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# **TRADE EQUILIBRIUM: A MULTI-GENERATIONAL SOLUTION TO INDIA'S POVERTY**

**Narendra C. Bhandari, Pace University**

## **ABSTRACT**

*This paper presents a brief description of the current state of poverty in India. It is followed by a concise discussion of the various suggestions and efforts that have been made to deal with this problem. It is followed by a survey of literature. Finally, this author's theory of trade equilibrium is presented to show how it can help India eradicate its poverty for generations to come.*

## **OBJECTIVES OF RESEARCH**

This paper has the following objectives: To present a brief review of facts related to poverty in India; to present a survey of literature to present what different scholars have said about this problem and how it could be addressed; to present a brief review of the various suggestions and efforts that have been made, or are being made, to address this problem; to discuss this author's theory of trade equilibrium and how it can help India solve this problem both for its current generation and also for the generations to come; and to make suggestions for additional research.

It is an article for public policy using an academic framework. This author has been writing about this topic for the past several years. The writing sequence of the article follows its statement of objectives for better understanding.

## **POVERTY IN INDIA, SOME FACTS**

Some estimates about the nature and extent of poverty in India are presented below:

According to the World Bank, a household is in 'extreme poverty' when its personal disposable income is less than \$1 per day; and it is in 'relative poverty' when its personal disposable income is less than \$2 per day (World Bank 2000, cited by Prusty 2009). Using World Bank's definition, Prusty (2009) observes that India did not have extreme poverty since 1999; however, it did suffer from relative poverty during the period 1952-2006.

According to a report by the Planning Commission of India (August 25, 2007), 27.5% of the population was living below the poverty line in 2004-2005. Monthly per capita consumption expenditure is below Rs. (rupees) 356.35 for rural areas and Rs. 538.60 for urban areas. One out of every 4 Indians earns less than \$0.40 per day. Seventy-five percent of the poor are in rural areas. Most of them are daily wagers and landless labourers (many terms such as 'labourers' have been spelled in this article as they were written in the original writings which is based on the English language used in England).

A study made by the McKinsey Global Institute found that 54% of the people living in India were living on a house hold income of less than 90,000 rupees a year; which amounts to an income of about a dollar per person per day (Wikipedia, August 5, 2013).

National Commission for Enterprises in the Unorganised Sector (NCEUS) published a report in 2007. This report states that 77% of Indians (about 836 million people) lived on less than 20 rupees per day (about \$0.50 nominal; about \$2.0 in PPP). Most of them have no job or social security. They live in abject poverty. (Reuters, August 15, 2007; Planning Commission of India, August 25, 2007).

## SURVEY OF LITERATURE

In order to do a survey of literature on India's poverty, this author started with a title search of articles through Ebscohost, a widely used internet research service. The terms such as "India, how to reduce poverty," "poverty in India," and the like were used for this purpose. This search produced a list of more than 1,300 articles (full text, scholarly peer reviewed academic journals, for the period, 2001-2012). For practical purposes, this large list of articles was reduced to 97 articles in its first filtering. A second filtering narrowed it down to 38 articles. Most of these articles, not all, have been cited below.

According to Kalirajan (2004), the problem of poverty in developing countries needs urgent attention. Urban poverty in India, as in some other countries, is a spillover of rural poverty; and that about 65% of the labour force is still working in the agricultural sector. Kalirajan (2004) recommends that promoting investment and making an efficient use of technology in agriculture are central to reducing poverty.

Prusty (2009)'s study explores the long-term impact of the degree of openness [(total exports + total imports)/ GDP at current market prices] and overall literacy rate on poverty [per capita personal disposable income as a measure of 'absolute' and 'relative poverty'] in India from 1952 to 2006. The empirical results of his research suggest that degree of openness and overall literacy rate have positive long-term impact on per capita personal disposable income. In other words, both degree of openness and overall literacy rate are jointly responsible for the reduction of poverty (i.e. increase in per capita personal disposable income) in India during the period.

According to Cecchini and Scott (2003), Information and Communications Technology (ICT) can reduce poverty by improving poor people's access to education, health, government and financial services. ICT can also help small farmers and artisans by connecting them to markets. Low-cost access to information infrastructure is a necessary prerequisite for the successful use of ICT by the poor, but it is not sufficient. The implementation of ICT projects needs to be performed by organizations and individuals who have the appropriate incentives to work with marginalized groups.

The research by Besley and Burgess (2004) investigates whether the industrial relations climate in Indian states has affected the pattern of manufacturing growth in the period 1958-1992. They show that states which amended the Industrial Disputes Act in a pro-worker direction experienced lowered output, employment, investment, and productivity in registered or formal manufacturing. In contrast, output in unregistered or informal manufacturing increased. Regulating in a pro-worker direction was also associated with increases in urban poverty. This suggests that attempts to redress the balance of power between capital and labor can end up hurting the poor.

Borooah (2005) analyses inequality and poverty in India within the context of caste-based discrimination. Based on a study of 28,922 households, this research shows that at least one-third of the average income/probability differences between Hindu and Scheduled Caste/Scheduled Tribe households was due to the "unequal treatment" of the latter.

A paper by Tiwari's (2007) shows that poor endowments and resource base are important causes of persistent poverty. The definition of 'entitlements' in the paper is not restricted to material possessions the economic entitlements of the individual or the



household but is extended to incorporate the individual's skills, education and productive ability the non-economic entitlements. According to Tiwari (2007), over a million people can be classified as chronically poor in terms of duration, severity and deprivation. This is despite the government's commitment to the eradication of poverty since the early 1950s, with a total expenditure of nearly \$7 billion in the past 50 years. Tiwari (2007) recommends that policies aimed at reducing poverty therefore must address problems associated with improving the entitlements of individuals and households.

A study by Kalirajan and Singh (2010) shows that poverty reduction did occur during the 1990s following the implementation of India's economic liberalisation program, which included mainly industrial and FDI (foreign direct investment) policy reform. However, their analysis also shows that, thus far, FDI has not contributed significantly to poverty reduction. Their analysis clearly shows that states with dominant industrial sectors have been able to reduce poverty faster than states dominated by agriculture. The authors suggest that targeting of FDI in India has been misplaced. Had it been in the more labour-intensive manufacturing, it would have more effectively contributed to the reduction of poverty.

Kundu's (2011) paper shows that the Government of India supported microfinance program (Swarnajayanti Grameen Swarogari Yojana; or SGSY) is partially effective in reducing poverty of the rural households.

A research by Reddy and Minoiu (2007) concludes that, because of uncertainties in relation to the extent and trend of poverty in China, India, and the rest of the developing world, global poverty may or may not have increased. The extent of the estimated increase or decrease in world poverty is critically dependent on the assumptions made. They recommend improving the quality of global poverty statistics.

A paper by Gupta and Raghava (2011) tries to deal with India's problems associated with its continued trade deficit. The authors recommend, among others, the reduction of consumption of petroleum products, to help reduce this deficit.

Ramakrishna's (2011) paper finds that 2004-2009 trade liberalization policies of India played a positive role in influencing economic growth of India. They show that it had a positive impact on India's current account balances.

Imai's (2011) paper analyses the effects of access to Rural Public Works (RPW) or Food for Work programme (FFW) on consumption, poverty, vulnerability and under-nutrition in India. Using the large household data sets constructed by the National Sample Survey for 1993 and 2004, the author finds significant and negative effects of participation in RPW and the Food for Work Programme on poverty, under-nutrition (e.g. protein) and vulnerability in 1993 and 2004.

According to Neerja (2010), the economic growth in India has not been beneficial for large segments of the population thus creating a socially volatile opportunity gap between the rich and the poor. The author recommends investment in locally appropriate technology research; building market forces; scaling impact in rural or remote areas; and expanding success of the microfinance ethos of investing in people through education, training and healthcare. According to the author, partnerships between government, corporations, and academics that foster entrepreneurship can achieve economic as well as social prosperity.

A paper by Singh (2011) proposes that India should declare a financial emergency to allow land acquisition for freeway construction and infrastructure development to help the Indian economy to move forward; and help reduce its endemic poverty.

Kochar's (2008) paper argues that the effect of administrative decentralisation of poverty programmes and local public goods on the magnitude of benefits to the poor depends not just on their political strength but also on the incentives the non-poor have to improve the welfare of the poor. The design of policy pays insufficient attention to such incentive issues.

According to Pal and Palacios (2011), since 1995, cash transfers to the poor elderly, or social pensions, have been one of the most important anti-poverty programmes in India. On the assumption that elderly poverty rates are higher than the general population, the minimum eligibility condition is set for 60 + in most states. Their research, however, suggests that households with targeted elderly members 60 + do not necessarily have higher poverty rates than non-elderly households. Further analysis suggests that there is an expenditure-mortality link so that the poor tend to die younger and are therefore under-represented among those aged 60 + in most states.

Bhargava, Gupta, and Khan (2005) suggest that India's mineral wealth, which is largely untapped, could boost the economy of its eastern states. They state that India's annual coal, iron ore, and bauxite productions could expand significantly by 2015, which can offer significant opportunities for both local and multinational companies. They argue that regulations, bureaucracy, and poor infrastructure risk are keeping India's metals and minerals sector from achieving its potential.

Sharma (2003) discusses a trend in aborting female fetuses in India where people have preference for sons; and that the law banning sex determination is not enforced.

D'Souza (2010) argues that job security regulation has not had the negative effects on employment growth its critics make a case out for.

### **EFFORTS TO ADDRESS INDIA'S POVERTY**

Several efforts have been made to reduce poverty in India. They include, among many others, employment guarantee and microfinance programs (Kundu 2011); State-led credit and savings and lending programs (Burgess, Pande, and Wong 2005); establishment of phone and Internet service in rural areas of India (Underwood 2008); increase in schooling programs and decrease in child labor (Edmonds, Topalova, and Pavcnik 2009); Gyandoot -a government-owned computer network to make government more accessible to villagers in the poor and drought-prone Dhar district of Madhya Pradesh (Cecchini and Scott 2003); Intranet kiosks -or telekiosks, which allow farmers to track crop prices in the wholesale markets-enabling them to negotiate better terms (Cecchini and Scott 2003); and smart cards with an embedded microchip containing information on clients' credit histories to reduce transaction costs (Cecchini and Scott 2003).

Unfortunately, however, millions of people in India continue to suffer under poverty. The reasons for this sad situation include, among others, large population, lack of proper education and training, caste system, large dependence on agriculture, corruption, lack of infrastructure, and colonial and feudal history.

### **TRADE EQUILIBRIUM: A MULTIGENERATIONAL SOLUTION TO INDIA'S POVERTY**

The purpose of this part of the article is to present another approach to reduce/eliminate India's poverty. This author, who has been writing about it for several years, has titled it as "Theory of Trade Equilibrium."

However, let us first review the state of India's foreign trade. It is because exports from India represent creating jobs in India; and imports into India represent loss of jobs in India. And, jobs or lack of jobs are directly related to poverty.

#### **India's Foreign Trade**

Table 1 shows that India continues to have a negative trade balance--about \$28 billion in 2004-2005; \$118.6 billion in 2009-2010, and \$133.3 billion in 2011-2012 (April-

December). Clearly, over the years, India has accumulated billions of dollars due to its continuing trade deficits. That means a loss of millions of Indian jobs.

The major destinations of India's exports for 2011-12 (April-October) were as follows: United Arab Emirates (11.8%), USA (11.5%), Singapore (6.1%), and China (5.4%). However, the major Sources of India's imports were as follows: China (12%), United Arab Emirates (7.5%), Switzerland (7.2%), Saudi Arabia (6.1%), and U.S.A. (4.8%).

Unfortunately, an extensive survey of literature did not produce any studies that deal with establishing some statistical relationships between the amount of net imports and the number of jobs lost in India. Therefore, the arguments presented below are, though logical, are, however, devoid of statistics. (For your information, the United States loses about 3 jobs per million dollars of net imports).

### **Definition**

According to this author, the term "trade-equilibrium," an otherwise widely used term with different interpretations, may be defined as follows: "Trade Equilibrium is a situation when trading among various countries is such that the trading partners remain generally deficit-free from one another over a cycle of every 2-3 years."

This theory of trade equilibrium has two major goals: (a) to stop exporting of additional Indian jobs and (b) to regain the Indian jobs already exported by recommending that the rupee/trade surplus countries eliminate their surplus over a ten year period by buying Indian products (goods and services). Further, according to this theory, it is the responsibility of India's trading partners with rupee surpluses to make sure to meet the requirements of the trade equilibrium as defined here.

Within these 2-3 years cycles, a foreign country can of course use its surplus rupees to buy products from countries other than India. In that case these other countries would have the surplus rupees and, therefore, must use them to buy products from India to enable India to maintain its trade equilibrium.

## **TRADE EQUILIBRIUM'S POTENTIAL BENEFITS**

This author believes that his theory of trade equilibrium if and when it becomes a practical reality in India can help India bolster its economy, protect its jobs from further offshoring, create millions of new jobs, and reduce/eliminate its poverty. Let us review some of these benefits.

### **Trade Equilibrium Would Protect and Create Jobs**

1. There would be no new annual Indian trade deficit considering the world as a whole. There would be no additional net export of Indian jobs.
2. The Indian balance of trade would have a net trade surplus during the ten years to follow because the trade surplus countries would have to use 10% of their surplus rupees to buy Indian products to eliminate this surplus over a ten year period.

### **Where Would the Rupees Coming Home Go**

Under trade equilibrium, it would be the responsibility of the foreign countries to decide how to spend their surplus Indian rupees in India every year. Subject to the Indian laws, they can buy whatever Indian goods and services they want to.

Rupees coming back home would recreate jobs that were lost when the rupees went abroad due to trade deficit. If foreigners spend rupees visiting India as tourists, jobs would be created in industries such as transportation, hospitality, entertainment, banking, and insurance. These in turn, would create jobs in industries such as agriculture, agricultural machinery, transportation equipment, and furniture.

If the foreigners use their surplus rupees to buy equipment from India to improve their infrastructure, the jobs so created in industries manufacturing these equipment would, in turn, create jobs in industries such as retailing, transportation, and agriculture.

Manufacturing and service industries are interdependent; they feed each other. With its increasing exports, India would see its rupee appreciating in value; and it won't have to pay as much for its imports the way it does today with rupee carrying a lower value.

### **Trade Equilibrium Would Benefit Foreign Countries**

Using their surplus dollars to buy Indian products would help these countries to improve their own infrastructure and employment. They would also not have to sit on the rupees declining in value.

## **CONCLUDING THOUGHTS**

### **Trade Equilibrium Would Offer a Multi-Generational Solution**

Trade Equilibrium would protect and create millions of Indian jobs. With more jobs and higher incomes, Indians would spend more on Indian and foreign products. The consequential multiplication of free and fair trade and investments between and within countries will provide a multi-generational seamless solution to the problems of unemployment and poverty in India and the world over. The ensuing global economic growth would promote creativity, innovations, peace and prosperity. It would be a win-win, positive-sum economic stimulus, not a zero-sum game.

### **Trade Equilibrium Benefits Must be Thoroughly Evaluated**

India must thoroughly evaluate the premises, the mathematics, the simplicity, and the benefits of the theory of Trade Equilibrium and compare it with similar other approaches, tried or imagined, and then consider legislating it.

## **SUGGESTIONS FOR ADDITIONAL RESEARCH**

India needs to research and discuss the topics such as follows:

1. What would be the effects of eliminating new Indian trade deficit on its jobs, poverty, and economy?
2. What would be the effects of increasing annual Indian exports on its jobs, poverty and economy?
3. What would be the effects of reduced unemployment on the Indian tax expenditures, such as unemployment benefits?
4. What would be the effects of billions of rupees coming back home on the various parts of the Indian economy?
5. What would be the effects on the economy (jobs, infrastructure, return on investment, etc.) of the rupee surplus countries that would use those rupees to buy Indian products?

6. What would be the effects on the Indian national pride, security, and economic independence?

### END POINT

The discussion of the “Theory of Trade Equilibrium” that follows here, for India, is an adaptation of this author’s writings on this topic for the last several years for U.S., including his article titled, “Trade Equilibrium: A Multi-Generational Economic Policy,” that was published in the *Journal of International Business Research*, Volume 13, Number 1, 2014, pp 91-104.

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# DO ITALIAN MEN AND WOMEN VIEW AUTHENTIC LEADERS DIFFERENTLY?

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## ABSTRACT

*The origins, nature, and value of leadership to organizations of all types have been explored in numerous academic business studies. Adding to the discussions – writers, poets, philosophers, historians, and military theoreticians have contributed their perspectives. A relatively recent development in this stream of inquiry has been the concept of the “authentic leader.”*

*Around the world there is an ongoing emergence of women as leaders. Whether assuming the responsibilities of leading organizations, social movements, or on a particular issue, women in these positions are becoming more common. In particular, Europe has witnessed the rise of women in politics, the arts, and business. Consequently, an examination of what constitutes an authentic leader generally, and specifically whether men and women view them differently, is worthwhile.*

*The current study, exploratory in nature, examines the views of approximately 90 graduate business students at a major business school in Rome, Italy. While there is significant overlap between the genders concerning the traits of authentic leaders, personal contact and experience has led the two groups to identify different examples of those who exemplify the concept.*

## INTRODUCTION

In a recent exploratory study, where the purpose was to explore the views and perspectives of graduate students with business experience, authentic leaders were seen as having the ability to act in a way which indicated who they were as a person. This ability to “be oneself” was a quality that existed regardless of gender (Luthy and Byrd, 2014). Although this finding resulted from a U.S. based convenience sample, it sets the stage for further exploratory work. In some instances, the language used men and women differed slightly, with men focusing on “being true to oneself” while women focused on “expressing issues honestly.” Both essentially were concerned with authentic leaders acting in a way congruent with who they were as persons. Consequently, the authors concluded that a trait of the authentic leader seen through the lens of both men and women was being yourself and being able to express yourself in an open and honest way. This study created further interest in whether differences in perceptions, if any, might exist due to cultural differences. This led to the current study exploring whether Italian men and women view authentic leaders differently.

that the leader who behaves authentically creates conditions that improve the performance of those working in the organization (Khan, 2010).

Moral dilemmas that are increasingly being given attention today, based on exposure to the individual problems of those in leadership positions, validate the need to study authentic leadership and the social pressures that impact leaders (Cranton and Carusetta, 2004). The idea of considering the moral implications of leadership is not new. As long ago as 1958 the business leader Chester Barnard integrated the idea of effective leadership with the need for moral excellence (Barnard, 1958). His work in the area of executive leadership separates the personal from organizational responsibility but emphasizes the importance of both for the leader. Recent research agrees that it is necessary for leaders to take action as a result of conflicts due to issues that involve personal responsibility (Kernis, 2003).

The actions of leaders that must be taken as a result of conflicts due to issues of personal responsibility can be a challenge to the leader's authenticity. This is especially true if authenticity is viewed as being true to oneself. There is no question that leaders find themselves in situations where organizational values conflict with the personal values of those in leadership positions (Ryan and Brown, 2003). These decisions are not just based on conscious decisions grounded in rational thinking, but can be influenced by the confidence of the leader (Kashdan, 2002). These situations add complexity for the leader and demands that they reflect on the meaning and application of authenticity.

### **A FRAMEWORK FOR AUTHENTICITY**

We have previously emphasized the moral dilemmas of leadership (Cranton and Carusetta, 2004; Barnard, 1958). Authenticity can be viewed however, from a variety of perspectives (Avolio and Gardner, 2005). When viewed through the lens of morality it can be seen as being true to oneself and rising above the expectations of others (Pianalato, 2003). If ethical choice is the framework, emphasis is placed on the difference between the real and ideal self as mind and soul (Danzinger, 1997).

Another way to view authenticity is from a psychological perspective. Part of being authentic is for the leader to reflect on personal motives and unbiased perceptions of self, and the ability to reflect on behavioral and relational choices (Kernis, 2003). This requires psychological freedom so the leader is able to regulate behaviors in accord with individual needs for competence, self-determination, and relatedness (Deci and Ryan, 1995). This is closely related to the idea of "being oneself" and acting in accord with one's personal inner thoughts and feelings (Harter, 2002).

There have been different views of authenticity and how it relates to leadership versus its' psychological meaning (Bass and Steidlmeier, 1999). At the present time, developmental views are stressed (Gardner, Avolio, and Luthans, 2005). This view is consistent with the thinking of positive psychology which stresses the value of the leader's ability to influence the culture and employees (May, Chan, Hodges, and Avolio, 2003).

### **METHODOLOGY**

#### **Purpose**

The general purpose of the current study is to explore the views and perspectives of graduate business students in a culture outside of the United States, those who have had at least a modicum of direct, full-time work experience, toward the concept of authentic leaders. More specifically, from their responses to a number of definition-related and example-related

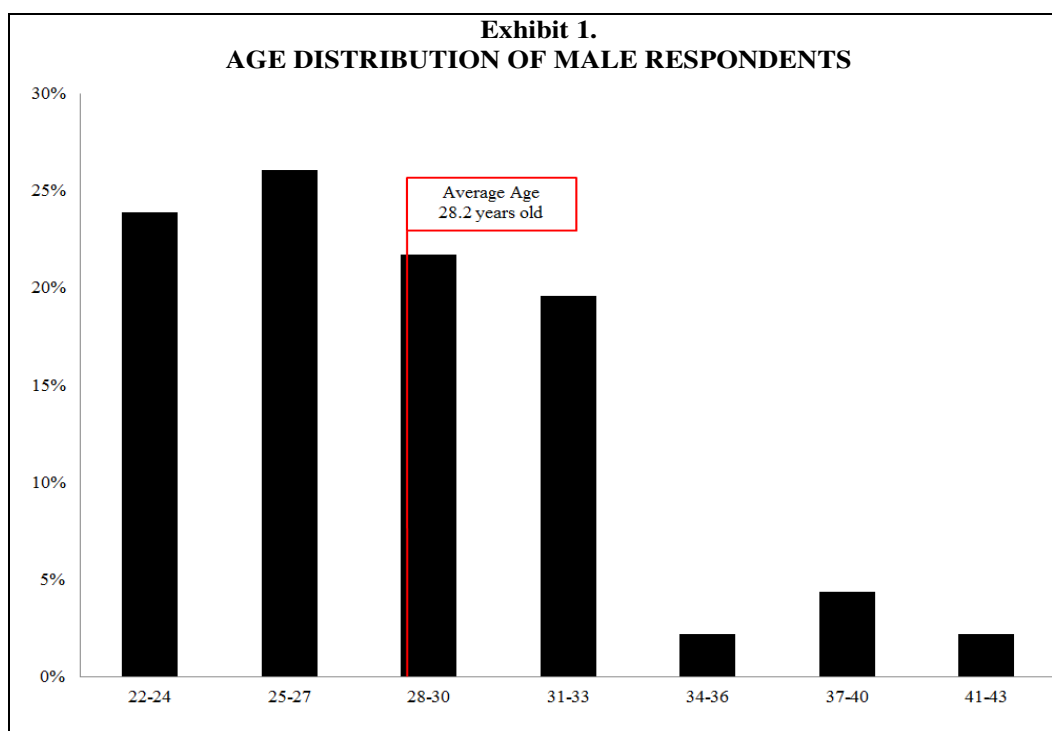


questions, the goal is to determine if there are any gender-based differences as it relates to the concept.

## Method

A one-page, two-sided pencil and paper survey was administered in classes to a convenience sample of graduate business students enrolled in a major university in Rome, Italy. All respondents were enrolled in one of the university's general or specialized MBA programs on either a full-time or part-time basis.

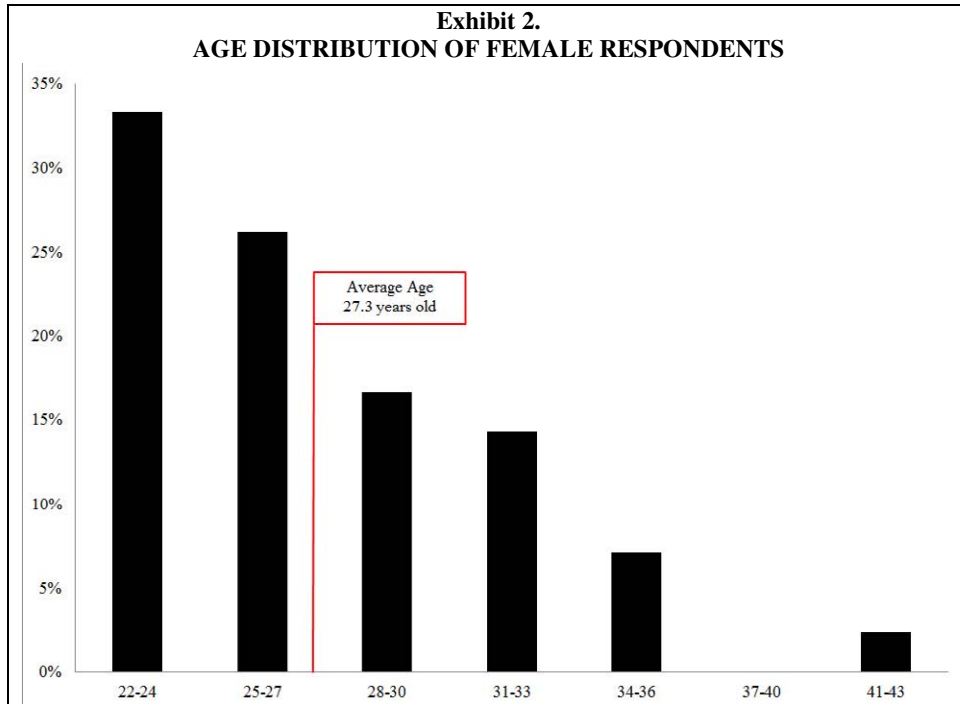
Respondents returned 88 surveys that contained at least some usable responses. Of these, 48% were completed by women and 52% by men. An examination of respondents by gender and age (see Exhibits 1 and 2) indicate very similar age distributions.



## Survey Questions

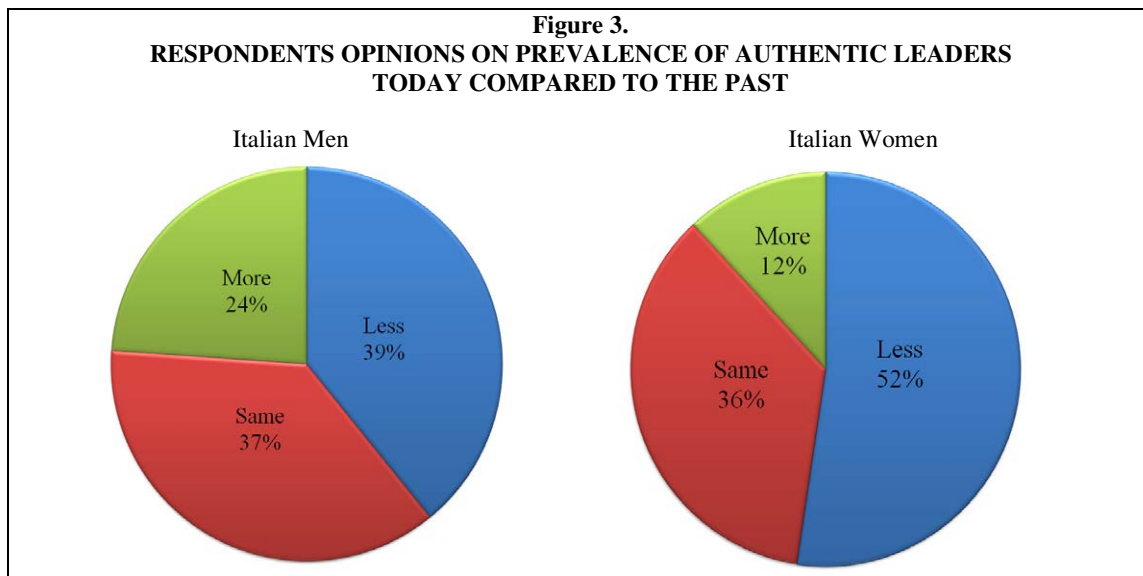
Due to the exploratory nature of the current study, the list of questions was kept to a minimum. Aside from gender, birth year, and academic program enrollment for classification questions, the instrument asked the following questions:

- Are authentic leaders: more, less prevalent today, or about the same as in the past?
- How would you define an authentic leader?
- What traits do you believe an authentic leader should possess?
- Name four people you consider authentic leaders and how others might know them?
- Why did you answer the way you did in the question above?
- What advice would you give to someone who wanted to become an authentic leader?



**Prevalence**

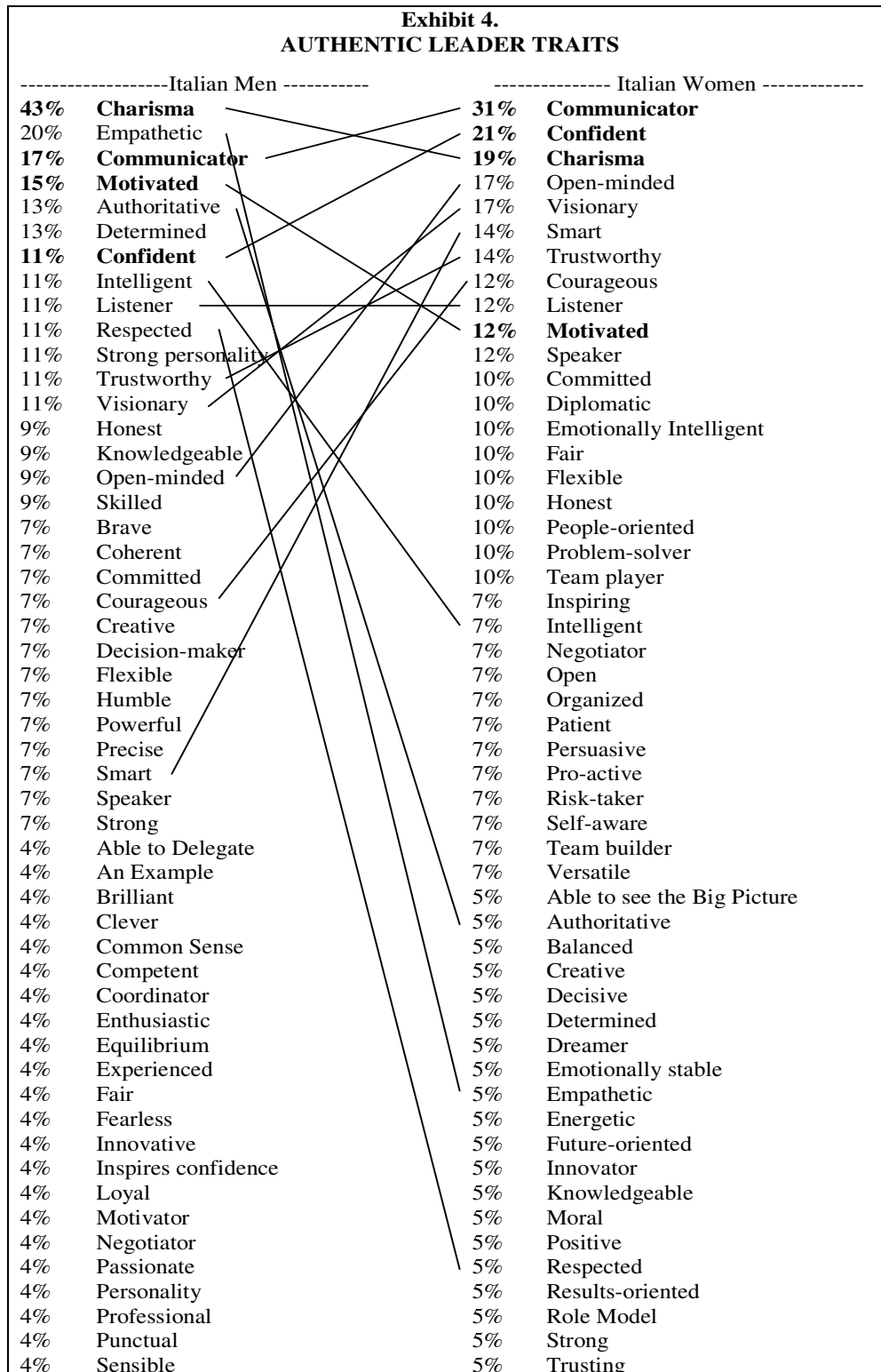
When the perspectives of male and female respondents was examined, the percentage of those two groups who believe authentic leaders are as prevalent today as in past times is virtually the same. At just over 1/3 of each sample, these respondents are indicating that short-term and longer-term historical events and trends have essentially had no effect on the core construct (see Exhibit 3).



For those who did report a difference in the prevalence of authentic leaders today, women reported a significantly less-prevalent view, either stemming from their experiences or observations.

