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**Michael Shurden  
Editor  
Lander University**

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## LETTER FROM THE EDITORS

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The articles contained in this volume have been double blind refereed. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies.

We intend to foster a supportive, mentoring effort on the part of the referees which will result in encouraging and supporting writers. We welcome different viewpoints because in differences we find learning; in differences we develop understanding; in differences we gain knowledge and in differences we develop the discipline into a more comprehensive, less esoteric, and dynamic metier.

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# INFLUENCES ON UNDERGRADUATES CONSIDERING A CAREER IN PROFESSIONAL SELLING

Michael R. Luthy, Bellarmine University

## ABSTRACT

*Studies and occupational forecasts point to a growing number of opportunities for college graduates in the field of professional selling. While there is a substantial body of research on the subject of revising or restructuring the professional selling course and the sales curriculum in the post-secondary school environment, there has been less work focusing on students' opinions concerning careers in sales and the influences on that decision. The current research analyzes survey results from over 300 undergraduate seniors, student members of Pi Sigma Epsilon, the national fraternity in marketing, sales management, and selling, on these issues.*

## INTRODUCTION

Professional selling is an employment field where significant growth is forecasted (U.S. Department of Labor, 2003). Aside from the technical information and industry-specific knowledge that goes along with any specific position in selling, the skills-set associated with successful sales careers, including interpersonal skills, communications, and negotiations, are prized by other business disciplines ranging from accountants and financial analysts to economists and human resource specialists. This same skills-set is valued in non-business careers including engineers, architects, and non-profit managers; where significant client or customer interaction is more the norm.

Research on what academics can and should do to improve the sales course or other aspects of the sales curriculum have been undertaken (e.g. Bristow and Gulati, 2002; Luthy, 2000, Clabaugh and Forbes, 1995). The larger issue of the sales curriculum itself has also been explored (e.g. Corwin, 1997). The current paper surveys select undergraduate students concerning their attitudes toward a career in sales and the influences that have informed that attitude.

## BACKGROUND

There is a variety marketing-specific and general business organizations open to membership for undergraduate students. Some are open to any interested individuals (e.g. the American Marketing Association); while others have more specific membership requirements (e.g. Delta

Gamma Phi) and still others involve nomination or selection by faculty members (e.g. Beta Gamma Sigma).

For students with an expressed interest in pursuing a career in professional selling, many if not all of these organizations offer something of value in terms of networking, field trips, speaker series, and the like. In the activities of these organizations however, selling is only one of many areas that are explored.

Among organizations that attempt to more specifically address the needs of students interested in professional selling is Pi Sigma Epsilon (PSE). In 1951, Lloyd L. Antle, an Ohio University graduate and Professor of Marketing at Georgia State University, conceived the idea that the sales profession should have a professional fraternity of its own. The Founders of Pi Sigma Epsilon established a collegiate organization to assist members in developing sales and marketing skills through lifetime opportunities. The Fraternity was incorporated in 1952, and the first chapter, Alpha, was installed at Georgia State University (Pi Sigma Epsilon website, 2006).

Today, PSE has 54 active collegiate chapters operating in 24 states. It has a national conference which draws hundreds of students and academics each year and is arguably the principle organization for selling-interested students looking to prepare for and launch their careers. Combined with the national scope of the organization's membership, a survey of the student members of PSE would seem appropriate to investigate issues of student preparation for careers in the field. The current study reports the outcome of such a survey, focusing on seniors and their preparation for full-time employment beyond college. The goal of this research is to better understand these sales-interested students and factors that affect their decision of whether to pursue a career in professional sales beyond college. While studying all of the developmental influences on students while in college is beyond the scope of this paper, the results may allow faculty to better prepare and advise students interested in this career path through specific discussions on course selection, majors, and valuable out-of-class activities.

## **METHODOLOGY**

Through the Pi Sigma Epsilon National Educational Foundation, the mailing list of the entire student member population was obtained. The sample employed in this research is a convenience one but should be considered qualified and expert given the issues for examination.

Each student member was sent via post a cover letter on Pi Sigma Epsilon stationery explaining the study and the organization's sponsorship, a self-administered paper and pencil questionnaire, and a postage-paid, addressed envelope. Over the subsequent six weeks there were two follow-up efforts through local chapter officers to have members complete and return the survey. As an incentive to have individual members complete the survey, each chapter received points toward a chapter competition based on the percent of members returning the instrument.



