Review of Business

Volume 27, Number 1
Winter 2006

The Banking Industry – Ethics and Recent Trends: An Interview with William A. McKenna, Jr., Ridgewood Savings Bank Chairman Emeritus

Demutualization in the Life Insurance Industry: A Study of Effectiveness

Strategic Collaboration: Developing a More Effective Mentoring Model

Enhancing Service Quality in a Hospital Setting

How Sales Executives Can Avoid Accounting Fraud Allegations
Review of Business

The Peter J. Tobin College of Business

Richard A. Highfield
Dean
Charles M. Clark
Associate Dean

Review of Business

Larry W. Boone
Editor
Maxine Brady
Contributing Editor
Gloria Brana
Secretary

Board of Advisors

Nina Aversano
Aversano Consulting, LLC
Richard Carbone
Prudential Financial
Robert J. Chrenc
A.C. Nielsen, Retired
Jill M. Considine
The Depository Trust
Company
Joseph F. D’Angelo
Hearst Corporation
John Donachie
Fleet Specialists, Inc.
James F. Dowd
Fairfax, Inc.
Jack Foley
Aer Lingus
Frank Fusaro
Forum Personnel, Inc.
Joseph Garcia
Spanish Broadcasting
System
Ken Gorman
Apollo Partners, LLC
Robert Kalenka
Automatic Data
Processing, Inc.
Jerome Karter
SCOR U.S. Corporation
William K. Lavin
Consultant
George Maggiore
Keypass
Charles P. Menges, Jr.
Bernstein Investment Research
and Management
Richard E. Meyer
Global Excess Partners, LLC
Kathryn Morrissey
AT&T
William L. Munson
The Toa Reinsurance
Company of America
Joseph O’Connor
Gartmore Separate
Accounts, LLC
Thea Graves Pellman
Professional Design Systems
John F. Robinson
National Minority Business
Council, Inc.
Lawrence J. Ruisi
Loews Cineplex
Entertainment
Joseph M. Saggese
Borden, Inc., Retired
Joseph Scharfenberger
JPMorgan Chase & Co
Ronald T. Schroeder
J. & W. Seligman & Co., Inc.
Edward Smith
KPMG
Peter J. Tobin
The Peter J. Tobin
College of Business
St. John’s University
John P. Tutunjian
Gourmet Events, Inc.

Charles Walsh
Chase Manhattan Bank,
Retired

Review of Business is published three times per year and distributed to alumni and friends of The Peter J. Tobin College of Business. Articles published are refereed by members of the Editorial Review Board. The views presented in the articles are those of the authors and do not represent an official statement of policy by St. John’s University.

©2006, St. John’s University. Reproduction of material without the express permission of the publisher is prohibited.

ISSN: 0034-6454
# Table of Contents

**Winter 2006**  
**Volume 27, Number 1**

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>From the Editor</td>
<td>2</td>
</tr>
<tr>
<td>The Banking Industry – Ethics and Recent Trends:</td>
<td>3</td>
</tr>
<tr>
<td>An Interview with William A. McKenna, Jr., Ridgewood Savings Bank Chairman Emeritus</td>
<td>3</td>
</tr>
<tr>
<td>interviewed by Therese E. Pactwa</td>
<td></td>
</tr>
<tr>
<td>Demutualization in the Life Insurance Industry: A Study of Effectiveness</td>
<td>10</td>
</tr>
<tr>
<td>Joseph W. Meador and Lal C. Chugh</td>
<td></td>
</tr>
<tr>
<td>Strategic Collaboration: Developing a More Effective Mentoring Model</td>
<td>18</td>
</tr>
<tr>
<td>Mara H. Wasburn and Alexander W. Crispo</td>
<td></td>
</tr>
<tr>
<td>Enhancing Service Quality in a Hospital Setting</td>
<td>26</td>
</tr>
<tr>
<td>Victoria Bellou and John Thanopoulos</td>
<td></td>
</tr>
<tr>
<td>How Sales Executives Can Avoid Accounting Fraud Allegations</td>
<td>33</td>
</tr>
<tr>
<td>Mark S. Beasley and Dana R. Hermanson</td>
<td></td>
</tr>
</tbody>
</table>
from the editor

Our issue begins with an interview featuring William A. McKenna, Jr. Bill retired as Chairman and CEO of Ridgewood Savings Bank in 2003, after serving as CEO for 13 years and in various other executive positions with the bank since 1984. He continues to serve as Chairman Emeritus and Trustee. Ridgewood is chartered as a mutual savings institution.

Interviewed by Therese E. Pactwa, Bill McKenna discusses his views on topics such as the importance of corporate values, culture and ethics in the banking industry; setting the “tone at the top”; risk tolerance policies; stock versus mutual forms of ownership; bank governance issues; non-conventional mortgages; predatory lending; and community service.

Next, Joseph W. Meador and Lal C. Chugh investigate the effectiveness of demutualization as a strategic response to the recent sweeping changes in the regulatory and competitive environment of the life insurance industry. As a result of their study, the authors conclude that, generally, demutualized firms have implemented successful strategies associated with higher growth, greater profitability, cost effectiveness and shifts in product mix. Also, they find that management takes greater risk in the investment portfolio.

The Banking Industry – Ethics and Recent Trends

An Interview with William A. McKenna, Jr., Ridgewood Savings Bank Chairman Emeritus

Interviewed by Therese E. Pactwa, The Peter J. Tobin College of Business, St. John’s University

In addition to his membership on Ridgewood’s Board of Trustees, Mr. McKenna currently serves as a director on the boards of St. Vincent’s Services, Boys Hope Girls Hope of NY, Calvary Hospital Fund, The Irish Educational Development Foundation, Inc., Asset Management Fund, Inc., Asset Management Fund Large Cap Equity Institutional Fund, Inc., Retirement System Group, Inc., RS Trust Co., and the American Institute of Certified Public Accountants. He is also a trustee of The Catholic University of America, St. Aloysius School in Harlem, and the New York City Leadership Council for Habitat for Humanity.

Mr. McKenna is a member of The University Club of New York, The Municipal Club of Brooklyn, the Harvard Business School Club of Greater New York, the Friendly Sons of St. Patrick in the City of New York, The Cathedral Club of Brooklyn, and The Wilbyx Golf Club in Kingston, NY.

Q: What are the corporate values and culture your bank wants to promote?

A: At Ridgewood Savings, we see ourselves as a financial intermediary for consumers. Our principal corporate values include integrity, loyalty, honesty, and fairness. We focus on responsiveness to the needs of the customer, and promote a standard of equality in all that we do. We concentrate on both service and sales, as these are not mutually exclusive. We do not have an aggressive sales culture, in the sense that this month we are promoting travelers’ checks, next month life insurance, irrespective of the best interests of the customer.

Our focus on service and sales is, we believe, a key word to promoting the image of ethical business practices and an ethical corporate culture, which is highly valued today by our customers and the banking community.

In a study that took place in Greek public hospitals, Victoria Bellou and John Thanopoulos examine the variables of organizational identification and organizational-based self-esteem and their effect on organizational citizenship behavior. Their study involved doctors and nurses, concluding that hospital administrators are likely to increase organizational citizenship behaviors toward the hospital by working to increase both organizational identification and organizational-based self-esteem among the medical staff. Some practical strategies for accomplishing these changes are discussed.

Finally, this winter issue concludes by making the point that accounting fraud is not a concern limited to CEOs and financial executives. Mark S. Beasley and Dana R. Herrman discuss recent cases in which the Securities and Exchange Commission charged Sales Vice Presidents for their roles in accounting fraud. The authors offer suggestions to help sales executives steer clear of accounting fraud allegations.

The Ridgewood Savings Bank, headquartered in Ridgewood, NY, was established in 1921. The bank, which is chartered as a mutual savings institution, maintains a total of twenty New York branches: nine in Queens, four in Brooklyn, five in Nassau County, and two in Suffolk County. Additionally, in 2005, the bank initiated a mobile branch which presently serves a number of locations in its service area. The bank has more than $3.3 billion in assets, and serves more than 200,000 depositors. As a mutual institution, the bank has no stockholders; rather, it is owned by its depositors.

Mara H. Wasburn and Alexander W. Cristo offer their Strategic Collaboration model as an innovative support system that helps retain the career-enhancing benefits of mentoring while avoiding the inherent problems so often associated with formal, facilitated mentoring programs. Their approach involves applying Appreciative Inquiry, an intervention that uses positive dialogue to build organizational success, to the mentoring process.

In a study that took place in Greek public hospitals, Victoria Bellou and John Thanopoulos examine the variables of organizational identification and organizational-based self-esteem and their effect on organizational citizenship behavior. Their study involved doctors and nurses, concluding that hospital administrators are likely to increase organizational citizenship behaviors toward the hospital by working to increase both organizational identification and organizational-based self-esteem among the medical staff. Some practical strategies for accomplishing these changes are discussed.

Finally, this winter issue concludes by making the point that accounting fraud is not a concern limited to CEOs and financial executives. Mark S. Beasley and Dana R. Herrman discuss recent cases in which the Securities and Exchange Commission charged Sales Vice Presidents for their roles in accounting fraud. The authors offer suggestions to help sales executives steer clear of accounting fraud allegations.

Q: What are the corporate values and culture your bank wants to promote?

A: At Ridgewood Savings, we see ourselves as a financial intermediary for consumers. Our principal corporate values include integrity, loyalty, honesty, and fairness. We focus on responsiveness to the needs of the customer, and promote a standard of equality in all that we do. We concentrate on both service and sales, as these are not mutually exclusive. We do not have an aggressive sales culture, in the sense that this month we are promoting travelers’ checks, next month life insurance, irrespective of the best interests of the customer.

In a study that took place in Greek public hospitals, Victoria Bellou and John Thanopoulos examine the variables of organizational identification and organizational-based self-esteem and their effect on organizational citizenship behavior. Their study involved doctors and nurses, concluding that hospital administrators are likely to increase organizational citizenship behaviors toward the hospital by working to increase both organizational identification and organizational-based self-esteem among the medical staff. Some practical strategies for accomplishing these changes are discussed.

Finally, this winter issue concludes by making the point that accounting fraud is not a concern limited to CEOs and financial executives. Mark S. Beasley and Dana R. Herrman discuss recent cases in which the Securities and Exchange Commission charged Sales Vice Presidents for their roles in accounting fraud. The authors offer suggestions to help sales executives steer clear of accounting fraud allegations.
Rather, at every customer interface, we look at what the customer truly wants and needs, and try to accommodate those needs by directing him or her to the most appropriate product or service. For example, we do not sell an annuity or a ten-year certificate deposit to a 90-year-old. We adapt to the different needs of our customers.

Q: Do you provide incentives that recognize and reward those that follow your directives?

A: We believe that we are "owned" by three constituencies: our employees, our customers, and our community. These are not ranked in any particular order. We believe that each is equally important. We try to reward each of these components. First of all, we know the value of our employees, and we try to recognize that value in their compensation and in other benefits.

We place a high emphasis on community outreach to people and organizations that are working to enhance the quality of life in the community.

For our management personnel, we employ a “balanced scorecard” approach. For each officer, we create a scorecard that is strictly voluntary. Another activity is the involvement in soup kitchens and homeless shelters in Brooklyn, Queens, and Long Island. Our employees actively involved in a personal level in this volunteer work over the course of the year.

Q: How do you, as a leader, set the "tone at the top"?

A: Now, keep in mind that I am “retired”. However, I continue to be involved. I currently sit on sixteen boards, including nine non-profits, such as Calvary Hospital, Catholic University of America, Boys Hope Girls Hope, St. Vincent’s Services, and Hofstra University’s School of Business, to name a few. At Ridgewood, virtually every member of our senior management is involved in one or more outside community-related organizations. My successor, Bill McGarry, who is doing a great job managing the bank, is involved in Angel Guardian and in St. John’s University’s Executive-in-Residence program. He also sits on the board at St. Joseph’s College. He is moving on into all kinds of worthwhile causes and involvements, in addition to external business and industry-related activities.

We reward our customers by paying them back, in this manner, for their loyalty and their support.