**Traits**

Exhibits 4 and 5 shed some light on why the difference in prevalence between the



genders was observed. In Exhibit 4 all traits mentioned by more than one respondent of each gender are listed. Those listed by both Italian men and women above the 10% level of the samples are highlighted in bold. Lastly, connecting lines are included to examine patterns between where on the list Italian men and women view these traits.

| <b>Exhibit 5.</b>                             |                     |  |                       |
|---|---------------------|--|-----------------------|
| <b>SOLO MENTIONED AUTHENTIC LEADER TRAITS</b> |                     |  |                       |
| ----- Italian Men -----                       |                     | ----- Italian Women -----                      |                       |
| Able  | Intuitive           | Able to build communities                      | Hot Heart             |
| Able to brainstorm                            | Just                | Able to deal with emotions                     | Human                 |
| Able to inspire                               | Long-range thinker  | Able to deliver mission                        | Humble                |
| Able to build relationships                   | Open                | Able to say no                                 | Impartial             |
| Able to manage stress                         | Organized           | Achiever                                       | Involves others       |
| Ambitious                                     | Participative       | Action-oriented                                | Long-term focus       |
| Capable                                       | People Skills       | Acute  | Loyal                 |
| Clear Goals                                   | Persistent          | Analytical                                     | Manager               |
| Competitive                                   | Persuasive          | Approachable                                   | Mission-driven        |
| Conductor                                     | Planner             | Believes in feelings                           | Napoleonic focus      |
| Congenial                                     | Polite              | Brave  | Natural superiority   |
| Consistent                                    | Positive            | Calm   | Non-opportunistic     |
| Convincing                                    | Present             | Capability to understand other's point of view |                       |
| Correct                                       | Pro-active          | Character                                      | Notices opportunities |
| Credible                                      | Problem-solver      | Collaborative                                  | Optimist              |
| Cultured                                      | Productive          | Competent                                      | Original              |
| Decisive                                      | Proportionate       | Conscientious                                  | Passionate            |
| Dreamer                                       | Reflective          | Consistent                                     | Personable            |
| Eloquent                                      | Reliable            | Constructive                                   | Pragmatist            |
| Energetic                                     | Respectful          | Controlled                                     | Provident             |
| Entropy                                       | Responsible         | Controlling                                    | Rational              |
| Ethical                                       | Role Model          | Convincing                                     | Ready                 |
| Fast  | Sense of humor      | Cool Head                                      | Real                  |
| Forward-thinking                              | Sociable            | Coordinator                                    | Reliable              |
| Friendly                                      | Strong mindset      | Credible                                       | Savvy                 |
| Goal-oriented                                 | Style               | Critical                                       | Socially skilled      |
| Good  | Sympathetic         | Culturally intelligent                         | Soft-Skilled          |
| Good attitude                                 | Team player         | Direct   | Strategic Thinker     |
| Good image                                    | Technically skilled | Empowering                                     | Strong Personality    |
| Happy   | Time manager        | Engaged  | Strong-willed         |
| Hard-working                                  | Transparent         | Enlightened                                    | Structured            |
| Helpful                                       | Truthful            | Enthusiastic                                   | Takes initiative      |
| Human   | Non-confrontational | Entrepreneurial                                | Tall                  |
| Impartial                                     | Unselfish           | Equilibrium                                    | Thinks out the box    |
| Independent                                   | Value-driven        | Ethical  | Tolerant              |
| Inspiring                                     | Willing             | Generous                                       | Transformative        |
| International                                 | Willing to Learn    | Gives direction                                | Truthful              |
|   | Winner              | Globally-minded                                | Valuable              |
|   |                     | Holistic vision                                | Vulnerable            |
|   |                     |  | Warm                  |
|   |                     |  | Willing to lead       |

Exhibit 5 presents the remaining traits respondents identified as connected to authentic leaders. There is, as there is in exhibit 4, a good deal of overlap between men and women. Both genders of Italians however, have a fairly articulate and specific view of what traits authentic leaders need to possess.

Given the fact that respondents were able to articulate traits that, in general are consistent with authentic leadership, the next logical question would be to ask who they view

as examples of authentic leaders. Exhibit 6 presents a compilation of persons identified by respondents as authentic leaders.

Noteworthy is that in the top five for men and women are examples from a range of fields however Italian women identified more in the realm of humanitarian than Italian men.

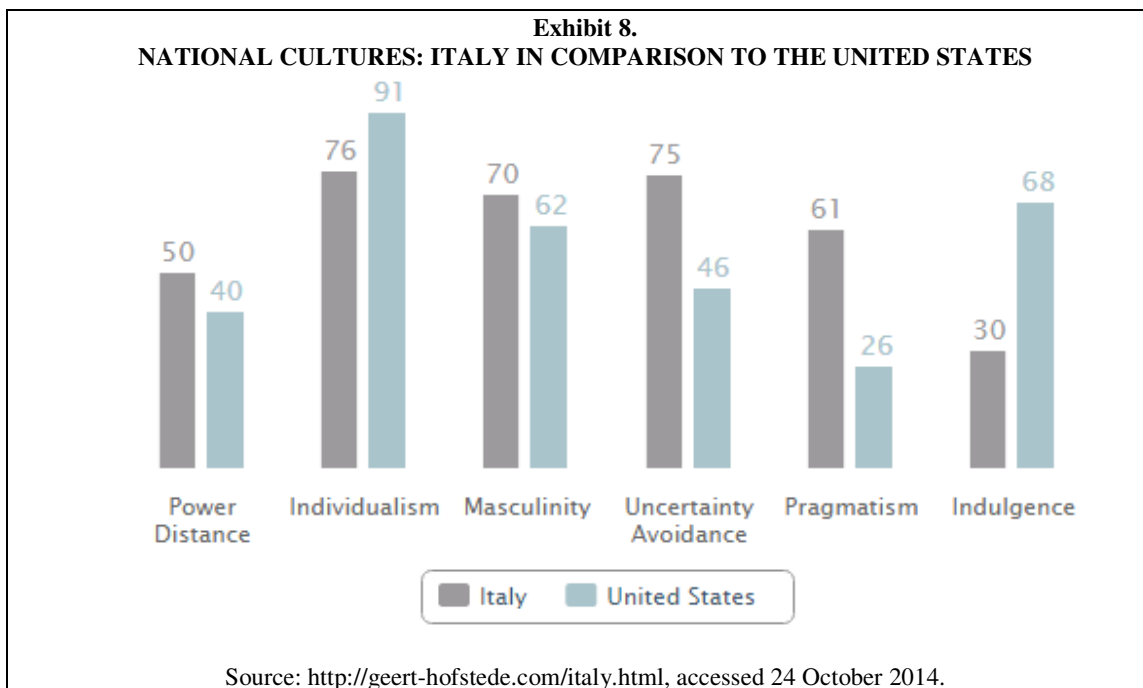
| <b>Exhibit 6.</b>  |                         |                           |              |                         |                   |
|--|-------------------------|---------------------------|--------------|-------------------------|-------------------|
| <b>AUTHENTIC LEADERS MENTIONED BY AT LEAST TWO RESPONDENTS</b> |                         |                           |              |                         |                   |
| ----- Italian Men -----  |                         | ----- Italian Women ----- |              |                         |                   |
| <u>Person</u>  | <u>Field</u>            | <u>Person</u>             | <u>Field</u> |                         |                   |
| 33%  | Steve Jobs              | Business                  | 45%          | Barack Obama            | Politics          |
| 30%  | Barack Obama            | Politics                  | 40%          | Steve Jobs              | Business          |
| 26%  | Napoleon Bonaparte      | Historical Figure         | 24%          | Martin Luther King, Jr. | Humanitarian      |
| 24%  | Nelson Mandela          | Humanitarian              | 14%          | Angela Merkel           | Politics          |
| 20%  | Silvio Berlusconi       | Politics                  | 14%          | Mahatma Gandhi          | Humanitarian      |
| 11%  | Benito Mussolini        | Politics                  | 12%          | Nelson Mandela          | Humanitarian      |
| 9%   | Bill Gates              | Business                  | 7%           | Napoleon Bonaparte      | Historical Figure |
| 9%   | Gianni Agnelli          | Business                  | 7%           | Silvio Berlusconi       | Politics          |
| 9%   | Martin Luther King, Jr. | Humanitarian              | 5%           | Adolf Hitler            | Historical Figure |
| 7%   | Sergio Marchionne       | Business                  | 5%           | Che Guevara             | Military          |
| 7%   | Giuseppe Garibaldi      | Historical Figure         | 5%           | Julius Caesar           | Historical Figure |
| 4%   | Alex Zanardi            | Sports                    | 5%           | Mother Teresa           | Humanitarian      |
| 4%   | Angela Merkel           | Politics                  | 5%           | Neelie Kroes            | Politics          |
| 4%   | Jesus Christ            | Religious Figure          | 5%           | Oprah Winfrey           | Business          |
| 4%   | Leonidas                | Historical Figure         | 5%           | Pope Francis            | Religious Figure  |
| 4%   | Matteo Renzi            | Politics                  | 5%           | Matteo Renzi            | Politics          |
| 4%   | Mario Draghi            | Business                  | 5%           | Tony Blair              | Politics          |
| 4%   | Michael Jordan          | Sports                    | 5%           | Winston Churchill       | Politics          |
| 4%   | Pope Johannes Paul II   | Religious Figure          |              |                         |                   |
| 4%   | Socrates                | Historical Figure         |              |                         |                   |
| 4%   | Pope Francis            | Religious Figure          |              |                         |                   |
| 4%   | Vincent Kompany         | Sports                    |              |                         |                   |

If one were to leave aside specific individuals cited as authentic leaders and instead focus on the fields for which they are typically known or referred to, Italian men are more prone to identify historical and sports figures than women, who tend to identify people with a personal connection or from the arts/entertainment (see exhibit 7).

| <b>Exhibit 7.</b>                        |                  |                    |
|--|------------------|--------------------|
| <b>FIELDS OF CITED AUTHENTIC LEADERS</b> |                  |                    |
|  | Italian<br>Males | Italian<br>Females |
| <b>Roughly Equal</b>                     |                  |                    |
| Politics                                 | 28%              | 32%                |
| Business                                 | 21%              | 21%                |
| Humanitarian                             | 17%              | 17%                |
| Religious Figures                        | 6%               | 5%                 |
| <b>Female Dominant</b>                   |                  |                    |
| Arts/Entertainment                       | 3%               | 7%                 |
| Personal Connection                      | 1%               | 6%                 |
| <b>Male Dominant</b>                     |                  |                    |
| Historical Figures                       | 14%              | 6%                 |
| Sports                                   | 10%              | 4%                 |

## DISCUSSION

The results presented can be viewed from a national cultures perspective. The Six Dimensions Model (Hofstede, 1980; Hofstede, Hofstede, and Minkov, 2010) compares 76 countries and measures items on a 0-10 scale. In Exhibit 8, Italy is compared with the U.S. on the six dimensions: Power Distance, Individualism, Masculinity, Uncertainty Avoidance, Pragmatism, and Indulgence. From this comparison “Authentic Leader” traits can be viewed through the lens of culture. The impact of culture from this perspective can be considered as “a collective programming of the mind” and in this context culture can distinguish any group of people, at any level of aggregation, including nations (Hofstede, 1980).



### Power Distance

In the power distance category, Italians tend to prefer equality and a decentralized power in comparison to their U.S. counterparts. The results tend to match with the authentic leader traits shown in Exhibits 4 and 5 when comparing the differences between Italian men and women. Men focus on empathy as a trait while women focus more on trustworthiness.

### Individualism

In the individualism category, the differences between Italian and U.S. cultures is significantly larger. This provides insights for further exploration and a more direct comparison in the future. Since Individualism is considered high (76) but still lower than the U.S. it suggests that the individual agenda is more dominant than the idea of society. That could explain the “centrality” of charisma identified as a central trait for “Authentic Leadership in Exhibit 4 for both Italian men and women. The trait of charisma when combined with the identification of “Authentic Leaders” in Exhibit 6, might explain the tolerance accorded those identified with negative behavior. Their behavior is far from the positive idea of being good civil servants or even fair citizens. In this view, charisma is seen

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as a gift from the Gods. This incorporates the idea that tolerance toward some behaviors that are not positive in any way is acceptable.

### **Masculinity**

The construct masculinity which is considered the iconic place for the “self-made man,” shows Italian society very high, even higher than the U.S. This could explain to some degree the popularity (and implied authentic leadership) of Steve Jobs. He has the perception of one who never quits regardless of adversity.

### **Uncertainty Avoidance**

Uncertainty Avoidance also has a high score in Italy. This can account for the formality and bureaucracy throughout the Italian national system and society. Politicians fit this category (e.g. Matteo Renzi and Silvio Berlusconi) as well as entrepreneurs (e.g. Gianni Agnelli) and managers (e.g. Sergio Marchionne).

### **Pragmatism**

Pragmatism is also somewhat high in Italian culture (61). This attribute describes how societies maintain links with the past while dealing with the present and future challenges. The roots of Italian pragmatism evolved from a distinct period of Italian history: the Renaissance (Giustiano, 2013). The Italian Renaissance was the earliest manifestation of the wider European Renaissance. This was a time of great cultural change. Great achievements began in Italy during the 14<sup>th</sup> century. The period lasted for two centuries marking a sharp transition from medieval and early modern Europe. Great historical figures including Leonardo da Vinci, Galileo, Michelangelo, and Raphael are some of the masterminds that revolutionized their fields of interest during this time period. Collectively, they created one of the cognitive pillars of the Italian mindset: the ability to combine “thinking out of the box” and tinkering (struggling with minor things by command of princes, popes, and others) (Giustiniano, 2013). The idea of combining “thinking” and “tinkering” as a way of interpreting organizational dynamics is not totally new (Ciborra, 1992). Exhibits 4 and 5 contain some useful responses for detecting the link between pragmatism, leadership, and the “thinking-tinkering” legacy to the Italian Renaissance. For thinking Masculine (M) can be seen as Dreamer, Inspiring, and Long-Range thinker, while Feminine (F) can be viewed as Thinking Out of the Box and Entrepreneurial. Tinkering is detected in the Masculine as Problem –Solver, Productive, and Hardworking Working. Reliable is listed in the both the female and male categories.

### **Indulgence**

In this category, the score is low (30). This indicates restraint. One link to leadership from the list of “Authentic Leaders” in Exhibit 6 is the presence of Pope Francis. This is for both men and women. Pope Francis is noted for his indulgent positions toward many established social constructs of the Church (Bergoglio and Skorka, 2013). A restrained life style could also be a way to leadership with the names of Mahatma Gandhi in the male category and Mother Teresa in the female category.

Linking the Six-Dimensional Model to the perceptions of male and female graduate students provides a way to differentiate them. It also provides a way to recognize differences

among different cultures. This helps understand how culture impacts the perceptions of how leaders are viewed. The perception of “Authentic Leaders” is also impacted by culture.

Cultural diversity has been studied around the world, showing how cultural patterns vary. In the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project, Robert House explored nine cultural dimensions of leadership and organizational processes. Data was collected from 18,000 managers from around the world. Exhibit 9 illustrates the countries ranking the highest and lowest on the GLOBE cultural dimensions. For purpose of the data in this study, we will consider only the areas where Italy is listed as part of the Lowest/Highest category. This consist of Institutional Collectivism, Future Orientation, and Performance Orientation.

**Exhibit 9.**  
**COUNTRIES RANKING HIGHEST / LOWEST ON THE GLOBE CULTURAL DIMENSIONS**

| <u>Dimension</u>           | <u>Highest</u>  | <u>Lowest</u>   |
|----------------------------|---|---|
| Power Distance             | Morocco, Argentina. Thailand, Spain, Russia                             | Denmark, Netherlands, South Africa (black sample), Israel, Costa Rica |
| Uncertainty Avoidance      | Switzerland, Sweden, Germany (former west), Denmark, Austria            | Russia, Hungary, Bolivia, Greece, Venezuela                           |
| Institutional Collectivism | Sweden, South Korea, Japan, Singapore, Denmark                          | Greece, Hungary, Germany (former East), Argentina, <b>Italy</b>       |
| In-Group Collectivism      | Iran, India, Morocco, China, Egypt                                      | Denmark, Sweden, New Zealand, Netherlands, Finland                    |
| Gender Egalitarianism      | Hungary, Poland, Slovenia, Denmark, Sweden                              | South Korea, Egypt, Morocco, India, China                             |
| Assertiveness              | Germany (former East), Austria, Greece, United States, Spain            | Sweden, New Zealand, Switzerland, Japan, Kuwait                       |
| Future Orientation         | Singapore, Switzerland, Netherlands, Canada (English speaking), Denmark | Russia, Argentina, Poland, <b>Italy</b> , Kuwait                      |
| Performance Orientation    | Singapore, Hong Kong, New Zealand, Taiwan, United States                | Russia, Argentina, Greece, Venezuela, <b>Italy</b>                    |
| Human Orientation          | Philippines, Ireland, Malaysia, Egypt, Indonesia                        | Germany (former West), Spain, France, Singapore, Brazil               |

In the Performance Orientation Dimension, where countries are ranked highest and lowest, the United States ranks the highest and Italy the lowest. This measures the extent to which the country encourages and rewards performance, and reflects values associated with how much individuals should be rewarded for improvements. In other categories such as Future Orientation and Institutional Collectivism, Italy is among the lowest. Future Orientation is a measure of the extent the country encourages investment in the future. This reflects planning and saving, and influences values associated with delaying gratification. Institutional Collectivism is measured by the degree which individuals are encouraged and rewarded for loyalty to the group as opposed to the individual. Since the United States is neither the lowest or the highest in Future Orientation or Institutional Collectivism, they are not listed. Still, they are not the lowest while Italy is. Comparing these differences in the context of being aware of cultural tendencies for the purpose of understanding competitive advantages, insights can be gained for any understanding of the impact of cultural influences on the individual.

### CONCLUSIONS

The purpose of an exploratory study is to do just that – begin the examination of an issue or set of questions pertaining to a specific concept. Although responses were gathered



from a convenience sample, there is sufficient evidence to state some valid, but tentative, conclusions as well as point a path forward for further study beyond the exploratory.

Some high profile recent events in the field of business have given rise to a not insignificant distinction in the term, leader. Authenticity, as a positive trait, when added to the traditional label of leader, is seen as a distinct and preferable concept – one worthy of investigation.

While the results reported here show that there are indeed some distinct differences between Italian men and women in terms of who and what these authentic leaders are, there is still some areas of agreement, mostly related to socio-cultural aspects of the country itself. Further work with both a larger sample and one that delves more deeply into the sources of respondents' evaluations and reasoning – particularly across other countries in Europe and beyond, as well as how to transmit those traits to others in order to develop as an authentic leader, are the next logical steps.

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# HOW WILL THE 2014 WESTERN ECONOMIC SANCTIONS AGAINST RUSSIA IMPACT ITS RELATIONSHIPS IN THE BRICS ALLIANCE?

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## ABSTRACT

*What will the ongoing Western economic sanctions being imposed on Russia for its actions in the Ukraine do to its relationships with the other countries of the BRICS alliance? Is the situation splitting the group or strengthening it? Could there actually be a significant downside to the sanctions for the U.S. and the EU in the future? Will the sanctions actually cause Russia to stop its "support" for the Ukrainian separatists? Do economic sanctions actually work? These are the questions this paper will attempt to answer.*

## INTRODUCTION

Since February, 2014 when the succession movement in the Crimean region of the Ukraine gained worldwide publicity and brought focus on the succeeding Russian annexation of the region as all of the world sat by and watched the TV news reports. Quite quickly the West, mainly the U.S. and the EU, reacted. The reaction was to threaten and then impose ever increasing economic sanctions on Russia as they continued to expand their involvement.

As a founding member of the BRICS alliance speculation began to crop up as to what the reaction and impact would be from the other BRICS members (Brazil, India, China and South Africa). Would it split the alliance? Would they support Russia or the West in this situation?

On March 18 the spokesperson for the Kremlin, Dmitry Peskov, claimed in a BBC interview that Russia would just switch to new partners when the economic sanctions being imposed by the European Union and the United States began. He highlighted that the world isn't unipolar and Russia has strong ties with other states as well, though Russia wants to remain in good relations with its Western partners especially with the EU due to the volume of deals and joint projects they were involved in currently.

Those "new partners" are not really new partners at all since Russia has been closely interconnected with them for almost 13 years. This is all about the so called BRICS organization, consisting of Brazil, Russia, India, China and South Africa. The BRICS represent 42 percent of the world's population and about a quarter of the world's economy, which means that this bloc of states is an important global actor [1].

This clearly points out that Russia is counting on its relationships with the BRICS to blunt the sanctions being imposed by the West. Is this a one sided view or is it reciprocal from the other members of the alliance?

While Russia buys significantly from the EU and the U.S. they have undertaken to increase ties to the developing countries, maybe in anticipation of situations just like this. Trade with China, Brazil and India has begun to steadily increase on many fronts effectively blunting or at least dampening the effects of the growing sanctions.

You could easily conclude in answer to the question of what impact will the sanctions have on the BRICS that they seem to be strengthening the alliance and enriching business activity among the members. Is this the real answer to the question that opened the paper or are there other views that merit consideration?

## DISCUSSION

Why did Russia join the BRICS alliance initially? There has always been speculation as to the reasons behind the BRICS formation. Russia in particular, despite its normal blustery posture on the world stage, is certainly not the largest economic power in the alliance. Recent reporting might shed some additional light on this subject after 13 years of quiet strengthening by the organization.

We are provided with some insight by William Pomeranz, Deputy Director of the Kernan Institute for Advanced Russian Studies at the Woodrow Wilson Center in Washington, D.C.

To the extent that the BRICS have a common core, it unites a group of emerging market countries that had no input in drafting the rules of global commerce. Russia lacks the economic clout to revisit these conventions so it needs the support of its fellow BRICS members to change the rules of the game or at least create alternative institutions that get around these rules.

Russia has used its influence to push the BRICS in that direction, and help shape the organization. What the BRICS give Russia is a geopolitical cover as well. Putin's foreign policy is based on one overriding principle: National Sovereignty. No country or international organization has the right to interfere in other nation's internal affairs, a viewpoint largely shared by the BRICS countries.

The BRICS approach also coincides nicely with Russia's version of a multipolar world and further holds out the prospect of more increased multilateral trade between the members. So from Russia's perspective, the BRICS remain a highly valuable concept that has already produced some tangible results [2].

As the perspective from William Pomeranz points out Russia is now getting from the BRICS exactly what they may have sought when they helped organize the effort in 2001. Created by Goldman Sachs analyst Jim O'Neill the BRICS was really a gimmick that turned into a formal group that is now beginning to exert some of its economic and political power potential on the world stage.

At the BRICS Summit VI in Fortaleza, Brazil in July, 2014 the leadership seems to continue to confirm that their support of continued coordination and support of efforts toward reforming the structures of global governance especially in the economic and commercial fields Financial G20, IMF and the World Bank. All of this leading to the reasons Russia is pleased to be a member at this time as the aims of the BRICS alliance nicely match Russian intentions and once again give them geopolitical cover in this time of need.

In the midst of the increasing sanctions against Russia, the BRICS summit went on as if nothing was a miss in the world. Support for Russia seems to be as strong as ever and focus on the theme of the summit "Inclusive Growth: Sustainable Solutions" kept that clearly on growing member cooperation and trade which has always been an issue in the alliance.

Does the Fortaleza summit declarations answer the question of whether the sanctions against Russia are splitting or strengthening the alliance? Some hint of the level of the support for Russia may be in the announced plan to hold the BRICS Summit VII in Ufa, Russia in 2015.

Further evidence of the continued support for the nationalization and economic growth is the announcement and signing of an agreement to form their own New Development Bank (NDB) sponsored by the alliance in answer to the previously mentioned financial concerns they publically share.

The Fortaleza declaration announces the signing of the agreement to establish the New Development Bank (NDB) with the express purpose of mobilizing resources necessary

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for the improvement of infrastructure and the initiation of sustainable development projects in the BRICS and other emerging and developing economies.

Based on sound banking principles the NDB will strengthen the cooperation among our countries and will supplement the efforts of multilateral and regional financial institutions for global development thus contributing to our collective commitments for achieving the goal of future strong, sustainable and balanced growth. The first chair of the NDB Board of Governors shall be from Russia [3].

In addition to the push for essentially a BRICS bank to give countries an alternative to the G20, the G\*, the IMF or the World Bank the declaration from the recent summit also makes a clear point that the BRICS are committed to raising their level of economic cooperation to a new level, with no mention of leaving out Russia. In fact specific language from the declaration that seemingly supports Russia, as a BRICS member, in this time of economic/political confrontation over the Ukraine follows:

We are committed to raise our economic cooperation to a qualitatively new level. To achieve this, we emphasize the importance of establishing a road map for intra-BRICS economic cooperation. In this regard we welcome proposals for a “BRICS Economic Cooperation Strategy” and increased economic trade and investment cooperation among all our members [4].

Among the ten main topics in the Fortaleza declaration clearly Russia, through its President Vladimir Putin, has continued to garner increased support as he promotes the idea of national sovereignty among the membership. Coincidentally this is the policy that President Putin cites in the documents used to annex Crimea and support Russia’s continuing help for the Ukrainian separatists in the eastern portion of that country.

Could there actually be a significant downside to the sanctions for the U.S. and the EU in the future? Will they impact the BRICS and all the other nations of the world?

The first clear impact of this is the statement by Russia that it will not return to the G8. “Such a format does not exist for now” Kremlin spokesperson Dmitry Peskov told a Russian radio station. “Russia will however continue to participate in the Group of 20” which includes most developed and major developing countries of the world said the Kremlin spokesperson [5].

In typical Russian fashion, while being expelled from the G8, they continue to maintain membership in the G20 so they still continue to have contacts with other nations much as before. While they try to divert attention away from the effects of the sanctions and the expulsion from the G8 by acting as though nothing has really changed classically, an act of Russian public relations misdirection they are historically known for enacting.

The initial sanctions against Russia were focused on individuals, then banks and now finally on corporations. Will this staged response by the West actually have an impact long term? The ongoing evaluation of that economic impact is already being examined.

In a Financial Times article written by Timothy Ash he offers some early analysis. The list of individuals is fairly significant capturing yet more of the Kremlin’s elite, those nearest and dearest to President Vladimir Putin. However, reviewing the list of banks and corporations sanctioned, what is striking is the relative absence of any at the “commanding heights” of the Russian economy there had been an earlier hint from U.S. government officials quoted in the media that some Russian state-owned banks might have been sanctioned, none where.

Among the corporations there appears to be a plethora of construction companies. In recent days the U.S. press has been awash with suggestions that the U.S. administration was eager to expose the illicit wealth of the Kremlin elite, and the inclusion of construction companies and some small banks is likely aimed at further pointing the way for investigative

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journalists and a warning to regime members that the U.S. government knows where they have their investments.

The measures unveiled so far do not even begin to address the question of whether sanctions can work to the extent of changing Russian policy toward the Ukraine [6].

This leads to the next question “Will the economic sanctions cause Russia to stop supporting the Ukrainian separatists?”

It is quite obvious that that the sanctions have up until now produced much back and forth, but not any real results. Both sides continue to bluster like comic strip characters in a cartoon.

Tensions remain high one day and lower the next as Russia moves its troops around like chess pieces and the two sides or really three sides meet endlessly around Europe seeking some kind of a resolution. Is a solution possible? Crimea is gone, and the Eastern Ukraine is still in doubt with neither side giving up anything. Russian support for the separatists continues covertly and overtly. The Ukrainian military with increased Western support continues to push back, but the issue remains very much in doubt day to day. The sanctions themselves have had an impact on Russia, but not enough for Putin to step in and end this.

Russian economic performances continue to weaken with growth slowing from 4.3% in 2011 to 1.3% in 2013 and investment is contracting. Since US and EU banks and investors may well be reluctant or unable to lend to Russia under the current circumstances, the economy may slow further and the Russian private sector may require official support.

The current climate is negative for economic growth. Russia was already experiencing a slowdown with growth falling and investment declining. Fitch has revised downward its growth forecast to less than 1% in 2014 and only 2% in 2015. These projections still rely on a mild upturn in investment, which is now less likely. Indeed, recession is possible, given the impact of higher interest rates, a weaker ruble and geopolitical uncertainty [7].

Against this background, the Russian authorities will want to minimize any additional negative impact on the economy by the infusion of additional government funds, usually never made in a public pronouncement. Second measures targeted at influential Russians, such as visa bans and asset freezes may be also effective in increasing the pressure on authorities for a negotiated settlement according to reports. Economists seem to agree that Russia has done itself more harm than good with its aggression in the region. The ruble and the stock market have been tumbling and the GDP forecasts, as reported earlier, have been slashed, but President Putin remains entrenched in his position.

With President Putin, supported by his BRICS allies, doing nothing to change the situation where does the action go next? More in fact is currently being written about the impacts of the counter sanctions on Europe this winter rather than on seeing a potential end to the support of the Ukrainian separatist movement by Russia.

Carstan Brzeski, a senior economist at ING, and his colleague Peter VandinHoute, ING’s chief euro-zone economist, have roughly estimated how the sanctions might impact Europe. Absent sanctions it would be reasonable to expect the European economy to grow one per cent this year. The direct impact of the sanctions on that figure, despite the worries of some European leaders, would be relatively miniscule: G.D.P. growth would be lower by about half of a tenth of a percentage point.

Few would argue that sanctions are supposed to be a profit making enterprise: their goals tend to be political, not economic. By imposing sanctions on Russia, European leaders hope to encourage a de-escalation of the situation in Crimea. And yet, it’s clear that for sanctions to work, they should harm the sanctionee more than the sanctioner [8].

Russia despite many feints and promises continues to follow Putin and withdraw troops, promise winter relief and then a day later completely reverse themselves. Troops back to the border, winter gas to Europe in question, random attacks from inside Russia pick up in

the Ukraine and prices go up. Once again nothing really changes as the news seems to have at least one story per day about activity in the area, on both sides. Both sides continue to talk compromise and settlement yet almost a full year after this started nothing in terms of a settlement has happened or is on the near horizon.

In the background all the new strategy Russia seems to be employing is to try to grow despite the sanctions by utilizing all of its old alliances, like the BRICS and the Customs Union (Russia, Belarus and Kazakhstan) to blunt the effects of the sanctions. Toward this end Russia has also been courting Vietnam to join the existing Customs Union organization. Normally customs unions consist of neighboring countries which this certainly would not be. Is this yet another actual attempt by Russia to blunt the sanctions or push at the United States as it also tries to have Vietnam become part of its Pivot to Asia initiative?

The world has seen Russia do as they have always done going point counterpoint to the West since February, 2014. At this time one must conclude that while the sanctions have had some limited economic impact on Russia they have not stopped the support of the separatists. Today they are perhaps more covert than they were in the beginning, but they are still the power behind the scenes.

Economically the EU has seen its economy suffer in some ways which are more visible country to country than the Russian travails, which are still easily hidden by the Putin government. Russia is receiving increasing support from the BRICS and others seeking to expand open markets and satisfy their own economic needs and shortfalls. As history has repeatedly shown global politics and political action is business as usual.

All of this brings out clearly the age old question and the last question posed at the beginning of this paper “Do economic sanctions or any sanctions actually work?”

In a long term study published by the Peterson Institute they found that economic sanctions are partially successful about one-third of the time. Of the 174 cases they examined dating from World War One, the most successful cases were when the goal was modest such as the release of a political prisoner, where there was only 50% success. When the aim was more ambitious, such as changing a major policy the success rate drops to about 30% [9].

Since October 1960 when the U.S. began its sanctions against Cuba, which have never produced a regime change there, but have only done economic damage to the average Cuban people and as a result the U.S is currently in the process of changing that long standing policy. We have also seen sanctions imposed against Iran, which some authorities say pushed them to the negotiation table, will hopefully result in a much restructured nuclear program one that the world can live with.

A case can be made that says basically economic sanctions seldom work, they harm populations that were not intended to be harmed and maybe in the 21<sup>st</sup>. century we must find another way. In the last 50 years we have seen too many unplanned consequences like higher oil prices, energy shortages and now we await the results of the ever increasing economic and political pressure on Russia. Russia, unlike Cuba, Iran, Iraq, South Africa and others sanctioned in the past is a vast country with the resources to fight back with sanctions of its own against some portions of the West. Will the West continue to ratchet up the pressure on Russia or will the Russian push back cause the stalemate in the Ukraine to stay that way? If so it will fall into the historical pattern of only 30% of all sanctions ever really are successful.

Latest news reports continue to support the idea that the sanctions are at best a standoff. Elections are being held in the separatist areas heartily supported by Russia with little more than some verbal actions being taken by the West to protest these “sham” elections. Has Russia actually achieved a stalemate? Certainly a question only answered by a later historical review.