Additionally, one member, drawn from all of the returned surveys, won free registration to the next national conference (approximate value less than \$250).

Over three hundred seniors responded to the survey (125 male and 188 female). This translates into an approximately 40% - 60% response split by gender. While responses were skewed toward female respondents there were sufficient numbers of male respondents to make gender-based comparisons and draw conclusions for the sample as a whole.

In Exhibit 1 it can be seen that an academic breakdown of respondents extends beyond the business disciplines. Fully 15% of the respondents reported majors outside business disciplines and included communications, education, liberal-arts, technology, and the sciences. Over one-fifth of the seniors responding were self-declared double majors and over 42% have a self-declared minor. This broad-based interest in professional selling, spanning so many different majors, double majors, and minors confirms the central usefulness of sales education and training and its place in many varied career paths.

## RESULTS

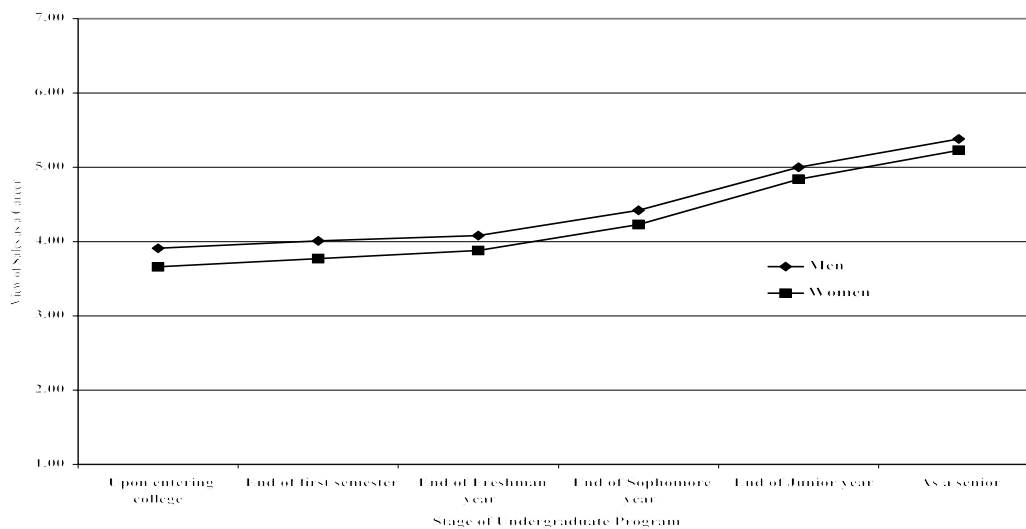
Students were asked a number of questions concerning their experiences in while in college. One of these questions was to rate their attitude (on a 7-point Likert scale) toward a career in professional selling at various stages in the past and present. Exhibit 2 charts their responses. Discounting the potential for a distortion effect in recalling past events, Exhibit 2 shows some interesting results.

As a group, seniors report an above neutral attitude (>3.5 on a 7 point scale) toward a career in selling upon entering college. That opinion becomes more positive for both males and females to roughly the same degree over the course of their studies (reflected in the approximately parallel structure of the lines). It should be noted that at all evaluation points, males rated a career in sales more positively than females, although that gap did narrow by the time both groups achieved senior status.

<b>Exhibit 1. Respondent's academic majors</b>				
Business-related majors (266)			Liberal-arts majors (9)	
Marketing	15		Psychology	4
Business Administration / Mgt.	45		English	1
Information Systems	15		Interdisciplinary	1
Finance	14		Physical Education	1
Human Resources	9		Political Science	1
Sales	8		Sociology	1
Accounting	7			

Exhibit 1. Respondent's academic majors				
	Economics	7	Science and Technology-related majors (17)	
	International Business	6	Computer Science	6
	Advertising	2	Biology	4
	Agricultural Business	1	Animal Science	1
	Insurance	1	Chemical Engineering	1
			Civil Engineering	1
	Communications-related majors (16)		Electronics Management	1
	Communications	12	Geographic Information Systems	1
	Journalism	2	Nutrition	1
	Graphic Design	1	Telecommunications	1
	Speech	1		
	Miscellaneous majors (5)		Note 1. 65 of the 313 respondents (20.8%) were double majors  Note 2. 133 of the 313 respondents (42.5%) had a declared minor.	
	Elementary Education	1		
	Family and Consumer Services	1		
	Nautical Science	1		
	Physical Education	1		
	Travel and Tourism	1		

