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Unemployment and Job Creation Programs: Is there A Skills Gap?
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Service Learning at St. John’s University: An Update
Advancing the Vincentian Tradition through Strategic Service and Research
Richard Sinatra, St. John’s University, New York
James J. Maher, St. John’s University, New York


The Peter J. Tobin College of Business

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From the Editor

This issue consists of articles that mirror the concerns of today: from health delivery programs to compensation of management and remedies for unemployment; issues that show that despite the difficult economic times, new activity and innovations still do go on. In addition, two articles reflect on application of Vincentian values; one specifically illustrates the complete fusion of academic service learning with university programs that was implemented at St. John’s University.

The evolution of the Internet and ongoing development of electronic commerce and communication provide exciting opportunities for implementation of a powerful framework of resources, tools and applications that revolutionize the way in which healthcare institutions interact with their patients, as well as help to deliver and manage medical services. Internet-based healthcare utilizes the application of information and communication technologies across the whole range of healthcare functions. It covers everything from electronic prescriptions and computerized medical records to the uses of new systems and services that cut waiting times and reduce data errors. Development and implementation of web-enabled communication, patient services and other e-health initiatives are increasingly important in maintaining competitive advantage and competing for market share. The use of information and communication technologies in the healthcare system is perceived as essential also for high quality and cost-effectiveness of healthcare. Justyna Matysiewicz and Slawomir Smyczek, in “Relations between Healthcare Organizations and their Patients: Three-factors Models in the E-healthcare Market,” focus on identification and analysis of determinants responsible for comprehensive engagement of patients and medical services in a new environment.

James Finnegan and Laura Lee Mannino examine a tax case in “Law and Language: Congressional Intent Trumps Agency Construction in Concrete Case” that shows the workings of the Court as well as the importance of language. The United States Congress crafts each provision of the Code such that any reasonable taxpayer may deduce its intent. With the aid of a reputable dictionary, a pauper may derive the same meaning afforded to a Rockefeller; a newly hired employee may obtain the same understanding reached by a university president. By clearly and plainly articulating the governing language of taxation, Congress empowers taxpayers to fairly discern their equitable tax burden. This principle of legislative clarity is especially important in regards to the judicial history of tax law in the United States. In fact, it is not uncommon for seemingly complex court cases to be determined by the literal interpretation of single words or phrases. In U.S. v. Home Concrete and Supply, for example, years of legal wrangling over issues such as safe harbor disclosure requirements and the reinterpretation of provisions of the tax code were decided by a dictionary definition of the word “omit.” To better communicate the significance of statutory language, this paper examines the Supreme Court’s ruling in Home Concrete and Supply.

Thomas Hall and Fredrick Jörgensen, in “Ownership and Performance in Europe,” examine the relationship between performance and ownership concentration in a large number of publicly traded and privately held companies located in smaller European economies (Austria, Belgium, Finland, Ireland, and Ukraine) and correlate that with the level of legal protection for small shareholders.
Where minority shareholders are least protected, ownership concentration of a single blockholder is negatively related to performance; but the ownership portion of a coalition of the five largest shareholders is positively related to performance. These findings are robust to breaking down the sample by size and by one-digit SIC industry category. Implications for the literature and for future research are also included.

Concern over the magnitude of CEO compensation packages and the fairness of these packages versus their shareholder’s interests has been with us for decades. Financial scandals, whether in the integrity of the financial reports or the management of financial/credit risks, have heightened dissatisfaction with executive management. This dissatisfaction has in turn increased the pressure to rationalize the size of CEO Compensation packages. Boards of directors control the size and structure of CEO compensation packages. Timothy Gordon Coville, in “Post-Sarbanes-Oxley changes in the composition of boards: Have they impacted CEO Compensation?” examines whether the 2002 legal response to corporate financial reporting scandals, which came in the form of many new initiatives and requirements on all firms, were relevant to CEO compensation.

This question is investigated by noting that the impact of these new requirements differed between firms. Some firms had already introduced the use of independent directors and fully-independent committees prior to their being made compulsory in 2002. This article investigates whether these ‘pre-adopters’ experienced less change in their CEO compensation packages than those firms which were forced to change their board composition and committee structures.

Working capital management and, in particular, the management of cash and cash equivalents has long been a topic of interest for practitioners and scholars alike. This interest has been largely “operational” in nature, with relatively little attention paid to the strategic significance of cash management and its relationship to the creation of shareholder value. Darryl G. Waldron in “Giving Cash its Strategic Due: Shareholder Value Depends on it” examines the role of cash using a large sample of S&P 500 firms to explore the extent to which statistically significant micro value drivers may exist linking the management of cash and cash equivalents to the creation of shareholder value.

Discriminant analysis is utilized to create what is, in effect, a cash management “dashboard” that companies doing business on a global basis can use as both a compass and as an analytical platform, with both the focus and flexibility necessary to accommodate the among-industry idiosyncrasies that tend to characterize the practice of cash management.

Minorities, including Hispanics, may have difficulty finding suitable mentors. Stephen B. Knouse, in “Mentoring for Hispanics,” offers mentoring alternatives for Hispanics. First the article examines the basic functions and stages of mentoring. Then it explores unique aspects of the Hispanic culture and how these factors may impact mentoring for Hispanics. The article then looks at several mentoring alternatives that may benefit Hispanics, including virtual mentoring, professional organizations, peer mentoring, team mentoring and group mentoring circles.

Morgan P. Miles, Martie-Louise Verreynne, Belinda Luke, Robyn Eversole, and Josephine Barraket joined forces in “The Relationship of Entrepreneurial Orientation, Vincentian Values and Economic and Social Performance in Social Enterprise” to focuses on the managerial question ‘should social enterprises become more entrepreneurial?’ Their article adapts the Covin and Slevin entrepreneurial orientation scale to measure the adoption of entrepreneurship by a social enterprise,
and develops a scale that combines a Vincentian-based focus to serve the poor with a propensity to take a more entrepreneurial approach toward business as a measure of a social value orientation (SVO).

Social enterprises that exhibit a social value orientation have decision-makers who proactively take the risks to innovate their products, processes, strategy or business propositions to more effectively and efficiently meet the needs of the poor while guided by values that either implicitly or explicitly embrace St. Vincent’s philosophy of harnessing business for social good, regardless of religious affiliation. Interestingly, while social enterprises that adopt an SVO enjoyed higher levels of social performance, SVO did not positively impact economic performance. Likewise, social enterprises that adopted a more entrepreneurial orientation did not enjoy enhanced economic performance.

The Federal government spends over $18 billion a year on 47 different training programs in nine agencies. However, many employers comment that they cannot find qualified workers. Over three million jobs are vacant and employers are looking for workers to fill the positions, while there are approximately 14 million jobless workers who cannot find jobs in the current recession. Belinda P. Shipps and Robert L. Howard, in “Unemployment and Job Creation Programs: Is there A Skills Gap?” seek:
1. to evaluate the government response to the high level of unemployment,
2. to evaluate some of the job creation programs that are currently in existence, and
3. to consider the possibility of a skills gap between job seekers and available jobs.

Richard Sinatra and James J. Maher, in their article “Advancing the Vincentian Tradition through Strategic Service and Research,” outline the developing maturity of the academic service-learning programs at St. John’s University that can serve as an example to all who want to infuse any type of service learning to their mission. In the case of St. John’s University, the academic service-learning is implemented to advance its unique Catholic perspective, that of the Vincentian tradition to serve the poor and remedy social inequities. Heeding the 1986 call of Pope John Paul II to Vincentian institutions, all levels of the university – from incoming freshmen to the board of trustees – have embraced the Pope’s message to serve the poor and needy.

Major program initiatives have included an expanded and enriched academic service-learning program with a Discover New York service component for all incoming freshmen; the creation of a Vincentian Institute for Social Action to coordinate student and faculty service and research efforts with community partners; the establishment of a 4-year undergraduate Ozanam Scholar Program to engage students in extensive service and research under faculty mentorship; sustainable collaborations with community partners whose mission focus is compatible with the Vincentian perspective; and a dedicated effort to measure program impact through outcomes-based quantitative and qualitative research methodologies. Religiously affiliated institutions may find program components and organizational strategies to be beneficial in their own work in serving the poor, needy, and disenfranchised.

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Editor, Review of Business
Relations between Healthcare Organizations and their Patients: Three-factors models in the e-healthcare market

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Executive Summary

The evolution of the Internet and ongoing development of electronic commerce and communication provide exciting opportunities for implementation of a powerful framework of resources, tools and applications that revolutionize the way in which healthcare institutions interact with their patients, as well as help to deliver and manage medical services. Internet-based healthcare consists of the application of information and communication technologies across the whole range of healthcare functions. It covers everything from electronic prescriptions and computerized medical records to the use of new systems and services that cut waiting times and reduce data errors.

Development and implementation of web-enabled communication, patient services and other e-health initiatives are increasingly important in maintaining competitive advantage and competing for market share. The use of information and communication technologies in the healthcare system is also perceived as essential for high quality and cost-effectiveness of healthcare. In this paper the authors concentrate on identification and analysis of determinants responsible for engagement of patients and medical units to develop relationships in a new environment. The purpose of this paper is to identify and describe the models portraying relations between patients and managers of medical units in the e-healthcare services market.

Introduction

The concept of informatization of the healthcare system known as e-health is systematically implemented within the EU. According to the definition proposed by the European Commission, e-health consists of the application of tele-information technologies in the prevention of diseases, in diagnostics, treatment, monitoring and promotion of healthy lifestyle (EC 2006).

Many IT solutions employed in the e-health system include both simple and more complicated tools, and range from delivery of health information to patients, facilitation of medical unit management or collection and data transfer to the insurer, to the continuous monitoring of patients’ health in their living environment through supervision of medical equipment implemented in patients (e.g. monitoring of cardiac patients). The e-health concept embraces such tools as health websites, electronic patients’ database, virtual transmission of medical reports, an electronic system of reservation procedures, tele-medic services, health domains, and other ICT-based tools. All these elements build a concept of an e-health platform which represents products, systems and services that go beyond simple use of the Internet. They provide information
that can be necessary for local and regional authorities and for medical experts, as well as for members of the general public and for patients, thus contributing to improvement of their health (Fraczkiewicz-Wronka and Austen, 2008).

...e-health consists of the application of tele-information technologies in the prevention of diseases, in diagnostics, treatment, monitoring and promotion of healthy lifestyle.

All this has resulted in the emergence of new research areas concerning the character, range and effectiveness of the application of new technologies in the medical services sector. The authors of the paper have mainly concentrated on identification and analysis of relations between healthcare organizations and their patients. A very important goal of this paper was also to create the models of relations between patients and managers of medical units in the e-healthcare market.

Relations models – theoretical background

Since the introduction of virtual communication tools and the delivery of medical services are at the very initial stage, it is necessary to develop subject relation models on the health services market, mainly on the basis of determinants that condition the engagement of patients and managers of medical units in building mutual relations in the new virtual environment. A great number of diverse factors included so far in market subject relation models (e.g. EBK or Nicosii models) make these analyses more difficult and complicate the explanation of relation development mechanisms.

A good model, among other factors, is characterized by its simplicity. Hence, it is necessary to present determinants of relations between patients and managers of medical units in the e-healthcare market in a relatively simple, measurable and pragmatic way. At that point, however, a dilemma arises: something that can be of utilitarian application (a very simple approach to determinants) is not always acceptable from the scientific point of view. On the other hand, considerable diversification of these determinants, although methodologically correct, can become useless from the utilitarian (pragmatic) point of view.

In the subject literature many attempts have been made to tackle the problem, mainly by focusing on individual aspects of consumer-company relations, leaving behind the principle of ceteris paribus (not considered before) for variables and interactions (Poiesz and Robben, 1997). Another approach, in turn, recommends finding a criterion that is followed by markets subjects, with a simultaneous rejection of other variables (Stewart, 1989). Such an approach, however, is contrary to the concept of external legitimacy (influence of the whole environment on the market participants). There is a need for full explanation of ways and reasons for interactions between particular market subjects, and for maintenance thereof.

Bearing in mind the above, the relation model of patients and mangers of medical units in the e-healthcare market can be developed with the use of a three-factor consumer behavior model – 3F (Smyczek, 2007). Although the model has been designed solely for explanation of consumers’ market behavior, the universal character of its construction allows for its application with respect to relations in the e-healthcare market. The model leaves behind the commonly used practice of the so-called summary of variables, including variables which are presented only on a general and abstract level. Often identification and explanation of relations between subjects on various markets lead to limitations (both theoretical and operations) of the number of determinants which constitute only a summary of variables for a much bigger number of more detailed variables.
Nonetheless, by employing a contrary approach (as in the 3F model), i.e. by determination (definition of the influence over the market subject relations) of a narrower group of selected general factors, it is possible to learn about their influence and that of other more detailed factors that determine these relations in practice. Consequently, through more fathomed analyses one can reach a methodologically correct as well as simple and pragmatic level.

Such an approach has already been presented in subject literature in the context of description and explanation of some selected aspects of the customer-company relations. Consequently, the ELM model (probability of information processing) developed by R.E. Petty and J.T. Cacioppo relates to two main factors: motivation and abilities. These determinants affect the whole process of information processing by market subjects. D.J. Maclnnes, C. Moorman and B.J. Jaworski, in turn, have built a model of three determinants responsible for shaping the attitudes of market subjects and have distinguished motivation, opportunity and ability (MOA model). The model was further developed into the model of advertising message processing by Th. B.C. Poiesz (Antonides and van Raaij, 2003).

Motivation with respect to the patient is connected with, e.g., a need to be healthy or with external stimuli such as promotional activities or informal information. Motivation with respect to managers of medical units relate to, e.g., the generation of bigger profits.

Capacities, in turn, are connected with, e.g., patient's intellectual predispositions as well as prior knowledge and experience. Capacities of managers of medical units correspond to their financial resources or available personnel. They also include elements that are outside particular market participants; for example, for patients these include streamlined procedures of medical services delivery which facilitates involvement in the relation, and for managers of medical units an adequate level of patients' knowledge.

Opportunities are mainly related to the environment (favorable or not) in which the relations are to develop (market offer, market infrastructure, disturbances, etc.). It is worth emphasizing the fact that the 3F model is...
based on the assumption that the determinants are prerequisites for the development of certain market relations.

In the 3F model it is assumed that all factors which practically affect relations between market subjects can be reduced to three determinants. This level of generality makes more detailed analyses of various determinants pointless. Consequently, instead of identifying, for example, patients’ subjective evaluation of credibility and attractiveness of information sources or information quality, it suffices to define a subjective level of patient’s motivation.

Likewise, instead of asking a representative of managers of a medical unit about the influence of e-tools knowledge and experience with e-tools over a tendency to employ them in a unit, it is appropriate to ask respondents for estimation of their capacities to get engaged in the use of such instruments. Finally, in the model, opportunities are not distributed over a great number of possible determinants (time, location, offer), but respondents are asked to point at opportunities that are sufficient for involvement in definite market relations.

Hence, from the utilitarian (operational) pragmatic point of view, analyses of these determinants allow for information about subjective motivation assessments, as well as about the level of capacities and opportunities perceived by patients and managers of medical unit representatives as well. At the same time, from the methodological point of view, it can be assumed that the observed level (range) of capacities and opportunities does not differ from actual (objective) capacities and opportunities.

It is also assumed that three main determinants may affect each other, e.g. if the level of opportunities perceived by the patient is very low, then high motivation for engagement in the relation with a given medical unit is unlikely to occur. If the manager of a medical unit, in turn, is insufficiently motivated to offer definite services for a given segment of patients, then neither high level of opportunities perceived by the personnel nor market opportunities are able to encourage the subject to become involved in the relations.

The combination of determinants: motivation, opportunities and capacities, can be looked into at a high level of generality (whatever the service, brand, etc.) or in a more detailed range (depending on the service brand, etc.). Once a given market model is capable of taking into account various determinants, it gets engaged in a given relation on the market (taking into consideration the most suitable variables included in the 3F model).

If there is no need for a more detailed analysis of determinants responsible for relations of market participants (general definition of motivation, capacities and opportunities), then it is possible to differentiate each variable (Smyczek, 2007).

Motivation which is based on major motives of behavior of each market offer, determines its actions, directions and goals. It is also a direct energy-booster and the reason for taking market decisions. One can talk about a motive only when a given subject (patients or managers of medical units) become aware of reaching a desired goal and takes action-provoking decisions.

Motives and behavior constitute unity, motives and goals evoke some kind of feedback. On the one hand, motivation reveals significance of goals and tasks, and, on the other hand, goals and tasks affect motivation. In this approach, behavior of a given market subject presents a factor that fosters actions undertaken to develop relations with other subjects (Blackwell and Miniard, 2001). The number of motives is not limited, with new ones continuously emerging. Their structure and interactions change with time.
acuity and wit, whereas an able person is the one who has capacity and abilities to do something (Latek, 2001). In the presented model, capacities are referred to as personal competencies and predispositions, and as intellectual and economic potential of the patients and managers of medical units that help them to get engaged in market relations.

Thus, patients' engagement with a certain medical unit will depend on their personality, perception, attitudes, preferences, speed of learning and remembering, perceived risk on market or market novelties. It should be added that patient's "capacities", to a great extent, depend on such factors as: level of education, performed job, age, place of living, culture, social class, family or a benchmark group. All these factors reduce the chance of getting involved in definite market relations for less able patients (with less experience, knowledge skills, financial resources, etc.).

Similarly, managers of medical units deprived of capacities such as experience, knowledge, internal resources (especially financial), or information or acceptance of market novelties are less likely to become engaged in definite market relations.

As in the case of motivation, with respect to capacities one can distinguish general and detailed factors. Self-perception, intelligence, information processing abilities and a maximum stimulation level constitute personal, i.e. general factors. Capacities and previously-possessed knowledge concern a concrete field, as patients are not experts (market specialists) and do not have proper medical knowledge. Representatives of medical units may have an appropriate level of medical knowledge, but may lack knowledge of how to apply virtual tools when communicating with patients, and how to provide service in the e-healthcare market.

The last factor indispensable for occurrence of certain market relations in 3F is represented by
opportunities, often referred to as probability, chance, strength, predispositions, potential, possibility (Latusek, 2001). In the 3F model, opportunities are described as favorable or unfavorable conditions for a subject to become engaged in definite relations.

Hence, opportunities for the patients will include factors such as type of available market services, level of service prices, the number and variety of medical units on the market, medical unit location, type of contact channels with the unit, as well as information available on the market (both formal and informal). From the point of view of the manager of medical units, these opportunities will contain available means and tools of service provision, legal and organizational solutions, new technologies, or patients' potential.

Bearing these things in mind, it should be added that in the 3F model presented each determinant plays a significant role in stimulating and shaping market subject relations. If any of the factors is not favorable or else their combination is rather unattractive for patients of managers of medical units, then (according to 3F model assumptions) engagement in the relation is more unlikely to occur rather than to occur, even in a limited scope.

In the 3F model, the focus is also put on the negative effects of interactions between determinants such as bad associations with a given medical unit (motivation), misunderstanding of a message conveyed by a medical unit representative (capacities), or the wrong choice of a patient segment (opportunities). It is worth noting that each of the factors is composed of many variables that create “a bunch” which acts as a motivator for the subject's engagement in a relation, which proves the subject's capacities and creates conditions that enable involvement in these relations.

Research model
In the attempt to build the three-factor relation model of patients and managers of medical units in the e-healthcare market, one should remember that the degree of implementation of virtual instruments in the provision of medical services is very limited. Although the application of virtual communication tools is becoming more common, in comparison to other markets, including the financial services market, the virtualization of this sector is in its initial stage.

Therefore, it was necessary to elaborate a model which could take into account attitudes of subjects of the medical services market towards service provision and mutual communication, and consequently towards engagement in definite market relations within the virtual environment. In practice, patients and medical unit representatives were asked about motivation that could make them engage in certain relations in the virtual environment. Additionally, they were requested to define capacities that could be indispensable for the development of virtual relations, and to assess opportunities for engagement in the relations at the current stage of virtualization.

Taking into consideration all the factors presented above, it can be assumed that the relation between patients and managers of medical units in the e-healthcare market is conditioned by: the appearance of patients' and managers' engagement in this relationship; patients' and managers' (perceived) capacity to effect this engagement, e.g. knowledge; market experience; and finally (perceived) opportunities which foster patients' and managers' engagement:

H1. Patients and managers of medical units relation in e-healthcare is determined and modeled by their motivation, capacity, as well as market opportunities.
All three main determinants may affect (influence) one another, when, for example, low level of opportunities perceived by patients or managers rules out their high motivation to get involved in some relation. It is also a very important assumption that any of these determinants can’t be replace by another (Smyczek, 2012):

**H2a.** Patients’ and managers’ motivation to get involved in definite relationships, and patients’ and managers capacity, affect one another,

**H2b.** Patients’ and managers’ capacity and market opportunities affect one another,

**H2c.** Patients’ and managers’ motivation to get involved in some definite relationship, and market opportunities, have influence upon one another.

Figure 1
Conceptual model of relationship between Patients and Managers of Medical Units in the e-healthcare market

Methodology of research

In order to empirically verify the conceptual model of relationship between patients and managers of medical units in the e-healthcare market, two surveys were conducted with the use of structured questionnaires.

The first study comprised adult patients in the six largest Polish cities, taken as representative models of Polish urbanized municipal centers (Karcz and Kedzior, 2004). A sample of adult patients is considered to be a valid sample type in this kind of study and takes into account lifelong development of cultural orientations and sentiments about products (Neymann, 2005). The research was carried out on a sample of respondents selected by means of a quota sample design.

This method is based on the assumption that a test group represents all features (quotas) considered to be important and interesting from the researcher’s point of view (Blackwell et al., 2001). The assumed quotas included age and education (Smyczek, 2007). The respondents’ quotas were selected on the basis of an already-known structure of population to be studied. The structure of the sample group and that of the population in the selected cities were identical. Eligible responses were obtained from 1,109 subjects.

The second study comprised managers of medical units from the same six largest Polish cities. The research was carried out on a sample of respondents selected by means of a quota sample design. The assumed quotas included size of medical unit and scale of activity (Matysiewicz and Smyczek, 2012). The structure of the sample group and that of the population were identical. Eligible responses were obtained from 541 subjects.

The exploratory factor analysis was applied in order to identify factors describing relationships between patients and managers of medical units in the e-healthcare market, with variables simultaneously constituting a basis for model development (patients on the one hand, and medical units on the other).

Results of research and discussion

In the case of the 3F model of patients’ relations with medical units in the e-healthcare market, 21 variables capable of affecting these relations were distinguished. Next, the variables were presented to patients on the Likert’s scale in order to define the degree of acceptance of each statement:
Patient Questionnaire

1. Non-stop provision of medical services by means of virtual tools (availability 24/7) encourages me to use them.
2. I will use virtual medical services if they are for free.
3. In order to make use of the virtual healthcare services, it is necessary to have adequate knowledge about electronic tools.
4. In order to use virtual medical services it is necessary for the patient to accept high risk, especially functional risk, e.g. effectiveness of treatment via the Internet.
5. You should secure yourself also through the use of all possible ways of contacting a medical unit, including virtual channels.
6. The use of virtual medical services is fostered by great competitiveness.
7. Attractive promotional conditions of a medical unit can make me use virtual services.
8. To be able to use virtual medical services, one should have great knowledge about medical services as well.
9. Widespread and comprehensible information about medical virtual services contributes to the use of the services.
10. Speed of service provision may encourage me to use the services.
11. To be able to use the virtual healthcare services you need to have confidence in a medical unit.
12. Quick decision-taking by the patient is indispensable in using virtual medical services.
14. Variety of contact channels with medical units promotes the use of virtual medical services.
15. Apt recommendations by a medical unit representative/doctor can persuade me to use virtual medical services.
16. I would use virtual medical services in the case of a chronic disease or another reason for staying in permanent contact with the unit.
17. A wide offer of virtual medical services fosters the use thereof.
18. I would use virtual medical services if my friends did too.
19. Only a legal obligation would make me use virtual medical services.
20. Accessibility of a service would convince me into using virtual medical services.
21. In order to use virtual medical services you need to have great experience in the field.
In order to check whether the choice of the factor analysis model is accurate as a method of data analysis, the Kaiser-Meyer-Olkin index was applied (Gatnar and Walesiak, 2004). The KMO index for the analyzed 21 variables amounted to 0.793. Next, the adequacy of the selection of each individual variable was calculated by means of MSA_{h} index, which allowed for elimination of some variables before the analysis. Low MSA_{h} values have shown that correlations of \( h \) variables cannot be explained by other variables, and the variables should be eliminated from the analysis (Gorniak, 2000).

...patients and medical unit representatives were asked about motivation that could make them engage in certain relations in the virtual environment... (and) to define capacities (needed to develop) virtual relations...

Adequacy measures of the sample selection have revealed that the following variables are all factors favorable for patients' engagement in relations with medical units in the virtual environment:

1. no-stop provision of services by means of virtual instruments (24/7 access) encourages me to use them.
2. I should secure myself and use all possible contacts with a medical unit, also through virtual channels.
3. widespread and comprehensible information about virtual medical services contribute to the use of the services.
4. speed of service provision may encourage me to use the services.
5. I would use virtual medical services in the case of a chronic disease or of another reason for staying in permanent contact with the unit.
6. only a legal obligation would make me use virtual medical services.
7. accessibility of the service would convince me into using virtual medical services, and
8. in order to use virtual medical services I need experience in the field.

These variables all have an MSA_{h} index lower than 0.5, (Brzezinski, 1993) and therefore must be eliminated from further analyses. Consequently, the analysis comprised 13 variables for which KMO coefficient was high and amounted to 0.846.

In order to define the number of factors to be included in the further analysis, the scree test was conducted (Gornia, 2000; Zakrzewska, 1994). In the researched case, the scree index occurred between the third and the fourth factor, which proved problematic, as it was difficult to determine which factor should be taken into consideration for further analysis.

In order to determine the final number of factors to be used in the analysis, it was necessary to calculate the eigenvalue and the variance percentage explaining other components (Lehmann et al., 1998).

The eigenvalue criterion sets the lower limit of factors numbers which are common in the correlation matrix for population. This means that the number of factors is equal or higher than the number determined by this criterion (Gatnar and Walesiak 2004). The criterion of the eigenvalue higher than single digits have proved that further analyses should include three factors which explain 71.13% of the common variance potential of all variables. Application of the method of principal components with quartimax rotation allowed for determination of factor loadings for particular variables.
In Table 1, significant factor loadings rounded off to the absolute value of 0.5 are presented in the bold type.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Component 1</th>
<th>Component 2</th>
<th>Component 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>0.607</td>
<td>0.124</td>
<td>0.254</td>
</tr>
<tr>
<td>3.</td>
<td>0.713</td>
<td>-0.228</td>
<td>-0.146</td>
</tr>
<tr>
<td>4.</td>
<td>0.570</td>
<td>0.052</td>
<td>0.246</td>
</tr>
<tr>
<td>6.</td>
<td>0.013</td>
<td>0.812</td>
<td>0.204</td>
</tr>
<tr>
<td>7.</td>
<td>-0.071</td>
<td>0.118</td>
<td>0.793</td>
</tr>
<tr>
<td>8.</td>
<td>0.642</td>
<td>-0.405</td>
<td>-0.125</td>
</tr>
<tr>
<td>11.</td>
<td>0.627</td>
<td>0.303</td>
<td>-0.294</td>
</tr>
<tr>
<td>12.</td>
<td>0.573</td>
<td>-0.184</td>
<td>0.138</td>
</tr>
<tr>
<td>13.</td>
<td>0.796</td>
<td>0.132</td>
<td>-0.236</td>
</tr>
<tr>
<td>14.</td>
<td>0.234</td>
<td>0.694</td>
<td>-0.204</td>
</tr>
<tr>
<td>15.</td>
<td>-0.145</td>
<td>-0.068</td>
<td>0.834</td>
</tr>
<tr>
<td>17.</td>
<td>0.204</td>
<td>0.802</td>
<td>0.118</td>
</tr>
<tr>
<td>18.</td>
<td>0.272</td>
<td>0.043</td>
<td>0.622</td>
</tr>
</tbody>
</table>

As a result of the analysis, three factors describing patients' relations with healthcare unit's e-healthcare market have been obtained:

1) The first factor is described by variables which state that in order to get engaged in relations with healthcare units in the virtual environment, the following conditions must be met: (2) medical services must be free of charge, patients must (3) have adequate knowledge about electronic tools, (4) be ready to accept high risk, especially functional risk, e.g. effectiveness of treatment via Internet, (8) possess sound knowledge of medical services, (12) be able to quickly take decisions, and (13) be very self-reliant. These factors are referred to as patient's capacities.

2) The second factor is characterized by variables which reveal favorable conditions for using virtual medical services and include: (6) existence of great competition on the market, (14) diverse virtual contact channels with medical units, and (17) a wide offer of virtual medical services. This factor is referred to as market opportunities.

3) The third factor describes variables that can induce the patient to use virtual medical services: (7) attractive promotional conditions offered by medical units, (15) good recommendations of a medical unit representative/doctor and (18) using definite virtual health services because friends do, in other words the phenomenon of social emulation. This factor is referred to as patient's motivation.

...patients' engagement with a certain medical unit will depend on their personality, perception, attitudes, preferences, speed of learning and remembering, perceived risk on market or market novelties.

With respect to the three-factor model of managers of medical unit relations with patients' e-healthcare market, 17 variables determining these relations were distinguished. Variables are connected with three factors: patients' motivation, capacity and opportunity, but they were adapted to specific behavior of medical unit's managers. Next, as in the case of patients, in order to determine the degree of acceptance of each statement, the variables were presented on Likert's scale to representatives of medical units:
Managers of Medical Units Questionnaire

1. Non-stop healthcare service provision by means of virtual tools (availability 24/7) encourages our medical unit to introduce these solutions.

2. Virtual medical services should considerably reduce costs of service provision in my medical unit.

3. Introduction of virtual medical services requires adequate knowledge about electronic tools.

4. Offering virtual medical services calls for high risk acceptance by doctors and other personnel connected with using electronic tools.

5. You should secure yourself and introduce virtual medical services as competitors do so.

6. Attractive prices of virtual tools of service provisions and communication with patients can persuade me to use virtual medical services.

7. Introduction of virtual medical services requires patients' knowledge about the services.

8. Widespread and comprehensible information about virtual medical services could induce me to introduce them into my unit.

9. The speed of service provision and elimination of queues can be an argument for introducing virtual medical services into my healthcare unit.

10. Provision of virtual medical services requires doctors and other medical staff to trust the patient.

11. Virtual medical services can be introduced if the personnel have adequate and relevant subject knowledge.

12. The use of virtual healthcare services requires great self-reliance on the part of the patient.

13. Apt recommendations provided by a healthcare representative/doctor would persuade me to introduce virtual medical services.

14. Enlargement of the market offer would make me introduce virtual medical services.

15. Only a legal obligation would force me to introduce virtual medical services.

16. The willingness to gain new customers would encourage me to introduce virtual medical services.

17. In order to use virtual medical services you need to have great experience in the field.
Representatives of medical units may have an appropriate level of medical knowledge, but may lack knowledge of how to apply virtual tools when communicating with patients, and how to provide service in the e-healthcare market.

The KMO index for 17 analyzed variables equaled 0.764. Next, the adequacy of variable selection was calculated by means of MSAh index. Measures of sample selection adequacy showed that the following variables are factors conducive to the engagement of medical units in relations with patients in the virtual environment:

1) non-stop healthcare service provision by means of virtual tools (availability 24/7) encourages our medical unit to introduce these solutions,

4) offering virtual medical services calls for high risk acceptance,

6) attractive prices of virtual tools of service provision and communication with patients can persuade me to use virtual medical services,

9) speed of service provision and elimination of queues could be an argument for introducing virtual medical services into my healthcare unit,

13) apt recommendations provided by a healthcare representative/doctor would persuade me to introduce virtual medical services,

14) enlargement of the market offer would make me introduce virtual medical services,

16) willingness to gain new customers would encourage me to introduce virtual medical services, as well as

17) in order to use virtual medical services you need to have great experience in the field.

These variables had MSAh lower than 0.5, and as such should be left out in the analysis. Consequently, the further analysis comprised 9 variables for which KMO coefficient was high and equaled 0.862.

In order to determine the final number of factors to be used in the analysis, the eigenvalue and the variance percentage explaining other components were calculated. The eigenvalue criterion was bigger than single digits, which showed that the further analysis should include three factors which accounted for 66.2% of variance potential of all variables. The application of the method of principal components with quartimax rotation made it possible to determine factor loadings for particular variables.

In Table 2 significant factor loadings rounded off to the absolute value of 0.5 are presented in the bold type.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Component 1</th>
<th>Component 2</th>
<th>Component 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>0.094</td>
<td>0.726</td>
<td>0.244</td>
</tr>
<tr>
<td>3.</td>
<td>0.542</td>
<td>0.056</td>
<td>-0.183</td>
</tr>
<tr>
<td>5.</td>
<td>-0.147</td>
<td>0.094</td>
<td>0.661</td>
</tr>
<tr>
<td>7.</td>
<td>0.155</td>
<td>0.802</td>
<td>0.029</td>
</tr>
<tr>
<td>8.</td>
<td>-0.061</td>
<td>0.273</td>
<td>0.732</td>
</tr>
<tr>
<td>10.</td>
<td>0.225</td>
<td>0.596</td>
<td>-0.197</td>
</tr>
<tr>
<td>11.</td>
<td>0.778</td>
<td>-0.284</td>
<td>0.018</td>
</tr>
<tr>
<td>12.</td>
<td>-0.205</td>
<td>0.548</td>
<td>0.302</td>
</tr>
<tr>
<td>15.</td>
<td>0.254</td>
<td>-0.076</td>
<td>0.712</td>
</tr>
</tbody>
</table>

Thus, three factors describing inclinations of managers of medical units to get engaged in relations with patients in the e-healthcare market were obtained:

1) The first factor is described by variables which inform that in order to become engaged in the market of medical services
in the e-environment it is necessary to: (3) have adequate knowledge about electronic tools and (11) employ personnel that is knowledgeable about the subject; this factor was called medical unit abilities.

2) The second factor is characterized by variables which reveal conditions favorable for engagement in relations with patients in the e-environment, namely: (2) significant reduction of costs of service provision to patients, (7) patients must have sound knowledge about medical services, (10) doctors and other staff should trust their patients and (12) patients’ great self-reliance; this factor was referred to as market opportunities.

3) The third factor describes variables which encourage a medical unit to get engaged in development of relations with the patient in the virtual environment i.e.: (5) security against competition that introduces such services, (8) widespread and comprehensible information about virtual medical services and (15) a legal obligation; this factor were referred to as motivation of a medical unit.

Bearing in mind the above it can be concluded that relations between patients and managers of medical units in the e-healthcare market are determined by three factors, i.e.:

• abilities of these subjects to become engaged in these relations on the market,

• opportunities offered by the environment, and

• motivations of the subjects to get involved in market relations.

In the exploratory factor analysis, indexes were assigned to hidden, substantially justified constructs (factors). Further on, models assuming existence of these constructs were subject to fathomed analysis, with the use of confirmatory factor analysis (CFA) which allowed for measuring the fit of obtained factor models to the data (Walesiak, 2000).

Moreover, unlike in the exploratory analysis where each factor can be related to all indexes, in these models particular indexes were assigned to a concrete construct (in other words, it is possible to use non-zero regression coefficients only between a given construct and test-attributed indexes). In CFA the quality of the measuring model was tested.

The analysis allowed for correlation between factors, as, presumably, for particular subjects to be engaged in relations in the virtual environment, it is necessary to have motivation for action and to be capable of getting engaged in these relations. Availability of virtual tools presents the last factor that was indispensable for development of definite relations between subjects of the medical services market. The analysis revealed presence of correlations between particular constructs in both models.

Figure 2 and Figure 3 show path diagrams of the confirmatory factor analysis of the 3F model of patients and managers of medical units respectively. The diagrams show standardized regression values between hidden constructs and observable indexes, i.e. factor loadings – marked over one-direction arrows leading to factors symbolized by ellipses and to indexes symbolized by rectangles. At the two-way arches which link factor - covariance symbols, there are coefficient values of correlations existing between them.

...relations of both patients and medical units in the virtual environment will develop (if) the subjects are properly motivated and have adequate abilities to get engaged in the relations...
Figure 2
Structure of dependence in the factor model of Patients' Relations in the e-healthcare market
(standardized coefficients)

$X^2 = 243,017; \ df = 76; \text{significance level } \alpha = 0,000; X^2 / df = 3,19; GFI = 0,891; AGFI = 0,874; NFI = 0,825; CFI = 0,876; \ RMSEA = 0,012; \text{Hoelter } 0,05 = 272.$
In order to ensure identification of models, the variance of hidden variables was established at level 1, i.e. they were standardized variables. This solution is currently preferred over the establishment of the value of one of factor loadings at each construct at level 1 (Browne and Mels, 1996).

Both methods produce the same standardized values of coefficients and model fit measures. Standardized values were estimated with the greatest credibility by means of AMOS program. Variables were treated as if they were intervallic, which usually generates good results at 5-point scales (Gorniak, 2000).
As a result of the confirmatory factor analysis, values of indexes being quality measures of model fit to the data were obtained. Consequently, value X² together with the number of degrees of freedom, summarizing discrepancies between the observed matrix of covariance and the one implied by the model, constitutes a traditional measure allowing for verification of the hypothesis about lack of discrepancies between these matrices in a population.