## CONCLUSION

The retaliatory economic sanctions imposed with so much fanfare by the U.S. and the EU in February, 2014 has ultimately had little or no effect on settling the Ukrainian crisis. Russia is still being Russia and the western allies still bluster about tougher sanctions to come, but to what end?

The overall topic of this paper concerns Russia's relationship with the BRICS since the economic sanctions were put in place. The reality is the BRICS alliance and the membership's relations with Russia have actually become stronger as they have stood solidly with Russia throughout the crisis.

Russian President Putin and his administration at year end 2014 were still posturing and calling for "mutually acceptable solutions" to end the "outstanding issues" with the West. Such pressure not only causes direct economic damage, but also threatens international stability. Attempts to use the language of ultimatum and sanctions in talks with Russia are absolutely inadmissible and have no chance for success," he said.

"We hope that common sense will prevail. We call for the abandonment of the distorted logic of the restrictions and threats and to arrive at mutually acceptable solution to the outstanding issues" he added.

"The Russian economy, said Russian Finance Minister Anton Siluanov, is losing around \$40 billion in a year because of the sanctions and another \$90-100 Billion because of a 30 percent drop in oils prices." [10]

Whatever the truth about the sanctions is, even Russia is admitting they are doing some harm. Through all the turmoil, publicity smoke screens and political intrigue the one clear fact is the BRICS stand with and behind Russia against the sanctions. They are all in fact "partners" in the alliance.

Since the BRICS 2014 annual meetings the support for Russia has not wavered, despite push back from the West. Russian sanctions against the West have opened wide the doors to raise imports to Russia from the BRICS. With the import of western food products no longer allowed by President Putin the BRICS have raced to fill the gaps. Brazil and China have upped exports of chicken, fruit and vegetables while a variety of other nations, not members of the alliance, have also stepped up. Argentina, Chile, Ecuador, Uruguay and a smattering of other nations are now shipping higher levels of meat, fish, fruits and vegetables to fill the appetites of hungry Russians. Establishing new trade partners may forever change the Russian import/export scenario's that existed before the 2014 sanctions began.

Over the next year the current Western policy of trying to isolate Russia for its support of the separatist elements in the Ukraine will continue to be tested. As previously illustrated Russia has once again become a closer ally of China, and the growing power of the BRICS alliance. International politics once again is in the forefront of the news and Russia above all is being Russia with President Vladimir Putin taking center stage and seemingly failing to wilt under Western economic and political pressure.

The BRICS alliance appears to be able to influence some of the strange recent Russian behavior, because Russia needs them in the absence of former Western trading partners. Pushed by the BRICS and their escalating power in the United Nations and the G20 Russia continues to "negotiate" the issues in the Ukraine and Crimea. This action from Russia, at least in the press and on TV, points out the increasing power of the BRICS and the influence they exert on the world stage as well as their fellow alliance member Russia.

How will it all work out? Will Russia continue to make feints toward a solution? How long can they withstand the economic damage being inflicted by the sanctions and will ultimately the leverage of the BRICS bring about some kind of a solution? The answer is just



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not that simple. The news media each day carries stories of new activities and actions on both sides in the Ukraine where there appears to be no solution in sight.

One thing is certain the answer to the question posed at the beginning of the paper: “What will the ongoing Western economic sanctions being imposed on Russia for its actions in the Ukraine do to its relationships with the other countries of the BRICS alliance?” is clear. The Western sanctions have not only strengthened Russian participations in the BRICS alliance but also have increased the BRICS influence in world affairs and opened new trade partnerships for Russia which may forever impact the world import/export marketplace.

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# EXPLORATORY RESEARCH ON SMES' UTILIZATION OF THE STATEMENT OF CASH FLOWS IN JAPAN AND GUAM

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## ABSTRACT

*The objective of this exploratory research was to conduct a preliminary investigation of the use of the Statement of Cash Flows (SCF) by SMEs in Japan (Kyushu region) and Guam, to identify differences and similarities between the two countries based on the characteristics of users' demands as perceived by producers, and to develop discussions for future research. We conducted a survey questionnaire in Japan and Guam to investigate how a statement of cash flows impacts SMEs. Survey results reflect the difference in utility between producers of each country based on the accounting framework relied upon and internal and external users' needs. Major differences are that Japan SMEs' producers prefer a cash budget schedule to SCF in compliance with lending institutions' requirements while in Guam producers are required to prepare SCF in accordance with the Financial Reporting Framework for SMEs that may or may not be relevant to third party users. As a result, the recognition rate, production rate, demand, and comprehension level of SCF are much higher in Guam than in Japan. Not with standing, Japan SMEs that produce SCF consider it equally important and relevant as Guam's SMEs. A majority of producers' in Japan are certified public or tax accountants while in Guam there is an even distribution of producers' among certified public accountants, accountants and owner managers. When considering all financial statements including the balance sheet and income statement items, the information emphasized when making decisions by Japanese SMEs is "sales", followed by "operating profit" and "current net profit." In Guam, there are no accounting items that are emphasized significantly as in Japan. However, from SCF, operating, investment, and financial activities, and free cash flows are considered more relevant in Guam than in Japan. We conclude this paper by making recommendations on how to improve policies on cash flow strategy and credibility based on the utilization rate of SCF in SMEs, and identifying topics for future research studies on SMEs.*

## INTRODUCTION

This is an exploratory research study investigating producers' utilization and perception of the statement of cash flows' (SCF) usefulness and decision-relevance for Small and Medium Sized Entities (SMEs) in Japan (Kyushu region) and Guam, as well as identifying the differences between the two countries.

As a U.S. territory, Guam's governing accounting standards are U.S. Generally Accepted Accounting Principles (US GAAP). In general, U.S. territories have small economies populated by small businesses (SBA Office of Advocacy, 2013). Although the American Institute of Certified Public Accountants (AICPA) does not provide a definition for SMEs, company size is a considering factor when defining SMEs. However, there are other characteristics that are also relevant such as contractual agreements, owner-manager relationships, complexity of transactions, purpose for preparing financial statements, and future plans and prospects (Robbins & Taylor, 2014). Similarly, the Financial Accounting Standard Board (FASB) Private Company Council issued a framework for private companies

and identified the following factors that differentiate them from public companies. These are: “number of primary users and their access to management, investment strategies of primary users, ownership and capital structure, accounting resources, and learning about new financial reporting practices” (FASB, 2013, p. 8). Unfortunately, there is no up-to-date data on business size for U.S. territories, but based on the number of business establishments with less than 500 employees in Guam, approximately 99.9% of business meet the general characteristics of SMEs (SBA Office of Advocacy, 2013).

Unlike the United States, in Japan SMEs are clearly defined under the Small and Medium Enterprise Basic Act (Okabe, 2013). For example, in the manufacturing industry, SMEs are those with capital or investments of less than 300 million yen or with a workforce of less than 300 employees; in the wholesale industry, the amount of capital or investments should be less than 100 million yen, or a workforce of less than 100 employees; in the retail industry the threshold for investments or capital is less than 50 million yen or a workforce of less than 50 employees; lastly, in the service industry is also capped at 50 million yen for investments or capital, but the amount of employees is capped at 100 (Okabe, 2013) The number of SMEs in Japan is 99.7% (Okabe, 2013).

Japanese accounting standards are based on the General Accounting Standards for SMEs (hereinafter referred to as “Accounting Standards for SMEs”) that were published in February 2012 after a planning meeting on accounting in SMEs. In Japan, the Accounting Standards for SMEs do not require the inclusion of statement of cash flows as part of the financial statement disclosures (Kawasaki & Sakamoto, 2014). However, in Guam, SMEs rely on the Financial Reporting Framework for SMEs (hereinafter referred to as “FRF for SMEs”) that was published in June 2013 by the AICPA, which states that a statement of cash flows is to be prepared as part of standard financial statements (AICPA, 2013). FRF for SMEs is more principle-based than

U.S. GAAP allowing these companies a certain degree of professional judgment when issuing financial statements (Robbins & Taylor, 2014). Further, principle-based standards mitigate preparer’s aggressive reporting tendencies more than rules-based (Agoglia, Doupnik, & Tsakumis, 2011). It is not the subject of this paper, but as with the FRF for SMEs, a statement of cash flow is also included as a table in financial statements under the International Financial Reporting Standards for SMEs (here in after referred to as “IFRS for SMEs”) (IFRS, 2009).

Based on these differences from accounting systems that affect SMEs, we conducted a survey questionnaire in Japan and Guam to investigate how a statement of cash flows impacts SMEs. Survey results reflect the difference in utility between producers of each country based on the accounting framework relied upon and internal and external users’ needs. Major differences are that Japan SMEs’ producers prefer a cash budget schedule over a statement of cash flows (SCF) in compliance with lending institutions’ requirements while in Guam producers are required to prepare SCF in accordance with the FRF for SMEs that may or may not be relevant to third party users. As a result, the recognition rate, production rate, demand, and comprehension level of a statement of cash flows are much higher in Guam than in Japan. Not with standing, Japan SMEs that produce SCF consider it equally important and relevant as Guam’s SMEs. A majority of preparers’ in Japan are certified public or tax accountants while in Guam there is an even distribution of preparers’ among certified public accountants, accountants and owner-managers. When considering all financial statements including the balance sheet and income statement items, the information emphasized when making decisions by Japanese SMEs is “sales”, followed by “operating profit” and “current net profit.” In Guam, there are no accounting items that are emphasized significantly as in Japan. However, from the SCF, operating, investment, and financial activities, and free cash flows are considered more relevant in Guam more than in Japan.

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The rest of this paper is organized as follows. In the next section, we present the literature review, followed by a description of the research design and data collection methodology. The analysis of results and discussion are presented in the last section. We conclude this paper by making recommendations on how to improve policies on cash flow strategy and credibility based on the utilization rate of SCF in SMEs, and provides suggestions for future research studies on SMEs.

## LITERATURE REVIEW

The literature pertaining to the statement of cash flows for small and medium-sized enterprises is limited. Nonetheless, there are several studies that have investigated the utility and usefulness of the statement of cash flows in unregulated environments. Farcane, Capusneanu, and Briciu (2012) investigated the implications of IFRS adoption to SMEs' cash flow situation in Romania. A survey instrument was used to collect data on the usefulness and importance perception of the SCF for producers and information users. Producers agreed that the SCF is useful for planning, financial analysis, and assessing performance; and, that it is best at examining the relationship between profitability and net cash flows, and impact of price changes. However, respondents rated the SCF low on usefulness for forecasting. In contrast, answers provided by information users were more spread out concerning its utility and usefulness, suggesting that they don't have sufficient knowledge to ascertain its usefulness and utility (Farcane et al., 2012).

In the United States, prior to the enactment of FASB Statement No. 95 requiring the inclusion of the statement of cash flows as part of the full set of financial statements (effective July 1988 (FASB, 1987)), a study was conducted to assess the utility of the 'Funds Flow statement later renamed the statement of cash flows (Kempner, 1957). Survey results reported an increase in the use of the Funds Flow statement from one-third to more than two-thirds in a 10-year period. The statement's utility was limited to the analysis of the change in working capital and source of funds (Kempner, 1957). More recent studies report that SMEs have a need for financial statements including the SCF for decision-making, management, and meeting third party's contractual and lending obligations (Allee & Yohn, 2009). This supports previous findings that firm size and growth significantly influence demand for financial statements (Allee & Yohn, 2009). Similarly, in Australia, companies that had a history of preparing SCF before it became mandatory demonstrated a continuous need for the statement for decision-making purposes and internal use (Jones & Ratnatunga, 1997). Firms with a history of reliance on SCF rated it high in relevancy in different areas such as liquidity, solvency, and decision-making (Jones & Ratnatunga, 1997). Results from these studies demonstrate that even in an unregulated environment firms have the need for financial statements including the statement of cash flows for internal and external use.

Although these studies investigated the utility and usefulness of the statement of cash flows in unregulated environments, only a few studies focused specifically on the utility and usefulness of SCF on SMEs (Farcane et al., 2012; Okabe, 2013, 2015). Most importantly, there are no previous studies on the utility and usefulness of the statement of cash flows for SMEs in Guam or any other U.S. territory, even though most business in the region would be classified as

SME This study attempts to address this gap by comparing the utility and usefulness of the statement of cash flows from a producer's perspective between SMEs from Japan's Kyushu region and Guam. Given that there are few precedents for a study of this kind, our research is exploratory with the purpose of analyzing themes for future research (Bryman & Bell, 2011). We hope that our findings can be used to generate more meaningful research in the future.

## RESEARCH DESIGN

Given the difference in the level of demand from accounting systems and financial institutions (banks) regarding a statement of cash flows in Japan and Guam, it is not surprising there is a disparity between the two countries in the prevalence and demand for a statement of cash flows in SMEs. Presently, it is hypothesized that the state of acceptance, including the comprehension of, demand for and actual usage of a statement of cash flows, is higher in Guam than it is in Japan.

With this, the survey questionnaire for this paper in Japan was targeted toward SMEs in the Kyushu region. In Guam, the same questionnaire was conducted targeting SMEs and, for those question topics that were identical in both countries, a comparative review of the survey results was carried out. Most importantly, based on the findings, we tested the difference in rate of the two groups of both countries as an empirical analysis. The overview of the survey questionnaire is outlined in Table 1. The questionnaire was comprised of 22 questions developed by the authors. Most questions were dichotomous (yes/no, true/false) and multiple choice. Questions were organized into seven major categories: 1) usefulness and relevancy of SCF (recognition, production, demand, comprehension, and management); 2) degree of importance;

3) Producers' characteristics and purpose; 4) methodology (direct versus indirect methods); 5) usefulness and relevancy of cash budget schedules (recognition, production, demand, comprehension, and management); 6) recognition of Accounting Standards for SMEs, and FRF for SMEs; and, 7) relevancy of financial statement information for decision-making. Survey respondents were producers of the statement of cash flows in both countries.

| <b>Table 1</b>                       |                              |                        |
|--------------------------------------|------------------------------|------------------------|
| <b>QUESTIONNAIRE SURVEY OVERVIEW</b> |                              |                        |
|                                      | <b>Japan</b>                 | <b>Guam</b>            |
| Survey Target                        | SMEs in Japan (Kyushu)       | SMEs in Guam           |
| Survey Method                        | Individual Interview Method  | Web-based Method       |
| Survey Time frame                    | November 2012 – January 2013 | April 2014 – July 2014 |
| Sample Size                          | 880                          | 37                     |

## ANALYSIS OF RESULTS

### Usefulness and Relevancy of the Statement of Cash Flows

Results show that Guam's producers rated SCF higher than Japanese producers in general for usefulness and relevancy. Usefulness and relevancy of SCF were measured based on five characteristics: recognition rate, production rate, demand, comprehension level, and cash flow management. Recognition refers to respondents' acknowledgement of SCF. There is a much higher recognition rate in Guam than in Japan. The recognition rate in Guam is 89.2% while in Japan is only 60.2%.

Actual issuance of SCF on an annual basis was measured by production rate. The production rate is higher in Guam than in Japan, 56.8% and 25% of respondents produce this statement respectively. These findings are significant at the 1 percent level, which, at less than half that of Guam, is remarkably lower (Table 2).

Likewise, significant differences were found in the level of demand. The level of demand measured producers' perception of internal and external users' 'need' for SCF. Comprehension level variable assessed participants' knowledge of SCF's components (operating, investing, and financing). However, the gap for the cash flow management

variable, which assessed decision-usefulness and relevancy of SCF, was much less significant indicating that both countries agreed on the functionality and benefits of SCF for decision-making. Previous research findings on the intended use of SCF for managerial purposes of Japanese public companies listed in Tokyo Stock Exchange support this assessment. Most companies reported using SCF in planning for capital expenditures and financing, assisting with cash budgeting, scheduling of payments, and collecting accounts receivable (Someya, 1996).

| Q9, Q10, Q15, Q18, Q19<br>(Upper row: actual number, Lower row: %) | Sample Size | Recognition Rate | Production Rate | Level of Demand | Contents Comprehension Level | CashFlow Management Content Recognition Rate |
|--|-------------|------------------|-----------------|-----------------|------------------------------|--|
| Japan  | 880         | 530              | 220             | 370             | 318                          | 384  |
|  | 100.0       | 60.2             | 25.0            | 42.0            | 36.1                         | 43.6   |
| Guam   | 37          | 33               | 21              | 29              | 23                           | 19   |
|  | 100.0       | 89.2             | 56.8            | 78.4            | 62.2                         | 51.4   |
| Results of the Test on the Difference in Rate                      | **          | **               | **              | **              | **                           |  |

\*\* , \* Indicate statistical significance at the 1percent, and 5 percent levels (two-tailed), respectively.

### Degree of Importance of Statement of Cash Flows

Of the SMEs that produce SCF, the degree of importance (the portion who responded that “a statement of cash flows is regarded as important”) was extremely high in both countries and there was little difference between the two countries with Japan at 80.9% and Guam at 90.5% (Table 3). In essence, it is thought that for SMEs that produce a statement of cash flows, from a management accounting and financial accounting standpoint, SCF is instrumental when evaluating credibility and performance. In the U.S., these results agree with previous findings on the utility and usefulness of the statement of cash flows (Allee & Yohn, 2009; Farcane et al., 2012; Jones & Ratnatunga, 1997). In Japan, a survey conducted in 1985 (before SCF disclosure became a requirement by the Securities and Exchange Law effective March 1, 2000) showed that 72.4% of public companies surveyed agreed that SCF is the statement of choice for providing financial information while 27.1% disagreed (Someya, 1996). Thus, even in unregulated environments, companies in the U.S. and Japan agree on the degree of importance of this statement. The actual utility of this statement is explored in the next sections.

| Q30<br>(Upper row: actual number, Lower row: %) | Sample Size | Degree of Importance |
|---|-------------|----------------------|
| Japan   | 220         | 178                  |
|   | 100.0       | 80.9                 |
| Guam  | 21          | 19                   |
|   | 100.0       | 90.5                 |
| Results of the Test on the Difference in Rate   |             |                      |

\*\* , \* Indicate statistical significance at the 1percent, and 5 percent levels (two-tailed), respectively

### Producer of a Statement of Cash Flows and Purpose of Use

Of the SMEs that produce a statement, 80% of the producers of SCF in Japan are “certified public tax accountants and certified public accountants,” while in Guam, SCF is produced by “presidents”, “accountants”, and “certified public tax accountants and certified public accountants” (Table 4). This is thought to be due to the influence of widespread availability of inexpensive, easy-to-use accounting software in Guam (Okabe, 2015).

With regard to the purpose of use of SCF, there were no significant differences. SMEs in both countries agree that SCF has many purposes, but most commonly it is produced for decision-making, and for financial institutions and business partners. Interestingly, 1.4% of respondents in Japan and 10.8% in Guam also produced SCF for “investors” with a wide divergence spread at the 1 percent significance level (Table 5). Although the characteristics of this difference are unknown, a possible explanation for this variability is that SMEs in Guam are subsidiaries from foreign companies registered in other countries such as Australia, Japan, China, and Korea that demand financial statements on a regular basis.

| Q8<br>(Upper row: actual number, Lower row: %) | Sample Size | Presidents | Accountants | Certified Public Tax Accountants and Certified Public Accountants | Consultants | Others |
|--|-------------|------------|-------------|---|-------------|--------|
| Japan  | 2           | 12         | 25          | 179   | 4           | 0      |
|  | 1           | 5.5        | 11.4        | 81.4  | 1.8         | 0.0    |
| Guam   | 2           | 5          | 7           | 6   | 0           | 2      |
|  | 1           | 23.8       | 33.3        | 28.6  | 0.0         | 9.5    |
| Results of the Test on the Difference in Rate  |             | **         | **          | **  |             | **     |

\*\* , \* Indicate statistical significance at the 1percent, and 5 percent levels (two-tailed), respectively

| Q12<br>(Upper row: actual number, Lower row: %) | Sample Size | Decision-Making | Financial Institutions | Business Partners | Employees | Investors | Share holders |
|---|-------------|-----------------|------------------------|-------------------|-----------|-----------|---------------|
| Japan   | 22          | 177             | 138                    | 56                | 7         | 3         | 23            |
|   | 10          | 80.5            | 62.7                   | 25.               | 3.2       | 1.4       | 10.5          |
| Guam  | 21          | 18              | 12                     | 3                 | 1         | 4         | 0             |
|   | 10          | 85.7            | 32.4                   | 8.1               | 2.7       | 10.       | 0.0           |
| Results of the Test on the Difference in Rate   |             |                 |                        |                   |           | **        |               |

\*\* , \* Indicate statistical significance at the 1percent, and 5 percent levels (two-tailed), respectively

### Direct/Indirect Method for Producing a Statement of Cash Flows

In Japan, of the SMEs that produce SCF, 65.9% use the direct method considerably more often than the indirect method. In Guam, both the direct method and indirect method are employed with approximately the same frequency. FRF for SMEs allows companies to use either method (Okabe, 2013). Japanese SMEs’ preference for the direct method may be explained in terms of its utility in predicting operating performance and meeting the



requirements of lending institutions (Hales & Orpurt, 2013). In contrast, Guam SMEs have not expressed a preference for either method. Even though the direct method is more useful in predicting performance, it is the most costly of the two methods (Hales & Orpurt, 2013). Guam SMEs that are not required to issue SCF under the direct method may opt to use a more cost-effective method. Regardless of preference, at 60-70% there is little difference between the two countries in their understanding of the difference between the direct and indirect methods (Tables 6 and 7) meaning that producers understand their options and have selected a method based on utility, cost effectiveness, and demand. However, the determinants for their selection are outside the scope of this study.

| Q13<br>(Upper row: actual number,<br>Lower row: %) | Sample Size | Direct Method | Indirect Method | Unknown |
|--|-------------|---------------|-----------------|---------|
| Japan  | 220         | 145           | 75              | 0       |
|  | 100.0       | 65.9          | 34.1            | 0.0     |
| Guam   | 21          | 8             | 10              | 3       |
|  | 100.0       | 38.1          | 47.6            | 14.3    |
| Results of the Test on the Difference in Rate      |             | *             |                 | **      |

\*\* , \* Indicate statistical significance at the 1 percent, and 5 percent levels (two-tailed), respectively.

| Q14<br>(Upper row: actual number, Lower row:<br>%) | Sample Size | Understanding of the Difference Between<br>Direct Method and Indirect Methods |
|--|-------------|---|
| Japan  | 220         | 135   |
|  | 100.0       | 61.4  |
| Guam   | 21          | 16  |
|  | 100.0       | 76.2  |
| Results of the Test on the Difference in Rate      |             |   |

\*\* , \* Indicate statistical significance at the 1 percent, and 5 percent levels (two-tailed), respectively

### Usefulness and relevancy of the Cash Budget Schedule

The variables used to measure the usefulness and relevancy of cash budget schedules in both countries are similar to those used to measure SCF's usefulness and relevancy: recognition rate, production rate, and demand. The only difference is the fourth variable. For SCF, the fourth variable measured cash flow management, but for the cash budget schedule, the fourth variable measures respondents' knowledge of the difference between SCF and the cash budget schedule.

The recognition rate of a cash budget schedule is 88.4% in Japan, which is much higher than Guam, significant at the 1 percent level. For those SMEs that recognize the cash budget schedule, the production rate and demand level of the schedule do not vary significantly between the two countries. As for the difference between SCF and a cash budget schedule, the recognition rate in Guam is higher than that in Japan, significant at the 5 percent level. Accordingly, a statement of cash flows is highly accepted and used in Guam, while cash budget schedules are highly accepted and used in Japan (see Table 8).

| Table 8<br>UTILITY AND RELIANCE ON CASH BUDGET SCHEDULES                |             |                     |                    |                    |  |
|---|-------------|---------------------|--------------------|--------------------|--|
| Q12, Q13,<br>Q14, Q15<br>(Upper row: actual<br>number, Lower row:<br>%) | Sample Size | Recognition<br>Rate | Production<br>Rate | Level of<br>Demand | Comprehension of the<br>Differences between a<br>Statement of Cash Flows<br>and Cash Budget Schedule |
| Japan   | 880         | 778                 | 472                | 633                | 291  |
|   | 100.        | 88.4                | 53.6               | 71.9               | 33.1   |
| Guam  | 37          | 24                  | 17                 | 24                 | 19   |
|   | 100.        | 64.9                | 45.9               | 64.9               | 51.4   |
| Results of the Test on the<br>Difference in Rate                        |             | **                  |                    |                    | *  |

\*\* , \* Indicate statistical significance at the 1 percent, and 5 percent levels (two-tailed), respectively

### Recognition Rate of the Accounting Standards for SMEs and FRF for SMEs

The recognition rate of the Accounting Standards for SMEs and FRF for SMEs is 24.3% in Guam, and 10.6% in Japan, much lower than Guam, significant at the 1 percent level (see Table 9). However, they are both relatively low considering that SMEs make up over 90 percent of businesses in both countries. These findings do not imply that SMEs do not rely on any framework, but that there is a possibility that they continue to rely on U.S. GAAP and Japan GAAP for financial statement preparation while there is a much easier, simpler, and cost-effective system that is not currently being applied. Perhaps, these companies are not aware of their existences or have not become familiar with SME accounting frameworks. As a result, professional organizations and standard setting bodies should increase their efforts in communicating and educating SMEs in the use of these simplified standards.

| Table 9<br>RECOGNITION RATE OF THE ACCOUNTING STANDARDS FOR SMEs AND FRF FOR SMEs |             |   |
|---|-------------|---|
| Q31(Upper row: actual number, Lower<br>row: %)                                    | Sample Size | Recognition Rate of the Accounting<br>Standards for SMEs and FRF for SMEs |
| Japan   | 880         | 93  |
|   | 100.0       | 10.6  |
| Guam  | 37          | 9   |
|   | 100.0       | 24.3  |
| Results of the Test on the Difference in Rate                                     |             | **  |

\*\* , \* Indicate statistical significance at the 1 percent, and 5 percent levels (two-tailed), respectively

### Relevancy of Financial Statement Information for Decision-Making

The last part of the survey focused on the relevancy of financial statement information from various sources (income statement, balance sheet, and statement of cash flows) for decision-making and business strategy. More specifically, survey participants were asked to indicate what items from these financial statements were considered important when making strategic decisions. SMEs in Japan emphasize “sales” the most (83.9%), followed by “operating profit (43.8%)” and “current net profit (39.5%).” In Guam, no financial statement items were emphasized significantly like “sales” in Japan. The SMEs in Guam emphasize “ordinary profit” the most (48.6%), followed by “sales (45.9%),” “operating profit (43.2%),” “expected profit” and “current net profit” (37.8% for both), “operating cash flow” and

“breakdown of liabilities” (35.1% for both).

When focused on cash flows, we discovered that all of operating, investment, financial, and free cash flows are emphasized in Guam more strongly than in Japan significant at the 1 percent level (see Table 10). Since the statement is more widely utilized in Guam than in Japan, Guam producers rely more on this statement for financial analysis and decision-making than SMEs in Japan.

**Table 10**  
**RELEVANCY OF FINANCIAL STATEMENT INFORMATION FOR DECISION-MAKING**

| Q28 (Upper row: actual number, Lower row: %)  | Sample Size | Ordinary profit | Sales | Operating profit | Expected profit | Current net profit | Increase in cash flow | Operating cash flow | Breakdown of assets | Market share | Financial cash flow | Free cash flow | Breakdown of liabilities | Current net profit + depreciation | Breakdown of capital | Dividend | Bonuses for officers | Investment cash flow | Others |
|---|-------------|-----------------|-------|------------------|-----------------|--------------------|-----------------------|---------------------|---------------------|--------------|---------------------|----------------|--------------------------|-----------------------------------|----------------------|----------|----------------------|----------------------|--------|
| Japan   | 880         | 211             | 738   | 385              | 175             | 348                | 108                   | 91                  | 25                  | 8            | 25                  | 21             | 32                       | 55                                | 16                   | 12       | 12                   | 4                    | 16     |
|   | 100.0       | 24.0            | 83.9  | 43.8             | 19.9            | 39.5               | 12.3                  | 10.3                | 2.8                 | 0.9          | 2.8                 | 2.4            | 3.6                      | 6.3                               | 1.8                  | 1.4      | 1.4                  | 0.5                  | 1.8    |
| Guam  | 37          | 18              | 17    | 16               | 14              | 14                 | 0                     | 13                  | 12                  | 4            | 8                   | 8              | 13                       | 7                                 | 0                    | 0        | 7                    | 7                    | 0      |
|   | 100.0       | 48.6            | 45.9  | 43.2             | 37.8            | 37.8               | 0.0                   | 35.1                | 32.4                | 10.8         | 21.6                | 21.6           | 35.1                     | 18.9                              | 0.0                  | 0.0      | 18.9                 | 18.9                 | 0.0    |
| Results of the Test on the Difference in Rate |             | **              | **    |                  | **              |                    | *                     | **                  | **                  | **           | **                  | **             | **                       | **                                |                      |          | **                   | **                   |        |

\*\* , \* Indicate statistical significance at the 1 percent, and 5 percent levels (two-tailed), respectively

## DISCUSSION

The objective of this exploratory research was to conduct a preliminary investigation of the use of the statement of cash flows by SMEs in Japan (Kyushu region) and Guam, and identify differences and similarities between the two countries based on the characteristics of users' demands as perceived by the producers of SCF and to develop discussions for future research.

In general, results show that the recognition rate, production rate, demand, and comprehension level of SCF are much higher in Guam than in Japan. Especially, the production rate in Japan is less than half of that in Guam.

Among SMEs that produce a statement of cash flows, the ratio of the SMEs that answered, “We emphasize a statement of cash flows” was as high as 80.9% in Japan, and 90.5% in Guam, indicating a minor difference. Consequently, we can conclude that SMEs utilize SCF from management's perspective for decision-making, evaluating credibility, etc. In the U.S., these results agree with previous findings on the utility and usefulness of SCF (Allee & Yohn, 2009; Farcane et al., 2012; Jones & Ratnatunga, 1997). Likewise, in Japan prior to SCF becoming a mandatory disclosure for registered companies, a large percentage of public companies (72.4%) considered SCF the financial statement of choice (Someya, 1996).

80% of the producers of a statement of cash flows in Japan are “certified public tax accountants and certified public accountants,” while in Guam, a statement of cash flows is produced by a variety of people, including “presidents,” “accountants,” and “certified public tax accountants and certified public accountants.” There are two possible explanations for the difference between of producers. First, Guam SMEs have better access to inexpensive, easy-to use accounting software than Japanese producers (Okabe, 2015). Second, it is more common for SMEs in Guam to issue SCF and producers have had more time to train and learn how to prepare this statement internally rather than outsourcing its preparation.

The major purposes of use of SCF are for “decision-making,” “financial institutions” and “business partners” in this order for both countries. The ratio of the firms that answered “investors” was higher in Guam. This indicates the possibility that SMEs that aim or plan to get listed receive funds from capital companies, funds, etc. Another possible explanation for this variability is that SMEs in Guam are subsidiaries of foreign registered companies mainly from U.S., Japan, Korea and other countries that demand financial statements on a regular basis.

As for the format of SCF, the direct method is adopted in many cases in Japan, compared with the indirect method. In Guam, the direct and indirect methods are used in almost the same number of cases. The differences between the direct and indirect methods are known in both countries at the same level. The direct method is more useful in predicting performance, but it is more costly than the indirect method (Hales & Orpurt, 2013). Our findings indicate that Guam SMEs use either method equally. The choice of method may be influenced by cost-benefit rather than utility. The selection of method could be the subject of future research studies.

The recognition rate of cash budget schedules is much higher in Japan than in Guam. The production rate and demand level of cash budget schedules do not vary between the two countries. The rate of SMEs that know the differences between a statement of cash flows and a cash budget schedule in Guam is higher than in Japan. Namely, SCF is more widely used in Guam, while cash budget schedules are used more frequently in Japan.

The recognition rate of the Accounting Standards for SMEs and FRF for SMEs is not so high in Guam, but much lower in Japan. These findings do not imply that SMEs do not rely on any framework, but that they may continue to rely on U.S. GAAP and Japan GAAP for financial statement preparation while there is a much easier, simpler, and cost-effective system that allows preparers to customize financial statement to satisfy the needs of the users (Tysiac, 2012). Unfortunately, these frameworks are not widely used because these companies are not aware of its existence, or have not received proper training or information on their application and benefits.