As a relatively old, eighty-five years plus institution, we recognize that the support of people from the community over time has inured to our benefit. Thus, we try to do things not just for our customers, but for the community at large. As an institution, we have provided financial support to various organizations; in addition, our employees have donated their own personal time. For example, for the past ten to twelve years, we have fielded an on-going volunteer group participating in Habitat for Humanity projects. The employees are not drafted for these projects; rather, it is strictly voluntary. Another activity is the involvement in soup kitchens and homeless shelters in Brooklyn, Queens, and Long Island. Our employees get actively involved on a personal level in this volunteer work over the course of the year.

Q: Do you feel it is important to have a written Code of Ethics and written policies that reflect risk tolerances of the organization?

A: Yes, it is absolutely essential to have written policies in this regard. You need a touchstone. More importantly, once you put it in place, you have got to live it. Our Code of Ethics gets revisited, and updated if necessary, every year by the Board. We make sure it is current with the changing landscape. During their indoctrination, all new employees are exposed to the Code. Periodically, if it gets revised, the Code is then redistributed to all personnel.

We also have very detailed, written risk tolerance policies. These are separated by risk category, such as interest rate, market, reputational, liquidity, etc. We examine these categories separately, and then we evaluate ourselves in the overall risk to the organization. On the credit side, our credit manual looks like a telephone book. We detail information regarding our policies on loan size, loan type, loan-to-value, documentation, etc. For our home loans, we have fixed guidelines and we live within those guidelines. We also specify the lines of credit authority from the Chief Executive Officer, on down to everyone who has the authority to sign off on a loan. Different sizes and types of loans require certain levels of different signatures.

Q: What do you believe are the advantages and disadvantages of a stock versus a mutual form of ownership of a bank?

A: As a mutual bank, Ridgewood has a very simple business model. On one side is the consumer-depositor, and on the other side is the consumer-borrower. The bank is the middleman collecting a modest compensation, which we call a “mutual dividend,” or the benefit our organizational structure provides to our customers by paying back others, in this manner, for their loyalty and their support.

Adopted classrooms in a number of local grammar schools in several of our market areas. Our employees performed certain activities related to those classrooms. For example, several employees recently redecorated a classroom, completely on their own time. In terms of the employees’ overall evaluation at the end of the year, those people demonstrating the resourcefulness in first coming up with the idea, and second following through on the idea, the effect would be additive in the sense of how they are evaluated.

Q: Do you feel it is important to have a written Code of Ethics and written policies that reflect risk tolerances of the organization?

A: Yes, it is absolutely essential to have written policies in this regard. You need a touchstone. More importantly, once you put it in place, you have got to live it. Our Code of Ethics gets revisited, and updated if necessary, every year by the Board. We make sure it is current with the changing landscape. During their indoctrination, all new employees are exposed to the Code. Periodically, if it gets revised, the Code is then redistributed to all personnel.
to maintain adequate reserves relative to the riskiness of our loans and investment securities. Again, most of our loans are first mortgages on residential property. We do have a modest, but growing, amount of commercial real estate loans (the majority of which are multi-family properties), and we can invest in corporate securities.

As a mutual, Ridgewood was not established as a profit-making entity. We still do not see ourselves as primarily a profit-making entity. Our role is to provide financial services to both sides of the equation. In the course of that, we seek to generate sufficient income to support the operation and our expenses, and the appropriate level of capital. In contrast, the shareholders are a public company’s primary responsibility. The goal of a stock corporation is to maximize share price. Based on this principle, shareholders will never have enough.

Consequently, if you look at rates of interest and fees on both sides of the equation for depositors and borrowers, you will find that, in the main, public companies are not as generous in any of those categories. They cannot be, because their shareholders would not permit it. That is the luxury of mutuality. As a mutual, we are able to put more emphasis on all three of our constituents: our employees, our customers, and our community.

Q: How should a mutual bank address its corporate governance issues?

A: At Ridgewood, we essentially observe the governance requirements of public companies. We have all of the appropriate committees. However, instead of a Board of Directors, we have a Board of Trustees. These trustees are analogous to directors, except that they have a higher level of responsibility. A director is legally responsible only to the shareholders. The legal nature of the term trustee roots back to somebody who is given responsibility to provide for someone incapable of taking care of their own affairs. So, a trustee is appointed. The banking nature of the term goes back to how and why our organizations were started. We were formed by citizens of the community who created these institutions for the benefit of the community. These citizens were not necessarily sophisticated business people, so the higher responsibility of trusteeship was conferred onto them by the lawmakers. Trusteeship is looking out for the best interests of the customer, whereas the director of a shareholder institution does not have that same level of responsibility.

At Ridgewood, all of our trustees have different areas of expertise. They are all nominated and elected by the Board. New York State law limits the number of management-trustees. Outsiders must be in the majority. For a bank of our size, the minimum number on the Board is seven and insiders are limited to two seats. We presently have nine on our Board, with one insider, who is our CEO. We have had as many as 14 or 15. However, I feel that once you get beyond 10 or 11 members, it gets unwieldy. My personal preference is for a smaller board, but a board that is fully representative of all of the expertise that you need and that is representative of the community.

In addition, just like publicly-traded companies, we have an Audit Committee, as well as Compensation, Personnel, Executive, Insurance, Real Estate and Investment Committees. These committees act as watchdogs for their respective areas. From place to place, you might find other committees. For example, in as much as we are interested in expanding the franchise, so we have a New Branch and Property Committee.

Q: There has been quite a bit of recent criticism of banks’ Boards of Directors by shareholder activists. For example, in October 2005, Relational Investors (a money management firm) targeted Philadelphia-based, Sovereign Bancorp. Relational is apparently seeking two board seats. Among other things, they criticized Sovereign over the Board of Directors’ pay and preferential loans made to the Board of Directors. How do you feel about this action? What do you feel is the most effective way to compose a community bank’s Board of Directors?

A: First of all, according to New York State law, a trustee may not be indebted to an institution that he or she serves. A mutual bank can make loans to its officers; however, these transactions have to be specifically identified to the Board, and it is so recorded in the minutes. I believe that all banks should follow this policy. It would eliminate a lot of shareholder criticism. Preferential loans are dead wrong.

We have been successful with our Board by choosing trustees that are representative of the expertise we require and the community we serve. These needs change, and thus, we are constantly reviewing our needs and examining our Board. This helps keep the Board dynamic and the level of necessary expertise at its highest.

Q: Do you feel that the secret to success for a community bank is through expansion? Or through an emphasis on personal service?

A: Personal service should be the number one priority. That is our strong point at Ridgewood. Expansion is also necessary; however, it should be appropriate to the needs of the market. The entire banking industry is dropping the ball on customer service. For publicly traded institutions, you have to be more attentive to results, so there is the added pressure of reducing expenses. The name of the game is to reduce expenses to the least common denominator. If you read about any merger or takeover transaction, invariably, the benefit that is announced is the opportunity to reduce costs. Well, if you reduce a cost to the point where it impinges on the quality of service, then it becomes very obvious to the customer. We do not have that problem. Clearly, we are attentive to costs, and we want to operate in the most efficient manner, but we do not want to intrude upon the quality of service that we provide. That is the luxury that we have as a matter of corporate form.

It is also one of the reasons why it is important to maintain a capital level that will accommodate your financial requirements through good times and bad times. If you have a limited capital base, and you move into periods like we have right now, where the margins are under pressure due to low interest rates, and if you are a stock-owned company, you have got to do some drastic things in terms of improving your bottom line. So you cut expenses to the bone, and you have to do it quick. As a mutual, you have the luxury of riding bad times out without interfering unreasonably with the quality of service and the reduction of costs. You are always obligated to try to run as efficiently as you can, consistent with providing quality service. That is the name of the game. At Ridgewood, we try to maintain an adequate capital base, so that we do not have to cut expenses as drastically in response to changes in the business cycle.

Q: What do you believe are the most effective approaches toward risk management for community banks? Should they be enterprise-wide, or separated by lines of business? How can internal and external audit functions be made robust and independent? Do you have any ideas on how information systems can be made comprehensive and designed as early warning systems?

A: All banks should have a written risk management policy. In addition, they should have an officer that is dedicated to risk management. The bank should first look at the risks separated by lines of business, and then it should look at the overall, enterprise-wide risk. This should be an ongoing, dynamic process. For example, each year, our Board evaluates fully our investment and lending policies in their entirety. Any policy changes that are appropriate are put in place and are approved. Of course, during the course of the year, if, and as, it becomes appropriate to add to, or subtract from, or modify in any way invariably that goes to the Board. The Board itself meets once per month, as does the Executive Committee. The other committees meet less frequently than monthly, but at least once per year. Every loan request is submitted to the Board in advance (via a written report). The Board can then raise questions before approval. We believe that this high degree of monitoring of lending activity helps keep our risk at an acceptable level.

We have a very strong audit department. Our internal auditor is a Senior Vice President, who reports directly to the Audit Committee. In recent years, as the importance of the audit function has been recognized, the level of that function has increased. The department has free reign to audit any- and everything. The auditor has the full cooperation and enthusiastic support of management. Each year, the audit department develops an evaluation of potential risk on how they view the operation of the bank. Their audit program is then conditioned on that. That report is shared with, and
approved by the Audit Committee. Basically, they look at the implementation of policy. They look at all of the loans and investments to ensure that they were done in accordance with the approved policies, such as the ratios were right and observed, the limitations were observed, the signatories were observed, that all of the conditions in our policies and procedures were fully adhered to. It is a very active department. The risks of the business have changed. In the old days, a big risk was counting tellers' cash. When you are a multi-billion dollar bank and you have the level of cash that is in a teller's drawer today, based on loss percentages, this is not really an extraordinary risk anymore. Management has to pay attention. They have to adopt the proper management controls. For example, they have to acknowledge suspicious activity and write up the appropriate report, whether it is monitoring inappropriate cash activity for the Bank Secrecy Act, or paying attention to the excessive bouncing of checks. Awareness and communication are the keys. Management is required to file the appropriate reports with the appropriate external agencies, and the audit department should have an overview of that process to ensure that the proper procedure is followed. All management controls should be audited by the audit department.

Q: How do you feel about the recent trend in non-conventional mortgages (i.e., interest only for the first few years, or higher loan to values based on inflated valuations)? What will happen when interest rates increase, or when real estate values decline? Will the community banks of metropolitan New York be affected? How about the banking industry, in general?

A: Non-conventional mortgages, such as low (or no) equity, are ticking time bombs. What commits a person to property is equity. If the equity is removed, the obligation and the incentive to repay the loan are gone. I am concerned about the housing market. It appears that housing prices have peaked and are now receding. I currently see “For Sale” signs sitting on properties for extended periods. These are in areas that, in the past, have been considered to be “hot” areas, such as in Long Island or New Jersey. Another whammy is that property taxes are going up and are squeezing the homeowner. I believe that any bank that has generally offered these types of non-conventional mortgages, except in unusual circumstances, is asking for trouble and can expect problems with their loans if any of those scenarios mentioned above happen. Another factor adding to excessive risk-taking by banks is the existence of securitization. Government agencies, such as Fannie Mae and Freddie Mac, are ready buyers for loans. Banks take on more risk, knowing that they can lay off some of the risk to the agencies.

Q: How do you think the Office of the Comptroller of the Currency can address its community development concerns about reducing foreclosures? Any ideas for their so-called “multi-dimensional mortgage delinquency intervention programs”?

A: I feel that the OCC should encourage banks to limit foreclosures. They are a tragedy and are traumatic for all involved. The banking community has a very heavy responsibility to the community. A bank should not make loans to people who cannot afford those loans. A banker should always bear in mind his or her obligation to the borrower. Our job, based on our education and experience, is to make sure the borrower does not take on excessive risk. We know more about what people can afford to carry than they do. At Ridgewood, we are very fortunate in that we have had virtually no foreclosures. We are very conservative in our percentage of loan-to-income, and we make, what we feel are, good loans from both the standpoint of our bank and our borrowers. I personally come from a background in which I was taught to “only buy what you can afford to buy.” We use those same principles when dealing with our customers at Ridgewood. We have an obligation to make sure the depositors’ money is not put at risk by making bad loans.

Q: What future trends and/or issues will have the greatest impact on community banking in New York State?

A: I see several distinct trends in community banking. One interesting phenomenon is the credit union industry. They are behaving like the mutual savings institutions of old. They have unfair advantages: they are not taxed, and they have no reserve or Community Reinvestment Act requirements. If they want to behave like banks, they should be treated like banks. They should have to pay taxes and follow the same regulations.