Test X² applied in the model results in rejection of the hypothesis with respect to both models. However, its utility, especially in the case of big test groups, is limited as it too easily leads to rejection of true models (Hoyle, 1995; Mueller, 1996; Gatnar and Walesiak, 2004).

Additionally, a calculation was made of a currently popular quality measure of model fit - X² / df. The obtained value of the index equals 3.2 and 3.7, and is well below the upper limit for well-fitted models, established at level 5 by most researchers. Nonetheless, the value of the index is higher at the desired value of 2, assumed as a criterion.

Among other fit measures, the Steiger-Lind RMSEA coefficient is highly thought of by experts (Bollen et al., 1993; Gatnar, 1998) and shows how badly a model is fitted, including the number of its parameters requiring estimation. Therefore, the closer its value approaches 0, the better. In the case of analyzed models its value amounts to 0.012 and 0.011 and is below the preferred upper limit of 0.05 for well-fitted models and well below the limit of 0.1 for well-fitted models.

Other measures used for determination of a fit degree of the developed model included: good fit index GFI and an adjusted good fit index AGFI elaborated by K.G. Joreskog and D. Sorbom. Values of these measures lie within the acceptance limit (>0.9), although the result of >0.95 would be more satisfying.

A normalized fit index (NFI) was another measure used for the model fit. The index gauges a relative fall in the value of a fit function caused by transition from zero model to a more complex one. This index takes values from within 0 to 1. Values of the index for analyzed models equal 0.825 and 0.874 respectively, which is satisfying since at a very good fit, the index approaches single digits. It should be noted, however, that this index depends on the size of a test group.

As a consequence, P.M. Bentler proposed to use another fit index, i.e. the so-called normalized comparative fit index – CFI (Bentler, 1990). This index for the analyzed models equals 0.876 and 0.901, and as such is satisfying (CFI index assumes values from 0 to 1, and at good fit it approaches single digits).

The last test to be used in the research was the Hoelter test, which shows that analyzed models would not be rejected at the conventional level of 0.05, if the test group size would be 235 or less. In the case of this measure, 200 is indicated as the bottom limit of acceptance (Hoyle, 1995).

Tables 3 and Table 4 present, in turn, non-standard regression coefficients and covariance values between factors obtained as a result of models estimation by means of the most credible method based on AMOS program. Interpretation of values of coefficients is more convenient thanks to the establishment of factor variance at level 1. (The value of the coefficient informs about the degree of change in the expected index at the change of factor value by one standard deviation.)

Determination of factor variance at level 1 leads to a situation where covariance between them has a value that equals correlation coefficients on the diagram. The Tables contain values of critical quotients (relation of the parameter to its standard error), which allows instant verification of statistical significance of obtained indexes by referring to a traditionally
set criterion of 1.96 (for p=0.05). In the case of researched models all factors were statistically significant.

**Table 3**
Confirmatory factor analysis of constructs defining Patients’ in the e-healthcare market (non-standard parameters and critical quotients)

<table>
<thead>
<tr>
<th></th>
<th>Evaluation</th>
<th>Statistical error</th>
<th>Critical quotient</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P_{1,2} &lt; -$ abilities</td>
<td>1.23</td>
<td>0.026</td>
<td>33.942</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,3} &lt; -$ abilities</td>
<td>0.243</td>
<td>0.037</td>
<td>29.574</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,4} &lt; -$ abilities</td>
<td>1.517</td>
<td>0.022</td>
<td>46.107</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,8} &lt; -$ abilities</td>
<td>1.673</td>
<td>0.040</td>
<td>59.076</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,11} &lt; -$ abilities</td>
<td>1.499</td>
<td>0.039</td>
<td>44.529</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,12} &lt; -$ abilities</td>
<td>2.348</td>
<td>0.052</td>
<td>51.741</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,13} &lt; -$ abilities</td>
<td>0.942</td>
<td>0.047</td>
<td>62.001</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,6} &lt; -$ opportunities</td>
<td>2.140</td>
<td>0.024</td>
<td>42.189</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,14} &lt; -$ opportunities</td>
<td>1.098</td>
<td>0.028</td>
<td>37.705</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,17} &lt; -$ opportunities</td>
<td>2.178</td>
<td>0.036</td>
<td>40.926</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,7} &lt; -$ motivation</td>
<td>1.564</td>
<td>0.033</td>
<td>39.788</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,15} &lt; -$ motivation</td>
<td>1.943</td>
<td>0.020</td>
<td>43.792</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,18} &lt; -$ motivation</td>
<td>2.568</td>
<td>0.039</td>
<td>56.022</td>
<td>0.000</td>
</tr>
<tr>
<td>Opportunities $&lt; -$ motivation</td>
<td>0.179</td>
<td>0.042</td>
<td>5.61</td>
<td>0.000</td>
</tr>
<tr>
<td>Abilities $&lt; -$ motivation</td>
<td>0.195</td>
<td>0.037</td>
<td>4.22</td>
<td>0.000</td>
</tr>
<tr>
<td>Abilities $&lt; -$ opportunities</td>
<td>0.164</td>
<td>0.051</td>
<td>4.507</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Bearing in mind the above-presented considerations, it can be concluded that the confirmatory factor analysis has proved that the researched models of relations of subjects on the medical services market are correct. With respect to presented measures, except for $X^2$ test, the models can be accepted, but are not very well-fitted. All indexes (selected on the basis of the exploratory factor analysis) proved significantly related to constructs they measured.

Thus, a conclusion can be drawn that definite relations of both patients and medical units in the virtual environment will develop on condition that the subjects are properly motivated and have adequate abilities to get engaged in the relations, where market opportunities are favorable. It is worth emphasizing the fact that, as shown by the exploratory factor analysis, in the case of patients a considerable role is played by patients’ abilities, whereas in the case of medical units, it depends on market opportunities of e-tool application in medical service provision and in communication.

**Table 4**
Confirmatory factor analysis of constructs defining relations of Managers of Medical Units in the e-healthcare market (non-standard parameters and critical quotients)

<table>
<thead>
<tr>
<th></th>
<th>Evaluation</th>
<th>Statistical error</th>
<th>Critical quotient</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P_{1,3} &lt; -$ abilities</td>
<td>0.753</td>
<td>0.020</td>
<td>34.278</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,11} &lt; -$ abilities</td>
<td>1.364</td>
<td>0.037</td>
<td>32.134</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,2} &lt; -$ opportunities</td>
<td>1.349</td>
<td>0.028</td>
<td>29.173</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,7} &lt; -$ opportunities</td>
<td>1.237</td>
<td>0.043</td>
<td>22.573</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,10} &lt; -$ opportunities</td>
<td>0.958</td>
<td>0.019</td>
<td>45.411</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,12} &lt; -$ opportunities</td>
<td>2.0459</td>
<td>0.026</td>
<td>33.429</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,5} &lt; -$ motivation</td>
<td>0.829</td>
<td>0.034</td>
<td>40.728</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,8} &lt; -$ motivation</td>
<td>1.216</td>
<td>0.022</td>
<td>39.154</td>
<td>0.000</td>
</tr>
<tr>
<td>$P_{1,15} &lt; -$ motivation</td>
<td>1.592</td>
<td>0.029</td>
<td>49.138</td>
<td>0.000</td>
</tr>
<tr>
<td>Opportunities $&lt; -$ motivation</td>
<td>0.176</td>
<td>0.041</td>
<td>1.04610</td>
<td>0.000</td>
</tr>
<tr>
<td>Abilities $&lt; -$ motivation</td>
<td>0.182</td>
<td>0.027</td>
<td>5.142</td>
<td>0.000</td>
</tr>
<tr>
<td>Abilities $&lt; -$ opportunities</td>
<td>0.159</td>
<td>0.036</td>
<td>3.554</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The degree of implementation of virtual instruments in the provision of medical services is very limited.

**Conclusions**

The developed three factor models of relations between patients and managers of medical units in the e-healthcare market has many advantages in all applications. In the first place, it can greatly contribute to the development of scientific theories, especially consumer behavior and partnership marketing theories.

In addition, the models constitute significant support in understanding complex relations between the patients and the managers of medical units in the e-healthcare market, and they help look upon the patient’s and manager’s decision-making process from another perspective (a perspective that is...
different from the one commonly presented in subject literature). Thus, it can be concluded that 3F relations models fulfill all scientific and practical functions.

The three-factor models of patients and managers of medical units relations may be widely applied in the practical operation of those units, as they allow simple explanation of patients' market behavior. In the meantime, possessing knowledge of the patients, of patients' needs, and of patients' motivation to engage in behavior in the virtual environment is indispensable for development of any marketing program, including marketing strategies of medical institutions, and for elaboration of methods of active modeling of behavior of a selected group of patients, i.e. selection of concrete operational activities pursued within a created strategy. Unlike the governmental policy, these activities are meant to serve not only patients, but also the interests and profits of a medical institution.

It should be borne in mind that the research has some limitations, which, however, can be turned into advantage for future research. The key limitation of the study is that it is being focused solely on one market of medical services. Relations between consumers and managers, especially on the market of consumption goods, are certainly different, which affects the significance of the 3 selected factors defining mentioned relations.

It should be also emphasized that the research was conducted in big Polish cities, yet patients’ and managers’ attitudes toward e-healthcare may differ in smaller towns or villages. Nonetheless, it is believed that focusing on different markets, analyzing the phenomenon in smaller population areas, as well as sampling different segments of patients and managers will contribute to better understanding of relations in the e-healthcare market. It would be also interesting to investigate the hypothesized models in other countries so the results could be generalized cross-culturally.

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Law and Language: Congressional Intent Trumps Agency Construction in Concrete Case

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Executive Summary

The United States Supreme Court held in U.S. v. Home Concrete and Supply that Congress intended to restrict the extended limitations period set forth in Code § 6501(e)(1)(A) to situations that did not include overstatements of basis. To substantiate its holding, the Court cited its previous decision in Colony, Inc. v. Commissioner and rejected the Government’s argument that a Treasury Regulation promulgated after Colony should be granted Chevron deference in this case.

The Court noted that the plain, obvious, rational meaning of the word “omit,” which is “to leave out or leave unmentioned,” limits the scope of Code § 6501(e)(1)(A) to situations in which specific receipts or accruals of income are left out of the computation of gross income. The Court further noted that inflating the basis of an asset does not constitute an omission from gross income. Accordingly, the Court rejected the Government’s untimely tax assessment against the taxpayer.

Introduction

Wherever possible, the United States Internal Revenue Code of 1986, as amended (Code) refers to the plain, obvious and rational meaning of the language it contains. Conscious of the American proposition that all men are created equal, the United States Congress crafts each provision of the Code such that any reasonable taxpayer may deduce its intent. With the aid of a reputable dictionary, a pauper may derive the same meaning afforded to a Rockefeller; an ignorant man may obtain the same understanding reached by a university president. By clearly and plainly articulating the governing language of taxation, Congress empowers taxpayers to fairly discern their equitable tax burden.

This principle of legislative clarity is especially important in regards to the judicial history of tax law in the United States. In fact, it is not uncommon for seemingly complex court cases to be determined by the literal interpretation of single words or phrases. In U.S. v. Home Concrete and Supply, for example, years of legal wrangling over issues such as safe harbor disclosure requirements and the reinterpretation of provisions of the tax code were decided by a dictionary definition of the word “omit.” To better communicate the significance of statutory language, this paper will examine the Supreme Court’s ruling in Home Concrete and Supply.

This case is particularly demonstrative as the Supreme Court controversially ruled that the extended limitations provision of Code § 6501(e)(1)(A), which grants the Internal Revenue Service (IRS) an additional three years to assess a deficiency against a taxpayer in specific circumstances, does not apply to situations in which an overstatement of basis results in an
understatement of gross income. In reaching its conclusion, the Court relied heavily upon the plain meaning of the word “omit.” The following discussion therefore begins with an examination of the statutory, administrative, and judicial laws pertinent to the Home Concrete and Supply case, followed by a review of the case facts and issues presented in court.

RELEVANT LAW

Statutory Law

The United States (U.S.) system of taxation is largely funded by voluntary participation; U.S. citizens annually compute their federal income tax liability and remit their amounts payable to the IRS. Naturally, some citizens are less inclined to participate than others. To maintain the integrity of the assessment and collections process, Congress enacted Code § 6501(a), which stipulates: “[E]xcept as otherwise provided in this section, the amount of any tax imposed by this title shall be assessed within 3 years after the return was filed.”

Plainly speaking, except for circumstances described later, the IRS is granted a three-year period in which to examine and contest taxpayers’ self-reported income taxes. During that period, the IRS systematically audits taxpayer returns and assesses the validity of reported figures; returns found to be fraudulent or deficient are subject to additional fines and penalties.

Congress deemed the three-year window described in Code § 6501(a) to be sufficient for the monitoring of returns that adequately disclose taxable items wrongly excluded from computation of gross income “in a manner adequate to apprise the Secretary of the nature and amount of such item.”

Conversely, Congress recognized that under circumstances where it is unusually difficult for the IRS to determine that it disagrees with a filer’s return, such as in situations when a taxpayer does not make adequate disclosures, the IRS requires additional time to audit taxpayer returns. Hence, Congress enacted Code § 6501(e)(1)(A), which prescribes that in cases when a taxpayer “omits from gross income an amount properly includable therein which is in excess of 25 percent of the amount of gross income stated in the return...tax may be assessed...at any time within 6 years after” the date the return was filed.

The enactment of Code § 6501(e)(1)(A) replaced a previous statute contained in the 1939 Internal Revenue Code, specifically Code § 275(c) (1939). As the relationship between these two sections is critical to the current understanding of an omission from gross income, both relevant sections are reproduced below.

Code § 275 (1939 ed.)
Period of limitation upon assessment and collection
(c) Omission from gross income

If the taxpayer omits from gross income an amount properly includible therein which is in excess of 25 percentum of the amount of gross income stated in the return...tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time within 5 years after the return was filed.

Code § 6501 (2000 ed.)
(e) Substantial omission of income

Except as otherwise provided in subsection (c)—

(1) Income taxes

In the case of any tax imposed by subtitle A—

(A) General Rule

If the taxpayer omits from gross income an amount properly includible therein which is in excess of 25 percent of the amount of gross income stated in the return, the tax may be assessed,
or a proceeding in court for the collection of such tax may be begun without assessment, at any time within 6 years after the return was filed. For purposes of this subparagraph—

(i) In the case of a trade or business, the term ‘gross income’ means the total of the amounts received or accrued from the sale of goods or services (if such amounts are required to be shown on the return) prior to diminution by the cost of such sales or services…”

(2) Estate and gift taxes

“In the case of a return of estate tax...if the taxpayer omits from the gross estate or from the total amount of the gifts made during the period for which the return was filed includible in such gross estate or such total gifts, as the case may be, as exceed in amount 25 percent of the gross estate stated in the return, the tax may be assessed...at any time within 6 years after the return was filed…”

The amendment and reorganization of Code § 6501 is linguistically important. In particular, the addition of clause (i), which restricts gross income in the case of a trade or business to “the total of amounts received or accrued from the sale of goods or services... prior to diminution by the cost of such sales or services,” lent some uncertainty as to the meaning of the section’s basic phrase “omission from gross income.”

By removing the diminution of cost, i.e., basis, from the computation of gross income for a specific subset of taxpayers in clause (i), the Government broadened the section’s applicability in those circumstances to ignore instances where a taxpayer might wrongly inflate basis to reduce gross income. While only a minor insertion was made to the use of the section’s basic phrase, i.e., a substitution of the word “items” for “amount” in the estates and gifts subparagraph, together these revisions warranted subsequent interpretive clarity with regard to broader instances of wrongfully inflated basis.

...years of legal wrangling...were decided by a dictionary definition of the word “omit.”

One final note concerning the assessment and collections process is necessary to introduce the following discussion—what is meant by the term “gross income”? Except as otherwise provided, Code § 61 broadly defines gross income as “all income from whatever source derived, including (but not limited to)… [taxable] gains derived from dealings in property.”

As is typical of tax law, one definition leads to yet another question – what is a “taxable gain”? Code § 1001 establishes the formula of taxable gains or losses as the difference between the amount realized from the sale or other disposition of property (i.e., the sum of any money received plus the fair market value of property received), and the adjusted basis (i.e., the cost of such property, including basic acquisition costs such as commissions, legal fees, recording fees, sales taxes, and installation and delivery costs at the time of sale or disposition).

Accordingly, wrongly inflated basis reduces taxable gains and gross income, dollar for dollar, equal to the amount of any impermissible basis reported. Whether such inflation of basis and reduction of gross income constitutes an omission from gross income emerged therefore as a fiercely litigated subject contested by the IRS and U.S. taxpayers.

Administrative Law

Given the evolutionary nature of tax law, which adapts and responds to ever-changing methods of transactions and tax evasion schemes, the United States Congress delegates...
some authority to the IRS to act on its behalf. In particular, Congress charges the IRS with administering tax statutes signed into law.

As part of its administrative duties, Congress permits the IRS to interpret a congressional statute’s “silence or ambiguity as to a particular issue” (Chevron, 1984). In fact, Congress expects “the [IRS] to be able to speak with the force of law when it addresses ambiguity in [a] statute or fills a space in...enacted law” (Mead Corp., 2001). To effectively fulfill its lawmaking function and to specify the substantive requirements of a tax provision, the IRS therefore prescribes Treasury Regulations—official interpretations of the Internal Revenue Code.

The IRS promulgated in final form Treas. Reg. § 301.6501(e)-1 in December of 2010. As an interpretation of previously described Code § 6501(e)(1)(A), the Regulation states that “an understatement of gross income resulting from an overstatement of unrecovered cost or other basis constitutes an omission from gross income.” The relevant portions of the regulation are reproduced below:

**Treas. Reg. § 301.6501(e)-1**

**Omission from return.**

(a) Income taxes—(1) General rule. (i) If the taxpayer omits from the gross income stated in the return of a tax imposed by subtitle A of the Code an amount properly includible therein which is in excess of 25 percent of the gross income so stated, the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time within 6 years after the return was filed.

(iii) For purposes of paragraph (a) (1)(i) of this section, the term gross income, as it relates to any income other than from the sale of goods or services in a trade or business...includes the total amounts received or accrued that relate to the disposition of property, and except as provided in paragraph (a)(1)(ii) of this section, gross income means the excess of the amount realized from the disposition of the property over the unrecovered cost or other basis of the property. Consequently, except as provided in paragraph (a)(1)(ii) of this section, an understated amount of gross income resulting from an overstatement of unrecovered cost or other basis constitutes an omission from gross income for purposes of Code § 6501(e)(1)(A).

(e) **Effective/applicability date**—

1) Income Taxes. Paragraph (a) of this section applies to taxable years with respect to which the period for assessing tax was open on or after September 24, 2009.

**Judicial Law**

The Supreme Court of the United States considers *stare decisis*—the obligation to adhere to past decisions—to be “indispensable” to the “rule of law.” In describing the doctrine, the Court has explained that “[w]hen an opinion issues for the Court, it is not only the result but also those portions of the opinion necessary to that result by which we are bound.” (Planned Parenthood, 1992).

This constraint helps legitimize the judicial system by requiring the Court to treat like cases alike, thereby instilling “certainty, consistency, and stability in the administration of justice.” In observance of such principle of precedence, a brief summary of three related prior Supreme Court cases are presented below.
Colony, Inc. v. Commissioner

Pursuant to Code § 275(c) (1939), the general statute of limitations governing the assessment of federal income tax deficiencies was fixed at three years from the date on which a taxpayer filed their return; a special five-year period of extended limitations was provided when a taxpayer, even though acting in good faith, "omit[ted] from gross income an amount properly includible therein ...in excess of 25 percentum of the amount of gross income stated in the return. . . ." In Colony, Inc. v. Commissioner, the IRS invoked Code § 275(c) (1939) to assess a deficiency against a related taxpayer for omission of gross income within the extended reviewable time period.

In Colony, the IRS alleged that a taxpayer “understated the gross profits on the sales of certain lots of land for residential purposes” by including in the basis of such lots certain “unallowable items of development expense.” By overstating permissible costs, the taxpayer in Colony reduced its reportable gross income. The IRS contended that the amount left out of gross income by the taxpayer exceeded 25% of the amount of gross income stated in the taxpayer’s income tax return, thereby leaving room for assessment under Code § 275(c) (1939).

The Supreme Court in Colony acknowledged that Code § 275(c) (1939) did not clearly assert whether Congress intended an overstated basis to constitute an omission from gross income for purposes of invoking the additional two years provided by the special circumstances noted above. However, the Court found in the legislative history “persuasive evidence that Congress was addressing itself to the specific situation where a taxpayer actually omitted some income receipt or accrual in his computation of gross income, and not more generally to errors [of] computation arising from other causes."

According to the Court, “in enacting Code § 275(c) (1939) Congress manifested no broader purpose than to give the Commissioner an additional two years to investigate tax return cases where, because of a taxpayer’s omission to report some taxable item, the Commissioner is at a special disadvantage in detecting errors.” The Court therefore refused to construe “omits” broadly and instead restricted its applicability to situations where taxpayers actually fail to report income. Notably, the Court also stated that its conclusion was “in harmony with the unambiguous language of Code § 6501(e)(1)(A).”

As is typical of tax law, one definition leads to yet another question – what is a “taxable gain”? 

Chevron U.S.A., Inc. v. NRDC

Chevron U.S.A., Inc. v. NRDC established a working relationship between the constructions of congressionally empowered agencies and the ruling authority of judicial review. Recall that the IRS promulgated in final form Treas. Reg. § 301.6501(e)-1 in December of 2010, which redefined an omission from gross income under Code § 6501(e)(1)(A) to include “an understatement of gross income resulting from an overstatement of unrecovered cost or other basis.” That interpretation directly conflicts with the interpretation noted above in Colony.

Chevron in part addresses this type of conflict by providing a two-step test to derive congressional intent with regard to judicial and administrative powers of interpretative authority. The Court in Chevron held that when a court reviews an agency’s construction of the statute which it administers, it is confronted with two questions:

First, always, is the question whether Congress has directly spoken to the precise question at issue; if the intent of Congress is clear...“the court, as well as the agency, must give effect
Law and Language: Congressional Intent Trumps Agency Construction in Concrete Case

to the unambiguously expressed intent of Congress” (Chevron, 1984). If, however, the court determines Congress has not directly addressed the precise question at issue, then “[t]he question for the court is whether the agency’s answer is based on a permissible construction of the statute” (Chevron, 1984).

The Court in Chevron acknowledged that “considerable weight should be accorded to an executive department’s construction of a statutory scheme it is entrusted to administer and [that] the principle of deference to administrative interpretations ‘has been consistently followed by Court[s] whenever decision as to the meaning or reach of a statute has involved reconciling conflicting policies.’”

In fact, the Court further expounded that if Congress has “explicitly left a gap for [an] agency to fill, there is an express delegation of authority to [an] agency to elucidate a specific provision of [a] statute by regulation.” Accordingly, such legislative regulations are given controlling weight unless they are “arbitrary, capricious, or manifestly contrary” to the intent of Congress.

In sum, the Court in Chevron concluded that reviewing courts are bound to defer to agency constructions “‘unless it appears from the statute or its legislative history that the accommodation is not one that Congress would have sanctioned.’”

...if the intent of Congress is clear...“the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress”

National Cable & Telecommunications Association v. Brand X Internet Services

While Chevron forecloses agency constructions that conflict with judicial holdings construed from unambiguous terms of a statute, it is silent with regard to the validity of a regulation that both conflicts with a prior judicial construction and interprets ambiguous terms of a statute. In Brand X, the Court held that “where a statute’s plain terms admit of two or more reasonable ordinary usages, the Commission’s choice of one of them is entitled to deference.”

In such very limited circumstances where statutory ambiguity invites agency interpretation, such interpretation is given deference even if it conflicts with prior judicial rulings. Accordingly, in Brand X, the Court rejected a Ninth Circuit holding affirming a judicial construction of the Communications Act in favor of a Commissioner’s “reasonable policy choice” that redefined the Communications Act’s ambiguous regulatory history.

Case Facts

Plaintiff Home Concrete and Supply, LLC (“Home Concrete”), designated a pass-through entity for tax purposes, was formed on April 15, 1999 (Home Concrete, 2011). Its partners were Mr. Chandler, Mr. Pierce, Home Oil, and two trusts established for the benefit of Mr. Pierce’s children (collectively, “the taxpayers”).

On May 13, 1999, each of the taxpayers initiated short sales of United States Treasury Bonds, from which the taxpayers received $7,472,405 in short sale proceeds. On May 17, 1999, the taxpayers transferred the short sale proceeds and margin to Home Concrete as capital contributions. By transferring the short sale proceeds to Home Concrete as capital contributions, the taxpayers created “outside basis” equal to the amount of the proceeds contributed. On May 18, 1999, Home Concrete closed the short sales by purchasing and returning essentially identical Treasury Bonds on the open market at an aggregate purchase price of $7,359,043.

On June 11, 1999, Home Oil transferred substantially all of its business assets to Home
Concrete as a capital contribution. On June 14, 1999, the taxpayers (except Home Oil) transferred percentages of their respective partnership interests in Home Concrete to Home Oil as capital contributions to Home Oil. On August 31, 1999, Home Concrete sold substantially all of its assets to a third-party purchaser for $10,623,348.

In April 2000, Home Concrete and the taxpayers timely filed their tax returns for the 1999 tax year. Home Concrete elected to adjust, or “step-up” its inside basis under Code § 754 to equal the taxpayers’ outside bases. Home Concrete then adjusted its inside basis to $10,527,351, including the amount of short sale proceeds earlier contributed by the taxpayers. As a result, Home Concrete reported a modest $69,125 gain from the sale of its assets.

Home Concrete’s 1999 tax return reported the basic components of these transactions; its Code § 754 election form gave, for each partnership asset, an itemized accounting for the partnership’s inside basis, the amount of the basis adjustment, and the post-election basis. The sum of the post-election bases was also indicated at the end of the form.

On its face, Home Concrete’s return also showed a “Sale of U.S. Treasury Bonds” acquired on May 18, 1999 at a cost of $7,359,043, and a sale of those Bonds on May 19, 1999 for $7,472,405. The return also reported the resulting gain of $113,362. Similarly, the taxpayers’ individual returns showed that “during the year the proceeds of a short sale not closed by the taxpayer in this tax year were received.”

Despite these disclosures, the IRS did not investigate the taxpayers’ transactions until June 2003. The IRS issued a summons to Jenkins & Gilchrest, P.C., the law firm that assisted the taxpayers with the transactions, on June 19, 2003. Substantial compliance with the IRS summons did not occur until at least May 17, 2004. As a result of its investigation, on September 7, 2006, the IRS issued a Notice of Final Partnership Administrative Adjustment (FPAA), decreasing to zero the taxpayers’ reported outside bases in Home Concrete and thereby substantially increasing the taxpayers’ taxable income.

Home Concrete deposited $1,392,118 (equal to its assessed outstanding tax liability) with the IRS and sued in the District Court for the Eastern District of North Carolina to recover that amount, alleging that the FPAA was barred by the general three-year limitations period in Code § 6501(a).

...reviewing courts are bound to defer to agency constructions “unless it appears from the statute or its legislative history that the accommodation is not one that Congress would have sanctioned.”

JUDICIAL HISTORY

District Court for the Eastern District of North Carolina

At the district court level, in the first round of legal proceedings surrounding the Home Concrete and Supply case, the court determined the only “issue for the court to address...is whether plaintiffs sufficiently disclosed information on their relevant tax returns to satisfy the [safe harbor] provisions of Code § 6501(e)(1)(A)(ii),” which requires disclosure of an omission to include “the nature and amount of such item.”

The district court made two legal determinations that governed the analysis of whether plaintiffs’ disclosure was sufficient to qualify for the safe harbor in Code § 6501(e)(1)(A)(ii). First, the court found that it may review information contained in both plaintiffs’ individual returns and in the relevant partnership returns in determining the adequacy of a disclosure (Home Concrete, 2008).
Second, the standard by which plaintiffs’ disclosure is to be judged is whether it is “sufficient to indicate what type of item has been omitted (and how large or small that item is) on the face of the relevant returns.” Plaintiffs need not have disclosed every precise fact regarding the underlying transactions; however, they “must disclose the substance of a transaction in order to benefit from the shorter limitation period [of Code § 6501(a)] if the taxpayer omits income.”

The heart of the parties’ dispute was the proper tax treatment of an obligation to close a short sale of treasury notes that partners transferred to a partnership.


- On May 17, 1999, Pierce and Chandler contributed the proceeds of these short sales to Home Concrete, along with the obligation to close the short sales.

- On May 18, 1999, Home Concrete covered the short sale positions.

The plaintiffs’ short sale of treasury notes and the accompanying transfer of the short sale proceeds, position, and obligation to close that short sale position to Home Concrete, caused the alleged omission of gross income contested by the IRS.

Plaintiffs argued that they disclosed the substance of their omitted item by plainly disclosing their election to step-up basis by more than 150% of the basis before the adjustment, along with a list of other details that they believed should have alerted the IRS to anything potentially irregular. The plaintiffs also argued that expecting any additional disclosures on their behalf would amount to an unduly burdensome reporting requirement.

Plaintiffs referenced two particular statements on their returns, which they asserted distinguished their disclosures from those found inadequate in other situations. First, plaintiffs noted that Pierce and Chandler’s respective individual tax returns “disclosed a short sale and referred to the obligation to close it,” through the following statement: “[D]uring the year the proceeds of a short sale not closed by the taxpayer in this tax year were received.” Second, plaintiffs noted that Home Concrete disclosed a large sale of Treasury Bonds on Schedule D of its Form 1065.

The district court ruled the plaintiffs’ disclosures applicable to the nature and amount of their omission of income caused by an overstatement of basis failed to disclose the substance of the transaction that created their overstatement of basis. As the plaintiffs’ disclosures did not, in the court’s opinion, qualify for the safe harbor provision of Code § 6501(e)(1)(A)(ii), the Government’s action under the six-year statute of limitations prescribed by Code § 6501(e) was deemed timely and upheld.

Despite plaintiffs’ arguments to the contrary, the court did not find the disclosures on Pierce and Chandler’s individual tax returns reasonably stated to indicate that plaintiffs’ “opening of the short sales was related to the basis step-up by Home Concrete.”

Further, the court understood plaintiffs’ revelation of a sale of Treasury Bonds in Home Concrete’s Schedule D to be a “smokescreen for plaintiffs’ actual activities.” In fact, plaintiffs did not disclose a short sale of Treasury Bonds or the “close of a short sale position,” nor did they “use any other descriptive moniker that accurately described the transaction.”

In short, for the forgoing reasons, the court ruled that Home Concrete did not satisfy its disclosure requirement pursuant to the safe harbor provision of Code § 6501(e)(1)(A)(ii) and was therefore subject to the FPAA assessment filed by the Government.
Court of Appeals for the Fourth Circuit

On appeal to the Fourth Circuit Court of Appeals, the precise issue before the court was whether an overstatement of basis constitutes an omission of gross income for purposes of Code § 6501(e)(1)(A). The plaintiffs argued that Colony establishes that an overstated tax basis does not constitute an omission from gross income for purposes of extending the limitations period for assessments.

Thus, plaintiffs argued that their overstated basis in short sale proceeds did not trigger the six-year statute of limitations of Code § 6501(e), thereby rendering the Government’s FPAA action untimely.

The Government countered by asserting Treas. Reg. § 301.6501(e)-1 is entitled to controlling deference under Chevron. Citing its authority to promulgate a “reasonable reinterpretation of an ambiguous provision of the tax code,” the IRS issued Temp. Reg. § 301.6501(e)-1, which defines “an understatement of gross income resulting from an overstatement of unrecovered cost or other basis” as an omission from gross income.

The IRS further argued that the “six-year period for assessing tax” described in Code § 6501(e)(1) remained open for all taxable years in which a case remains pending before any court of competent jurisdiction or in which a decision has not yet become final (within the meaning of Code § 7481).”^3 Because this case was not finally resolved as of September 24, 2009, the IRS argued that Code § 6501(e)(1)’s six-year period for assessing tax remained open and Treas. Reg. § 301.6501(e)-1 applied (Home Concrete, 2011).

The Fourth Circuit Court of Appeals concluded that the Supreme Court’s holding in Colony applies to Code § 6501(e)(1)(A). That is, an overstated basis in property is not an omission from gross income that extends the limitations period of Code § 6501(e)(1)(A).

Home Concrete’s overstated basis in short sale proceeds did not therefore trigger the six-year statute of limitations of Code § 6501(e)(1)(A).

The Fourth Circuit also concluded that Treas. Reg. § 301.6501(e)-1, by the plain terms of its applicability clause, did not apply to the tax year at issue in this case and is furthermore not entitled to deference. Rather, the general three-year statute of limitations in Code § 6501(a) applies, rendering the Government’s FPAA untimely. Accordingly, the Fourth Circuit reversed the district court’s judgment to the contrary.^4

[The Government cited] its authority to promulgate a “reasonable reinterpretation of an ambiguous provision of the tax code”...

United States Supreme Court

On writ of certiorari, the Supreme Court established that Home Concrete and Supply hinged on the application of the extended limitations provision of Code § 6501(e)(1)(A). The precise issue before the Court was whether an overstatement of basis in property sold by a taxpayer, and the corresponding understated gain from sale such understatement caused, invoked the additional three-year review period extended when a taxpayer “omits from gross income an amount properly includible therein...in excess of 25 percent of the amount of gross income stated in the return.”

For purposes of judging the applicability of Code § 6501(e)(1)(A), the Court assumed that:

“(1) The respondent taxpayers filed their relevant tax returns in April 2000;
(2) the returns overstated the basis of certain property that the taxpayers had sold;
(3) as a result the returns understated the gross income that the taxpayers received from the sale of the property;
(4) the understatement exceeded the statute’s 25% threshold.”

The Court further assumed that “the Commissioner asserted the relevant deficiency within the extended 6-year limitations period, but outside the default 3-year period” of Code § 6501(e).

The Court also recognized the precedential value of Colony, in which the Supreme Court previously interpreted Code § 275(c) (1939) to be limited strictly “to situations in which specific receipts or accruals of income are left out of the computation of gross income.” The Court therefore considered the materiality of the language present in Code § 275(c) (1939) with regard to the existing language of Code § 6501(e)(1)(A).

Finally, the Court considered the Government’s claim that Treas. Reg. § 301.6501(e)-1 constituted a permissible construction of Code § 6501(e)(1)(A). To judge its interpretation, the Court considered whether Code § 6501(e)(1)(A) was ambiguous, thereby leaving room for agency discretion. In doing so, the Court carefully examined the deference principles Chevron and Brand X outline for agency constructions.

Following Colony, Inc. v. Commissioner, the Supreme Court held that the extended limitations provisions of Code § 6501(e)(1)(A) do not apply to overstatements of basis; thus, the six-year period does not apply to Home Concrete, and the Government’s FPAA was disallowed. The Court also ruled, citing the unambiguous language of Code § 6501(e)(1)(A), that Colony rather than Chevron controlled the outcome in this case.

In Colony the Supreme Court interpreted Code § 275(c) (1939) to hold that “taxpayer misstatements overstating… basis in property, do not fall within the scope of [Code § 275 (1939)].” The Court in Colony made such interpretation based on the operative language of the Code.

In 1939, as it is presently, the Code defined “gross income” as the difference between gross revenue (generally the amount received by a taxpayer as compensation for sold property) and basis (generally the amount said taxpayer originally purchased the property for).

As the Commissioner was apt to point out in this case, it is true that an overstatement of basis can diminish the “amount” of any gain from a sale, just as leaving an item entirely off a return might also do. In both circumstances, either error wrongly understates reportable gross income.

However, the Court in Colony also recognized the significance of the key phrase “omits…an amount.” The word “omits” literally means “[t]o leave out or unmentioned; not to insert, include, or name” (Merriam-Webster.com). While an overstatement of basis does indeed understate gross income, such overstatement does not actually “omit” gross income.

Such understanding may seem trivial, but per the definition of “omit,” i.e., its “plain, obvious, rational” meaning, it is impossible to conclude any different interpretation. Quite literally, “omit” limits the scope of Code § 6501(e)(1)(A) “to situations in which specific receipts or accruals are left out of the computation of gross income” (Colony, 1958).

After concluding Colony limited the scope of Code § 6501(e)(1)(A), the Supreme Court turned its attention to Treas. Reg. § 301.6501(e)-1. The regulation conflicts with Colony in stating that “an understated amount of gross income resulting from an overstatement of unrecovered cost or other basis constitutes an omission from gross income.”

Under Chevron, and as demonstrated in Brand X, the IRS is permitted to interpret ambiguous
sections of the Internal Revenue Code. To determine the appropriateness of the IRS’s interpretation then, the Supreme Court examined the language contained in Code § 275(c) (1939) previously interpreted in Colony with regard to the existing language of Code § 6501(e)(1)(A).

As part of its argument to persuade the Court that the language of Code § 275(c) (1939) and Code § 6501(e)(1)(A) was not unambiguous, the Government asked why Code § 6501(e)(1)(A) was included in the 2000 version of the Code, if the section’s basic phrase “omission] from gross income” did not apply to overstatements of basis. The Government pointed out that clause (i) “leads to the same result,” at least for a specific subgroup of taxpayers.

Additionally, the Government referred to the estates and gifts section of Code § 6501(e), which replaced the previous word “amount” from Code § 275(c) (1939) with “items”—such revision, in the Government’s opinion, broadened the coverage of “amount” to include “more than omission of [an] individual item – indeed to include overstatements of basis…” (Home Concrete, 2012).