Concerning the financial statement information (including the balance sheet, income statement, and statement of cash flows) that is relevant for decision-making, Japanese SMEs emphasize “sales” the most, which is followed by “operating profit” and “current net profit.” In Guam, there are no accounting items that are emphasized significantly like “sales” in Japan. 30-40% of the SMEs in Guam emphasize “ordinary profit,” “sales,” “operating profit,” “expected profit,” “current net profit,” “operating cash flow” and “breakdown of liabilities.” When focusing on cash flows, operating, investment, financial activities, and free cash flows are emphasized in Guam more strongly than in Japan. This is expected since SMEs in Guam rely more on SCF for financial planning and decision-making than Japanese SMEs.

In summary, the difference in accounting systems between Japan and Guam was clarified. In Japan, the Accounting Standards for SMEs do not stipulate that a statement of cash flows shall be included in financial statements, while in Guam, FRF for SMEs indicates that a statement of cash flows is a component of basic financial statements. In addition, the difference in practices was also elucidated. In Japan, banks, which are the largest stakeholders of SMEs, do not demand the submission of a statement of cash flows as part of financial statements when evaluating credibility in lending practices. While in Guam, banks request a statement of cash flows. However, banks in both countries produce a revised statement of cash flows based on their original systems, for use in evaluating credibility. This revealed a gap in accounting systems and practices between these two countries. Namely, from a producers’ perspective, internal and external users in Guam utilize the statement of cash flows for financial analysis more than in Japan. On the other hand, Japanese lending institutions demand the submission of cash budget schedules in evaluating credibility when

granting loans to SMEs. This is expected due to the difference in accounting practices and third party users between the two countries, their historical backgrounds and public administrations. Given that Japan is a code law country, accounting standards are guided by taxation laws rather than a conceptual framework as it is in United States (Someya, 1996). Unlike Japan, U.S. GAAP supports a system based on economic substance over form making accounting standards a function of the business environment and assisting management and stakeholders in strategizing to adapt to this environment.

As mentioned above, there is a gap regarding a statement of cash flows because of the accounting systems, public administrations, historical backgrounds and the difference in practice in the two countries. In the current economy where SMEs are globalizing and diversifying their operations, they increasingly engage in more complex transactions requiring more sophisticated and extensive financial analyses for strategizing and forecasting. The above-mentioned gap may negatively influence the evaluation of credibility by employers and lending institutions. Therefore, we would like to suggest that the distribution of accounting software be widely adopted and supported, and the production of a statement of cash flows should be adopted as part of Japan SMEs accounting standards like in Guam. Similar to the demands imposed by Japanese financial institutions on SMEs to submit cash budget schedules, it would be important for the public and private sectors to propose measures for promoting the submission of a statement of cash flows as well for the benefit of producers and users. In the U.S., the system for selecting from the direct and indirect methods was realized in response to the strong demand from financial institutions. This obviously has influenced Japan's accounting practices.

We note that this study is not without limitations. The number of respondents to the web-based survey for Guam was less than expected, survey methods were not unified in both countries, and the survey area for Japan was not sufficiently broad. Furthermore, for future research, the accuracy of the survey questionnaire should be improved to coordinate and integrate the similarities and differences found in this exploratory study. Finally, the focus of this paper was on producers' perception of third parties' utility. Future research could focus on users' perspective or a comparison between these two. The difference between Guam's SMEs preference for direct or indirect method was insignificant. Future studies could explore factors that influence preference for a specific method in Japan and Guam.

## CONCLUSION

This exploratory research study investigated the similarities and differences of SMEs producers' perception of the statement of cash flows in Japan and Guam. Although SMEs make up a large percentage of businesses in both countries, research in this area is scant. Previous research studies have paid little attention to SMEs' use of financial statement information in managing operations, strategizing, and decision-making. To the authors' knowledge, this is the first study of its kind, and we hope that our findings would serve to improve the design of future research studies and theory development. We also hope that our study served to enhance knowledge of Japanese accounting standards since most accounting research of that country is published in Japanese. Furthermore, it is our desire to continue and expand our research in this area in another paper.

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# AN EMPIRICAL STUDY OF THE RELATIONSHIPS BETWEEN MISCOMMUNICATION AND CONFLICT IN CULTURALLY DIVERSE WORK GROUPS

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## ABSTRACT

*As the workforce in the United States has become increasingly culturally diverse, there is an urgent need to understand the processes in culturally diverse work groups. Although quite a few studies have examined conflict and communication breakdown in groups, this study is one of the few that investigates the relationships between verbal miscommunication and different types of conflict (task, process, and relationship) in culturally diverse work groups. Data were collected from 222 individuals currently working in culturally diverse organizations across the U.S. Exploratory factor analysis, multiple regression analysis, and canonical correlation analysis were used to test hypotheses. Present study findings identified significant positive relationships among verbal miscommunication and two types of conflict in culturally diverse work groups. Discussion of implications, recommendations for practitioners, limitations, and suggestions for future research are presented.*

## INTRODUCTION

Cultural diversity in work groups in the United States reflects a cultural mosaic of work environments in organizations around the world. Interaction of multiple cultures brings the need for effective intercultural communication practices (Marga, 2010). Cultural diversity increases the complexity of the work processes and interactions among members of culturally diverse work teams and groups (Aritz & Walker, 2010). Misunderstanding is quite common in organizations. Casse and Weisz (2014) state, "We hear what we want to hear and do not explore further or check our understanding of what the other party means" (p. 40) and further acknowledge misunderstanding as "a major source of problems" among members of work teams and organizations.

Moderately heterogeneous groups experience relational conflict, significant communication problems, and low team identity that negatively impact the effectiveness of team's work (Jehn, Chadwick, & Thatcher, 1997). Further, "increasing team diversity is associated with increasing levels of both process and delegation conflict" (Jäger & Raich, 2011, p. 234). Findings on heterogeneous teams reveal reduced satisfaction with the team work and substandard team performance (Ravlin, Thomas, & Ilsev, 2000; Earley & Mosakoski, 2000; Jehn, Northcraft, & Neale, 1999).

Early research found that teams had difficulties with developing the best communication system for their interaction (Marschak, 1955). Communication could be viewed as the use of a culturally-based code in a cultural framework to convey culturally-shaped content (Huang, Dotterweich & Bowers, 2012; Liddicoat, 2009). Native speakers of different languages from different cultural backgrounds share similar social assumptions within their cultural groups about the communication process. Breakdowns in communication, referred to as intercultural miscommunication, stem from differences in

social assumptions and cultural backgrounds (Chang, 2009). Johnson's (2009) dissertation study analyzed data obtained from several hundred World Health Organization (WHO) staff members. The data revealed a recurring theme that national and organizational "culture prevented people from expressing themselves comfortably, making it difficult to know what behavior was acceptable or expected and suppressing the ability to be assertive when necessary" (p. iii). To date, only a few studies on actual communication practices and intercultural encounters have been conducted (Aritz & Walker, 2010).

Relevant literature reveals mixed results on the benefits and harm of conflict to groups and organizations. Early organizational conflict theorists suggested that conflict is detrimental to organizational functioning and focused much of their attention on the causes and resolution of conflict. More recently, researchers have theorized that conflict is beneficial under some circumstances (Tjosvold, 1991). Work group members experience conflicts that can be categorized into relationship, task, and process types of conflict (Amason & Sapienza, 1997; Jehn, 1992, 1997; Pelled, 1996; Pinkley, 1990).

While group and teamwork have become essential to organizations, the complexity of cultural diversity and intra-group interactions among culturally diverse group members have not been examined thoroughly. Moreover, findings reported a few decades ago may not hold true now due to globalization and a different cultural profile of the workforce. The purpose of this study is to empirically investigate the relationship between verbal miscommunication and intra-group conflict (task, process, and relationship) in culturally diverse work groups.

## LITERATURE REVIEW

Miscommunication continues to be a significant problem in the workplace (English, 2005; Dyer, 2006; Knowles, 1958). Although existing studies suggest important differences in teamwork among various cultures, they "do not adequately address the complexity of issues affecting culturally diverse teams and do not identify the specific factors that contribute to these differences" (Earley & Gibson, 2002, as cited in Aritz & Walker, 2010, p. 21).

Recent research reports on investigations of perception and miscommunication in the construction industry, performance evaluations, and the subjective nature of consumer beliefs (Aritz & Walker, 2010; English, 2005). These studies reveal that the communication problems are widespread. Miscommunication could possibly result in lower productivity, low employee motivation or the lack of employee motivation, job dissatisfaction, work-related stress, escalated conflict, and loss of customers (Aritz & Walker, 2010; English, 2005).

Two parties, the sender and the receiver, are always present in the communication (Berlo, 1960; Brewer & Holmes, 2009; Schramm, 1954; Shannon-Weaver, 1949; Weiner, 1948). Miscommunication occurs when the parties to communication have difficulties in understanding or comprehension that are not revealed at the time of the communication (Olsina, 2002). Successful communication requires the mastery of a large number of factors ranging from effective communication styles (Hanke, 2009; Hartman & McCambridge, 2011; Cole, 2011), personal information processing styles, communication openness (Argyris, 1962; Earley & Mosakowski, 2000), communication channels, covert or overt conflict to language comprehension (Sayer, 2013), communication content, communication context, cultural and personal values, ambiguity of the communicated content and meaning (Allbritton, McKoon, & Ratcliff, 1996; English, 2005; Field, 2005; Price, Ostendorf, Shattuck-Hufnagel, & Fong, 1991; Woltin, Olivier, & Yzerbyt, 2012).

A substantial amount of research findings on diversity effects conducted prior to the 1980s indicate a negative relationship between ethnic diversity and performance outcomes based on faulty work processes. This relationship is explained by process-oriented difficulties



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in communication, coordination, and collaboration that occur when a groups' diversity is constantly increasing (Tajfel, 1981; Turner, 1982, 1985). Research on the antecedents of group performance in organizations posits that success depends on the ability of the work group to manage rather than avoid disagreements (Tjosvold, 1991; Gruenfeld, Mannix, Williams, & Neale, 1996). Further, it was found that unmanaged conflicts have detrimental effects on group performance (Bettenhausen, 1991; Jehn, 1997).

The analysis of the existing research literature reveals the two paradigms used to understand the diversity effects in teams and groups. The first approach is based on factors such as the types of diversity that are identified and measured. The factor approach is broken into two categories: two-factor approach that distinguishes between visible and non-visible characteristics (Jackson et al., 1995). Visible characteristics include age, ethnicity, gender, race, and physical disabilities. Less visible characteristics, also called underlying attributes, are values and attitudes, personality differences, education, skills and abilities, functional background, and tenure in the organization. Visible characteristics are visually salient, and thus may evoke stereotyping behavior or bias regarding individuals with certain characteristics (Milliken & Martins, 1996).

A culturally diverse organization encompasses individuals from different cultural backgrounds. This is the main source of dissimilarity that employees perceive in a culturally diverse organization as compared to a homogeneous organization because cultural backgrounds are mainly characterized by their values (Hofstede, Hofstede, & Minkov, 2010). Cultural values at the societal and individual levels are important to human beings because they have been developed within cultures to give meaning to questions of existence and to handle problems in regulating human behavior (Schwartz, 1992). These cultural values are deeply engrained in the self-concepts of employees and have a strong impact on their behaviors in general.

Distinct cultural values bring the notion of a cultural distance which is defined as a difference in cultural values between and among individuals working in a group (Simonin, 1999). Cultural distances between members of culturally diverse groups may have damaging effects on group processes and outcomes. Negative effects of cultural distances on collaboration, ranging from cross-cultural negotiations to joint venture performance and failures, have been reported in the literature (Mjoen & Tallman, 1997; Pariche, 1991; Simonin, 1999). In international strategic alliances, cultural differences produce additional difficulties and challenges for managers, who must allocate more time on communication, design and compatible work routines, and development of common managerial approaches (Olk, 1997). In a study of miscommunication between supervisors and their subordinates, Ramsey points out that supervisors underestimate the complexity of communication and its "crucial importance in getting the job done (Ramsey, 2009, p. 17). The most common causes of miscommunication include "misunderstanding the nature of communication, misinterpreting the supervisor's role in communication, and undervaluing the importance of communication (Ramsey, 2009, p. 16).

Ongoing literature reports mixed results from empirical studies on the positive and negative impact of conflict to groups and organizations (Jehn, 1995; De Dreu & Weingart, 2003; De Wit, Greer & Jehn, 2012). The history of research on conflict reveals that early organizational conflict theorists thought of conflict as dysfunctional to organizations while contemporary researchers agree that conflict is beneficial under some circumstances (Tjosvold, 1991).

While groups have become building blocks for organizations, they experience their own intrinsic problems of communication, coordination, and conflict management (Jehn, 1995). Having conducted a meta-analysis on the relationship between intra-group conflict to group outcomes, De Dreu and Weingart (2003) have found stable negative relationships

between relationship and process conflict and group outcomes. De Wit et al. (2012) extended this study by conducting a meta-analysis of 116 empirical studies of intra-group conflict ( $n = 8,880$  groups) and its relationship with group outcomes. New trends in research on these relationships were identified. Some of the findings are consistent in both meta-analyses. Contrary to the results of the study by De Dreu & Weingart (2003), De Wit et al. (2012) did not find a strong and negative relationship between task conflict and group performance.

Jehn (1995) analyzed the structure of 105 work groups and management teams to find out whether conflict can be beneficial. Multiple methods were used to examine the effects of conflict on both individual- and group-level variables to provide a more refined model of intra-group conflict. Results show that type of conflict and the structure of the group produce the setting for conflict. Relationship and task conflicts are negatively associated with individuals' satisfaction, liking of other group members, and intent to remain in the group. In groups performing very routine tasks, disagreements about the task are detrimental to group functioning. Further, in groups performing non-routine tasks, disagreements about the tasks do not have a detrimental effect, and in some cases, such disagreements are quite beneficial. Contrary to expectations, norms encouraging open discussion of conflict have not been always advantageous.

Jehn (1992) finds that of the three conflict types, process conflict has been the least examined. In one study, process conflict is associated with a lower level of group morale as well as with decreased productivity. Jehn (1997) argues that process conflicts interfere with task content quality and often misdirect focus to irrelevant discussions of member ability. Jehn, Northcraft, and Neale (1999) find that groups who continually disagreed about task assignments have been unable to effectively perform their work.

Jehn and Mannix (2001) find that executive-MBA and MBA teams with similar or congruent work-related values are more likely to have constructive (task-focused) conflict and less likely to have destructive (relationship-focused) conflict over time than are teams that have incongruent values. As a result, they have higher levels of performance than groups with incongruent values. Mannix and Neale (2005) find that groups that are diverse on age and ethnicity are more likely to perceive greater value incongruence, and this perception is more relevant than actual value incongruence (as measured objectively) for outcomes such as conflict, trust, respect, and performance. The researchers argue that values become a mechanism by which diverse groups are able to create social integration. At the same time, however, individuals are able to remain distinct, maximizing the benefits of diversity.

Moderate levels of task conflict have been shown to be beneficial to group performance on certain tasks types (Jehn, 1995; Shah & Jehn, 1993). The researchers note that when given a complex cognitive task, teams benefit from differences of opinion about the work being done and ideas. Task conflict improves decision quality because the synthesis that emerges from the conflict is generally superior to the individual perspectives themselves (Mason & Mitroff, 1981; Schweiger & Sandberg, 1989; Schwenk, 1990).

## METHODOLOGY

### Verbal Miscommunication

The verbal miscommunication was assessed on two levels: Peer, or among group members, and in supervisor-subordinate dyads. The focus was on verbal miscommunication that had occurred in work settings on work-related issues. In this study, miscommunication in culturally diverse work groups is defined as failure of sender(s) and receiver(s) from different cultures and different languages to communicate clearly and properly between/among themselves, that is when the said receiver(s) of the information do(es) not decode it as intended by the sender(s). A work group is herein defined as two or more individuals who

work together on work-related tasks (Pelled, 1996; O'Reilly, Caldwell & Barnett, 1989). Thus, this definition is broad enough to assume that, for some projects, a supervisor could be a part of a team that consists of some of his or her subordinates. Work groups in this study include team members and supervisor-subordinate dyads. In a group of two or more people, cultural diversity is any difference in which the individuals vary on the cultural dimension (McGrath, Berdahl, & Arrow, 1995).

A survey questionnaire was developed to measure the levels of miscommunication at the peer, or group level and supervisor-subordinate level. The instrument measured the presence of miscommunication in a culturally diverse workplace at these levels on a seven-point Likert scale.

### **Intra-group Conflict**

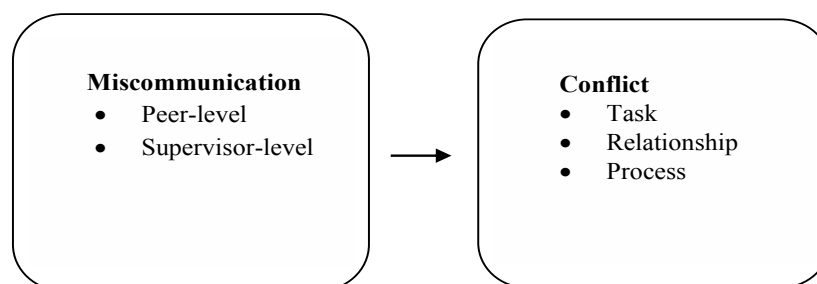
The intra-group conflict measure assessed the type of conflict that respondents experienced in their work groups and with their supervisors. Task conflict was defined as an awareness of differences in opinions regarding a work task (Jehn & Mannix, 2001). Process conflict was stated to be an awareness of differences regarding the way for a task to be accomplished (Jehn, 1997; Jehn, Northcraft, & Neale, 1999) while relationship conflict was an awareness of interpersonal incompatibilities that includes emotions (Jehn & Mannix, 2001).

This study used the conflict instrument of Jehn and Mannix's (2001) emanating from the work of Jehn (1995) with process conflict items from Shah and Jehn's (1993). The internal reliability was good as demonstrated by the Cronbach  $\alpha$  for the relationship, task, and process types of conflict of .94, .94, and .93, respectively. To examine the amount and type of conflict in the work groups, nine items measured the presence of conflict on a seven-point Likert scale.

### **Proposed Study Model**

A proposed study model is graphically depicted in Figure 1. It addresses the research question: What are the relationships between verbal miscommunication and task, process, and relationship types of conflict in culturally diverse work groups?.

**Figure 1.**  
**Proposed model of the relationships between miscommunication and conflict**



### **Research Hypotheses**

The research hypotheses are:

*H1: Miscommunication is positively related to task conflict in culturally diverse work groups.*

*H2: Miscommunication is positively related to process conflict in culturally diverse work groups.*

*H3: Miscommunication is positively related to relationship conflict in culturally diverse work groups.*

### **Sample**

The study sample was comprised of 222 members of culturally diverse work groups employed at diversified companies based in the U.S. The sample was drawn from companies listed on Diversity Inc. (2013) and *Black Enterprise Magazine* (2013) lists that represented cultural diversity of their workforce quite well.

The first list is the DiversityInc Top 50 Companies for Diversity that has been published annually by DiversityInc since 2001. The company conducts a survey that produces a detailed, empirically driven ranking based on four key areas of diversity management: CEO commitment to diversity, workforce diversity and human capital, corporate/organizational communications, and supplier diversity. In 2014, there were 1,215 companies that completed the survey. The voluntary and free participation in the survey has been increasing every year. The Top 50 Companies for Diversity list provides detailed empirical ranking of participating companies. The workforce of the included companies is ethnically and culturally diverse, and the companies themselves are well known in the U.S. and internationally (DiversityInc., 2014).

The second list is produced by the *Black Enterprise Magazine* that annually identifies forty companies that excel in one or more of the following categories: supplier diversity, senior management, board involvement, and employee base. The listing includes companies that have a high percentage of “African Americans and members of other ethnic minority groups represented in a given company’s total workforce” (*Black Enterprise Magazine*, 2013).

### **Data Collection**

A computerized structured questionnaire was used to gather data from respondents. The study employed systematic sampling as the sample selection procedure that allowed for arranging and selecting every  $n^{\text{th}}$  subject on the list to ensure an unbiased selection of study subjects. An electronic survey was considered an effective and reliable data collection method (Croteau, Dyer & Miguel, 2010; Williams, 2012). This method was utilized and the survey was electronically delivered to participants.

A pilot study was conducted to test and refine the instrument with sixty-five individuals, who work in culturally diverse organizations in the metro area of one of the southern states of the U.S. The subjects represented various sectors of industries such as service, manufacturing, and government. Factor analysis was used to check if items measured corresponding constructs well and to reduce the number of instrument items. The main survey was then electronically delivered to 870 participants who were assured of the anonymity of their responses with a consent form. The collected data yielded a sample size of 375 and a response rate of 43.10 percent. The data was further cleaned, which yielded a final usable sample of 222 observations.

## **DATA ANALYSIS AND RESULTS**

### **Descriptive Statistics**

The sample consisted of 167 male respondents (75.2 percent) and 55 female respondents (24.8 percent). The results revealed that the majority of the participants were in the 25-34 age group (45.9 percent) followed by the 35-44 age group (21.6) and 45-54 (16.7 percent). Respondents 55 years and older accounted for 10 percent of the sample.

The data demonstrated that the study sample was well diversified. The majority of the respondents were Whites/Caucasians (46.4 percent) followed by respondents of Asians (25.7 percent) and American Indians/Native Americans (11.3 percent). Hispanics accounted for 6.8

percent and Blacks accounted for 5.0 percent of the sample. The majority of the participants considered English as their primary language of communication (78.8 percent) at work.

**Table 1**  
**Ethnicity/Race of the Study Participants' Supervisors**

| <i>Ethnicity/Race</i>             | <i>Frequency</i> | <i>Percent</i> |
|-----------------------------------|------------------|----------------|
| African                           | 9                | 4.1            |
| American Indian / Native American | 22               | 9.9            |
| Black / African American          | 20               | 9.0            |
| Asian                             | 47               | 21.2           |
| Hispanic / Latino                 | 30               | 13.5           |
| Pacific Islander                  | 6                | 2.7            |
| White / Caucasian                 | 78               | 35.1           |
| Other                             | 10               | 4.5            |
| <i>Total</i>                      | <i>222</i>       | <i>100.0</i>   |

Eighty percent of the participants were employed full-time, the remaining twenty percent held part-time jobs or was self-employed. The data indicated that participants were at work long enough to have interactions with culturally diverse group members on different occasions: More than one-third of the sample respondents had been on their current jobs for 1-4 years (37.8 percent), followed by another large group of those who had held the same job for 5-10 years (30.6 percent). Almost one-fourth of the respondents had been working for more than 10 years: 11-15 years (13.5 percent) and over 15 years (10.4 percent). The data revealed that 86 percent of the respondents worked in groups comprised from 21 to 60 percent of employees with various cultural/ethnic backgrounds.

The distribution of the ethnicity/race of the participants' supervisors was quite broad: majority of the supervisors were White/Caucasian (35.1 percent), one-fifth were Asians (21.2 percent), followed by almost equal numbers of Black/African American supervisors (9.0 percent) and American Indian/Native American supervisors (9.9 percent), as presented in Table 1.

The data demonstrated that two-thirds of the sample respondents were in the supervising position (67.6 percent), while the one-third (32.4 percent) did not supervise employees. Data presented in Table 2 demonstrate results of the breakdown of the cultural composition of the respondents' employees. The data reveal that 30.2 percent of the respondents supervise a pool of employees that is 21-40 percent culturally diverse and 27.5 percent of the respondents supervise employees whose cultural composition is 41-60% diverse. There is almost an equal share of respondents who supervise workforce that is less than 20 percent culturally heterogeneous (27.9 percent of the respondents). Last, 10.8 percent of the subordinates work in highly diverse environments: Their employees are 61-80 percent culturally diverse.

**Table 2**  
**Proportion of Culturally Diverse Subordinates**

| Proportion of Culturally Diverse Subordinates | Frequen |         |
|---|---------|---------|
|   | cy      | Percent |
| 0 - 20%                                       | 62      | 27.9    |
| 21 - 40%                                      | 67      | 30.2    |
| 41 - 60%                                      | 61      | 27.5    |
| 61 - 80%                                      | 24      | 10.8    |
| 81 -100%                                      | 8       | 3.6     |
| <i>Total</i>                                  | 222     | 100.0   |

**Table 3**  
**Descriptive Statistics of the Intra-Group Conflict Construct**

| Variable Name             | Me   |                |
|---------------------------|------|----------------|
|                           | an   | Std. Deviation |
| Conflict (Relationship 1) | 4.46 | 1.682          |
| Conflict (Relationship 2) | 3.73 | 1.914          |
| Conflict (Relationship 3) | 4.37 | 1.777          |
| Conflict (Task 1)         | 4.44 | 1.632          |
| Conflict (Task 2)         | 3.52 | 1.846          |
| Conflict (Task 3)         | 3.54 | 1.836          |
| Conflict (Process 1)      | 3.51 | 1.947          |
| Conflict (Process 2)      | 4.16 | 1.896          |
| Conflict (Process 3)      | 3.42 | 1.893          |

The summary statistics' mean and variance for the intra-group conflict construct were 3.906 (min. = 3.419; max. = 4.464; range = 1.045) and .197, respectively. The item mean and standard deviation values are presented in Table 3. To preserve consistency in scales, the construct was also measured on the seven-point Likert scale, from 1 (none) to 7 (a lot). Participants stated how well the items described situations, employees, and work in their organizations. The means were above or below the neutral point, which was four. This value suggested that as a whole, participants had about average conflict levels in culturally diverse work groups.

### **Reliability and Validity Analyses**

The scales used for this study were proven to show high levels of reliability as measured by Cronbach's alpha. The measures of this study attained excellent item-specific and overall reliability demonstrated by Cronbach's alpha coefficient above .7 (Pallant, 2007). The Cronbach's alpha coefficient for the overall model construct was .97.

This study utilized instruments that had been empirically tested by researchers in the past to measure the same variables of interest to this study with high content and construct types of validity (Campion, Papper & Medsker, 1996; Earley & Mosakowski, 2000; Gee, Walsemann & Takeuchi, 2010; Hartman & McCambridge, 2011; Mok, 1975; Simonin, 1999; Schwartz 1992, 1994a, 2006).

External validity requirement was satisfied by choosing the appropriate sample size for the statistical techniques used in this study (Hair et al., 2006). The sample of usable data  $n = 222$  met the size requirement to detect suitable  $R^2$  values for this study. Examination of the adjusted  $R^2$  revealed little loss in the predictive power when compared to the  $R^2$  value, which indicated a lack of over fitting of the model to the data and demonstrated that the generalizability of the results to the population.

## Results

The hypotheses were tested with canonical correlation analysis. This technique was used to measure the relationship between sets of multiple dependent and multiple independent variables in such way that "the canonical correlation maximizes the correlation between linear composites of the Y and X variables" (Sharma, 1996, p. 405). Several statistic measures were used to test the significance of the canonical correlations. Wilk's lambda ( $\lambda = .022$ ) was one of such statistic that was reported statistically significant for this study at confidence level of .05. Other multivariate tests of statistical significance reported for this study were Pillai's Trace = .023 and Hotelling's Trace = .020, all statistically significant at confidence level of .05. The sample size for this study was larger than the ratio of the number of variables to the number of observations (1:10) used to test relationships between the sets of variables. Traditionally, "only canonical variates are interpreted whose canonical correlations are statistically significant. Since the canonical variates are the linear composites of the original variables, one should attempt to determine what the linear combinations of the significant canonical correlations represent" (Sharma, 1996, p. 404).

Two miscommunication variables assessing miscommunication at the peer level and the supervisor level were independent variables while three types of conflict were the dependent variables for this analysis. Therefore, there were the Miscommunication latent factor and the Conflict latent factor with the objective of maximizing the variates for the correlation between them. Two functions were reported with the value of the first canonical correlation of .25502. The squared root was .06503, which meant that about 7 percent of variance was explained by the first canonical function. The first canonical function was significantly high and the remaining canonical function was not significant. The multivariate tests of significance was set at 0.05 alpha level (Table 4).

**Table 4**  
**Multivariate Tests of Significance of Canonical Correlation Model**

| Test Name                              | Value      | Approx. F | Hypoth. DF | Error DF   | Sig. of F |
|--|------------|-----------|------------|------------|-----------|
| Pillai's Trace                         | .06579     | 2.47175   | 6.00       | 436.00     | .023      |
| Hotelling's Trace                      | .07032     | 2.53138   | 6.00       | 432.00     | .020      |
| Wilk's $\lambda$                       | .93426     | 2.50175   | 6.00       | 434.00     | .022      |
| Eigenvalues and Canonical Correlations |            |           |            |            |           |
| Root No.                               | Eigenvalue | Pct.      | Cum. Pct.  | Canon Cor. | Sq. Cor   |
| 1                                      | .06956     | 98.92140  | 98.92140   | .25502     | .06503    |
| 2                                      | .00076     | 1.07860   | 100.00000  | .02753     | .00076    |

The correlation matrix reported high and positive correlations between the independent variables and canonical variables. Correlations between covariates and canonical variables were also positive suggesting that the relationships between the dependent and independent variables in this study were positive as well (Table 5).

**Table 5**  
**Canonical Model Correlation Results**

| <i>Canonical correlations between dependent and canonical variables</i> |                  |
|---|------------------|
| Variable  | Function No. and |
| Value   |                  |
|   | 1                |

---

|                               |        |
|-------------------------------|--------|
| Miscommunication (Peer)       | .97822 |
| Miscommunication (Supervisor) | .70368 |

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*Correlations between covariates and canonical variables*

|                         |        |
|-------------------------|--------|
| Covariate               | 1      |
| Conflict (Task)         | .71450 |
| Conflict (Process)      | .67282 |
| Conflict (Relationship) | .29164 |

The correlation coefficients of the first canonical variate revealed that miscommunication at the peer level (.97822) was positive and more influential in forming the first canonical variate than at the supervisor level (.70368) as reported in Table 5. Both coefficients were quite close, suggesting that miscommunication levels at both peer and supervisor levels were significant. The correlation coefficients also revealed that Relationship conflict (.71450) and Task conflict (.67282) were positively significant while Process conflict (.29164) was positive but not significant.

Therefore, Hypothesis1, which stated that miscommunication was positively related to task conflict in culturally diverse work groups, was supported by the data. Hypothesis2 predicted that miscommunication was positively related to process conflict and it was supported by the data. Hypothesis3 stated that miscommunication was positively related to relationship conflict in culturally diverse work groups and it was not supported by the data.

### **MANAGERIAL IMPLICATIONS OF STUDY FINDINGS**

This study sought to fill the gap in the literature and to provide managers and other practitioners with first-hand data analysis of relationships among verbal miscommunication and three types of conflict in culturally diverse work groups in organizations in the United States.

Miscommunication was found to lead to task and process types of conflict in culturally diverse work groups at peer and supervisor levels.

The work groups included team members and supervisor-subordinate dyads. Useful definitions of the types of conflict were provided by a number of researchers and were used in this study. Relationship conflict is an awareness of interpersonal incompatibilities that includes emotions, task conflict is an awareness of differences in opinions regarding a group task (Jehn & Mannix, 2001). Process conflict (Jehn, 1997; Jehn et al., 1999) is an awareness of differences regarding the way for a task to be accomplished while task conflict is an awareness of differences in opinions regarding a group task (Jehn & Mannix, 2001). Managers and practitioners who supervise culturally diverse work groups, or become members of such groups, will have to take active steps to prevent miscommunication in culturally diverse work groups. Miscommunication in these groups is more likely to result in task and/or process types of conflict among the group members or between supervisor and subordinates. Thus, effective conflict management strategies need to be in place to mitigate the effects of task and/or process conflicts on work outcomes. Administration of various training programs on effective cross-cultural communication and conflict resolution in culturally diverse workforce is advisable.

### **LIMITATIONS AND FUTURE RESEARCH**

The first limitation of the study is the self-reported measures of variables of interest to the study. However, as behavior in organizations is partly governed by employees'



perceptions, it was important to examine perceptions of culturally diverse work group members and their supervisors about the factors that contribute to miscommunication and its relationship with three types of conflict in their own work groups.

Another limitation of the study is the examination of relationships among only one type of miscommunication-verbal-in culturally diverse work groups. Although investigating whether miscommunication occurs when members of culturally diverse work groups use non-verbal and written types of communication presents a great academic and practical value, this examination would be beyond the scope of the present study. Yet another possible study limitation is that the sample consisted of respondents from various industries and regions. Providing results across industries and various types of organizations could limit the study's internal validity. In other words, the use of a sample that consists of participants from various industries would produce averaged out results. More accurate idiosyncratic results could have been attained when drawing samples from a specific organization or an industry.

The present study's scope was limited to the examination of relationships between the verbal type of miscommunication and conflict in culturally diverse groups. Thus, future research should extend this study to investigate the existence of non-verbal and written miscommunication among members of culturally diverse groups and in supervisor-subordinate dyads. Further, it would be desirable to examine whether non-verbal or written miscommunication if found leads to any type of conflict in culturally diverse workforce.

