

Servant leaders’ stoke the fire of community through the common appeal of vision. “Leaders help people see that what they are doing is bigger than themselves, even, than the business. It’s something noble. It’s something that lifts their morale and motivational levels. When people go to bed at night they can sleep a little easier knowing that others are able to live a better life because of what they did that day” (Kouzes and Posner, 2007:135-136).

Organizational effectiveness depends on the strength of the community that the leader

Servant leaders “don’t think less of themselves, they just think of themselves less” builds by choosing the right people for the right job. This relationship is addressed by Maxwell’s Law of the Inner Circle: “The potential of the leader – along with the potential of the whole organization – is determined by those closest to him” (1998:112). Building a community within an organization creates a cohesive network that is able to achieve success in any situation. Maxwell explains that the leader must bring together people with five qualities when including them into the inner circle: 1) potential value – those who raise up themselves; 2) positive value – those who raise morale in the organization; 3) personal value – those who raise up the leader; 4) production value – those who raise others; and 5) proven value – those who raise up people who raise up other people (1998:115-116).

Additionally, community building is supported by hosting and/or addressing organizational gatherings and taking time to celebrate successes. Gatherings, of course, may include a variety of functions such as formal meetings, annual events, milestone achievements, holiday celebrations, and the like. “Community may not be the stuff of ordinary organizations, but it is the stuff of great ones, ones with strong cultures. The best leaders know that every gathering is a chance to renew commitment. They never let pass an opportunity to make sure that everyone knows why they’re all there and how they’re going to act in service of that purpose” (Kouzes and Posner, 2007:311). Through the inevitable daily encounter of problems and distractions servant leaders keep members focused on shared values and vision by affirming publicly what unifies the community.

As mentioned previously, servant leaders know part of their job is to “walk the shop.” They make themselves visible where work is
being done, where clients’ needs are being served. They pay attention to be sure they observe followers doing the right things and doing things right, and they compliment workers on their successes, encouraging their hearts through verbal recognition to keep working toward the vision. Also, servant leaders take care to recognize both individual contributions and team achievements through rewards, awards, gifts, and “thank-you’s” of many types. Presenting a plaque, naming an employee-of-the-month, or honoring a retiree are opportunities to tell the stories of workers’ successes and to reinforce the community’s shared values and vision (Kouzes and Posner, 2002).

Communities require building and tending. Servant leaders are aware of their vital role in bringing together the right people who are energized to achieve great things through shared values and vision. They know also that without a leader’s reinforcement, organizational values diffuse and visions blur. Therefore, servant leaders recognize the role of gatherings and celebrations in maintaining community.

Conclusion
The servant leadership style has received increasing attention in recent years and can be a powerful approach for leaders. However, to implement this style genuinely and effectively, leaders should be sure that they either possess or can readily adopt certain attitudes that meld with successful application of servant leadership. Chief among these attitudes are those discussed in this paper:

1) visioning isn’t everything, but it’s the beginning of everything;
2) listening is hard work requiring a major investment of personal time and effort – and it is worth every ounce of energy expended;
3) my job involves being a talent scout and committing to my staff’s success;
4) it is good to give away my power; and
5) I am a community builder.

As discussed by Autry (2001), one of the natural extensions of servant leadership is strong corporate social responsibility and community service, modeled by the leader and practiced by numerous organization members. Certainly, there is some truth to the opinion, espoused by many, that a business’s only responsibility is making a profit, and that the general community is well-served by the firm’s creation of jobs, payment of taxes, and so forth. However, as expressed by Marian Wright Edelman, “Service is the rent we pay for living.”

Business organizations are part of complex economic, social, educational, healthcare, and political systems from which firms derive benefits of great value. In this context, good corporate citizenship is practiced by the effective servant leader who includes community volunteerism and involvement in his/her life as well as encourages and accommodates employees’ community volunteer efforts. In doing so, the servant leader’s organization gains a reputation for being a valuable and appreciated member of the community – and also benefits in the long run from increased skills and networks developed through such volunteer efforts.

When applying the servant leadership style, practitioners should be cognizant that visioning, listening, and community building can be quite time-consuming activities. While payoffs in effectiveness can be substantial, successful application of servant leadership may require a substantial amount of time. The servant leadership approach, like many other leadership styles, requires not only technical competence and a variety of interpersonal skills but also a great deal of patience, perseverance, and dedication.
References


Lean Production Systems: Resistance, Success and Plateauing

Khim L. Sim, College of Business and Economics, Western Washington University, WA
Khim.Sim@wwu.edu

Bea Chiang, School of Business, The College of New Jersey
bchiang@tcnj.edu

Executive Summary

Focusing on three manufacturing companies located in the eastern part of the United States, this study examines organizational issues which can enhance or impede successful lean implementation. The research sites represent three different modes of implementation, varying in the degree of resistance, success, and plateauing. Job satisfaction is found to be an important factor in connection with successful implementation of lean production. If lean production is also about engaging people in the process, there are lessons to be learned from the three research sites. For example, one company's survey results show that the longer the employees work at the company, the less content they feel about the continuous improvement program. In addition, more than half of the respondents feel that management has not and will not follow through with open issues and things that need to be resolved that result from improvements.

The most negative response was to the statement that "The company considers their employees the most important asset and will do whatever they can to keep their people." One hundred percent of the hourly employees disagreed or strongly disagreed to this statement. In another company, interview results from three randomly selected employees indicate that management has been pushing harder and does not respect the workers, leading to decline in the quality of work life.

Management support is also found to be an important factor in addressing effort-reward equity concerns. In lean manufacturing, because of work pace intensification or the claim of "lean becomes mean," effort-spent vis-a-vis rewards-received has a greater implication and often lead to resistance or failure in the implementation. Hence, additional nurturing from management is found to be useful to ease the pressure of overwork, a common syndrome often found in lean enterprises.