Ultimately, the Supreme Court determined that those points were “too fragile to bear the significant argumentative weight the Government seeks to place upon them.” The Court suggested that clause (i) was included not to change the meaning of the general rule, but rather to explain “how to calculate the denominator for purposes of determining whether a conceded omission amounts to 25% of ‘gross income.’” For without clause (i), the general statutory definition of “gross income” requires subtracting cost from sales price, which distorts the actual percentage of excluded items with regard to a trade or business’s gross income.

The Court found the Government’s argument regarding the replacement of “amount” with “item” to be even weaker. In Colony, the Court addressed a similar argument about the word amount, rejecting the Commissioner’s belief that “the draftsman’s use of ‘amount’ (instead of, for example, ‘item’) suggests a concentration on the quantitative aspect of the error—that is whether or not gross income was understated…” (Colony, 1958).

In the Court’s opinion, the word ‘item’ fails to exert an interpretative force sufficiently strong to affect Colony’s conclusion. In fact, the Court characterized the Government’s suggestion of a different interpretation as analogous to “hoping that a new bat boy [would] change the outcome of the World Series” (Home Concrete, 2012).

Therefore, the Court found that the existing language of Code § 6501(e)(1)(A) was unambiguous with regard to the language at issue in Colony and as a result “Congress intended overstatements of basis to fall outside the statute’s scope; there was no ‘gap’ in statutory construction left for the IRS to fill.” The Court thus refused to apply Treas. Reg. § 301.6501(e)-1 retroactively, and dismissed the FPAA action against Home Concrete.

The Court’s decision, however, was not unanimous—U.S. v. Home Concrete and Supply was decided by a contentious five-four margin. Justice Kennedy, joined by Justices Ginsburg, Sotomayor, and Kagan, concluded that the Government’s interpretation embodied in Treas. Reg. § 301.6501(e)-1 was in fact permissible. Given the slim margin of defeat, it is worth noting the strong objections outlined in the preceding justices’ dissent.

The dissenting justices objected “to insisting that an ambiguous provision must continue to be read the same way even after it has been reenacted with additional language suggesting Congress would permit a different interpretation.” While Justice Kennedy acknowledged the result in Colony, he and the dissent concluded that the addition of new language “controls the analysis” of the case at
issue and “should instruct the Court to reach a different outcome” than what was ruled.

Indeed, the justices acknowledged that the interpretation adopted by the Court in Colony represents a valid starting point to interpret Code § 6501(e)(1)(A), but objected to its use as a final measure of interpretation; Justice Kennedy and his dissenting colleagues believed the Court went too far “in constraining Congress’s ability to leave agencies in charge of filling statutory gaps.”

In addition to ossifying “large portions of…statutory law,” the dissent argued that the majority’s opinion ignored an implicit expectation by Congress “that the overstatement of basis would be considered an omission from gross income as a general rule...” Although it was ultimately concluded in Colony that an overstatement of basis was not an omission from gross income, the dissent noted that Colony “made clear that the text of the earlier version of [Code § 6501(e)(1)(A)] could not be described as unambiguous.”

Accordingly, the dissent held that “the statutory revisions…not considered in Colony... strongly favor” ambiguity in the Code for the Treasury Department to rightfully interpret. As such, the dissent contested the majority’s opinion that Treas. Reg. § 301.6501(e)-1 represented “an impermissible retroactive” measure.

Quite literally, “omit” limits the scope of Code § 6501(e)(1)(A) “to situations in which specific receipts or accruals are left out of the computation of gross income”

Conclusion

In U.S. v. Home Concrete and Supply the Supreme Court held that Congress intended to restrict the extended limitations period set forth in Code § 6501(e)(1)(A) to situations that did not include overstatements of basis. The Court arrived at such ruling by concluding that Colony controlled the statutory interpretation of Code § 6501(e)(1)(A) and by rejecting the Government’s argument that Treas. Reg. § 301.6501(e)-1 should be granted Chevron deference.

The Court noted that the plain, obvious, rational meaning of the word “omit”, which is “to leave out or leave unmentioned,” strictly limits the scope of Code § 6501(e)(1)(A) to situations in which specific receipts or accruals of income are left out of the computation of gross income. Accordingly, the Court rejected the Government’s untimely tax assessment against Home Concrete and Supply, LLC.

References

Internal Revenue Code § 61
Internal Revenue Code § 1001
Internal Revenue Code § 6501
Internal Revenue Code § 7481
Treasuray Regulation § 301.6501(e)-1
Colony, Inc. v. Commissioner, 357 U.S. 28 (1958)
National Cable & Telecommunications Association v. Brand X Internet Services et al., 545 U.S. (2005)
United States v. Mead Corp., 533 U.S 229 (2001)
U.S. v. Home Concrete & Supply, LLC, 634 F.3d 249 (4th Cir., 2011)
Federal Taxation of Financial Instruments and Transactions, Kevin M. Keyes, Reuters Press, Copyright 1997
Endnotes

1 A short sale “occurs when a taxpayer borrows stock or securities from a lender and then sells the stock or securities to a third party. The seller becomes obligated to deliver identical property to replace the borrowed property. The short seller typically anticipates that the price of the security will decline, so that he or she can purchase a new security at a lower price to replace the borrowed property that were ‘sold short,’ and thus make a profit.” (Keyes).

2 Plaintiffs argued that requiring greater disclose than they provided here would somehow impose a great burden on taxpayers. The district court found no merit to the plaintiffs’ argument, as nothing in the court’s opinion required plaintiffs or similarly situated taxpayers to “attach to the return the short sale paperwork…or other justification for taking the basis adjustment…as plaintiffs seem to assert.” Rather, adequate disclosure in this case could have been made from the face of the returns with a few additions and corrections. Had plaintiffs correctly identified the short sale of Treasury Bonds on Home Concrete’s Schedule D, they may have had a strong claim to adequate disclosure; instead, plaintiffs chose to omit the crucial descriptive word “short” in their reporting, which resulted in the misleading statement included in their documentation before the district court.

3 Code § 7481(a) Reviewable decisions: Except as provided in subsections (b), (c), and (d), the decision of the Tax Court shall become final—Upon the expiration of the time allowed for filing a notice of appeal, if no such notice has been duly filed within such time; or (2) Decision affirmed or appeal dismissed (A) Petition for certiorari not filed on time…upon the expiration of the time allowed for filing a petition for certiorari, if the decision of the Tax Court has been affirmed or the appeal dismissed by the United States Court of Appeals; or (B) Petition for certiorari denied…upon the denial of a petition for certiorari, if the decision of the Tax Court has been affirmed or the appeal dismissed by the United States Court of Appeals; or (C) After mandate of Supreme Court.

4 In light of its holding, the Fourth Circuit did not reach the parties’ argument regarding the safe harbor provision.
Ownership and Performance in Europe

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Executive Summary

In this paper, we consider the relationship between performance and ownership concentration in a large number of publicly traded and privately held companies located in smaller European economies (Austria, Belgium, Finland, Ireland, and Ukraine). These countries represent the five legal families (German, French, Scandinavian, Common Law, and Eurasian, respectively), yet are characterized by fairly illiquid and small stock markets.

This paper is the first cross-country study we know of to explore the relationship between corporate performance and ownership concentration for both public and private firms from all five legal traditions. It informs two literatures – on ownership concentration and performance, as well as on law and finance.

Our central hypothesis is that the relationship between performance and ownership concentration should vary by the level of legal protection afforded small shareholders. In addition, the type of ownership concentration should affect that relationship; we consider the ownership concentration of a single blockholder as well as that of a coalition of the five largest blockholders. Our tobit empirical tests control for firm size, status as a listed firm, risk, ratio of intangible to total assets, status as a financial firm, leverage, and age.

The results are consistent with our hypothesis in that firms located in the country with the lowest level of legal protection in our sample – Ukraine – exhibit a very different relationship between performance and ownership concentration, depending on whether we consider the portion of the firm’s equity held by a single shareholder, or by a coalition of the five largest shareholders.

Specifically, where minority shareholders are least protected, ownership concentration of a single blockholder is negatively related to performance; but the ownership portion of a coalition of the five largest shareholders is positively related to performance. These findings are robust to breaking down the sample by size and by one-digit SIC industry category. We conclude with some implications for the literature and for future research.

Ownership and Performance in Europe

Ownership Concentration and Performance

The empirical literature relating ownership concentration and performance is characterized by mixed results. Although some studies find that ownership concentration and performance are related in publicly traded firms, the most recent salient finding (Demsetz and Villalonga, 2001) is that in an environment where ownership structure is endogenous – where shares can be freely traded in a liquid equity market – ownership structure and performance arise together, and we should expect no clear relationship between them.
Fewer studies examine the relationship between ownership concentration and performance in privately held companies, however. Recent empirical work focusing on firms located in a number of legal environments, has indicated that a different kind of corporate governance problem can confront minority shareholders. Here, the conflict is not between entrenched managers and diffuse shareholders (Berle and Means, 1932), but between blockholders and unprotected minority shareholders.

Given the separation of ownership and control that characterizes many firms, minority shareholders may be subject to tunneling and diversion of profits to majority shareholders through pyramid schemes and other techniques (Atanasov, 2005; Claessens, et al 2002; Dyck and Zingales, 2004; Nenova, 2002).

In this paper, we consider the relationship between performance and ownership of privately held firms. Our primary hypothesis is that in an environment with illiquid shares (due either to non-listed status or listing on a smaller stock market), the endogeneity of ownership concentration and performance may not arise. Where shares are illiquid, there may well be a robust relationship between ownership and performance.

We need to consider both the type of ownership concentration (single shareholder or coalition of shareholders) and the level of legal protection afforded by the legal system to minority shareholders. This leads us to incorporate the literature relating to the level of protection for minority shareholders in various legal traditions. For this reason, we include in our analysis countries representing each of the five major legal families (La Porta, et al, 1998; hereafter LLSV; Pistor, 2002; Bogdan, 1994): French, German, Scandinavian, English Common Law, and Eurasian.

How might legal family affect the relationship between ownership and performance? This may vary depending on whether the controlling block is held by a single shareholder, or by a coalition of shareholders. (Bolton and von Thadden [1998] present a theoretical model that specifies conditions when either dispersed or concentrated ownership may be ideal.)

**Figure 1: Hypothesized Relationship Between Block Size and Performance**

<table>
<thead>
<tr>
<th>Weak investor protection</th>
<th>Strong investor protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>A5</td>
</tr>
<tr>
<td>Negative</td>
<td>Positive</td>
</tr>
<tr>
<td>(Single large shareholder diverts from minority shareholders, driving down performance)</td>
<td>(Coalition of owners mitigates diversion propensities of largest shareholder)</td>
</tr>
<tr>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>(Single shareholder drawn to obtain more profits)</td>
<td>(Blockholders drawn to obtain more shares to achieve greater dividend payments)</td>
</tr>
</tbody>
</table>
Figure 1 presents a summary of our major hypotheses, contrasting how the relationship between ownership concentration and performance varies in different legal environments, and for a single owner as opposed to a coalition of owners.

In environments with poor legal protection (e.g., Bulgaria as analyzed by Atanasov, 2005), a single blockholder will be able to divert a large portion of the value away from minority shareholders. This diversion could take many forms: transfer pricing of intermediate goods that reduces profits, loans made to other firms or individuals at interest rates that provide subsidies to the borrower, and even outright asset stripping (selling corporate assets at below-market prices to another entity fully owned by the majority shareholder).

For these reasons, we might expect to see a negative relationship between return on assets (ROA) and ownership concentration by a single blockholder in environments with “weak” legal protection for minority shareholders.

Another effect may be dominant, however, in environments where small shareholders are protected from diversion by the legal system. For profitable firms, there may be an incentive for a controlling shareholder to obtain greater ownership, thereby receiving a higher portion of the dividend payments.

The concept of “control potential” in Demsetz and Lehn (1985) reflects this tendency; their empirical findings of more concentrated ownership for firms with higher earnings and stock price volatility confirm this effect. If shares are not liquid, their price will not be bid upwards, so capital gains will not be a motive for more ownership, but there will be additional incentives for higher concentration when performance is good.

How might coalitions of controlling shareholders affect the relationship between control and performance in different legal environments? Based on previous theoretical and empirical research (Bennedsen and Wolfenzon, 2000; Volpin, 2002; Faccio et al, 2001; Lehman and Weigand, 2000; Maury and Pajuste, 2003; Gutierrez and Tribo, 2004), we expect the influence of a controlling coalition to deter the diverting tendencies of a single large shareholder.

...the relationship between performance and ownership concentration should vary by the level of legal protection afforded small shareholders.

In this case – irrespective of the strength of legal protections – we would expect to see a positive relationship between ROA and ownership concentration, since the “control potential” effect becomes dominant over the diversionary tendencies of a dominant single owner.

Studying firms in small countries with relatively illiquid markets allows us to avoid a potentially thorny aspect: the relationship between performance and ownership concentration. Do ownership outcomes reflect performance, or cause it?

Given the lack of liquidity in the equity of privately held firms that form the bulk of our analysis, we are less concerned that endogeneity calls our results into question. This paper proceeds as follows. Section II outlines the data and models, Section III presents the results of our empirical analysis, and Section IV concludes.

Data and Models

Data and Descriptive Statistics

We employ Bureau van Dyck’s Amadeus database to conduct our empirical tests, including all data available for our countries between the years 1996 and 2005. Giannetti (2003) uses this data source for an analysis of...
financial performance of Western European countries. The Central and Eastern Europe portion of the database is used in empirical tests of leverage adjustment speed by Nivorozhkin (2005), to consider the effect of legal rights on leverage by Hall and Jorgenson (2008), and to examine how collateral and changes in legal rights affect leverage (Hall, 2012). Desai, Gompers, and Lerner (2003) use the data to show that firms face capital constraints induced by institutional factors, which affect the ability of companies to grow.

Where minority shareholders are least protected, ownership concentration of a single blockholder is negatively related to performance; but the ownership portion of a coalition of the five largest shareholders is positively related to performance.

We construct two dependent variables, each measuring a different aspect of ownership concentration. Following Demsetz and Lehn (1985), we define variable A1 as the portion of ownership held by the largest single shareholder. Our variable A5 reflects the portion of ownership held by the five largest shareholders, and reflects the fact that many closely-held (and publicly traded) firms are held by a coalition of large block-holders.5

Figure 2: Histogram of A1 (All data)

Figure 2a: Histogram of A1 Excluding Values of “0” and of “100”

Figure 3: Histogram of A5

Figure 3a: Histogram of A5 Excluding Values of “0” and “100”
Figures 2, 2a, 3, and 3a provide histograms of the resulting observations of the A1 and A5 variables. Mean values for A1 and A5 are 76% and 87%, respectively, and given the nature of our sample of privately-held firms, there are many values of 100. Because of this, we use tobit estimation censored at 1 and 100.

Figures 2a and 3a omit the numerous observations at both “0” and at “100” (which will all be truncated by the tobit estimation) to give a better visual sense of the variation that will drive the statistical results. Both figures 2a and 3a indicate that there are clusters of observations for both A1 and A5 at the middle (around 50) in the truncated samples.

Table 1: Data Description Panel A: All Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>n</th>
<th>Mean</th>
<th>St Dev</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Ownership share of largest shareholder</td>
<td>47,670</td>
<td>76.0207</td>
<td>31.85821</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>A5</td>
<td>Ownership share of five largest shareholders</td>
<td>47,670</td>
<td>87.70053</td>
<td>27.37735</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>ROA</td>
<td>Average of return on assets for 1996 to 2005, defined as EBITDA/ Total assets</td>
<td>47,670</td>
<td>.0453957</td>
<td>.1126381</td>
<td>-.4899133</td>
<td>.5898796</td>
</tr>
<tr>
<td>Log of Employees</td>
<td>Natural log of average number of employees from 1996 to 2005</td>
<td>40,835</td>
<td>4.116712</td>
<td>1.606227</td>
<td>0</td>
<td>11.85272</td>
</tr>
<tr>
<td>Log of Total Assets</td>
<td>Natural log of average total assets from 1996 to 2005, expressed in thousands of Euros</td>
<td>47,668</td>
<td>8.017707</td>
<td>1.786805</td>
<td>-.5108256</td>
<td>21.17741</td>
</tr>
<tr>
<td>Leverage</td>
<td>Average amount from 1996 to 2005 of total debt/ total assets</td>
<td>46,787</td>
<td>.6050671</td>
<td>1.267851</td>
<td>-.9079065</td>
<td>159.848</td>
</tr>
<tr>
<td>Intangibility</td>
<td>Average amount from 1996 to 2005 of intangible fixed assets/ total assets</td>
<td>46,412</td>
<td>.0156201</td>
<td>.0611906</td>
<td>-.3920341</td>
<td>1</td>
</tr>
<tr>
<td>Listed</td>
<td>Dummy variable taking value of “1” for listed firms</td>
<td>47,670</td>
<td>.0080554</td>
<td>.0893905</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Financial</td>
<td>Dummy variable taking value of “1” for firms with 3-digit SIC beginning with “6”</td>
<td>44,669</td>
<td>.1034498</td>
<td>.3045489</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>CountROA</td>
<td>Number of observations for ROA during 1996 – 2005 time period</td>
<td>47,670</td>
<td>6.346591</td>
<td>2.719797</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Austria</td>
<td>“1” for Austria</td>
<td>47,670</td>
<td>.0603105</td>
<td>.2380637</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Belgium</td>
<td>“1” for Belgium</td>
<td>47,670</td>
<td>.3264107</td>
<td>.4689044</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Finland</td>
<td>“1” for Finland</td>
<td>47,670</td>
<td>.0883994</td>
<td>.2838779</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Ireland</td>
<td>“1” for Ireland</td>
<td>47,670</td>
<td>.1467799</td>
<td>.3538901</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Ukraine</td>
<td>“1” for Ukraine</td>
<td>47,670</td>
<td>.3780994</td>
<td>.4849177</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 1: Data Description Panel B: Description of A1 and A5 by Country

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>n</th>
<th>Mean</th>
<th>St Dev</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Austria</td>
<td>2,875</td>
<td>79.69</td>
<td>27.95</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Belgium</td>
<td>15,560</td>
<td>73.04</td>
<td>34.71</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Finland</td>
<td>4,214</td>
<td>79.58</td>
<td>32.63</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Ireland</td>
<td>6,996</td>
<td>76.21</td>
<td>31.12</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Ukraine</td>
<td>18,024</td>
<td>77.11</td>
<td>29.68</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>A5</td>
<td>Austria</td>
<td>2,875</td>
<td>95.64</td>
<td>17.31</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Belgium</td>
<td>15,560</td>
<td>76.59</td>
<td>33.68</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Finland</td>
<td>4,214</td>
<td>83.91</td>
<td>29.23</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Ireland</td>
<td>6,996</td>
<td>93.94</td>
<td>22.48</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Ukraine</td>
<td>18,024</td>
<td>94.49</td>
<td>19.45</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 1 provides a breakdown of the variables we use, along with their minimum and maximum values, means, and standard deviation. Panel A includes all the variables used in the statistical analysis later in the paper. The portion of our sample that comes from Austrian, Belgian, Finnish, Irish, and Ukrainian firms, respectively, is 6.0%, 32.6%, 8.8%, 14.7%, and 37.8%. Panel B of Table 1 indicates descriptive statistics on the key dependent variables of our study A1 and A5, but is broken down by country. For the A1 variable, the mean varies from 73.04 for Belgium to a high of 79.69 for Austria; for A5, Austria has the highest mean at 95.64 and Belgium has the lowest mean at 76.59.

**Empirical Tests and Models**

We use a battery of independent variables typical of the literature, as defined in Table 1. We estimate the following model:

\[ \text{OWN}_i = \alpha + \beta_1 \text{ROA}_i + \beta_2 \text{LnTotAssets}_i + \beta_3 \text{LnEmployees}_i + \beta_4 \text{StDevROA}_i + \beta_5 \text{Listed}_i + \beta_6 \text{Leverage}_i + \beta_7 \text{Financial}_i + \beta_8 \text{Age}_i + \beta_9 \text{Intangible} + \epsilon \]  

(1)

where \( i \) indexes each firm in our database.

OWN is either A1 or A5, depending on the specification.

ROA is return on assets defined as EBITDA/Total assets.

We include natural log of total assets and employees as our size controls.

Risk is proxied by examining the standard deviation of ROA.

Leverage is defined as the average value of total debt divided by total assets over each year in the 1996 to 2005 study period.

Intangible is equal to the amount of intangible fixed assets divided by total assets.

---

*Older firms have consistently less ownership concentration...*

Age is the number of years since the firm was founded.

The dummy variables *listed* and *financial* take the value of “1” for firms that are listed on a public stock exchange and for firms with 3-digit SIC code beginning with “6”, respectively.

Note that Demsetz and Lehn (1985) found a negative and significant coefficient for this financial firm dummy variable when regressed against A5.

To ensure that our results are not due to poor data quality, in a set of robustness tests we include an additional variable, countroa, that takes the value from 1 to 10, reflecting the number of years for which both earnings (operating profit/loss) and total assets are reported.

**Results**

Univariate correlations between ROA and the two definitions of ownership concentration are presented in Table 2. This provides an initial confirmation of our central hypothesis in that the country with historically the weakest legal environment for the protection for minority shareholders, Ukraine, shows a negative relationship between A1 and ROA, but a positive relationship between A5 and ROA.

The other countries presumably have strong enough legal protections for shareholders such that there is no clear distinction between Civil Law and Common Law countries, or even among the French, German, and Scandinavian countries in our sample. We shall assess the implications of this finding in more detail, below.
Table 3 presents tobit regression results using A1 as the dependent variable. Broadly, the findings are consistent with previous research. Volatility (measured in the accounting sense of standard deviation of annual ROA over the 1996 – 2005 period) is positively associated with A1, and the coefficient has a high level of significance (except for Ukraine).

This is consistent with the findings of Demsetz and Lehn (1985) who explain this result by arguing that returns to close monitoring of management are more likely to be higher in uncertain and volatile environments, encouraging more ownership concentration.

The coefficient with consistently the highest magnitude is that for the dummy variable “listed,” and the (unsurprising) negative sign indicates that listed firms tend to have lower ownership concentration. Size (measured as log of total assets and log of employees) is sometimes positively related to ownership concentration; studies that use only publicly traded firms tend to demonstrate the opposite relationship, with larger firms having more dispersion.

Although the relationship is not the same in every country or for each size measure, this is an interesting finding that might bear further investigation; Ukraine is an exception in that log of total assets is negatively related to A1, yet natural log of employees is positively related to ownership concentration.

The coefficient for leverage is generally positive (and statistically significant for Finland and Ireland). This is consistent with previous studies showing that highly levered firms are under the control of a block of shareholders as opposed to managers – the latter generally prefer the flexibility of optional dividend payments (vs. mandatory interest payments) and lower probability of failure in the event of distress (because they are more likely to be replaced if the firm is forced into bankruptcy). Ukraine is again an exception here – exhibiting a negative and significant relationship between leverage and A1.

Older firms have consistently less ownership concentration, perhaps due either to (1) the relative ease of attracting additional owners once an established history of performance is established, or (2) minority owners might accumulate over time.

Firms with more intangible assets generally tend to have lower levels of concentration, although this is not a very robust finding across specifications. This result is directionally consistent with a previous study (Gutierrez and Tribo, 2004).

Again consistent with Demsetz and Lehn (1985), the coefficient for the financial firm dummy is generally negative and significant, except for Ukraine. Perhaps the high degree of government intervention in the banking system there is the cause of this.

Although the models have good fit (with LR Chi² always highly significant), the level of explanatory power (R²) tends to be rather low. This is not an unusual situation for studies using Amadeus data (e.g., Hall, 2012), but to address any concerns with data quality, we include in alternative robustness specifications for each country an additional estimation that includes the variable countryA, which proxies for data quality.

<table>
<thead>
<tr>
<th>Country</th>
<th>A1</th>
<th>A5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>0.05** (0.011)</td>
<td>0.07*** (0.001)</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.05*** (0.000)</td>
<td>0.005*** (0.000)</td>
</tr>
<tr>
<td>Finland</td>
<td>0.03** (0.037)</td>
<td>0.02 (0.301)</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.01 (0.484)</td>
<td>0.04*** (0.001)</td>
</tr>
<tr>
<td>Ukraine</td>
<td>-0.056*** (0.000)</td>
<td>0.013* (0.081)</td>
</tr>
<tr>
<td>All Countries</td>
<td>0.01 (0.269)</td>
<td>(0.01)* (0.060)</td>
</tr>
</tbody>
</table>

Table 2: Correlation of ROA with A1 and A5 by Country (p-values in parentheses)
Table 3: Tobit Regression Results with Dependent Variable A1
(Tobit estimation truncated at 0 and 100; p-values in parentheses)

<table>
<thead>
<tr>
<th></th>
<th>Austria</th>
<th>Belgium</th>
<th>Finland</th>
<th>Ireland</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constant</strong></td>
<td>78.46*** (0.000)</td>
<td>75.58*** (0.000)</td>
<td>52.81*** (0.000)</td>
<td>85.58*** (0.000)</td>
<td>31.35*** (0.000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ROA</strong></td>
<td>35.56*** (0.000)</td>
<td>36.29*** (0.005)</td>
<td>19.41*** (0.000)</td>
<td>22.36* (0.054)</td>
<td>27.18** (0.039)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LnTotAssets</strong></td>
<td>0.98 (0.391)</td>
<td>1.54 (0.198)</td>
<td>2.15*** (0.000)</td>
<td>3.03** (0.021)</td>
<td>6.38*** (0.000)</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LnEmployees</strong></td>
<td>0.083 (0.457)</td>
<td>0.99 (0.380)</td>
<td>2.01*** (0.000)</td>
<td>2.07 (0.158)</td>
<td>0.01 (0.772)</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td><strong>StDevROA</strong></td>
<td>67.00*** (0.000)</td>
<td>71.93*** (0.000)</td>
<td>48.41*** (0.000)</td>
<td>35.33*** (0.010)</td>
<td>39.13*** (0.001)</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Listed</strong></td>
<td>-63.38*** (0.000)</td>
<td>-63.21*** (0.000)</td>
<td>-51.24*** (0.000)</td>
<td>-109.90*** (0.000)</td>
<td>-90.47*** (0.001)</td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Leverage</strong></td>
<td>1.87 (0.607)</td>
<td>1.87 (0.607)</td>
<td>0.24 (0.773)</td>
<td>14.99*** (0.000)</td>
<td>6.58** (0.017)</td>
</tr>
<tr>
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</tr>
<tr>
<td><strong>Age</strong></td>
<td>-0.13** (0.026)</td>
<td>-0.12** (0.047)</td>
<td>-0.06** (0.022)</td>
<td>-0.16* (0.067)</td>
<td>-0.19** (0.024)</td>
</tr>
<tr>
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</tr>
<tr>
<td><strong>Intangibility</strong></td>
<td>8.19 (0.643)</td>
<td>4.78 (0.788)</td>
<td>-29.38 (0.702)</td>
<td>-31.15* (0.068)</td>
<td>-14.97 (0.539)</td>
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</tr>
<tr>
<td><strong>Financial</strong></td>
<td>-8.96* (0.059)</td>
<td>-8.85* (0.062)</td>
<td>-9.38*** (0.000)</td>
<td>-5.06 (0.461)</td>
<td>-4.71 (0.403)</td>
</tr>
<tr>
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</tr>
<tr>
<td><strong>Count ROA</strong></td>
<td>—</td>
<td>-0.99*** (0.000)</td>
<td>1.72*** (0.000)</td>
<td>2.59*** (0.000)</td>
<td>2.62*** (0.000)</td>
</tr>
<tr>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Observations</strong></td>
<td>1,669</td>
<td>13,083</td>
<td>3,862</td>
<td>2,010</td>
<td>16,265</td>
</tr>
<tr>
<td><strong>Pseudo R²</strong></td>
<td>1.08%</td>
<td>1.10%</td>
<td>0.42%</td>
<td>1.18%</td>
<td>0.89%</td>
</tr>
<tr>
<td><strong>LR Chi²</strong></td>
<td>115.18*** (0.000)</td>
<td>117.72*** (0.000)</td>
<td>434.46*** (0.000)</td>
<td>206.41*** (0.000)</td>
<td>127.94*** (0.000)</td>
</tr>
<tr>
<td></td>
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</tr>
</tbody>
</table>

†, *, **, and *** indicate significance at the 15%, 10%, 5%, and 1% levels, respectively
### Table 4: Tobit Regression Results with Dependent Variable A5

(Tobit estimation truncated at 0 and 100; p-values in parentheses)

<table>
<thead>
<tr>
<th></th>
<th>Austria</th>
<th>Belgium</th>
<th>Finland</th>
<th>Ireland</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constant</strong></td>
<td>169.56***</td>
<td>161.57***</td>
<td>50.06***</td>
<td>94.37***</td>
<td>103.62***</td>
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<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td><strong>ROA</strong></td>
<td>60.79***</td>
<td>63.99***</td>
<td>23.28***</td>
<td>18.75*</td>
<td>31.82***</td>
</tr>
<tr>
<td></td>
<td>(0.003)</td>
<td>(0.001)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.008)</td>
</tr>
<tr>
<td><strong>LnTotAssets</strong></td>
<td>-4.63***</td>
<td>-3.09*</td>
<td>3.38***</td>
<td>3.08**</td>
<td>-69.12***</td>
</tr>
<tr>
<td></td>
<td>(0.003)</td>
<td>(0.059)</td>
<td>(0.000)</td>
<td>(0.015)</td>
<td>(0.000)</td>
</tr>
<tr>
<td><strong>LnEmployees</strong></td>
<td>1.62 (0.888)</td>
<td>2.03 (0.182)</td>
<td>1.80***</td>
<td>1.19 (0.401)</td>
<td>6.16***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.000)</td>
<td></td>
<td>(0.000)</td>
</tr>
<tr>
<td><strong>StDevROA</strong></td>
<td>3.97 (0.850)</td>
<td>15.56 (0.466)</td>
<td>51.33***</td>
<td>26.85***</td>
<td>25.34**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.000)</td>
<td>(0.041)</td>
<td>(0.035)</td>
</tr>
<tr>
<td><strong>Listed</strong></td>
<td>-65.73***</td>
<td>-69.89***</td>
<td>-26.93***</td>
<td>-85.26***</td>
<td>-52.43***</td>
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<tr>
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<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.017)</td>
</tr>
<tr>
<td><strong>Leverage</strong></td>
<td>10.51* (0.087)</td>
<td>10.59* (0.078)</td>
<td>-48.14 (0.587)</td>
<td>17.44*** (0.000)</td>
<td>11.69*** (0.002)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.719)</td>
<td>(0.000)</td>
<td>(0.002)</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td>0.04 (0.600)</td>
<td>0.08 (0.307)</td>
<td>0.01 (0.641)</td>
<td>-0.18** (0.033)</td>
<td>-0.19*** (0.000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.049)</td>
<td>(0.001)</td>
<td>(0.000)</td>
</tr>
<tr>
<td><strong>Intangibility</strong></td>
<td>-5.32 (0.824)</td>
<td>-15.07 (0.527)</td>
<td>-17.98** (0.016)</td>
<td>-10.13 (0.181)</td>
<td>-35.25* (0.086)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.174)</td>
<td>(0.315)</td>
<td>(0.088)</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>-12.79** (0.037)</td>
<td>-12.60** (0.039)</td>
<td>-8.71*** (0.000)</td>
<td>-0.76 (0.909)</td>
<td>-8.21 (0.833)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.000)</td>
<td>(0.968)</td>
<td>(0.833)</td>
</tr>
<tr>
<td><strong>Count ROA</strong></td>
<td>—</td>
<td>-2.76*** (0.001)</td>
<td>1.32*** (0.000)</td>
<td>2.03*** (0.003)</td>
<td>0.13 (0.840)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Observations</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pseudo R²</td>
<td>2.74%</td>
<td>2.96%</td>
<td>0.36%</td>
<td>0.40%</td>
<td>0.93%</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td></td>
</tr>
<tr>
<td>LR Chi²</td>
<td>131.49*** (0.000)</td>
<td>142.10*** (0.000)</td>
<td>345.16*** (0.000)</td>
<td>379.38*** (0.000)</td>
<td>152.63*** (0.000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
</tbody>
</table>

†, *, **, and *** indicate significance at the 15%, 10%, 5%, and 1% levels, respectively.
In this country...the ownership concentration of a single large block-holder is related inversely to performance... whereas...ownership concentration for the coalition of the five largest shareholders is positively related to performance.

Although this variable is almost always significant, whether we consider the results in Table 3 or Table 4, its sign is inconsistent, and the major results in terms of signs and levels of significance of the other coefficients in the study are not greatly affected by its inclusion.

Our expectation is that in environments with weak investor protection, a larger amount of ownership in the hands of a single block-holder (A1) should be associated with lower ROA.

Consistent with the univariate tests presented in Table 2, the results of our multivariate analysis presented in Table 3 show that the coefficient for ROA is positive and significant except in one country – Ukraine, which by most estimates has some of the weakest legal protections relative to the other countries in this study.

LLSV found that the global average of investor protection is inferior in civil law countries relative to those with a common law heritage; yet we find no evidence that our common law representative country (Ireland) had a lower coefficient for ROA.9

Although quite clearly more countries need be analyzed before making any definitive conclusions, it appears that other factors (perhaps including rule of law or the degree to which existing commercial law is enforced by the courts) may be at play in terms of the protection for minority shareholders in these countries.

Table 4 provides tobit regression results (again censored at 1 and 100) with the dependent variable A5, measuring the ownership concentration of the five largest shareholders. Here we see a more traditional sign for the size variable log of total assets, such that larger firms have more dispersed ownership in Austria and Ukraine, although the sign of the coefficient is positive and significant for Belgium and Finland.

Risk, as measured in the accounting sense of standard deviation of ROA, is (generally) positively associated with ownership concentration, consistent with the A1 regressions and with prior research. Unsurprisingly, listed status has the expected negative and highly significant coefficient, with a very large magnitude. The coefficient for leverage is positive when significant, as before, and the coefficients for age, asset intangibility, and for the financial firm dummy are consistent with Table 3.10

In terms of the key variable in our study – performance as measured by accounting ROA during 1996 to 2005 – we find that it is positively related with ownership concentration measured by A5.

In all countries included in our study, the coefficient for performance is positive and is generally highly significant. (The lone exception is Finland, where the coefficient is still positive, but with a level of significance of only 9% when the countroa variable is omitted, and of 19.2% when it is included in the estimation).

Extensions: Size and Industry Category

In this section, we examine the robustness of our basic findings on the differences between the relationships among performance and ownership concentration in different legal environments. We first break the data down into categories based on size (log of total assets); we then analyze the relationships in different industry categories.
Panel A of Table 5 indicates the number of firms in each category, as well as the average (mean) values of the \( \text{LnTotalAssets} \) variable. Because we found in earlier regressions that listed status is such an important determinant of ownership concentration, we also break out listed firms, and compare them to larger non-listed firms.

Panel B of Table 5 indicates the number of observations and mean, minimum, and maximum size of listed firms in the sample.

Abbreviated regression results are presented in Table 6 – for each specification we report only the number of observations and the coefficient (and its \( p \)-value) for the ROA variable. Panel A of Table 6 presents results broken down by country and by firm size (using the categories just specified).

Despite the reduction in observations, we do have some significant results for the ROA coefficient. Specifically, we have the expected positive and significant coefficient for small and medium size firms in Belgium, for medium and large firms in Austria, and for very small, small, and large firms in Ireland. For Ukraine, all size categories are associated with negative and significant (although marginally so in the low-observation “very large” category) coefficients on the ROA variable.
Panel B of Table 6 breaks out firms based on their status as listed. The top row indicates regression results for specifications only including listed firms, broken down by country. In no case is the coefficient for ROA statistically significant, in all likelihood due to the small sample sizes.

The lower rows of Panel B include non-listed firms in the medium, large, and very large size categories – these results are largely similar to those of Panel A where listed and non-listed firms are pooled together. As usual, the key finding is that Ukrainian firms exhibit a negative relationship between firm performance and ownership concentration.

**Industry Category**

Finally, we consider whether the findings are being driven by industry type, the distribution of which varies substantially by country. We break the sample into nine separate categories based on the one-digit SIC designation for each company. As in Table 6, we abbreviate the findings so that only the coefficient for ROA (as well as its \( p \)-value) and the number of observations is reported for each specification. As before, we include the countroa variable as well as all the other listed in equation (1) above.