New variables could be introduced as miscommunication antecedents in culturally diverse work groups such as variables related to the degree of assimilation in American culture, whether they are first-generation or second-generation immigrants, trust, levels of stress, and other variables.

## CONCLUSION

This study empirically investigated the relationships between verbal miscommunication and three types of conflict in culturally diverse work groups in organizations based in the United States. The verbal miscommunication in culturally diverse work groups was examined at the peer and supervisor levels. Present study makes a meaningful contribution to the extant research on the variables of interest. This study takes empirical research further and reveals that a significant relationship exists between verbal miscommunication and conflict in culturally diverse work groups.

Previous studies have demonstrated mixed results on task and process types of conflict variables. To date, the process conflict has been the least empirically examined. The present study contributes to the limited research that exists on this variable by presenting findings that demonstrate a significant positive relationship between verbal miscommunication and process conflict in culturally diverse work groups. Further, present research confirms previously found significant positive relationship between task conflict and verbal miscommunication in culturally diverse work groups. Contrary to the previous studies, the current research did not find a significant positive relationship between miscommunication and relationship conflict in culturally diverse work groups. Future researchers may want to further examine the association between these variables.

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# ACTUAL CONDITION SURVEY OF LEADERSHIP DEVELOPMENT IN JAPANESE COMPANIES

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## ABSTRACT

*This study examines the current state of leadership development in Japanese companies. The research questions that we address are: 1) What kinds of leadership behavior do Japanese companies expect from their employees? 2) What kinds of leadership development training programs have been conducted in Japanese companies? The questionnaire research (N = 101; 7.79% response rate) led to three findings. Japanese companies expected leadership behaviors from employees in different stages of their career. The leadership behavior that the Japanese companies expected differed according to the career stages of the employees. Among the Japanese companies that participated in the survey, 85% conducted leadership development training programs for their employees.*

## INTRODUCTION

It is becoming increasingly important for companies to develop their human resources because human resources constitute one of the most important sources of competitive advantage (Pfeffer, 1995). Developing leadership, in particular, is becoming a critical management issue (Day, 2001; McCauley, Moxley, & Van Velsor, 1998; Pearce, 2007) because of the increase in the knowledge work in companies. According to Drucker (1994), the age of knowledge work has arrived. It is becoming increasingly important for knowledge workers to collaborate with other employees with different specialized knowledge. Therefore, companies need employees who have leadership as well as specialized skills (Gratton, 2011).

Researchers studying human resource management and organizational behavior have struggled with leadership and leadership development. Traditionally, leadership researchers focused on investigating leadership itself. Specifically, they were interested in identifying the traits of the best leaders (trait theory) or the common behaviors that induce high group performance (behavior theory). Even today, these two leadership theories have a strong influence on the research on leadership; the charismatic leadership theory (Conger & Kanungo, 1998) is a case in point. After the 1970s, the contingency approach to leadership became popular. Leadership researchers began to pay attention to situational variables, such

as the nature of the relationships between the leader and the followers, the leader's position power, and the extent to which a particular task is structured (e.g., Fiedler, 1967).

However, there are few extant studies on leadership development. The fundamental challenge that these researchers face is to describe the process or way of developing leadership (Day, 2001). Although some traditional leadership researchers regarded leadership as an invariable trait, recent researchers examining leadership development assume that companies can develop their employees' leadership skills through training programs, similar to how they develop the other business skills of their employees.

Some practices are regarded as effective ways to nurture an employee's leadership. For example, 360-degree feedback, coaching, mentoring, networks, job assignments, and action learning are representative leadership development practices (McCauley et al., 1998). Today, a growing number of Japanese companies are increasingly focusing on leadership development (Furuno, 2000). Most prior leadership studies (e.g., Bass, 1991; Conger & Kanungo, 1998) found that in the twentieth century, Japanese companies asked only the managers to take on leadership; the other employees were required to be good followers. However, in recent years, some researchers and companies believe that every employee should take on leadership within their team or organization (Pearce, 2007; Pearce & Manz, 2005). Iga (2012) reported that an increasing number of employees are beginning to ask to for leadership roles; however, employees who are capable of taking up effective leadership are severely lacking in Japanese companies. Therefore, it is important for Japanese companies to develop their employees' leadership skills.

Several questions arise in this context. Why is this rapid change occurring in Japanese companies and society? Are there any changes in how the leadership concept is viewed? Do Japanese companies provide their employees with suitable training opportunities to develop their leadership skills? The purpose of this study is to answer these questions, which is admittedly not an easy task. The rest of this paper is structured as follows. The extension of leadership theory and leadership development research is described by reviewing prior research in the second section. Subsequently, the research questions that are addressed in this study are discussed. The research method and questionnaires are described in the third section. In the fourth section, the results of this study are presented. Finally, the interpretation of the results is discussed, and concluding remarks are presented in the fifth section.

## LITERATURE REVIEW

### Definition of Leadership

There are several different definitions of leadership. House et al. (1999) defined leadership as the ability of an individual to influence, motivate, and enable others to contribute toward the organization's effectiveness and success. And Katz & Kahn (1978) defined that leadership is the influential increment over and above mechanical compliance

with the routine directives of the organization. In addition, Rauch & Behling (1984) defined that leadership is the process of influencing the activities of an organized group toward goal achievement. The common feature among most of the various definitions seems to be influence. However, this influence is meant not only for others but also for the leaders themselves. For example, Kotter (1982) suggested the following effective leadership behaviors: agenda setting, network building, and execution. It usually takes a few months to accomplish the agendas set by the leaders. Therefore, most leaders are required to take effective self-leadership measures (Manz & Neck, 1998) to retain their passion or motivation to prevent failure.

In addition, there are some controversies related to the definition of leadership. One problem is whether leadership is a trait or a process. As described earlier, initially, leadership scholars primarily focused on the trait aspect of leadership. However, they gradually shifted their focus to the process aspect. With the increase in the scope of business, the size of organizations dramatically changed. As companies grew and expanded, they began to need many managers and leaders.

The leaders who are needed in these big companies are not charismatic leaders but effective leaders. Thus, practical interests changed from selecting gifted special leaders to developing skilled leaders. Therefore, the focus of leadership research became to examine how leadership roles were taken up in organizations to find the most effective method to facilitate their skills, and to analyze their effective behaviors.

Another issue is whether the actor associated with leadership is limited to the official leader. As was discussed in the first section, leadership scholars traditionally focused on leadership associated with a specific position. This view of leadership was suitable for the industrial society of the twentieth century, where most employees were asked to work according to predetermined ways. However, from the late twentieth century, the number of employees with specialized knowledge and highly educated employees began to increase. Some of these employees are required to work together and collaborate with others, sharing their specialized knowledge. In other words, employees are required to identify problems as well as resolve them on their own. During this process, each employee is asked to take on a leadership role and to involve others in solving the problem(s). Given these changing practical interests, leadership without authority or emerging leadership is receiving greater attention. Thus, leadership today is regarded as something that is taken on and shared by every member of the team.

### **Definition of Leadership Development**

Leadership development is defined as the process of expanding the collective capacities of organizational members in order to enable them to effectively engage in leadership roles and processes (Day, 2001; McCauley et al., 1998). Leadership development

is closely connected to leadership theory. Therefore, according to the extensional view of leadership theory, the focus of leadership development has changed in recent years. The traditional school of leadership development research followed two research streams. First, most prior researchers on leadership development focused on transactional and transformational leadership. Second, they focused on the employees who occupy leadership positions. In the new school of leadership development research, scholars attempt to expand the scope of leadership development and include followers in the process of leadership development (Pearce, 2007).

Although the number and scope of leadership development studies have increased significantly, there are few extant studies on leadership development in the context of Japan. In the following section, the prior studies conducted in Japanese organizations are reviewed; subsequently, the research questions that are addressed in this study are discussed.

### **Leadership Development in Japan**

Academic interest in leadership development in Japan began to increase in the 1970s. There are two main streams of research in the Japanese context. First, several studies were conducted by Misumi and his colleagues based on Misumi's Performance-Maintenance (PM) theory of leadership (Misumi, 1984). PM theory is one of the most famous behavioral approaches to leadership in Japan. Practical applications of this theory are well evidenced in Japan. According to Misumi (1984), there are two important types of behaviors. Performance behaviors include planning and identifying reasons for poor performance and direction. Maintenance behaviors include trusting one's subordinates, considering another member's private affairs, and recognizing good performance (Misumi, 1984). Misumi & Fujita (1971) suggested intervention programs for leadership based on the PM theory. Further, Seki, Takaoka, Misumi, and Misumi (1992) evaluated the effect of such leadership development intervention programs; they reported that some leaders enhanced their leadership scores evaluated by subordinates, and some leaders changed their leadership style after the intervention programs. In addition, they reported that organizational objective indicators, such as the stability of the workforce and ordinary profit, also improved as the result of such intervention programs.

Second, some studies focused on learning from experience (e.g., Taniguchi, 2006). Following McCall (1998), most of these studies adopted a quantitative research approach to answer the question: What kinds of experiences and jobs make employees effective leaders?. According to McCauley et al., (1998", these studies suggested that improving job experiences is the one of the most important factors for leadership development. This finding is useful for some Japanese companies that are considering how to develop their employees' leadership skills. Such findings have been applied to job rotation or for training managers in Japanese companies.



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## Research Questions

Although there have been several studies on leadership and leadership development in Japanese companies, there are some gaps in the literature. Most prior studies had two limitations. First, most of them involved case studies of leadership development in certain companies that have advancing leadership development programs in Japan. A quantitative research approach for analyzing the process or way of leadership development is useful because other companies can imitate the identified processes in their human resource development strategies. However, the complete picture of leadership development in Japanese companies remains vague. Therefore, a questionnaire research would be useful to depict the overall picture in a period.

Second, most of the prior studies focused on formal leaders with a management position. Some Japanese researchers suggested that the actors associated with leadership should not be limited to formal leaders, and that all employees should take on leadership roles (Higano, 2012; Iga, 2012). However, whether Japanese companies actually want every employee to take on leadership remains to be examined. There could be some gaps between the extant academic discussions and practical interests. Therefore, it is important to evaluate the actual need for leadership in Japanese companies.

To address this gap in the literature, we surveyed the leadership development principles and practices in Japanese companies. Our research questions were: 1) What leadership behaviors do you expect from your employees? 2) What leadership development training programs have you conducted?

## METHOD

This research is part of the “Research of Developing Business Leadership” project conducted by the College of Business at Rikkyo University in Tokyo.<sup>1</sup> In June 2010, we sent out questionnaires to the human resources departments of 1,297 Japanese companies, including listed, unlisted, and foreign capital companies. We asked the companies to respond within two weeks. We received 101 responses (7.79% response rate).

The questionnaire consisted of three parts. Part 1 was a company profile about each firm’s industry, number of employees, percentage of full-time employees, type of organizational structure (from a pyramidal organization to a flat organization on a scale of 1 to 5), and its decision-making process (from top-down to bottom-up on a scale of 1 to 5). Part 2 explored what leadership behaviors the companies expected from managers and non-managers. We divided the employees into four categories and asked the respondents about each category: executives, middle management or middle, young employees or young (more than three years of service with the firm), and newcomers (fewer than three years of service with the firm). Part 3 investigated the content of the leadership programs conducted by the company.

Most of the respondent companies belonged to four industries: manufacturing (40.6%), services (10.9%), wholesale trade (9.9%), and retail (9.9%) (see Table 1). Approximately one-third (39.6%) of the companies employed 300 to 1,000 people, and approximately one-third (36.6%) of the sample employed 1,000 to 5,000 people. Table 2 provides additional details.

| Industry                                 | Frequency | Percentage |
|--|-----------|------------|
| Agriculture, forestry, fisheries         | 0         | 0.0%       |
| Metal mining                             | 0         | 0.0%       |
| Manufacturing                            | 41        | 40.6%      |
| Finance and Insurance                    | 7         | 6.9%       |
| Construction                             | 1         | 1.0%       |
| Wholesale                                | 10        | 9.9%       |
| Retail                                   | 10        | 9.9%       |
| Information and Communication            | 9         | 8.9%       |
| Electricity, gas, heat supply, and water | 1         | 1.0%       |
| Real estate and good rental and leasing  | 1         | 1.0%       |
| Transport and postal activity            | 4         | 4.0%       |
| Service, N.E.C.                          | 11        | 10.9%      |
| No answer                                | 6         | 5.9%       |
|  | 101       | 100%       |

| Number of employees | Frequency | Percent |
|---------------------|-----------|---------|
| less than 50        | 1         | 1.0%    |
| 50~100              | 0         | 0.0%    |
| 100~300             | 6         | 5.9%    |
| 300~1000            | 40        | 39.6%   |
| 1000~5000           | 37        | 36.6%   |
| More than 5000      | 16        | 15.8%   |
| No answer           | 1         | 1.0%    |
|                     | 101       | 100%    |

## RESULTS

### Important Leadership Behaviors

The results of the analysis showed that the Japanese companies in the sample expected all the four categories of employees to demonstrate some form of leadership behavior. Specifically, 94.1% of the companies expected leadership behavior from middle managers, 86.1% expected leadership behavior from the executives, 79.2% from young employees and 34.7% from newcomers. It is noteworthy that one-third of the surveyed companies expected leadership characteristics among newcomers, who are junior employees and seldom have subordinates.

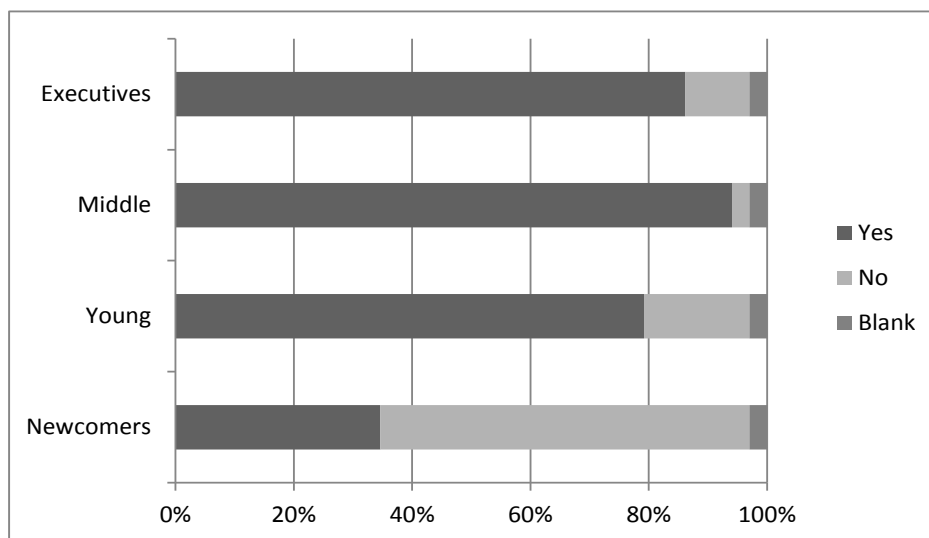


Figure 1: Companies' expectations about leadership behavior from different employee types

The companies were found to have different expectations and definitions of leadership for each category of employee. The respondents identified three types of leadership expectations for their executives: "Establishing the company's vision" (57.5%), "Disseminating the company's vision" (34.5%), and "Developing the next leader" (3.4%). In short, "leadership" for executives entails creating a vision, disseminating the vision throughout the organization, and ensuring effective plans for succession.

For middle managers, the important leadership qualities included "Coordinating with senior management and other departments" (22.1%), "Disseminating the company's vision" (20.0%), and "Assigning and designing jobs and providing adequate suggestions" (9.5%). Our research results showed that middle managers were expected to disseminate the senior management's vision to their subordinates and to implement this vision by managing their departments effectively and interacting with other departments.

The companies we studied expressed different expectations and definitions of leadership behavior for non-managerial employees. We classified the non-managerial employees into young employees and newcomers. According to our research results, the leadership behavior for young employees includes “Acting proactively” (20%), “Setting an inspiring example, (12.5%)” “Taking initiatives, thereby setting an example for others” (12.5%), and “Getting things done by involving others” (10.0%). The management creates and disseminates the company vision; thus, Japanese companies do not expect leadership from their contributor-level employees. However, young employees are expected to interpret the senior management’s vision and to display it through proactive behavior. Moreover, they are encouraged to be role models for their peers and to achieve goals by involving their colleagues. For this group, leadership involves achieving their assigned work goals and influencing others.

Although newcomers have no subordinates and have less experience compared to young employees, approximately one in three companies expected them to display leadership behaviors. These behaviors included “Getting their job done on their own” (22.9%), “Acting proactively” (22.9%), and “Completing their work within the deadlines and following the rules.” These results suggest that the companies expected newcomers to motivate and discipline themselves and to be proactive, not passive.

In summary, the employees were divided into four categories, and the employees in each category were expected to show leadership behaviors. In addition, as shown in Figure 2, the four categories of employees were asked to take on different leadership roles.

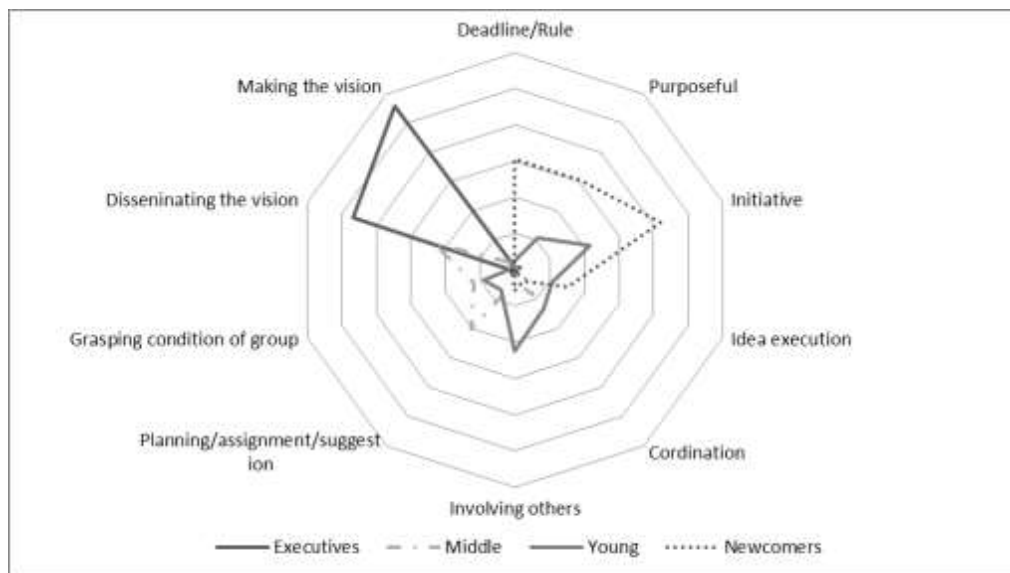


Figure 2: Differences in leadership behavior expected from employees in different positions

### Leadership Development Training in Japanese Companies

Our research results showed that 85.1% of the respondents had implemented some form of training program for leadership development. Their reasons included: “To develop employees to lead our company” (81.4%), “To heighten the ability to execute the company’s vision and strategies” (65.1%), “To motivate our employees and strengthen trust among employees” (57.0%), and “To develop each employee’s leadership potential” (53.5%). The reasons why some of the companies did not implement leadership development training included “Excessive budget requirements” (50.0%) and “Takes too much time” (42.9%).

Companies can introduce many types of training programs to encourage leadership behaviors among employees. They might be able to develop leadership solely through on-the-job training (OJT) programs. However, leadership is more effectively developed through a mix of OJT and off-the-job training (Off-JT) programs. In this section, we focus on the current status of Off-JT programs in Japanese companies.

The analysis proceeded in three steps. First, we divided the employees into four categories as before. Second, we divided the leadership training programs into four categories; authentic leadership training (Authentic), facilitating leadership training (Facilitating), diversity leadership training (Diversity), and self-control. Authentic programs include training programs in which participants try to identify their own strengths and suitable leadership style. Facilitating programs are intended to enhance facilitation skills such as coaching. Diversity programs focus on leadership in the global situation or in the context of a diverse team. Self-control programs involve training based on the self-leadership theory or the concept of self-management. Third, we aggregated the survey data according to the types of leadership training conducted for the different categories of employees. As shown in Table 3, there are two interesting findings related to employees without official positions (i.e., young employees and newcomers). First, although authentic leadership training programs mainly target young employees, quite a few newcomers were trained in this type of training program. Second, both young employees and newcomers were trained in self-control skills.

|            | Authentic | Facilitating | Diversity | Self-control | Others |
|------------|-----------|--------------|-----------|--------------|--------|
| Executives | 23.3%     | 7.0%         | 1.4%      | 17.4%        | 3.5%   |
| Middle     | 55.8%     | 46.5%        | 1.4%      | 36.0%        | 2.3%   |
| Young      | 45.3%     | 32.6%        | 7.4%      | 40.7%        | 3.5%   |
| Newcomers  | 4.7%      | 3.5%         | 0%        | 17.4%        | 4.7%   |

\* Multiple answers were obtained

## DISCUSSION

This study investigated the current state of leadership and leadership development among Japanese companies using a survey questionnaire. We asked the companies two questions. What leadership behaviors do you expect from your employees? What leadership development training programs have you conducted?

We reported two main findings. First, Japanese companies expect employees to display leadership behaviors during all stages of their career. Companies expect different kinds of leadership behaviors from employees at different career stages. In particular, while companies expect managerial employees to create and impart their companies' vision, leadership among non-managerial employees entails proactive behavior. In other words, when they have no subordinates, employees are expected to internalize their company's vision in their personal work. Once the employees become managers, the company's expectations change. They expect managers to disseminate the company's vision among their subordinates and to influence others directly and indirectly.

Second, 85% of the responding companies sponsored some form of leadership development training program. For the executives and middle managers, the authentic type of training is mainly provided. However, self-control training is mainly provided for the young employees and newcomers. These results indicated that Japanese companies understand that it is important for each employee to find his/her suitable leadership style. However, they thought that this type of training should be provided after the employees understood their selves. The results of this study seem to confirm the process model of leadership development (Morinaga, 2012).

These findings provide us with some implications. First, most of Japanese companies asked all stages of employees to take leadership. It is unexpected results and this result seems to suggest that the view of leadership concept is gradually changing in the Japanese companies. Second, Japanese companies seem to ask their employees to "share" the different functions of leadership within the hierarchical organization. Although employees are required to take leadership, newcomer is not required to make an company's vision. It seems to be basic result but new findings about leadership development in Japanese companies. It is seemed that there are any differences between western countries in this point.

### **Limitations and Future Research**

Although this research produced useful conclusions about the current state of leadership development among Japanese companies, which is a little researched area in Japan, there are some limitations. The response rate for our survey was relatively low, and we did not have sufficient data to arrive at conclusions about Japanese companies in general. Since this study involved a one-shot survey, the changing views of leadership and leadership

development are not fully captured. The basic findings presented in this paper can serve as starting points for future research. Future research needs to follow a larger-scale design and devote greater attention to identifying the differences in the Japanese companies' definitions of leadership.

## ENDNOTES

1. The results of this study are based on the re-analysis of "Research of Developing Business Leadership"; some of the results of this study were reported in "Research of Developing Business Leadership Report" (in Japanese).

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# **Empirical Analysis of Total Factor Productivity Growth Trend in Agriculture, Financial & Business intermediaries and Electricity, Gas and Water Sectors: A Malmquist Index Approach and Stepwise regression (analysis) of 20 SSA countries, 2001-2011.**

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## **ABSTRACT**

*This study analyses the productivity growth of the “agricultural”, “electricity, gas and water” and “financial intermediation & business activities” industries (sectors) in 20 Sub-Saharan African countries (SSA). The improvement of the total factor productivity is the inevitable requirement to realize healthy and robust development of Sub-Saharan African industries. Thus, productivity growth is indispensable not only for the incremental of outputs, but also in global competitiveness, it’s also a useful tool for policy makers to improve decisions on economic development and industries performances. In this respect, we adopted DEA based Malmquist Index, to calculate the total factor productivity of the three sectors through the period (2001-2011) and stepwise regression analysis to examine the contribution of the variables to the formation of the total factor productivity growth (TFP). The three industries (sectors) under considerations complement each other economically and they are the major binding constraints for many small and big firms’ performance and growth in the region which causes major slump in manufacturing in the region. While the findings demonstrate positive growth in TFP both in financial intermediaries and electricity, gas and water, there is cause for concern in agricultural sector. The TFP growth in the agriculture sector has regressed in most of the countries. Measures for boosting productivity growth in the agricultural sector should be given highest priority in future in terms of investment strategies and performance management.*

## **1. Introduction**

In the recent years, after undergoing significant structural and institutional changes, the African economies has attracted global attention especially those countries in the Sub-Saharan African region (hereafter, SSA). However, the past inefficiencies in SSAs, industries is objectively well documented using simple measures of efficiency in relation to global production such as the domestic resource cost and effective rates of protection. Unfortunately, these measures though enlightening about the whole magnitude of the inefficiencies leaves decision makers without a solid base for suggesting means of remedying the situation. For example, various reasons such as technical or allocation inefficiency can cause a higher Domestic Resource Cost (DRC) due to incorrect combination of resources and also higher DRC does not offer much information about the extent of dispersion of the total factor productivity within an industry (Howard, 1992). At a time the United Nations and the SSA leaders are advocating for better and faster policy formulation and higher level of investment to achieve the millennium development goals (MDGs) in 2015, the question of the current industry performance needs to be addressed, given the various competing priorities such as human development challenges (illiteracy, diseases, climate change, famine etc.) and at the

same time continue rebuilding the crumbling infrastructure (transport, electricity, and clean water). The regions problems are further compounded by lack of database on output and productivity trends by sectors, which relate the industrial sectors efficiency and productivity growth to businesses and industrial growth or that traces changes in industrial sectors overtime (Timmer & de Vries 2013). Currently, an assessment of the industry performance is necessary to establish the effectiveness of the existing policies and as a basis to remedy any shortfalls for sustenance of the robust development over the long term, in-depth research is required on the efficiency and productivity growth of the existing industries to identify the source of the rapid productivity growth (Ethel, 2009; Margaret, 2014; Carlos, 2014). Therefore, in this study we analyse the productivity growth of the “agricultural”, “financial intermediation & business activities” and “electricity, gas and water” industries (sectors) in 20 SSA countries. For the list of these countries please, refer to (Table 1) in the appendix. The selected period of our study is noteworthy due to the fact that, it’s after the reduction of barriers of trade (1990s-2000) which is regarded as the turning point of the SSA economies and their respective industries ushering competition in markets once traditionally closed monopolistic markets. The wave of liberalization forced the SSA governments and industry policy makers to shift from measuring production costs to the assessment of efficiency and productivity. Our analysis provides useful insights into the evolution of the sectors while providing a critical look on the achievements of the sectors under study focusing on two major questions, (1) has there been productivity growth in the sectors and (2) what are the factors that contributed to the total factor productivity growth. In order to exhaust our analysis we apply two methods, for the first question we adopt the data envelopment analysis (DEA) based Malmquist Index and for the second question we apply stepwise regression analysis. With policy makers and top managers in our minds, the goal of the final outcome is to identify the contributions of the three sectors productivity growth for cross section of the countries and bench mark the valuation of the sectors for furthering policy actions and business operations. The reminder of this study is organized into the following sections. In section 2 we describe briefly how we identified the 20 countries under the analysis and the current conditions of the three sectors. In section 3 we describe the research methodology and in section 4 we describe the data we used, while in section 5 we present the empirical results and the concluding remarks.

## **2. Back ground**

The 20 countries were reached based on the results of a previous analysis conducted in 44 SSA countries on the (macro) general environment for market attractiveness. We applied Analytical Hierarchy Process (AHP) to solve the complex multi-criteria decisions of evaluating the market attractiveness of each country with respect to global macro environment indicators which comprised social/cultural, political/legal, technology, economics and infrastructure. The integration of the social cultural issues and politics with economic factors created conducive environment which made those 20 selected countries the best options among the 44 evaluated SSA countries. In the earlier study, the definition of market attractiveness of the (nations) was considered to be a consistent and robust growth of economic and non-economic factors at the macro level in recent years. In this case, a countries potential could be related to a set of macro-factors which had an ongoing improvement for the business environment, exponential growth in trade and investment and of substantial improvements in the quality of human life. In the screening process we were successfully able to identify and discriminate between countries that represented great prospects, basic opportunities and those that either presented little or no opportunity or involved excessive risks (Peter & Maruyama, 2015). While the three industries were reached based on the major binding constraints to the firms performance and growth in the region as

indicated by (JAICA, 2014; Euro monitor, 2013; World Bank, 2012). According to an intensive Enterprise Survey conducted by the World Bank (2012), the main binding constraints for many small and large businesses in SSA were access to finance and electricity (Justin, 2012), and also a major cause of manufacturing slump in the region. Moreover, these sectors under the consideration economically complement each other and their importance in the nation's overall economic growth is unsurpassable, especially in job creation and poverty reduction. Take for instance, the lack of availability of finances to small but fast growing economies, coupled with political economy issues and size-related and geographic challenges has resulted in severe energy sector problem. Although the region is rich in low-carbon, low-cost energy resources consistent power supply from the local companies is still a problem. The region has developed less than 7 percent of its hydro power capacity, and its generation is the lowest in the world. The problem is compounded further by the stagnation in investment to increase the generation capacity (Regional Economic Outlook, 2014). Economic growth and energy consumption typically evolves together though their underlying relationship is contentious; various empirical researches have offered mixed results (Soyas & Sari, 2003; Ouedraogo, 2010; Odhiambo 2009a, & 2009b; Akinlo 2009). Nonetheless, various researchers have identified distinctive common challenges in the energy sector such as, (a) a substantial of investments is required to solve the existing problems which is greater than the available finances, and the high risks and up-front development costs typically exclude private investment; (b), SSA economies are growing rapidly, which intensifies the demand for energy; (c) the government have limited resources for much needed investments in generation capacity and maintenance and (d), the utilities are inefficient and with poor performances. All the above issues produce a vicious cycle of poor energy services and higher prices, which manifest negatively crimpling the overall economic growth. For example, SSA have the lowest rates of electrification, the average rate is only 32 percent compared to the average rate of Low and Middle Income Countries (LMIC) all over the world, which is 74 percent. The electricity consumption per capital the average of SSA countries is only 517 kWh, which is significantly lower than the world average (1,527kWh with exception of South Africa (4,532kWh). Moreover, SSA countries' rate of electric power transmission and distribution loss is (11.2) percent almost equivalent to the world LMIC average (11.1) percent which indicates operating inefficiencies of power utilities. Almost 70 percent of the African population approximately 600 million people and 10 million small and medium-sized enterprises have no access to electricity and SSA accounts for nearly 45 percent of people lacking electricity around the globe. Most regions in the world have urban electrification rates of 90 percent or higher, in SSA, less than 60 percent of urban dwellers have electricity (World Bank, 2012). In addition, clean water is also a problem with only 61 percent of SSAs countries population has access to safe drinking water which is far below the world LMIC average of 86 percent and achieving Millennium Development Goals (MDGs) target rate of 75 percent by 2015 (Fujita, et.al). In SSA, half of the population in rural areas still with no access to safe water in SSA makes it difficult to meet the MDGs by 2015. Therefore, one solution for poverty reduction in SSA is dealing with the lingering energy predicaments which hinder economic growth while hampering society's well-being. Furthermore, improving energy infrastructures is crucial for progress in industrialization, poverty reduction and expanding opportunities to easily accessible education and medical services. Therefore, SSA governments' needs to formulate policies geared towards stable energy supply to meet the increasing demand while conforming to global standards on pollution and the natural environment conservation (Sudo, 2013). In most SSA countries the financial systems are still in infant stage which constrains access to credit thus limiting the implementation of new projects especially in innovations. Accessible financial services, savings and insurance among other services is required to straighten business and household

cash flows and far-reaching financial access may help earmark talent across occupations, encouraging small businesses to apply their skills to create productive job opportunities (Dabla-Norris et.al, 2013). Structural transformation with emphasis on these three industries may facilitate poverty reduction, job creation, promote financial inclusion and raise productivity in agriculture. Finances are important aspects of firm's performance, for example at some point firms have to purchase machinery, equipment or vehicles through borrowing from banks though this depends with firms' respective operations and strategies.