Finally, job security, which is at the heart of most employees' concerns, remains an issue that should be carefully dealt with. Performance improvements are not likely to be sustained over time if employees fear that by increasing productivity, they will work themselves out of their job. This in-depth study of three companies provides useful lessons for enterprise development, particularly in the area of accelerating competitive effectiveness in this global economy.

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Introduction

The future of manufacturing in the United States and other advanced industrial countries depends on the ability to achieve dramatic improvements in productivity - output per employee – while continuously improving quality to meet rising customer expectations. In other words, survival in the competitive global economy requires successful implementation of continuous improvement techniques such as lean production systems. Many have claimed that “lean” is not a buzz word; nor is it only a cost reduction technique. In fact, proponents of “lean” often regard it as one of the most important strategies for business to achieve world class performance by doing more with less (Kennedy and Brewer, 2007; Shah and Ward, 2003; Womack, Daniel and Roos, 1990; Womack and Jones, 1996).

Although some companies have achieved success in adopting the lean production system, many were not able to sustain the potential benefits from its adoption. Experts also claimed that "lean" is not easy to sustain (Schonberger, 2008; Womack, 2007). For example, some implementations were met with resistance (Rinehart, Huxley and Robertson, 1997; Bhasin and Burcher, 2006; Sim and Rogers, 2009). Other experts suggest that cultural change must precede lean implementation, i.e., Lean cannot exist in an organization where the culture is against it. In other words, change is seen as the norm and resistance to change is never an option (Atkinson, 2010; Schein, 2010). To better understand these issues, three manufacturing plants located in the eastern part of the United States were chosen as bases for our study. The primary purpose of this study is to compare organizational issues in the three plants to gain insight into the success, resistance/failure, or status of plateauing in lean implementation.

Literature Review

Although there are different definitions for lean production, it is often described as a relationship between the technical and the social organization of work. The technical system often includes items like standardized work, visual control, planned maintenance and the just-in-time inventory system. The social organization system has a direct impact on the quality of work life and typically includes screening and selection in human resource (HR) practices, quality training, suggestions, employee discretionary authority, management support and management commitment.

"lean production... is often described as a relationship between the technical and the social organization of work."

Because of its association with work life quality, and subsequently employee motivation as well as job satisfaction, anecdotal evidence indicates that the social organization system often dictates the success or the failure of the lean implementation in most organizations (Puvanasvaran, Megat, Tang and Razali, 2009; Lewchuck, Stewart and Yates, 2001). This study focuses on the cultural differences of the three research sites as well as some social organizational issues to advance our knowledge of successful implementation.

Quality of Work Life: Job Security, Effort-Reward Fairness, and Job Satisfaction

Job Security

A common accepted proposition about innovative work practices is that performance improvements are not likely to be sustained over time if employees fear that by increasing productivity, they will work themselves out of their jobs (Adler 1995; Fiume, 2007; Locke, 1995; Pfeffer, 1998). The perception of job security is important in any improvement program. The intention of introducing lean is often cited as reducing costs, improving efficiency, and increasing profitability.
The perception of job security is important in any improvement program.

This goal tends to create suspicion among employees who fear job losses and outsourcing (Sim and Rogers, 2009; Bruno and Jordon, 1999). As a result, lean is often viewed as pro-company and not pro-employee. Research studies have also shown that employees often feel a sense of insecurity and perceive lean as a 'redundancy threat' with adverse effect on morale, leading to worker unhappiness and withdrawal that ultimately cause company failure (Hines, Holweg and Rich, 2004; Bruno and Jordon, 1999; Bruno and Jordon, 2002; Sim and Rogers, 2009). For example, when Bacardi and Martini of the UK switched to a new work system, the management promised that no jobs would be lost as a result of the change process (Sung and Ashton, 2005).

**Effort-Reward Fairness**

In employee-employer exchange relationships, employees are more likely to perceive under-reward unfairness than over-reward unfairness. The perceived inequity creates unhappiness, which requires the worker to reduce this tension/stress. To diminish perceived inequity, a worker may actually alter efforts or may withdraw from the job resulting in substandard work behavior (Adams, 1965; Mowday, 1991). Because of work pace intensification or the claim of "lean becomes mean," effort-spent vis-a-vis rewards-received may have a greater implication and lead to resistance or failure in lean implementation.

**Job Satisfaction**

Much research shows that job satisfaction is a potential determinant of absenteeism, performance, turnover, and retention. For example, Hackman and Oldham (1980) show that human resource practices are often linked to job satisfaction, while Tomer (2001) reported that employees who are given greater responsibilities develop skills and competencies in their work and therefore tend to be more cooperative and creative. Research studies have also shown that greater responsibilities associated with high performance work systems such as lean production systems enable employees to experience meaningfulness in their work. In addition, the improved skills and knowledge also lead to increased job satisfaction (e.g., Berg, 1999; Godard, 2001; Havlovic, 1991).

**Management/Organizational Role in Lean Manufacturing**

Numerous studies have shown that lean manufacturing is associated with high stress (Lewchuck and Robertson, 1996, 1997; Lewchuck et al., 2001; Brenner, Fairris and Ruser, 2004). Yet, a large scale research study by Conti, Angelis, Cooper, Faragher and Gill (2006) suggests that high performance work practices such as lean manufacturing are not inherently stressful or pro-company. Findings based on the responses of 1,391 workers at twenty one sites in four UK industries suggest that workers' stress levels are significantly related to management decisions in designing and operating the lean manufacturing systems.

More succinctly, these authors assert that stressful practices do not appear to be necessary conditions for attaining the benefits of a lean system. Research studies also show that management has the ability to influence job attitude (Eisenberger, Cummings, Armeli and Lynch, 1997; Griffeth, Hom and Gaertner, 2000; Lance, 1991). Management can mitigate workers' stress with better alignment of its day-to-day operations.

Research studies also document that employees who develop skills and competencies, and have autonomy over their jobs, are cooperative, creative, and effective in their problem solving efforts (de Treville and Antonakis, 2006; Lawler, 1992; Tomer, 2001). Therefore, providing workers support, coaching and training, and
empowering them by giving them autonomy, improves the quality of work life for the employees. This research will focus on the above theories to examine plausible causes for success, resistance/failure, or plateauing in lean implementation in the three research sites which will be described in the next section.