**Size** (measured as log of total assets and log of employees) is sometimes positively related to ownership concentration...
Table 7 presents the results of these specifications that break the sample into industry groupings. We find that for Ukraine, the relationship between ROA and ownership concentration is uniformly negative; this is not the case for other sub-samples.\(^\dagger\)

\(^\dagger\), *, **, and *** indicate significance at the 15%, 10%, 5%, and 1% levels, respectively

<table>
<thead>
<tr>
<th>One-Digit Code</th>
<th>Examples of Industries Covered</th>
<th>All Countries</th>
<th>By Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Obs</td>
<td>Ukraine Only</td>
</tr>
<tr>
<td>0</td>
<td>Agriculture</td>
<td>5497</td>
<td>5392</td>
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<tr>
<td></td>
<td></td>
<td>ROA -21.99**</td>
<td>-24.58**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.024)</td>
<td>(0.013)</td>
</tr>
<tr>
<td>1</td>
<td>Mining, Construction</td>
<td>2984</td>
<td>1325</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ROA -39.88***</td>
<td>-97.92***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>2</td>
<td>Manufacturing</td>
<td>4770</td>
<td>2189</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ROA 3.73</td>
<td>-40.00***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.581)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>3</td>
<td>Manufacturing</td>
<td>4860</td>
<td>2034</td>
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<td></td>
<td></td>
<td>ROA -16.66**</td>
<td>-55.07***</td>
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<td>(0.018)</td>
<td>(0.000)</td>
</tr>
<tr>
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<td>Transport, Communications</td>
<td>3571</td>
<td>1506</td>
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<td>-39.14***</td>
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<td>(0.004)</td>
<td>(0.009)</td>
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<tr>
<td>5</td>
<td>Wholesale, Retail</td>
<td>8285</td>
<td>2099</td>
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<td></td>
<td>ROA -9.88*</td>
<td>-57.16***</td>
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<td>(0.016)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>6</td>
<td>Finance</td>
<td>2092</td>
<td>506</td>
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<td></td>
<td></td>
<td>ROA -36.85***</td>
<td>-98.03*</td>
</tr>
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<td>(0.010)</td>
<td>(0.059)</td>
</tr>
<tr>
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<td>Services</td>
<td>2822</td>
<td>397</td>
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<td></td>
<td></td>
<td>ROA 18.68**</td>
<td>-58.79***</td>
</tr>
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<td>(0.023)</td>
<td>(0.003)</td>
</tr>
<tr>
<td>8</td>
<td>Health, Legal, Education</td>
<td>1965</td>
<td>795</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ROA -34.87***</td>
<td>-101.60***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
</tbody>
</table>

\(^\dagger\) \(\dagger\), \*, **, and *** indicate significance at the 15%, 10%, 5%, and 1% levels, respectively.
Conclusion

We developed a framework indicating that the relationship between performance and the level of ownership concentration should vary depending on (1) type of ownership concentration and (2) level of legal investor protection afforded to shareholders. Our empirical results based on regression analysis of the period 1996 – 2005 for almost 37,000 firms located in five small countries of Europe with varying degrees of investor protection is largely consistent with this framework.

We find that the country with the least amount of legal recourse for investors (especially when jointly considering the combination of statutory laws and their enforcement) is Ukraine. In this country, we find that the ownership concentration of a single large block-holder is related inversely to performance (measured in the accounting sense of annual ROA for the years 1996 – 2005); whereas the level of ownership concentration for the coalition of the five largest shareholders is positively related to performance.

This provides further evidence substantiating the theoretical model of the beneficial impact of a coalition of blockholders presented by Bennedson and Wolfenzon (2000). These findings were robust to a large number of additional specifications that broke the data into various sub-groupings based on firm size and on one-digit SIC category.

References


Endnotes

1 Most of the early work on this topic was done using data from publicly traded firms in the United States (Demsetz, 1983; Demsetz and Lehn, 1985; Morck et al, 1988; Hermalin and Weisbach, 1988; Loderer and Martin, 1997; Cho, 1998; Himmelberg et al, 1999; Holderness et al, 1999; McConnell and Servaes, 1990). More recent analyses have considered the situation in a number of European countries, some of these even analyzing blocks of ownership in privately-held firms (Becht and Mayer, 2002; Gutierrez and Tribo, 2004; Maury and Pajuste, 2004; Volpin, 2002).

2 In this perspective, managers not controlled by blockholders are able to divert resources away from shareholders, so that ownership concentration should have an inverse relationship with performance. If this is the case, controlling blockholders have a positive impact on the value of equity for all shareholders (Shleifer and Vishny, 1986; Grossman and Hart, 1988; Harris and Raviv, 1988).

3 For example, Demsetz and Villalonga [2001] focus on the "market-mediated ownership patterns" [p. 209] typical of publicly traded firms on the very liquid equity markets of the U.S. The relative illiquidity even of publicly traded shares in our countries, as well as the stability of ownership patterns for such companies (e.g., as in Spain; see Gutierrez and Tribo, 2004) provides additional confidence in our findings.

4 In any event, we are only studying the association of ownership concentration with performance, and not making causal inferences in one direction or the other; the results that we generate are interesting whether one is causing the other or if ownership concentration and performance are in fact jointly
determined yet nevertheless related in a robust manner.

5 To ensure data quality for our analysis, we truncated (deleted) all observations with log employees less than 1, with A1 or A5 over 100, and with average ROA below -49% or above 59% (the latter corresponded to a truncation at the 1% and 99% level; see Frank and Goyal, 2005). We perform an additional set of multivariate estimations for each country in the analysis based on the quality of data for individual firms using a variable countroa, which is simply the number of observations from 1996 - 2005 of the performance variable of accounting return on assets (ROA).

6 Note that although the number of observations is close to 47,000 in most cases, our empirical analysis omits any firms with incomplete data (e.g., missing completely one or more control or choice variables), leading to a somewhat smaller but still quite substantial number of observations for each country-level empirical estimation. We performed some pooled regression tests, but the large number of Ukrainian observations tended to make the pooled analysis similar to the tests for Ukraine only; results of these tests are available from the authors by request. Later on in the paper we include all observations, but broken down by SIC codes and by size as part of our robustness checks.

7 Based on a study of shareholder protection in Central and Eastern Europe (Pistor, et al, 2000), Ukraine's level of statutory shareholder protection at 2.5 is inferior to the LLSV score of 4.0 for Common Law countries (including Ireland) and of 3.0 for Scandinavian countries (including Finland). Although the score is higher than for the global average of German and French legal family countries (2.33 each), Ukraine’s investors faced significant obstacles to enforcing what laws exist there. It had a rule of law score of 3.4, well below the standard enforced in other Central and Eastern European countries (Hungary and Poland, for example, had scores here of 8.7), and presumably quite below the level of enforcement prevailing in countries with long-standing commercial codes such as Austria, Belgium, Finland, and Ireland.

8 For non-Ukrainian sample, the average level of concentration (mean value of A1) for the non-financial firms is 76.42; for financial firms it is only 70.17 (p-value of t-test for difference in means is 0.000). For Ukraine, the mean value of A1 for financial firms is 88.77 and for non-financial firms it is 56.77 (p-value of t-test for difference in means of 0.000).

9 In our analysis which focuses on some smaller countries in Europe, the coefficient for performance (ROA) is positive and statistically significant even in Belgium and Austria, and not substantially different from that of Finland and Ireland. In fact, Finland and Ireland had coefficients of 22.4 and 27.66, respectively, but the coefficient for Austria was 35.48 and that for Belgium was 19.98.

10 As before, the LR Chi² is very large and significant, and the countroa variable does not greatly change the magnitude or level of significance for the control or choice variables in this study.

11 Each specification in Table 6 also includes the controls listed in equation (1) as well as the countroa variable, but for ease of presentation we only report the coefficient on ROA.

12 One exception to previous findings is the negative and significant coefficient on the 119-observation result for very large firms in Austria. This may be merely a coincidence, although further investigation may be warranted. If there is any pattern to this anomaly, it may be that the magnitude of the coefficient and the level of significance on the ROA variable tend to decline between large and very large size categories, but this does not seem to be a robust finding.

13 When pooling all countries, we observe generally a negative and significant coefficient for ROA. To further investigate this, we break the observations down further into three categories based on the relative number of observations in the entire sample. For each industry group, we estimate three specifications: one for Ukraine, one for Belgium, and one for the other three countries grouped together. When separated by country, we find that the overall sample results were essentially being driven by the large number of Ukrainian observations. The negative and significant coefficient on ROA remains in place for all the industry groups; for Belgium and the other countries, this is not the case. For the non-Ukrainian countries, the coefficient on ROA is generally positive and is always positive when significant.
Executive Summary

Concern over the magnitude of CEO Compensation packages, and the fairness of these packages versus their shareholder’s interests has been with us for decades. Financial scandals, whether in the integrity of the financial reports or the management of financial/credit risks, have heightened dissatisfaction with executive management. This dissatisfaction has in turn increased the pressure to rationalize the size of CEO Compensation packages. Boards of directors control the size and structure of these packages.

This article examines whether the 2002 legal response to corporate financial reporting scandals, which came in the form of many new initiatives and requirements that applied to all firms, was relevant to CEO Compensation. The impact of these new requirements differed between firms. Some had already introduced the use of independent directors and fully-independent committees prior to their being made compulsory in 2002. This article investigates whether these ‘pre-adopters’ experienced less change in their CEO Compensation packages than those firms which were forced to change their board composition and committee structures.

This investigation examines the effect on CEO Compensation packages for listed firms, which is attributable to the Sarbanes-Oxley Act of 2002 (SOX, hereinafter), and the concurrent changes in stock exchange regulations that compelled increased use of independent directors and fully-independent committees. This analysis also advances the study of effects associated with the use of independent directors, as it employs the difference-in-differences (DID) methodology to overcome the endogeneity concerns which have consistently challenged prior governance studies. That is accomplished by examination of the effects on CEO Compensation packages associated with the exogenously forced addition of independent directors to the boards of publicly listed firms. The results obtained reveal that there is a significant positive relationship between firms that were compelled by law to change their boards, and increases in the non-salary and equity grant components of their CEO Compensation packages, in comparison to firms that had pre-adopted the Sarbanes-Oxley corporate board composition requirements.

Introduction

The goal of this investigation is to isolate empirical evidence for changes in listed firms’ CEO Compensation packages. Specifically, changes that may be attributed to the Sarbanes-Oxley Act of 2002 (SOX) and the concurrent changes to the New York, NASDAQ, and American Stock Exchanges’ listing requirements all demanding reforms for board composition. In pursuit of this goal, this investigation examines the impact, if any, of
these laws and regulations on compensation packages through use of the difference-in-differences methodology. These 2002 legal and regulatory changes occurred in reaction to various significant scandals at the beginning of the millennia, in particular the Enron and Worldcom financial reporting scandals.

The motivation behind this is a desire to learn whether the emphasis then placed on greater use of independent directors for publicly listed corporate boards and board committees, was an effective means of improving the fairness to shareholders of CEO Compensation packages. It is clear in the subsequent literature review that previous researchers have been concerned with CEO influence over their boards; an influence/power that could allow for excessive, and/or poorly linked to performance, compensation packages.

These pay packages are set by boards of directors. In modern corporate governance, the boards of directors are supposed to serve the shareholders’ interests. As Fama and Jensen (1983) state, “An important function of the board of directors is to minimize costs that arise from the separation of ownership and decision control in the modern-day corporation.”

...there is a significant positive relationship between firms that were compelled by law to change their boards, and increases in the non-salary and equity grant components of their CEO Compensation packages...

Yet Jensen (2000) notes that these mechanisms may be inadequate. He recommends (p. 39) that “the only inside board member should be the CEO.” In the historic background section that follows, it is apparent that boards have often failed in their fiscal monitoring and decision-making responsibilities.

This study contributes evidence to the highly active debate about the importance of using independent directors. Directors are intended to monitor and advise executives to help assure that they act in a manner consistent with shareholders’ interest. How well they do so is a matter of dispute. Some argue that the relationship between the members of the board and management are too cozy, and have mutually beneficial aspects, e.g., Stein (April 6, 2008).

In addition, Jonathan Macey (January 20, 2009), then Deputy Dean and Sam Harris Professor of Corporate Law, Corporate Finance, and Securities Law at Yale Law School, has also argued that even so-called independent directors can become “captured” by the firm, raising questions about whether board independence is of much use.

The importance of corporate governance structures in controlling managerial behavior remains strong, especially given the alleged governance lapses that led to the overleveraging and subsequent collapse of such key U.S. financial institutions as Lehman Brothers, Bear Sterns and Merrill Lynch.

This research paper proceeds with the following sections:

• Historical background on the use of independent directors
• A description of the recent legislative and regulatory initiatives, and the opportunity they provide to implement a difference-in-differences or natural experiment investigation
• A review of the academic literature relevant to use of independent directors (a.k.a. board composition) in relationship to CEO compensation packages, and the substantive hypothesis developed from this literature

○ The modeled relationships and data employed
• Discussion of results and future research envisioned.

Historical Background

As Coville (2008) notes, board of directors’ influence on their firms has been a topic of considerable debate and academic investigation for several decades now (see also Hermalin and Weisbach (2003) and Klein (2002)). Much of the concern is with the excess influence of firm management over their boards and the lack of independent diligence by the board members.

A reoccurring theme from many corporate governance commentators is the call for increased board of director independence from the CEO. This push for greater use of independent directors has drawn out over decades, often receiving additional impetus from scandals. The literature cites three separate potential impacts of independent directors on firm governance. Cohen et al. (2012) describes these three arguments as follows:

1) from Romano et al. (2005: cited in Cohen et al., 2012), independent directors may be appointed as window dressing by the firm with no resulting impact on the firm as the independent board members appointed are too sympathetic to management. Therefore the only impact of such appointments would be to give false hope that management would be effectively monitored by these independent board members;

2) consistent with the intentions behind the Sarbanes-Oxley Act and the NASDAQ, American and NYSE (hereinafter, the exchanges) listing requirements, the independent directors could serve as effective monitors of management and thereby diminish management’s ability to serve its own interests, instead of their shareholders;

3) if board membership balances between independent and non-independent directorships are already at optimal levels, then additional independent board representation beyond this optimal set will reduce firm performance.

The status quo with respect to corporate governance may be judged too problematic to leave alone, given the history of corporate malfeasance. Arguments about disturbing optimal balances between independent and non-independent board members are difficult to evaluate. Furthermore, the assumption that independent board members would necessarily be sympathetic to management, so why bother requiring more use of them, suggests that insider members of the board are no worse than individuals with much less of their lives tied up with the firm and its CEO.

That is a hard suggestion to accept. The push for greater use of independent directors, however, suggests a societal decision, in the wake of such earlier scandals as those involving Penn Central, Lockheed, Enron, and WorldCom that arguments against making such a change seem fallacious.

This push for the use of more independent boards of directors came in the reports of the 1987 National Commission on Fraudulent Financial Reporting and the 1999 Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees. These reports led the NYSE and NASDAQ to change their listing requirements to require fully independent audit committees. These changes also required listed firms to use precise definitions of what constitutes an independent director.

Nonetheless, even with these requirements, in less than three years (2000 – 2002), the market again witnessed several high profile financial reporting failures, all attributable to purportedly deliberate deceptions by executive management. A severe loss of equity values occurred about this time, resulting in the Dow Jones Industrials...
losing over thirty percent of its value and the NASDAQ losing over sixty percent of its value.

While some of these losses may be attributed to geopolitical factors and the March to November of 2001 recession, there can be little doubt that some portion of the decline in stock prices resulted from the impact of accounting scandals on investor confidence. This round of scandals forced the use of independent directors in other, non-audit committee roles.

As noted in Coville and Kleinman (2012), the topic of SOX’s new board composition requirements, and their efficacy, is important both because of the failure of market forces to eliminate it as an issue despite decades of concern, and due to the oft raised concerns with how or whether SOX should be amended. The regulatory changes enacted in 2002 give rise to a unique opportunity to examine the impact of the regulations on CEO Compensation packages.

Natural Experiment Opportunity

Through SOX, and the exchanges, the US Congress increased the required use of independent directors on publicly listed firms’ boards in 2002. The impact, if any, of this increase on the CEO compensation packages approved by these boards is the focus of this study.

The historical background above shows that firms could have known of the suggested use of a majority of independent directors and the establishment of fully independent Audit, Compensation and Nominating Committees as best practice, at least in the eyes of some. Nonetheless, by 2001, only 356, or less than 20% of the top 1,797 U.S. firms tracked by the Investor Responsibility Research Center (hereinafter, IRRC), had taken all these steps.

Furthermore, nearly 13%, or 226 of those firms, had failed to comply with any of these recommendations. Now, because of SOX’s and the exchanges’ requirements, all listed firms were given until their 2004 annual stockholder meetings to become fully compliant.

This investigation captures the effects, if any, of these 2002 enacted changes in regulation, affecting board composition and CEO Compensation packages. The design and methodology will offer greater certainty that any effect on CEO Compensation packages detected is related to a change in Board of Director composition, a change which is exogenous and occurs in a firm-level setting.

Even before SOX and the exchanges listing requirement changes, it was already understood that executive compensation decisions were the responsibility of a public corporation’s board of directors.

Difference-in-differences

As was done in Coville and Kleinman (2012), the intervention in this study is SOX and the related stock exchange listing requirement changes. The unaffected/control group consists of those firms which had previously adopted the new board of director and committee composition requirements, similar to those mandated by SOX. The affected/treatment group consists of those firms which had not adopted SOX mandated requirements until SOX and the stock exchanges compelled this compliance subsequent to 2002.

The level of the pre-SOX compliance index will serve as the primary independent variable. The DID methodology requires that a suitable variable is available with which to classify observations between the treatment and control groups. This study uses an index that is the sum of four indicator variables for whether a firm had in the year 2001, before SOX:

1. an independent nominating committee,
2. an independent compensation committee,
3. an independent audit committee and
4. a majority of independent directors.

This measure is similar to one used by Chhaochharia and Grinstein (2006), although they used the year 2000 proxies instead of the 2001 proxy information used in this investigation. The sum of all four indicator variables is used, because the combination of them all is most likely to help assure the independence from management of each board’s deliberations over CEO Compensation.

Taken together, separating the sample between firms that, in 2001, had none of these independent board features and those that had all of them, provides a strong test of the impact on CEO Compensation from the SOX and the exchange-compelled changes in board composition. The advent of SOX, then, provides a transparent exogenous source of variation in this index variable that determines the treatment assignment. This, as Meyer (1994, p. 1) suggests:

“may allow a researcher to obtain exogenous variation in main explanatory variables. This occurrence is especially useful in situations where estimates are ordinarily biased because of endogenous variation due to omitted variables or selection.”

As Hermalin and Weisbach (2003) noted, such endogeneity issues have been a consistent concern across many earlier board composition studies.

Two groups of firms were created based on board of director and committee composition compliance at the time their boards were formed at their 2001 annual shareholders’ meetings – the last meetings prior to 2002’s regulatory changes.

• The first group, BOD0, consists of firms with a zero compliance score;
• the second group, BOD4, consists of firms with a perfect score of four.

This study used 2001 as the pre-intervention compliance period, because that was the last full year in which no firm would have been aware that director independence would be compelled by law. Firms in the analysis remain in their assigned groups and are only those firms which remained independent and publicly listed through all six observation years, 2000 - 2005.

Academic Literature

The 1999 Blue Ribbon Committee noted articles such as Mace (1971) and Lorsch and Maclver (1989) that help explain the subsequent 2002 push for increased reliance on independent directors and committees composed only of independent directors. The committees included were the audit, compensation and nominating committees. From those and other studies, as well as court findings, the legislators and regulators were lead to look to independent directors to oversee the reliability of financial reports and other stockholder fairness concerns.

From The Wall Street Journal, March 19, 2006, “Stocks Reward Firms’ Good Behavior” by Reshma Kapadia:

“Good governance begins with an independent board that acts as a check on management. This typically translates into accounting that is above reproach, executive compensation that’s in line with performance and a minimum of antitakeover provisions, which tend to keep lousy managers in place no matter how poorly they perform.”

Mehran (1995) wrote that “Equity based compensation is used more extensively in firms with a higher proportion of outside directors.”
Even before SOX and the exchanges listing requirement changes, it was already understood that executive compensation decisions were the responsibility of a public corporation’s board of directors. There is little doubt that boards have this as one of their formal responsibilities.

**the nomination process is now the exclusive domain of a committee comprised exclusively of independent directors**

Over two decades ago Fama and Jensen (1983) promoted the need for independent directors to allow equitable decisions concerning the hiring, firing and compensation of their firm’s CEO. However, there is controversy as to how well boards function in handling the substance of effectively determining executive compensation. Jensen (2000) speaks to the failure of corporate decision making, as headed by its board of directors. A reoccurring theme behind this board of director failure to correct any divergence between manager’s decisions and what is in society’s and/or shareholders’ interest is excess CEO power over their boards.

The issue of CEOs having too much power over their boards has been examined in relationship to executive compensation by a number of authors. Core, Holthausen, and Larcker (1999) (CHL hereinafter) used the following five factors for CEO influence over their boards:

- CEO involvement with director nominations;
- percentage of affiliated directors on the board;
- CEO duality in the position as chairman of the board;
- the size of the board; and the number of “busy” directors. Busy was defined as someone who serves on three or more other corporate boards (six or more other boards if the director is retired).

CHL found this measure of power to be significantly and positively related to CEO compensation. The first three of these factors are intuitive proxies for power, and the first two of these have been addressed by the regulatory changes, i.e. the nomination process is now the exclusive domain of a committee comprised exclusively of independent directors, and the percentage of affiliated (non-independent) directors must remain in the minority.

Grinstein and Hribar (2004) also found a positive association between CEO power and their compensation, and, again, the CEO involvement in director nominations was a significant factor, along with duality. Duality exists when the CEO is also the chairman of the board.

Hallock (1997) documents another interesting source of CEO power over their boards in his description of interlocking relationships. In this context, interlocking relationships exist when the CEO of company A sits on the board of company B and the CEO of company B sits on the board of company A. This sets up an obvious opportunity for each CEO to serve themselves best by cooperating with the wishes of the other – a problem made even worse when they are also on each other’s compensation committees. This study again found the presence of such “interlocking” relationships to have a positive correlation with higher CEO compensation.

The new regulations have banned directors with interlocking relationships from serving on one another’s compensation committees and reduced the possible inclusion of directors with interlocking relationships from serving on each others’ boards at all, given the majority of independent director’s rule and the clearer definition of independence.
The new regulations have banned directors with interlocking relationships from serving on one another’s compensation committees and reduced the possible inclusion of directors with interlocking relationships from serving on each others’ boards at all.

Modeled Relationships and Data

If the new SOX and concurrent stock exchange listing requirement changes have the desired effect of increasing a board of directors’ ability to make unbiased compensation decisions, then boards that undergo the greatest change to comply with these new rules will generate the greatest change in their compensation decisions. Both the level of compensation and its components will experience the greatest change among firms experiencing the greatest impacts from these regulations on their boards and board committees. This leads to the following four hypotheses:

Firms that undergo the greatest changes to board composition to come into compliance, also experience the greatest change in their CEO’s average total compensation between the average of two pre-SOX years (2000 and 2001) and two post-SOX years (2004 and 2005).

This leads to the null statistical hypotheses:

H01: the regression coefficient a7 for indicator variable BOD0 will be equal to zero, in the following model:

\[
\text{COMP}_{2004-2005} - \text{COMP}_{2000-2001} = a0 + a1\text{SALES}_{2000-2001} + a2\text{ROA}_{2000-2001} + a3\text{RET}_{2000-2001} + a4 (\text{Sales}_{2004-2005} - \text{Sales}_{2000-2001}) + a5 (\text{ROA}_{2004-2005} - \text{ROA}_{2000-2001}) + a6 (\text{RET}_{2004-2005} - \text{RET}_{2000-2001}) + a7 \text{BOD0} + a8 \text{NEW CEO}i + \text{Industry Indicators} + \varepsilon_{it} \] (1)

Firms that undergo the greatest changes to board composition to come into compliance, also experience the greatest change in their CEO’s average cash compensation between the average of two pre-SOX years (2000 and 2001) and two post-SOX years (2004 and 2005).

This leads to the null statistical hypotheses:

H02: the regression coefficient a7 for indicator variable BOD0 will be equal to zero, in the following model:

\[
\text{CASHCOMP}_{2004-2005} - \text{CASHCOMP}_{2000-2001} = a0 + a1\text{SALES}_{2000-2001} + a2\text{ROA}_{2000-2001} + a3\text{RET}_{2000-2001} + a4 (\text{Sales}_{2004-2005} - \text{Sales}_{2000-2001}) + a5 (\text{ROA}_{2004-2005} - \text{ROA}_{2000-2001}) + a6 (\text{RET}_{2004-2005} - \text{RET}_{2000-2001}) + a7 \text{BOD0} + a8 \text{NEW CEO}i + \text{Industry Indicators} + \varepsilon_{it} \] (2)

Firms that undergo the greatest changes to board composition to come into compliance, also experience the greatest change in their CEO’s average equity-linked compensation between the average of two pre-SOX years (2000 and 2001) and two post-SOX years (2004 and 2005). This leads to the null statistical hypotheses:

H03: the regression coefficient a7 for indicator variable BOD0 will be equal to zero, in the following model:

\[
\text{EQCOMP}_{2004-2005} - \text{EQCOMP}_{2000-2001} = a0 + a1\text{SALES}_{2000-2001} + a2\text{ROA}_{2000-2001} + a3\text{RET}_{2000-2001} + a4 (\text{Sales}_{2004-2005} - \text{Sales}_{2000-2001}) + a5 (\text{ROA}_{2004-2005} - \text{ROA}_{2000-2001}) + a6 (\text{RET}_{2004-2005} - \text{RET}_{2000-2001}) + a7 \text{BOD0} + a8 \text{NEW CEO}i + \text{Industry Indicators} + \varepsilon_{it} \] (3)

Firms that undergo the greatest changes to board composition to come into compliance, also experience the greatest change in their CEO’s average equity-linked compensation between the average of two pre-SOX years (2000 and 2001) and two post-SOX years (2004 and 2005).
CEO’s average non-cash or equity-linked plus other compensation between the average of two pre-SOX years (2000 and 2001) and two post-SOX years (2004 and 2005). This leads to the null statistical hypotheses:

**H04:** the regression coefficient $a_7$ for indicator variable BOD0 will be equal to zero, in the following model:

\[
\begin{align*}
(EQCOMPl_{2004-2005} + \text{OtherCOMPl}_{2004-2005}) \\
- (EQCOMPl_{2000-2001} + \text{OtherCOMPl}_{2000-2001})
\end{align*}
\]

\[
= a_0 + a_1SALESi_{2000-2001} + a_2ROAi_{2000-2001} + a_3RETi_{2000-2001} + a_4 (Sales i_{2004-2005} - Salesi_{2000-2001}) + a_5 (ROAi_{2004-2005} - ROAi_{2000-2001}) + a_6 (RETi_{2004-2005} - RETi_{2000-2001}) + a_7 BOD0 + a_8 \text{ NEW CEOi} + \text{ Industry Indicator i} + \epsilon_it
\]

The above tests are known as difference-in-differences tests, e.g., a difference in the different changes in compensation experienced by the pre-adopters versus the compelled to adopt.

Where:

- $\text{COMPl}_{2000-2001}$: natural log of average CEO total compensation over the years 2000-2001,
- $\text{CASHCOMPl}_{2000-2001}$: natural log of average CEO cash compensation over the years 2000-2001,
- $\text{EQCOMPl}_{2000-2001}$: natural log of average CEO equity based compensation over the years 2000-2001,
- $\text{OtherCOMPl}_{2000-2001}$: natural log of average CEO other non-salary and cash bonus based compensation over the years 2000-2001,
- $\text{SALESi}_{2000-2001}$: the natural log of average sales over these years. To control for firm size, I use the sales of the corporation (in $millions),
- $\text{ROAi}_{2000-2001}$: the natural log of one plus the average return on assets over these years. To control for performance, ROA defined as the net income before extraordinary items divided by the book value of assets.
- $\text{RETi}_{2000-2001}$: one plus the average gross return over these years. Also to control for performance I use the annual stock return (dividends reinvested) of the firm.

For variables with the subscript 2004-2005, the averaging is over the years 2004-2005.

$\text{BOD0i}$ equals 1 if the firm did not comply with any of the requirements (score=0) in the year 2001 and zero otherwise.

$\text{NEW CEOi}$ is an indicator variable that equals 1 if the CEO tenure in the firm was less than two years, as of 2001 and zero otherwise.

The above control variables are commonly found in the literature on executive compensation. To avoid possible confounding effects from CEO turnover, I only include firms in which the CEO has not been replaced.

The corporate governance data was collected from the IRRC database. The initial sample consists of all 1,572 unique firms (9,432 firm-years) in the 2006 version of the IRRC database. Accounting and security data is obtained from the CRSP/Compustat Merged Database. The IRRC data was merged with the CRSP/Compustat Merged Database based on CUSIP, ticker and date using the CRSP/Compustat merged historical header list (crsp.headcst).

The intersection of the IRRC and CRSP/Compustat files consists of 1,553 unique firms and 9,318 firm-years. The executive compensation data is compiled from the Execucomp database. The intersection of IRRC and CRSP/Compustat databases with the executive compensation database is successfully matched for 1,485 (8,910 firm-years) of the firms.

In addition, each firm is required to have complete data for all six-years, 2000 through 2005. This requirement reduces the number
of unique firms in the sample to 870 (5,220 firm-years). Finally, firms that changed CEOs at any point during the period 2000-2005 are excluded.

This exclusion reduces the final sample size to 458 unique firms (2,748 firm-years). The final sample consists of 41 zero-score, 72 one-score, 99 two-score, 151 three-score and 95 four-score firms based on the year 2001 corporate governance data: see Exhibit 1 below.

<table>
<thead>
<tr>
<th>Exhibit 1</th>
<th>2001 Corporate Governance Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Construction Steps</td>
<td>Firms</td>
</tr>
<tr>
<td>2006 IRRC Database</td>
<td>1,572</td>
</tr>
<tr>
<td>Intersection of IRRC and CRSP/Compustat</td>
<td>1,553</td>
</tr>
<tr>
<td>Compensation data from Execucomp</td>
<td>1,485</td>
</tr>
<tr>
<td>Exclude firms without data for all six-years</td>
<td>870</td>
</tr>
<tr>
<td>Exclude firms that change CEOs</td>
<td>458</td>
</tr>
</tbody>
</table>

Results Discussion

Reviewing the results from the “CEO Compensation Models Regression Results Summary,” Exhibit 2 below, it appears this natural experiment’s treatment group, the BOD0 member firms, has awarded a greater increase in total compensation, primarily from awarding more equity-linked and other compensation to their CEOs than have the experiment’s control group, the BOD4 member firms.

While some may have expected independent directors to work to reduce CEO compensation, others have expected independent directors to work to make CEO compensation more performance-linked. Given a push to more performance-linked compensation the average effect of independent directors during a period of rising profits and stock prices, as were the conditions during the period of this investigation, may well have been to increase their CEO’s compensation.

<table>
<thead>
<tr>
<th>Exhibit 2: CEO Compensation Models Regression Results Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable</strong></td>
</tr>
<tr>
<td><strong>Full Model</strong></td>
</tr>
<tr>
<td><strong>R²</strong></td>
</tr>
<tr>
<td><strong>Coefficient</strong></td>
</tr>
<tr>
<td><strong>Partial R²</strong></td>
</tr>
<tr>
<td><strong>p-value</strong></td>
</tr>
<tr>
<td><strong>R</strong></td>
</tr>
<tr>
<td><strong>R²</strong></td>
</tr>
<tr>
<td><strong>Partial p-value</strong></td>
</tr>
<tr>
<td><strong>R²</strong></td>
</tr>
</tbody>
</table>

*, **, *** Indicate significance at p < 0.10, p < 0.05 and p < 0.01, respectively. All p-values are based on two-tailed t-tests.
This relative increase to zero score firm’s equity plus other compensation awards is consistent with the change, in the median percentage of total compensation for equity-linked and other compensation awards, seen for zero-score firms versus four-score firms in the panel B descriptive information in Exhibit 3, below.

There it shows the zero-score firm’s median percentage rise from 43% to 50%, whereas the four-score firm’s median percentage falls from 69% to 56% for this non-cash compensation. If it is true that independent directors are on average increasing the link between performance and compensation, then the SOX and the concurrent stock exchange listing requirements emphasis on more use of independent directors may be seen as a positive.

**Exhibit 3 Descriptive Statistics CEO Compensation**

**Panel A: Financial Characteristics – Means and (Medians)**

<table>
<thead>
<tr>
<th></th>
<th>Zero and Four Score Firms</th>
<th>Zero Score Firms</th>
<th>Four Score Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average</td>
<td>Average</td>
<td>Average</td>
</tr>
<tr>
<td>Sales ($millions)</td>
<td>6,030</td>
<td>9,402</td>
<td>4,935</td>
</tr>
<tr>
<td></td>
<td>(2,055)</td>
<td>(2,733)</td>
<td>(1,394)</td>
</tr>
<tr>
<td>Return on Assets (%)</td>
<td>3.6</td>
<td>6.1</td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td>(4.3)</td>
<td>(5.3)</td>
<td>(5.1)</td>
</tr>
<tr>
<td>Stock Return (%)</td>
<td>19.9</td>
<td>17.2</td>
<td>25.4</td>
</tr>
<tr>
<td></td>
<td>(16.3)</td>
<td>(14.7)</td>
<td>(25.0)</td>
</tr>
</tbody>
</table>

**Panel B: CEO Compensation – Means and (Medians)**

<table>
<thead>
<tr>
<th></th>
<th>Zero and Four Score Firms</th>
<th>Zero Score Firms</th>
<th>Four Score Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average</td>
<td>Average</td>
<td>Average</td>
</tr>
<tr>
<td>Total Compensation($000)</td>
<td>9,054</td>
<td>7,166</td>
<td>13,661</td>
</tr>
<tr>
<td></td>
<td>(3,758)</td>
<td>(4,907)</td>
<td>(2,994)</td>
</tr>
<tr>
<td>Cash Compensation ($000)</td>
<td>1,794</td>
<td>2,591</td>
<td>1,903</td>
</tr>
<tr>
<td></td>
<td>(1,225)</td>
<td>(1,830)</td>
<td>(835)</td>
</tr>
<tr>
<td>Equity Compensation($000)</td>
<td>6,694</td>
<td>3,477</td>
<td>11,086</td>
</tr>
<tr>
<td></td>
<td>(2,188)</td>
<td>(1,976)</td>
<td>(1,068)</td>
</tr>
<tr>
<td>Equity and Other Comp. ($000)</td>
<td>7,260</td>
<td>4,575</td>
<td>11,758</td>
</tr>
<tr>
<td></td>
<td>(2,511)</td>
<td>(2,886)</td>
<td>(1,277)</td>
</tr>
<tr>
<td>% Cash Compensation</td>
<td>20%</td>
<td>36%</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>(33%)</td>
<td>(37%)</td>
<td>(28%)</td>
</tr>
<tr>
<td>% Equity &amp; Other Comp</td>
<td>80%</td>
<td>64%</td>
<td>86%</td>
</tr>
<tr>
<td></td>
<td>(67%)</td>
<td>(59%)</td>
<td>(43%)</td>
</tr>
</tbody>
</table>
boards that undergo the greatest change to comply with these new rules will generate the greatest change in their compensation decisions.

For future investigations I will look for more homogeneous firm sets for BOD0 vs. BOD4 comparison, in order to overcome concerns that BOD4 firms were on average larger and therefore different in other ways than simply having been pre-adopters. In light of the performance-linked possibility just noted, I will also seek to identify a control variable for macro-level business conditions to better identify the directional effect of independent directors on their CEO’s compensation.

A potential criticism of this investigation is that because I exclude firms that failed to survive as independent entities over the full 2000 to 2005 period of the study, this limits my ability to generalize the results across all firms.

My last self-identified concern is that that while a natural experiment can have a number of the appropriate elements of a scientific experiment, e.g., a treatment group and a control group, it will not have random assignment to groups.

In addition, the fact that there appears to be, at minimum, a size difference between zero score firms and four score firms may be used to argue that something else was driving the difference in differences detected. However, in the study’s defense, I have in the regression controlled for size, in terms of sales.

References


Giving Cash its Strategic Due: Shareholder Value Depends On It

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Executive Summary

Working capital management and, in particular, the management of cash and cash equivalents has long been a topic of interest for practitioners and scholars alike. This interest has been largely “operational” in nature, with relatively little attention paid to the strategic significance of cash management and its relationship to the creation of shareholder.

This study relies on a large sample of S&P 500 firms to explore the extent to which statistically significant micro value drivers may exist linking the management of cash and cash equivalents to the creation of shareholder value.

Discriminant analysis is utilized to create what is in effect a cash management “dashboard” that companies doing business on a global basis can use as both a compass and as an analytical platform, with both the focus and flexibility necessary to accommodate the among-industry idiosyncrasies that tend to characterize the practice of cash management.

Introduction

This study is based on a cross-sectional analysis of the operating companies comprising the S&P 500. The use of S&P 500 companies systematically eliminated any small-firm effects and industry specific bias, assured international exposure sufficient to produce a robust measure of market diversification, and provided a sample of adequate size relative to the number of predictor (independent) variables to be able to rely with confidence on the resulting measures of classification and statistical significance.

This research examines the nature and strength of the relationship between liquidity and the creation of shareholder value. The elimination of financial service companies from the analysis left a sample of 422 operating companies, which was subsequently “adjusted” and divided into two groups; one consisting of “low” and the other of “high” market cap companies.

Adjustment of the sample involved removing five percent of the sample firms falling on the “high” and “low” market value sides of the grand mean and immediately adjacent to it, thus creating a clear gap between the two sample groups.

The resulting sample was then subjected to a two-group step-wise discriminant analysis, utilizing Wilks’ Lambda and an unbiased classification procedure to test the model’s statistical and classification efficacy. With market value treated as the criterion variable, each firm was classified as either a relatively high or low market value company, with group membership treated as a function of six working capital related measures of liquidity.