**Exhibit 2. Attitude toward a career in professional selling**



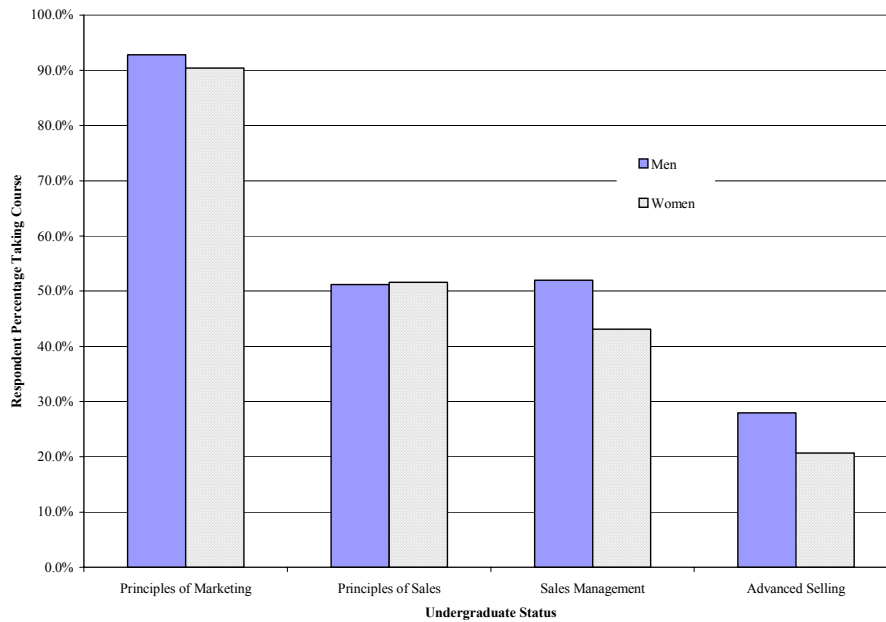
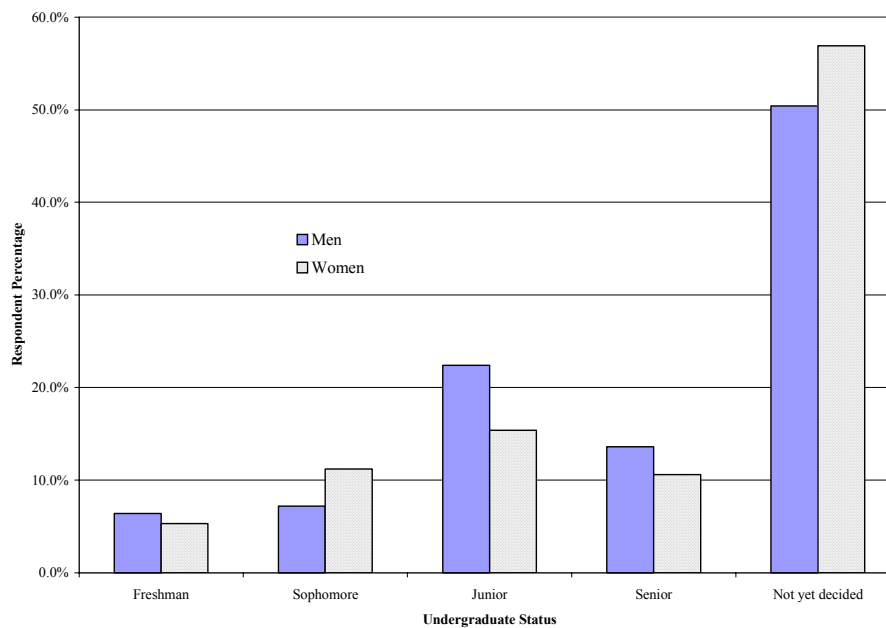
In addition to asking students about their attitudes toward a career in selling they were also asked to rate the influences that have had an effect on their career plans. Exhibit 3 reports their responses. The ranking of influences reported by males and females exhibited similar patterns. Coursework taken and enjoyed was rated as the most important impact on student career decisions. Work experience, memberships in organizations such as but not limited to PSE, and instructors were also rated highly – however not as highly as coursework that students connected with. While the ordering of influences was the same between males and females the magnitude reported by the two groups was not. This suggests that the design and delivery of courses has a particularly profound impact on students’ plans for career decisions, perhaps to a greater extent for females.