Research Sites

Company A

Company background: Company A is a branch of a Fortune 500 Company, located in the Eastern part of the United States. Their “lean” journey began in the early part of 1990. This company manufactures goods for a commercial product line and a military product line. The commercial product line was selected to distribute a survey for this study. The survey was distributed to both salaried and hourly employees spanning three sub-units, including the Engine Center, Small Hardware Parts Center, and Compression Systems Module Center.

Research Focus: Although this company has adopted lean production philosophy for slightly over a decade, changes have been met with much resistance from the unionized hourly workforce. The authors and their research collaborator are interested in finding out why resistance exists within the workforce when the CEO is fully supportive and committed to the implementation of lean production.

Survey Respondents: Fifty employees were randomly selected from the first shift employees to participate in the survey. The fifty employees accounted for fifteen percent of the first shift workers and the response rate was one hundred percent. There were twenty-nine hourly respondents and twenty-one salary respondents. Results indicated that fifty-six percent of the respondents had a high school education, fourteen percent had associate degrees, twenty-four percent had bachelor degrees, and six percent had master degrees.

The participants represented diverse groups of working position including engine mechanics, quality inspectors, leaders, material processors, material coordinators, material resource planners, process engineers, supervisors, cell leaders and managers. All the respondents attended Continuous Improvement (hereafter, CI) training sessions and were in a position to provide support and guidance on how the CI programs were being implemented in their areas of responsibility.

Company B

Company Background: This manufacturing company is a well-respected manufacturer located in a highly unionized region of the Eastern United States. It was recently acquired by a major multinational company. The management must achieve dramatic improvement in both productivity and quality or the company will be forced to shut down and relocate to another state. The mission of saving the plant began in 2005 with a kick off of Total Employee Involvement. By 2008, the firm was on its way to become a World Class "Best Practices" Manufacturer. Some of the key metrics include: production cycles reduced from 21 to 5 days; finished goods inventory reduced by $10,000,000; order lead times for custom products reduced by 44 percent; employee grievances reduced by 42 percent, accident claims were down by 23.5 percent - with a total of $400,000 savings in Workers Compensation; reduction in greenhouse gas emissions and solid waste - with cost savings increased from $3,000,000 in 2006 to $9,300,000 in 2007.

Research Focus: Given some encouraging success during its initial implementation of lean, this company would like to see where it is in this journey: e.g., Is the company on the right track? What are some of the issues that the company needs to focus on for continuing success? Because this company believes that "lean is all about engaging people in the process," management is particularly interested
in knowing the plant employees' perception of job satisfaction, job security, and effort-reward fairness for continuing success.

**Survey Respondents:** About thirty-five percent of the randomly selected shop floor hourly union employees participated in the survey. A one-hundred percent response rate was achieved. The survey was distributed as evenly as possible to the workers across the three shifts in multiple production departments. A total of 151 surveys were received. Due to incompleteness or failing to pass some "validity check," fifteen surveys cannot be used, resulting in 136 useable responses.

*Management can mitigate workers’ stress with better alignment of its day-to-day operations.*

**Company C**

**Company Background:** The third research site has been in the market since 1961 and is recognized as an industry leader in developing and manufacturing commercial vehicle retarding systems. With more than fifty years of experience in the business, the company is known for its innovative business practices, modern manufacturing methods and a significant level of research and development investment. The company is popularly known for its diesel engine brakes and is one of the early leaders in implementing lean manufacturing in the United States.

**Research Focus:** As an early adopter of lean techniques, this company has been cited in the book *Lean Thinking*, coauthored by Womack and Jones. Unfortunately, in the past decade, the company has undergone some dramatic changes. For example, since 1998, there have been six different CEOs on board. In early 2000, the company downsized its work force, which caused resentment from workers. There is also a sentiment that "management is no longer the same as good old days." Some commented that they are not respected by the management or they were being pushed by the upper and middle management. This study examines issues affecting the shop floor employees' perception of job satisfaction, reward equity, as well as plausible causes for the diminishing morale.

**Survey Respondents:** The survey was distributed to the shop floor employees by our research collaborator. A total of nine meetings were taken to administer the questionnaires. Eighty-three surveys were received; due to some missing information, eighty-one were usable for analysis. The majority of respondents (forty-five percent) have been employed by the company fewer than five years and the rest of the respondents were about evenly distributed among groups that had different length of employment with the company (11 percent for 6-10 years; 16 percent for 11-20 years; 14 percent for 21-30 years and 12 percent for 30 years and more). The majority of the survey participants had a high school diploma (80 percent). The rest had either an associate or a bachelor degree. Finally, three employees were randomly selected to further clarify findings obtained in the survey.

**Methodology**

A different survey was designed for each different company. The surveys were administered at different times during the three year period. Each survey contained four demographic questions such as tenure with the organization, level of education, employee status (hourly or salaried), and gender. The descriptive data of the respondents are summarized in Table 1.
Table 1. Summary of Survey Respondents’ Demographic Information