Put otherwise, this research tested the following hypothesis:

\[ H_0: \text{There is not a statistically significant difference between high and low market value companies based on their relative levels of liquidity and the way it is managed when measured in terms of the following set of liquidity related metrics: } (C + CE), (DWE), (NC), (C + CE)/CL, (FCFF/CL), \text{ and } (C/TA). \]

As Rappaport (1998) points out, the creation of shareholder value has become the standard by which both managers and their
The resulting step-wise discriminant model can be described in standard form as follows:

\[ Z_{hi} > MV_h - MV_l \rightarrow Z_{li} \]

\( MV_{hi/l} \) = upper and lower threshold values for the criterion variable MV

\[ Z_i = W_1X_1 + W_2X_2 + \ldots + W_nX_n \]

Where:

\( Z_i \) = discriminant score for the ith high/low MV firm

\( W_i \) = discriminant coefficient for the ith predictor variable

\( X_i \) = ith independent or predictor variable

And market value (MV) becomes a function of the following micro-value drivers:

\( X_1 = (C + CE) \); cash + cash equivalents

\( X_2 = (DWE) \); cash + cash equivalents/[cost of goods sold + operating expenses/250 days]

\( X_3 = (NC) \); cash + cash equivalents – short-term debt

\( X_4 = (C + CE)/CL \); cash + cash equivalents/current liabilities

\( X_5 = (FCFF/CL) \); free cash flow/current liabilities

\( X_6 = (C/TA) \); cash/total assets

Operationalizing the shareholder value model, however, requires that management move from a macro to a micro orientation, a transition that is complicated in some instances by a lack of measurability, in other instances by a lack of information, and in still others by an organizational design that obscures critical underlying relationships that make control of micro-value drivers more difficult.

The framework for analysis developed in association with the research undertaken here relies on the format advocated by Rappaport (1998), whereby a micro-value driver map (see Figure 1) is derived that isolates a set of variables generally accepted as determinant with respect to liquidity, and commonly utilized in various combinations in its management.

This map is subsequently used to identify that subset of variables that have the greatest impact on value and, in turn, to focus on those micro-value drivers over which management has a meaningful level of control. In this process, one will invariably encounter external value drivers such as currency exchange rates, monetary policy and various regulatory requirements that impact working capital and liquidity, but over which management has only limited control. As suggested below, these influences are not ignored but they are managed differently.

...the creation of shareholder value has become the standard by which both managers and their companies are judged...
A "discretionary" source of funding for liquidity is, of course, free cash flow, but only to the extent that it is not encumbered by obligations like those created by current liabilities. Without such discretion, the task of effectively funding liquidity becomes more difficult and timing advantages are lost.

Adequate liquidity is essential to the daily operation of the business and represents a non-discretionary investment that directly affects capital intensity and, as suggested, the firm's net working capital reinvestment rate. Correspondingly, it also affects the plant and equipment reinvestment rate through the resource allocation process and, in turn, the firm's cost of capital as the demand for financing fluctuates with increases/decreases in capital intensity.

The presence of statistically significant group separation between firms with high and low market values would support the contention that some or all of the variables used to specify the model are important determinants of shareholder value and allow one to identify the most significant predictors of value and to gain insights into any important underlying relationships among those predictor variables.

This set of predictor variables was selected because it consists of metrics or ingredients thereof that are commonly used to measure working capital related performance and because it accounts for related operating based cash flow, a measure of significance to companies that view discretionary portions of free cash flow primarily as working capital. It also constitutes a valuable timing real option "because it allows the company to respond to business-development opportunities without having to rely on the capital markets or banks for funding." (Katz, 2010) This capability can be of special importance in an international setting, particularly among emerging market countries where the availability of reasonably priced local market financing tends to be less certain.
While these metrics are for the most part well understood measures of financial performance, what is not nearly as well understood is the extent to which they impact shareholder value, and the pathways by which this occurs. A fundamental proposition of the shareholder value model is that management should not waste its time with variables over which it has little or no control and should instead focus on those variables that are both controllable and truly determinant with respect to the creation of economic value.

This is not to suggest, however, that managers should ignore those factors that cannot be directly controlled, only that they use alternative methods such as hedging to manage such exposure. This line of reasoning is similar to and consistent with the decision theory underlying management of the economic and transaction exposure that attaches to commodities and foreign currencies. This decision making process is described graphically in Figure 2.

The challenge management faces is that the array of variables that impact financial performance is extensive and cluttered with variables that only require passive monitoring or that may be prioritized against goals other than value creation. Valuable resources are marshaled to increase market share, maintain pricing, increase distribution, introduce new products, increase operating efficiency, etc., without a clear sense of what really leads to the creation of economic value, instead of simply generating better accounting based measures of performance.

The “Value Driver Matrix” represents a framework for prioritizing a firm’s real value drivers based on their level of significance and the extent to which they need to be actively or passively managed. The task facing management is to identify variables which reside in Quadrant IV and to actively manage those variables in such a way that shareholder value is maximized while simultaneously managing those resources and activities that more directly influence variables in Quadrants I through III. The research undertaken here addresses this task by introducing a regimen by which statistically significant, liquidity determinant micro-value drivers can be identified and their underlying role in creating shareholder value measured.

The notion that “cash is king” has been a frequent and enduring refrain of managers, analysts and academics, a refrain emphasized by Kaiser and Young (2009) in their six part strategy to “squeeze more funds (cash) from business balance sheets.” In accordance with conventional wisdom, the authors argue that enhanced liquidity is an avenue to improved profitability and financial flexibility, a contention that may have merit when viewed strictly in terms of accounting based measures of performance.

However, a related and arguably more important consideration where both investors and, by extension, managers are concerned is whether such a strategy is also likely to lead to the creation of shareholder value, which should be the dominant strategic objective of any firm. This research presented here explores what might best be described as the “liquidity paradox,” a circumstance where increased liquidity may improve accounting based
Giving Cash its Strategic Due: Shareholder Value Depends On It

measures of financial performance but not shareholder value.

In this regard, Rappaport (1989) explores the vagaries of double entry bookkeeping and explains how such decoupling occurs, and as part of that analysis reaches the conclusion that “cash is a fact, profit is an opinion.” By focusing on market value and the nature and significance of its relationship to a firm’s most liquid assets, one is provided with a direct and far more meaningful measure of the extent to which cash really is king. This relationship is also important because it has been virtually ignored in the literature, a shortcoming underscored by the following review of that literature.

Review of the Literature

While researchers have thoroughly examined the extent to which additions of debt to capital structure tend to influence value, Faulkender and Wang (2006) point out that “the search for estimates of the value of additional cash has not received nearly as much attention.” Faulkender and Wang (2006) view this omission as a “non-trivial oversight considering that corporate liquidity enables firms to make investments without having to access external capital markets,” with all of the advantages that attach to such flexibility, including the luxury of being able to finance growth internally with the timing and cost advantages it can bring. In order to determine whether holding more cash adds value, Faulkender and Wang (2006) used a revised event study methodology to examine multiyear market returns in association with variations in cash holdings. It was subsequently estimated that the marginal value of cash for the average firm sampled was equivalent to $0.94 per share.

The authors concluded that additional cash holdings are valued most highly by shareholders of firms with low cash balances, low leverage and constraints in accessing financial markets. Correspondingly, Faulkender and Wang (2006) argue that the value of incremental cash diminishes as a firm’s cash balance increases, “implying that there may be an upper bound on the amount of cash for which the firm is rewarded for holding.” A finding, in turn, that is consistent with both the tax consequences of holding more cash and agency costs.

...enhanced liquidity is an avenue to improved profitability and financial flexibility...

Much of the research pertaining to cash and, more broadly, working capital management, has focused on finding the optimal mix of cash and short-term investments in order to assure sufficient liquidity to operate on a daily basis, while at the same time minimizing both investment in low yielding assets and the firm’s cost of capital (Beranek, 1963; Baumol, 1952; Stone, 1972; and Miller and Orr, 1966). While such research has contributed to the achievement of greater efficiency in managing related accounts (Mullins and Homonoff, 1976), it has done very little to focus greater attention on the broader consequences of better cash and working capital management as determinants of shareholder value.

Gitman, Moses and White (1979), sampling from the Fortune 1000 firms, examined the cash management practices being used in an effort to determine the extent to which practitioners used or found useful the theory and related models advanced by academicians. The analysis looked at the use of various cash management policies, working capital management techniques, systems used to speed the collection of accounts receivable and to slow the payment of accounts payable, and types of float management techniques used to manage cash and the impact of these techniques on the average cash cycle. Gitman, Moses and White (1979) concluded that “although academicians have developed
a great deal of theory on cash management, there may still be a gap—although perhaps narrowing—between the theory and practice of cash management.”

Among factors influencing the way cash and working capital are managed is the firm’s organizational design and the related systems and processes that organizational configuration gives rise to. Sartoris and Hill (1983) contend that traditional designs have tended to be based on the “compartmentalization” of activities, which has resulted in compartmentalizing working capital management. They argue that what is needed is an integrated approach to cash and working capital management because “most working capital decisions involve either the cash flow cycle or the level of liquidity. While the two are closely linked they can be separated to some extent for decision purposes.” Sartoris and Hill (1983) subsequently concentrate on the timing and amount of cash flow as determinants of cash and working capital policy and on the impact of these decisions on the present value of those flows, which was higher in association with an integrated approach.

A recent analysis by McGinty and Tuna (2009) identifies reasons firms commonly give for holding inordinate levels of cash. For some firms it is a response to difficult times and a perceived need to permanently increase liquidity as a risk hedge. Closely related is the notion among some managers that although they have no clear need for the cash, it provides one with “peace of mind.” Other firms have targeted spending or acquisition plans, and still others with less specific plans hold cash for what might best be described as “opportunistic money.”

Looking broadly at the cash companies hold, Michalski (2006) argues that the traditional model for cash management built around transactional, precautionary and speculative balances and championed by scholars like Baumol (1952) and Beranek (1963) ultimately depend too heavily on management intuition and emphasize too great an extent the negative as opposed to “the positive part of the risk equation.” Michalski (2006) contends that such an approach actually undermines the firm’s ability to create value and presents a calculus for objectively deriving precautionary and speculative balance that are value rather than risk avoidance based.

Filbeck, Krueger and Preece (2007) observe that most of the research dealing with cash and working capital management has relied largely on opinion surveys of financial professionals, and they offer several examples of that genre: Sanchez (1992), Smith and Belt (1989), Beranek and Scherr (1991) and Ricci (1999). In their own research, Filbeck, Krueger and Preece (2007) attempt to identify and describe the working capital management problems faced by firms, and to link, although indirectly, measures of working capital management (i.e., cash conversion efficiency and days of working capital) to shareholder value based on criteria used by CFO Magazine in its 2007 survey. They determined that investors are attracted to companies that score high on CFO Magazine’s annual working capital management survey.

Here they tested for: (1) share price announcement effects for firms named in the CFO Survey, (2) whether the financial returns of firms named in the top ten within their respective industries exceeded the returns of a matched sample of firms during each year of the survey, and (3) whether ranked firms outperformed sampled firms based on cash conversion efficiency and days of working capital. Filbeck, Krueger and Preece (2007) deserve credit for their effort to link cash and working capital management to the value of the firm, a research focus that has for the most part been ignored by scholars in the field.

Much of the cash and working capital management research is fragmented
into tightly drawn examinations that are account based, with accounts receivable, accounts payable and inventory receiving a disproportionate share of attention, with far less interest shown in interactive effects (Hill and Sartoris, 1992; Myers, 2006; Sanchez, 1992; Daly, 1997/1998; and Strischek, 2001). Leveraging the “account based” research, scholars like Ricci (1999), Gilbert and Reichert (1995), and Barth, Cram, and Nelson (2001) shift the focus to the examination of the impact effective account management is likely to have on earnings, cash flow and on the present value of future cash flows.

What these scholars fail to accomplish, however, is to “close the loop” between better cash and working capital management, the firm’s underlying economic value (i.e., intrinsic value) and improvements in market value. In fact, as Filbeck, Krueger and Preece (2007) point out: “Although Ricci’s study is comprehensive and significant, it fails to address shareholder value directly. Instead, it assumes that more efficient receivables management will increase earnings and hence share price.”

Ogden and Sundaram (1998) treat cash as a raw material and the management of cash and, more broadly, working capital much as a production manager would treat the management of production related assets. Where the production manager is charged with managing raw materials, work-in progress, and inventories, financial managers are charged with the responsibility of maintaining optimal financial account balances. Ogden and Sundaram (1998) argue that both production and financial managers are responsible for monitoring and controlling the flows of cash among these balances and for achieving appropriate levels of cash:

As long as the cash manager has sources of credit (access to cash), the firm can cover operating costs while maintaining minimal cash balances. Likewise, the production manager who is able to purchase materials on an as-needed basis can minimize the firm’s inventory levels. Inefficient use of cash and materials ultimately reduces the firm’s profitability. Inadequate levels of cash can preclude a firm from meeting its financial obligations as they become due, while material shortages can prevent meeting production schedules. Excess levels of cash and inventories tie up capital and reduce the firm’s return on assets. Short-term assets such as cash and inventories represent investments a firm must make in order to support its operations (p. 27).

Whatever the specific purpose might be, the presumption must be that cash is ultimately held to facilitate the process of creating shareholder value. In this role, cash facilitates growth in revenue, operating earnings, free cash flow to the firm and, finally, the intrinsic value of the firm. Since returns to cash are notoriously low in the aggregate, optimality in cash management can best be achieved by minimizing cash balances and cash to cash cycle time.

Premachandra (2003) considers a cash management problem of a typical business firm in a “two-asset” setting; namely, the firm’s cash balance and a portfolio of assets such as treasury bills, commercial papers, etc. From time to time, firms will have to transfer money from one asset account to the other by selling or buying securities to bring the cash balance to a suitable level (return point).

These transactions are made when the cash balance reaches the lower or the upper control limits set by the firm. We use the diffusion approximation technique to obtain the probability density function of the daily cash balance, and the optimal values for the return point and the upper control limit, which minimize the daily cost of managing the cash.
Numerical results show that the proposed model is superior to the original model proposed by Miller and Orr (1966) known as the Miller–Orr model. The proposal can be regarded as a more generalized model, which relaxes most of the restrictive assumptions in the Miller–Orr (1966) model.

A recent study by Hill, Kelly and Highfield (2010), looking at the relationship between operating cash flow, working capital management and financing determined that firms with greater internal financing capacity and superior capital market access are inclined to employ more conservative working capital policies. They conclude that “operating and financing conditions should be considered when evaluating working capital behavior, not just industry averages.”

Additionally, they argue that industry concentration magnifies the effect of sales growth and a firm’s working capital policies and strategies tend to be driven by market imperfections over the operating cycle leading to cost and benefits that affect cash flow and that are ultimately reflected in fluctuations in shareholder wealth. Like many other examinations of cash and working capital management, Hill, Kelly and Highfield (2010) utilize a variety of “hybrid” measures not commonly employed as proxies for efficiency and effectiveness in working capital management. The criterion variable they relied on was the ratio of receivables plus inventory minus payables to sales at the end of each year.

Almeida, Campello and Weisbach (2004) investigated the nature and strength of links between financial constraints firms commonly face and the corresponding demand for corporate liquidity in an effort to specify and model such constraints and their impact on policy and strategy. They subsequently proposed a new empirical test of that impact.

Almeida, Campello and Weisbach (2004) argue that because only those firms whose investments are constrained by capital market imperfections manage liquidity to maximize value, financial constraints can be captured by a firm’s cash flow sensitivity of cash. They tested the hypothesis that the propensity to save from cash inflows is positive for the constrained firms, but it converges on zero for the unconstrained firms, and their empirical evidence suggests that constrained firms display significantly positive cash balances and cash flow sensitivities, while unconstrained firms do not.

The production manager who is able to purchase materials on an as-needed basis can minimize the firm’s inventory levels.

Filbeck and Kreuger (2005) examined the extent to which measures of working capital performance tend to vary among industries and over time. The authors found that industry differences in the measurement of working capital performance did not change significantly over time; however, significant variance was present among firms in similar industries when viewed on the same basis.

In accounting for this variance, Filbeck and Kreuger (2005) argue that: “These changes may be explained in part by macroeconomic factors. Changes in interest rates, rate of innovation, and competition are likely to impact working capital management. As interest rates rise, there would be less desire to make payments early, which would stretch accounts payable, accounts receivable, and cash accounts (p. 17).”

Commenting on the influence of innovation on working capital management, Camerinelli (2010) argues that corporate clients, large, middle market and small, are demanding “more functionality, more service, and faster response times” from the technology they are using to meet their cash management needs in order to squeeze as much liquidity as possible from the cash cycle.
Finally, Michalski (2010) argues that “The basic financial purpose of the corporation is the creation of value. Liquidity should also contribute to realization of this fundamental aim.” The following analysis addresses whether liquidity does, in fact, make such a contribution by regressing selected measures of liquidity on the market capitalization of a sample of S&P 500 companies.

Research Design and Methodology

The adjusted sample consisted of 400 operating companies drawn from the S&P 500. Financial institutions were excluded from the sample. The sample was sufficient in size to produce a ratio of observations to variables of over 65, well in excess of the threshold (≥ 10) that attaches to multivariate parametric techniques (Hair, Anderson and Tatham, 1987).

The data were subjected to a two-group step-wise multiple discriminant analysis with market capitalization (MV) serving as the criterion variable and group membership (MVh vs. MVl) treated as a function of cash plus cash equivalents (C + CE), the ratio of cash and cash equivalents to daily operating expenses (DWE), net cash (C + CE – STD), the ratio of cash and cash equivalents to current liabilities (C + CE/CL), the ratio of free cash flow to current liabilities (FCFF/CL), and the ratio of cash to total assets (C/TA).

The resulting discriminant model was derived using SPSS DISCRIM and was tested using an unbiased hold-out sample. The first variable selected for inclusion in the model was cash plus cash equivalents (C + CE), the predictor that accounted for most of the unexplained variance (group separation). The remaining predictor variables were selected for inclusion based on the amount of residual variance or group separation that each explained and, correspondingly, by the extent to which their inclusion reduced Wilks’ Lambda. Predictor variables that failed to satisfy the F-ratio to enter criterion of .05 were excluded from the model. Table 1 presents the resulting descriptive statistics and Table 2 the results of the step-wise process and accompanying statistics.

Table 1
Group Descriptive Statistics for High and Low MV Companies

<table>
<thead>
<tr>
<th>Variable</th>
<th>Low MV Companies</th>
<th>High MV Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>MV</td>
<td>7.18</td>
<td>19.92</td>
</tr>
<tr>
<td>C + CE</td>
<td>4.71</td>
<td>3.79</td>
</tr>
<tr>
<td>DWE</td>
<td>1.23</td>
<td>1.45</td>
</tr>
<tr>
<td>NC</td>
<td>0.41</td>
<td>0.29</td>
</tr>
<tr>
<td>FCFF/CL</td>
<td>0.32</td>
<td>0.56</td>
</tr>
<tr>
<td>C/TA</td>
<td>0.76</td>
<td>0.84</td>
</tr>
<tr>
<td>STD</td>
<td>1.133</td>
<td>1.133</td>
</tr>
<tr>
<td>Wilks’ Lambda</td>
<td>0.712</td>
<td>0.712</td>
</tr>
<tr>
<td>Chi-square</td>
<td>612.730</td>
<td>612.730</td>
</tr>
<tr>
<td>df</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Sig.</td>
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</tr>
<tr>
<td>Tolerance</td>
<td>0.95</td>
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</tr>
</tbody>
</table>

(1) Variables excluded from the analysis through the stepwise procedure were: Cash plus cash equivalents as a percent of current liabilities (C + CE)/CL and free cash flow as a percent of current liabilities (FCFF/CL).

Average market capitalization (MV) for sample firms was $19.91 billion, ranging from a low of $1.17 billion to a high of $356.0 billion. Average market capitalization among low MV firms was $7.18 billion and among high MV firms the average was $63.80 billion.

Sample firms carried an average cash plus cash equivalents balance (C + CE) of $1.45 billion, with the average balance ranging from $651 million among low MV companies to $4.2 billion among high MV companies. Daily operating expenses in cash and cash equivalents (DWE) averaged only .77 days overall, ranging from .57 days among low MV companies to 1.45 days among high MV companies.
Inefficient use of cash and materials ultimately reduces the firm’s profitability.

Normally one would expect a credit worthy firm with ready access to a line of credit to maintain something approaching five days worth of operating expenses in cash and cash equivalents. Sample firms carried an overall average net cash balance (C + CE – STD) of $190 million, with low MV companies averaging $210 million and high MV companies averaging $120 million. Correspondingly, approximately 25 percent of sample firms maintained negative net cash positions. The average ratio of cash and cash equivalents to current liabilities (C + CE/CL) was .51, ranging from .54 among low MV to .42 among high MV companies. Overall, companies maintained an average free cash flow to current liabilities ratio of .73 and among low MV companies the average was .70, while among high MV companies the ratio was .82. Finally, the overall average cash to total assets ratio (C/TA) was .10, indicating that sample firms carried an average of 10 percent of their assets in cash, with low MV companies averaging approximately 10.4 percent, while high MV firms averaged 8.7 percent.

On balance, high MV companies carried significantly more cash on an aggregate basis and relative to average daily operating expenditures, financed a noticeably higher percentage of current assets without the use of current liabilities and short-term debt (i.e., carried less net working capital), and were somewhat less asset intensive relative to their investment in cash and cash equivalents.

As the results appearing in Tables 2 and 3 suggest, a test of the discriminant function for high and low MV firms produced an overall Wilks’ Lambda statistic of .752, which with four degrees of freedom was significant at a level beyond .01, using a Chi-square criterion. The first predictor variable selected for inclusion by DISCRIM is that variable that explains most of the total between-group variance (i.e., group separation), while any remaining variables are selected sequentially based on the amount of residual variance they explain.

Table 3
Stepwise Discriminant Analysis
High vs. Low MV S&P 500 Companies

Using an F-to-enter criterion and .05 level of significance, cash plus cash equivalents was the first predictor variable selected for inclusion, with an F-to-enter of 86.698. The second variable selected for inclusion was net cash (NC), with an F-to-enter 54.21, followed by cash to total assets (C/TA) with an accompanying F-to-enter of 41.403, and the last variable selected for inclusion was days worth of operating expenses in cash and marketable securities (DWE), with an F-to-enter of 32.521.

Tolerance measures the extent to which the excluded variables at each step are independent of the included variables. As the level of correlation among the independent variables rises, tolerance tends to converge on zero. As a rule of thumb, if tolerance is less than .20 on a scale of 0 to 1.0, a problem with multicollinearity is indicated. Here the discriminant model’s tolerance of .900 indicates an absence of significant multicollinearity, which is consistent with the corresponding levels of predictor tolerance generated at each step of the analysis.
As the squared canonical correlation suggests, 24.8 percent of the within to between-group variance in MV among sample firms was explained by between-group differences in working capital strategy. While the percentage of explained variance is statistically significant, most of the variance between high and low MV firms remains to be accounted for by other factors. With respect to accounting for this unexplained variance, potential avenues for future research are addressed later in this analysis.

While the Wilks’ Lambda statistic clearly suggests the presence of significant differences between high and low MV companies, the most meaningful test of group separation is the extent to which the resulting discriminant model can effectively predict group membership on a cross validated, a priori basis. With cross validation, each case is classified by a function derived from all cases other than that case, thus creating what is in effect an independent, unbiased hold-out sample as a test medium for the discriminant model. In addition, prior probabilities were employed (75.5 percent were low MV firms and 22.5 percent were high MV firms) so that cases used in the classification process were adjusted for actual group size in the sample, further assuring that one is left with an unbiased classification result. Table 4 presents the results of the classification process.

Referring to Table 4, among low MV firms, 300 were correctly classified by the discriminant model and 10 were misclassified. Among high MV firms, 32 were correctly classified and 58 were misclassified. Overall, the “hit-ratio,” or percentage of firms correctly classified, based on group differences in working capital strategy was 83.0 percent [i.e., total number of firms correctly classified (300 + 32) ÷ the total number of firms in the sample (400)].

This result reflects a level of classification effectiveness significantly above what one would expect by chance based on Morrison’s (1969) proportional chance criterion ($C_{pro}$) of 34.88 percent, where:

$$C_{pro} = p\alpha + (1 - p) (1 - \alpha)$$

and:

$$p = \text{proportion of low MV firms (.775)}$$
$$\alpha = \text{proportion of high MV firms (.225)}$$

so:

$$C_{pro} = (.775) (.225) + (1 - .775) (1 - .225) = .3488 \text{ percent}$$

Summary and Conclusions

In summary, the results of this analysis offer strong support for rejection of $H_0$ and for supporting the implied alternative hypothesis that the effectiveness with which companies manage liquidity is a significant determinant of shareholder value, and that a specific set of metrics can be identified that play a statistically significant role in this process. The significant Wilks’ Lambda statistic produced by the resulting discriminant model and the equally significant hit-ratio of 83.0 percent, evaluated in conjunction with a Morrison’s proportional chance criterion of 34.8 percent, constitute overwhelming evidence of significant group separation between high and low market value firms attributable to differences in working capital strategy and policy.

...the effectiveness with which companies manage liquidity is a significant determinant of shareholder value...
Extrapolating from this research, “rules of thumb” for converting liquidity to shareholder value include:

• focus first and foremost on achieving an optimal level and mix of cash and cash equivalents,
• maintain an optimal cash and cash equivalents to daily operating expenses,
• multiple net cash should figure prominently in determining the firm’s level of short-term borrowing and resulting level of liquidity, and
• investment in liquidity should be prominently informed by a firm’s cash to total assets multiple, where an “adequate” multiple does not necessarily equate with a higher multiple.

Returning to the micro-value driver map discussed earlier (Figure 1), the predictor variables identified through this research as important working capital related determinants of shareholder value should figure prominently in any decision to invest in liquidity and in any decision related to its active management.

This research helps to “point management in the right direction” by providing a framework for the design of a cash management “dashboard” (see Table 5) that encourages a more strategic approach to cash management, and the kind of thinking such an approach fosters. Viewed in terms of value driver based management (see Figure 2), this research forces management to adopt Quadrant IV style thinking and behavior, which ultimately leads to a shareholder value based approach to managing liquidity.

### Table 5
Cash Management Dashboard

<table>
<thead>
<tr>
<th>Liquidity Metric</th>
<th>Target Range</th>
<th>Current Level</th>
<th>Variance</th>
<th>Industry Norm</th>
<th>External Risk Factors</th>
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<td>C+CE</td>
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...cash is ultimately held to facilitate the process of creating shareholder value.

Regarding the study’s limitations and possible directions for future research, while it was beyond the scope of the analysis undertaken here, a logical and potentially fruitful area of examination might well be research dedicated to determining ranges of optimality for each of the statistically significant micro-value drivers identified above.

Another related avenue of investigation might entail exploratory research dedicated to accounting for the unexplained variance (group separation) identified through the research undertaken here. While nearly 25 percent of this separation was explained by the discriminant model, approximately 75 percent went unaccounted for and available for further investigation. Finally, the influence of intervening variables such as firm size and industry affiliation might well provide a basis for fruitful incremental research.

### References


Executive Summary

Research shows that many successful leaders have had mentors who advised them in their careers. However, minorities, including Hispanics, may have difficulty finding suitable mentors. The purpose of this article is to present mentoring alternatives for Hispanics. First, the article examines the basic functions and stages of mentoring. Next, the article explores unique aspects of the Hispanic culture and how these factors may impact mentoring for Hispanics. The article then looks at several mentoring alternatives that may benefit Hispanics, including virtual mentoring, professional organizations, peer mentoring, team mentoring and group mentoring circles. Finally, the article presents several recommendations for mentoring Hispanics.

From an individual perspective, the protégé can actively work to initiate and build a relationship with a mentor within the company, search the Internet for possible mentors, and use mentoring alternatives. From the organizational perspective, the company can expand sources of mentors, increase chances of initiating a mentoring relationship, identify underlying themes for coalescing the mentoring relationship, and encourage contact with Hispanic professional and specialty organizations.

Introduction

Most successful leaders report that they have had a mentor somewhere along their career path. Indeed, research shows that individuals that have been mentored earn significantly more than non-mentored people (Dreher and Cox, 1996). Thus, being mentored is a crucial step in career success.

The basic problem, however, is that some people, particularly women and minorities, have less access to mentors than do white males (Ragins and Kram, 2007). If Equal Opportunity (EO) is a goal of the organization, then all its members should have access to career enhancing processes, including mentoring. This does not necessarily mean that all women and minorities should have a mentor in the traditional sense, but all should have access to some type of mentoring activity.

One group of particular interest is Hispanics. The 2012 election showed the power of the Hispanic vote not only for the President and other Democrats, but also for support of Republican candidates (King, 2013). Many Hispanics are small business entrepreneurs who could identify with the business issues that Republicans espouse. Hispanics are the largest minority group in the United States, and the fastest growing minority, with a growth rate of 35% a year (Hall, 2000).

Whereas they now constitute 15-17% of the U.S. population, projections indicate that in the not-so-distant future they will constitute more than 20% (Parrillo, 2011). If U.S. businesses are
to reflect the population of the 21st century, they must actively recruit and retain Hispanics. For example, the technique of targeted recruiting (focusing on recruiting at universities and local communities, where a large number of Hispanic applicants are available) can produce a large number of high quality applicants (Knouse, 2009).

Mentoring is one technique not only for reaching out to Hispanics but also for enhancing their chances of career success (Guilbault and Nevaer, 2012; Sotomayor, 2013).

**Most successful leaders report that they have had a mentor somewhere along their career path.**

**The Mentoring Process**

**Definition of Mentoring**

One succinct definition of mentoring is a “developmental relationship between senior and junior individuals in organizations” (McManus and Russell, 1997, p. 145). Fagenson (1988, p. 186) wrote that a mentor is “someone in power who looks after you.” Mentors (the senior individuals) provide advice on career and personal matters to protégés (the junior individuals). They also provide feedback on career-enhancing activities.

Further, mentors model successful behaviors for protégés, and help clear the path to success, identifying barriers along the way. Mentors advise which behaviors to display for success and which behaviors to avoid. They suggest which individuals should be cultivated for career success, and which individuals to avoid. Moreover, they help protégés develop their networks. Effective mentors are experienced, confident, and competent. (Flores and Obasi, 2002; Johnson, 2002; Ragins, 2007; Ragins and Kram, 2007; Steinberg and Nourizadeh, 2001).

For minorities, mentors provide genuine concern for their welfare, practice cultural sensitivity, and appreciate the unique individuality of the protégé. In addition, effective mentors are attentive to performance problems, provide honest feedback, and suggest corrective action for problems (Johnson, 2002). For minorities such as Hispanics, the mentor may also be able to develop the protégé’s identity as a Hispanic (Knouse, 1992). He or she may be able to model behaviors of successful Hispanics, or at least provide support and guidance for how to become a successful Hispanic in the organization.

**Functions of Mentoring**

**Career Enhancing Function.** The first function focuses on the protégés’ career activities (Ragins and Kram, 2007; Steinberg and Nourizadeh, 2001). Mentors provide information, advice, protection, sponsorship, feedback, and role modeling concerning the protégés’ careers – what behaviors to display or avoid, what job experiences to pursue, which job experiences to avoid, if possible. In addition, mentors provide introductions to other persons who can help the protégés’ career progress. Further, the mentor can help build the protégé’s network of contacts – others who can provide information, support, and advice for career development.

**Psychosocial Function.** The second mentoring function deals with personal and interpersonal activities (Ragins and Kram, 2007; Steinberg and Nourizadeh, 2001). Mentors can serve as sounding boards for the protégés’ ideas. Mentors can give support when plans do not materialize or when the protégé makes a mistake or crosses a more powerful person in the organization. Mentors can also provide role modeling and reinforcement of important interpersonal behaviors tied to success – how to act in a staff meeting, how to talk to powerful persons in the organization, even how to interact in organizational parties.
Phases of Mentoring

Research has identified four phases in the mentoring relationship: instigating the relationship between mentor and protégé, developing the mentoring relationship, breaking off the mentoring relationship, and the protégé becoming mentor (Ragins and Kram, 2007).

Initiating the Relationship. The first phase in mentoring is to establish a relationship between mentor and protégé. Research shows that to be successful, a “chemistry” between the two people must develop (Ragins, 2002). This implies that formal organizational mentoring programs where protégés are assigned to mentors may not work, because the relationship is forced; it is not allowed to develop on its own (Baugh and Fagenson-Eland, 2007).

Indeed, studies of Hispanic professionals show that much of their effective mentoring is done by informal rather than assigned mentors (Villarruel and Peragallo, 2004). Moreover, some diversity experts advise that because of the potential problems with this crucial chemistry developing in formal mentoring programs, assigned mentors should be used only as a last resort (Ragins and Kram, 2007).

The upshot is that the organization can best help a mentoring relationship develop by providing situations where potential mentors and protégés can meet one another and interact, in order to find similarities and common interests upon which to build a strong relationship, such as an off-site get together or party (Ragins and Kram, 2007; Johnson, 2002).

Developing the Relationship. The second phase is the essence of mentoring. Once the relationship is established, the mentor can provide career enhancing and psychosocial help. Research shows that both of the basic mentoring functions are important. Minorities who receive only the career enhancing assistance but not help with the psychosocial function tend to plateau in their careers, perhaps because of a lack of confidence resulting from a lack of social support (Thomas, 2005).

Breaking Off the Relationship. In the third phase, the protégé has benefited all he or she can from the mentor and must go out on his or her own. This may not be easy if the mentoring relationship has developed into a strong bond between the mentor and protégé. Some compare this phase to a child leaving the parents to establish himself or herself as an adult. The break is necessary, but may be painful.

Protégé Becoming a Mentor. The fourth and final phase of the mentoring relationship is the protégé now becoming a mentor for a new person in the organization. The mentoring process thus goes full cycle and begins again with a new protégé.

Mentoring is one technique not only for reaching out to Hispanics but also for enhancing their chances of career success

Hispanic Ethnicity

Acculturation

Acculturation is the ability of an individual from one culture to adapt to the norms, values, and behaviors of another culture. In other words, acculturation is fitting into another culture effectively. Assimilation, on the other hand, is adopting the other culture to the extent that it replaces the initial culture. Acculturation is the preferred mode for many American Hispanics – being able to function well in the larger American culture, while still maintaining an identity with important parts of the Hispanic culture (Domino, 1992).

Whether a Hispanic person was born in the United States or immigrated here often
affects how that person relates to mentoring. Immigrant Hispanics tend to use mentors more than U.S.-born people, while the U.S.-born are more apt to join affinity groups (Delcampo, Jacobson, Van Buren, and Blanco, 2011).

Perhaps the immigrants are using mentors to help become acculturated into U.S. culture, while U.S.-born people are strengthening their “Hispanic-ness.” The question then becomes: who is the more Hispanic – the immigrants or the U.S.-born?

Interestingly, Hispanic recruits into the U.S. military are more acculturated to the larger American culture than other Hispanic groups. Indeed, many Hispanic recruits have historically downplayed their Hispanic heritage to avoid or minimize the Hispanic stereotypes that may be disparaged by their non-Hispanic colleagues. They tend to be “ethnically anonymous,” focusing on norms, values, and behaviors that do not stereotype them as Hispanic, but rather allow them to mix more easily with non-Hispanics. These adopted norms, values, and behaviors tend to be a strong work ethic, focus on success, and even learning what, in typical American society, is considered an appropriate distance to stand (not too close) when communicating with others (Guilbault and Nevaer, 2012).

**Family Emphasis**

One of the most important defining factors for Hispanics is the centrality of the extended family (Knouse, 1992). Hispanics feel strong bonds to their extended family, which they tend to define as primary sources of love, intimacy, and support (Parillo, 2011). In addition, parents provide not only encouragement but also instill high standards of conduct (Flores and Obasi, 2002). Much of Hispanic activity revolves around the extended family – parties, get-togethers, visits, and vacations (Ballard and Taylor, 2012).

Perhaps the extended family may be a source of possible mentors. A study of Mexican Americans revealed that they relied on parents as mentors much more often than significant others, such as teachers (Flores and Obasi, 2002). In fact, a study of Hispanics in the military showed that parents were generally the persons to whom they looked for advice and assistance in military decisions, such as enlisting, re-enlisting, taking on assignments, and leaving the service (Knouse, 1991). Extended family members (parents, aunts and uncles, and grandparents) who have served in the active military, National Guard, or reserves, might be particularly effective mentors for Hispanics in the military.

Another implication is that the Hispanic mentoring relationship may mirror the family relationship. In other words, younger Hispanics may be looking for mentors who are not necessarily Hispanic, but to whom they can relate as father or mother figures.

**Sense of Community**

Beyond the family, Hispanics prefer to live among other Hispanics, who share their preferences for food, entertainment, religion, and language. Such a sense of community reinforces their identity (Parillo, 2011). This collectivism is one of the strongest defining characteristics of Hispanic culture.

This strong sense of community, however, can be a deterrent. Hispanics do not tend to take positions in communities that do not have a strong Hispanic presence (Knouse, Rosenfeld and Culbertson, 1992). They may be less likely to relocate to areas that do not have a Hispanic community already in place.

**The Honor Ethos**

One aspect of Hispanic culture that is greatly misunderstood is machismo. Americans tend
to take a negative view of machismo, which they incorrectly believe is hyper masculinity – arrogance, excessive pride, aggressiveness, and even violence to preserve a Hispanic male’s sense of maleness (Parrillo, 2011).

In actuality, “machismo” may be more a strong sense of honor – the duty to uphold the integrity of the Hispanic community and the family, as well as one’s identity with community and family. Some Hispanics, however, disagree with this interpretation. They claim “machismo” is a negative stereotype that American Hispanics should actively work to overcome (Abalos, 2002).

**The Spanish Language**

One strong defining factor for Hispanics is their relation to the Spanish language. Different Hispanic groups, such as Mexican Americans, Cuban Americans, Puerto Ricans, and Central and South Americans, all have in common Spanish as the language of their place of origin. Hispanics are more apt to use Spanish at home than other ethnic groups are likely to use their particular native languages (Parillo, 2011). Even Hispanics who have been in the United States for several generations and do not speak Spanish often learn the language to build a sense of their identity (Castillo-Speed, 2011).