<b>Exhibit 3. Influences on career plans *</b>			
		Men	Women
	Coursework taken – and liked	72.8%	85.1%
	Internships / work experience	56.8%	52.7%
	Membership in organizations	44.8%	43.1%
	Instructors	44.0%	42.0%
	Parents / friends	39.2%	28.7%
	Coursework taken – and did not like	24.8%	27.7%

\* reported as percentage of respondents who ranked the factor as 1, 2, or 3 in importance.

Because of the availability differences of various courses at different institutions where respondents are enrolled a direct interpretation of Exhibit 4 is problematic. What can be learned however is that a slightly higher percentage of sales-interested females have taken the Principles of Marketing and Principles of Sales courses at their institutions than their male counterparts. With regard to the other major courses asked about, males had made those courses a part of their programs more regularly.

It should be noted that not all of the respondents had settled on a career in professional selling. As shown in Exhibit 5 less than half of the respondents had made a decision to pursue a career in professional sales. By their senior years, just fewer than 50% of males had made the decision while slightly fewer females had made the same decision.

**Exhibit 4. Sales-related coursework taken****Exhibit 5. Timing on decision to pursue a career in professional sales**

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## CONCLUSIONS

For instructors, professors, and academic advisors these results underscore the importance of selling coursework and potential careers in selling to a wide cross-section of students, not just those in marketing or business related majors. Further, it should reinvigorate faculty in their course design and delivery efforts owing to the significance of that component in helping students decide whether to pursue a career in the field. Faculty should also encourage the sponsoring of one or more student organizations at their institutions to supplement the classroom educational experience of students. The end result will likely be a better prepared student and a more satisfied and productive alumni base.

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# LEADERSHIP: DOES CULTURE MATTER? COMPARATIVE PRACTICES BETWEEN ARGENTINA AND UNITED STATES OF AMERICA

**Carlos Aimar, Centro Universitario San Isidro  
Stanley Stough, Southeast Missouri State University**

## ABSTRACT

*The topic of leadership in the global marketplace has received a high degree of attention among scholars and practitioners over the past few years. Leadership of organizations and employees has definitely become more important as managing across borders and the advent of the virtual team has become increasingly prevalent. Paper explores impact of culture on leadership practices in two countries from culturally and economically different regions: Argentina and the United States of America. It uses the visionary approach to leadership developed by Kouzes and Posner (1987) which identified five leadership practices (actions or behaviors) employed by effective leaders: Challenging the Process, Inspiring a Shared Vision, Enabling Others to Act, Modeling the Way, and Encouraging the Heart. Using the Kouzes and Posner LPI-Self (Leadership Practices Inventory, 1993) instrument for data collection, the authors compared the results between MBA respondents in the two countries. The results of the study indicate that a number of significant differences do exist among respondents in the two cultures, with Argentine respondents consistently scoring higher than United States counterparts. The information may be of value in understanding perceptions concerning leadership patterns between the two countries and useful in managing human resources in the respective countries.*

## INTRODUCTION

One of the most significant business trends of the new millennium is the emergence of the stateless corporation and increasing interdependencies among the world's economies. Until recently leaders were able to operate in the relative isolation of domestic markets but today leaders are constantly exposed to different cultures with different lifestyles. This has resulted in the recognition of different management and leadership practices and a growing need to understand the importance of cross-cultural leadership.

The understanding of comparative leadership practices among cultures is paramount to successfully managing global business activities. An era of high change characterized by outsourcing, restructuring, technological advances, and economic, social and political transitions

require managers who are cognizant of the differing perceptions that exist across countries concerning leadership. Certainly an understanding of leadership and differences in leadership practices among cultures leads to increased efficiency and effectiveness in organizational performance.