<table>
<thead>
<tr>
<th></th>
<th>Company A (Lean Practices &gt; 10 yrs)</th>
<th>Company B (Lean Practices &lt; 5 yrs)</th>
<th>Company C (A Matured Lean manufacturer)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaried or Hourly</td>
<td>Salaried: 42%; Hourly: 58%</td>
<td>Hourly paid</td>
<td>Hourly paid</td>
</tr>
<tr>
<td>Sample size</td>
<td>50 respondents (15% of first shift employees)</td>
<td>151 respondents (136 are usable)</td>
<td>83 respondents (81 are usable)</td>
</tr>
<tr>
<td>Education</td>
<td>High School: 56% Associate: 14% Bachelor: 24% Master: 6%</td>
<td>High School: 77.9% Associate: 16.2% Bachelor: 3.7% Master: 0.7%</td>
<td>High School: 79.5% Associate: 16.9% Bachelor: 3.7% Master: 0%</td>
</tr>
<tr>
<td>Years of Service</td>
<td>0-5 years (18.0%), 6-10 years (2.0%), 11-20 years (6.0%), 21-30 years (38.0%), &gt;30 years (36.0%)</td>
<td>0-5 years (34.6%), 6-10 years (24.3%), 11-20 years (21.3%), 21-30 years (1.5%), &gt;30 years (16.9%)</td>
<td>0-5 years (45.4%), 6-10 years (11.3%), 11-20 years (16.0%), 21-30 years (14.7%), &gt;30 years (11.7%)</td>
</tr>
<tr>
<td>Response Rate(^2)</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Survey Focus</td>
<td>Plausible causes for the resistance to the lean implementation.</td>
<td>Job satisfaction, job security, effort-reward fairness, and other factors affecting lean success.</td>
<td>Work environment, job satisfaction and effort-reward fairness.</td>
</tr>
</tbody>
</table>

The surveys were designed to match the requirements or the constraints of each of the three companies. Survey length was limited because all surveys were administered during work or break time. As much as possible, we tried to keep a consistent theme across the three companies. The following table summarizes the variables observed and examined, which are indicated by a check mark. Detailed information related to the survey is appended in Appendices A1, A2 and A3 for Company A, B and C, respectively. Respondents were asked the extent to which they agree or disagree with statements of construct that describes quality of work life on a 1-5 or 1-7 point scale. If a measured construct comes from an existing scale, the source of the construct was also identified in the appendix.

if “lean becomes mean,” additional nurturing from management may ease the pressure of overwork...
Table 2. Variables Observed and Examined

<table>
<thead>
<tr>
<th>Variables</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Security</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Coaching &amp; Communication</td>
<td>√</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Continuous Improvement</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Continuous Improvement Tools*</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Management Support/Leadership &amp; Support</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Job Satisfaction</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Effort-reward Equity</td>
<td></td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Autonomy/Empowerment</td>
<td></td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>

* Continuous Improvement is a key component for programs such as total quality management, ISO certification, or lean manufacturing.

Results and Discussion

Statistical results are reported in Appendices A1, A2 and A3 for Company A, B and C, respectively.

Findings for Company A

For Company A, the survey results show that the longer the employees have worked for the company, the less content they feel about the continuous improvement program. Workers also do not necessarily believe they are adequately being rewarded if they support Continuous Improvement by utilizing tools such as Lean Manufacturing (CI-Tool 3). For the most part, they feel that Continuous Improvement efforts do not always bring in new jobs through improvement of processes and quality of products (CI-Tool 4). The survey results also indicate that the company fails in the area of “Leadership and Support.”

For example, the respondents believe that managers are not committed to the continuous improvement program and many feel that the management runs around at the last minute to meet the deadline (Leadership and Support 3). In addition, more than half of the respondents feel that management has not and will not follow through with open issues and action items that surfaced from improvement events (Leadership and Support 4). All these indications add to the overall perception of a lack of leadership commitment throughout the organization.

Coaching and communications within Company A is yet another area of concern. For example, the respondents feel that there is a lack of effective communication throughout various levels of management (C&C 1) and that employees’ ideas or suggestions for improvement were often not valued (C&C 2). Finally, the company has not convinced the workers that their job will be better or more secure if they help support the implementation of the new programs (Job Security 1 and Job Security 2). Employees also feel that the expertise of veteran workers is underutilized for training purposes when new hires replace an aging and retiring workforce (Job Security 3).

Overall, the most negative response was to the statement that “The company considers their employees the most important asset and will do whatever they can to keep their people” (Job Security 4). One hundred percent of the hourly employees disagreed or strongly disagreed with this statement. Again, these are veteran union members, the majority of whom have worked at this company for more than twenty years. During their employment with Company A, they have experienced many changes, both positive and negative. For example, they have seen many layoffs and strikes; they have also seen good programs being set up – but ending with no results.

Findings for Company B

Unlike Company A, “years worked in the
company" does not seem to be a significant factor affecting Company B workers' perceptions about lean manufacturing. This company has gone through a management buyout and the employees as a whole are motivated to save the plant from moving to another location. Descriptive statistics for Company B are reported in Appendix B2. Job Satisfaction with a mean score of 3.83 (with 5 being the highest) indicated that the workers are generally happy. On the other hand, autonomy and job security have mean score of 2.95 and 2.93, respectively, suggesting that management may need to gain more understanding about plausible reasons for the lower ratings.

Detailed results show that offering support, giving autonomy to workers, and providing training to employees, are related to perceiving more job security, job satisfaction, or less effort-reward inequity. In addition, male workers reported a lower "reward equity" than their female co-workers. The results support the theory that employees often internalize well-being associated with intrinsic motivation, which may enhance job satisfaction, job security, and reward equity.

Findings for Company C

Descriptive statistics (Appendix B3) show that three areas have low ratings: 'coaching & communication' (2.62 out of max of 5), 'management support' (2.61 out of max of 5) and 'effort-reward equity' (3.14 out of max of 7, with 4 being neutral). These results imply that, on average, the production workers feel that top management does not provide adequate support when changes are needed. Top management also lags behind in providing training related to new production strategies. Likewise the respondents also feel that coaching and communication within the organization are not properly executed. As a result, best practices achieved by some units are not shared to benefit the others.

Finally, most workers believe they have to work much harder now. On the other hand, these workers rate job satisfaction fairly well, with an average rating of 4.2 (7 being the highest rating). To confirm these findings, our collaborator interviewed three randomly selected employees. The results of the interviews are shown in Appendix C. Results of the interviews are consistent across the three employees and reaffirm the survey findings discussed above. Perhaps the comments related to training, Kaizen or communication meetings deserve some attention. Kaizen, the Japanese word for ‘improvement,’ is a system of continuous improvement. It refers to working practices that strive to keep improving efficiency, performance and productivity. None of the three employees had attended any Kaizen meeting in the last five years.