The use of Spanish is perhaps one of the most difficult factors of Hispanic culture to deal with. On the one hand, increasing numbers of Hispanics are proudly discovering or rediscovering Spanish as their heritage. On the other hand, there is an increasing emphasis in the U. S. on English as the only official language, which goes directly against the use of Spanish in many situations.

Looking to the future, particularly if the Hispanic minority will grow as fast as is estimated, the U.S. may eventually become a bilingual country with two official languages, like Canada’s dual emphasis on French and English. However, that is only speculation.

**Religion**

Most Hispanics are Roman Catholic, although a small but growing number are becoming Protestant, particularly joining evangelical sects (Parillo, 2011). The commonality here is an emphasis upon religion in the Hispanic culture. The implication for mentoring is that persons associated with religion – priests, ministers, lay religious leaders – may be a source of potential mentors for Hispanics.

**Hispanic Women and Special Groups**

Hispanic women have special issues that the mentor should understand. Child rearing has traditionally been of primary importance, and this culture imposes a stereotypical lack of assertiveness in Hispanic women (Parillo, 2011). Further, they must decide whether they will follow the “fast track” to career development or the “mommy track,” which produces slower career development but allows more time with the family and the children (Knouse and Webb, 2001).

As in other minority racial and ethnic groups, Hispanic gays are starting to become visible. Consequently, researchers are beginning to examine the unique issues of Hispanic gays in mentoring, like machismo and the Hispanic ethos (Madera, King, and Hebi, 2013).

**Implications for Hispanic Mentoring**

**Sources of Mentors**

A basic problem with minority mentoring is a lack of potential mentors. There are relatively few Hispanics in positions of power, and even fewer Hispanics in top executive positions. One source of potential mentors may be the extended family. Indeed, many Hispanics report that parents and extended family members serve as their mentors (Flores and Obasi, 2005). Those extended family members, such as parents, grandparents, aunts, and uncles, who have had business experience, may be a particularly fertile source of mentors.
Further, through electronic means Hispanic individuals can perhaps tap into a relatively large pool of Hispanic veterans with prior military experience (Steinberg and Foley, 1999). Such external mentors may have a larger and more long-range perspective than internal mentors within an individual’s organization (Ragins, 1997).

Another source of possible mentors may be persons affiliated with religious groups—priests, ministers, or lay religious leaders.

A basic problem with minority mentoring is a lack of potential mentors.

The Nature of the Hispanic Mentoring Relationship

Hispanic ethnicity offers several possible directions that the mentoring relationship can take. The emphasis upon the extended family implies that many Hispanics may feel comfortable with mentors in the roles of father or mother figures (Greenhaus and Singh, 2007). As they looked up to their parents, protégés may look to mentors to model appropriate and success-oriented behaviors. Protégés may feel more comfortable with older mentors. A Hispanic person may also come to feel that working for a local Hispanic business is like being part of a very large extended family.

Another defining characteristic of the Hispanic ethos is the sense of honor. Thus, the mentoring relationship can develop around the mentor helping the protégés to succeed to bring honor upon the organization.

On the negative side, the traditional closeness of Hispanic familial and community relationship may transfer to the mentoring relationship. Hispanic protégés may find it more difficult than other groups to terminate such a close relationship (Knouse, 1992).

Mentoring Alternatives

There is a dearth of Hispanics in powerful positions who can become mentors. Here are some possible alternatives:

Virtual Mentors

Technology may increase the number of possible mentors and enhance the mentoring relationship for Hispanics. Electronic communication, such as e-mails and chat rooms, can greatly extend the process (Ensher and Murphy, 2007). Virtual mentors have the advantages of instant access, choices from a number of mentors who can deliver varied types of advice, and interaction in chat rooms.

Further, the Internet can provide anonymity for dealing with personal or sensitive problems. Finally, the Internet is cost effective as a mentoring device, because most individuals already have access to the Internet with few additional program costs needed (Knouse, 2001).

Using e-mails and chat rooms, Hispanic protégés can contact individuals in other organizations and carry on the relationship online. Portions of Hispanic Web pages in Spanish can build a sense of community among Hispanic users.

Technology may increase the number of possible mentors and enhance the mentoring relationship for Hispanics.

Professional Organizations

Diversity management experts recommend in-house minority organizations that can support minority mentoring and networking (Thomas, 2001). In the business world, many successful companies support the creation of Hispanic organizations within the firm to provide encouragement and resources for professional development of Hispanic employees.
Xerox, for example, has the Hispanic Association for Professional Advancement (HAPA), which provides mentoring and networking information (“someone they can talk to”) for Hispanic employees that, in turn, leads to increased business results for Xerox (Hall, 2000). HAPA’s Web page presents information on forming and maintaining mentoring relationships. In addition, the website lists career-enhancing information that a mentor could deliver, such as how to facilitate a meeting, present a technical report, and motivate a work team (HAPA, 2012).

The Hispanic Bar Association provides services linking Hispanic mentors and protégés. Mentors are willing to take on the additional effort, because they feel that they are paying back those who helped them (Anon, 2011). Similarly, Hispanic Chambers of Commerce can link members as potential mentors to protégés. Even universities, like the University of Texas at San Antonio, can provide a large number of Hispanic faculty and staff as potential mentors.

Such organizations could build Web pages that provide answers to frequently asked mentoring questions (mentor FAQs). They could also provide contacts through their Web pages, and even establish group mentoring chat rooms (Knouse and Webb, 2000). Indeed, research on professional organizational mentoring shows that inclusion and belonging are major attributes that protégés acquire from professional organizations (Knouse, Hill, and Webb, 2005). These traits fit nicely with the sense of community that many Hispanics desire.

One particularly significant type of organization might be Hispanic veterans’ groups. Hispanic veterans as mentors could fulfill father figure roles as well as provide a strong sense of Hispanic community for Hispanic protégés.

...many successful companies support the creation of Hispanic organizations within the firm to provide encouragement and resources for professional development of Hispanic employees.

**Peer Mentors**

If minorities such as Hispanics cannot find more senior people to be mentors, they may focus on colleagues for peer mentoring (Ragins and Kram, 2007; McManus and Russell, 2007; Steinberg and Nourizadeh, 2001). Generally, such protégés find that no one peer can provide all of the activities that a regular mentor could. Thus they tend to develop several mentors with each providing a certain area of expertise. One peer may provide information on career opportunities, while another may give feedback on interpersonal skills, while still another provides emotional support during crisis situations.

Hispanics may prefer Hispanic peers, who understand Hispanic culture and values, for social support and personal feedback. One source of such peers might be college organizations, such as fraternities and sororities and even ROTC programs with a substantial Hispanic population (Knouse and Webb, 2000). In short, Hispanics should look to multiple peer mentors to fulfill a number of mentoring activities.

**Team Mentoring**

Much of the work of organizations occurs in teams – project teams, research and development (R and D) teams, support teams, and training teams. Team members can be a source of several mentoring functions, such as performance feedback and identifying training needs. Such team mentoring can improve team member expectations and knowledge of each
other, which enhances team performance, particularly in crisis situations (Knouse and Webb, 2000).

Hispanics in particular may find that non-Hispanic team members can provide feedback about how they are fitting into team performance and how their contributions are valued. In the larger sense, some young Hispanics, who may have grown up in a close-knit Hispanic community, can learn how to interact with non-Hispanics in a team environment.

Team members can be a source of several mentoring functions, such as performance feedback and identifying training needs.

Group Mentoring

Group mentor meetings can also be a source of alternative mentoring. Senior individuals can run mentoring meetings periodically, where junior people can ask questions and receive feedback on technical knowledge, networking, interpersonal skills, and career information (Knouse and Webb, 2000; Steinberg and Nourizadeh, 2001). Similar to peer mentoring, Hispanic individuals may benefit from a mix of Hispanic and non-Hispanic group mentors.

Recommendations for Mentoring Hispanics

Recommendations for the Individual Protégé

1. Initiate the mentoring relationship. A prospective protégé can surf the Internet or company Intranet for possible mentors. Further, he or she could initiate contact by inviting the potential mentor to lunch or dinner to talk about common issues. Potential protégés could join groups, such as charities or social groups, that the sought-after mentor belongs to. Further, they could look to extended family members for recommendations.

2. Expand the possible sources of mentors. A basic problem is a dearth of Hispanics in positions of power who could become possible mentors. One source is the extended family and community supporting Hispanic culture and success. In addition, Hispanics with prior military experience, including active duty, National Guard, and reserve duty, may be viable mentors. Clergy and religious lay people might also be a possible source of mentors. Other sources might be universities with a strong Hispanic presence, Hispanic Chambers of Commerce, and Hispanic community organizations.

3. Enhance Internet resources for mentoring. Most Hispanics, like other Americans, have access to computers, smart phones, and the Internet. Email and chat rooms could be used to exchange mentoring ideas. Specialized Web sites could bring together Hispanics in various service communities and occupations.

4. Increase use of mentoring alternatives. Basically, Hispanics face a lack of traditional mentors in positions of authority. Consequently, organizations should encourage mentoring alternatives. For example, colleagues can serve as peer mentors providing specific job performance feedback, career information, networking, and support. Team members can provide team mentoring feedback and encouragement. Group mentoring can provide access to a number of mentors. The advantages of these alternatives is that Hispanics can use non-Hispanics as substitute mentors, which among other benefits may enhance acculturation into the larger organizational culture.
**Recommendations for the Organization**

1. **Increase the chances of mentors and protégés initiating a relationship.** Possible mentors and protégés must have opportunities to meet and decide if each should invest time and effort into developing a mentoring relationship. Therefore, activities where Hispanics could meet and interact might improve the chances of relationships developing. For example, Hispanic ethnic observances could be a possible source for Hispanics interacting and beginning a mentoring relationship. Thus, financially supporting such ethnic observances can pay off in increased mentoring. Furthermore, the organization can survey the values of its members to identify potential mentors and protégés with similar value profiles.

2. **Identify underlying themes to coalesce the mentoring relationship.** Hispanic protégés, like any type of protégé, must find similarities and common interests upon which to base the relationship with the mentor, particularly if the mentor is non-Hispanic and does not share the knowledge of Hispanic culture, which strongly focuses upon a sense of honor and community. Thus, honor and community can be displayed as a binding theme that can tie together Hispanic protégés with their non-Hispanic mentors. Recruiting and retention materials focused on Hispanics could emphasize building mentoring relationships centered on honor and community.

3. **Encourage Hispanic professional organizations and specialty communities to develop mentoring activities.** Hispanic professional organizations can be a source of potential mentors. Moreover, their Web pages can enhance virtual mentoring by providing email support and chat rooms. This may be one area where Hispanic managers with a higher education level may be at an advantage in terms of access to professional organizations. However, professional organizations are basically communities of specialists. Since community is a primary value of Hispanic culture, organizations could encourage the formation of specialty communities for Hispanics based on their occupations.

**Hispanic individuals may benefit from a mix of Hispanic and non-Hispanic group mentors.**

**Conclusions**

Mentoring is a crucial activity for career enhancement as well as personal success. Certainly, the essence of Equal Opportunity is that opportunities for success occur on a level playing field. In terms of mentoring, this implies that everyone, including Hispanics, should be mentored. Whereas Hispanics face many unique problems in mentoring, the Hispanic culture provides several unique opportunities for mentoring, such as family, community, and honor. In addition, recommendations listed in this article can help individuals and organizations improve the mentoring process.

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The Relationship of Entrepreneurial Orientation, Vincentian Values and Economic and Social Performance in Social Enterprise

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Executive Summary

This study focuses on the managerial question “should social enterprises become more entrepreneurial?” It adapts the Covin and Slevin (1989) entrepreneurial orientation scale to measure the adoption of entrepreneurship by a social enterprise, and develops a scale that combines a Vincentian based focus to serve the poor with a propensity to take a more entrepreneurial approach toward business as a measure of a social value orientation (SVO).

An SVO is an organizational wide value-driven philosophy of management that focuses an organization on meeting its objectives in an entrepreneurial, just, and sustainable manner. Social enterprises that exhibit a social value orientation have decision-makers who proactively take the risks to innovate their products, processes, strategy, or business propositions to more effectively and efficiently meet the needs of the poor, while guided by values that either implicitly or explicitly embrace St. Vincent’s philosophy of harnessing business for social good, regardless of religious affiliation.

Interestingly, while social enterprises that adopt an SVO enjoyed higher levels of social performance, SVO did not positively impact economic performance. Likewise, social enterprise that adopted a more entrepreneurial orientation did not enjoy enhanced economic performance. These findings suggest that social enterprises may not benefit by engaging in proactive, innovative or risk accepting business strategies after founding, as for-profit
businesses sometimes tend to do, and that encouraging too much innovation may actually harm the social enterprise’s economic viability.

“Vincent DePaul is hailed as the Roman Catholic Church’s “patron saint of charity,” but what he did was more than mobilize charity; he matched it with justice. He sought not to do merely patchwork, but offered some long-term viable solutions.”

—Flanagan, Fleckenstein, Primeaux, Schoaf, and Werhane (2008: 1)

Social enterprises are organizations that are driven jointly by a social mission and an economic reality that leverages commerce to generate the resources needed to provide social benefits. These social enterprises fill some of the gaps between value based for-profit businesses and charities. For example, some colleges and universities, hospitals, and sheltered workshops are organized as social enterprises.

An entrepreneurial orientation (EO) has often been suggested by scholars as a path for social enterprises to more effectively and efficiently achieve their social mission through enhanced performance (see for example Davis, Marino, Aaron, and Tolbert, 2011; Morris, Webb, and Franklin, 2011).

Likewise, social enterprise executives seeking to enhance performance have sometimes embraced becoming more entrepreneurial, and engaging in more innovative, proactive and risky strategies. However, the relationship and contingencies of linking entrepreneurship with social enterprise performance has yet to be established.

In addition, social enterprises are also value driven and some exhibit a business orientation shaped by Vincentian values (either explicitly or implicitly) that combine the innovation, proactive, and risk accepting strategies and tactics of entrepreneurship with spiritually based management practice. This social value orientation (SVO) conceptualization maps well with Bowes’ (1998: 1663) proposed framework of “a Vincentian theology of business ethics.”

Bowes’ (1998: 1666) Vincentian philosophy adapted to a social enterprise suggests four dimensions: (1) an organizational wide business orientation that focuses on meeting the needs of the poor and the alleviation of their suffering; (2) organizational strategy that considers both the organization’s economic sustainability and the needs of the poor and marginalized; (3) an organizational concept of strategy that, while grounded on efficiency and innovation, also considers how strategy fits with the principles of subsidiarity (government’s right to “intervene in economic affairs”), equity (justice), and the value for individuals of enterprise, contribution, and self-worth; and (4) organizational support of value-based management development and business education.

entrepreneurship is not the panacea for all organizations seeking to enhance performance, but may be context dependent

Likewise, Sr. Margaret John Kelly (1995/1996) notes that Vincent de Paul advocated sophisticated managerial processes to more efficiently and effectively serve the poor very early in the development of administrative sciences. The use of better management techniques to enhance the economy, and ultimately viability, is even included in a discussion of social justice and business when The Very Rev. Robert Maloney suggested that (Kelly 1995/1996: 7):

“academics approach the social problems of our day with the three C’s as well, but he recommended conscience and creativity, in addition to competence.”
The primary purposes of this study are:
1. to determine if social enterprises that become more entrepreneurial exhibit enhanced economic performance;
2. to determine if social enterprises that adopt an SVO exhibit enhanced economic performance; and
3. to determine if social enterprises that adopt an SVO exhibit enhanced social performance.

The Relationship of Entrepreneurial Orientation and Performance

Entrepreneurship has long been often associated with firms seeking to enhance competitive position (see for example Covin and Slevin, 1988; Covin and Slevin, 1989; Miles and Arnold, 1991; Smart and Conant, 1994; Zahra and Covin, 1995; Covin and Miles, 1999; Miles, Paul, and Wihlrite, 2003; Wiklund and Shepherd, 2005; Covin and Miles, 2007; Covin and Lumpkin, 2011; Miller, 2011).

Firms operating within the for-profit sector sometimes adopt an entrepreneurial organizational orientation (see for example Miller, 1983; Covin and Slevin, 1988; Covin and Slevin, 1989; Covin and Lumpkin, 2011) in an attempt to enhance performance by leveraging innovation, risk acceptance, and proactive strategies and tactics.

Rauch, Wiklund, Lumpkin, and Frese’s 2009 meta-analysis of 51 published studies on the relationship of EO and business performance in for-profit firms found a moderately strong support across a wide range of firms for a generally positive relationship (r=.242) between a firm’s level of EO and its business performance.

This positive relationship between EO and business performance was found to be stronger in high-tech firms than non-high-tech firms, potentially attributable to higher levels of environmental dynamism and technological change that high-tech firms face (Rauch, Wiklund, Lumpkin, and Frese, 2009).

Morris, Coombes, and Schindehutte (2007) note that there is much less work on the relationship of EO and business performance in a nonprofit context; and in an empirical study of nonprofit organizations found a modest but non-significant relationship between EO and organizational performance as measured by an index of total revenue and net assets.

Morris, Webb, and Franklin (2011) assess five empirical studies that examine the EO and performance relationship in nonprofits and found that two studies (Bhuiian, Menguc, and Bell, 2005; Pearce, Fritz, and Davis, 2010) found a positive impact for EO on some measure of economic or financial performance of the nonprofits; two studies (Coombes, Morris, and Allen, 2009; Morris, Coombes, and Schindehutte, 2007) found no significant linkages in nonprofits between EO and financial performance, and one study (Voss, Voss, and Moorman, 2005) found that the relationships between three dimensions of EO – risk taking, proaction and innovativeness – and financial performance were mixed depending on the measure of performance used.

These results suggest that there are likely contextual issues that may impact on the relationship between EO and economic performance in both nonprofits and for-profits. In the case of profits, one factor that could impact the instrumentality of EO on economic performance is the growth intentions of the organization’s management.

Managers seeking to drive economic growth may be more willing act proactively, accept additional risks and innovate. However, as Hmieleski and Baron (2008) suggest, sometimes being too entrepreneurial can result in suboptimal economic performance.

Likewise, while Chaston’s (1997) seminal work on entrepreneurial marketing’s impact on
small firm performance supports Covin and Slevin’s (1988, 1989) findings on a positive linkage between entrepreneurship and performance, it does so only under specific conditions, suggesting that entrepreneurship is not the panacea for all organizations seeking to enhance performance, but may be context dependent.

Organizational Orientations and Social Enterprise

Business or organizational orientations are important because they are the manifestation of the top managers’ attitudes on strategy and tactics and colour all business decisions, shaping strategy, processes, and outcomes.

This study proposes that there are some social enterprises with SVOs that either intentionally or implicitly embrace a value-driven entrepreneurial orientation shaped by Vincentian-like values that combine the innovative, proactive, and risk-accepting strategies and processes of an EO with spiritually based socially responsible management practice including financial, social, and environmental sustainability.

St. Vincent de Paul received Holy Orders in 1600, and over time became increasingly convinced that his own salvation depended on helping the poor (Bowes, 1998, p. 1663). To more effectively help people who were desperately poor, de Paul founded organizations such as the Ladies of Charity, that adopted prudent management practices designed to most efficiently and effectively serve the least fortunate of society while being economically viable (see for example McKenna, 1997; Bowes, 1998). Some of the organizations created by St. Vincent in the 1600’s still function, and now reach around the world.

McKenna (1997) notes that Vincent de Paul was able to combine the world of commerce with the world of Christianity to create organizations that took risk to proactively serve the poor in innovative ways. These very characteristics of pro-action, innovation, and risk acceptance are the foundations of an EO. The value-driven focus of Vincent de Paul’s business philosophy suggests that he managed his church spin-offs ventures as social enterprises to benefit the poor, by using innovation, acting proactively, and accepting necessary risks to be economically viable and socially relevant.

There is an increasing interest in exploring the intersection of entrepreneurship and values, spirituality, and religion. For example, work by Kauanui, Thomas, Rubens, and Sherman (2010) suggested that spirituality is an important antecedent to entrepreneurial initiatives. Karakas (2010) developed a Sufism-based organizational leadership framework of nine “spiritual anchors” which include, among others, one termed “inspiration,” which is related to creativity and innovation, and another termed “compassion,” or the need to transcend self-interest in the pursuit of charity.


Figure 1 illustrates a proposed framework of a social enterprise grounded on St. Vincent’s works. This value-driven perspective of social enterprise is used with Shane and Venkataraman’s (2000) process model of entrepreneurship to illustrate how value-driven social enterprises identify, assess, and pursue opportunities.

This framework suggests that an SVO would tend to: (1) recognize opportunities where there is the greatest human need; (2) favourably assess those opportunities that fit both operationally and strategically with the social enterprise’s values, strategy, and
capabilities (see Burgelman 1984); and (3) exploit those opportunities that advance the interest of the poor.

These opportunities include leveraging innovation of the social enterprise’s products, processes, strategies, business models, and value propositions (see Morris, Kuratko and Covin, 2011) to more efficiently and effectively address the unmet needs of the poor and disadvantaged members of society.

An SVO is an organizational-wide value-driven philosophy that meets the needs of the poor in an entrepreneurial, efficient, effective, just, and sustainable manner. SVOs are organizations that leverage innovation, opportunity, risk taking, and capabilities to proactively create unique value propositions to generate benefits for the poor.

SVOs are both entrepreneurial and value-driven, and focus on meeting the needs of the beneficiaries and on economic viability. Therefore, we hypothesize that:

**H1:** Social enterprises that adopt an entrepreneurial orientation will tend to exhibit enhanced economic performance.

**H2:** Social enterprises that adopt a social values orientation will tend to exhibit enhanced economic performance.

**H3:** Social enterprises that adopt a social values orientation will tend to exhibit enhanced social performance.

A strong focus on serving the needs of the poor and needy is core to an SVO.

**Method**

The methodology for this study consists of: (1) scale development/or adaptation for the social enterprise context for SVO and EO; (2) scale assessments; and (3) exploratory analysis of the interrelationships between the social value, EO, and social and economic performance.

Figure 1

**Entrepreneurial Process**

1: Shane and Venkataraman (2000)
2: Bowes (1989)

The study was conducted during September of 2011 and was based in Australia. It extends the work on social enterprises by Barraket, Collyer, O’Connor, and Anderson (2010) and Eversole and Eastley (2011), by collecting survey data on the management orientations of social enterprises and the performance implications.

The social value-driven orientation (SVO) scale was developed by combining the Covin and Slevin (1989) nine item EO scale with items reflecting Vincentian values based on the work of Kelly (1995/1996), and Bowes (1998). The SVO exhibited a coefficient alpha of .85, which exceeds the reliability required for exploratory research (see Cronbach, 1951; Nunnally, 1978).

The EO was adapted from the Covin and Slevin (1989) scale. In the present study the adapted EO exhibited a coefficient alpha of .76.

Social and economic performance scales were adapted from the works of Kara, Spillan, and DeShields (2004), Duvnas, Stenholm, Brannback, Carsurd, and Robb-Post (2010) and Robb-Post, Stamp, Brannback, Carsurd, and Hacker (2010) exhibiting coefficient alphas of .74 and .71 respectively.

All scales were five point Likert scales anchored by strongly agree and strongly
Table 1
Social Value Orientation Scale

<table>
<thead>
<tr>
<th>Item Statistics</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>In general our organization has a strong emphasis on developing new and innovative services and/or products to better meet the needs of our beneficiaries and other stakeholders.</td>
<td>4.00</td>
<td>.825</td>
<td>48</td>
</tr>
<tr>
<td>We have introduced many new types of services and products over the past few years.</td>
<td>3.81</td>
<td>.842</td>
<td>48</td>
</tr>
<tr>
<td>Changes in our services have usually been quite dramatic.</td>
<td>2.90</td>
<td>1.016</td>
<td>48</td>
</tr>
<tr>
<td>We typically initiate actions which other social enterprises copy.</td>
<td>3.27</td>
<td>.792</td>
<td>48</td>
</tr>
<tr>
<td>Our organization is very often the first to introduce new services or initiatives.</td>
<td>3.58</td>
<td>.842</td>
<td>48</td>
</tr>
<tr>
<td>Our organization adopts a very competitive, assertive business posture.</td>
<td>3.10</td>
<td>1.016</td>
<td>48</td>
</tr>
<tr>
<td>In general our organization has a proclivity to accept risk that often accompanies an initiative that has high potential social or economic returns.</td>
<td>3.58</td>
<td>.942</td>
<td>48</td>
</tr>
<tr>
<td>In general our organization tends to be very bold in pursuing new opportunities.</td>
<td>3.83</td>
<td>.907</td>
<td>48</td>
</tr>
<tr>
<td>We strive to serve the needs of our beneficiaries in an environmentally sustainable manner.</td>
<td>3.93</td>
<td>.720</td>
<td>45</td>
</tr>
<tr>
<td>Our strategy is driven by our ethical and moral principles.</td>
<td>4.49</td>
<td>.589</td>
<td>45</td>
</tr>
<tr>
<td>When evaluating a new proposal we consider if the beneficiaries can be involved in helping themselves and others.</td>
<td>3.87</td>
<td>.869</td>
<td>45</td>
</tr>
<tr>
<td>We focus on meeting the needs of the disadvantaged through education and training.</td>
<td>3.71</td>
<td>.895</td>
<td>45</td>
</tr>
<tr>
<td>When evaluating a proposal we consider if it promotes equity and justice.</td>
<td>4.13</td>
<td>.842</td>
<td>45</td>
</tr>
<tr>
<td>We have empathy for those who are suffering or disadvantaged.</td>
<td>4.47</td>
<td>.625</td>
<td>45</td>
</tr>
<tr>
<td>When evaluating a new initiative we consider its impact on our ability to enhance efficiency.</td>
<td>3.84</td>
<td>.796</td>
<td>45</td>
</tr>
<tr>
<td>When evaluating a new initiative we consider its impact on our ability to enhance effectiveness.</td>
<td>3.91</td>
<td>.733</td>
<td>45</td>
</tr>
</tbody>
</table>

The SVO items are listed in Table 1, including their mean, standard deviation, and number of responses. Nine of the items are identical to the adapted EO scale that purports to capture the innovativeness, proactiveness, and risk accepting nature of an SVO. In addition, eight items that purport to capture the efficiency, effectiveness, ethical and service centric nature of SVOs.
Table 2 lists the items used to measure EO, adapted for social enterprises from the Covin and Slevin (1989) strategic posture scale. In addition, the work of Hazeldine and Miles (2007) and Duvnas, Stenholm, Brannback, Carsurd, and Robb-Post’s (2010) were used, along with personal interviews with executives from social enterprises, to better capture what it means to be entrepreneurial in a social enterprise context.

Table 2
Entrepreneurial Orientation Scale

<table>
<thead>
<tr>
<th>Item Statistics</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>In general our organization has a strong emphasis on developing new and innovative services and/or products to better meet the needs of our beneficiaries and other stakeholders.</td>
<td>4.00</td>
<td>.825</td>
<td>48</td>
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<tr>
<td>We have introduced many new types of services and products over the past few years.</td>
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<td>.842</td>
<td>48</td>
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<td>2.90</td>
<td>1.016</td>
<td>48</td>
</tr>
<tr>
<td>We typically initiate actions which other social enterprises copy.</td>
<td>3.27</td>
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<td>48</td>
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<tr>
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<td>.846</td>
<td>48</td>
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<tr>
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<td>1.016</td>
<td>48</td>
</tr>
<tr>
<td>In general our organization has a proclivity to accept risk that often accompany an initiative that has high potential social or economic returns.</td>
<td>3.58</td>
<td>.942</td>
<td>48</td>
</tr>
<tr>
<td>In general our organization tends to be very bold in pursuing new opportunities.</td>
<td>3.83</td>
<td>.907</td>
<td>48</td>
</tr>
<tr>
<td>When faced with uncertainty we tend to adopt a bold proactive posture to enhance our chance of success.</td>
<td>3.69</td>
<td>.829</td>
<td>48</td>
</tr>
</tbody>
</table>

Social performance is at the core of all social enterprises. Social performance may be conceptualized as social and environmental sustainability. We attempted to capture this construct by measuring:

1. satisfaction of the donors and beneficiaries;
2. advocacy for beneficiaries; and
3. environmental and socially responsible management.

An SVO is an organizational-wide value-driven philosophy that meets the needs of the poor in an entrepreneurial, efficient, effective, just, and sustainable manner.
Table 3 illustrates the items that purport to capture the social performance construct.

<table>
<thead>
<tr>
<th>Item</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>We operate our organization in an environmentally sustainable manner.</td>
<td>3.86</td>
<td>.804</td>
<td>43</td>
</tr>
<tr>
<td>Our donors are very satisfied with us.</td>
<td>3.70</td>
<td>.741</td>
<td>43</td>
</tr>
<tr>
<td>Our organization operates in a socially sustainable manner.</td>
<td>4.58</td>
<td>.545</td>
<td>43</td>
</tr>
<tr>
<td>We help inform the community about the plight of our beneficiaries.</td>
<td>3.74</td>
<td>.848</td>
<td>43</td>
</tr>
<tr>
<td>We help mobilize interest for additional social welfare initiatives.</td>
<td>3.63</td>
<td>.874</td>
<td>43</td>
</tr>
<tr>
<td>We are often perceived and valued by our beneficiaries as a provider of last resort.</td>
<td>2.70</td>
<td>1.059</td>
<td>43</td>
</tr>
<tr>
<td>In the past few years we have met our objectives in terms of beneficiaries served.</td>
<td>3.88</td>
<td>.697</td>
<td>43</td>
</tr>
<tr>
<td>Beneficiaries are satisfied with our services.</td>
<td>4.09</td>
<td>.610</td>
<td>43</td>
</tr>
<tr>
<td>Beneficiaries and stakeholders recommend our services to others.</td>
<td>4.02</td>
<td>.597</td>
<td>43</td>
</tr>
</tbody>
</table>

Economic performance in a social enterprise context is much different than in a for-profit context and often focuses on the notion of economic viability, not profitability. Social enterprises seem to perceive economic performance as a means that allows them to do social good, and not as an end unto itself. For example, Yunus, Moingeon and Lehmann-Ortega (2010: 311) suggest that social enterprises must be economically sustainable, but still remain driven by their social objectives such that:

“[While] its primary purpose is to serve society, a social business has products, services, customers, markets, expenses and revenues like a ‘regular’ enterprise... It is a no-loss, no-dividend, self-sustaining company that repays its owners’ investments.”

Murphy, Trailer, and Hill (1996) found that economic performance in entrepreneurship research is a complex multi-dimensional construct consisting of: (1) liquidity; (2) profitability; (3) size; (4) growth; (5) leverage; and (6) efficiency dimensions that are not always highly correlated. Likewise, economic performance in non-profit enterprises is also highly complex (see Kara Spillan, and DeShields, 2004; Robb-Post, Stamp, Brannback, Carsrud, and Hacker, 2010).

Discussions with social enterprise managers integrated with work on perceptual performance metrics from Chandler and Hanks (1993) resulted in a three dimension metric of social enterprise economic performance for the purposes of the present study that included management’s perception of: (1) improvement in financial position; (2) notion of long-term viability; and (3) efficiency /effectiveness
in serving beneficiaries. Table 4 illustrates the items that purport to capture the economic performance construct.

### Table 4

**Economic Performance Scale**

<table>
<thead>
<tr>
<th>Item Statistics</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are more effective in serving our beneficiaries than others.</td>
<td>3.56</td>
<td>.796</td>
<td>48</td>
</tr>
<tr>
<td>In the past few years we have increased our effectiveness.</td>
<td>4.13</td>
<td>.606</td>
<td>48</td>
</tr>
<tr>
<td>We are more efficient in serving our beneficiaries than others.</td>
<td>3.50</td>
<td>.744</td>
<td>48</td>
</tr>
<tr>
<td>In the past few years we have increased our efficiency.</td>
<td>4.17</td>
<td>.630</td>
<td>48</td>
</tr>
<tr>
<td>In the past few years our financial situation has improved.</td>
<td>3.38</td>
<td>1.214</td>
<td>48</td>
</tr>
<tr>
<td>Our organization is financially sustainable.</td>
<td>3.69</td>
<td>.993</td>
<td>48</td>
</tr>
</tbody>
</table>

**Findings**

Approximately 375 social enterprises were directly contacted by e-mail, with 85 surveys completed on SurveyMonkey, resulting in a 23% response rate. (Recipients were requested to forward the survey to others using a snowball survey technique.)

**Hypothesis 1** was not supported. The relationship between an entrepreneurial orientation (EO) and economic performance in social enterprise was negative and not significant (-.005, p=.972).

There was also no support for **hypothesis 2**, social value orientation, with an SVO having a positive but non-significant relationship with economic performance (.079, p=.605).

However, as expected, **hypothesis 3** was supported, with a significant and positive relationship between an SVO and social performance (correlation of .608, p=.00).

**Implications and Limitations**

The findings note that economic performance in this sample of Australian social enterprises was not enhanced by an EO, suggesting that in social enterprise, entrepreneurship, beyond the entrepreneurial initiative of founding the social enterprise, may be as Hmieleski and Baron note (2008: 68) “too much of a good thing.”

Likewise, SVO was not linked to enhanced economic performance in social enterprises. These findings conflict with some of the for-profit literature and suggest that further investigation is warranted to provide additional guidance on the contingencies that social enterprise executives often must overcome.

Additionally, social enterprise executives may view economic performance only as a means to serving the poor, and not as an organizational objective in
and of itself – diminishing the usefulness of EO. Likewise, social enterprise boards may restrict the ability of the executive to take entrepreneurial initiatives that do not closely align with the social enterprise’s mission (Morris, Webb, and Franklin 2011).

*Vincent de Paul combine[d] the world of commerce with the world of Christianity to create organizations that took risk to proactively serve the poor in innovative ways.*

Furthermore, social enterprises may have such serious management constraints that there are few resources to devote to innovation or risky strategies. All of these suggest that an entrepreneurial orientation may not be the most useful business orientation for social enterprises to adopt.

As expected an SVO was strongly associated with social performance. A strong focus on serving the needs of the poor and needy is core to an SVO. In addition, an SVO guides the social enterprise to not simply meet the needs of the poor, but also to consider whether the social enterprise operates in an environmentally sustainable manner.

However, an SVO was not found to be associated with enhanced economic performance, as defined in the present study by a perceived improvement in the social enterprise’s financial position, economic viability, and the ability to efficiently and effectively meet the needs of beneficiaries.

There are four significant limitations to the present study.

• First, the study’s small number of usable responses limited a comprehensive psychometric assessment of the instruments.

• Second, the sampling frame was a non-random judgement sample of social enterprises known by the authors or identified through publically available information.

• Third, the survey was administered in Australia, where the economic conditions were not as depressed as in some other developed nations.

• Fourth, it is not clear that the present study’s definition of social enterprise economic performance is the most useful conceptualization.

Further study into mapping the dimensions of performance in the context of social enterprises is critical to advance work in this area, similar to the work in SME performance metrics by Murphy, Trailer, and Hill (1996). These limitations restrict the generalizability of the findings and implications and offer direction for future research.

**References**


Abstract

The current unemployment rate (as of April 2013) of 7.6 percent nationally has not dropped following the last recession as quickly as it has in the past following previous recessions. Over the years there has been much discussion on causes and solutions regarding recessions and unemployment. The Federal government spends more than $18 billion a year on 47 different training programs in nine agencies. However, many employers comment that they cannot find qualified workers (Easton, 2011).

More than three million jobs are vacant and employers are looking for workers to fill the positions (Easton, 2011), while there are approximately 14 million jobless workers who cannot find jobs (Shierholz and Finio, 2011). This paper seeks to evaluate the government response to the high level of unemployment, to consider the possibility of a skills gap between job seekers and available jobs, and to describe some of the job creation programs that are currently in existence.

Introduction

The unemployment rate is one of the most prominent issues discussed today by politicians, news commentators, and economists. Although the current national rate is 7.3 percent, it was as high as 8.3 percent in August 2012, and was 8 percent or higher each month since February 2009, a period of 42 months. This was the longest period of unemployment above 8 percent since 1948.
unemployment rate of 5.5 percent. The rate then rose to a high of 6.3 percent in June 2003, and declined, reaching a low of 4.4 percent in May 2007.

Our most recent recession was the period December 2007 through June 2009, which ended with an unemployment rate of 9.5 percent. The rate reached a high of 10.0 percent in October 2009, but has declined very slowly since that time (Labor Force Statistics, 2012).

Causes of Unemployment

The persistent high unemployment rate may be related to the different types of unemployment. There are several types of unemployment, and each has a different cause. Economists have identified four types of unemployment: *frictional*, *seasonal*, *structural*, and *cyclical* (Bade and Parkin, 2011).

*Frictional unemployment* arises from the unemployment of individuals who are changing jobs in response to temporary layoffs, workers quitting jobs to find new ones with better pay or job conditions, and persons entering or leaving the labor force.

*Seasonal unemployment* arises from the unemployment of persons who cannot work because of the changes in the seasons. Agricultural workers can work only during the planting and harvest seasons, construction workers and pavement graders can work only when weather conditions permit such work, and ski lift operators can work only when there is sufficient snow.

*Cyclical unemployment* arises from changes in the economy related to the business cycle: as the economy expands, companies produce more goods and hire more employees, and the unemployment rate declines. When the economy goes into a recession, companies produce less and reduce the number of employees, and the unemployment rate rises.

*Structural employment* arises from a lack of skills needed to perform jobs that are available, or the destruction of jobs in some locations and the creation of jobs in other geographical locations, and the reluctance of persons to move to areas where the newly created jobs are located.