### 3. Research Methodology

According to the neoclassical growth theory, the only source of sustainable economic growth is the total factor productivity (Solow, 1957). The improvement of the total factor productivity is the inevitable requirement to realize healthy and robust development of Sub-Saharan African industries. In this respect, in our study we adopted DEA based Malmquist Index, to calculate the total factor productivity of three sectors in Sub-Saharan African region through the period (2001-2011). The Malmquist total factor productivity index was first introduced by Malmquist in 1953 before being further developed within the framework of DEA; it was introduced as a theoretical index by Caves, Christensen and Diewet (1982a, 1982b). However, it was popularized as an empirical index by Fare et al. 1994). It is meant for measuring the productivity overtime. The Malmquist index decomposes the productivity change into two components the "catch-up" which captures the change in technical efficiency overtime and "frontier-shift" this captures the changes in technology that occurs over time (Coelli & Rao, 2005; Fare et.al. 2011). In the industry or business environment analysis the Malmquist total factor productivity index decomposes productivity change into two components the "catch-up phenomena " this captures the change in technical efficiency overtime and technical change "frontier shift" which captures the change in technology that occurs overtime (Technical efficiency change indicates or measures the change in efficiency between the current (t) and next (t+1) periods, while the technological change (innovations) captures the shift in frontier technology. Technological change is the development of new products or the development of new technologies that allow methods of production to improve and results in the shifting upwards of the production frontier. To be more precise, technological change includes new production process, called process innovation and the discovery of new products called product innovations. With process innovation firms figure out more efficient ways of making existing products allowing output to grow at a faster rate than economic inputs are growing. The cost of production declines overtime with process innovations-new way of making things. Technical efficiency change, on the other hand, can, make use of existing labor, capital, and other economic inputs to produce more of the same product. An example is the increase in skills or learning by doing. As producers gain experience of producing products the more they become good and efficient at it. Labor finds new ways of doing things so that relatively minor modifications to plant and procedures can contribute to highest level of productivity. Panel data allows for estimation of technical progress (the movement of the frontier established by the best practices firms) and the changes in technical efficiencies overtime (the distance of the inefficient firms from the best practice firm) or catching up. There are several approaches for measuring TFP but in our case we used the time series DEA method output oriented (Banker, Charnes, & Cooper, 1984; Charnes et.al., 1985; Fare, Gross Kopf, Norris, & Zhang, 1994). We defined the output orientation on MPI as the following:

$$M^{t+1}(x^{t+1}, y^{t+1}, x^t, y^t) = \left[ \frac{D^t(x^{t+1}, y^{t+1})}{D^t(x^t, y^t)} \times \frac{D^{t+1}(x^{t+1}, y^{t+1})}{D^{t+1}(x^t, y^t)} \right]^{\frac{1}{2}},$$

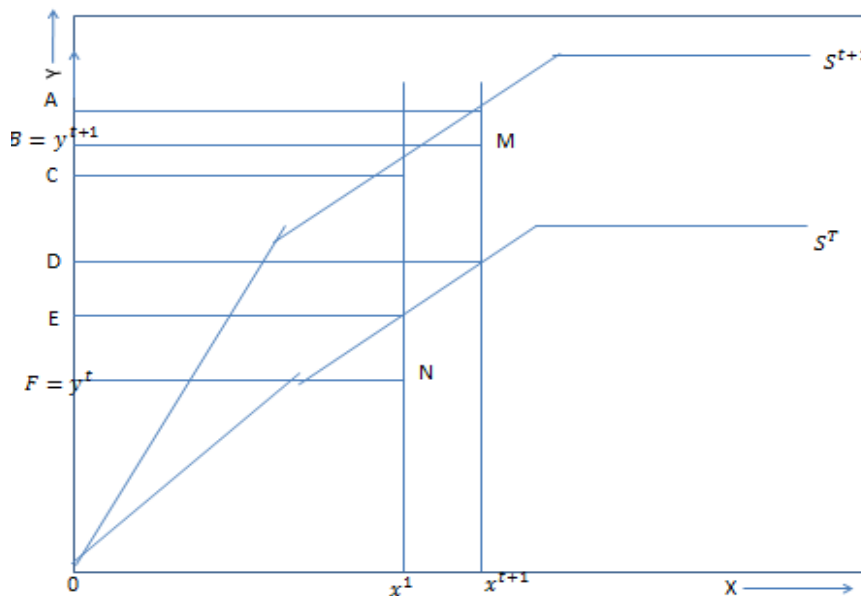


Figure 1. Malmquist Frontier and technological change

Where  $D^t$  is the distance function measuring the efficiency of transformation of inputs  $x^t$  to outputs  $y^t$  in the period  $t$ . Note that, if there is a technological change in the period  $(t+1)$ , then  $D^{t+1}(x^t, y^t) =$  the efficiency of transformation of inputs at period  $t$  to output at period  $t \neq D^t(x^t, y^t)$ . The MPI is a geometric average of the effects of technology change which can be written as:

$$M^{t+1}(x^{t+1}, y^{t+1}, x^t, y^t) = \left[ \frac{D^t(x^{t+1}, y^{t+1})}{D^T(x^t, y^t)} \times \frac{D^{t+1}(x^{t+1}, y^{t+1})}{D^{t+1}(x^t, y^t)} \right]^{\frac{1}{2}},$$

$$M^{t+1}(x^{t+1}, y^{t+1}, x^t, y^t) = \frac{D^{t+1}(x^{t+1}, y^{t+1})}{D^t(x^t, y^t)} \left[ \frac{D^t(x^{t+1}, y^{t+1})}{D^{t+1}(x^{t+1}, y^{t+1})} \cdot \frac{D^t(x^t, y^t)}{D^{t+1}(x^t, y^t)} \right]^{\frac{1}{2}},$$

Or

$$M = E \times T,$$

Where

E= technical efficiency change and T = Technology change.

In Figure1,  $S^{t+1}$  is the frontier at  $(t + 1)$ , if there is technical progress,  $S^{t+1}$  will shift upwards from  $S^t$ .  $M$  represents actual productivity gains  $(x^{t+1}, y^{t+1})$  at  $(t + 1)$ , while  $N$  represents the gains at time  $t$ . Please note, DEA efficiency may acts as a distance function measure, as it reflects the efficiency of conversion of inputs to output. Hence,

$$D^{t+1}(x^{t+1}, y^{t+1}) = \text{DEA efficiency applying } x^{t+1} \text{ inputs and } y^{t+1} \text{ outputs} = \frac{OB}{OA}.$$

Similarly,

$$D^t(x^t, y^t) = \frac{OF}{OE}.$$

Hence,

$$E = \text{Technical efficiency change} = \frac{D^{t+1}(x^{t+1}, y^{t+1})}{D^t(x^t, y^t)}$$

$$= \frac{(OB/OA)}{OF/OE}.$$

When  $E > 1$ , only then there is indication of an increase in the technical efficiency of converting inputs to outputs, the ratio  $\frac{D^t(x^t, y^t)}{D^{t+1}(x^t, y^t)}$  that, usually when there is improvement in technical change (May be better management could be a technical change), which indicates the same input  $x^t$  can produce greater level of output when used in the time period  $(t + 1)$ . Note, the input  $x^t$  can only produce OE as its best output in time  $t$ , but it can produce a higher level of output OC in time  $(t + 1)$ . Therefore, the ratio OA/ OE is the measure of accrued technical change. When this ratio is greater than unity, only then there is technological improvement.

$$D^t(X^t, y^t) = \frac{OF}{OE},$$

$$D^{t+1}(X^t, y^t) = \frac{OF}{OC}.$$

Therefore,

$$\frac{D^t(X^t, y^t)}{D^{t+1}(X^t, y^t)} = \frac{OC}{OE}.$$

In case of technological progress, the ratio should be greater than unity.

Likewise,  $\frac{D^t(x^{t+1}, y^{t+1})}{D^{t+1}(x^{t+1}, y^{t+1})} = \frac{OA}{OD} > 1$  for technological progress. Thus,

T = Technology change

$$= \left[ \frac{D^t(x^{t+1}, y^{t+1})}{D^{t+1}(x^{t+1}, y^{t+1})} \cdot \frac{D^t(X^t, y^t)}{D^{t+1}(X^t, y^t)} \right]^{1/2}$$

$$= \left[ \frac{OA}{OD} \times \frac{OC}{OE} \right]^{1/2}.$$

This represents the average technological change, measured as the geometric mean of the two above ratios. For comprehensive analysis various researchers have combined DEA with other methods (Felix & Ojenlaki 2008, Alper, 2006). Apart from DEA we also applied stepwise regression analysis to examine the contribution of the variables to the formation of the Total Factor Productivity Growth (TFP). TFP was applied as the dependent variable and consumption for employee, consumption on fixed capital, net mixed income, net operating, taxes on production and gross output are the independent variables.

$$TFP = \beta_0 + \beta_1 \log C + \beta_2 \log CFC + \beta_3 \log NMI + \beta_4 \log NO + \beta_5 \log TP + \beta_6 \log G,$$

Where,

$C$  = Consumption,  $CFC$  = Consumption on Fixed Capital,  $NMI$  = Net Mixed Income,

$NO$  = Net Operating,  $TP$  = Taxes on Production,  $G$  = Gross.

#### 4 Data

We collected data from Eurostat, (EORA, RIO input-output table) the statistical office of the European Communities which gathers and analyses figures from national statistical

offices and provides harmonized data for Europe's business communities, professional organizations, academic researches, librarians, NGO's media outlets and the general public. The compilation of supply, Use and Input-Output tables is complex and challenging than most other statistical tools. However, they offer the most detailed descriptions of an economy with insightful analysis of the process of production and the use of good and services (products) and the income generated in the production process. Satellite accounts; provide a framework linked to the central accounts and which enables attention to be focused on a certain field or aspects of economic and social life in the context of the national accounts; such as the satellite accounts for the environment, or tourism, or unpaid household work. Input/Output tables are widely used for various purposes such as comparing economic linkages between different countries (Dong, 2013) in our study, the (IOT) tables were the best data for conducting developing countries industry analysis. The tables were sufficient for us to obtain an estimate of the production technology which covered the periods (2001-2011) respectively. In this study, every industry has six inputs and one gross output. The Input variables were, Compensation of employees, Subsidies on production, Net operating surplus, Gross operating surplus, net mixed income, Consumption of fixed capital and for the output variable, for every five inputs in each industry there is one gross output.

### **5. Empirical Results:**

The table 2 (see the appendix) shows the average TFP in agricultural sector for all countries is 0.996 or -0.34% for the period of the study (2001-2011). There was no progress made but substantial decline in productivity growth during the period is evident. The yearly average TFP growth for all the countries indicates inconsistencies it starts high 1.42% in (2001-2002,) drops significantly to -5.80 in (2002-2003), followed by -3.85 in (2003-2004), then progresses drastically 6.3% in (2004-2005), falls back to regression -4% in (2005-2006), during (2008 and 2009) still in regression -4.1 and -5.3 respectively, the regression improves slightly to -1.5 in (2008-2009) and then experienced the best progress 9.8% in (2009-2010) but the progress drops to 3.8% in (2010-2011). As the general trade indicates there has been inconsistent productivity growth but the most progressive periods were in 2005 and 2010. Between the 20 countries, the range of average TFP disparity is great, Seychelles 17.7% TFP growth followed by Burkina Faso 13.9%, Nigeria 11.3%, South Africa 7.2%, Kenya 4.8%, Mauritius 2.7% and Senegal 0.78 percent. Over the entire period under the study Tanzania and Namibia were at the status quo (1) that means there was neither progress nor regression however the majority of the countries (11 in total) the average TFP ratio regressed ranging from 0.99 for Botswana to 0.89 for Benin. We should also note that during the first three years (2002-2004) the average technical efficiency starts in regression of -2.2% followed by further decline -6.5% and -7.8 respectively. However, at the same period the technical change had progress of 3.6%, 1.15% and 5.2% respectively. Therefore, at the beginning of the 2001 technical change had the most impact in the average TFP growth for all the 20 countries but at the end of the study 2011 the results indicates that efficiency change (catching up phenomena) in the agricultural sector on average had the greatest impact for the increase in productivity than technical change over the countries. This indicates the agricultural commercial farms in the region are making use of existing labor, capital, and other economic inputs to produce more of the same products. An example could be training workers or farmers increasing their skills or learning by doing. As workers or farmers gain experience of producing products or crops the more they become good and efficient at it. Labor finds new ways of doing things so that relatively minor modifications to farms or plant and procedures can contribute to highest level of productivity. Nevertheless, majority of the rural population still exercise subsistence farming using only traditional tools such as the axe, handled hoes, and long handled knife (panga). Given the limited amount of land that a family can cultivate

applying primitive tools these small enclosures or small areas are overused and as such they are subject to rapidly diminishing returns to increased labor inputs.

The table 3 in the appendix shows the average TFP growth in financial intermediation and business activities, for all 20 SSA countries is (1.07) or 7.3% for the period of the study (2001-2011). There has been productivity growth during the period, with exception of regression in two periods (2007-2008 and 2009-2010) for all the countries (see the appendix). The range of disparity is small for all the countries, with the exception of Malawi which has slightly different variation pattern worth mentioning. Malawi starts with modest ratio in 2001 at (1.15) in the year (2002) the ratio increases dramatically to (5.54) and the highest ratio among all countries during the period under the study. Then, for eight consecutive years (2003-2011) the model shows status quo (1) for Malawi which means there is no progress or regression during the period. Among the 20 countries under study Malawi had the highest productivity growth of 47% followed by Angola 27.1%, Nigeria 17.2%, Ghana 16.3%, Senegal 13%, Botswana 12.2%, Zambia 11.7%, Namibia 9.1%, Uganda 4%, South Africa 3.9%, Mauritius 1.7%, and Tanzania 0.28%. Over the period under study there were status quo in 5 countries namely, Burkina Faso, Kenya, Lesotho, Seychelles and Togo and only the following three countries in average TFP growth had regressed Guinea (0.99), Benin (0.96) and Gabon (0.86). The general trends over the ten years period suggest that there has been sustained productivity growth however, that progress has been constantly declining over time. Further analysis reveals fluctuations in technological progress but the results indicate that the productivity growth observed is entirely due the degree of catch-up due to improved technical efficiency either better management or policies are the major contributors to the growth rather than technological innovations.

The table 4 in the appendix shows the electricity, gas and water industry the average TFP growth for all countries is (1.08) or 8.5% for the period of the study (2001-2011). There has been sustained productivity growth over the period. The range of variation is huge for all countries which vary from (1.628) or 62.8% to (0.800) or -19.9%. For the period of the study there has been sustained positive productivity growth in 10 countries, 5 countries has status quo meaning there is no progression or regression over the period and the remaining 5 countries the TFP drops to less than 1 indicating regression. Seychelles had the best average growth in TFP 62.8% followed by South Africa 61.4%, Zambia 39.1%, Guinea 19.2%, Angola 12.9%, Malawi 9.1%, Kenya 0.57%, Ghana 3.9%, Tanzania .57%, Botswana 0.24%, and Benin 0.05%. The general trend indicates that there has been sustained productivity growth but that progress has been fluctuating overtime. The yearly average starts low (0.972) in the first year (2001-2002), then progresses in the next 3 years, dropped below 1 in the fifth year, slightly improved during the sixth year, dropped again below 1 in the seventh year but regained progress in average growth in TFP over the next 3 years. The Malmquist calculations indicate that technical efficiency or the catching-up in the industry on average over the 20 countries are greatly responsible for the increase in productivity than the contribution of technical change. Moreover, the technical efficiency indicates that there is a great potential for output increase without increasing the current inputs.

### 5.1 Regression results:

In the stepwise regression analysis, we defined (TFP) as the dependent variable and the independent variables were compensation for employees, consumption on fixed capital, net mixed income, net operating, taxes on production, and the gross output. The initial results in agricultural sector reveals the following results. The agricultural model  $TFP = \beta_0 + \beta_1 \log CFC + \beta_2 \log NMI + \beta_3 \log TP$

\*\*\* \*\*

$$TFP = +0.99696386 - 0.0509059 \log CFC - 0.012305 \log NMI + 0.04650435 \log G$$



T Ratio (5.47) (-2.52) (-2.46) (2.66)

Rsquare 0.4655 Adj-Rsquare=0.3654

The electricity, gas and water model  $TFP = \beta_0 + \beta_1 \log NO + \beta_2 \log G$   
\*\*\* \*\*

$TFP = +0.187525 - 0.1133332 \log NO + 0.168930785 \log G$   
T Ratio (0.44) (-3.07) (4.22)

Rsquare 0.5171 Adj-Rsquare=0.4603

The Financial model,  $TFP = \beta_0 + \beta_1 \log TP + \beta_2 \log G$   
\*\*\* \*\*

$TFP = 0.67269 + 0.01918912 \log TP + 0.01442493 \log G$

T Ratio (1.78) (1.50) (0.58)

Rsquare 0.1541 Adj-Rsquare=0.0546

After the exclusion of non-significant variables from the analysis in the three industries under study the initial results reveals that only the gross correlates with TFP and all three models are weak especially the financial intermediaries with an R-square (0.1541) and Adjusted R-square of only (0.0546). In agriculture sector no single variable higher enough to correlate with the TFP however, the model suggests that Consumption on Fixed Capital, Net Mixed Income, and Gross may explain 36.5 % of the variance of the TFP. With Electricity, Gas and Water, with an adjusted R-square of (0.4603) indicates that, Net Operating and Gross may explain the 46% of the variance of TFP. Overall the findings of the industries are poor, managers and policy makers might want to consider adding more independent variables to explain the remaining variability in the TFP. For further readings see the appendix tables 5 to 7 stepwise regression results.

## 5. Conclusion and discussions:

We have analyzed the productivity growth trend changes of agricultural, financial intermediation and business activities, and electricity gas and water sectors, over the period (2001-2011) utilizing DEA based Malmquist productivity index, which enabled simultaneous analysis of changes in TFP due to catch-up effects and the frontier movement. As the results indicate, there are a number of crucial policy implications arising from the results of this study. First and foremost the poor overall productivity performance of the industries under study is a cause for concern, as these industries are important for overall economic growth especially other studies have argued that they are the engine for a vibrant manufacturing. Currently, almost all the SSA countries face dire challenges in total factor productivity growth in the agricultural sector. The agriculture sector average growth in TFP for all the 20 SSA countries is -3.4%, and only 7 out of the 20 countries under the study had continuous progress, the majority of the countries (11) had a TFP less than 1 or were in status quo. Given SSAs projected increase in food requirements and the limits to extensive agricultural growth, progress in agricultural sector is vital. As Kato, 2013, observed, the problems in SSAs agricultural sector cannot be solved thorough innovations alone, a large number of complementary institutional and policy reforms are necessary. However, the good news is that unlike agriculture in Asia and Latin America, African agriculture has not gone through the transition process to modern agriculture and adoption of agricultural technology

through the Green Revolution, and agricultural land productivity has been stagnant. In the financial intermediation and business activities the average TFP growth for all countries is 7.3% for the period of the study (2001-2011), 12 countries had identical or similar progression over the period, 5 are in status quo and only three are in regression. The industry performance is far much better than the agriculture sector which could be attributed to foreign companies in the region in countries such as Angola, Malawi, Nigeria and Ghana. Initially Malawi had the best TFP growth in the first two years (2001-2003) which was 1.56 and 5.54 respectively. On average TFP growth rate the range of variation between the nations in progress is very narrow, Malawi had the best rate 1.47, Angola 1.27, Nigeria 1.72, Ghana 1.16, Senegal 1.13, Botswana 1.12, Zambia 1.11, Namibia 1.09, Uganda 1.04, South Africa 1.03, Mauritius 1.01 and Tanzania 1.002. The following countries had neither progress nor regression, Kenya, Lesotho, Seychelles and Togo. Only the three countries had regressed over the period under study but also the variation is plenty narrow Guinea 0.99, Benin 0.96 and Gabon 0.86. In utilities, the average TFP for all countries is 8.5% the highest rate among the three industries under evaluation. However as a general observation the technical efficiency had the greatest impact on the average growth in TFP across the countries. Seychelles had the best growth rate in TFP 1.62, followed by South Africa 1.61, Zambia 1.39, Guinea 1.19, Angola 1.12, Malawi 1.09, Ghana 1.03, Kenya 1.005, Tanzania 1.002 and Botswana 1.0005. The following countries had neither progress nor regression, Benin, Burkina Faso, Lesotho, Mauritius and Togo. The countries in regression were Nigeria 0.98, Senegal 0.95, Uganda 0.94, Gabon 0.92 and Namibia 0.80. According to the results derived from the study the agriculture sector has the least effect in total factor productivity growth therefore it may not be the contributor of the current rapid growth. The regression analysis reveals that, all the three models are weak especially in the financial intermediaries with an R-square (0.1541) and Adjusted R-square of only (0.0546). In agriculture sector no single variable is higher enough to correlate with the TFP however, the model suggests that Consumption on Fixed Capital, Net Mixed Income, and Gross may explains 36.5 % of the variance of TFP. With Electricity, Gas and Water, with an adjusted R square of 0.4603 indicates that, Net Operating and Gross may explain the 46% of the variance of TFP. This results confirms that Gross alone are influencing TFP as observed, this could be attributed to the fact that the Gross variable composition contains the components of export and imports variables. Which were not included in the original TFP formation. Overall the findings of the industries are poor; managers and policy makers might want to consider adding more independent variables to explain the remaining variability in the TFP. Ideally if data is readily available we should work on the firm level instead of the industry in each country to get better measurement of technical efficiency and technical change across countries. We hope to do the same in future for better and meaningful results. However, overlooking the limitations, this study contributes to the understanding of the impact of these crucial sectors (industries) under the study on development in SSA region. The finding my also serve as a base for further analysis aimed at understanding how investment in these industries impact the development of other developing countries. However, further research is necessary since it's still not known what has caused negative TFP growth in the sectors of some of the countries understudy.

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**Appendix:**

Appendix Table 1: (list of the 20 countries selected , and their respective sectors)

| Countries    | Industry/ Sector                 |  |  |  |  |
|--------------|----------------------------------|--|--|--|--|
| Angola       | Agricultural Sector              |  |  |  |  |
| Benin        | Financial Sector                 |  |  |  |  |
| Botswana     | Electrical, Gas and Water Sector |  |  |  |  |
| Burkina Faso |                                  |  |  |  |  |
| Gabon        |                                  |  |  |  |  |
| Ghana        |                                  |  |  |  |  |
| Guinea       |                                  |  |  |  |  |
| Kenya        |                                  |  |  |  |  |
| Lesotho      |                                  |  |  |  |  |
| Malawi       |                                  |  |  |  |  |
| Mauritius    |                                  |  |  |  |  |
| Namibia      |                                  |  |  |  |  |
| Nigeria      |                                  |  |  |  |  |
| Senegal      |                                  |  |  |  |  |
| Seychelles   |                                  |  |  |  |  |
| South Africa |                                  |  |  |  |  |
| Tanzania     |                                  |  |  |  |  |
| Togo         |                                  |  |  |  |  |
| Uganda       |                                  |  |  |  |  |
| Zambia       |                                  |  |  |  |  |

Appendix Table 2: Agricultural Sector

| Country      | TE (2001-2011) | TC (2001-2011) | MI (output Oriented, 2001-2011) |  |  |
|--------------|----------------|----------------|---------------------------------|--|--|
| Angola       | 0.979694047    | 1.01475453     | 0.9938462                       |  |  |
| Benin        | 1.126019821    | 0.866110097    | 0.8957164                       |  |  |
| Botswana     | 0.982219397    | 1.018189689    | 0.9976426                       |  |  |
| Burkina Faso | 1.013692108    | 1.124603572    | 1.1391804                       |  |  |
| Gabon        | 0.981445704    | 1.014754514    | 0.9951713                       |  |  |
| Ghana        | 0.96744043     | 1.014754534    | 0.9812325                       |  |  |
| Guinea       | 1.145390452    | 0.845195544    | 0.926662                        |  |  |
| Kenya        | 1.009984499    | 1.038796165    | 1.048448                        |  |  |
| Lesotho      | 1.098116013    | 0.908473616    | 0.92521                         |  |  |
| Malawi       | 0.937302377    | 0.975834818    | 0.9156208                       |  |  |
| Mauritius    | 1.005995839    | 1.022369141    | 1.0276556                       |  |  |
| Namibia      | 1              | 1              | 1                               |  |  |
| Nigeria      | 1.016331767    | 1.096410287    | 1.1135949                       |  |  |
| Senegal      | 0.969388584    | 1.041002057    | 1.0078023                       |  |  |
| Seychelles   | 10.801         | 4.011247716    | 1.177122                        |  |  |
| South Africa | 10.5756639     | 3.863067729    | 1.0724386                       |  |  |
| Tanzania     | 1              | 1              | 1                               |  |  |
| Togo         | 1.088161755    | 0.787810665    | 0.7638148                       |  |  |
| Uganda       | 0.964305085    | 1.014754523    | 0.9780322                       |  |  |
| Zambia       | 0.959032797    | 1.014754491    | 0.972675                        |  |  |
| Average      | 1.981059229    | 1.283644185    | 0.9965933                       |  |  |

| Country      | TE (2001-2011) | TC (2001-2011) | MI (output Oriented, 2001-2011) |
|--------------|----------------|----------------|---------------------------------|
| Angola       | 1.130489324    | 1.135687861    | 1.2715028                       |
| Benin        | 3.530216687    | 0.861333143    | 0.9633418                       |
| Botswana     | 0.991431619    | 1.135687861    | 1.1225146                       |
| Burkina Faso | 1              | 1              | 1                               |
| Gabon        | 2.240304265    | 0.866199554    | 0.8630743                       |
| Ghana        | 1.032550614    | 1.135687861    | 1.1637438                       |
| Guinea       | 3.952363512    | 0.941566782    | 0.999128                        |
| Kenya        | 1              | 1              | 1                               |
| Lesotho      | 1              | 1              | 1                               |
| Malawi       | 3.34868265     | 0.922578936    | 1.4701                          |
| Mauritius    | 1.005708284    | 1.012075224    | 1.0175442                       |
| Namibia      | 3.616194825    | 0.994501618    | 1.0918261                       |
| Nigeria      | 1.039310456    | 1.135687861    | 1.1727177                       |
| Senegal      | 1.002295319    | 1.135687861    | 1.1308915                       |
| Seychelles   | 10.801         | 10.801         | 1                               |
| South Africa | 10.78975561    | 10.85343006    | 1.039262                        |
| Tanzania     | 2.27913057     | 1.010898245    | 1.0028111                       |
| Togo         | 1              | 1              | 1                               |
| Uganda       | 1.007128256    | 1.06430442     | 1.0407882                       |
| Zambia       | 3.165760533    | 0.789801223    | 1.117889                        |
| Average      | 2.746616126    | 1.989806426    | 1.0733568                       |

| Country      | TE(2001-2011) | TC (2001-2011) | MI (Output Oriented, 2001-2011) |
|--------------|---------------|----------------|---------------------------------|
| Angola       | 1.071997234   | 1.05594494     | 1.1293086                       |
| Benin        | 1             | 1              | 1                               |
| Botswana     | 0.999538929   | 1.001866451    | 1.0005509                       |
| Burkina Faso | 1             | 1              | 1                               |
| Gabon        | 0.986791402   | 0.934967179    | 0.9227808                       |
| Ghana        | 1.037847444   | 1.001866451    | 1.0395289                       |
| Guinea       | 1.801964578   | 0.93563165     | 1.1928785                       |
| Kenya        | 1.004279664   | 1.001976357    | 1.0057255                       |
| Lesotho      | 1             | 1              | 1                               |
| Malawi       | 1.535915201   | 0.879700145    | 1.0919481                       |
| Mauritius    | 1             | 1              | 1                               |
| Namibia      | 1.749457897   | 0.716989061    | 0.8002881                       |
| Nigeria      | 0.987409827   | 0.997816678    | 0.9847954                       |
| Senegal      | 0.993226782   | 0.960234819    | 0.9533538                       |
| Seychelles   | 6.192128538   | 1.549295927    | 1.6281511                       |
| South Africa | 5.88989765    | 1.533514639    | 1.6148621                       |
| Tanzania     | 1.146306264   | 0.945385727    | 1.0024295                       |
| Togo         | 1             | 1              | 1                               |
| Uganda       | 1.522216555   | 0.855453588    | 0.9432627                       |
| Zambia       | 1.593947478   | 0.81347256     | 1.3916603                       |
| Average      | 1.675646272   | 1.009205809    | 1.0850762                       |

Table 5-Agriculture Sector  
Stepwise Fit for MI  
Stepwise Regression Control

| <b>SSE</b> | <b>DFE</b> | <b>RMSE</b> | <b>RSquare</b> | <b>RSquare Adj</b> | <b>Cp</b> | <b>p</b> | <b>AICc</b> | <b>BIC</b> |
|------------|------------|-------------|----------------|--------------------|-----------|----------|-------------|------------|
| 0.0845612  | 16         | 0.0726985   | 0.4656         | 0.3654             | 5.4896574 | 4        | -38.277     | -37.584    |

Table 6- Financial Intermediations  
Stepwise Fit for MI  
Stepwise Regression Control

| <b>SSE</b> | <b>DFE</b> | <b>RMSE</b> | <b>RSquare</b> | <b>RSquare Adj</b> | <b>Cp</b> | <b>p</b> | <b>AICc</b> | <b>BIC</b> |
|------------|------------|-------------|----------------|--------------------|-----------|----------|-------------|------------|
| 0.2775121  | 18         | 0.1241666   | 0.1377         | 0.0898             | -2.524356 | 2        | -21.2949    | -19.8077   |

Table 7- Electricity, Gas and Water  
Stepwise Fit for MI  
Stepwise Regression Control

| <b>SSE</b> | <b>DFE</b> | <b>RMSE</b> | <b>RSquare</b> | <b>RSquare Adj</b> | <b>Cp</b> | <b>p</b> | <b>AICc</b> | <b>BIC</b> |
|------------|------------|-------------|----------------|--------------------|-----------|----------|-------------|------------|
| 0.4330156  | 17         | 0.159598    | 0.5171         | 0.4603             | -0.129824 | 3        | -9.23007    | -7.9138    |



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# EXPLAINING EMPLOYEE INTENTIONS TO STAY IN ORGANIZATIONS: THE CASE OF MBA STUDENTS

Vivien T. Supangco

## ABSTRACT

*This study sought to determine MBA students' intention to stay in their current organizations. The sample is composed of 76 MBA students in a Philippine university. This study used turnover models of March and Simon (1958) and Mobley (1977) to identify the more salient variables in the literature of turnover and turnover intention namely, perceived supervisory support, perceived organizational support, career satisfaction, tenure, and income. Control variables included demographic variables (such as age, gender, and marital status) and indicator variables of firm-specific training and external mobility. Three theoretical perspectives social exchange theory (Gouldner, 1960; Blau, 1964), human capital theory (Becker, 1975), and the side-bet hypothesis inform the testing of hypotheses. Results show that factors affecting intention to stay include attitudinal, relational and economic and human capital variables that capture the individual's relationship with the organization. Thus, organizational tenure, career satisfaction, and perceived organizational support show strong relationship with intention to stay.*

**Keywords:** International human resource management, cross cultural management, international organizational behavior

## INTRODUCTION

Employers are concerned that MBAs tend to hop from one job to another (Dougherty, Dreyer, & Whitely, 1993). The basic argument is that competencies gained from the MBA equip individuals with necessary qualifications that increase alternative employment opportunities, making them highly mobile (Mayer & Schoorman, 1998). Such concern may be compelling given that taking an MBA indicates taking a proactive role in one's career, and such mind-set may even be more salient when the organization is not expected to take care of an employee's career (Hall, 1976; Feldman, 1996). To some individuals, external mobility even forms part of a set of strategies to enhance career success, and it can be facilitated by possession of higher knowledge and skills from the MBA (Dreher & Ryan, 2002; Hay & Hodgkinson, 2006; Simpson, Sturges, Woods, & Altman, 2005).

However, some contrary findings are emerging, indicating that benefits of an MBA are not clearly established (Pfeffer & Fong, 2002). Indeed, results of numerous studies on the impact of MBA on different work outcomes are mixed. Some studies have shown that MBA enhances competencies (Baruch & Peiperl, 2000; Baruch & Leeming, 2001; Hay and Hodgkinson, 2006; Simpson et al., 2005; Hunton, Stone, & Wier, 2005), salaries (Pfeffer, 1977; Zhao, Truell, Alexander, & Hill, 2006), and promotion (Wright, 1998; Zhao et al., 2006). However, it was also found that the positive impact of MBA on salary is observed only in those coming from elite schools (Baruch & Peiperl, 2000; Dugan, Grady, Payn, & Johnson, 1999). Its impact on hierarchical success is also mixed (Baruch & Peiperl, 2000; Dugan et al. 1999; Zhao et al. 2006). Having an MBA is found to be an insufficient condition for obtaining positive outcomes. Those who experienced early career success such as finding jobs after graduation, receiving higher pay, and enjoying salary increases and promotions were those who were brighter and more diligent (O'Reily & Chatman, 1994).