Results of regression analyses indicate that Continuous Improvement (CI) tools are related to job satisfaction. In addition, tenure is positively related to higher job satisfaction. An alternative regression was conducted by using a single item job satisfaction ("I like my job very much") as a dependent variable. Results of this regression show that Coaching & Communication, CI tools, and Top Management Support are positively related to job satisfaction. Likewise, CI tools and Top Management Support are positively related to higher 'effort-reward equity.'

Finally, male workers reported a lower 'effort-reward equity' than their female co-workers. This final result is consistent with that of Company B. Typically, the workers are paid at a higher rate in most lean practices (see, Graham, 1995; Milkman, 1997). Thus, it is plausible that the female workers, being "non-bread winners" in most situations, are more contented with their pay compared to their male co-workers.

Lean is often viewed as pro-company and not pro-employee.
Discussion

Focusing on three manufacturing plants located in the eastern part of the United States, we hope to understand organizational issues which can enhance or impede successful lean implementation. These research sites represent three different modes of implementation, varying in the degree of resistance, success, and plateauing. Job satisfaction is found to be an important factor in connection with successful implementation of lean production.

More specifically, job satisfaction is positively related to coaching and communication, management support/organizational support, effort-reward equity, training development, or continuous improvement tools. In addition, management support or organizational support is found to be an important factor in addressing effort-reward equity concerns, which suggests that if "lean becomes mean," additional nurturing from management may ease the pressure of overwork, a common syndrome often found in lean enterprises. These findings can provide useful lessons for enterprise development, particularly in the area of accelerating competitive effectiveness in this global economy.

Unfortunately for Company A, lean implementation coincided with the period when the nation experienced a sharp decline in manufacturing competitiveness resulting in outsourcing of many manufacturing jobs. Thus, Company A encountered a major challenge to get the lean techniques effectively implemented in a workforce that was already resistant to change. Most employees at this research site perceived the lean system that uses fewer workers to produce more product as a negative and a long-term threat to job security.

Notwithstanding the issue of job security, Company A was also plagued with other management problems. For example, despite the enthusiasm and the support of the CEO, results from the survey indicate that there is a lack of committed leadership in following through the day-to-day operations at the research site. In addition, a majority of the employees did not feel valued even when they contributed to the continuous improvement process. Problems also existed with an aging and high seniority hourly workforce. For example, higher seniority was directly correlated with negative ratings. The "legacy" costs, which have been an ongoing problem for industries which are heavily unionized, are not unique to Company A.

Company C has enjoyed early success in its lean implementation; however, survey findings show areas of concern, or signs of diminishing morale. Results of our survey provided some plausible explanations. Certainly, the frequent change in leadership in the past decade has been damaging to some extent. For example, using identical measures, rating for 'top management support' was 2.16 as compared to 4.13 (5 being the maximum) for Company B. Similarly, rating for 'effort reward equity' was 3.14 as compared to 3.98 (7 being the maximum) for Company B. The frequent change in leadership can also be detrimental to 'Coaching & Communication'. Thus, without stable leadership, Kaizen or quality training was often not scheduled, which put Company C further behind the competitive front.

Categorizing company C in a stage of "plateauing," valid questions to ask include the following:

- What precautionary measures can or should be taken so that Company C will not be following the same path as Company A?
- In light of the survey findings from Company B, which is on the road to become a "best-practices" manufacturer, what are their approaches to changes?
- More importantly, can their experience of success be modeled? As noted earlier, Company B has enjoyed many successes including the overarching achievement of
saving the plant and preserving jobs. The principles of organizational change employed by Company B represent a creative mixture of commonsense management and technical re-engineering.

*Lean cannot exist in an organization where the culture is against it...*

Successful implementation of lean system begins with listening to people, convincing them that their concerns will be acknowledged, and asking for their help in solving operational problems. The role of leadership is listening to and empowering people. But it is also about bringing into play the latest techniques of process improvement and nurturing a culture where lean is the way to improve efficiency and effectiveness. Nevertheless, challenges lie ahead for the management to sustain this rate of improvement.

**Conclusion**

Lack of trust and resistance to change are often reasons cited for implementation failure in high performance work systems, or lean production systems. In a study of the Mitsubishi plant in Illinois, Bruno and Jordan (1999) asserted that "... in lean production facilities, workers must be able to trust not only management's intentions, but also the integrity of the workplace transformation process." Kumar (2000) asserts that although high-performance work systems, such as lean manufacturing, have a positive effect on the economic and financial performance of an organization, the lack of supportive and committed organizational environment continues to be the most important barrier to a greater diffusion of such practices.

On the other hand, Kennedy and Brewer (2007) believe that respect, empowerment and support are the three tenets of lean systems. A study by the Aberdeen Group (2006) reported that there was a large performance gap between those manufacturing firms that had applied lean practices solely on the shop floor as opposed to those that had developed a lean culture systematically throughout the organization. In another words, unless lean is embraced as a tool for continuous improvement and lean is built into the corporate culture, few companies can sustain the promises of lean practices.

For example, while the CEO in Company A is very much in support of the lean movement, the lack of commitment from its middle management coupled with its strong union presence makes it difficult for Company A to excel. Likewise, although Company C was once a leader in commercial vehicle retarding systems and an early adopter of lean practices, without stable leadership, the company will lag behind in technological training.

Organizational theorists often suggest that leadership should propel at all levels; i.e., it should not reside solely with the CEO or the senior management. Lean also cannot exist in an organization where the culture is against it (Atkinson, 2010; Schein, 2010). These are areas which Company A and C will have to overcome. On the other hand, the mantra for company B, "People are a company's greatest asset. Lean is all about PEOPLE being engaged," seems to have moved them towards the goals of "best practices" manufacturer in less than three years after the lean practices were instituted.