The focus of much leadership research has been on the determinants of leadership effectiveness (Yukl, 1998). Among these approaches are the trait approach (Stogdill, 1948, 1974; Bryman, 1992), the style approach (Blake & Mouton, 1964; Kotter, 1982), the situational approach (Hersey & Blanchard, 1977, 1982, 1988; Tannenbaum & Schmidt, 1958), the contingency approach (Fiedler, 1964, 1967), the path-goal approach (Evans 1970; House, 1971), the leader-member exchange approach (Graen & Uhl-Bien, 1995), and transformational leadership approach (Bass, 1985; Tichy & DeVanna, 1990). In recent years neocharismatic theories like visionary leadership theory (Bennis & Nanus, 1985; Sashkin, 1988; Kouzes & Posner, 1993) have also gained acceptance with both scholars and practitioners. In addition, of course, the concept of leadership in groups and teams has become a rapidly growing area of leadership interest. There is also mounting evidence that cultures vary on the extent they employ and value certain leadership behaviors (Den Hartog, House, Hanges, Ruiz-Quintanilla, & Dorfman, 1999; Hofstede, 2001; Peterson & Hunt, 1997). House & Iditya (1997) have noted that these theories are all of a common genre and have several common characteristics.

This study is cross-cultural in nature, not merely because of the interest in international comparison per se, but because it is believed that such comparison is essential to a better understanding of comparative leadership practices between the United States and Argentina. This study should help both educational institutions and global business organizations more effectively teach students and/or manage corporate human resources around the globe. In particular, this study provides the management of United States/Argentina - based organizations with valuable information which may be helpful in selecting people to fill key leadership positions.

## **RESEARCH METHOD AND DATA**

This study uses the neocharismatic, visionary approach to leadership developed by Kouzes and Posner (1993; 1995). The *Leadership Practices Inventory-Self* (LPI-Self) instrument (Kouzes & Posner, 1993) was used for data collection. Kouzes & Posner have identified five leadership practices (actions and/or behaviors) employed by effective leaders:

*Challenging the Process* - Leaders search out challenging opportunities and experiment.

*Inspiring a Shared Vision* - Leaders envision a future and enlist others to pursue that future.

*Enabling Others to Act* - Leaders foster collaboration and empower others.



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*Modeling the Way* - Leaders set the example and achieve small wins that build commitment.

*Encouraging the Heart* - Leaders recognize individual contributions and celebrate accomplishments regularly.

The LPI-Self instrument measures each of the five dimensions of leadership with 6 statements cast on a five-point Likert scale. The higher value on the five-point scale represents greater use of the measured leadership behavior. Each leadership practice could be scored in the range of 6 to 30 points. Extensive testing by Kouzes and Posner (1993) revealed that the instrument exhibits sound psychometric properties.

The instrument was administered to 110 MBA students in the United States (Southeast Missouri State University and Southern Illinois University-Carbondale) and 160 MBA students in Argentina (Universidad de Palermo). In the United States sample there were 57 males and 53 females responding to the questionnaire. In Argentina there were 107 females and 53 males responding to the questionnaire. The respondents represented a number of different types of employment including manufacturing, financial services, commerce, and not-for-profit. The questionnaires were administered during classes at each venue.

## RESULTS

Results are analyzed between the two countries (Argentina and United States) and within each country. Between the countries results are presented as: Aggregate Perceptions of MBA Students in the two countries (without a gender distinction); Comparison Between all Male MBA Students and all Female MBA Students (without a country distinction); Comparison Between United States Female MBA Students and Argentina Female MBA Students; Comparison Between United States Male MBA Students and Argentina Male MBA Students; Comparison Between United States Male MBA Students and Argentina Female MBA Students; and, Comparisons Between Argentina Male MBA Students and United States Female MBA Students.

The results of the perception of MBA students within each country are also compared and contrasted: Comparison Between Male and Female Students in United States; Comparison Between Male and Female Students in Argentina.

### **Comparison Between United States and Argentina**

#### **Comparison Between United States MBA Students and Argentina MBA Students.**

The LPI-Self scores of MBA students in the United States versus MBA students in Argentina definitely varied in the aggregate (See Table 1 - 5). Significant statistical differences existed on four

of the five LPI dimensions: challenging the process, inspiring a shared vision, enabling others to act, and modeling the way; with Argentina respondents rating themselves higher than United States respondents in all dimensions. There was no significant difference between United States and Argentina respondents in Encouraging the Heart.