Another trend involves de novo banking, emphasizing personal service. I expect to see many more community start-ups, especially on the commercial bank side. There is a distinct need, and there is a profit potential. Many big banks are closing their bricks and mortar branches. For example, 20 years ago, there were four or five major banks domiciled in Westfield, New Jersey. Over time, this number dropped to two branches of larger institutions. Recognizing an opportunity, a friend of mine recently started a new bank in the town, and has done very well.

Finally, I feel that the corporate form of mutuality will continue to diminish. The move towards conversion to stock institutions will continue, and I think it is unlikely that new charters will choose the mutual form of ownership.

A: Yes, there is no question that there is a nationwide problem with predatory lending. All states should enact similar legislation to protect borrowers. This relates back to the nature of the custodial relationship in banking. The lender has a responsibility to make sure the borrower is capable.

A: At Ridgewood, we hold free homebuyer clinics in our branches. Anyone is welcome, not just our customers. We typically provide presentations by an appraiser, a broker, and a lawyer. We work hard to get people educated. Our objective is to elevate consumer awareness and education. We feel that this is one more way to reach out and serve. We also have a number of staff who are multi-lingual.

Q: Do you feel that big banks or small banks are more active in community service? Do you feel that banks have a responsibility to act in this capacity? Could you provide me with some examples as to how you feel a bank could take a more active service role?

A: These days, all banks are more active in community service. Many banks simply write checks. Small banks bring a personal touch. At Ridgewood, there is a span of control. Large banks simply do not have the same encouragement and support.

Q: Do you feel that there is a nationwide problem with predatory lending? Following North Carolina’s lead, should all states enact legislation to curb predatory mortgage lending? How can a bank deal with their borrowers’ not speaking English?

A: Yes, there is no question that there is a nationwide problem with predatory lending. All states should enact similar legislation to protect borrowers. This relates back to the nature of the custodial relationship in banking. The lender has a responsibility to make sure the borrower is capable.

A: At Ridgewood, we hold free homebuyer clinics in our branches. Anyone is welcome, not just our customers. We typically provide presentations by an appraiser, a broker, and a lawyer. We work hard to get people educated. Our objective is to elevate consumer awareness and education. We feel that this is one more way to reach out and serve. We also have a number of staff who are multi-lingual.

A: At Ridgewood, we hold free homebuyer clinics in our branches. Anyone is welcome, not just our customers. We typically provide presentations by an appraiser, a broker, and a lawyer. We work hard to get people educated. Our objective is to elevate consumer awareness and education. We feel that this is one more way to reach out and serve. We also have a number of staff who are multi-lingual.

A: Yes, there is no question that there is a nationwide problem with predatory lending. All states should enact similar legislation to protect borrowers. This relates back to the nature of the custodial relationship in banking. The lender has a responsibility to make sure the borrower is capable.
Demutualization in the Life Insurance Industry: A Study of Effectiveness

Joseph W. Meador, Northeastern University
Lal C. Chugh, University of Massachusetts Boston

Abstract

Demutualization is a lengthy, complex and expensive process. A company which proposes to undertake demutualization must adhere to the laws in its state of domicile. The plan of demutualization requires prior approval of the policyholders and the state regulators. Since mutual life insurers accumulate surplus over a long period of time, an actuarial determination must be made regarding the distribution of surplus to past and existing policyholders. In addition, the company must determine the amount of “stocked assets” necessary to fulfill the future dividend interests and promised benefits of the existing mutual policyholders.

Introduction

The pace of demutualization among major U.S. life insurance companies has increased sharply since the mid-1990s. Five of the 15 largest U.S. life insurers demutualized between 1997 and 2001, and the largest, Metropolitan, demutualized in 2000. Ten other major life insurance companies, with total assets in 2003 of $175 billion, demutualized over the same time period.

Demutualization is the process of converting a mutual life insurance company which is owned by its policyholders into a publicly traded stock company owned by shareholders, pursuant to a plan of conversion approved by policyholders and state regulators. Mutual life policyholders may receive only subscription rights in the event of insolvency and dissolution. The company’s assets in the event of insolvency and dissolution. As members of a mutual, the policyholders receive insurance at the lowest possible cost, without the necessity of sharing profits with stockholders. In the stock form of organization, the stockholders possess the right to vote for the Board of Directors, share in the profits, and own the assets of the company.

The reasons for demutualization are the marked changes in the regulatory and competitive environment in the life insurance industry in the recent past. These changes include:

1. the fact that consumers have shown declining interest in the traditional life insurance products of risk bearing and transference, while the wealth management/annuity markets have offered new growth opportunities;
2. deregulation of the financial services industry, culminating in passage of the federal Gramm-Leach-Bliley Act in 1999, which demolished the traditional barriers between commercial banking, insurance, and investment banking;
3. changes in the Internal Revenue Code that eliminated the tax advantages of a mutual insurer; and finally,
4. increasing interest shown by foreign life insurance companies in the U.S. market.

The purpose of this paper is to investigate the effectiveness of demutualization in the life insurance industry as a strategic response to changes in the financial services market. The study also tests whether life insurers have generated economic value following the process of demutualization.

Mutual or Stock

In a mutual life insurance company, the policyholders own the company. They are simultaneously both insureds and shareholders. As a consequence, management may tend to be more adaptive to changing competitive pressures in the traditional life insurance market, makes traditional life insurance, as the main line of business, obsolete. The firms can meet these new challenges by implementing a new strategy based on efficiency, adaptability, growth, and the development and expansion of new product lines. The stock form of organization enables this process, since management can take a more entrepreneurial role entailing higher operating, financial and market risks. In this form of organization, managers can be evaluated on market-based performance criteria and awarded market determined incentive compensation such as stocks and options. This is in complete contrast to management’s expense preference behavior in mutuals.

The Process of Demutualization

Demutualization is a lengthy, complex and expensive process. A company which proposes to undertake demutualization must adhere to the laws in its state of domicile. The plan of demutualization requires prior approval of the policyholders and the state regulators. Since mutual life insurers accumulate surplus over a long period of time, an actuarial determination must be made regarding the distribution of surplus to past and existing policyholders. In addition, the company must determine the amount of “stocked assets” necessary to fulfill the future dividend interests and promised benefits of the existing mutual policyholders.

Life Insurance
Demutualization is the process of converting a mutual life insurance company which is owned by its policyholders into a publicly traded stock company owned by shareholders...

There are two categories of demutualization: partial and full demutualization. Partial demutualization, commonly called the Iowa method, is accomplished by the formation of a mutual holding company (MHC) which owns at least 50.1% of a newly formed subsidiary stock insurance company. In the MHC method, policyholders' interests are automatically converted into membership interests in the MHC, while the policy contracts are transferred to the stock subsidiary. Policyholders do not receive any distribution of accumulated surplus. Policyholders, regulators and investors generally have not been satisfied with this method of conversion, since policyholders lose control of the operating subsidiary without any compensation; and, in addition, management is not fully accountable to investors and the capital markets.

A full demutualization can be accomplished in one of two ways - the subscription method, commonly called the Illinois/Pennsylvania method, or the New York method whereby surplus is fully transferred to policyholders. In the Illinois/Pennsylvania method, non-transferable subscription rights are given to the policyholders. These rights allow the policyholders to buy shares in the new stock company with cash. Policyholders do not get any compensation in either cash or stock. These rights are perdurable and have no market value. Advantages to this method are that it does not deplete surplus and can be used for raising cash or stock. These rights are perishable and have no market value. Advantage to this method is that it does not deplete surplus and can be used for raising cash or stock. These rights are perishable and have no market value.

Previous Research

Several articles have examined the comparative performance associated with different types of governance structures in the life insurance industry. It is well established in the literature that stock life insurance companies have been more effective than mutuals in minimizing costs [2, 6, 12]. Demutualized life insurance firms have also been shown to demonstrate greater efficiency in their operations [9]. In addition, the stock form of organization is correlated with a higher degree of financial risk and profitability [1]. Other studies [4, 5, 13] have identified the salient operating and financial characteristics of firms likely to demutualize. However, these studies generally involve dated sample periods and do not distinguish between full and partial demutualizations. Some of the previous studies use a sample of both life and non-life companies together. Prior studies have not included measures of strategic and behavioral changes, such as choices regarding product focus, and have not attempted to calculate economic value created following demutualization.

The contributions of this paper are: (1) to compare the pre- and post-demutualization performance using a sample restricted to life insurance companies which used the full, New York method of demutualization. The study examines firms that have recently (since 1997) demutualized, (2) to assess post-demutualization behavioral and strategic changes of management, and (3) to compare the stock returns of these life insurance firms to the returns of several market indexes in order to determine the economic value created following demutualization.

This study analyzes the operating and market value performance of life insurers that have gone through full demutualization using the New York method. Reasons for choosing this population for study are several. First, under the New York method, accumulated surplus is fully transferred to the existing policyholders through the creation of new, marketable securities. Second, because of the absence of complete transfer of wealth, other methods of demutualization are controversial and litigious, and, as such, are viewed as having had unsatisfactory experience. Finally, in these other methods, management is not fully accountable to shareholders and the financial markets.

Strategic and Behavioral Measures

This study identifies 11 major life insurance companies that demutualized between 1997 and 2001. These firms generate about $104 billion in annual revenues, which represents the equivalent of 20% of the U.S. life insurance market. The names of these companies and their corresponding year of conversion are described in Exhibit 1.

EXHIBIT 1. DEMUTUALIZED COMPANIES AND YEAR OF DEMUTUALIZATION

The study hypothesizes that demutualizing life insurance companies will implement a new strategy which contrasts sharply with the old mutual strategy of limited growth, emphasis on insurance products, risk aversion and the traditional expense preference behavior of management. Instead, the new strategy should embody higher profitability and efficiency, shifts towards new product lines, higher growth, and greater risk taking in asset management and capital structure. The new strategy can be characterized by the following five sets of quantifiable measures:

1. Profitability and Cost Efficiency Measures

Four variables describe the changes in profitability and cost efficiency:

- Net Operating Gain to Total Revenue: NOG/NPD
- Net Operating Gain to Total Assets: NOG/TA
- Return on Equity: R OE
- Revenue to Total Assets: NDP/TA

The first variable represents the net profit margin as a percent of an insurer's revenue. Revenue, denoted by Net Premiums Written and Deposits (NPD) includes (a) insurance premiums, and (b) income from wealth and pension fund management. Similarly, Net Operating Gain (NOG) includes net income from both insurance operations, and wealth and pension fund management. The second variable (NOG/TA) is the return on assets (ROA). The third variable, R OE, is net income as a percent of equity. The fourth variable (NP D/TA) describes the efficiency of asset utilization. A successful implementation of the new strategy will show an increase in each of these variables in the post-demutualization period.

2. Growth Measure

The year over year change in premiums written and deposits received (NPD) describes the growth in the firm's revenues. It is expected that the growth rate will increase as demutualization allows the firms to increase their capital base and hence the capacity to expand.

3. Product Portfolio Measures

The companies are expected to shift their product focus after demutualization to newer and faster growing financial services products. The traditional lines of individual life insurance (including accident and health) have stagnated, and become more competitive and less profitable. It is expected that management will shift its emphasis from individual insurance lines to (1) commercial insurance lines such as group life and accident and health, and (2) to the wealth and pension fund management business.

The study uses three variables to discern shifts in product mix: (1) the ratio of individual life premiums as a percent of NPD, which is expected to decline after demutualization; (2) group insurance premiums as a percent of NPD. This ratio could increase after demutualization as companies diversify out of the individual insurance lines of business. However, group insurance is a very competitive business with sophisticated buyers who have access to extensive pricing information. As a result, this line of business may offer limited opportunities, and therefore it is difficult to anticipate the direction of change in this variable. The third product line variable calculates the ratio of the revenue from the wealth and pension fund management business as a percent of NPD. This variable is expected to...
increase as life insurance companies pursue revenue opportunities in newer and growing markets.

4. Debt Management

Management may be willing to take additional risk in the capital structure in order to leverage up profitability for stockholders. Also, the firms may increase the debt ratio to finance the needs of product innovation and expansion. Since demutualization increases transparency, the firms may find debt less costly and more convenient. The study hypothesizes that (1) the debt to asset ratio, and (2) the use of long-term debt, as reflected in the ratio of All Other Liabilities to Total Assets (AOLTA), will increase.