If lean is about engaging people in the process and applying the appropriate technical knowhow, perhaps there are lessons to be learned from these three companies. For example, it may be necessary for management with a similar situation as Company A or Company C to take one small step at a time. This can begin with embracing its workforce, listening, nurturing, caring and believing in their employees.
Setting realistic goals and communicating these expectations to the employees are the next step. For example, if the employees see that lean techniques benefit the company and that the threat to job losses is a global issue rather than company specific, they may be more receptive to positive changes in their daily work life. In this case, lean practices can be used to create the right corporate culture, which can evolve over time. In essence, lean becomes the driver of organizational change. Nevertheless, the "legacy costs" or the entitlements faced by Company A will remain a tricky issue to resolve.

Several limitations exist in this study. First, the comparison is limited to three different manufacturing sites. Due to the different research interests of these three companies, the survey questionnaires were not able to be uniformly designed and administered. Secondly, the respondents were sampled from only three companies, which do not represent all the possible scenarios that companies may face when adopting lean production. Nevertheless, the differences in culture and the approaches taken by the three companies in facing global competitiveness may provide valuable insights for new startups or lean enterprises.

It is hoped that this in-depth study of three companies provides additional support to extent literature and addresses pitfalls to avoid when implementing a new high performance work system such as a lean system. As Dick Schonberger says, "Best practices, as a whole, is about responding to the customer quickly, dependably, and well. Process improvement is not a short-term pursuit, nor a narrow one. It is never-ending" (Schonberger, 2008, p. 274).

References


Kumar, P. 2000. Rethinking High-Performance Work Systems. Ontario, Canada: Industrial Relations Centre, Queen's University.


### Appendix A

#### Appendix A1:
**Descriptive Statistics for Company A**

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#### Appendix A2:
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### Regression Results for Company B

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Adj R-sq.=.281 F=11.34 Sig=.000***
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# significant at 10%;  * significant at 5%; ** significant at 1%; *** significant at < 1%

### Appendix A3:

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Adj. R-sq.=.170 F=2.951 Sig=.007* n=77
Adj. R-sq.=.117 F=2.441 Sig=.027* n=77

# significant at 10%;  * significant at 5%; ** significant at 1%; *** significant at < 1%
Recent Developments in Cloud Computing and High Speed Connections for Business Practices

Farok Vakil, The Peter J. Tobin College of Business, St. John’s University, NY
vakila@stjohns.edu
Victor Lu, The Peter J. Tobin College of Business, St. John’s University, NY
luf@stjohns.edu
Andrew Russakoff, The Peter J. Tobin College of Business, St. John’s University, NY
russakoa@stjohns.edu

Executive Summary

Recent developments in the information technology discipline have provided new opportunities, not only for business practitioners, but also for business educators. Integrating new technological advances in business education can have an enormous benefit to business communities while at the same time making the learning process more effective. In this study we focus on the availability of “Secured High Speed Internet Everywhere with Mobile Cloud Enabled Devices” for corporate users and its implication for business educators. Business educators armed with new advances and the enormous amount of resources available can provide more dynamic activities while at the same time enhancing the quality of the delivery of materials in their perspective disciplines.

Significance of this Study

The number of Internet users has increased significantly around the world during the last 15 years. This increase has provided a tremendous opportunity for businesses and savvy Internet users everywhere to capitalize on the unlimited resources available on the Internet. Once a luxury that only few prestigious research institutions and universities could afford, the Internet has become a common household necessity these days and an integral part of our daily activities. With networks of millions of computers and the enormous amount of resources available on the Internet, it is not surprising that the Internet has managed to become a pivotal player in our daily life and activities. Although access to the Internet has provided tremendous opportunities to different businesses around the world, the new development of the ultra fast high speed Internet connection available everywhere can extend these opportunities beyond anyone’s expectations. New trends in mobile web enabled devices point to another great opportunity for business practitioners. Furthermore, integrated with Cloud Computing, these mobile devices can turn to very powerful mediums for delivery of materials covered in a particular business discipline. Focusing on the usage of cloud computing on mobile web-enabled devices in the academia is an important issue that can benefit business educators all around the world.
Introduction

During the last 15 years we have seen a huge increase in the number of Internet users. The current data reveals that as of June 2012, more than 2,406 billion individuals use the Internet worldwide [1]. Some of these users utilize the Internet for basic and simple Internet-based activities such as E-Mail retrieval, which can be achieved by using narrow-band connections such as dial up. However, the majority of the Internet users subscribe to high speed broadband connections. Consequently, we have observed an enormous thirst for a higher Internet speed around the world during the last 15 years.

Initially, only limited numbers of expensive broadband Internet connections were available. Needless to say, accessing resources available on the Internet using the high speed connections can result in increasing efficiency and productivity. Consequently, raising the Internet speed became a major priority for the Internet Services Providers (ISP) and network operators. New research has been directed toward increasing the Internet connection speed by using newer and faster connection lines.

New developments in this area resulted in offering many new services with different features. As a result, consumers now have many alternatives to choose from.[2] In particular, services such as Digital Subscriber Line (DSL), Asymmetric Digital Subscriber Line (ADSL), T1 lines, T3 lines, Cable lines, Fiber Optic lines, Satellite connections, or Fixed Wireless Access are available in many urban areas. These connections offer different speed levels, and the overall speed of each type of connection has increased significantly during the last five years. A few years ago, an Internet speed of 2 Mega bits per second (Mbps) was considered to be very fast, while currently a speed of 25 Mbps is typical for many residential Internet users.

High Speed Internet Connections

Initially, the high broadband Internet connections were only available to homes and businesses through wired connections. Generally, wired connections provide high speed and are considered relatively safe. In the United States, many ISPs are offering wired connections to homes and businesses. In a matter of few years, fierce competition among different ISPs resulted in offering higher speed with lower cost in many metropolitan areas in the U.S.A. However, wired connections lack mobility, a major drawback which causes Internet users to look for reliable alternatives.

Wireless connections are very good alternatives to wired connections. Some may argue that wireless connection is traditionally slower and inherently less secure than its wired counterparts; however, the convenience and mobility of wireless connection has made it very attractive. As a result, wireless connections have lately become available on a massive scale. Many computer users have taken advantage of the existing technology and have created the usage of cloud computing on mobile web enabled devices in academia...can benefit business educators all around the world.