<b>TABLE 1: Challenging the Process - Aggregate</b>		
	Argentina	United States
Mean	10.33014937	21.95454545
Variance	10.33014937	11.78690575
Observations	160	110
Pooled Variance	10.92263611	
Hypothesized Mean Difference	0	
df	268	
t Stat	5.622899154	
P(T<=t) one-tail	2.3562E-08	
t Critical one tail	1.65056008	
P(T<=t) two-tail	4.7124E-08	
t Critical two-tail	1.968855941	

<b>TABLE 2: Inspiring a Shared Vision - Aggregate</b>		
	Argentina	United States
Mean	23.525	20.54545455
Variance	12.80440252	17.68140117
Observations	160	110
Pooled Variance	14.78795794	
Hypothesized Mean Difference	0	
df	268	
t Stat	6.255620061	
P(T<=t) one-tail	7.79451E-10	
t Critical one tail	1.65056008	
P(T<=t) two-tail	1.5589E-09	
t Critical two-tail	1.968855941	

<b>TABLE 3: Enabling Others to Act - Aggregate</b>		
	Argentina	United States
Mean	25.20625	23.56363636
Variance	7.787382075	7.881234362
Observations	160	110
Pooled Variance	7.825553341	
Hypothesized Mean Difference	0	
df	268	
t Stat	4.740807789	
P(T<=t) one-tail	1.7304E-06	
t Critical one tail	1.65056008	
P(T<=t) two-tail	3.4608E-06	
t Critical two-tail	1.968855941	

<b>TABLE 4: Modeling the Way – Aggregate</b>		
	Argentina	United States
Mean	24.28125	23.02727273
Variance	10.53046384	45.43961635
Observations	160	110
Pooled Variance	24.7285893	
Hypothesized Mean Difference	0	
df	268	
t Stat	2.035937522	
P(T<=t) one-tail	0.021369997	
t Critical one tail	1.65056008	
P(T<=t) two-tail	0.042739994	
t Critical two-tail	1.968855941	

	Argentina	United States
Mean	24.1125	23.43636364
Variance	10.84261006	15.23903253
Observations	160	110
Pooled Variance	12.63070726	
Hypothesized Mean Difference	0	
df	268	
t Stat	1.536013068	
P(T<=t) one-tail	0.062857449	
t Critical one tail	1.65056008	
P(T<=t) two-tail	0.125714899	
t Critical two-tail	1.968855941	

The rank-order for the LPI-self scores also differed between the United States and Argentina (See Table 6). Enabling Others to Act was rated highest in both countries. Modeling the Way was ranked second by Argentina respondents while Encouraging the Heart was ranked second by United States respondents. Both United States and Argentina respondents had Inspiring a Shared Vision ranked last.

Leadership Practice	United States		Argentina	
	Mean	Rank	Mean	Rank
Challenging the Process	21.95	4	24.26	3
Inspiring a Shared Vision	20.54	5	23.52	5
Enabling Others to Act	23.56	1	25.21	1
Modeling the Way	23.03	3	24.28	2
Encouraging the Heart	23.44	2	24.11	4

## DISCUSSION AND ANALYSIS

Recent events in Argentina's history (e.g., economic crisis, lack of political leadership, labor strife, controversy concerning globalization, free market reforms, devaluation of currency, social

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demonstrations, etc.) may have created a sense of pride and hope in the nation. Argentines, without clear leadership in the nation, may be determined to exhibit individual leadership patterns and, as a result, rank themselves higher on the LPI practices.

The history of Argentina definitely influences leadership perceptions. Argentina has lived through three periods of political pluralism: the constitutional period from 1853; the popular opening of the society from 1916 and the return to democracy from 1983.

Intolerance and confrontation predominated at all other times (Massuh, in Loizaga, 1995). This history of discord and rivalries is currently being scrutinized, but *personalize* still exists (Sartori, 1989). Sartori believes that in Latin American democracies, people tend to identify with an individual and not a program. Trust is deposited in a prominent individual who can channel popular will. Throughout the history of the country, the emergence of protagonists such as Moreno, San Martin, Rivadavia, Rosas, Urquiza, Alberdi, Sarmiento, Roca, Yrigoyen, Peron, Alfonsín and Menem may be explained by fractional confrontations which often ended in the death or exile of the contenders.