Efforts to Combat Unemployment

*Frictional Unemployment*

What should be done to fight unemployment? Frictional unemployment can be reduced by improving the communication between job seekers and job providers. Readily accessible information on the existence of available jobs can reduce the time involved in making job changes.

There are numerous job sites where one can search for specific jobs in specified geographical areas (Bergen, 2012). For example, the job site Indeed.com claims to be the top job site worldwide. It has several million job listings aggregated from thousands of company websites and job boards across all fields, and there are a billion job searches per month by more than 50 million unique individuals.

Another large job search engine is SimplyHired, which claims to be working on building the largest online database of jobs. It currently has listings of more than five million jobs pulled from job boards, company career sites, newspapers, non-profit organizations, government sites, and others. Users can browse by state, city, company, industry, or job category.

Some other job websites are LinkedIn, CareerBuilder, Monster, Craigslist, Glassdoor, Dice, Mediabistro, and TweetMyJobs.

These can be useful in letting potential job seekers know what is available. Some also offer advice on preparing a cover letter and resume, and how to prepare for an interview.
More jobs are needed in the economy if the unemployment rate is to be reduced appreciably.

**Seasonal Unemployment**

There is not much that can be done to decrease seasonal unemployment; when the weather changes, employees can return to jobs that are weather-related, or agricultural workers can return to the appropriate fields for the harvest season. Seasonal unemployment is temporary and does not have a significant impact on the unemployment rate.

**Cyclical Unemployment**

It is cyclical unemployment where governmental intervention may have its greatest impact on the unemployment rate. There are a number of approaches that have been advanced by economists: do nothing, use fiscal policy, use monetary policy, and pursue supply side economics.

Some economists have argued that there is no need for any governmental intervention; they argue that high unemployment is a temporary phenomenon, and that the economy contains seeds within itself that will, in the long run, automatically bring down the unemployment rate. This approach has been largely discredited because there have been several periods of long duration of high unemployment in our history, and in the short-run, there may be a need for some governmental activity.

Fiscal policy involves the use of taxation and government spending to expand the economy and attack the unemployment problem from the demand side. It is recognized that
\[ O = C + I + G + E \]
that is, the total output of the economy is equal to the sum of consumption spending, business investment spending, government spending, and net exports (exports minus imports). An increase in either one of these would expand the economy. A reduction in taxes would give consumers and businesses more money to spend, thus increasing demand; the additional spending would prompt companies to expand and hire more workers, thus reducing the unemployment rate.

Increased government spending would also increase aggregate demand, causing firms to expand and hire more workers. Thus, to reduce the unemployment rate, fiscal policy calls for reducing taxes, increasing government spending, or both.

Monetary policy involves changes in the money supply and interest rates to expand the economy and fight unemployment, again from the demand side. An increase in the money supply leads to a decrease in interest rates. At lower interest rates, it seems likely that businesses would increase their investment spending, since more projects become economically feasible; a firm will invest in a project if its internal rate of return is greater than the cost of rising funds.

Also, consumer spending is likely to rise as interest rates fall: the portion of current income that is spent will rise, since saving is less profitable at lower rates, and consumers are more willing to borrow at lower interest rates. The decrease in interest rates would lead to more spending by consumers and businesses, thus increasing aggregate demand, causing firms to expand and hire more workers. Thus, to reduce the unemployment rate, monetary policy calls for increasing the money supply and reducing interest rates.

*Fiscal policy and monetary policy attack the unemployment problem from the demand side; supply side economics attacks it from the supply side.* Supply side economists argue that government policy should make changes to enhance business firms’ ability to increase production and, thus, increase jobs. These changes include reducing tax rates on
businesses, reducing or eliminating those regulations that increase business costs, and reducing spending and borrowing by the government (to make more room for private spending and borrowing).

Fiscal policy, monetary policy, and supply side economics have been used recently to attempt to expand the economy and bring down the unemployment rate. The American Recovery and Reinvestment Act was passed in 2009 to stimulate demand in the economy and reduce unemployment. Also known as the Economic Stimulus Package, it consisted of $787 billion in tax cuts and additional spending, designed to put more money in the hands of individuals and small businesses. Funds were provided for transportation, mass transit, and water projects; job training for disabled individuals; school districts and states to pay teacher salaries; Pell grant increases; investment in science research and technology; increase in alternative energy production; and expanded health care (Amadeo, 2011; Amadeo, 2012).

Tax cuts from the stimulus package were provided for individuals in the form of a reduction in withholdings, a tax credit to first-time homebuyers, a college tuition tax credit, additional payments to social security recipients, extended unemployment benefits, and expanded earned-income tax credits. An additional tax cut was provided to individuals in 2011 and 2012 in the form of a reduction in the payroll tax.

Tax cuts were also provided to businesses in the form of a capital gains tax cut for small business investors, tax credits for small businesses that hire long-term unemployed veterans and students, increasing the deduction for machinery and equipment, and allowing a special depreciation deduction for 2008. An additional tax credit was provided to firms for all new hires in 2011.

On the monetary front, the Federal Reserve pushed interest rates to near zero in 2008 and has kept rates at a low level since that time.

The additional government spending, low interest rates, and tax reductions have expanded the economy, the stock market indices have increased, but the unemployment rate has remained uncomfortably high. What is happening here? Why have these policies not resulted in a substantial drop in the unemployment rate?

Some have argued that the stimulus package was not large enough to take us from the deep recession of December 2007 through June 2009; perhaps a second stimulus package was needed to create the jobs that were lost in the recession. The spending gap created during the recession from inadequate consumer spending, business investment, and exports has been estimated to be approximately $2.9 trillion (Paul Krugman, 2009); the stimulus package was less than one-third of the amount needed to close the spending gap. The size of the stimulus package was the result of an attempt to compromise between the Democratic and Republican parties in the House and Senate.

A reduction in taxes would provide firms with additional cash, but that... does not necessarily lead to substantial job creation.

After much debate, a reduced amount of $789 billion was approved, with no Republican votes in the House and three votes in the Senate. The consensus among economists is that the stimulus package helped prevent a higher unemployment rate and provided a modest recovery (The New York Times, 2012). A second stimulus package was not politically possible, given the make-up of the Congress following the 2010 mid-term elections.

It should be noted that the economic recovery that followed the July 1981 – November 1982
recession was fueled by tax cuts and increased government spending. Similarly, the expansion that followed the March 2001 – November 2001 recession was also fueled by tax cuts and increased spending.

It is clear that more jobs are needed in the economy if the unemployment rate is to be reduced appreciably. Another approach is to consider the impact of corporate taxes on job creation: many politicians and economists argue that a decrease in the corporate tax rates would spur economic growth and employment. Reduced taxes would give companies more money to spend; the companies could then expand their operations, create more jobs, and hire more employees.

Different economic approaches for increasing the number of new entrepreneurs is one way to address unemployment and job creation.

Reduced Taxes May Not Result in Substantial Job Creation

For a variety of reasons, reduced taxes may not necessarily result in substantial job creation in this economic environment. The key reasons are:

First, many firms today already have excess cash, and are not using that excess cash to expand operations and hire additional workers. Giving them more cash through tax reductions will not necessarily prod them to expand and hire more workers. A firm with excess cash has several options: hold the cash; increase dividends to stockholders; buy back its stock; buy another company; or use it to expand operations.

General Electric recently indicated that it expects to generate $100 billion in excess cash from 2012 to 2016; these funds will be used for “dividends, stock buybacks, acquisitions, and other initiatives” (Linebaugh and Sechler, 2011). There was no mention of expansion and additional hiring.

Citigroup reported earnings of $3.8 billion in the third quarter of 2011, a rise of 73 percent from the $2.2 billion reported in the third quarter of 2011 (Kapner, Citi Shines, 2011). This large profit increase, however, has not increased Citigroup’s hiring. Actually, Citigroup announced plans to cut 4,500 jobs over the next few quarters because of concerns about worldwide financial markets and new regulations (Kapner and Rieker, 2011).

Honeywell International also had outstanding third quarter results: its profits increased from $596 million in the third quarter of 2010 to $863 million in the third quarter of 2011, a 45 percent increase. However, in an interview with the Wall Street Journal, Honeywell’s CEO David Cote indicated that although the company is generating cash, he is cautious about bringing on additional employees in the prevailing economic atmosphere (Linebaugh, 2011).

Pfizer, Inc., the large pharmaceutical firm, had about $3.7 billion in cash and cash equivalents plus $25.3 billion in short-term investments, which can readily be converted into cash, in October 2011. It was recently announced that this excess cash would be used to finance a 10 percent dividend increase to stockholders and a stock repurchase plan of up to $10 billion. This new repurchase program is in addition to the $6.5 billion of shares repurchased in 2011 (Loftus, 2011). But Pfizer also announced plans to lay off 16,500 employees because of an expected drop in sales of its best-selling cholesterol product, Lipitor (Edwards, 2011) because the patent for Lipitor expired on November 30, 2011 (“Countdown…”, 2011).

McGraw-Hill Companies, Inc. also announced that it will use some of its excess cash to implement a share buyback program, and it will cut jobs. About 550 positions, including both executive and lower level personnel,
will be cut, and $1.5 billion will be used to repurchase shares of the firm’s outstanding common stock (McGraw-Hill, 2011). Campbell Soup Company and Best Buy Company, Inc. are two other well-known companies that have recently announced share repurchase programs ($1 billion and $5 billion, respectively) (Rougemont, 2011).

Using excess cash to repurchase outstanding shares, rather than expanding operations, has become a common practice for companies today. Companies in the S&P 500 Index spent a total of $109.2 billion on stock buybacks during the second quarter of 2011 and $118.4 billion during the third quarter; the expectation was that over $120 billion would be spent during the fourth quarter (S&P Indices, 2011).

Thus, a reduction in taxes would provide firms with additional cash, but that additional cash does not necessarily lead to substantial job creation.

Second, firms that decide to use their excess cash to expand operations might do so in another country. To take advantage of lower labor costs, companies have been shifting production to Mexico, China, and other low-wage countries. Because of weak demand for its appliances, Whirlpool is cutting 5,000 jobs and closing a plant in Arkansas that manufactures refrigerators. Whirlpool is shifting the production of refrigerators to its plant in Mexico (Hagerty and Tita, 2011; Smith, 2011). In recent years, other companies, including Ford, General Motors, General Electric, Coca-Cola, and RCA have opened plants in Mexico. General Electric employs 30,000 employees in its 35 Mexican plants. These moves, of course, create jobs, but they are not in America (Ensinger, 2011).

The Commerce Department reported that U.S.-based multinational companies expanded their workforces at home by 0.1 percent in 2010 while expanding their overseas employment by 1.5 percent. Since 1999 these companies have actually reduced their domestic employment by 1 million employees and added 3.1 million workers overseas. In 2010, capital spending by these U.S.-based firms increased by 3.3 percent at home and by 8.6 percent abroad (Wessel, 2012).

When our economy improves to the point where firms decide to expand and hire additional workers, many of those new jobs will most likely be located in foreign countries and will have minimal impact on our unemployment rate.

Third, when companies decide to expand in this country, the expansion often takes place with few or no additional workers. The wireless industry has shown rapid growth over the past 5 years as more consumers use smartphones, wireless applications, and network technology. Revenue in the industry has grown 28 percent since 2006 when employment in the industry peaked at 207,000 employees, but productivity gains, consolidation, and outsourcing have led to a decline of 20 percent of workers in the industry over the past 5 years (Troianovski, 2011).

Sprint Nextel Corporation has decreased its number of call centers from 74 in 2007 to 44 in 2010, with a corresponding drop in workers from 60,000 to 40,000. AT&T, Inc. and Verizon Communications, Inc. have kept their number of employees relatively constant over the past few years, but their revenues increased from $100 billion in 2008 to $122 billion in 2010. Some jobs have been created in other industries as a result of the wireless expansion, but those numbers do not match wireless job losses.

Formal job creation programs help job seekers connect with employers as well as obtain skills, knowledge and training...
Exxon Mobil Corporation, the world’s most profitable company, reported third quarter income of $10.33 billion in 2011, an increase of 41 percent from 2010; revenue increased by 32 percent (Ordonez, 2011). The firm has reported huge profits in other quarters, as shown in Figure 1 (Democratic Underground.com, 2011):

Thus, Exxon has been able to expand with fewer workers. There are many other exceptions to the notion that increased sales and profits lead to increased hiring in this economy. In North Carolina there is a new toll road in the Raleigh-Durham-Research Triangle Park area. However, there are no toll booths on this road and thus no toll collectors and the new road resulted in minimal job creation; tolls are collected electronically (News & Record, 2011). Drivers can set up an account with the North Carolina Turnpike Authority and install on the car windshield a N.C. Quick Pass electronic transponder that has a customer ID number. Overhead frequency readers communicate with the transponders and deduct tolls from a prepaid account. Overhead cameras will take photos of the license plates of cars that do not have the transponders, and the owners will be sent a monthly bill (NCDOT, 2011).

In a speech in Kansas, President Obama noted the disconnect between production and employment: “Steel mills that needed 1,000 employees are now able to do the same work with 100 employees, so layoffs too often became permanent, not just a temporary part of the business cycle” (Friedman, 2011). Economists refer to this situation as a jobless recovery: companies are able to expand without hiring additional workers (Knotek and Terry, 2011).

Finally, some firms have been expanding, but are bringing foreign workers here to take advantage of a quirk in the immigration and social security laws. American employers can avoid paying social security, Medicare, and unemployment taxes on certain classes of foreign workers. It has been estimated that there are over half a million of these employees in the country. Depending on the salaries paid to the employees, the savings to the employers can result in thousands of dollars per employee per year (North, 2012). Of course, employing these workers does not decrease our

### Figure 1:
Exxon Mobil’s Top 10 quarterly earnings of all time (prior to 2011)

<table>
<thead>
<tr>
<th>Year and Quarter</th>
<th>Quarterly Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008, 2Q</td>
<td>$11.68 billion</td>
</tr>
<tr>
<td>2007, 4Q</td>
<td>$11.66 billion</td>
</tr>
<tr>
<td>2008, 1Q</td>
<td>$10.89 billion</td>
</tr>
<tr>
<td>2005, 4Q</td>
<td>$10.71 billion</td>
</tr>
<tr>
<td>2006, 3Q</td>
<td>$10.49 billion</td>
</tr>
<tr>
<td>2006, 2Q</td>
<td>$10.36 billion</td>
</tr>
<tr>
<td>2007, 2Q</td>
<td>$10.26 billion</td>
</tr>
<tr>
<td>2006, 4Q</td>
<td>$10.25 billion</td>
</tr>
<tr>
<td>2005, 3Q</td>
<td>$9.92 billion</td>
</tr>
<tr>
<td>2007, 3Q</td>
<td>$9.41 billion</td>
</tr>
</tbody>
</table>

However, job growth over the years has not accompanied these profits, as shown in Figure 2:

### Figure 2:
Number of Employees at Exxon Mobil

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees at Exxon Mobil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>106,900</td>
</tr>
<tr>
<td>2000</td>
<td>99,600</td>
</tr>
<tr>
<td>2001</td>
<td>97,900</td>
</tr>
<tr>
<td>2002</td>
<td>92,500</td>
</tr>
<tr>
<td>2003</td>
<td>88,300</td>
</tr>
<tr>
<td>2004</td>
<td>85,900</td>
</tr>
<tr>
<td>2005</td>
<td>83,700</td>
</tr>
<tr>
<td>2006</td>
<td>82,100</td>
</tr>
<tr>
<td>2007</td>
<td>80,800</td>
</tr>
</tbody>
</table>
unemployment rate. Actually, these savings, plus the lower wages these foreigners are often willing to accept, encourage employers not to hire U.S. citizens to perform jobs that these foreigners can perform.

**Job training focuses on closing the unemployment gap between available job openings and workers who are looking for jobs**

Thus, it is clear that granting firms more cash through tax reductions will not necessarily lead to substantial job creation and a decrease in our unemployment rate. Corporations’ loyalty is to their stockholders, not to the national economy. Actions to increase profits are not always consistent with decreasing the unemployment rate.

**Disintermediation**, which is part of structural unemployment, is another area where jobs are going away, resulting in displaced workers. Disintermediation is the removing of the middle man in situations where the Internet allows more direct communication with others. People are able to use self-service methods for obtaining products or services.

One example of disintermediation can be seen in the recent announcement that *Newsweek* magazine is ending its print publication and will now be exclusively a digital magazine, available only on the Internet. Hundreds of jobs have been lost as a result of the decision to shut down the print operation (Petrecca, 2012).

Another example is the decline of travel agents as a result of the Internet, which has provisions that allow customers to purchase their own e-tickets and make their own travel arrangements. The need for travel agents is greatly reduced (disintermediation) because people can do the job for themselves, anywhere, anytime of the day and, in many cases, more cost-effectively.

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**There is a Critical Need to Create New Skills and New Jobs**

Traditional methods of reducing unemployment, such as monetary and fiscal policy, may not be effective with structural employment; jobs lost because of the internet will not return with an ending of the recession. Structural unemployment strategies that focus on job and skill creation programs (private, local, state, federal), as well as job creation through entrepreneurship initiatives, can help by providing retraining: developing new skills and knowledge for displaced workers that are in alignment with employers’ labor needs.

**Entrepreneurship Initiatives**

Different approaches for increasing the number of new entrepreneurs is one way to address unemployment and job creation. One approach is to encourage and educate students about entrepreneurship in the classroom. At the university-level, in classrooms like Dr. Shipps’ at North Carolina A&T State University, students are assigned entrepreneurial projects that relate to the courses, which encourage them to think about entrepreneurship.

For example, in some management information courses, students have to come up with a concept for a business they would like to start, and develop the idea through the different phases of business development. Technology and its strategic value are interlaced throughout the project. For instance, the students must build a business plan and a website, based upon researching literature and websites such as *sba.gov*. They must determine what their product or service will be and how they will strategically use technology at different stages.

Another approach is for organizations to help encourage others to become entrepreneurs by providing entrepreneurship-based training and mentorship. Capital One and CountMe In started a program called, Women Veteran
Entrepreneur Corps (WVEC) (Briggs, 2012). This program was started to help the increasing number of female veterans who are motivated to start their own businesses to capitalize on their leadership skills. It is a training and mentorship program for female veterans.

Job Creation Programs

Job creation programs provide another method of reducing structural unemployment and reducing the skills gap. It is evident that job creation continues to be a problem nationally as unemployed workers struggle to find jobs. Formal job creation programs help job seekers connect with employers as well as obtain skills, knowledge and training that will help them get a job. Job creation programs can come directly from private industry or from government-based job creation programs.

The government is taking aggressive steps to help reduce unemployment. One way of helping to generate jobs for unemployed workers is through federal job creation programs. A multitude of different programs, serving different needs and requirements, have been in existence for several years. There are also some state programs that are effectively creating jobs for unemployed workers. Discussed below are three examples of these state programs: the Georgia Works program, the Minnesota Emergency Employment Development (MEED) program and the Community Ventures program.

Georgia Works Program.

After the recession, this program has been praised nationally as a jobs creation program that is working. Georgia Works was started in 2003 and is a program to help unemployed workers get work. It involves, first, matching workers with employers and then allowing the workers to work for the company for free. The company gets a chance to see the worker in action and the employee gets a chance to learn new skills and knowledge (Luhby, 2012).

Since its inception, more than 4,000 Georgians have found new careers as a result of participation in the program. Interviews with some of the program participants revealed that they gained some skills that enabled them to find employment. The Georgia labor commissioner reported that $6 million was saved in the unemployment insurance trust fund by putting unemployed workers to work after their participation in the program (Jilani, 2011).

Some economists disagree with the success and say that there is not any support to show that workers get jobs faster. The program has suffered some setbacks in recent years with budget constraints, lack of promotion and other limitations which have restricted the program (Luhby, 2012).

Other states, including New Hampshire and Missouri, have job creation programs that are based upon the Georgia Works model. Georgia Works is a voluntary program, where workers get a chance to try out an open position as an unpaid employee. The unemployed person can work a maximum of 24 hours per week, for eight weeks, and then the employer decides if he wants to hire the employee.

Since the beginning of the program in 2003, only 18 percent of the workers who completed the training have been taken on as hired employees. Opponents of the program, such as labor unions, suggest that this is free labor and is therefore unfair. Indeed, some employers were using the program as free labor for selfish gain, so policies were set in place to discourage this behavior. Participation by employers was limited if they repeatedly used unemployed workers, and didn’t hire any of them.
However, some say that hiring should not be the only indicator of success. For one thing, workers are able to obtain new skills. Many workers report that they have learned a great deal in terms of new skills and knowledge. Georgia State University has had some success in using the program. Georgia State has hired 37 workers from the program out of 54 who started out as voluntary trainees.

**Minnesota’s MEED program for unemployed workers.** The MEED program in Minnesota, which has been around since the 1980s, is a little different from the Georgia Works program because it is a subsidized program for the unemployed. The MEED program gave employers $10 per hour as a wage subsidy so that they could hire specific, disadvantaged workers for six months for full-time work.

The focus was on unemployed workers who were not receiving unemployment benefits. They were only to fill newly created jobs, and the pay was the same as for a regular worker. The employers were supposed to make a commitment to keep the workers for one year after the 6 months subsidized job ended. If the employer did not honor the agreement, then he/she could be fined (Bartik, 2011).

**Michigan’s Community Ventures program.** The Community Ventures program in Michigan is a program that works with companies to hire structurally unemployed workers. The program’s goal is to create sustainable, long-term employment. This is accomplished by focusing on development of career pathways for unemployed workers by first matching pre-screened applicants with employers and their job needs. The Community Ventures program provides pre- and post-training and other support to help build a lasting relationship between employer and employee. Employers receive $5,000 dollars when they hire an employee for long-term employment.

**Attacking Structural Unemployment through Job Training Programs**

The slow decline in the unemployment rate may be due to structural unemployment where jobs are lost or permanently going away, and retraining and new skill development is necessary. Disintermediation is one example of structural unemployment. Fiscal policy, monetary policy, and supply side economics do not address the issue of unemployment due to a lack of skills. Over 44 percent of the unemployed are actively seeking jobs (and thus are counted in the official unemployment rate), but many of these people may need new skills and training (Easton, 2011).

One approach to battling structural unemployment is to develop job training programs. Job training and job training programs have been existence for many years and have helped many workers gain employment. For example, during the Great Depression of the 1930s, the Federal-State Unemployment Insurance Program was started. During this same time, job training programs associated with the New Deal programs were started (O’Leary et al., 2004). Another job training initiative, called the Manpower Development and Training Act of 1962, was targeted toward low-income people and welfare recipients (O’Leary et al., 2004).

According to O’Leary et al.,

“Job training involves teaching someone the skills required to do a job competently. It is distinct from general education because of the exclusive focus on preparation for employment. Job training can range from remedial training, which teaches people the skills they need to learn other skills, to very sophisticated occupation specific training, which teaches people detailed procedures to perform at a high level in a specific occupation.”
Job training focuses on closing the unemployment gap between available job openings and workers who are looking for jobs. There are many different types of job training that could take place in various places. Job training could be administered on the job or in a classroom at a private company, school (high school or college/university), or government-sponsored training facility.

The numerous training programs address the many and varied needs of a multitude of people with differing circumstances and needs. For example, there are training programs that specifically address youth, women, minorities, veterans, former prison-inmates, remedial needs, apprenticeships, and occupational skills.

Here are examples of some of the various training initiatives:

**High School Training.** One job training program started in Oregon was initiated at six high schools. The program focuses on freshmen through seniors. Freshmen visit workplaces to see the types of jobs done by different workers, sophomores enroll in one of the six available career tracks, and the juniors and seniors are paired with jobs or internships associated with their vocational choices (Celis, 1994).

Another high school program in Seattle prepares high school students for obtaining jobs by offering a selection of programs through the Seattle Public Schools Skills Center. Students have a choice of four different programs: Digital Animation and Game programming, Aerospace Science, Health Sciences, and the Cisco/Microsoft Information Technology Academy (Schiffler, 2012).

In Baltimore, Sollers Point Technical High School offers vocational programs where students earn certificates when they complete their course of study. In the culinary arts program students are prepared to go directly into the work world (Abramson, 2012).

**University Training.** There are several training programs offered through universities to help students obtain jobs after college. The University of Texas at Austin offers students the opportunity to become software developers through an on-the-job training program (Software Developer, 2012).

Montclair State University offers a program to unemployed people. They are offered a fee-waiver and allowed to enroll in the university courses that will help them obtain job skills that will help them gain reemployment (NJ State, 2012).

Clark-Atlanta University has a job training program called Worker Education, and Apprenticeship Job Training Programs which offers three different training options: The Minority Worker Training Programs (MWTP); Brownfields Minority Worker Training Program (BMWTP) and the Youth Apprenticeships Job Training Program (YAP). The programs are designed to help trainees obtain skills to prepare them for work in the construction and environmental remediation business (Worker Education, 2012).

**Government sponsored job training programs.** The U.S. government has been providing help in the training and development of knowledge and skills through job training programs for a long period of time, including the New Deal programs during the Depression era.

The Comprehensive Employment and Training Act (CETA) of 1973 focused on decentralization and more state/local control, using local advisory boards to address job training and local employer needs. The CETA job program focused on disadvantaged youth and welfare recipients (O’Leary et al., 2004).

The Job Training Partnership Act (JTPA) of 1982 was put into place during the Reagan era and focused on employers’ job needs. It restricted the employee training to skills that
local employers were requesting (O’Leary et al., 2004).

Many of these programs address many different types of people and different skill and development needs. One program that has been around since 1964, that has successfully helped young people obtain jobs, is the Job Corps program. It is a free one year program for struggling and disadvantaged youth that provides assistance in obtaining jobs by offering job training, remedial instruction and other support.

**These are some of the Federal Job Training Programs:**

- Employment Service/Wagner-Peyser Funded Activities
- H-1B Job Training Grants
- Homeless Veterans’ Reintegration Project
- Job Corps
- Local Veterans’ Employment Representative
- National Farmworker Jobs Program
- Native American Employment and Training Registered Apprenticeship and Other Training
- Reintegration of Ex-Offenders
- Senior Community Service Employment Program
- Trade Adjustment Assistance
- Transition Assistance Program
- Veterans’ Workforce Investment Program
- WIA Adult Program
- WIA Youth Activities
- WIA Dislocated Workers
- WIA National Emergency Grants
- WANTO
- Youth Build
- Department of Agriculture
- SNAP Employment and Training Program
- Department of Justice
- Second Chance Act Prisoner Reentry Initiative
- Department of Education
- American Indian Vocational Rehabilitation Services
- Career and Technical Education – Basic Grants to States
- Career and Technical Education – Indian Set-Aside
- Grants to States for Workplace and Community Transition Training for Incarcerated Individuals
- Migrant and Seasonal Farmworkers Program
- Native Hawaiian Career and Technical Education
- Projects with Industry
- Rehabilitation Services – Vocational Rehabilitation Grants to States
- State-Supported Employment Services Program
- Tech-Prep Education
- Tribally Controlled Postsecondary Career and Technical Institutions

The Federal government spends billions of dollars a year on these training programs, but one out of three employers still comment that they do not have qualified workers that they can hire (Easton, 2011). More than three million jobs are vacant and employers are looking for workers to fill these positions, while there are approximately 14 million jobless workers who cannot find jobs (Shierholz and Finio, 2011).

According to Nicholas Pinchuk, the CEO of Snap-On Inc, businesses are not doing enough in terms of training to help decrease the gap between skills possessed by unemployed workers and skills needed for available jobs (Loughley, 2012). U.S. companies may face a severe skills shortage in the near future.
The Real Problem: Slow Job Growth

A more pressing issue is the lack of available jobs. Even if all the vacant jobs were filled, there would still be more than 10 million jobless workers. Educational institutions that are preparing individuals with needed skills face a similar problem of job availability. Universities, community colleges, and high schools offer a variety of majors and vocational programs which provide their graduates with the skills needed for a wide range of positions in business, educational, and governmental agencies. Many graduates, however, have great difficulty in finding jobs. There is real concern that the jobs are just not available.

There must be a high level of job creation if the unemployment rate is to be reduced substantially. The economy lost more than 5 million jobs in 2009. In 2010, 940,000 jobs were created, and there were 1.6 million new jobs in 2011 (Wiseman and Rugaber, 2012).

As noted above, figures from the Bureau of Labor Statistics at the end of 2011 indicated that there were approximately 14 million unemployed workers, but only 3.3 million job openings. Thus, the number of unemployed workers to job openings was greater than 4-to-1: there were no jobs available for more than three out of four unemployed workers. This ratio has remained for almost three years (Shierholz and Finio, 2011); before the recession it was only 1.5 (Wessel, 2011).

Considering the growth of the working age population, it has been estimated that 275,000 new jobs will have to be added each month for 5 years to bring the unemployment rate down to where it was when the Great Recession began (Shierholz and Finio, 2011). This level of job growth is probably not likely.

It has been often noted that major job growth in the economy comes from small firms and new business startups. According to the Small Business Administration, small businesses – firms with fewer than 500 employees – provide jobs for over half of the nation’s workforce. They create more than 50 percent of the private, non-farm gross domestic product, and they create between 60 percent and 80 percent of the nation’s net new jobs (Langley, 2012).

A study at the Federal Reserve Bank of Cleveland evaluated several measures of entrepreneurship over the past few years. It found that the number of businesses in the country reached a peak in early 2005, and then began to decline. After the recession began in December 2007, the decline was magnified. Some of the problem was due to business failures, but a larger portion of the decline was because of a decrease in the formation of new businesses.

It was noted that “68,490 more businesses closed in 2009 than in 2007, an 11.6 percent increase in the business closure rate. But by 2009, 115,795 fewer employer businesses were founded than in 2007, a 17.3 percent decline in firm formation” (Rampell, 2011).

A Kauffman Foundation-Census Bureau study on U.S. entrepreneurship, entitled “Where Have All the Young Firms Gone?” also found that the number of American businesses is declining. The study highlighted the decreased number of startup businesses. The U.S. Census data indicated that new business growth dropped from 13 percent of U.S. employers in 1980 to 8 percent in 2010 (Haltiwanger, 2012).

Since most new businesses are small, and since small business drives job formation, one can conclude that hiring will remain depressed until the rate of new business formation improves.

Conclusion

The United States has a high unemployment rate that has declined very slowly since the end of the last recession. The country has a serious shortage of jobs that are needed to provide opportunities for individuals who
want to work. A number of job creation programs are creating a small number of jobs, but this number is miniscule compared with what is needed to significantly improve the unemployment rate. The traditional governmental policies of fiscal policy, monetary policy, and supply side economics appear to be inadequate in solving the problem.

We suggest there is a skills gap which programs such as the Georgia Works program help to close, but much more is needed. In future research we plan to evaluate the job creation programs and the skills gap in more detail through further qualitative and quantitative research.

Additional research will address several issues:

1. To reduce the unemployment rate further, are there additional measures, beyond increasing spending, reducing taxes, and decreasing interest rates, that should be considered by the government? Are there additional policy initiatives that can be employed?

2. Is there a new type of unemployment that is an additional component of the total unemployment picture? If so, its recognition may help us understand why the unemployment rate has not decreased appreciably.

3. Although new job training programs and improvements to existing programs are being initiated, there is a need to evaluate the programs to better understand how serious the gap is between what employers are seeking from potential employees and the training and skills that they are acquiring. This knowledge can help to improve the quality of the training and close the skills gap. Specifically, we wish to determine whether there are significant numbers of jobs that are available, but the current skills of unemployed workers do not match the needs of the employers.

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Service Learning at St. John’s University: An Update

This article concerns a recent study of Academic Service Learning (AS-L) conducted by faculty members involved with the University’s Vincentian Institute for Social Action. The research concerns the inclusion of AS-L into their courses, and working with Ozanam Scholars, and conducting their own research with community partners.

Academic Service Learning is part of the Mission of St. John’s University.

*The Review of Business* has published related articles in the past, and our readers have indicated a good deal of interest in them. At present a number of universities are also embarked on similar projects that to some degree incorporate assistance to the poor and needy through several academic courses. St. Johns’ University differs because it has immersed service learning throughout all programs.

We welcome articles from other universities providing information about their own programs, and we will continue to bring you updates on service learning at St. John’s. This article originally appeared in *Catholic Education: A Journal of Inquiry and Practice*, Vol. 16, No. 1, September 2012, 65-89 © Trustees of Boston College.
Advancing the Vincentian Tradition through Strategic Service and Research

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Executive Summary:
This article reveals how St. John’s University implemented mission-focused programs to advance its unique Catholic perspective, that of the Vincentian tradition to serve the poor and remedy social inequities. Heeding the 1986 call of Pope John Paul II to Vincentian institutions, all levels of the university – from incoming freshmen to the board of trustees – have embraced the Pope’s message to serve the poor and needy.

Major program initiatives have included:
- an expanded and enriched academic service-learning (ASL) program with a Discover New York service component for all incoming freshmen;
- the creation of a Vincentian Institute for Social Action to coordinate student and faculty service and research efforts with community partners;
- the establishment of a 4-year undergraduate Ozanam Scholar Program to engage students in extensive service and research under faculty mentorship;
- sustainable collaborations with community partners whose mission focus is compatible with the Vincentian perspective; and
- a dedicated effort to measure program impact through outcomes-based quantitative and qualitative research methodologies.

Religiously affiliated institutions may find program components and organizational strategies to be beneficial in their own work in serving the poor, needy, and disenfranchised.

Introduction
This article chronicles the experience of a university seeking to rekindle its unique Catholic perspective. St. John’s University was founded in 1870 in Brooklyn, New York, when the Roman Catholic Bishop of Brooklyn, Bishop John Loughlin, asked the Vincentian community (the religious community founded by St. Vincent de Paul) to open a college for men in order to provide educational access to the sons of immigrants. Later, women would be admitted to the college.

At its inception, St. John’s was understood to be an educational institution with a specific mission – providing access and opportunity for students seeking to better their lives and the lives of their families. For some 140 years, St. John’s has strived to pursue its mission of providing an education of Catholic values with opportunities to provide service for the needy in a diverse metropolitan community, while affording programs of academic excellence befitting an institution of higher education.
St. Vincent de Paul made it his aim to build bridges between educational and social service institutions and the world of the poor.

With its largest campus located in Queens, New York, the university has enjoyed student populations of great ethnic, racial, and religious diversity. Moreover, 40% of the freshmen classes are Pell Grant recipients, reflecting outreach to the economically disadvantaged. With additional sites in Staten Island, Manhattan, and Long Island, and international locations in Paris and Rome, the mission of St. John’s encompasses a global perspective.

A Challenge and Plan Formulation

Many private religiously affiliated universities face a common challenge – the numerical diminishment of religious community members who sponsor the university as board members, university administration, and faculty. For a number of years, St. John’s Board of Trustees and senior management team have been grappling with various ways to engage members of the university as agents to advance its Catholic and Vincentian mission. Accordingly, within the last decade, the university initiated an Office of Mission specifically designed to increase mission awareness and activity among employees.

The university has also struggled with an equally significant and evolving component of its mission to create focused impact on communities living in poverty. For St. John’s, as a Vincentian university, this was long overdue. St. Vincent de Paul made it his aim to build bridges between educational and social service institutions and the world of the poor.

At a meeting of the Vincentian community in Rome, Italy, Pope John Paul II (1986) urged Vincentians to recommit their lives and institutions to seek out the causes of poverty and develop both short- and long-term solutions. The university has taken this call to heart: “As a Catholic and Vincentian university, we will be known worldwide for addressing poverty and social justice” (St. John’s University, 2010).

In 2006, the Middle States Association Evaluation team challenged the university to consider a mandatory service learning experience for all its undergraduate students as a way to reinforce the Vincentian mission. The 2006-2008 Strategic Plan asked that students be provided with educational experiences that were highly Vincentian in nature while embracing service opportunities for needy metropolitan and global populations. The plan also called for the establishment of a mission-oriented agency or institute with its own staff, budget, facilities, and vision to provide community outreach while serving the six schools of the university.

Other religiously affiliated institutions may find components of the plan and programs described in this paper to be beneficial as they expand their own service and research-based projects with community agencies serving the needy and disenfranchised.

Literature Review

The literature review focuses on the broad perspectives of (1) academic service learning; (2) faculty involvement; and (3) community partner outreach and community-based learning. Academic service learning connects course work with work or service that occurs in the community so that the learning experiences gained from service with a community agency integrates with classroom learning (Howard, 2003).

Service-learning practitioners are highly aware that service learning benefits students' educational experiences while providing positive community interactions (Bloomstrom and Tam, 2008; Jeandron and Robinson, 2010). Such service-learning integration increases students' social and emotional development,
their esteem of their host school, and prepares them to contribute more fully to their communities (Strage, 2004).

Faculty are key agents for academic service learning to flourish. Faculty who promote service-learning projects often assume an advocacy stance and note that their students become highly involved in course work, investigating relationships between academic content and "real-world" applications (Bacon and Sather, 2001). Moreover, academic service learning becomes possible through commitment by faculty, and more meaningful with positive administrative support and connections to institutional culture (Furco, 2002; Jeandron and Robinson 2010). To enrich and sustain the efforts of academic service learning, research conducted relative to faculties' specific disciplines facilitates understanding and acceptance by community stakeholders (Bloomstrom and Tam, 2008).

The third important ingredient in the service-learning construct is the community partner. Partners need to have input into the planning and implementation of a service-learning project so that they can perceive the benefits that might accrue to the agency (Miron and Moely, 2006), and they should not assume just a variable role in the research undertaken (Henderson, Fair, Sather, and Dewey, 2008).