New advances in this area are very promising. A recent study shows that in the near future the Internet speed can be increased to 600 Mbps to 1000 Mbps on average, not only for corporate users, but also for residential users. [3] With the emergence of these types of speed, accessing resources available on the Internet has become much faster. Furthermore, such a high Internet speed provides a huge opportunity for some Internet applications which require very high Internet speed, such as Voice over Internet, Video Conferencing, and Web Casting.[4] As a result, efficiency and productivity can be improved substantially for many Internet-based tasks.
hybrid networks at homes or workplaces which mix wired and wireless connections. By creating such a network, individual users can utilize the strength of the wired portion of such a network, while also surfing the net more efficiently. For example, the wired network part of a hybrid network can be used for activities such as financial transactions, which require a higher degree of security. On the other hand, for regular web surfing and E-mail retrieval, a wireless network can be utilized. Nowadays, it is very common that a typical network consists of wired and wireless parts. By utilizing a hybrid network, computer users can combine the advantages of the two networks.

Recent developments in broadband connections not only resulted in higher speed but also provide consumers with a substantial increase in the choice of services. Availability of these services in different areas has resulted in a highly competitive market, and a price war started among different Internet service providers. The price war among different broadband service providers has made the Broadband Internet connection more affordable over time, and consequently higher demand for high speed Internet connections emerged. Indeed, the number of broadband Internet connections that provide higher speeds has increased substantially in many countries including the U.S.A.

In many developing countries, the demand for higher Internet connections has also increased. A close look at the available data reveals the magnitude of such an increase. For example, in 2007, the U.S.A. had 66.2 million broadband users, while in 2010, the number had increased to 126.3 million [5].

Worldwide, the number of broadband subscribers had increased from 467 million in 2009 to 523 million in 2010. This increase continued and, by the middle of 2011, the number of broadband users jumped to 558 million subscribers worldwide, an increase of 12% annually [6]. Given the fact that many new web pages are based on using different multimedia applications which require high speed Internet connections for downloading, it is inevitable that a substantial increase in demand for high Internet connection will continue in the foreseeable future.

Phone Networks

Developments in phone networking enable Internet users to utilize G2 and G3 phone network connections to connect to the Internet by using their mobile phones and devices wherever the phone network is available. However, the level of speed which G2 and G3 networks offer is not capable of accommodating web surfing and downloading many of today’s web sites in a timely manner. In addition, these services were not available in many areas and, consequently, their usage was mainly restricted to urban areas. Furthermore, the security of these “old small mobile devices” was, at best, questionable.

With the introduction of G4 network at relatively low cost these days, we have seen a surge in the demand for such a connection and its devices during the last couple of years. Indeed, it is not surprising to see that many cell phone subscribers prefer to renew their contract using web-enabled Smart phones with Internet connectivity instead of regular cell phones. The data presented in Table 1 reveals the market share for different smart phone vendors in the third quarter of 2010 and 2011.
According to the (IDC) Worldwide Quarterly Mobile Phone Tracker, vendors sold 118.1 million units in the third quarter of 2011, compared to 82.8 million units in the same period in 2010. This data represents a 42.6% yearly increase in the number of units sold in the third quarter of 2011, compared to the same period in 2010.

In addition to the increase in demand for smart phones, the demand for small size web-enabled devices, such as tablets, has increased significantly as well during the last five years. Many consumers have replaced their traditional laptops with newer, fancier, smaller, and web-enabled devices such as tablets. So the level of demand for traditional laptops has been reduced, while we have seen a tremendous increase in the demand for tablets.

Apple Inc. has taken a lead in the smart phone and tablet areas by introducing several successful products such as iPhone and iPad. Indeed, Apple has been able not only to open new product lines, but to become a major player in both smart phone and tablet markets. For example, during the first quarter of 2012, Apple was able to sell more than 37 million iPhones, up by 128 percent over the first quarter of 2011 [7]. Overall, Apple has sold over 187 million iPhones since 2007 when the product was introduced.

Apple’s performance in the tablet market is also very impressive. Apple was able to sell more than 11.1 million iPad devices in just the first three quarters of 2011 [8]. This result put the company in a leading position in this market. Consequently, its performance resulted in an astonishing market share of about 65% of the tablet market [9]. By the end of the first quarter of 2012, Apple became even more prominent here, since it was able to sell over 15 million iPads in just three months. The tablet market shares reveal how prominent Apple’s role is now. Table 2 demonstrates this market share for tablets in 2010 and 2011 (Q3) Many experts expect this domination by Apple to continue in the foreseeable future. ²

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<tr>
<th>Vendor</th>
<th>2010</th>
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<tr>
<td><strong>Apple</strong></td>
<td>82%</td>
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<td><strong>Samsung</strong></td>
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<td><strong>Asus</strong></td>
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<td><strong>PC OEMs</strong></td>
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<td><strong>Others</strong></td>
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### Security Issues

Security of the Internet has been the focal point of many research papers. Historically, the name of the Internet is synonymous with sharing resources and information across different computing platforms. However, the Internet can be simply viewed as a network of millions of connected computers located in different geographical areas. Initially, it used a wired connection, and the security concerns were concentrated on several issues related to wire network connections, such
as unauthorized access, malicious codes and physical theft of hardware parts. These issues have posed many challenges to Internet users.

Many consumers have replaced their traditional laptops with newer, fancier, smaller, and web-enabled, devices such as tablets.

Adding usernames and passwords in combination for authentication was partially successful, and using different biometric measures on different computing platforms has successfully reduced this problem to a larger extent. Unfortunately, malicious codes remain as one of the main threats that Internet users are facing. Enormous amounts of resources have been devoted to deal with this issue. Although we have observed some improvements, we still are facing a tremendous challenge. Indeed, some alarming statistics reveal the magnitude of this problem. In addition, available data regarding the physical theft of small web-enabled devices indicate that this threat remains steady.