Goldman and Salvatore (1998) also indicate that during independence struggles a military career was often the shortest road to leadership stature. Provincial *caudillos* gained pre-eminence. They defended the territories they ruled firmly and did not submit to the rule of law. This has changed, of course, but the current Argentine presidential democracy still retains unique characteristics of an earlier era--the concept of control and balance between the branches of government does not exist. Rulers see themselves as accountable only to party with no institutional accountability towards Congress or the Judiciary. In other words, the President may disregard the Legislature, pay little attention to judicial decisions deemed inconvenient, feel free to antagonize through use of the media, and use troops to maintain social peace.

*Cacique* and *caudillo* are terms that distinctly express the overruling leadership mode: the *cacique* leads his people; a *caudillo* takes over in times of war. To govern and to *acaudillar*—to rule as a caudillo (i.e., strong man politics)—are never far apart. The leader manipulates and his vision fascinates the followers. Graumann (1986) also talks about “images that connote directive leadership.”

In Argentina, the relationship between the leader the community results in a direct and informal content. This may explain why even the most self-contained and austere politicians tend to adopt populist tactics and why such a pattern may even extend to the private sphere where the image of the *patron*—lord of the manor—subsists.

Leadership charisma is also important in Argentina (Leaman, 1999) and executive domination in the political sphere has been common. An emphasis on charismatic and powerful executive leadership rather than on representative institutions may transfer to perceived leadership practices in respondents. In other words, a feeling that strong leadership practices must be exhibited may be a characteristic of the populace.

This may also be related to the concept that being humble is an important leadership characteristic in the United States (Fineman (1999). Individuals in the United States are often taught to be humble in approach and respectful of others. This may translate into placing a lesser self-rating on the LPI dimensions.

Argentina is politically and economically a centralized nation. Even the literature holds that the leader manipulates through charisma. Denevi quotes Marañón, a Spanish thinker, as saying that “a good politician should combine lack of scruples, an exaltation of ideas, coolness, obduracy and malice” (Denevi, in Loizaga, 1995). As a result, confrontations tend to persist in Argentina and it detracts from objectivity, balance, and tolerance.

Augusto Lopez Carlos, Chief Economist of World Economic Forum, said “Argentina is a mystery.” (La Nación, 2004). Why is Argentina a mystery? The potential of the country is large—abundant natural resources and sophisticated human capital. The country is unique in Latin America with Nobel Prize award winners in science and peace. The high educational levels have made Argentines cosmopolitan and progressive. Argentines have outstanding opera houses, active theatre and entertainment, and demonstrate pride in their cultural tradition. The infrastructure is modern and computer and communications technologies are extensively applied. Argentines often say they “descend from the ships” which illustrates that the primary population is composed of Western Europeans. Contrarily, however, the country is listed 78<sup>th</sup> in Competitiveness-- 34 positions below the level achieved in 2001. (La Nacion, 2004). The Gallup Survey (1996) found that 60% of respondents think an honest person is not able to be successful in Argentina. Marcos Aguinis (1995) pointed out the fact that there is a tendency among Argentines not to think as a nation—everybody thinks and defends that segment or portion of society to which they belong. He feels the main obstacle to progress is the people themselves. There is high resistance to public discipline and social altruism. Smartness (*viveza*) is the mental ability to manage the effects of a problem without solving it—since the majority of the population follows this pattern, the managers and leaders also behave in this way. There is a tendency to live with illusions.

Isuani (1998) states that Argentines are rule breakers. Nino (1992) analyzed the link between inefficiency and underdevelopment in countries and concluded that “there is a recurring trend in Argentine society to anomie in general and to illegality in particular.” In other words, there is a tendency towards the breaking of judicial, moral, and social rules. He considered Argentina to be “a country outside the law” so far as “the anomic factor generates reduced levels of efficiency and productivity.”

It is often stated that the Argentine constitution has never reached the level of being supreme law that drives the behavior of its citizens. The constitution can be challenged and modified according to individual desires. As mentioned above, Isuani (1998) concluded that “The Argentine challenges the rules.” To create rule changes is a characteristic of both public and private institutions. In fact, some believe there is a new management paradigm that increases inequality and makes a functioning win-lose social order. According to Gantman (1994), the new type of

individualism that has emerged is very close to “narcissus.” The ability to manage on the edge of the rules and take advantage of privileged information is highly prevalent. Personal interest is placed above national performance and success.