5. Asset Risk Management

In order to generate higher returns, management in newly demutualized firms is expected to take additional risk in managing the firm's assets. The percentage of assets invested in non-investment grade bonds depicts the riskiness of the asset portfolio. The ratio of Non-investment Grade Bonds/Total Capital (ING/B/C) is a measure of asset risk management, and is expected to increase.

Methodology and Test Data

In order to assess post-demutualization changes, 11 behavioral and strategic variables, as summarized in Exhibit 1, were calculated on the companies for their pre- and post-demutualization periods. The test periods consisted of the 3 years prior to and the 3 years subsequent to demutualization. Data were obtained from A. M. Best Aggregates and Averages, Life/Health edition, for the 3 years prior and the 3 years subsequent to demutualization. The results demonstrate that the companies have implemented thoroughgoing and widespread changes in strategy and behavior after demutualization. This finding is particularly robust in view of the time period for the study which covers both expansionary and lean economic times. Firms undertaking demutualization are pursuing higher growth rates, cost effectiveness, greater profitability, higher risk in asset composition and capital structure, and a shift towards revenues from wealth and pension funds management business.

Unlocking Economic Value

The process of demutualization, via the New York method, can create economic value for several reasons. First, the policyholders' surplus (largely retained earnings) under mutuals is transformed into marketable shares through the creation and distribution of stock to existing policyholders; thus, stockization liquifies what has been illiquid. Also, stockization of mutual life insurance companies broadens the set of available securities for investors and thus it "completes the market" [10].

Second, a demutualized company can issue new stock to the general public to finance expansion. A mutual life insurer's conversion to the stock form of organization can create economic value as the firms implement new competitive and growth-based strategies, become transparent in reporting and governance structure, and develop opportunities to participate in the international merger and acquisition market.

It is hypothesized that the successful creation of economic value will be reflected in higher stock price performance. The study tests this hypothesis by calculating the long-run, compound annual rate of return for each company and compares this with the compound annual rates of return of the corresponding period for the Dow Jones Industrial Average (DJIA), the S&P 500 Index and the NASDAQ Insurance Company Index. The annual rates of return have been calculated for three years from the end of the month of demutualization in each case, using the CRSP database. Exhibits 4 (a) and 4 (b) report the results.

...excellence in customer service is the hallmark of success in service industries.

As Exhibit 2 shows, all of the variables, except for debt management, have changed in the direction that was hypothesized. In the first place, firms after demutualization have achieved significant gains in cost efficiency, profitability and return on equity. Two variables: (1) NOG to TA (ROI), and (2) NOG to NPD (profit margin), have increased by more than 43%, and (3) ROE has increased by 32%. Second, the firms have increased the growth rate in NPD (total revenues) by 160%. Third, the demutualized companies have made significant shifts away from traditional individual life insurance business (decline of 8%) to newer sources of revenue from wealth and pension fund management (an increase of 3.4%). Fourth, the firms are taking, as anticipated, higher risks in managing their assets: the ratio of Non-investment Grade Bonds/total capital has gone up by 32%.

The Diffusion of Change Index reinforces these findings. A very high proportion of demutualized firms achieved increases in profitability (82%), return on equity (82%) and efficiency in cost control (64%). Substantially higher growth rates were attained by 64% of the firms. A very large number of firms (82%) decreased the share of revenue from traditional individual life insurance business, while 73% of the firms increased the share of revenues derived from wealth and pension fund management business. As anticipated, 82% of the firms have taken additional risk in managing their assets. Finally, 64% of the firms have increased leverage by taking on more debt in their capital structure.

The results demonstrate that the companies have implemented thoroughgoing and widespread changes in strategy and behavior after demutualization. This finding is particularly robust in view of the time period for the study which covers both expansionary and lean economic times. Firms undertaking demutualization are pursuing higher growth rates, cost effectiveness, greater profitability, higher risk in asset composition and capital structure, and a shift towards revenues from wealth and pension funds management business.
Clearly, liquification of policyholders’ surplus and changes in competitive strategy and governance implemented by the newly stockicized life insurance firms have created additional competitive strategy and governance, and provides opportunities for firms to take more risk in managing their portfolio assets. The stock form of organization increases transparency in reporting and governance, and provides opportunities for firms to engage in mergers and acquisitions. In addition, the demutualized firms offer new securities for investors and unlock the value lying dormant in the mutual policyholders’ surplus. For these reasons, the long-run market returns of demutualized companies have outperformed various market indexes, including the NASDAQ Insurance Company Index, creating economic value. This finding is contrary to a well-established phenomenon of long-run underperformance of IPOs [11]. It appears that demutualization promotes efficiency in the life insurance industry as well as in the capital markets and hence can be viewed as socially desirable.

As may be observed, long-run excess returns are widespread. Nine out of the 11 demutualized companies’ stocks outperformed the market portfolio as represented by the S&P 500 Index; eight exceeded the returns on the DJIA; and six bested the returns of the NASDAQ Insurance Company Index. This finding is especially significant since the comparison periods cover different market cycles. This is contrary to the previous research which finds that IPOs have demonstrated long-run underperformance relative to the benchmarks [11]. To illustrate the magnitude of the excess returns, if an investor had bought the stocks of these 11 companies at the end of the month of demutualization in each case and held it for three years, the investor would have earned an annual excess return of 144% over the DJIA, 176% per annum above the S&P 500 Index, and 35% over the NASDAQ Insurance Company Index, as shown in Exhibit 4 (b).


<table>
<thead>
<tr>
<th>Company Name</th>
<th>Barsky-Returns over DJIA</th>
<th>Demutualization Returns over S&amp;P 500 Index</th>
<th>NASDAQ Insurance Company Index Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aetna</td>
<td>12.6%</td>
<td>10.6%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Cigna</td>
<td>13.0%</td>
<td>11.6%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Humana</td>
<td>13.5%</td>
<td>11.1%</td>
<td>10.5%</td>
</tr>
<tr>
<td>John Hancock</td>
<td>19.6%</td>
<td>17.9%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Lincoln</td>
<td>15.0%</td>
<td>13.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Mass Mutual</td>
<td>18.7%</td>
<td>17.0%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>22.3%</td>
<td>19.1%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Phoenix</td>
<td>15.0%</td>
<td>13.7%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Principal</td>
<td>16.8%</td>
<td>15.4%</td>
<td>10.5%</td>
</tr>
<tr>
<td>State Farm</td>
<td>22.5%</td>
<td>19.3%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Total Return</td>
<td>144.1%</td>
<td>122.0%</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

Conclusion

This study examined 11 major life insurance companies with significant market share that undertook the full, New York method of demutualization between 1997 and 2001. The results demonstrate both a changed managerial behavior and the employment of a new competitive strategy after demutualization. Management in these companies has successfully implemented a strategy that is based on higher growth, greater profitability, improved cost efficiency, and innovations in product offerings. These firms take more risk in managing their portfolio assets. The stock form of organization increases transparency in reporting and governance, and provides opportunities for firms to engage in mergers and acquisitions. In addition, the demutualized firms offer new securities for investors and unlock the value lying dormant in the mutual policyholders’ surplus. For these reasons, the long-run market returns of demutualized companies have outperformed various market indexes, including the NASDAQ Insurance Company Index, creating economic value. This finding is contrary to a well-established phenomenon of long-run underperformance of IPOs [11]. It appears that demutualization promotes efficiency in the life insurance industry as well as in the capital markets and hence can be viewed as socially desirable.

References


Effective Mentoring

Strategic Collaboration: Developing a More Effective Mentoring Model

Mara H. Wasburn, Purdue University
Alexander W. Cripsö, Purdue University

Abstract

This paper applies Appreciative Inquiry, an intervention that uses positive dialogue to build on organizational success, to the mentoring process. The resulting model, Strategic Collaboration, is offered as an innovative support system designed to retain the career-enhancing benefits of mentoring while avoiding the inherent problems associated with formal mentoring programs.

Introduction

In the 21st century, leaders will need to determine how to release the intellectual capital of their organizations more effectively. The old strategies cannot be used to create the future workplace [13]. This paper applies Appreciative Inquiry, an intervention that uses positive dialogue to build on organizational success, to the mentoring process. The resulting model, Strategic Collaboration, is offered as a positive, innovative support system designed to retain the career-enhancing benefits of mentoring while avoiding the inherent problems associated with formal, facilitated mentoring programs.

Mentoring

Mentoring is a process whereby a more experienced person (mentor) provides guidance, support, knowledge, and opportunities to a less experienced person (protégé) for the purpose of career advancement [4,15]. When asked to reflect on their career successes, many if not most people, point to mentors who helped and/or influenced them. From the point of view of organizations, mentoring can provide a mechanism for assuring the continuity of their culture, and a common set of values and expectations [34].

It is commonly believed that “true” mentoring is an inherently informal process in which mentors and protégés come together spontaneously. Successful mentoring relationships are seen as a combination of common goals, individual personalities, and a healthy dose of luck. Hence, many organizations have been reluctant to create formal programs [23]. However, relying upon spontaneous mentoring can lead to perceived inequities among employees. For example, those not chosen to be mentored can resent those who are successful at finding mentors. Additionally, research indicates that mentors tend to gravitate toward younger versions of themselves. Therefore, women and minorities in companies are mentored less frequently than white males, making it more difficult for them to rise to higher-level positions within their organizations [34]. Additionally, women with male mentors face the “gossip factor,” concerns that may arise when a woman and man are seen together frequently outside the office [21].

The Benefits of Mentoring

Many of those embarking on new careers have concerns about their competence, their ability to succeed, and their understanding of and ability to navigate the organizational culture in which they find themselves [22]. They often feel isolated in their new milieu, and uncertain of exactly how to fulfill their job requirements [3,26], which can ultimately lead to feelings of alienation [5]. The mentoring relationship has the potential of facilitating the protégés’ successful transition into their new roles, as well as helping them understand and adapt to the organization’s culture [25,34]. Mentored employees tend to have greater job satisfaction, obtain promotions more quickly, and make higher salaries than those who are not mentored [4,6,28].

Mentors can fulfill both career and psychosocial functions. By virtue of their experience and position within an organization, mentors can enhance the careers of their protégés by sponsoring them, making them visible within the organization, coaching them, protecting them, and ensuring that they are given challenging assignments where they will be noticed. If the relationship between mentor and protégé develops into one of mutual trust, the mentor can provide role modeling, acceptance, validation, counseling, and friendship [22].

Mentors, too, benefit from supporting the advancement of their junior colleagues in at least two ways. Often senior in the organization, they have the opportunity to put their knowledge, skills, and abilities to work to help others advance. Additionally, they can gain from the mentoring process as they learn new skills or perspectives from junior colleagues who may have more recent formal education and different experiences [22].

Some Caveats about Formal Mentoring Programs

Despite these benefits, mentoring relationships do not always produce positive results, and a number of studies have begun to reflect some concerns. The mentoring process can be seen as operating from a deficit model in which the protégés lack skills and abilities that mentors must supply. There is a tacit assumption that the protégés are deficient in some way, and that the mentor is someone who should be emulated. Mentoring relationships can also be seen as having paternalistic overtones, carrying with them the implication that new employees are incapable of approaching senior colleagues informally for the help they need. Such a view can undermine the self-confidence and self-esteem of the protégés, especially if the image of the mentor is not one that the protégés can or would wish to emulate, making them less willing to participate [29].

There are other potential complications from mentoring. While transmitting organizational culture generally produces a positive outcome, some organizational values may already be obsolete. Mentoring also has the potential of stifling creativity and innovations within the organization, by reinforcing the way things have always been done [34].

Even with a strong mentoring contract, which most formal, facilitated mentoring programs emphasize, difficulties often arise [23,25]. Personality differences can doom a mentoring relationship from the outset. Failure to make the goals of the relationship clear can lead to the mentor pushing an agenda with which the protégé does not agree, leaving the protégé to feel that his/her goals have been marginalized. If the mentor chooses to leave the relationship, the protégé can be left feeling rejected and alone [20].

Mentoring programs can be time consuming, and sufficient time must be allocated for the relationship to grow and mature. Failure to do so can lead to disappointment and frustration. Mentors and protégés can find that they have very different expectations about how accessible the mentor needs to be [29,32].

Further studies have investigated other types of dysfunctional outcomes, such as mentors taking credit for and/or sabotaging their protégés’ work, sexual harassment, the expectation that the protégé will assume a submissive attitude, clashes of values, incompatible personalities, manipulative behavior, and different value systems. Such negative outcomes have caused some to question the efficacy of formal mentoring programs [10,27].