With the deployment of wireless technology, new types of threats have emerged. Wireless Internet connections rapidly replaced, and in some cases supplemented, the existing wired connections. As a result, hybrid networks that consist of wired and wireless connections were developed. However, with a tremendous increase in the wireless connection, the level of threats has increased. Internet users not only have to deal with the security challenge of wired connections, but must also deal with the enormous security challenges of wireless connections.

To mitigate the massive security challenge of wireless connections, different encryption methods have been implemented, which have been successful to some degree. However, the physical threat regarding security of data and information stored on laptops or their associated secondary storage devices remain high. Furthermore, with new developments in the area of small mobile devices and the huge increase in their popularity among corporate and savvy Internet users, we have seen an enormous amount of security challenges on one hand, coupled with an endless opportunity to increase efficiency on the other.

Secondary Storages

New developments in the area of secondary storage have made these devices capable of storing enormous amount of data. For example, a Secure Digital device (SD), with a size barely larger than a fingernail, can hold 128 Gigabytes (GB) of information, and is capable of storing more than 250,000 books (assuming a typical book has 300 pages). The Universal Serial Bus Flash Drive (USB), simply called the Flash Drive, has become very popular these days and can store even more information. Indeed, the capacity of a USB Flash Drive's memory keeps increasing. For example, the latest mass market USB Flash Drive can store up to 256 GB of information, which is the equivalent to storing over 500,000 books. These devices are extremely portable and universally compatible. Consequently, they are very popular and widely used around the world. In addition, high capacity of USB Flash Drives enable computer users to store all their required personal computer software programs on a single USB flash drive known as a PC on-a-stick which is capable of working as a safe computer system anywhere.

In order to address the security concerns of mobile devices such as SD and USB Flash Drive, a few steps can be taken. First, devices with various encryption methods can be used for storing sensitive information. Storing encrypted data can alleviate the threat of stored information falling into the wrong hands. These days, many vendors offer USB Flash Drive with encryption capabilities. Furthermore, storage devices with password-protected features can add extra security. More secure devices, which use biometric authentication,
can be used to store highly sensitive financial information.

In addition to these steps, which can help to increase security of secondary storages, Cloud Computing has emerged lately as a very attractive alternative method to save sensitive information on the go and far away from mobile devices and business sites.

**Cloud Computing:**

The availability of secure high capacity portable secondary storages have resulted in a very efficient and convenient method for saving data and business information which later can be accessed very easily. Indeed, we have observed a huge increase in the demand for smaller, more capable mobile secondary storages during the last five years. In addition to secondary storages, many savvy computer users utilize the Internet for saving their business data and financial information. This method has actually become very common for backing up data and financial information far away from actual business sites.

Yet, recent developments in computer technology offer even more attractive alternatives, such as Cloud Computing. Cloud Computing is the use of computing resources that are delivered as a service over the Internet. Initially, only online storages facilities were available over the Internet. Lately, Cloud Computing not only offers reasonably secure storage areas through the Internet, but also provides access to different business and productivity software applications [11]. Many Fortune 500 businesses have subscribed to Cloud Computing service since it offers instant access to computer technology through the Internet at a fraction of the cost of the traditional technology department.

Companies that are using Cloud Computing only pay per usage [12]. Consequently, many businesses that do not want to spend millions of dollars to hire technology personnel and run a traditional technology department end up using Cloud Computing. Many technology companies such as Amazon, Google, Microsoft, Cisco, and Apple are offering Cloud Computing capability in addition to their other services, and have benefited due to the strong demand.

The data and information stored on the “Cloud” can be easily accessed, modified, restored, and shared...

Availability of Cloud Computing storage services has enabled corporate users and computer savvy individuals to store valuable information on the go. Stored information on the Cloud can be retrieved almost instantly from anywhere by using web-enabled mobile devices. Furthermore, accessibility of different productivity software programs on the Cloud Computing has opened another avenue to increase productivity. Cloud users can utilize different productivity software programs for a certain period until their computation task is completed, and they just pay per usage. Therefore, corporations which are subscribed to Cloud computing system are able to reduce their computing cost substantially.

Lately, major companies that offer Cloud computing have made their services available to their customers who are using small mobile and smart phone devices, such as the iPad and the iPhone and other web-enabled mobile devices. It must be noted that Cloud Computing not only has decreased the associated cost of computing for the corporate and individual users but also has made the ‘Secured High Speed Internet Everywhere with Mobile Devices’ closer to reality. The data and information stored on the “Cloud” can be easily accessed, modified, restored, and shared as long as an Internet connection is available.

Application of Cloud Computing is going beyond the computer industry. Practically, any application which can be integrated with a computer can use Cloud Computing and
benefit from its resources. For example, the entertainment industry can be one of the major benefactors of Cloud Computing. Digital version of various types of entertainment mediums can become available on the Cloud. As long as high speed Internet connections exist, digital information can be delivered to different devices such as TV, Radio, etc.

Radio or TV programs stored on the Cloud can be available to customers as long as high Internet connection is available not only to corporate and residential customers, but also to mobile users. Furthermore, mobile web-enabled devices can use webcast and Cloud to stream videos to everyone with high Internet connection. Indeed, the implications of these developments are not limited just to the entertainment industry, but are available to many other sectors as well.

**Conclusion:**

During the last 15 years, not only has the number of Internet users increased tremendously, but also the speed of connection has increased substantially. In addition, the availability of small mobile secure Internet-enabled devices has made accessing high speed Internet from anywhere closer to reality. Armed with small, mobile, Cloud capable devices, corporate and savvy Internet users are able to access and easily modify information, making it available to all the Internet users around the world. Furthermore, Cloud computing and other developments in the other areas of technology have made accessing, disseminating, and storing the latest secured information possible instantly from anywhere by using online storage facilities.

These developments pose a great opportunity to business practitioners and educators in many areas of business. Business educators can utilize these new devices in their classroom activities and improve their students’ performances while exposing students to the latest advances in these mobile cloud-enabled devices.

**References**


Endnotes

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