Several studies have also shown that those with MBAs do not necessarily hop from one job to another (Dougherty et al., 1993; Hay & Hodgkinson, 2006; Reitman & Schneer, 2003). In general, protean career attitude and boundaryless mind-sets did not have any relationship with affective, normative, and continuance commitment, but mobility preference was negatively related to the three forms of commitment (Briscoe & Finkelstein, 2009). Taking care of one's career does not necessarily equate to being mobile.

This study determines factors affecting MBA students' intention to stay in their current organizations, in a context other than the west. These MBA students mostly work during the day and attend classes in the evening in the University in the Philippines. This study builds on past researches on employee turnover by incorporating elements of the two most widely used models of employee turnover: March and Simon's (1958) and Mobley's (1977). In addition, the hypotheses of this study are informed by three theoretical perspectives: social exchange theory (Gouldner, 1960; Blau, 1964), human capital theory (Becker, 1975), and the side-bet hypothesis (Becker, 1960).

An employee's intention to stay is of interest to organizations to the extent that its converse, intention to leave, is shown to be a strong predictor of actual turnover (Mitchel, 1981, Lance, 1988; Tett & Meyer, 1993; Van Breukelen, Van der Vlist, & Steensma, 2004). Concerns about turnover stem from the common effects of turnover on the organization and the individual, which are generally perceived as negative. The negative impacts of turnover on the organization include higher recruitment and training costs, and loss of productivity and social capital; those on the individual include unemployment, loss of non-portable benefits and seniority, and disruption of career path (Anderson, Meyer, Pencavel, & Roberts, 1994; Royalty, 1996; Dess & Shaw, 2001; Adnett, Bougheas, & Georgellis, 2004; Ton & Huckman, 2008). However, turnover has also positive effects. To the organization, it may result in increased productivity, innovation, higher morale, and decreased conflict; to the individual, the positive consequences include career advancement, salary, salary increase, commitment, and satisfaction (Staw, 1980; Mobley, 1982; Wright & Bonett, 1992). The net effect depends on who leaves and the corresponding costs and benefits associated with the turnover.

Clearly, the importance of studying MBA students is derived from the fact that this sample is an important source of managerial employees, those who have taken a proactive role in developing their careers. In addition, having been accepted into the MBA program implies that these students have higher capabilities and achievements (Dugan et al., 1999), the type of employees an organization will most likely aim to retain. In fact, the average acceptance rate in the MBA program of this university for the school years 2007-2010 was only 38.42 percent. Moreover, with increased globalization, it is imperative to understand turnover intention in settings other than the west.

## **TURNOVER AND TURNOVER INTENTION**

In this study, the determinants of intention to stay are derived from the literature on turnover intention and turnover. Employment is conceived as a job match, and turnover happens when such job match is dissolved or when employment is ended (Anderson et al. 1994; Dess and Shaw, 2001). Turnover decision can come from the individual, the organization, or both the individual and the organization. This study focuses on the individual's decision to end the job match.

Several authors have presented models to explain turnover decision. Two models are discussed here. Among the earliest models is that of March and Simon (1958). Employee's decision to join or leave the organization depends on the balance between inducement from the organization in terms of salaries, benefits and other non-monetary benefits and employee contribution in terms of services offered to the organization. Employees' decision to

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terminate an employment relationship is influenced by the desirability to end the relationship which is directly affected by job satisfaction and perceived possibility of intra-organizational transfer and the facility with which the employee moves out of the organization. The latter is predicated by the presence of viable employment alternatives (March & Simon, 1958). Another commonly used model in turnover studies is Mobley's (1977), which describes the process of arriving at a decision to quit. The process starts with an evaluation of the current job. When assessment is negative and the individual feels dissatisfaction in the job, thoughts of quitting are entertained, leading to an evaluation of benefits of search and costs of quitting. The process goes on to intention, action, assessment of alternatives, and comparison of alternatives to current job. The person then plans to stay or quit and later acts on such plan. Validity studies reported strong support of the model (Hom, Griffeth, & Sellars, 1984; Lee, 1988).

The common elements of the two models are job dissatisfaction and the influence of alternatives to the decision to terminate employment. However, they differ in that Mobley's model attributes a direct link to turnover behavior from turnover intention whereas Simon and March adds facility of moving out of the organization to the desirability to make the move.

At the foundation of these models are theories that provide insights into why experiences of dissatisfaction, for example, lead to the intention of quitting. One such theory is social exchange theory (Gouldner 1960; Blau 1964). Gouldner (1960) explained that a norm of reciprocity governs social exchanges, which allows for the maintenance of the stability of a social system. Blau (1964) built on the idea of reciprocity and differentiated social exchange from economic exchange. The nature of social exchange compared to economic exchange is that the former is more long term, where resources exchanged are less tangible and the terms of future exchange not specific. Thus the norm of reciprocity defines future obligations. The implication of these theories is that when employees' experience with the organization is positive, this is also positively reciprocated. One positive return by the employee is in terms of continuance of tenure. Thus, several studies have approached turnover as a consequence of a social exchange process (Eisenberger, Armeli, Rexwinkel, Lynch & Rhoades, 2001; Harris, Harris, & Harvey 2007; Loi, Ngo, & Foley, 2006; Dawley, Houghton, & Bucklew 2010).

In further explaining continuance of tenure in organizations, Becker (1960) advanced the idea of side bets. As an individual pursues an activity, some costs accrue, making it difficult to discontinue such course of action (Shoemaker, Snizek, & Bryant 1977; Carson & Carson 2002). This can be applied to working for an organization. As an individual stays in an organization for a period of time, they also invest in it their time, effort, relationships, etc., which may be lost or whose value diminishes when they leave the organization (Meyer & Allen 1984). Thus, the side-bet hypothesis implies a negative relationship between tenure and turnover. However, alternative employment or opportunities outside the organization present a brake that weakens commitment to staying in an organization (Wallace, 1997).

In addition, the theory of human capital (Becker, 1975) also provides us important tools in understanding turnover. According to the theory, wage is equal to the marginal product of labor, and worker productivity can be increased by improvement of skills. Such skills enhancement can come from learning new skills or improving existing ones on the job (Becker, 1975). Skills may be gained through general training or firm-specific training. Inasmuch as general training benefits any organization and the employee bears the cost of such training, the focal organization needs to pay market wages; otherwise, it will not be able to hire the person with the necessary skills it requires. However, when the organization provides firm-specific training, it bears the cost of training because such training is useful only to the organization concerned and will not benefit other organizations; neither does it

benefit the employee outside the organization. In addition, employees given firm-specific training receive lower wages during training period (accounting for the organization's cost of training) and receive much higher income after the training, income higher than that in alternative employment. Such an arrangement serves as an incentive for the employee not to quit during the training period. Moreover, the theory asserts that, other things being equal, the rate of return on education is higher for more able or high-ability individuals. Inasmuch as investment depends on the rate of return, one finds more investment in human capital by individuals with higher ability (Becker, 1975).

## HYPOTHESES DEVELOPMENT

Studies on turnover have looked into the influences of attitudinal factors such as satisfaction and commitment, economic factors such as pay and incentives, and relational factors such as organization and supervisory support (Maertz, Griffeth, Campbell, & Allen, 2007). On the basis of the above models and theoretical references, this study examines the relationship between the intention to stay and the following factors: supervisory support, organizational support, career satisfaction, investment in the organization, and ability.

### Supervisory Support

Social exchange theory presents a compelling explanation of turnover and turnover intention. The norm of reciprocity (Gouldner 1960; Blau 1964) suggests that employees return positive treatment from the organization through positive behaviors, such sticking with the organization. In acknowledging that organizations value their welfare and well-being, the organization is perceived to have taken on characteristics that are humanlike (Eisenberger, Huntington, Hutchinson, & Sowa, 1986). Supervisory actions are considered representative behavior of the organization; therefore, positive actions by the supervisor are construed as support from the organization (Eisenberger et al., 1986) and are thus repaid in a positive way. Research results show a positive relationship between perceived supervisory support and perceived organizational support (Eisenberger, Stinglhamber, Vandenberghe, Sucharski, & Rhoades, 2002; Rhoades, Eisenberger, & Armeli, 2001; Dawley et al., 2010). In addition, perceived supervisory support is negatively related to turnover intentions (Maertz et al., 2007), and the supervisor's assessment of the employee's job performance weighs most in turnover intentions (Zimmerman & Darnold, 2009).

Thus from the social exchange perspective, it is hypothesized that

*H1 Perceived supervisory support is positively related to intention to stay.*

### Organizational Support

Perceived organizational support, one of the relational variables found to explain turnover, is the belief by employees that the organization is genuinely interested in their welfare (Eisenberger et al., 1986). Support is perceived as genuine when it comes from the volition of the organization and not imposed on it by some external constituencies (Dawley et al., 2010). Social exchange theory argues that the norm of reciprocity governs social exchanges (Gouldner 1960; Blau, 1964). When the individual has positive experiences with the organization, this will be reciprocated by something positive, such as continuing one's stay in the organization. Several studies have noted the negative relationship between perceived organizational support and turnover intention (Rhoades & Eisenberger 2002; Harris et al., 2007; Dawley et al., 2010), the direct negative effect of perceived organizational support on turnover intention among nonpartners (Loi, Ngo, & Foley, 2006), the negative

relationship between intention to leave and organizational commitment (Allen, Shore, & Griffeth, 2003; Maertz et al., 2007), and the moderate effect of the relationship between affective commitment and turnover intention (Perryer, Jordan, Firms, & Travaglione, 2010). Perceived supervisory support moderates the relationship between perceived organizational support and turnover such that the relationship between perceived organization support and turnover is stronger at low levels of perceived supervisory support and weaker at higher levels of perceived supervisory support (Maertz et al., 2007). Thus, based on the social exchange theory, it is hypothesized that

*H2 Perceived organizational support is positively related to intention to stay.*

### **Career Satisfaction**

Job satisfaction is the common element of the models of March and Simon (1958) and Mobley (1977) that describe the process of arriving at turnover decision. It is seen either as having a direct influence on the desirability of quitting (March & Simon, 1958) or as a precursor to a series of turnover cognitions (Mobley, 1977). Job satisfaction is a feeling of positive emotion toward a job, in part or in its entirety (Tett & Meyer, 1993). Several studies have shown that job satisfaction directly affects turnover intention (Martin, 1979; Shore, Newton, & Thornton, 1990; Griffeth, Horn, & Gaertner, 2000; Dole & Schroeder, 2001; Van Breukelen et al., 2004; Slattery & Selvarajan, 2005; Tian-Foreman, 2009; Huning and Thomson, 2010) and turnover (Peters, Jackofsky, & Salter, 1981). Some studies also show that job satisfaction affects turnover intention through organizational commitment (Elangovan, 2001). Inasmuch as turnover and turnover intentions are decisions to dissolve employment relationship with the organization, commitment has a stronger relationship with turnover than job satisfaction (Tett & Meyer, 1993). Given this consideration, this study uses career satisfaction instead of job satisfaction. An individual may have several jobs in an organization, and career satisfaction reflects an individual's relationship with the organization more than job satisfaction does. Using social exchange theory, it is hypothesized that

*H3 Career satisfaction is positively related to intention to stay.*

### **Investment in the organization**

Tenure is the length of time an employee works in an organization, which is a form of an employee's investment in the organization. Tenure demonstrates an individual's track record of staying in an organization (Arnold & Feldman, 1982). Employment viewed as a job match implies that when employees stay long in an organization, the quality of such match is high (Anderson et al., 1994). This is because workers engage in job shopping, and inasmuch as jobs have some characteristics that are known only when experienced, the quality of the match reveals itself only after some time (Wilde, 1980; Anderson et al., 1994).

Tenure can be conceived as a human capital variable. As employees stay longer in the organization, they amass firm-specific knowledge and skills learned by doing actual work or through formal training (Becker, 1975). March and Simon (1958) contended that such firm specific training negatively affects an employee's employability. The other side of investment is that it has costs associated to it. As individuals stay in an organization for a period of time, they also invest in it their time, effort, relationships, etc., which may be lost or whose value diminishes when they leave the organization (Meyer & Allen 1984). This is what Becker (1960) termed as side bets in pursuing an action.

Several studies have observed the negative relationship between tenure and turn over (Shoemaker et al., 1977; Anderson et al., 1994; Lynn, Cao, & Horn, 1996; Van Breukelen et

al., 2004). However, some studies show null results (Spencer & Steers, 1980; Healy, Lehman, & McDaniel, 1995). Based on the human capital theory and the side-bet argument, it is hypothesized that

*H4 Employee investment in the organization is positively related to intention to stay.*

### **Ability**

According to human capital theory (Becker 1975), wage is equal to the marginal product of labor, and worker productivity can be increased by improvement of skills gained through general or firm-specific training. While employees are being trained, they earn lower wages, but they receive much higher income after the training. The higher income after training serves as an incentive for the employee not to quit during the training period (Becker, 1975). Inasmuch as the sample is composed of MBA students, the general training received is controlled for. Thus, other things being equal, variations in income reflect differences in specific training received from the organization. In addition, employees who have received firm-specific training and those who are enjoying higher income after training have higher incentive to stay in the organization (Becker, 1975). Studies have shown that income is positively related to retention (Huang, Lin, & Chuang, 2006) and intention to stay (Chew & Chan, 2008).

Moreover, the human capital theory asserts that, other things being equal, the rate of return on education is higher for more able or high-ability individuals. Inasmuch as investment depends on the rate of return, one finds more investment in human capital by individuals with higher ability (Becker, 1975). Thus, paying wages higher than those of competitors attract workers of better quality (Campbell, 1994). However, education is found to be negatively related to continuance commitment (Mayer & Schoorman, 1998), which supports the argument that education facilitates ease of movement from the organization. In this study, variation in investment in education is controlled for because the sample is composed of MBA students. But introducing measures of firm-specific training also controls its effect on income and leaves, among others, the effect of ability. In this sense, income differential reflects variation in ability once education and firm-specific training are controlled for. Given human capital theory and March and Simon's model (1958), ability facilitates ease of movement; thus, it is hypothesized that

*H5 Ability is inversely related to intention to stay.*

## **METHODOLOGY**

The following sections describe the methodology used in this study. This includes sampling, data processing, and measurement of variables.

### **Sampling and Data Processing**

Data used in this study come from a data set on career success. Data collection, using a structured questionnaire, took place in July-August 2010. The study employed a systematic sampling with a random start. A total of 190 questionnaires were sent to students selected from the total of 286 students enrolled in the MBA program of a university in Metro Manila, Philippines during the first trimester of academic year 2010-2011; 76 students sent back their accomplished questionnaires, or a response rate of 39.8%. The sample size was derived from a confidence level of five percent, a margin of error of a little less than ten percent (.0965), and adjusted for a finite population correction factor.

This study used multiple items to measure some concepts. They were reduced using factor analysis with varimax rotation. To describe the data, I used frequency distributions, means, and mode. To address the research question, I used regression analysis. Initial regression analysis showed an outlier; and instead of deleting the observation, a dummy variable was used to represent it.

Inasmuch as the data came from self-report, several steps were undertaken in order to minimize threats of common method variance. For instance, the dependent variable is a non-perceptual measure, while the independent variables are a combination of perceptual and non-perceptual measures. In addition, the questions on the dependent variable and the independent variables are found in different pages. In order to check the threat of common method variance, I performed Harman's one factor test (Podsakoff & Organ, 1986). Factor analysis performed on the original questionnaire items revealed seven factors and no one factor accounts for a majority of the variance explained. Thus indicating that common method variance may not be a threat.

## Measures

This section describes the different measures of the dependent, independent, and control variables.

*Dependent variable* Intention to stay is measured in term of the number of years respondents expect to remain in their current organizations.

*Independent variables* This study determines the influence of the following independent variables: supervisory support, organizational support, career satisfaction, tenure, and income. Supervisory support is a scale developed by Greenhaus, Parasuraman, and Wormley (1990). This scale assesses employees' perceptions of how their supervisors support them in their jobs (Fields, 2002). Coefficient alpha reported was .90 (Fields, 2002), while it is .92 in this study. Perceived organizational support, a measure developed by Eisenberger et al. (1986), assesses employees' perceptions of how the organization values their contributions and well-being. Coefficient alpha ranged from .74 to .95 (Fields, 2002), while this study obtained a coefficient alpha of .91. Career satisfaction is measured by a scale developed by Greenhaus et al. (1990). This scale assesses the general satisfaction from career progress as well as the progress of individuals toward goals pertaining to income, advancement, and skill development. Coefficient alpha values ranged from .83 to .89 (Fields, 2002). In this study, coefficient alpha is .89. Tenure is used as a proxy for investment in the organization. This is measured in terms of the length of time the respondents have worked in their current organization. Income, controlling for the effect of firm-specific training, is used as a proxy for ability. Income is measured in terms of the approximate annual cash income from the organization.

*Control Variables* Control variables are included in the analysis to account for the effects of the factors that are related to either the dependent or the independent variables. In this study, control variables include age, gender, marital status, external mobility experience, and firm-specific training. Age is measured in terms of the employee's actual age. Results are mixed regarding the effect of age on turnover or turnover intention. Age is found to be inversely related to turnover (Martin, 1979; Mayer & Schoorman, 1998), but some studies have shown null results (Healy et al., 1995; Spencer & Steers, 1980). In addition, age moderates the effect of performance turnover relationship (Werbel & Bedeian, 1989). Performance was inversely related to intention to quit among older employees, but the relationship is not significant among younger employees. Gender, another control variable used in this study, is treated as a binary where 1 is assigned to female and 0 to male. It is found that compared to females, males had higher turnover rates (Spencer & Steers, 1980),

but females had higher continuance commitment because they are perceived to have fewer alternative employment (Wahn, 1998). Marital status is also a binary variable where 1 is assigned to single and 0 to non-single respondents.

In addition, external mobility experience is used as a control variable. This variable captures the employee's track record of turnover behavior. This is measured in terms of the number of organizations the individual has worked in, including the present organization. Firm-specific training is also used as a control variable. It is measured by developmental experiences of employees using a scale developed by Wayne, Shore, and Liden (1997). This scale assesses the discretionary investments of the organization in training and development of employees through formal and informal means. In this study, the coefficient alpha was .90, which compares well with reported coefficient alpha of .87 (Fields, 2002).

## RESULTS AND DISCUSSION

Table 1 presents means and standard deviations of selected variables. The average age of the respondents is 28.74 years. Half of them are female, and more than three-fourths (81.6 percent) are single. The respondents earn an average annual compensation of Php 589,898.55, having worked a total of 6.8 years, in an average of 2.53 organizations. While more than half of their total work experience is spent in their current organization (3.77 years), they have already surpassed the average tenure per organization of 3.33 years, the difference of which is statistically significant at  $p < .05$ . Still they intend to stay an average of 5.40 more years.

| Variables                          | Mean/Mode    | Standard Deviation | Number of Observations |
|------------------------------------|--------------|--------------------|------------------------|
| Age                                | 28.74        | 4.76               | 76                     |
| Gender                             | 50%          |                    | 76                     |
| Civil Status, Single               | 81.6%        |                    | 76                     |
| Income                             | P589, 898.55 | P351, 695.52       | 69                     |
| Years of work experience           | 6.82         | 4.71               | 76                     |
| Number of organizations worked for | 2.53         | 1.38               | 74                     |
| Tenure in organization             | 3.77         | 2.54               | 76                     |
| Tenure per organization            | 3.33         | 2.83               | 74                     |
| Intention to stay (Years)          | 5.40         | 6.16               | 53                     |

Table 2 presents bivariate correlations of variables included in the model of intention to stay. The dependent variable "years to stay in the organization" is strongly and positively correlated with perceived supervisory support, perceived organizational support, career satisfaction, and tenure in organization. It is marginally correlated with only one of the control variables, developmental assignments.

|                             | 1     | 2     | 3    | 4     | 5 | 6 | 7 | 8 | 9 |
|-----------------------------|-------|-------|------|-------|---|---|---|---|---|
| 1. Intention to stay        | 1     |       |      |       |   |   |   |   |   |
| 2. Age                      | .07   | 1     |      |       |   |   |   |   |   |
| 3. Number of organizations  | -.19  | .35** | 1    |       |   |   |   |   |   |
| 4. Developmental experience | .23+  | -.17  | -.21 | 1     |   |   |   |   |   |
| 5. Perceived                | .37** | -.12  | -.20 | .59** | 1 |   |   |   |   |



**Table 2**  
**CORRELATION MATRIX OF SELECTED VARIABLES**

|                                   | 1     | 2     | 3      | 4     | 5     | 6     | 7   | 8   | 9 |
|-----------------------------------|-------|-------|--------|-------|-------|-------|-----|-----|---|
| supervisory support               |       |       |        |       |       |       |     |     |   |
| 6. Perceived organization support | .44** | -.04  | -.10   | .56** | .67** | 1     |     |     |   |
| 7. Career satisfaction            | .41** | -.02  | -.21   | .46** | .58** | .41** | 1   |     |   |
| 8. Invest in organization         | .44** | .48** | -.32** | .11   | .10   | .12   | .09 | 1   |   |
| 9. Ability                        | .05   | .41** | .40**  | .13   | .14   | .24   | .18 | .15 | 1 |

<sup>+</sup>p < .10

\*p < .05

\*\*p < .01

Among the independent and control variables, perceptually measured variables such as career satisfaction, perceived supervisory support, perceived organizational support, and developmental assignments are highly positively correlated. In addition, objectively measured variables such as age, number of organizations worked for, tenure in organization, and compensation are highly correlated. Moreover, age is strongly and positively related to number of organizations, tenure in the organization, and compensation. Number of organizations is strongly but negatively related to tenure in the organization, but positively related to compensation.

Table 3 shows that the specified equation explains 69.7 percent of the variation in intention to stay. This study tested the influence of five factors on intention to stay, holding as constant the effect of demographic variables age, gender, and marital status as well as the effect of measures of firm-specific training and external mobility experience. Among the control variables, only age and number of organizations worked in are significant.

**Table 3**  
**FACTORS EXPLAINING INTENTION TO STAY IN THE ORGANIZATION**

| Independent Variable                                | Standardized Beta  |
|---|--------------------|
| Perceived supervisory support                       | -.066              |
| Perceived organizational Support                    | .292*              |
| Career satisfaction                                 | .428**             |
| Tenure in the organization                          | .746**             |
| Income  | -.205 <sup>+</sup> |
| Age   | -.364*             |
| Gender  | -.048              |
| Civil status  | -.071              |
| Number of organizations worked in                   | .293*              |
| Developmental assignment                            | -.141              |
| Dummy for outliers in years to stay in organization | .430**             |
| R <sup>2</sup>                                      | .697               |
| F   | 7.94**             |

<sup>+</sup>p < .10

\*p < .05

\*\*p < .01

Although bivariate correlation shows positive relationship between intention to stay and perceived supervisory support, the result of regression analysis, which controls for the effects of other variables known to influence intention to stay, shows that the latter is not significant. This does not support hypothesis 1, which predicts a positive relationship between perceived supervisory support and intention to stay. While this result does not

corroborate that reported by Maertz et al. (2007), which states a direct influence of perceived supervisory support on intention to leave the organization, this suggests a probable presence of some mediating variable. Although supervisory actions are considered representative behavior of the organization, an employee can request transfer to another unit should the relationship between employee and supervisor turns negative. Thus, it also strengthens the contention that intention to stay in the organization is a decision based on one's relationship with the organization (Tett & Meyer, 1993).

Perceived organizational support is positively related to intention to stay, supporting hypothesis 2, which, based on social exchange theory, predicts a positive relationship between perceived organizational support and intention to stay in the organization. This also corroborates results of the relationship between perceived organizational support and turnover intention (Rhoades & Eisenberger, 2002; Harris et al., 2007; Dawley et al., 2010). Career satisfaction is also positively related to intention to stay, supporting hypothesis 3, which, based on social exchange theory, predicts that career satisfaction is positively related to intention to stay in the organization. This result supports the idea that career satisfaction reflects better an individual's relationship with the organization than job satisfaction (Tett & Meyer, 1993). Based on human capital theory and the side-bet hypothesis, hypothesis 4 states that employee investment in the organization, in terms of tenure, is directly related to intention to stay. Regression results show strong support of this hypothesis. Moreover, based on human capital theory and March and Simon's model (1958), hypothesis 5 predicts an inverse relationship between ability, measured by income controlled by firm specific training, and intention to stay. Although the regression results indicate a negative relationship between income and intention to stay, the relationship is weak (significant only at  $p < .10$ ), thus the data provides a weak support of the inverse relationship between ability and intention to stay.

The results tell us that intention to stay among the MBA students in the study involves a complex dynamics explained by social exchange theory, human capital theory, and side-bet hypothesis. The factors involve relational (perceived organizational support), attitudinal (career satisfaction), and human capital (tenure in organization) elements. Beta weights tell us that the most important determinant of intention to stay is the employee's investment in the organization measured by tenure. It reflects the individual's track record of staying in the organization for the following reasons: the firm-specific training gained from it is not useful elsewhere, the individual has invested in the organization, and the benefits of such investment become void outside the organization. The next most important consideration is the individual's satisfaction with career. The third most important factor is perceived organizational support. Both factors are explained by social exchange theory, implying the importance of the relationship of the individual with the organization.

## **CONCLUSION, LIMITATIONS, AND DIRECTIONS FOR FUTURE RESEARCH**

This study seeks to determine MBA students' intention to stay in their current organizations, in a non-western setting. This study used turnover models of March and Simon (1958) and Mobley (1977) to identify the more salient variables in the literature of turnover and turnover intention: perceived supervisory support, perceived organizational support, career satisfaction, tenure, and income. Three theoretical perspectives namely, social exchange theory, human capital theory, and the side-bet hypothesis inform the testing of hypotheses.

Regression result supports the predictions, based on social exchange theory, that intention to stay is positively related to perceived organizational support and career satisfaction. In addition, the result also supports the prediction, based on the human capital theory and the side-bet hypothesis, that organizational employee investment in organization is

positively related to intention to stay. It only weakly supports another prediction of human capital theory stating that intention to stay is inversely related to ability. These factors reflect the employee's relationship with the organization and within the organization's control.

In other words, managerial implications of the results indicate that organizations can increase employees' intention to stay by providing benefits and opportunities that employees may perceive as manifestations of the organization's concern for them and their well-being. In addition, the result implies that an organization gains from providing opportunities for advancement and internal movement within the organization for employees to be satisfied with their careers despite temporary setbacks from job dissatisfaction. Moreover, benefits system may be designed such that disengagement from the organization will be less attractive.

While this study has provided added understanding of the factors determining intention to stay, some interesting findings were uncovered that point to areas of further research. The null result of supervisory support needs looking into in future research, considering that bivariate analysis reveals a positive relationship between perceived supervisory support and intention to stay. In addition, the weak support of the relationship between ability and intention to stay merits further research. In this study, ability is measured indirectly by using income controlling for the effects of firm-specific training. A study using direct measure of ability may be employed to determine the relationship of ability, which is conceptualized to facilitate external movement, with intention to stay. This should also interface with studies on the relationship between performance and intention to stay. Furthermore, there is an imperative to develop a stronger theoretical base, more empirical tests, and measures of perceived ease of movement (March & Simon, 1958). In this study, a behavioral variable is used to indicate ease of movement: the number of organizations worked in. Although not an objective of this study, it has also uncovered some relationships that do not support the concern raised by some managers regarding MBAs. The given sample of potential MBAs does not show sign of job hopping. At the time of the study, these students have surpassed their average length of stay in an organization and intend to stay for over five more years. Causes and consequences of job hopping not only of MBAs is another interesting area of research.

One limitation of this study is its cross-sectional design, which does not allow analysis regarding causality. In addition, the study used self-report, which introduces the potential of common method variance, despite steps taken to minimize its effects. Another limitation of this study is the use of MBA students from one university, which controls for the effect of education and even ability.

Despite the study's limitations, this study has given us added insights into factors affecting intention to stay among MBA students in a non-western setting. Intention to stay involves a complex dynamics of human capital, attitudinal, and relational factors that reflect an employee's decision based on the relationship between the employee and the organization.

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## AFRICAN MAASAI LEADERSHIP: AN EXTENSION OF THE GLOBE STUDY

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### ABSTRACT

*This research explored the applicability of the Project GLOBE universal culturally endorsed leadership conception findings (House, Hanges, Javidan, Dorfman, & Gupta, V. (Eds.), 2004) to Kenyan and Tanzanian sub-culture. Kenya and Tanzania, two sub-Saharan countries, were not surveyed during the GLOBE Project. Project GLOBE built on the work of Hofstede (1980) to develop sixty-six culturally contingent attributes which were statistically reduced resulting in six Culturally Endorsed Leadership Theory (CLTs) dimensions (House et al., 2004). Two of the six CLTs, charismatic/ value based and self-protective leadership, were evaluated in the Maasai sub-culture of the Kenya and Tanzania border. The South African version of the Project GLOBE instrument, used by Moulton (2009) on race and ethnic groups research was utilized in this study. The research of Mouton (2009) revealed that although many common leadership concepts exist, the conceptions of leadership were different among the South African sub-cultures. This empirical research extended the data available in cross-cultural studies by looking at a unique culture, the Maasai, with implications for understanding leadership in culturally diverse countries and organizations. Findings revealed the Maasai held markedly different CLTs from the GLOBE sub-Saharan African sample. The Maasai had a lower acceptance of charismatic leadership and Maasai living in rural and urban settings held different CLTs.*

### INTRODUCTION

#### **African Maasai Leadership: An Extension of the GLOBE Study**

In the last decade there has been an increasing interest in multi-cultural research in response to globalization that led to a need for leaders who can operate in a complex, multi-cultural world without borders (Marquardt & Horvath, 2001). Leaders are needed for twenty-first century multi-cultural teams that can solve adaptive problems that cross national borders for which technical expertise is not adequate (Marquardt & Horvath, 2001). In the multi-cultural environment leaders are required to deal with the various contextual and societal expectations of their followers in different countries and cultures (Hofstede, 1993; House et al., 2004). The followers' expectations for leaders in different cultures reflect the followers' cognitive concepts that define what a good leader is, also known as implicit leadership theories (Lord & Maher, 1991). The research on leadership norms in different cultures was developed in the seminal theories of Hofstede (1984). The cultural aspects of leadership have been extended into a large body of literature on the culturally contingent factors in leadership (Bass, 1997; Den Hartog, House, Hanges, Ruiz-Quintanilla, & Dorfman, 1999; House, 1998; House, et al., 2004; Schwartz, 1992).

Leadership is a concept held in the cognitive processes of the follower; defined as implicit leadership theory (ILT) developed through behavioral and social schema (Lord & Maher, 1991). In the social context the follower perceives the meaning of the leader's actions through the processes of observation of perceived reality and categorization (Rosch, 1977, 1978; Varela, Thompson, & Rosch, 1992). The follower's perceptions of the leader are

initially defined by the follower selecting a category from their long-term memory that the leader fits in; then the perceptions are refined over time until it becomes fixed (Rosch, 1977, 1978). The idea of implicit leadership theories held by followers can be viewed from the cultural level which researchers generally measure at the national group (Hofstede, 1994; House, et al., 2004). The idea of cultural concepts of leadership and ILTs became the foundation for the Global Leadership and Organizational Behavior Effectiveness Research Program (GLOBE) (House et al., 2004).

In one of the largest cross-cultural studies ever undertaken, the Project GLOBE, measured the cultural variables and implicit leadership preferences in sixty-two cultures (House et al., 2004). Project GLOBE quantitatively measured the implicit leadership preferences at the level of cultures using national borders to define the divisions between cultures. The GLOBE project found twenty-two universal positive attributes, eight universal negative and thirty-six culturally contingent attributes (House et al. 2004). These 66 attributes were statistically reduced resulting in six culturally endorsed leadership theory dimensions (CLTs) that were universal among the sixty-two cultures.

While cultures vary in their conceptualizations of effective leadership, there are some implicit theory concepts that are common across cultures (House et al., 2004). Implicit leadership theory is built on cognitive categorization theory or the concept that an individual's daily inundation of information and experiences leads to the slow development of cognitive structures that help a person to process information with efficiency (Rosch, 1977, 1978; Lord & Maher, 1991). These cognitive structures (schema) are influenced by culture such that conceptualizations of what is acceptable in organizational contexts vary across cultures" (House, Wright & Aditya, 1997).

The GLOBE research further reduced the data statistically to a grouping of the cultures in ten clusters of like cultural characteristics and CLTs theory expectations (House et al., 2004). The Project GLOBE, sub-Saharan African country cluster is composed of Zimbabwe, Namibia, Zambia, Nigeria, and South Africa (black sample) (House et al., 2004). Kenya and Tanzania, two sub-Saharan countries, were not surveyed during the GLOBE Project, nor were any other east African nations. Based on the selection criteria they would have fallen within the sub-Saharan African cluster. Accordingly, it is likely that sub-Saharan cultural conceptions of appropriate leader behaviors would be strongly related to leader effectiveness among the peoples of the Tanzanian and Kenyan culture.