Models of Formal Mentoring Programs

Organizations that choose to create formal, facilitated mentoring programs generally utilize one of three models: grooming mentoring, networking mentoring, or a blending of grooming and networking mentoring models. All three are discussed below.

Grooming Mentoring. This traditional style of mentoring is a dyadic relationship consisting of a more experienced mentor and a less experienced protégé [30]. It is the model most often employed by organizations that create formal mentoring programs. The success of this model depends upon the continued participation of both mentor and protégé.

The grooming mentoring model is * best suited to those protégés whose needs are to succeed in the institution as it now exists and those who are willing to serve an apprenticeship. Ideal grooming mentors are those who wish to pass along their skills and insights to create a new generation in their own image* [15,25].
Mentoring is a process whereby a more experienced person (mentor) provides guidance, support, knowledge, and opportunities to a less experienced person...

Network mentoring. By contrast, networking mentoring is non-hierarchical, and generally involves more than two participants. This type of mentoring is egalitarian, with mentors and protégés exchanging roles as the situation requires. Hence, the approach is not limited to the mentoring of employees by their senior colleagues. Implicit in this model is the expectation that each person will contribute something to the network for the mutual benefit of all [16,30].

The networking model is generally more flexible and less intense than the grooming mentoring model. There is less concern about whether or not the participants will be compatible over a long period of time. It is also subject to less resentment from colleagues who were not selected by an individual mentor, or from more seasoned professionals who might resent suggestions being offered by their peers or by lower ranking colleagues.

In the networking mentoring model, people from diverse backgrounds are easily incorporated into a network [30]. If one or more participants choose to leave the network, there is little if any disruption to the group. In this model, there is no mentor-mentee relationship as such. The mentor can be an individual mentor, or from more seasoned professionals who might resent suggestions being offered by their peers or by lower ranking colleagues.

Grooming and Networking Mentoring Model. As described by Haring [15], this model involves blending the strengths of the two other mentoring relationship models. It is therefore a hybrid model that combines the strengths of the other two by promoting a strong networking relationship while still providing some of the benefits of a grooming mentoring relationship. If we then take this blended model and combine it with the strengths of appreciative inquiry, the result is Strategic Collaboration, a positive support structure that offers new hires the possibility of upward mobility without employing a deficit model that has the potential of undermining the confidence of the protégé.

Appreciative Inquiry

Appreciative Inquiry is an approach to organizational innovation that specifically focuses on what gives life to an organization. Developed by David Cooperrider [71], Appreciative Inquiry uses positive dialogue to discover stories of organizational successes, and builds upon those stories to foster future success. It responds to the tradition of action research, a deficit model that views organizations as having problems in need of solution, and proposes the development of an action plan to correct the problems that are identified [12]. Appreciative Inquiry rejects the positivist view that social knowledge is derived from objective observation, in favor of the social constructivist paradigm that sees reality as constructed through our social interactions [8].

The Appreciative Inquiry process reflects a set of principles drawn from current theory and research in the human and social sciences [33]:

1. The Constructionist Principle, which depicts organizations as being invented and maintained through a process of social interaction.
2. The Principle of Simultaneity, which helps organizations understand that inquiry and change are simultaneous. Once an inquiry is made and a question is asked, the change process begins.
3. The Poetic Principle, which describes organizations as compilations of their past, present, and future, subject to a variety of interpretations.
4. The rocks Principle, which describes how organizations change more easily in an environment that supports and encourages innovation.
5. The Anticipatory Principle, which states that an organization’s potential can be anticipated through an analysis of the story told about it by its stakeholders. This anticipation guides the organization into the future.

The Appreciative Inquiry model involves the assumption that in every organization, there is already something positive present that helps system achieve its goals. The model further assumes that the act of posing questions to a group influences that group. The language we use creates the reality, hence asking what works, rather than what does not work, will focus discussion in a way more likely to lead to positive outcomes, which will eventually become reality [14].

The 4 D Cycle (2,111) outlines the typical phases of the Appreciative Inquiry process. The original terms were first introduced by Cooperrider and Srivastva [9]:

1. Discovery (Initiate). Organizational stakeholders are identified and brought together to respond to questions designed to help identify positive attributes of the organization. In pairs, the participants interview one another as they seek thoughts on moments of excellence within the organization. In this portion, a conscious decision is made to limit the inquiry to what is positive, rather than to analyze what is deficient. The model is to focus on the causes of success and to build upon those successes as the organization moves into the future.

2. Dream (Inquire). Participants analyze the positive stories and attributes to identify common themes and patterns that can be used to construct a vision of an improved organization. From these themes, they are asked to imagine a future that is grounded in these experiences of excellence...a future that is achievable.

3. Design (Imagine). Participants re-create the organization by developing “provocative propositions,” to merge the best of what has been into visions of what the organization can become, grounded in the reality of the participants’ experiences. Proposed changes to the organization, and the new initiatives created to support those changes, are evaluated by the extent to which they move the organization in the direction of the ideal the participants envisioned in the Dream stage.

4. Delivery (Innovate). This last stage of the Appreciative Inquiry process specifically focuses on plans and actions at both the personal and organizational levels. Participants commit to the new initiatives identified in the Design phase by developing strategies based upon specific organizational needs. Examples might include changes in communication patterns, leadership, procedures, policies, roles, performance evaluation, reward structure, employee development and mentoring, use of resources, and the development of networks to implement and evaluate the changes.

The Strategic Collaboration Model

This model focuses on succession planning: positioning individuals to assume increasing levels of responsibility within the organization. The design combines features of grooming and networking mentoring, discussed above (15), with elements of Appreciative Inquiry [8].

In the model shown below, a group of newcomers to the organization are matched with two more experienced employees to create a support structure that offers new hires the possibility of upward mobility.

Strategic Collaboration: Developing A More Effective Mentoring Model

1. Discovery (Initiate).
2. Dream (Inquire).
3. Design (Imagine).
4. Delivery (Innovate).
Implementation of the Strategic Collaboration model rests on the assumption that the organization has provided support and resources for the process. As envisioned, implementing the model will require meetings of the Strategic Collaboration teams half a day each month for a period of at least a year. This is a modest time requirement given the potential benefits. Making time spent on the process part of the yearly evaluation for both junior and senior personnel is another example of the ways in which upper management can encourage such a process.

Two senior and two-to-five junior managers/executives from the same part of the organization are brought together to form a Strategic Collaboration team. The senior personnel must be outstanding performers with wide-ranging knowledge about the organization and its external environment. They must also have a desire to support and advance their junior colleagues' careers. The junior personnel must have a commitment to advancing their careers and working with their senior colleagues to develop competencies aligned with future organizational needs.

Teams generally move through five stages: 1) forming, in which they become acquainted with one another; 2) storming, in which there are disagreements about roles and procedures, as well as personality differences; 3) norming, in which there is some sense of ownership and belonging that occurs; 4) performing, in which the team is accomplished; and 5) adjourning, in which the work of the team has been accomplished and the members move on. In order to promote a team environment and enable the Strategic Collaboration team to move successfully through the initial stages and begin performing, both senior and junior personnel must undergo interpersonal skills training in active listening, communication, feedback, and managing conflict. This can be accomplished through an intensive behavior modeling session focused on the specific skills needed, followed by ongoing practice and feedback given in role plays using the skill. For example, in a session focused on conflict management, participants would learn techniques such as using “I” rather than the more accusatory “you” language when confronting conflict. Teams that receive appropriate training develop positive strategies to resolve problems that arise, share information more easily, and support one another. These are critical elements of an environment that promotes professional development.

As is the case in a traditional facilitated mentoring environment, a contract must be developed in order to state specifically goals and objectives that the team is to accomplish, as well as the roles and responsibilities of each team member. The team must also commit to at least one monthly meeting. The contract must also clearly state that while Strategic Collaboration is designed to prepare a talent pool for advancement, participation in a team does not guarantee promotion or advancement within the organization. There are many other factors, such as informal communication transactions, that are necessary for career success. However, a strong, clear contract can prevent many of the problems associated with facilitated mentoring, as described above.

With the team formed, the contract agreed upon, and the interpersonal skills training completed, the Strategic Collaboration process can begin. However, trust must continue to be built throughout each phase of the process shown on the Strategic Collaboration Model. Trust is the essential building block upon which any coaching or mentoring process rests. Being part of a career-building team means, among other things, that members make themselves vulnerable. Junior personnel must be assured that nothing they say or do during the process can or will be used against them by the senior members of the group.

In the Discovery, Dream, Design, and Delivery phases, the real work of the group is accomplished. Therefore, none of the phases should be rushed. Assuming monthly meetings, some phases may take one month while others may take two months or more, depending upon how much conversation is generated around each topic.

The Discovery phase encourages the Strategic Collaboration team members, junior and senior personnel alike, to compile a list of strengths in the form of skills and abilities they bring to the organization that contribute to the organization’s excellence. These might include statistical sophistication, facility with interpersonal communication, and experience with conflict resolution and/or negotiation. During this phase, members may discover skills and abilities that other team members possess and which they may wish to acquire. They may also come to recognize that their strengths are valuable to other members of the team, and can and should be shared with them. Sharing skills, abilities, and information is one way in which the team members can increase their value to the organization and position themselves to advance.

During the Dream phase, team members assess the strengths that they identified during the Discovery phase, and determine how those strengths can be used to build the organization’s future. This stage can be viewed as analogous to a brainstorming session in which creative ideas, regardless of their merit or lack thereof, are considered and then accepted or rejected on a consensus basis. For example, an individual with statistical and methodological skills might suggest new ways of sampling and measuring the attitudes of potential consumers of the organization’s products.

The Design phase is an opportunity for the Strategic Collaboration team members to determine how they can leverage the strengths that have emerged through new initiatives, and which can move the organization forward in the years to come. Again, drawing on the example of statistical sophistication noted above, an individual with these skills might help identify new marketing strategies and new consumers of the organization’s products. In order to complete this phase successfully, some forecasting on the future needs of the organization must be completed. Ongoing strategic planning is one source for such information.

The Delivery phase is one in which a career development action plan is developed for each junior member of the Strategic Collaboration team. The career plan should show how each junior member can move forward to add value to the organization at that particular point in time. However, being a dynamic model, with a cyclical design, the Delivery phase leads in, turn, to the Design phase where the new skills are again considered with a view toward the organization’s future, and the process begins again.

The present model is similar to that developed by Hill and Gant in that it employs a team-based approach to mentoring. However, unlike Strategic Collaboration, the Hill and Gant model involves the formation of dyads and does not focus on a dynamic, cyclical process.

Strategic Collaboration retains all of the positive benefits of mentoring while avoiding the pitfalls that can plague the mentoring process.

The Benefits of Strategic Collaboration

This paper argues that Strategic Collaboration retains all of the positive benefits of mentoring while avoiding the pitfalls that can plague the mentoring process. It provides a positive group of individuals, two of whom are senior members of the organization, who support, mentor, advise, and protect (should that be needed), and provides preparation for the junior members to be ready for challenging assignments where they will be noticed. As trust is built into the model, the Strategic Collaboration team should also be positioned to provide role modeling, acceptance, validation, counseling, and friendship.

Since Strategic Collaboration is focused on career development, the team can function as informal mentors would by helping the junior members obtain promotions more quickly, as well as the higher salaries that come with promotion. The team also serves as sponsors, coaches, and protectors (should that be needed), and provides preparation for the junior members to be ready for more traditional mentoring relationships, senior
colleagues benefit, too, by sharing their knowledge, helping others, and by gaining a new perspective and new knowledge from both junior and senior group members.

Conversely, by virtue of its reliance on the group, rather than the individual, Strategic Collaboration does not rely on a junior member of the organization being selected by a senior member of the organization to be mentored. Anyone who is interested in advancing his/her career can be part of a strategic collaboration team. Hence, women and minorities have the same opportunity to be mentored as white males. In addition, women do not have to contend with the “gossip factor” since there are always groups of people meeting. Personality differences, which can doom a mentoring relationship from the outset, are not nearly as important in this context since no one relationship is privileged over any other. Additionally, since there are two senior members in each team, each junior member benefits from having more than one perspective on a given topic.