Discussing and defining research plans needs to be done jointly by the community partner and faculty of the host institution (Sather, Carlson, and Weitz, 2007). In this way the host institution, faculty, and the community partner will develop a relationship (Ammon, Furco, Chi, and Middaugh, 2001) so that collaboration in partnership building and maintenance becomes an institutional focus (Kramer, 2000). The merging of a supportive academic culture and faculty instructional input with a mission-oriented community partner makes for a flourishing academic service-learning environment (Zlotkowski, 1998).

A mission-oriented framework has become evident for many Catholic and Vincentian institutes of higher education as they direct their service efforts to benefit the social needs of communities in the form of community-based learning. For instance, Fordham University has established a consortium for social justice; Catholic University, a center for community development and social justice; Georgetown University, a center for social concerns; Villanova University, a sophomore service-learning community; and Notre Dame, a social concerns center, which offers credit-bearing programs during semester breaks and summer to benefit partner agencies.

Three other Vincentian-sponsored institutions promote experiential community-based learning. Under its Learn and Serve program, Niagara University offers courses with service-learning components in every college and in nearly all academic departments to promote experiential learning with communities serving the marginalized and the poor.

Service learning benefits students’ educational experiences while providing positive community interactions

Adamson University encourages its students to participate in social action with community organizations under its integrated Community Extension Services program. The Irwin W. Stearns Center for community-based service learning at DePaul University provides multiple opportunities and experiences for students to work on societal issues and engage in community service in the form of internships, scholarships, research, and community-based student employment. Additionally, DePaul offers a community service studies minor that combines course work from several disciplines and integrates community-based service learning.
The Vincentian Institute for Social Action

In January 2008, St. John’s formed the Vincentian Institute for Social Action, which sought to amplify and strengthen the university’s academic service-learning focus, and, more importantly, structured new programs that mirrored the community-based learning approaches offered by fellow Catholic and Vincentian universities. The institute’s goal was to integrate scholarly work with the needs of community agencies in a mentoring, research-focused, community service framework that would achieve action with measurable impact.

University resources were committed to support the full efforts and vision of the institute. For instance, approximately $1.5 million of the university’s internal resources during fiscal year 2010 were allocated to the institute’s programs. Funds were used for institute staffing; the Ozanam Scholars Program; academic service learning; the Faculty Research Consortium (FRC); student retreats; conference presentations; international service; community service materials; and additional program costs.

Academic Service Learning

Academic service learning (AS-L) slowly began to flourish during the late 1990’s when two Vincentian priests, Fr. Richard Devine, C.M., and Fr. Stephen Bicsko, C.M., influenced by the teachings and writings of Zlotkowski (1996, 1998) saw such service as a way to actively enhance the Vincentian call to mission. Faculty from various departments of the six colleges/schools increasingly joined in to advance the AS-L construct with local community agencies serving needy populations.

In 2008, the office and functions of AS-L were subsumed as a component of the Vincentian Institute for Social Action. With this organizational structure, the university’s commitment to social justice issues tailored to academic excellence would be coordinated through institute efforts, with a staff assisting and connecting faculty with appropriate service sites that met the learning objectives of their respective courses.

Following the recommendation of the Middle States Association, the provost initiated an innovative program, Discover New York (DNY), as a means of introducing freshmen to AS-L. Using New York City with its wealth of community sites and agencies serving the marginalized as a learning laboratory, freshmen perform at least six hours of service as written into course syllabi. The AS-L themes of (1) education and youth services, (2) hunger and homelessness, (3) civic engagement, and (4) health care supported the Vincentian perspective of “service with impact” while connecting to the many academic domains of the university’s departments.

Faculty connect DNY course content and purpose to “real life” local community engagement. Focusing on the AS-L civic engagement theme, a professor of an English composition course has students write product descriptions for handmade goods made by women in developing countries. Another teaching a course on the moral theology of health care to pharmacy students has them understand compassion and the moral responsibilities as they work with the elderly at three local nursing and aging centers.

Many faculty members ask students to perform more than the minimum hours and have structured AS-L service projects that exemplify the quality their respective disciplines can offer to a community partner. One faculty member from the Department of Accounting and Taxation of the Peter J. Tobin College of Business coordinates the Volunteer Income Tax Assistance (VITA) program to aid low-income New Yorkers. For the 2010 tax year, 85 upper class undergraduate and first-year graduate students assisted residents in two
boroughs with 3,485 federal and state income tax returns, resulting in refunds of nearly $3 million.

Another faculty member in the Department of Communication Sciences and Disorders of St. John’s College asks graduate students in her Dysgraphia Theory and Practice course to become trained in a feeding technique for children with cleft palate. They perform service at the Ozanam Nursing home feeding people who have difficulty swallowing. At a second site, an orphanage in La Antigua, Guatemala, graduate and undergraduate students assist and train staff in feeding techniques for infants with swallowing disorders, the premise being that proper feeding habits will improve speech.

During the past three years, the institute’s AS-L staff has provided full-day conferences on service-learning concepts and methodology. These conferences have been attended by 111 full-time and 31 part-time faculty, and 13 administrators, each of whom received a certificate of completion. Additionally, in calendar year 2010, a total of 267 faculty and 4,359 students have engaged in service-learning activities for 96,833 hours with 125 community agencies in all five boroughs of New York City and Nassau and Suffolk counties of Long Island.

The Ozanam Scholars Program
The Ozanam Scholars Program was created as a sustainable undergraduate program to advance the Vincentian tradition through dedicated student work. Outreach and scholarship offerings are provided to high school seniors with strong records of academic and service achievement. The Scholars Program was named to honor the Vincentian lay scholar and professor Frederick Ozanam, who was inspired by St. Vincent de Paul’s teachings and legacy and sought to address the challenge of poverty in 19th-century France. He formed the First Conference of Charity, now known as the St. Vincent de Paul Society, established in 130 countries on five continents.

The Ozanam Scholars Program was created as a sustainable undergraduate program to advance the Vincentian tradition through dedicated student work.

The institute formulated the Scholars Program as a 4-year developmental model to educate and foster the scholars’ academic, leadership, service, and Vincentian development whereby they engaged actively in research and sought solutions to issues of poverty and social injustice (see Table 1).

During the first four years, 111 students have been accepted and have participated in the scholars program. They have provided service and conducted research with 12 institute-prioritized partners and agencies, with many scholars remaining with a partner for 2 or 3 years as a capstone project is completed. In the 1-year period from the fall 2010 semester to the spring 2011 semester, scholars have fulfilled 4,821 service hours at home and abroad. For the 25 available Ozanam scholarships for the fall 2011 freshman class, there were 649 applicants.

Faculty Involvement
Faculty play key roles in implementing the institute’s programs and vision. They mentor, collaborate, and provide oversight on research projects, evaluate Ozanam Scholars’ performance, establish academic service-learning projects for their students with additional agencies, and most important, reveal the Vincentian community spirit of service, reflection, and impact.

A 5-member Faculty Research Consortium (FRC) has been formed with membership representing the various schools and colleges of the university. The FRC provides leadership and oversight for the institute’s programs and coordinates efforts between the Ozanam
###Table 1: Ozanam Scholar Four-Year Developmental Model

<table>
<thead>
<tr>
<th>Year</th>
<th>Scholar Formation</th>
<th>Vincentian Service</th>
<th>Learning Outcomes</th>
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<tbody>
<tr>
<td>I. Vincentian Service, Academic Scholarship, National Citizenship</td>
<td>1. Tuesday Conferences 2. Social Justice Minor 3. Freshman Retreat 4. Research Course (spring) 5. Academic Conferences 6. Ozanam Student Society</td>
<td>Introduction to service through Discover New York and service sites; perform 8 hours service per week (200/yr.) at community partner site, and Bridging to International Service in the month of May at San Juan, PR site</td>
<td>1. Understand the causes of poverty from a Vincentian perspective. 2. Understand and apply the Catholic Church’s social teaching. 3. Understand and integrate the value of service to an impoverished population in an academic, national, and metropolitan context. 4. Understand, analyze, and apply Vincentian and Catholic values, virtues, and perspectives. 5. Initiation into research techniques through service site involvement.</td>
</tr>
<tr>
<td>II. Vincentian Service, Academic Scholarship, Global Citizenship</td>
<td>1. Study Abroad (fall or spring) 2. Social Justice Minor 3. Vincentian Heritage Tour (one week in France) 4. Global Leaders to support service in Rome 5. Ozanam Student Society 6. Maintain Reflective Journals 7. Research and Writing Workshops 8. Academic Conferences sponsored by universities and nonprofits</td>
<td>International service through Study Abroad in Rome, France, or Spain, and perform 8 hours of service per week (200/yr.) at one of 12 strategic partner sites</td>
<td>1. Demonstrate strong understanding of the functionality of a social agency in local and international contexts. 2. Link basic social action terms and concepts to their service projects. 3. Analyze and articulate the global needs and concerns of poverty. 4. Learn research potential at international sites. 5. Demonstrate understanding of connection between service and Vincentian leadership development through journal writing.</td>
</tr>
<tr>
<td>III. Vincentian Service, Academic Scholarship, Global Citizenship</td>
<td>1. Independent Study Written Report 2. Faculty Mentor Collaboration 3. Social Justice Minor 4. Research Symposium Luncheon 5. Ozanam Student Society 6. Academic Conferences sponsored by universities and nonprofits 7. Become certified to conduct research by the NIH</td>
<td>Focused service of 4 hours per week based on an independent study project with a community partner</td>
<td>1. Through community-based service, articulate a more complex understanding of the root causes of critical social problems as well as possible solution-based approaches. 2. Through community-based service, demonstrate ability to report on common themes (e.g., with qualitative methodology) and best practices at various service sites; develop writing/research skills.</td>
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Scholars and the Academic Service Learning programs and its community partners.

**Academic Service Learning is a classroom-based program that requires students to perform community service...as an applied understanding of course content.**

An important role of the FRC is to foster research efforts and collaboration among faculty, partners, and students resulting in grants, publications, and professional conference presentations. The FRC also coordinates efforts with two larger faculty-member committees, the Faculty Advisory Committee (FAC) and the Faculty Advisory Board (FAB).

The FAB provides oversight and direction for the AS-L programs, and the FAC acts as a liaison between the institute’s administrative staff and the academic and scholarly pursuits of the Ozanam Scholars. The FAC faculty play a key role in evaluating the junior-year scholars’ independent study projects and proposing to the FRC which projects would best merit continuation as capstone, senior-year projects.

Additional faculty throughout the university’s academic departments provides mentorship and service. The first, and by far the largest in number, is with the traditional form of AS-L. As implemented at other institutions, the institute’s AS-L is a classroom-based program that requires students to perform community service and uses the service activity as an applied understanding of course content. Faculty engaged in the service-learning commitment to the marginalized and poor challenge students to analyze and reflect upon their experiences through reflective journals.

Thirty-one faculty members worked closely with scholars on their independent study and capstone projects. A faculty member mentoring a senior had begun working with that particular student during the junior year, allowing a project to develop and reach fruition over the 2-year period. Mentors reinforced the learnings of their particular academic disciplines as scholars pursued their projects.

For instance, a psychology department mentor and scholar researched "The Addictive Relationship of Experience, Attribution, and Culture in Predicting Psychiatric Symptoms of Human Trafficking Survivors," an accounting department team researched "Microfinance and the Poor: Issues of Sustainability and Profitability," and a School of Education mentor and her student investigated "SAT Coaching in Unlikely Places: Offering Achievement Test Preparation to Students with Academic and Economic Needs."

Finally, faculty served as active researchers or research consultants on projects requested by partner community agencies. In some cases, a faculty member or faculty team would have the assistance of Ozanam Scholars, who were assigned to the partner because their academic interests coincided with the purpose of the research, and in other cases, faculty committed to partner research endeavors as extensions of their own research pursuits.

**Community Partners**

Beyond the various partnering agencies served by the AS-L component, the institute is presently collaborating with 12 additional community partners. In establishing strategic partnerships, the institute viewed each collaboration through three major lenses:

1. Is the partner’s mission and purpose consistent with the institute’s Vincentian focus of alleviating poverty and social justice inequities?
2. Did the partner reveal a need for collaboration whereby the resources of both would support a mutual vision and mission?; and,
3. Would the relationship be sustainable so that long-range research investigations would benefit the partner needs, scholarship growth of faculty, and the institute’s Vincentian mission?

The appendix provides the name of each community agency accompanied by a website link. Space precludes discussing the scope and sequence provided by each unique partner as well the variety and depth of the programs occurring through the partnership collaboration.

Research Methodology

Overview

In an effort to investigate the service impact of the institute’s major program components, outcomes-based quantitative and qualitative research was conducted. During the 2010-2011 academic year, 15 faculty members and 88 Ozanam Scholars participated in service and outcomes-based research projects with the community partners listed in the appendix.

At St. John’s Bread and Life, two service and two research projects have been initiated through institute collaboration to assist and study the lifestyles of the poor and needy. St. John’s Bread and Life, an independent nonprofit agency located in the Bedford-Stuyvesant area of Brooklyn, combats hunger and poverty each day, serving needy New Yorkers at its dining facility and unique mobile soup kitchen.

Ozanam Scholars began a sustainable service project called Project Identity in 2008. The project, to date, has assisted 764 unique clients to achieve identity for social service benefits with registration for birth certificates, social security cards, non-driver’s state identification cards, and other documents.

Each semester and summer, a Bridge to Justice clinic has been provided by a law school professor and her students to assist immigrants with legal services, particularly in ways to achieve immigrant (green card and visa) status.

Institute collaboration with five partner agencies involved service work with in-school and out-of-school children and youth. For the GEAR UP program, 14 Ozanam Scholars were bused to participating middle and high schools to provide in-class support, particularly with the learning of SAT vocabulary words.

For the Homes for the Homeless, Jumpstart, Project Hospitality, and the After-School All-Stars Programs, scholars again were bused to locations to provide homework help, improve literacy skills, and teach the relationship between food intake and nutrition.

The following section provides an overview of the data collection methods and findings related to the impact of the AS-L program, the Ozanam Scholars Program, and the Community Partner Research Program.

Mentors reinforced the learnings of their particular academic disciplines as scholars pursued their projects.

Academic Service-Learning Outcomes

Method. Students, faculty, and community agencies completed an online survey every semester on a voluntary basis. Each survey had a 5-point rating scale ranging from 1=strongly disagree to 5=strongly agree and allowed for respondent comments. The fall 2010 survey was completed by 1,167 students, 44 faculty members, and 26 community agencies. While the wording and number of items on each survey differed, some items revealed that compatible perceptions existed among categories of raters.

Student results and discussion. While overall satisfaction with the AS-L experiences was rated in the neutral range (from 3.0 to 3.55) on the 19-item survey, students gave their highest ratings with respect to agency and
community involvement: a 3.86 rating for overall satisfaction with service at a particular site; 3.69 for receiving adequate supervision and guidance from the agency; and 3.66 for believing that they made direct and immediate impact upon the community as result of their AS-L projects.

Students themselves were aware that they made a significant positive contribution to the community

While most of the narrative comments from students indicated the AS-L experience was very beneficial and enriching in that they learned a lot about their community and human beings, some noted that they had difficulty connecting their service to coursework and that they would have liked more “real life,” hands-on experiences.

Faculty results and discussion. Faculty offered an overall rating of 4.02 (agree) on their 34-item survey. They gave very high ratings to AS-L as a way by which faculty could participate in the university’s Catholic, Vincentian mission (4.61) and in beliefs that their students learn valuable skills and develop personal values through AS-L that they would not learn in a traditional course format (4.51).

Faculty believed that AS-L encouraged students to support St. Vincent’s mission to reach out to assist those in need, and that students themselves were aware that they made a significant positive contribution to the community. They also understood what was expected of them when they participated in AS-L (4.59). Interestingly, the lowest rated item (2.93) revealed that they did not believe that adequate credit was recognized for AS-L participation when personnel actions occurred such as for reappointment, tenure, and promotion.

Community results and discussion. On their 16-item survey, community partner agencies rated their overall satisfaction with the AS-L program rather positively (4.21). They believed that their input and feedback was taken into consideration during the student placement process (4.38), that students provided quality service (4.44), that students made a direct and immediate impact upon their communities (4.28), and that the service provided by the university had been rewarding (4.38).

Many site respondents reported having had a positive experience working with students, that students were able to form strong connections with agency clients and with the community at large, and that students actually helped to keep particular agency programs running. Some organizations reported they have hired AS-L students and that some students continued with community service projects after the AS-L mandatory experience was completed.

Ozanam Scholars Program Outcomes

Method. A great deal of effort was directed to measuring the potential impact of the newly instituted Ozanam Scholars Program. Scholars were evaluated by rubrics, completed pre- and post surveys, and responded in writing to questionnaire items.

Rubric results and discussion. Scholars were evaluated by institute administrators at the midpoint of each academic year with a rubric system to determine how well annual program developmental guidelines were being met (see Table 1). Each year, they were rated on the five components of academics, service, participation, assignments, and communication and leadership performance by a 4-point scale ranging from excellent (4) to insufficient (1). This evaluation served as formative assessment after which conferences occurred to support scholar work or to offer suggestions for improvement.

Scholars’ junior-year independent study projects were evaluated by their own mentor,
a secondary faculty member, and two institute administrators by a rubric containing research-proposal components such as statement of the problem, literature review, methodology, and organization.

The combined average of all raters revealed that on the 5-point scale, seven scholars achieved a rating between 4.1 and 5.0; 14 between 3.1 and 4.09; five between 2.1 and 3.09; and one between 1.1 and 2.09. Besides evaluation of the written project, raters indicated which projects they believed appropriate for actual implementation as a senior-year capstone project, particularly with a community partner.

Scholars were also rated by site supervisors of each community partner agency with a 17-item online survey of five rankings; unsatisfactory (1) to outstanding (5), during the spring 2010 semester. Ratings from seven participating partners revealed an overall rating of 4.05 (above average) with a range of 3.91 (item #3, assists with implementation of the objectives of the organization) to 4.40 (item #1, understands the purpose of the organization).

Low ratings on items by a partner resulted in feedback to institute staff in ways to improve collaboration between scholars’ service and partner expectations. In the case of the somewhat low ratings by the Advantage Academy supervisors, the institute staff realized that scholars lacked the appropriate skills to tutor the homeless adult population in their business-oriented course work. Subsequently, that assignment was dropped after partner supervisor feedback.

Survey results and discussion. Three types of surveys were used to assess scholar performance. One online self-report survey of 27 items, scored by a 4-point scale ranging from poor (1) to very well (4), asked scholars to rate the four areas of student development, social justice and service development, academic development, and the Vincentian perspective.

...the 4-year program impacted positively on the scholars’ personal development of serving the needy

While incoming freshmen scholars of 2008 and 2009 rated themselves rather well in most areas with many scores in the 3.0 plus range, they were not as confident or knowledgeable with items regarding the Vincentian tradition and perspectives, achieving average scores of 2.88 and 2.69, respectively.

It would become noteworthy for the institute to determine during senior year post-testing if ratings in the Vincentian area change positively due to the 4-year immersion in the scholars program, particularly with such experiences as the Vincentian Heritage Tour where sophomores walked in the steps of St. Vincent and participated in the required theology course on his life.

With the incoming freshmen scholars of 2009, the institute began experimental use with the Community Service Attitudes Scale (CSAS) (Shiarella, McCarthy, and Tucker, 2000). The CSAS was reported to be useful for researchers investigating the effects of service-learning and community service experiences for students. The 46 items in this self-report scale are scored on a range of 1=extremely unlikely to 7=extremely likely.

Based on pre-survey results, the scholars rated themselves quite highly in regards to their current attitudes toward community service (most in the 6.0 range=quite likely). These findings may not be that surprising since students were selected into the scholars program based on former commitments to service and social justice.

Graduating scholars of May 2011 (N=30) completed a final self-report survey of 20 items with a scale range of 1=strongly disagree to 5=strongly agree and two questions that required written responses. Scholars rated
their perceptions and feelings regarding partner involvement and service, research skills, Vincentian attitude toward needy populations, and personal impact.

All mean responses indicated a positive direction with the lowest mean at 3.70 (SD 1.15), "the senior year capstone project was a worthwhile project." While the large standard deviation revealed that there was much variability in the scholars' rating of the capstone experience, they rated the item, "the program made an impact upon your attitude regarding the need to serve the needy," the highest mean at 4.6 with a low standard deviation of 0.56.

Within the survey the four cluster areas of partner service (PS, M = 4.18), research (R, M = 3.97), personal development (PD, M = 4.38), and Vincentian perspective (VP, M = 4.07) were identified. An analysis using paired sample t-tests revealed that the comparisons between PD and R (t = 3.237, p = .003) and PD and VP (t = 3.986, p < .000) were significant beyond the 0.01 alpha level. These results suggest that the 4-year program impacted positively on the scholars' personal development of serving the needy, even more so than the focus on research and the Vincentian perspective.

However, when writing their reactions to the work performed on their research-based capstone project, common statements expressed by scholars throughout were: "enjoyment;" "passionate;" "excitement;" "opening of eyes to see unfortunate circumstances;" "positive way to tie experience as a scholar;" "positive experience especially with relationship to mentor;" "realization of the importance of research;" "tremendous learning experience helping to a career path;" "helped connect to field of study;" "helped with development as a leader;" and "hard work pays off!"

Community Partner Research Outcomes

Method. Partner research occurred at three levels. First, as with the AS-L and the Ozanam Scholar Programs, partners were asked to evaluate the relationship between the institute itself (its commitment, collaboration, deliverables, etc.) and the partner through the use of a survey instrument.

Second, discrete research projects requested by a partner agency were initiated by the institute as it elicited faculty and faculty teams to carry out the research, often with Ozanam Scholars as assistants. Third, senior-year scholars conducted their own research through their capstone projects with both a faculty mentor(s) and partner staff providing oversight and guidance.

Use of surveys to rate institute. Strategic agencies rated the partnership by responding to an 11-item survey instrument containing a 5-point scale, ranging from 1 = strongly disagree to 5 = strongly agree. Ratings were on a 4.35 level for the fall 2009 semester and on a 4.24 level for the spring 2010 semester. Lowest ratings were provided by the GEAR-UP executive director (3.27 and 3.64), who noted that the program was not meeting the needs of the GEAR-UP students. The scheduling of undergraduate classes for the Ozanams coincided with scheduled time they were needed at public school sites to provide tutoring and mentoring services for economically disadvantaged junior high youth.

Unique community-based research projects. While many projects with partners remained at the service level, examples of unique research projects with partner collaborative input were initiated.

The Advantage Academy outcomes and discussion. For instance, the Advantage Academy Program was offered to homeless adults. The program allowed them to earn an associate degree in business offered by the
Students’ descriptions of their work included: “excitement,” “opening of eyes to see unfortunate circumstances,” “realization of the importance of research,” “tremendous learning experience helping to a career path,” “helped with development as a leader,” and “hard work pays off!”

University and may be the first of its kind in the country with respect to commitment to mission and sustainability.

The New York City Department of Homeless Services (NYCDHS), the community partner, assisted students with subsidized housing, transportation, and in some cases, child care, while the university through its College of Professional Studies (CPS) provided full-time course work, partially funded through Pell eligibility over a 2-year period (Fairbanks, 2009).

The ultimate goal of the project was for the associate degree graduates to either enter the workforce or continue advanced schooling in efforts to raise their lifestyle from one of poverty and agency reliance to one of self-sufficiency.

Of the 45 students in cohort 1 who were accepted into the Advantage Academy program in the summer of 2009, 11 graduated with the AS degree in May 2011, with two students pending graduation upon completion of course work. Quantitative and qualitative analyses were conducted to measure participant progress and outcome results.

Specifically, issues examined related to demographic information, student reasons for program departure and non-completion, course attendance, AccuPlacer Diagnostic scores (The College Board, 2009), midterm and final course GPAs, tutoring sessions attended, self-efficacy beliefs, and future prospects for program completers.

Institute and CPS administrators learned early on through formative evaluations that strong significant correlations occurred between course grades (midterm and final) and reading and mathematics ability as measured by the AccuPlacer Diagnostic exam and course attendance.

Two self-efficacy instruments were administered in pre-/post fashion to assess cohort 1 participants’ perceptions of themselves before and after 2-year completion of the program course work. A general self-efficacy scale (GSS), consisting of 10 items (Schwarzer and Jerusalem, 1995), asked participants to respond to their "life experiences in general" and the best way their beliefs might be described on a Likert scale that ranged from 1, "not at all true," to 4, "exactly true."

A second instrument, the self-efficacy for regulated learning (SERL) scale consisting of 11 items was designed to measure the degree to which students are meta-cognitively, motivationally, and behaviorally proactive regulators of their own learning processes (Zimmerman, Bandura, and Martinez-Pons, 1992). Participants responded to the items based on their "school experiences in general" using a 7-point rating scale ranging from 1, "not well at all," to 7, "very well."

During pre-administration of the GSS, the 11 participants achieved a mean rating of 3.05 (SD 0.38) with a range of mean ratings for the 10 individual items from 2.73 to 3.36, and on the SERL, they scored a mean rating of 5.05 (SD 1.06) with a range of average ratings for the 11 items from 4.09 to 5.45. At program completion, participants obtained an average GSS score of 3.68 (SD 0.37) with an item range from 3.55 to 3.82, and on the 11-item SERL, they attained a mean rating of 5.93 (SD = 0.63) with an item range of 5.0 to 6.36. Mean differences of 0.63 on the GSS and 0.88 on the SERL were significant at the 0.01 level.
Furthermore, significance at the 0.05 and 0.01 levels occurred between pre- and post-completion for all 10 items on the GSS, and for eight items on the SERL.

While results may not be compared to a similar group who did not experience the Advantage Academy, such positive changes in the ratings over the 2-year time suggest that the study and discipline of the business degree program had a positive influence on the participants' self-efficacy beliefs and perceptions. Upon graduation, six have secured full-time employment and three have been accepted into 4-year BS programs.

In interviews conducted with some of the 36 participants in cohort 1 who exited the program, the four main problem themes of (1) personal issues, (2) social support, (3) program administration, and (4) academics arose; the latter concerned with difficulties completing course assignments and keeping up acceptable course grades. Efforts were made by institute staff and DHS to remedy the difficulties encountered during the cohort 1 program.

Cohort 2 began in the fall 2010 semester with 41 participants who had achieved higher AccuPlacer reading and arithmetic scores. After first-year completion of course work with stronger participant attendance and institute support services, 30 participants remained.

Sustainability of the partnership with DHS remains as the third cohort is being recruited for fall 2012 matriculation. Interviews have been conducted with 64 of 107 applicants and 30 of the 64 have met the eligibility criteria, an important one being a composite score of 150 on the AccuPlacer Diagnostic exams.

Little Sisters of the Assumption Family Health services (LSA) results and discussion. The institute initiated a procedure to assist Little Sisters of the Assumption Family Health Services (LSA) in evaluating the views of clients using its many services. LSA seeks to help the poor, the needy, and the most vulnerable of the East Harlem, New York, community with its largely immigrant and Spanish-speaking population, assisting to date 1,000 participating families in developing skills and confidence to become independent of social services.

The procedure involved the use of a 15-item questionnaire administered by five Ozanam Scholars to randomly selected clients. The scholars, supported by four Spanish-speaking translators, conducted their interviews with 27 clients over six consecutive Tuesdays. Interviews were transcribed, coded, and analyzed for patterns by institute staff.

The results indicated that over an 18-year period, the 27 clients used and attended 17 differing LSA programs, such as those dealing with early childhood development, adult education, nursing, public assistance access, and educational services to youth and parents. Due to participation in such services, 26 clients noted that they felt more confident, 25 believed they were emotionally supported, 20 engaged in more involvement with the community and with their children's schooling; and all noted they would recommend LSA services to a friend or relative.

The Advantage Academy Program was offered to homeless adults. It allowed them to earn an associate degree in business offered by the university.

A second study was initiated by a psychology professor of St. John's College. His goal was to assist LSA in evaluating the impact and the quality of services within its Home Based Nursery and Home Based Socialization programs. LSA provided data it had collected through use of the Ages and Stages Questionnaire (ASQ-3) (Squires and Bricker, 2009) and the Center for Epidemiologic Studies Depression Scale (CES-D) (Radloff, 1977). The ASQ-3 is designed to screen young children between the ages of 1 month to 5
1/2 years for developmental delays and the CES-D, developed by the National Institute of Mental Health, serves to detect major or clinical depression in adults.

By establishing a culture of collaboration and academic integrity... fellow institutions can establish a win-win scenario whereby everyone gets something while contributing to the common good.

While analysis of the ASQ-3 over four to five months administration periods revealed little change, with problem solving \( (p = 0.088) \) and communication \( (p = 0.080) \) approaching statistical significance, the CES-D revealed for at-risk primary care givers a significant reduction in depression symptoms from initial to final assessment \( (t = 3.87, p = 0.001) \). While LSA welcomed these findings associated with one of its agency programs in a positive way, collaborative efforts are continuing to ascertain the effects of its other major services and the degree to which combination of agency services and programs impact upon the clients’ well-being and life-improvement skills.

**St. John’s Bread and Life results and discussion.** Two research-based projects have been initiated at St. John’s Bread and Life (B&L), located in the Bedford-Stuyvesant area of Brooklyn, New York. Of the community’s population of 300,000, approximately one in three lives in poverty. Furthermore many B&L clients have difficulty providing food for their families and many experience chronic physical and mental health problems. The agency has instituted a digital choice food pantry (DCFP) system, which allows clients to use a swipe-card and touch-screen system to order three days of food once a month for their families.

Since the system also tracks the food choices clients make, B&L has added a “nutritional weighting” system. The healthier a food item selected, the fewer points deducted from a client’s account. For example, fresh fruits and seasonal vegetables have a point value of zero. Thus, the selection of more “healthy” food items results in more food for the family; likewise, less healthy choices results in greater points being deducted from the client’s account.

A professor in the Department of Sociology and Anthropology conducted a research project by developing a 10-question opinion survey of B&L’s client use of the DCFP. Ozanam Scholars acting as research assistants conducted face-to-face interviews with 50 clients after they made their food choices. Both strengths and weaknesses noted from the client’s responses were shared with B&L so that modifications could be made to the system.

A capstone project by Ozanam Scholars will continue under the professor’s mentorship as they investigate the relationship of poverty and malnutrition to food choices, and whether the DCFP system provides an effective way to learn about the health benefits of a nutritious diet.

A second research study using both quantitative and qualitative assessments is being initiated by two psychology professors to measure the psychological effects of the services provided by B&L. Using various questionnaires as well as focus groups and interviews to assess conditions such as self-esteem, self-efficacy, gratitude, and satisfaction, the researchers hypothesize that clients who use multiple services and have a sustained relationship with B&L will experience a positive sense of well-being and psychological growth.

**General Discussion and Practical Implications**

This article has presented ways in which an institute of higher education has engaged its collective members to be agents in advancing its Catholic and Vincentian mission. A strategic
approach was implemented as a dual way to offset the diminishing role of the Vincentian religious community to teach, mentor, and lead while advancing programs in the spirit of the Vincentian tradition to deal with issues of poverty and social injustice. All levels of the university community, from incoming freshmen to the board of trustees, become involved in Vincentian outreach to serve the poor, needy, and disenfranchised.

A key aspect of the St. John's strategy approach was the formation of the Vincentian Institute for Social Action. The institute, serving as a central management agency, mediated the efforts of students, faculty, administrators, and partners in a collaborative, constructive way to support the Vincentian mission.

Fellow institutions wishing to implement a similar culture of service and research might well consider the establishment of such an agency, provided that adequate financial and staff resources are available to advance the mission and vision of the institute.

A second aspect to consider is the formation of the organizational structure to carry out the day-to-day work of such an institute. The St. John's structure was organized around four major committees, which had membership composed of faculty and institute program managers as well as faculty members who worked across all or several of the committees.

For instance, the Faculty Research Consortium chair participated in the weekly institute administrative meetings chaired by the executive director, held his own monthly FRC meeting, and participated in the monthly meetings of the two faculty support groups providing oversight for the Ozanam Scholars and the Academic Service Learning programs. This shared involvement provided a great deal of transparency and positive direction among institute parts, as each contributed to the success of the whole.

By establishing a culture of collaboration and academic integrity within a mission-oriented framework, fellow institutions can establish a win-win scenario whereby everyone gets something while contributing to the common good. This culture was made evident by Catholic and Vincentian institutions discussed earlier in this article as they directed service efforts and resources to enhance community-based learning.

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Advancing the Vincentian Tradition through Strategic Service and Research

11 times on the university’s online newsletter and, with their faculty mentors, had one journal article published, with one article still in peer review.

Then there are those unforeseen benefits that occur in a young person’s life while engaging in service and community-based learning that others may wish to capture. A scholar, Ms. Charity Cast, preparing for her senior-year capstone research project, wrote:

What interests me about this program (the Advantage Academy), is its uniqueness in turning acts of charity into social justice. Instead of giving out aid in the form of money or tangible items, they are giving the opportunity for knowledge, which essentially is power for an underrepresented population. From working at the Academy (as a sophomore), I have personally seen the struggles of the students, as they must work for what has been given to them while balancing their own personal hardships of living in poverty. The lives and struggles of these students were such an inspiration, and continue to be as I continue my relationship with them through scholarly work.

Community partners gain program support and scientifically-based evidence to support their own unique social-oriented missions and to enhance their funding opportunities. This type of benefit to partners strengthens a criticism noted in the literature regarding the paucity of research and formal program evaluation of the agencies served (Schmidt and Robby, 2002). While the benefits of service learning for students and faculty are well documented, there appears to be less information reported of the impact of service for community partners (Ferrari and Worrall, 2000; Worrall, 2007).

Thus, it becomes important for institutions to interact in a highly positive way with community agencies, to view them as real partners and not solely as convenient service sites (Keith, 2005). The partner and the host institution need to jointly plan service and research efforts so that partnership building and sustaining relationships become an institutional focus (Ammon, Furco, Chi, and Middaugh, 2001; Kramer, 2000; Sather, Carlson and Weitz, 2007).

St. John’s, through its Vincentian Institute outreach, has achieved sustainable program and research projects that are highly beneficial to members of both the university and the partner agency. Research conducted with the New York City Department of Homeless Services, St. John’s Bread and Life, Little Sisters of the Assumption Family Health Services, the Doe Fund, GEAR UP, and PARTNERS provided each partner with documented evidence of the quality of the programs and services they provide.

Making extrinsic rewards available for students and faculty might be another procedure for fellow institutions to consider. For instance, students have the opportunity to compete annually for three monetary prizes in an Academic Service Learning sponsored reflective essay contest.

Faculty members from each of the six schools can earn an AS-L grant of $1,000 to begin a new community-based project or to move an ongoing project forward. Faculty can attend a full-day training course in AS-L methodology, which entitles them to receive a small monetary stipend, a framed certificate, and an additional $250 for implementing AS-L in a course. Furthermore, faculty are nominated by their peers to receive AS-L and Institute achievement awards for outstanding service and research at convocations and ceremonies.

Another important consideration pertains to the use of evaluation. Host institutions need to establish ways to investigate the impact of service and research with constituents of the
service communities. One way is to determine if attitudes and perceptions of those engaged in the project (students, faculty, and clients) become altered or enhanced due to the project intervention. Here, surveys, attitude scales, focus groups, personal narratives, and interviews may assist.

Qualitative research methods such as analyzing reflective comments for common themes on selective criteria, or using quantitative scales, would allow faculty and institutions to determine if service-learning projects were achieving their intended goals (Scepansky, 2004; VanSlyle, 2006).

Besides summative evaluations and reports, institutions need to implement formative assessments, particularly with community agency constituents, to determine if program methodology is meeting their needs. This was a particularly positive procedure when formative assessments occurred regarding course grade scores and course attendance for the Advantage Academy students followed by focus groups sessions.

Institute and CPS administrators learned that cohort 1 students were unhappy with a limitation of the cohort model at a Manhattan site in that they felt isolated and removed from the mainstream university culture. Moving forward with cohorts 2 and 3, an adjustment was made to include Advantage Academy students in classes with the general population of undergraduates at the Queens main campus. While transportation became a greater issue for these students, attendance and fidelity to the program has improved.

**Conclusion**

St. John’s has successfully addressed the challenge of strengthening its Vincentian tradition. It implemented a Pope’s call to service and a challenge by the Middle States Association to develop a strategic plan that imbedded the Vincentian mission into the academic life of the university in a meaningful and measurable way.

A unique aspect of the plan was the formation of the scholarship-based Ozanam Scholar program, which fused undergraduates with faculty to accomplish outcomes-based research and hours of dedicated service to benefit community partners serving the needy. With such a positive climate, many partners were made to feel that they were part of the university community.

Challenges in program implementation remain. For instance, the institute needs to investigate ways in which the AS-L component can provide more "real life" experiences for students as they connect course content with agency programs. The university also needs to weigh the recognition of service when faculty personnel actions take place. A final challenge remains with achieving sustainability of mission focus with practice, aligning institute components of committees, faculty, and students to benefit the global community.

“What interests me about…the Advantage Academy is its uniqueness in turning acts of charity into social justice. Instead of giving out aid in the form of money or tangible items, they are giving the opportunity for knowledge, which essentially is power for an underrepresented population.”

Charity Cast, an Ozanam scholar
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**Appendix**


St. John’s Bread and Life http://www.breadandlife.org/

Little Sisters of the Assumption Family Health Services (LSA) http://www.littlesistersfamily.org/

The Doe Fund http://www.doe.org/

Grameen America http://www.grameenamerica.com/

Gear Up http://www.hesc.com/content.nsf/NYGEARUP/NYGEAR UP

Homes for the Homeless www.hfhnyc.org

Jump Start http://www.hfhnyc.org/

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