This paper looked at a subset of the Kenyan and Tanzanian culture, the Maasai culture. The population for analysis was the Maasai communities that reside along the Kenyan and Tanzanian border as a separate and somewhat isolated culture (Fraser, Brown, Wright, & Kiruswa, 2012). It builds upon the work of Moulton (2009) that evaluated CLTs of the four main racial and cultural groups within in South African national borders. Based on Hofstede (1980), values of a culture can be evaluated at the organizational and national level but generally not at the individual level of analysis. Moulton (2009) used the GLOBE instrument for sub-cultural level analysis in a society that was heterogeneous and diverse. In the original South African section of the GLOBE project, the white sample was grouped with the Anglo cluster while the black sample was grouped with the sub-Saharan African sample (Booyesen & Van Wyk, 2008; House et al., 2004; Moulton, 2009).

Maasai culture is extremely collectivist; individual standout talent is not approved by tribal leadership (Nicholson, 2005). A common leadership theme in Maasai culture is stewardship and servant leadership (Nicholson, 2005; Koshal, 2007). There are cultural differences from other tribes in Kenya and Tanzania, which foster the isolation of the Maasai (ilkerinloita.org, 2013; Neckebrouck, 1993). This isolation is the basis for their analysis as a culture within the meaning of GLOBE project (House et al., 2004; Moulton, 2009).



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This study seeks to evaluate the following research problem: Does the Maasai culture hold CLTs, similar to the GLOBE universally endorsed dimensions that are considered to be held by all cultures as enabling or inhibiting outstanding leadership?

This exploratory research in sub-Saharan Africa adds to the research literature on cultures outside the Western world. It provides data on cultural factors in Kenya and Tanzania for researchers and leaders who work in these countries. As such it provides an investigation of a culture not evaluated in the Project GLOBE. It further extends the research of Moulton (2009) to evaluate the role of sub-cultures within the context of sub-Saharan Africa. "Many other countries on the continent of Africa are multicultural and face similar challenges related to diversity in terms of race, ethnicity, and language as do many other developing countries" (Moulton, 2009, p.6). This study extends the data available in cross-cultural studies by looking at markedly different people and culture, the Maasai, with implications for understanding leadership in culturally diverse organizations.

## LITERATURE REVIEW

This research was exploratory in nature building on the work of the Project GLOBE (House et al., 2004), Hofstede (1980, 1981) and Moulton (2009) to extend the African cluster to Tanzania and Kenya in the cultural context of the Maasai culture. The theoretical basis of this study is that posited by Moulton (2009) of extending Project GLOBE to looking at sub-cultures within nations. The basis is of Moulton (2009) was the GLOBE conceptualizations of leadership and their appropriateness to analyze cultures and sub-cultures (Hofstede, 1980, 1991; House et al., 2004; & Schwartz, 1994), and the implicit leadership theory (Lord & Maher, 1991). The final section of the literature review covers the basis for the Maasai tribe as a unit of cultural analysis.

### **The Conceptualization of Leadership**

As used in this study leadership is defined as, "the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organizations of which they are members" (House & Javidan, 2004, p. 15). In the nomological network the vast majority of the theories are North American or European styles of leaderships (House, 1998). The theories of leadership are from a western individualistic perspective, usually from rational cognitive perspectives that stress follower responsibilities; therefore missing the other perspectives like intuitive thought, leader's responsibilities to followers, eastern perspective, collectivist societal perspectives and native perspectives (House, 1998).

### **Implicit Leadership Theory**

Leadership is a social construct that is context specific held in the mind of the follower (Lord & Maher, 1991). An individual's implicit leadership theory refers to beliefs held about how leaders behave and are treated in their culture (Lord, & Maher, 1991). Using a cognitive categorization theory perspective, implicit theories are cognitive schemas that people use to evaluate their world and information that comes at them each day (Rosch, 1977, 1978). Rosch (1978) posited that the followers would be overwhelmed with data in their daily lives if their schemas did not use categorization to filter information. The perceptions of a leader would be matched to categories of leaders in follower's cognitive schema using a minimal amount of cognitive capacity (Rosch 1978). The process of identifying leaders is activated sub-consciously to select categories of behavior to identify leaders and non-leaders (Rosch, 1977, 1978; Phillips and Lord, 1981).

### **Charismatic Leadership and Culture**

The finding of Project GLOBE and other studies was that charismatic leadership is universally endorsed (Hartog, House, Hanges, Ruiz-Quintanilla, & Dorfman, 1999; House et al., 2004). Questions are raised if charisma is universally seen as a positive, what is acceptable in western culture may not be effective in all cultures (Bass, 1990). There are likely exceptions to the universal acceptability of charismatic leadership; Hartog, House, Hanges, Ruiz-Quintanilla, and Dorfman (1999) posited charismatic leadership is not accepted in German and some European cultures that associate it with Nazis leadership style of World War II charismatic leadership. But in most cultures charismatic leadership is seen a positive or 'should be' leadership characteristic (Hartog, House, Hanges, Ruiz-Quintanilla, & Dorfman, 1999).

### **The GLOBE Theoretical Framework**

Based on the comparison of leadership in many cultures the unit of analysis for assessing the validity of culture dimensions is not the individual but the society or group (Hofstede, 1980, 1990; House et al., 2004; Schwartz, 1994). National boundaries provide a useful unit for analysis of cultural values and cultural leadership theories (House et al., 2004). National boundaries do not always reflect homogenous populations of peoples with common beliefs and cultures, but are good estimates of homogeneous societies that have developed shared culture (Schwartz, 1999). The individual's implicit theories and priorities are a result of personal experience and acculturation; the societal cultural values lead to the contingencies that individuals see as their societal norms (Hofstede, 1980; Schwartz, 1999).

House et al. (2004) found "21 specific leader attributes and behaviors that are universally viewed as contributing to leadership effectiveness. Eleven of the specific leader characteristics composing the global charismatic/value-based leadership dimension were among these 21 attributes. Eight specific leader characteristics were universally viewed as impediments to leader effectiveness" (p.2). The basis for studying subculture in South Africa, Tanzania, and Kenya can be found in the research of House et al. (1999) that some countries are composed of several cultures in their national borders, for example China, and Russia, that need finer levels of analysis for understanding. Moulton (citing Chokar, personal communication, May 31, 2008) posited the GLOBE study should be seen as enabling study of sub-cultures and providing a framework for analysis rather than limiting it to national boundaries.

The Maasai culture is isolated but currently being impacted by outside forces leading to many changes and their traditional cultural values are being lost (Fraser, et al., 2012; Nicholson, 2005). The skills that are valued by the Maasai leaders are those that are of value to the collective not the individual (Nicholson, 2005). It is likely based on that theoretical finding, that standout talent and charismatic leadership could be rejected by Maasai members. There are cultural differences from other tribes in Kenya and Tanzania, which foster the isolation of the Maasai (Neckebrouck, 1993). This isolation is the basis for the analysis of the Maasai as a culture within the meaning of GLOBE project (House et al., 2004) and sub-culture within a larger country boundary (Moulton, 2009).

Based on the Maasai CLTs changing with the impact of outside forces (Fraser, et al., 2012; Nicholson, 2005) it followed that the Maasai hold different CLTs than the surrounding cultures in Kenya and Tanzania. Therefore it was predicted that:

*H1: Maasai followers hold CLTs different from the GLOBE sub-Saharan African cluster (House et al., 2004) based on the isolated semi-nomadic sub-culture.*

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*H2: Maasai followers hold CLTs different from the GLOBE universal leader characteristics of charismatic leadership and self-protective leadership South African sample (Moulton, 2009; House et al., 2004) based on the isolated semi-nomadic sub-culture.*

Nicholson (2005) stated warriors who moved from the traditional villages to urban areas lost trust in, and respect for their elders and leaders. Further the warrior rituals that provided a cohesive force to the society were not continued so that the Maasai cultural values were lost. Based on Nicholson (2005) and Fraser, Brown, Wright, & Kiruswa (2012) members moving outside the traditional village culture change values and perceptions to that of the urban cultures to which they move. Finally to measure if CLTs held by Maasai are changing as members move to other areas and cultures the sub-culture samples were taken in rural and urban areas. It is predicted that:

*H3: Maasai followers will hold different CLTs based on living in traditional rural tribal villages versus working and living extended periods in urban settings.*

## METHOD

### Survey Design

A survey design of data collection was chosen to build on the work of the GLOBE study using the South African version of the GLOBE Web based leader attributes and behavior questionnaire (Moulton, 2009). Due to limited time to read instruments to illiterate participants, limited access and time to gather data, the Maasai elders and Maasai interpreter asked to limit the instrument to 40-50 items including demographic information. Based on the theoretical basis in the literature review, the GLOBE instrument, charismatic/values based and self-protective scales were used. With demographic items this met the agreed upon length. Data collection was self-administered for those that are literate and the questionnaire was read to those who were illiterate.

### Data Collection

The convenience sample was taken from districts surrounding the southern Kenyan and northern Tanzanian borders. The first sample was from a visit to villages in Longido and Ngosuak, Tanzania. Data from Maasai villages is hard to obtain due to the isolated culture. In this study one of the researchers is a Maasai, who was allowed access to administer the instrument. The data was collected in the fall of 2013 with a paid interpreter. Privacy and rights of the participants were honored in accordance with the ethical guidelines of Regent University human subject research guidelines that fall within the U.S. Code of Federal Regulations at 45 CFR 46.102. The Regent HRSB approved the collection plan for the Maasai data before it was commenced. The Participants were selected for this study based on their ethnicity (Maasai), and geographical location (northern Tanzania, southern Kenya).

All 150 participants were from traditional, pastoral Maasai families. Questionnaires were read to respondents who are illiterate by the researcher. Previous research using this method has shown to be effective with little added internal bias (Fraser et al., 2012). In cases where it is read the researcher will so mark on the questionnaire form that it was read. The researchers verified by analysis that the read questionnaire responses do not significantly differ from the self-administered questionnaires. Sample questions are shown in Table 2.

### Instrument

The South African version of GLOBE leader attributes and behavior instrument (attachment 1) from Surveygizmo.com was translated from English language version to Kiswahili by a PhD translator and then back translated by a separate translator. The results

to the original GLOBE document to ensure all items were adequately back translated. Sample questions are found in Table 1. The GLOBE instrument was used in its complete form and therefore not pre-tested in the Maasai population. The Demographic questions related to levels of management were questioned by some Maasai engaged in livestock and agricultural trades as not applicable.

**Table 1**  
**SAMPLE QUESTIONS FROM THE SOUTH AFRICAN VERSION OF THE GLOBE**  
**LEADER ATTRIBUTES AND BEHAVIOR QUESTIONNAIRE**

|  |                            |                   |   |   |   |   |
|--|----------------------------|-------------------|---|---|---|---|
| 1-1. In this society, orderliness and consistency are stressed, even at the expense of experimentation and innovation. |                            |                   |   |   |   |   |
| Strongly agree   | Neither agree nor disagree | Strongly disagree |   |   |   |   |
| 1  | 2                          | 3                 | 4 | 5 | 6 | 7 |
| 1-2. In this society, people are generally: Aggressive non-aggressive  |                            |                   |   |   |   |   |
| 1  | 2                          | 3                 | 4 | 5 | 6 | 7 |
| 1-3. The way to be successful in this society is to: plan ahead take life events as they occur                         |                            |                   |   |   |   |   |
| 1  | 2                          | 3                 | 4 | 5 | 6 | 7 |
| 1-4. In this society, the accepted norm is to: plan for the future accept the status quo                               |                            |                   |   |   |   |   |
| 1  | 2                          | 3                 | 4 | 5 | 6 | 7 |

The findings of Project GLOBE revealed cultures have universal dimensions of culturally accepted leadership behaviors, which reside in the cognitive processes of followers thereby defining effective leadership behavior (House & Javidan, 2004). The Project GLOBE researchers statistically reduce the dimension to six universally shared CLTs. These six GLOBE CLTs or second order factors are found in Table 2. Egalitarianism related to age and gender were considered as the moderators in the development of the GLOBE scales (House et al., 2004, p. 384- 388) but not controlled for in the follow on studies of the values in Table 2 and the model used for this study Moulton (2009). This study followed the methods of Moulton (2009) therefore the additional factors will be considered in the discussion section of this paper and as a follow on study.

**Table 2**  
**THE 6 GLOBE CLT DIMENSIONS, INTERNAL CONSISTENCY AND INTER-RATER**  
**RELIABILITY; FIRST-ORDER FACTORS**

| No. | CLTs   | First-order factors  |
|-----|--|--|
| 1   | Charismatic/value based<br>(Internal consistency: .95)<br>(Inter-rater reliability: .98) | Charismatic/inspirational<br>Charismatic/self-sacrificing<br>Integrity, decisive<br>Performance oriented                 |
| 2   | Team oriented<br>(Internal consistency: .93)<br>(Inter-rater reliability: .96)           | Team 1: Collaborative orientation<br>Team 2: Team integrator<br>Diplomatic<br>Malevolent**<br>Administratively competent |
| 3   | Self-protective<br>(Internal consistency: .93)<br>(Inter-rater reliability: .98)         | Self-centered<br>Status consciousness<br>Conflict inducer<br>Face-saver<br>Procedural/bureaucratic                       |
| 4   | Participative  | Autocratic**   |

|   |  |                               |
|---|--|-------------------------------|
|   | (Internal consistency: .85)<br>(Inter-rater reliability: .95)                    | Non-participative**           |
| 5 | Humane oriented<br>(Internal consistency: .76)<br>(Inter-rater reliability: .93) | Modesty<br>Humane orientation |
| 6 | Autonomous<br>(Internal consistency: .59)<br>(Inter-rater reliability: .87)      | Autonomous                    |

*Note.* Adapted from Hanges & Dickson (2004). Internal consistency and inter-rater reliability figures in parentheses (House et al., 2004, p.137). \*\* denotes reverse scored.

The instrument has been extensively tested on more than 17,000 middle managers in 62 countries. The Project GLOBE used multi-level confirmatory factor analysis that replicated the structure of the culture scales. “The average comparative fit index (CFI) for organizational cultural practices (as-is) and organizational cultural practices (should-be) scale were .93 and .94 respectively. The average comparative fit index (CFI) for societal cultural practices (as-is) and societal cultural practices (should-be) scale were .89 and .95 respectively” (House et al., 2004, p.133). The internal consistency and inter-rater reliability for the two CLTs are Charismatic .95, .98 and Self-protective .93, .98, respectively. “The aforementioned results provide strong evidence that the GLOBE scales were constructed properly, that they measured variation at the desired level of analysis, and they could be used reliably to make distinctions between organizations and societies” (House et al., 2004, p.136). As an additional measure the scales were compared to other scales for national cultures including those of Hofstede (1980, 1991) and Schwartz (2001).

### Population and Sample

The site for this study was the northern Tanzania and southern Kenya border with a large population of 350,000 Maasai; concentrated along the border lands (uiowa.edu, 2012). The Maasai participants were from convenience samples chosen from village and city visits in the fall of 2013. Executives of twelve medium-sized organizations, non-profits and trade associations were contacted by telephone or email to request their participation based on an overview of the purpose, and importance of the GLOBE research; and the value to the Maasai, and their associations. The participation of junior, middle, and senior managers was requested. Seven organizations of the twenty-one requested (33% of total) participated in the study. The associations had the opportunity to identify managers to participate. A wide spectrum of trades and professions was represented including district government, entrepreneurial businesses, and professionals from politics, agriculture, manufacturing, accounting, services, office administration, and teaching. In rural Longido village elders were consulted to select participants. Due to the nature of the Maasai culture 47% of the respondents worked in livestock or farm production trades.

Participation in the study was voluntary, of the 210 persons who received personalized invitations to take part, resulted in 150 (71%) usable questionnaires. Due to the pastoral nature of the Maasai 47% of respondents were non-managers who ran family livestock businesses. 45% of respondents were identified as managers in organizational businesses. All prospective participants were required to confirm they were from the Maasai culture of Tanzania or Kenya by selecting that option in the demographic questions (Table 3). If they were not Tanzanian or Kenyan, and of the Maasai culture the instruments were destroyed.

**Table 3**  
**TYPES OF PROFESSIONS OF MAASAI PARTICIPANTS**

| Nu | Profession | Percent of Sample |
|----|------------|-------------------|
|----|------------|-------------------|

| number |                                  |     |
|--------|----------------------------------|-----|
| 1      | Director                         | 5%  |
| 2      | Administration                   | 12% |
| 3      | Livestock and farm production    | 47% |
| 4      | Finance and accounting           | 2%  |
| 5      | Human resources                  | 3%  |
| 6      | Marketing                        | 3%  |
| 7      | Politics                         | 5%  |
| 8      | Sales                            | 7%  |
| 9      | Support services                 | 4%  |
| 10     | Other: Teacher, attorney, pastor | 13% |

Note: Percentages represent the proportion of sample in a profession, rounded to nearest whole number.

Participants were male (65%) and female (35%) with ages from 20 to 70 plus years old. The rural Maasai do not keep written birth records so exact dates of birth are not used but rather age-groups. The Maasai age groups used: 20-29 years (7%), 30-39 (29%), 40- 49 (41%), 50-59 (14.5%) and 60 + (6%). The average age equivalent in this sample was 37.5 years. Fifty percent had less than an eighth grade education, five percent grades 9-12, six percent grades 13-14, eighteen percent some college and twenty-two percent had college degree. Years of full-time work experience ranged from one year to 50 years, with the average being 18.1 years. Twenty-six percent of the respondents stated they had some training in Western management practices.

Evaluating H1 and H2 involved a series of one-sample t-tests with the given GLOBE norm, using the Maasai results from the GLOBE instrument. 150 completed instruments were collected; it was estimated 100 responses were needed for a power 0.8 and alpha/Ty1 error is 0.05 (Hair, Black, Babin, & Anderson, 2010). H3 was evaluated by a t-test of differences between the two groups. Based on an acceptable significant level of: .05 and an acceptable absolute error: .25 a sample size of 80 was required (Hair et al., 2010). Response bias from Maasai participants who did not completely fill out the questionnaire, and an action agenda for marginalized peoples (Kemmis, & Wilkinson, 1998) were biases expected to be found in this research.

### **Ethical Considerations**

The Regent University principles required of a research project, Human Subject Research Board (HSRB) guidance, were complied with. This study adhered to ethical standards as described in the approved HSRB request of Aug 2013. The purpose of the study was stated to the respondents and their permission sought to participate in the study. The confidentiality of the information collected is assured. All the Maasai participants and their data will be treated in a respectful manner that protects the confidentiality and anonymity of the participants and organizational affiliations. The questionnaire and participant information will be stored by the researchers for five years and then destroyed. The local Maasai leaders were briefed before the data collection commenced to gain access to the study population. The objectives of the study were provided and made known to leaders and participants.

## **RESULTS**

In preparation for running IBM SPSS 21, using T-tests, the data was evaluated and met the guidelines for normal distribution, homogeneity of variance, and scales reliability in the Maasai population (Pallant, 2010) shown in Table 4 and Table 5. There are concerns when scales are used in differing populations on the scale's internal consistency (Pallant, 2010). To evaluate the scale the Cronbach alpha coefficient was calculated using SPSS 21.

The Cronbach's alpha should be above .7 to show internal consistency reliability for the scale in the Maasai sample (DeVellis, 2003). Values above .8 are preferred (De Vellis, 2003). In the current study the Cronbach's alpha for charismatic scale was 0.87 and for self-protective 0.58, results are presented in Table 3 and Table 4. According to House et al. (2004) the two scales have good internal consistency, with Cronbach's alpha of 0.95 and 0.93 respectively. The charismatic scale item-total correlation varied from .52 to .84 indicating that each item correlated with the total score. Self-protective scale correlated item-total correlation varied from -.2 to .60 indicating that one of the sub-scales, procedural bureaucratic did not correlate with the total. If the procedural bureaucratic sub-scale (3-item) was removed the Cronbach alpha of the full scale would increase to .64. The other four of the five sub items were .3 or greater. Values above .3 indicate the individual items of the scale correlates with the total scale (Pallant, 2010). The self-Protective scale Cronbach alpha at .58 was noted as a possible limitation. The scale was used without modification to allow comparison to the South African and Sub-Saharan African GLOBE results.

**Table 4**  
**CHARISMA SCALE RELIABILITY**  
**STATISTICS**

| Cronbac<br>h's Alpha | Cronbac<br>h's<br>Standardized<br>Items | Cronbac<br>Alpha:<br>Items | N<br>of |
|----------------------|---|----------------------------|---------|
| .88                  | .88                                     |                            | 6       |

**Table 5**  
**SELF-PROTECTIVE CLT SCALE**  
**RELIABILITY STATISTICS**

| Cronbac<br>h's Alpha | Cronbac<br>h's Alpha<br>on<br>Items | Cronbac<br>Alpha Based<br>Standardized<br>Items | N of<br>Items |
|----------------------|-------------------------------------|---|---------------|
| .57                  | .58                                 |   | 5             |

To evaluate H1 that Maasai CLTs differ from the GLOBE sub-Saharan African cluster an one sample T-test (Table 6) was run to compare with the GLOBE means for charismatic and self-protective leadership. The  $p < .001$  showed a significant difference between the Maasai sample ( $M=5.11$ ,  $SD=1.18$ ,  $n=150$ ) and the GLOBE SSA sample ( $M=5.79$ ,  $p < .001$ ). The difference in the means (mean difference = .68, 95% CI: .87 to -.48). Thus the null hypothesis is rejected and hypothesis 1 part 1 Charismatic/ Value CLT is supported. This suggested that extremely collectivist Maasai value skills that are of value to the collective less than charismatic leadership (Nicholson, 2005). It is also suggested from that theoretical finding, that standout talent and charismatic leadership could be seen as less effective by Maasai members than other SSA cultures.

**Table 6**  
**MAASAI CHARISMATIC LEADERSHIP COMPARISON WITH**  
**GLOBE ONE-SAMPLE T-TEST**

|         | SSA Test |           |                 |                 |
|---------|----------|-----------|-----------------|-----------------|
|         | <i>t</i> | <i>Df</i> | Sig. (2-tailed) | Mean Difference |
| Charism | -        | 14        | .00             | -.68            |
| a CLT   | 6.96     | 7         |                 |                 |

Note: Test Value = 5.79

To evaluate H1 part two that Maasai CLTs differ from the GLOBE sub-Saharan African cluster an one sample T-test (Table 7) was run to compare with the GLOBE mean for self-protective leadership. The significance,  $p < .001$ , indicated a significant difference between the Maasai sample ( $M = 3.98$ ,  $SD = .65$ ,  $n = 150$ ) and the GLOBE SSA sample ( $M = 3.55$ ,  $p < .001$ ). The difference in the means (mean difference = .43, 95% CI: .32 to .53). Thus the null hypothesis is rejected and hypothesis 1 part 2 of the self-protective leadership CLT is supported.

**Table 7**  
**SELF-PROTECTIVE CLT COMPARISON WITH GLOBE**  
**ONE-SAMPLE T-TEST**

|               |         | SSA Test Value            |           |      |      |
|---------------|---------|---------------------------|-----------|------|------|
|               |         | <i>t</i>                  | <i>df</i> | Sig. | Mean |
|               |         | (2- Difference<br>tailed) |           |      |      |
|               | SelfPro | 8.0                       | 14        | .00  | .43  |
| <i>t</i> _CLT | 8       | 9                         |           |      |      |

Note: Test value = 3.55

Hypothesis 2 was tested by an one sample T-test the differences from the South African research within the GLOBE results (Moulton 2009) for the universal CLTs of charismatic leadership and self-protective leadership. Table 8 shows the mean scores for the CLT's from the Globe (Dorfman, Hanges, & Brodbeck, 2004) South African black sample, the South African black sub-cultural samples Moulton (2009), with the present study mean scores.

The result of the T-test showed a statistically significant difference,  $p < .001$ , between the Maasai sample ( $M = 5.11$ ,  $SD = 1.18$ ,  $n = 150$ ) and the GLOBE SSA sample ( $M = 5.79$ ,  $p < .001$ ). The difference in the means (mean difference = .68, with a 95% CI: .87 to -.48). Thus H2 part 2 is supported that the Maasai hold self-protective leadership CLTs differing from the South African black ethnic group.

**Table 8**  
**MEAN SCORES OF THE GLOBE CLTs BLACK SAMPLE FROM ORIGINAL GLOBE**  
**STUDY OF SOUTH AFRICA (DORFMAN, HANGES, & BRODBECK, 2004), THE SUB-CULTURES**  
**BLACK SAMPLE (MOULTON, 2009) COMPARED TO THE RESULTS OF THE PRESENT STUDY**

|                             | GLOBE        | South          | South African Sub- | Study  | Present  |
|-----------------------------|--------------|----------------|--------------------|--------|----------|
| Africa                      | Black Sample | Cultures       | Black              | Sample | Maasai   |
|                             | <i>M</i>     | Moulton (2009) | Sample             | Sample | <i>M</i> |
| GLOBE CLTs                  |              |                |                    |        |          |
| Charismatic/<br>Value Based | 6.19         |                | 5.19               |        | 5.11     |
| Self-Protective             | 3.49         |                | 3.62               |        | 3.98     |

To evaluate H2 that Maasai CLTs differ from the original GLOBE South African black sample (Dorfman, Hanges, & Brodbeck, 2004) an one sample T-test (Table 9) was run to compare with the GLOBE South African country means for charismatic and self-protective leadership. The  $p = .000$  ( $p < .001$ ) showed a significant difference between the Maasai sample ( $M = 5.11$ ,  $SD = 1.18$ ,  $n = 148$ ) and the GLOBE South African black sample ( $M = 6.19$ ,  $p < .001$ ). The difference in the means (mean difference = -1.08, 95% CI: 11.27 to -.88). Thus the null hypothesis is rejected and hypothesis 2 part 2 Charismatic/ Value CLT is supported. The collectivist Maasai have a lower acceptance of charismatic leadership in comparison with the South African black sample.



**Table 9**  
**MEAN SCORES OF THE GLOBE CLTS BLACK SAMPLE FROM ORIGINAL GLOBE STUDY OF SOUTH AFRICA (DORFMAN, HANGES, & BRODBECK, 2004), COMPARED TO THE RESULTS OF THE PRESENT STUDY**

| CLT                   | Maasai Sample |           | Sig. (2-tailed) | Mean Difference |
|-----------------------|---------------|-----------|-----------------|-----------------|
|                       | <i>t</i>      | <i>df</i> |                 |                 |
| Charismatic           | -             | 14        | .00             | -1.08           |
| Charismatic Value     | 11.07         | 7         |                 |                 |
| Self-Protective       | 9.2           | 14        | .00             | .49             |
| Self-Protective Value | 2             | 9         |                 |                 |

*Note.* Charismatic test value = 6.19; Self-Protective test value = 3.49.

To evaluate H3 that Maasai followers hold different CLTs based on living in traditional rural tribal villages versus working and living extended periods in urban settings a split sample T-test was run using SPSS 21. For the Maasai charismatic leadership CLT (Table 10), the Lavene's Test of Significance,  $p=.03$ , less than  $p<.05$ , therefore the equal variances not assumed values were used (Pallant, 2010). The sig 2-tailed value =.00 was a statistically significant difference in the mean scores for the rural versus urban sub samples. The effect size eta squared =  $t^2 / [t^2 + (N1 + N2 - 2)] = .34$  which is a large effect of 34% (Cohen, 1988).

For the H3 self-protective leadership CLT (Table 10), the Lavene's Test significance = .00 less than  $p<.05$  therefore the equal variances not assumed values were used (Pallant, 2010). The sig 2-tailed value  $p=.00$  which is a statistically significant difference in the mean scores for the Maasai living in rural versus urban sub samples. The effect size eta squared =  $t^2 / [t^2 + (N1 + N2 - 2)] = .17$ ; which is a large effect of 17% (Cohen, 1988). Thus both parts of Hypothesis 3 were supported.

**Table 10**  
**DIFFERENCES IN PREFERENCE CHARISMATIC LEADERSHIP RURAL VS. URBAN T-TEST**

| CLT                 | Levene's Test               |           | T-test for Equality of Means |                 |                 |                       |     |
|---------------------|-----------------------------|-----------|------------------------------|-----------------|-----------------|-----------------------|-----|
|                     | Sig.                        | <i>df</i> | <i>t</i>                     | Sig. (2-tailed) | Mean Difference | Std. Error Difference |     |
| Charismatic         | Equal variances assumed     | .98       | 03                           | 8.50            | .00             | -1.37                 | .16 |
|                     | Equal variances not assumed |           |                              | 8.59            | .00             | -1.36                 | .16 |
| Self-Protective CLT | Equal variances assumed     | 0.14      | 01                           | .43             | .00             | .53                   | .10 |
|                     | Equal variances not assumed |           |                              | .49             | .00             | .53                   | .10 |

## DISCUSSION

The findings of Project GLOBE revealed that cultures have universal dimensions of culturally accepted leadership behaviors which reside in the cognitive processes of followers, thereby defining effective leadership behavior (House & Javidan, 2004). In this research two

of the six Project GLOBE universally shared CLTs were used to evaluate a Maasai sample. The Maasai sample held markedly different CLTs from the GLOBE Sub Saharan African (House et al., 2004) and South African (Dorfman, et al., 2004; Moulton, 2009) samples. The Project GLOBE (House et al., 2004) African country cluster is composed of Zimbabwe, Namibia, Zambia, Nigeria, and South Africa (black sample). Tanzanian and Kenyan Maasai have lower education and per capita income, as well as fewer medium to large business organizations than the average in east Africa (World Bank, 1999). The sample used in this study was a convenience sample with demographics representative of the Maasai culture. The results, therefore, have limited generalizability. It does reveal markedly different CLTs may be held by different sub-cultures within the same clusters or national borders. National boundaries provide a useful unit for analysis and can result in good estimates (House et al., 2004), but national boundaries do not always reflect homogenous populations of peoples with common beliefs and cultures (Schwartz, 1999). Future research could evaluate how to define sub-culture boundaries for leadership studies. The boundaries that provide the most meaningful leadership analysis may be those of sub-cultures, ethnic groups or associations. These boundaries may provide the most meaningful understanding of CLTs in a population, especially if an organizational leader finds them-selves in an organization where a CLT may be more aptly defined by a sub culture rather than by national boundaries.

Whereas the GLOBE research was conducted among middle managers from three industries (food-processing, financial services and telecommunication services), this study was largely conducted with Maasai from the agriculture industry. The fact that nearly half (47%) of the Maasai included in the study came from the agriculture or farming industry is a limitation of this study. Prior research has found job roles may influence reports of leader effectiveness (Herold, & Fields, 2004). These trade and job role factors may have contributed to the low Cronbach Alpha value (.54) for the Self-Protective Scale with the Maasai sample. This is an area of future research to evaluate the GLOBE scales in differing sub-cultures.

The finding that Maasai CLTs were different than SSA CLTs (H1) may be related to the Maasai cultural value that individual standout talent is not approved by elder leadership, as the collective/tribe is first priority (Nicholson, 2005). House et al. (2004) posited "CLTs are related to cultural dimensions not practices and charismatic leadership is driven by performance orientation, in-group collectivism, and gender egalitarianism and is negatively correlated with power distance" (p.46). Further "self-protective leadership is driven by cultural dimensions of power distance, uncertainty avoidance, and negatively correlated to gender egalitarianism" (House, et al., 2004, p.48). Future research based on these findings may provide insight to sub-cultural differences within country boundaries and provide understanding to those dealing with Maasai and other sub-cultures.

The Maasai CLTs were different than the ethnic black sub-culture CLTs in South Africa (Moulton, 2009). This present study was modeled after the South African study (House et al., 2004; Moulton, 2009) where participant gender and age were not included in the independent or control variables. The effect of these factors is an area for future research. While the generalizability of the results may be limited, the findings of a statistically significant difference in urban versus rural Maasai CLTs, support the theory that as members of a group are exposed to another culture their CLTs are impacted by that culture and leadership styles tend to converge (House et al., 2004, p. 53). The CLTs seem to be slow to change and further research is needed to evaluate how these CLTs change and the dynamics of convergence (Hofstede, 1994; House, et al., 2004). From the perspective of leaders dealing with organizations in multicultural contexts the CLTs defined by national boundaries and clusters provide a useful framework, but further research is required for understanding sub-cultural preferences and assessments of effective leadership which may be more closely correlated with sociocultural boundaries as opposed to national boundaries.

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