With a strong contract, Strategic Collaboration can avoid some of the dysfunctional outcomes discussed above, such as mentors taking credit for and/or sabotaging their protégés’ work, sexual harassment, the expectation that the protégé will assume a submissive attitude, clashes of values, protégés’ work, sexual harassment, the expectation that the protégé will assume a submissive attitude, clashes of values, protégés' work, or the pressure to make decisions that those employees will be well prepared to lead the organization into the future.

References


Strategic Collaboration: Developing A More Effective Mentoring Model
Enhancing Service Quality in a Hospital Setting

Victoria Bellou, University of Macedonia
John Thanopoulos, University of Piraeus

Abstract

Often health care delivery employees suffer from lack of organizational-based self-esteem and organizational identification. This results in poor service quality and endangers organizational survival. The concept of Organizational Citizenship Behavior (OCB) ensures that employees are willing to contribute to the hospital as much as possible by enhancing their sense of belonging to the health care organization and, therefore, to the employees’ corresponding self-esteem. The concept is critical to hospital administrators who should provide sufficient motivation towards this direction.

In a study that took place in Greek public hospitals, variables that were expected to – and actually do – increase Organizational Citizenship Behavior were examined. These variables are organizational identification and organizational-based self-esteem (OBSE), and they need to be taken into serious consideration when trying to establish a high quality service system in hospitals. After investigating for differences in these relationships based on profession, it was revealed that doctors are affected only by OBSE in displaying Organizational Citizenship Behavior, whereas nurses are affected by both OBSE and organizational identification. By increasing both organizational identification and organizational-based self-esteem, hospital administrators are likely to increase OCB towards the hospital. In the long run, these will improve the quality of health care provided to patients.

Introduction

Increased competition in the health care industry has affected public hospitals everywhere, but mostly in developing countries. Hospital managers are trying to decrease operating costs, expand access, and improve service quality, in order to ensure organizational survival. The fact that perceptions of quality have a strong influence on patients’ inclination to avail themselves of health services is beyond dispute. Thus, expanding access or holding the line on costs is not enough if the patient’s confidence in the quality of health care services is low. In Nepal, for example, the government made substantial investments in health care to increase access. Yet utilization of the facilities remained low due to the fact that patients had negative perceptions regarding the level of quality [10]. Likewise, it has been found that in Vietnam and Uganda, poor service quality in the public sector led to greater use of private providers [2].

It seems, therefore, that perceptions of health care quality may dissuade patients from using the available services because health concerns are among the most salient human concerns. If the system cannot be trusted to guarantee a threshold level of quality, it will remain underutilized, be bypassed, used only for minor ailments, or used as a last resort [1]. In fact, patients in developing countries are now not only willing to go to a private hospital – despite increased cost – but even to travel abroad to a developed country’s hospital, when they feel unsafe about the quality of the health care provided by their public hospitals. Thus, unless absolute priority is given to providing quality service, public hospitals will have to close down or, at best, operate inefficiently and inefficiently.

In the hospital setting, employees are a key factor. According to Yoon and Suh [27], employees exhibiting OCB are performers rather than workers, as their behavioral performance is determinative for service quality, as perceived by customers. As a result, in order to achieve high standards of health care delivery, hospital managers need to ensure that employees are not just skilled but also willing to contribute. In this context, OCB is becoming increasingly important for enhanced service quality in a hospital setting.

Taking all these into consideration, factors that increase OCB displayed by hospital employees were studied. Existing literature identifies several OCB antecedents, such as job satisfaction, organizational commitment, self-esteem, perceived organizational support, and organizational identification [3,5,11].

EXHIBIT 1. OCB ANTECEDENTS AND IMPACT ON SERVICE QUALITY

For the needs of this study, the variables examined were: (a) the employee’s identification with the organization and (b) the employee’s self-esteem that is based from what (s)he derives from working at the particular organization. Both these variables lead to OCB which, in turn, becomes one of the main drivers for service quality. Exhibit 1 illustrates this relationship.

The previous contention was tested in employees of public hospitals, where rewards are based solely on demographic characteristics (years of employment, marital status, number of children) and exact working positions. Prior focus group research, conducted through interviews, revealed that engaging in OCB in the Greek public sectors lies exclusively on employee willingness to contribute to the organization, help colleagues, serve patients or keep to personal principles.

Organizational Citizenship Behavior in a Hospital Setting

OCB is the most common term used to describe employee behavior that exceeds obligations arising from an employment relationship. It refers to discretionary behaviors that are not directly or explicitly recognized by the formal reward system and that, in the aggregate, promote the effective functioning of the organization [14-4]. In fact, many researchers argue that OCB facilitates organizational effectiveness, efficiency, and success, as it ensures more efficient use of resources, allows managers to devote more time to productive activities, and improves the ability of coworkers to perform their jobs [e.g., 21].

Although there is dispute over its exact definition [i.e., 12], most researchers tend to agree that it includes distinct behaviors. According to Van Dyne and her colleagues [25, 26], OCB combines obedience, loyalty, advocacy, participation, social participation, functional participation, helping behavior, and voice. Taking into account health sector particularities, two of these dimensions are considered as most important: obedience and helping behavior. These dimensions were used to assess the degree to which employees engage in OCB in this study.

Obedience refers to respect in structure and procedure order [25]. Abiding by organizational rules and procedures serves two purposes. Not only does it secure the employment relationship for both parties, but it also helps employees to avoid serious disciplinary mistakes. Subsequently, obedience ensures that at least a standard level of service quality is provided to customers at all times. As for helping behavior, it can be described as proactive, interpersonal, and cooperative [24]. According to Albrecht and Zemke [1], service quality is enhanced to the extent that employees view each other as customers, and thus willingly help each other so that the external customer is better served. For example, in a hospital, if a doctor helps another who is temporarily overburdened or absent, patients will receive quality service without long-time waiting or concern about poor service.

In addition, following Podsakoff, Ahearne, and MacKenzie [20], when an experienced doctor helps less skilled or new doctors solve work-related problems, and finds more effective and efficient ways of performing work, it is likely to improve not only patients’ perception regarding service quality, but actual service quality as well. Moreover, helping behavior has been shown to create a positive, group-cohesive climate among employees, which in turn creates a positive climate for customers [23].

Organizational Citizenship Behavior Antecedents

Existing literature has identified both individual characteristics and contextual variables as OCB antecedents.
As mentioned before, this study examined whether organizational-based self-esteem and organizational identification actually increase the extent to which hospital employees display OB on the employing hospital. Organizational-based self-esteem (OBSE) refers to the degree to which organizational members believe that they can satisfy their needs by participating in roles within the context of an organization [19]. People with high OBSE have a sense of personal adequacy as organizational members and a sense of having their needs satisfied through the organizational roles. According to Pierce and his colleagues [18], experiences within an organization shape OBSE, which consequently affects organization-related employee behaviors and attitudes.

As for organizational identification, it refers to the extent to which individuals perceive themselves as part of a specific organization. Organizational members are said to identify with the organization when they define themselves at least partly in terms of what the organization is thought to represent [9]. Studying physicians in specific, Duckerich, Golden, and Shortell [5] suggested that in health care systems, employees who identify with a particular system are more likely to engage in extra-role behaviors, such as efforts to improve quality and minimize costs. Given the fact that Greek public hospitals cannot rely on direct inducements to good behaviors, the degree to which doctors and nurses identify with their hospital was regarded to be important for their behavior.

Service Quality

Service quality, as perceived by customers, can be defined as the extent of discrepancy between customers’ expectations or desires and their perceptions [15]. It is one of the most meaningful constructs for explaining customers’ future behavioral intentions and, therefore, it impacts on organizations’ financial outcomes.

According to Zethamli and her colleagues [28], excellence in customer service is the hallmark of success in service industries. Reichheld and Sasser [22] even argue that delivering quality service is one of the fundamental strategies for a firm’s survival. Considering its importance, it is no surprise that many researchers have devoted themselves to understanding its underlying dimensions and antecedents [15,16]. In fact, Parasuraman and his colleagues [16:23] have identified five distinct service quality dimensions:

- tangibles (“physical facilities, equipment, appearance of personnel”)
- reliability (“the ability to perform the promised service dependably and accurately”)
- responsiveness (willingness to help customers and provide prompt service),
- assurance (employees’ “knowledge”, "courtesy" and "ability to inspire trust and confidence"), and
- empathy (“caring, individualized attention... [provided to customers]”.

As can easily be deduced, service quality is heavily dependent upon employees as – with the exception of tangibles - its dimensions relate directly or indirectly to employee behavior.

Service Quality in a Hospital Setting

Assuring quality in services can be, in some ways, more difficult than assuring quality in manufacturing, as the “production process” of services involves employee-customer interaction, making it hard to ensure consistency and reliability [7].

When patients perceive service quality in a hospital setting as low, several negative behaviors may be realized. These behaviors include dissatisfaction, bad referrals, limited usage and replacement with another hospital, as well as legal action. It seems, thus, that both direct and indirect costs that arise from a hospital’s failure to provide service quality are too serious to ignore.

In every company, service is provided by employees, so their attitude and behavior is critical for customer perception regarding service quality. In the case of hospitals, patients and their families demand that the employees be much more than merely skilled, polite, and tolerant. These employees need to be willing to do their best, constantly, in order to assure that they effectively preserve human lives. This is exactly where OB comes in.

With the exception of a study conducted by Yoon and Suh [27], there is lack of empirical evidence for the positive effect that OB has on service quality. Yet, there are several reasons why many researchers take this relationship for granted.

First, according to the internal marketing perspective, for successful encounters and exchanges with patients, effective internal exchanges among employees and between employees and the whole hospital must occur first. Only after effective internal exchanges have occurred, can successful external exchanges between employees and patients take place [8].

...excellence in customer service is the hallmark of success in service industries.

Second, the overflow effect of employees’ OCB on the quality of health care is expected to take place through the socialization process. Socialization research suggests that one type of helping behavior is more likely to facilitate other types of such behaviors, due to the personal value acquired through the socialization process [8]. According to Clary and Snyder [4], employees who exhibit helping behavior tend to be more willing to perform other types of prosocial behaviors as well. This socialization process can also be applied to the spillover of OB on the social interactions between customer and employee. In a high-contact service business, such as a hospital, the customer is a coproducer or a partial employee for creating a quality service. In this light, employees who exhibit higher OCB for coworkers or their hospital will be more active in the fulfillment of patients’ needs, which will consequently be reflected in patients’ evaluation of service quality.

Finally, both OCB and service quality seem to be major elements of organization effectiveness. Much of the interest in OCB has been based on the assumption that it increases overall organizational effectiveness [12,14,20]. While organizational effectiveness can be conceptualized in a variety of perspectives, recent studies suggest that service quality in service organizations, including hospitals, is a major indicator of its external effectiveness [17] and external efficiency [6]. Following Paulin and his colleagues [17], in patient-oriented management, service quality is a key determinant for successful relationships between the hospital and its patients and, therefore, comprises a major part of its external effectiveness.

The Study

This study was carried out in four Greek public hospitals, where 233 doctors and nurses from two pathology clinics in each hospital were asked to participate. Doctors and nurses were chosen for this study, as they are regarded to be the most responsible for health care quality provided. Patients may overlook a lazy or careless secretary, but no one can ignore the fact that a treating doctor or nurse is indifferent or inadequate. The care and caring provided affect the extent to which patients trust their doctor.

In several national health care systems, such as in that of the United States, pathologists do not interact directly with patients but only provide critical data to physicians and surgeons, which is then incorporated into determinations for patient care. In Greece, however, pathologists do interact with patients as they provide direct care. In fact, along with surgeons, pathologists are the ones that interact most often with most of the patients both in the emergency room and during their stay at the hospital.

After screening for inconsistencies, 140 questionnaires (60%) provided the database of the study. The total sample consisted of 41.3% men and 58.7% women, mostly between the age of 25 and 44 (81.9%); 57.1% consisted of 41.3% men and 58.7% women, mostly between the age of 25 and 44 (81.9%); 57.1% were nurses and 67.1% had a permanent employment relationship. To measure the variables examined, a six-question instrument developed by Mael and Ashforth [13] was adopted for organizational-based self-esteem (α=0.89), and OCB was measured through two dimensions, obedience [21] and helping behavior [22] (α=0.93).
employees who exhibit higher Organizational Citizenship Behavior for coworkers or their hospital will be more active in the fulfillment of patients' needs, which will consequently be reflected in patients' evaluation of service quality.

Initial analysis of data through regression analysis and ANOVA revealed that the degree to which doctors and nurses believe that they can satisfy their needs by participating in organizational roles increases the extent to which they engage in OCB towards their hospital. The same methodology was used to test the extent to which individual perceptions of themselves as part of the hospital work at enhances the OCB displayed.

EXHIBIT 2. REGRESSION ANALYSIS FOR OCB

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>OCB All Employees</th>
<th>DOCTORS</th>
<th>NURSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCB</td>
<td>50%</td>
<td>42%</td>
<td>50%</td>
</tr>
<tr>
<td>Organizational</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification</td>
<td>3.81</td>
<td>1.78</td>
<td>0.99</td>
</tr>
<tr>
<td>R</td>
<td>0.2</td>
<td>0.14</td>
<td>0.49</td>
</tr>
<tr>
<td>F-ratio</td>
<td>6.51**</td>
<td>21.63**</td>
<td>17.12**</td>
</tr>
<tr>
<td>N</td>
<td>113</td>
<td>54</td>
<td>59</td>
</tr>
</tbody>
</table>

1 * p<0.05, 2 * p<0.01, 3 * p<0.001

After controlling for profession, unexpected differences in the relationships examined between doctors and nurses were found. First of all, it was found that doctors are only affected by Organizational-Based Self-Esteem in displaying Organizational Citizenship Behavior, whereas nurses are affected by both OCB and organizational identification. Second, doctors are more likely than nurses to be affected by OCB when deciding to engage in OCB (see Exhibit 2).

Yet, analysis of variance revealed no significant difference regarding the extent to which doctors and nurses engage in OCB.

Enhancing Service Quality in a Hospital Setting through OCB

Service quality, due to its intangible nature, depends heavily on how contact employees work with customers, coworkers, and their organization. In this light, in addition to role-prescribed activities, extra-role activities are critical for the level of service quality provided. Hence, hospital managers need to take serious actions, for example sensitivity training of employees, in order to ensure that OCB is exhibited by most in a standardized way.

As mentioned before, this study took place in Greece, where certain particularities – such as permanent employment relationships – exist. Although national culture has not been related to OCB, organizational identification, or OCB, further research is necessary before these findings can be safely extrapolated to hospitals around the world. Still, given that extra-role behavior seems to be an uncontested premise for providing high quality health care for hospitals, this study's results provide an interesting insight into the way individual characteristics affect the extent of OCB displayed in a hospital setting.

First of all, OCB positively impacts on the degree of OCB displayed. Such a finding may be attributed to the fact that employees who believe in themselves are more likely to give their best to the hospital in an effort to support the view of themselves, of being important and worthwhile. Their work is really important to them and so is high-level performance. To enhance OCB, managers could grant direct recognition and reward of both effort and results. This means, first of all, introducing a substantial performance appraisal system, which will lead to performance-based rewards. Rewarding effort is very important as there are occasions in which doctors really do their best to preserve patients' lives, even if that patient's condition is too bad to improve. Finally, launching non-monetary rewards for everyday superior performance and behavior could also be of significant help towards increasing doctors' and nurses' OCB.

As to organizational identification, the greater the extent to which employees feel they share the same experiences with "their" hospital, the more likely they will be to abide by its rules, embrace its policies and contribute as much as possible. Streissing organizational culture will increase, or even create, a sense of belonging to the hospital. Organizational agents can organize hospital events and common activities for its employees. Providing continuous feedback on hospital performance increases a sense of connection with the institution, as does including employees' participation in meetings regarding the way the hospital should handle developments in healthcare, or deal with major problems faced by the hospital or its members. Of course, it is important that incentives for active participation are also provided to employees.

Since doctors are more affected by organizational-based self-esteem than nurses in displaying Organizational Citizenship Behavior, it is likely that doctors are more self-confident regarding their working abilities. Doctors not only go through more extensive education (6 years compared to 4), but they are also the ones primarily responsible for preserving human lives. Consequently, it is probable that enhancing OBSE would maximize the motivation outcome among doctors, and increasing organizational identification is likely to maximize the motivation among nurses.

To enhance OBSE, managers could grant direct recognition and reward of both effort and results.

It seems, therefore, that increasing these factors will affect hospital administrators and organizational agents with a simple means3 of increasing OCB towards the hospital, and in the long run providing a better quality of health care to its patients. And, as mentioned above, these results provide a platform for further research regarding the linkage between OCB and service quality and the way of obtaining it.

Conclusion

In the long run, Organizational Citizenship Behavior is a possible source of sustainable competitive advantage because it relates to organizational culture, which is difficult for competitors to imitate. Given the fact that OCB enhances service quality provided, it is important for hospitals' survival and prosperity that more attention is paid to discretionary and voluntary behaviors of doctors and nurses.

References

Fraud Allegations

How Sales Executives Can Avoid Accounting Fraud Allegations

Mark S. Beasley, North Carolina State University
Dana R. Hermanson, Kennesaw State University

Abstract

Is accounting fraud only a concern for CEOs and financial executives? This article discusses recent cases in which the Securities and Exchange Commission (SEC) charged Sales Vice Presidents for their role in accounting fraud. The authors offer suggestions to help sales executives steer clear of accounting fraud allegations.

Introduction

Accounting fraud has dominated business headlines in recent years. Companies such as Enron, WorldCom, Qwest, Tyco, Adelphia, HealthSouth, and others have been investigated for massive frauds, and many executives have faced criminal charges. As a result of fraud, companies’ shareholders have lost billions, and investors’ faith in the U.S. capital markets has been shaken. In response to the spate of frauds, Congress passed the Sarbanes-Oxley Act of 2002 (SOX 2002), which provides tough new penalties for those committing accounting fraud, including lengthy prison terms \([3]\). In this environment, sales executives should ask, “Do I need to worry about accounting fraud, or do the SEC and federal prosecutors typically sanction only CEOs and financial executives in fraud cases?”

This article explains the accounting rules for recording sales (recognizing revenue) and discusses prior research on the prevalence of revenue fraud in U.S. public companies. We illustrate the role of sales executives in accounting fraud by reviewing some recent SEC enforcement cases against Sales Vice Presidents with fraud. These cases often involve sales executives overstating company sales, often by creating “contingent sales” — transactions that give the buyer the right to walk away with no penalty — that were recorded by the company as fully-completed sales. Finally, we discuss the tough new Sarbanes-Oxley penalties and offer several suggestions to help sales executives minimize the risk of trouble with the SEC and federal prosecutors.

Revenue Recognition

Sales cannot be recorded in the accounting system (“recognized”) until two conditions are met \([5]\): (1) the company has provided the service or delivered the goods under an existing arrangement with a fixed or determinable price, and (2) the company has collected cash or is reasonably expected to do so. In other words, before it can be recorded, the revenue has to be earned (the company has done its part and met all of its obligations to the customer) and realized or realizable (the company has collected cash or will be able to turn the sale into cash). If sales are recorded before both conditions are met, then the company’s financial statements are not fairly stated. If the misstatement of revenues is intentional, then the company has committed fraud.

Revenue-Based Accounting Fraud

The 1999 report, Fraudulent Financial Reporting: 1987-1997. An Analysis of U.S. Public Companies \([1]\), profiled 220 SEC accounting fraud cases and found that revenue (sales) frauds accounted for 50 percent of all the frauds. Within the group of revenue frauds, approximately half involved recording legitimate sales too early (before the revenues were earned or realizable), while the other half involved recording fictitious sales.

More recently, the SEC’s Report Pursuant to Section 704 of the Sarbanes-Oxley Act \([6]\) examined 227 enforcement cases (many of which alleged fraud) from 1997-2002. The SEC found that 56 percent of the cases in this later period involved overstated revenues, so revenue misstatements continue to be prevalent. The SEC report also noted that many revenue misstatements involved recording sales too early.

Enhancing Service Quality in a Hospital Setting

The Role of Sales Executives in Recent Accounting Frauds

To offer insights into the role of sales executives in recent accounting frauds, we searched the SEC’s formal reports of its enforcement actions – its Accounting and Auditing Enforcement Releases (AAERs) – for recent cases in which Sales Vice Presidents were charged with fraud from September of 2003 through mid-September of 2005 (available at http://www.sec.gov).1 In this recent two-year period, we identified eight public company accounting fraud cases in which at least one Sales Vice President was charged by the SEC with violating the anti-fraud provisions of the U.S. securities laws.2 The key elements of these cases, as described by the SEC, are presented in the Exhibit. Note that the information provided should be viewed as allegations, and in many cases, the parties charged have not admitted guilt. Some cases are still pending at this time.

Several interesting patterns are revealed in these cases. First, the sample is dominated by technology/software internet firms – typically growth companies with intense pressure to meet sales targets and analyst expectations. Second, many of the eight cases involve companies significantly overstating revenues by, among other methods, intentionally creating contingent sales whereby the customer was made to believe that revenue would be recognized when revenue recognition criteria were not met or were met but were not reliably measurable, and in many cases, the parties charged have not admitted guilt. Some cases are still pending at this time.

Public company executives, whether in sales or finance, are expected to understand (and are being held legally accountable for understanding) the basics of revenue recognition under generally accepted accounting principles, or “GAAP.” Sales staff should appreciate that “playing games” with sales can become accounting fraud.

Suggestions for Sales Executives

Given the stiff criminal penalties and the SEC’s willingness to pursue civil charges against sales executives who participate in accounting frauds, we offer four suggestions to help sales executives and their staff minimize their exposure to accounting fraud allegations.

• Education. Educate yourself and your staff on revenue recognition criteria, including the elements of Staff Accounting Bulletin No. 101[5] and its subsequent updates. Public company executives, whether in sales or finance, are expected to understand (and are being held legally accountable for understanding) the basics of revenue recognition under generally accepted accounting principles, or “GAAP.”

1 Specifically, we searched the SEC website using the following search strings: “Accounting and Auditing Enforcement Release” (or “Accounting and Auditing Release”) AND (“Vice President of Sales” OR “Vice President for Sales”) OR “Sales Vice President”). Our search strings will not identify all cases against sales executives, so the sample of cases described in this paper is smaller than the true population. For example, on May 17, 2004, Lucent Technologies, Inc. settled an SEC enforcement case alleging that it fraudulently overstated fiscal 2000 sales by over $1 billion. The Lucent case involved securities fraud charges against nine company employees, including several individuals with sales-related responsibilities [7]. This case did not show up in our Sales VP searches.

2 We went only back to September of 2003 so as to keep the number of cases profiled at a manageable number. Our intent is not to document all recent SEC cases against sales professionals, but rather to provide insights from a selection of recent cases.

3 Given the time lag in the SEC’s enforcement process, many of the alleged frauds underlying these cases preceded the Sarbanes-Oxley Act and its tougher new accounting fraud penalties, which are discussed below. It is reasonable to expect even more stringent penalties in similar future cases.

Fourth, the penalties imposed in these cases included such elements as disgorgement of ill-gotten gains, civil fines, being barred from serving as an officer or director of a public company, and jail time in a case also involving insider trading (some cases are still unresolved). Also, job loss is a common outcome for those charged with accounting fraud.

Finally, others were charged in eight of these eight cases. Sales executives typically do not act alone in committing accounting fraud, but often are working in concert with others, or are implementing fraud schemes directed by higher-level personnel.

The order letter meets the GAP [sic] requirement 97-4 [sic] for revenue recognition. The order letter allows Legato to recognize revenue for our third quarter ending 9-30-99. The order letter gives us 30 days to reach mutually agreeable terms and conditions. The unlikely event that we do not reach “mutually agreeable terms and conditions,” Logicon will have the right to terminate the order letter and all obligations. This contingency may not be expressly stated in the order letter, because of the impact on revenue recognition. However, you have my assurance that in the event that we cannot reach mutually agreeable terms and conditions, Logicon will have the right to terminate the order letter and all obligations.

The company recorded the sale in its financial statements as of September 30, 1999, even though the above side letter clearly gave the customer the right to “undo” the purported sale without penalty after that date. Amazingly, the side letter referred to the revenue recognition issue and explained why this escape clause could not be included in the actual order letter.

Third, in addition to contingent sales with side letters, other methods used to overstate sales or income included: (1) shipping products that the company knew would be returned; (2) creating bogus sales; (3) treating goods loaned to others on a trial or consignment basis as completed sales; (4) shipping product to the company’s own warehouse and recording a sale; (5) funneling cash to sales; and (6) failing to record products returned by customers. Each of these methods resulted either in sales being recorded too early or in phony sales being recorded.
How Sales Executives Can Avoid Accounting Fraud Allegations

December up to November would still be legitimate fourth quarter revenues). Overall, sales executives should watch their people closely to make sure that end-of-period manipulation of sales is not taking place and is not rewarded by the company.

- **Whistle-blowing.** If you are aware of revenue recognition issues in your company, (a) report the problem immediately to senior management and the board (perhaps through the company’s whistle-blowing channels), and (b) be prepared to seek employment elsewhere if the problem is not ultimately resolved to your satisfaction.

According to Scannell and Latour [4], simply complaining to a higher level of management and remaining with the company may not insulate an employee from civil or criminal liability in accounting fraud cases. Employees with concerns about accounting issues must be willing to inform the board and possibly even regulators (e.g., the SEC) of the problem if management does not take appropriate corrective action. While leaving one’s job is a painful and costly proposition, it clearly is preferable to becoming entangled in an accounting fraud case and facing personal liability.

**Conclusion**

We encourage sales executives to educate themselves and their staff on revenue recognition criteria and to contribute to a culture of ethical financial reporting. What may be viewed by some as “game playing” to reach a sales quota may be viewed by federal prosecutors as accounting fraud – warranting criminal prosecution. In this environment, sales executives are wise to avoid any behavior that could be construed as revenue fraud, to stay alert for any sign of revenue recognition abuses by others, and to be extremely vocal regarding any suspicions of trouble.

**References**


**Fraud Allegations Charging Sales Executive: Take-Two systematically recognized sales revenues from approximately 185 “fake” transactions in which the company, at or near the end of fiscal quarters or years, shipped hundreds of thousands of video games to distributors who had no obligation to pay for the products, fraudulently recorded the shipments as if they were sales, and then accepted returns of the games in subsequent reporting periods. In many cases, Take-Two also improperly recognized sales revenue for games that were still being manufactured and could not be shipped in time to meet the fiscal year-end, and a fiscal year 2000, improperly accounted for the acquisition of video game publishers. The executive arranged and solicited several of these transactions, andTake-Two’s improper recognition of game sales resulted in a material overstatement of its revenues from the start of the fiscal year that ended June 30, 2000. Consequently, Take-Two’s financial statements for each of the fiscal years ended June 30, 2000, 2001, and 2002 contained material misstatements. In 2001, Take-Two’s net income was overstated by $55 million. In 2002, Take-Two’s net income was overstated by $84 million.

**Other Information:** The former CEO, former COO, and several others were criminally charged.

**Penalties:**

- **Fines:** $500,000
- **Disbarment:**
- **Criminal charges:**

**Fraud Allegations Charging Sales Executive: The former CEO amassed $1.1 billion in fraudulent revenue, including a series of fraudulent transactions to inflate Lucent’s quarterly and year-end results. As a result, Lucent’s quarterly revenue was strictly enforced by as much as 17%, during the company’s 2002 and 2003 fiscal year, Lucent ultimately restated its financial statements in September 2003 to reflect the full extent of the fraudulent transactions.

According to the complaint, the CEO employed various devices to inflate Lucent’s reported results. For instance, the CEO, aided by the Sales VP, orchestrated an “inventory”) deal whereby Lucent acquired a customer with the money to purchase the products. In this deal, Lucent received $1.1 billion in revenue, which it never earned, by essentially using its own funds to create the base appearance of legitimate revenue. In another fraudulent transaction, the COO negotiated a sale agreement with a customer that qualified the customer “true name” contracts, and then misrepresented the agreement to Lucent’s finance department. The consequences the COO secured: if accountant for accuracy, would have signed out the revenue Lucent reported to the public for the sake. The complaint also alleges that the COO and Sales VP led to Lucent’s outside auditors and to Lucent’s own financial group, which enabled the fraud to remain undetected.

**Other Information:** The former COO had sales fraud and criminal charges.

**Penalties:**

- **Fines:** $500,000
- **Disbarment:**
- **Criminal charges:**
"game playing" to reach a sales quota may be viewed by federal prosecutors as accounting fraud – warranting criminal prosecution.

How Sales Executives Can Avoid Accounting Fraud Allegations


**Fraud Allegations Charging Sales Executive:** During 2001 and the first half of 2002, Fleming improperly executed a series of transactions, called "Frankenboys," to enhance earnings to "achieve the goal" of actual operating results and Wall Street expectations. In these initiatives, Fleming fraudulently structured otherwise ordinary transactions in form, that is, origin, timing, and maximized an increase in earnings. One type of initiative that Fleming used frequently during this period was accelerating recognition of up-front payments received under forward-looking vendor agreements. On multiple occasions, Fleming personnel would record side sales that described up-front payments – which Fleming and the vendors planned intended to secure future rights and services as compensation for some past event, such as a rebate or expense item. Fleming then used these letters to justify recognizing the entire up-front payment as a cost to offset expenses immediately, rather than over time as generally accepted accounting principles ("GAAP") required. These fictitious bookings enabled Fleming to meet securities analysts' earnings expectations. (Both allegations could be one of these side letters, related to $25 million payment).

**Penalty/Status of Case:** Bean executive agreed to $50,000 civil fine; Dean agreed to $400,000 civil fine.

**Other Information:**
- Other Bean's and Fleming executives and failed SEC sanctions Fleming entered Chapter 11 in April 2003.


**Fraud Allegations Charging Company and 11 Executives:** The SEC's complaint alleges that from at least 1998 until early 2002, Symbol and the other defendants engaged in numerous fraudulent accounting practices and related misconduct that had a cumulative net impact of over $230 million on Symbol's reported revenue and over $50 million on its pretax earnings.

The complaint alleges that Symbol and other defendants engaged in a fraudulent scheme to inflate revenue, earnings, and other measures of financial performance in order to create the false appearance that Symbol had met or exceeded its financial projections. The former President and others fostered a "numbers driven" corporate culture obsessed with meeting Wall Street estimates.

With no regard for generally accepted accounting principles, they used the following fraudulent scheme to align Symbol's reported financial results with market expectations:
- A "tens sheet" process through which bar code accounting entries were made to confirm the raw quarterly results to management's projections.
- The fabrication and misuse of restricting and other non-recurrent charges to artificially reduce operating expenses, create "cookie jar" reserves and further manage earnings.
- Channel stuffing and other revenue recognition schemes, involving both product sales and customer service, and
- The manipulation of inventory levels and accounts receivable data to conceal the adverse side effects of the revenue recognition schemes.

**Penalty/Status of Case:** Charges against the individuals are still pending. The company settled for $37 million and several remedial measures.

**Other Information:** Numerous company executives have been charged. Four of these executives appear to have had sales responsibilities.

5. Critical Path, Inc. (Sales VP) – Internet messaging products and services, AAR No. 1371 (also see AAR No. 1068), March 3, 2004.

**Fraud Allegations Charging Sales Executive:** The executive participated with other sales executives fraudulently inflate Critical Path's sales by $2.35 million. Another sales executive had a Critical Path salesman contact a former colleague, who now worked for an Internet shopping provider. The former colleague agreed to "evaluate" Critical Path software, but warned the Critical Path salesman that under the circumstances would the company purchase the product.

The executive changed in this case knew that the purpose in structuring the sales letter to prepare evaluation agreements and ship software before year-end was to further the scheme to improperly record revenue in the fourth quarter of 2002. On or about December 29, 2002, the executive directed the other Critical Path salesman to prepare a non-binding software evaluation agreement between Critical Path and the Internet shopping provider. Neither Critical Path nor the Internet shopping provider ever intended to honor the contract, and the executive knew this. He understood that, as part of the deception, the deal with the Internet shopping provider would be written off as a loss event during the first quarter of 2003. This "loss" was improperly included in the company's fourth quarter revenues. The executive also took non-public information about the data at the same fraud. He avoided issues of $568,364 by selling shares during this time.

**Penalty/Status of Case:** Engaged in insider trades (mostly avoided $111,900 in executive's financial statements) sentenced to three months in prison and two years of supervised release.

**Other Information:** Three other sales executives previously charged by the SEC, as was the company's President. The company's PO was in March 1999.

6. Schick Technologies, Inc. (VP of Sales and Marketing) – Medical and dental services, AAR No. 1915 (also see AAR No. 2265), November 13, 2003.

**Fraud Allegations Charging Sales Executive:** The executive (along with the CEO/Chairman) overstated sales in three quarters of fiscal 1999 by $6 million (24%). The methods used to inflate revenues were:
- Recording as sales the shipment of product to customers on a trial basis, with the understanding that the customer had no obligation to purchase;
- Recording consignment shipments as sales;
- Recording ongoing logistics sales;
- Recording sales upon shipment of product to a warehouse leased by the company; and
- Not recognizing the massive product returns that were occurring.

This, the two executives also misled the company's independent auditors by failing to disclose the true nature of two promotional programs under which customers had no obligation to purchase the product, by failing to disclose that the true focus concerning product shipment to a warehouse, and by preparing a false audit confirmation in at least one instance.

**Penalty/Status of Case:** Permanently banned from serving as an officer or director of a public company; monetary penalty of $250,000 (total of disgorgement, interest, and penalties).

**Other Information:** The former CEO/Chairman was charged by the SEC, as was the company's PO in July 1999.
Master of Science in Taxation

This intensive program allows the candidate to select tax courses that are most applicable to his or her career. The degree requires 11 upper level graduate course (31 credits). Ten of these courses are in taxation and one may be a general business elective.

Required tax courses are:
• Research and Writing
• Estates and Gifts
• Corporations
• Practice and Procedure
• Partnerships
• Research Project

The first research course (Tax Research and Writing) will be taken during the candidate's first semester. This course is designed to prepare the candidates for all subsequent tax courses by enabling them to research tax questions and to clearly communicate their findings.

The final research course (Research Project) will allow the candidate, with guidance from the course instructor, to research a current tax topic and write a paper. The written work would be expected to be of publishable quality.

Elective tax courses include:
• Planning for High Net-Worth Individuals
• Income of Trusts and Estates
• Corporate Distribution/Liquidations/Reorganizations
• Consolidated Tax Returns
• Interstate Commerce
• Foreign Operations
• Compensation, Benefits and Retirement Plans
• Real Estate
• Financial Products
• Tax-Exempt Institutions
• Specialized Industries
• Tax Accounting
• Special Topics

The elective Business Course (three credits) allows the candidate to select one course from the offerings of the Graduate Division of the Tobin College of Business or one additional tax course.

Admission Requirements

Candidates for admission must satisfy the following requirements:
• Possess an undergraduate or graduate degree in accounting or a related business field. Students must have completed core business courses or must take such courses before completing the degree.
• Successful completion of the GMAT (or an appropriate alternative examination). The successful completion of the uniform certified public accountants examination (CPA), the certified management accountants examination (CMA) or an equivalent examination could be used in lieu of the GMAT examination.

Please call for more information:
Adrian P. Fitzsimons, Chairman
Department of Accounting and Taxation
(718) 990-6461

“An M.S. in Taxation can increase earning potential whether in public accounting, private companies, tax departments in municipal governments or the Internal Revenue Service.”
—Johann Tobias, former CEO, The Peter J. Tobin College of Business

Tobin College of Business launches NEW
M.S. – Taxation to meet the increasing demand for specialists

As the demand for specialists in the field of taxation continues to increase, the need for targeted training almost becomes a requirement of future employment. With this need in mind, St. John’s Master of Science in Taxation program was born. Its mission is to provide tax professionals with in-depth knowledge of the Internal Revenue Code, tax regulations, judicial decisions and Treasury rulings. Students learn to research tax questions, facilitate tax compliance and develop tax-planning strategies—all skills necessary for future career success.

• Our taxation faculty hold the highest academic credentials and have acquired professional experience in leading New York City accounting and law firms.
• Extensive course selection allows for a high degree of program focus.
• Taxation internships are available with “Big Five” firms for those not currently working full time.
• Classes are held Monday-Thursday evenings and Saturdays in convenient New York Metro locations to meet the needs of working tax professionals.
• All courses meet CPE credit requirements in NY and NJ.

This program is accredited by AACSB International – The Association to Advance Collegiate Schools of Business.

Tobin College of Business