Carmelo Barturen (2002), UN representative in Argentina, sustains that the concept of nation is a daily referendum. Every moment, each person is making sure he is willing to live with others according to certain terms. “I wouldn’t divide patriots from non patriots, but people who respect the law from the ones that do not. That’s a good dividing line for a country based on the Constitution, human rights and duties. Argentina is always under construction, and it’s not a mandate from the past but a task.”

An analysis of the Hofstede dimensions: power distance (PDI), uncertainty avoidance (UAI), individualism (IDV), and masculinity (MAS); also demonstrates that the United States and Argentina differ significantly (See Table 7). This may also explain the higher scores recorded by Argentina respondents versus respondents from the United States.

Country	PDI	IDV	MAS	UAI
United States	40*	91	62	46
Argentina	49*	46	56	86

\*Near the line that divides the two extremes of LG and SM

Argentina, for example, has a high Uncertainty Avoidance Index (i.e., a low level of tolerance for uncertainty). This coupled with the population being predominantly Catholic leads to a belief that there is an absolute truth and the individual possesses that truth. This may result in a higher self-rating of success in the leadership practices. Contrarily, in the United States there is much greater tolerance for uncertainty, diversity in religion, and a lesser belief in absolute truth.

Argentina also ranks slightly higher on the power distance index than does the United States. Being more tolerant of power distance may result in greater glory and respect being placed on executive leadership. Since the respondents were primarily MBA students, this elevation in the self-ranking of leadership practices may result from respondents feelings of being better educated and more likely to be future leaders. In larger power distance cultures, employees also tend to expect more authoritative leadership. Argentina respondents may rate themselves higher than United States counterparts because it is *expected* that they have a positive image and project stronger performance ratings in the leadership practices.

Leadership in Argentina is often understood as supremacy; hegemony is claimed by many that hold public positions and usually is upheld in confrontational settings. This leads, of course,

to authoritarian behaviors. Growth crises, which may be considered to be nothing more than a stage of development in many countries, causes great distress in Argentina. Argentines find it difficult to establish an ongoing team and cohesive society. Alternatives or the creation of options are difficult to institute in Argentina and normally occur only after repeated upheavals.

Power distance is definitely tolerated to a greater degree in Argentina than in the United States. Upper status people in Argentina expect to deal only with individuals of their own standing. Decision making is predominantly top-down, spontaneous, impulsive, and with an emphasis on concepts. Lower status people are always cautious and tend not to put forward ideas (especially conflicting ideas) because support from the superior may change rapidly if challenged. Often times, in fact, superiors are not questioned even though it is known they are wrong.

As mentioned above, being a traditional Catholic country may also contribute to a tolerance for power distance. Catholic countries do not separate the personal and social spheres of experience. When Catholicism arrived in Latin America, native peoples were associated with demonic forces—priests and conquistadors came to redeem them. The priests and conquistadors were viewed as mythical heroes sent to chastise and conquer barbarism. Centuries of Spanish domination left its traces. Spain, for example, transferred its institutional systems and people considered themselves part of the mother country, not colonizers. In Latin America, status was attained by adapting such standards of behavior. Economy was based on the manorial lifestyle, where status and privilege were connected to birth and bloodlines. Profit was based on annuities and loyalty was owed to individuals rather than to laws of the land. Argentines are ethnocentric—proud of their own country more than of the geographical region. Argentines are also emotionally sensitive. Words and actions may be interpreted as offenses to a person's inner worth. Argentines often use euphemisms and *double entendres*. There is a tendency to read between the lines and the conclusions drawn are often extreme. It is common to exhibit an external locus of control—that decisions and performance are determined by parties beyond one's immediate control. There is a feeling that things happen! The influence of special interests on decision making is expected and condoned.

Argentina is also more collectivist than the United States. Being more collectivist, Argentina has closer ties between individuals than in the United States. A strong emphasis is placed on personal associations. Networks serve as safety nets and facilitate mobility. When a person needs something done, there is a preference to rely on someone who is known. Relationships take precedence over formal contact with institutions, laws, or regulations. Due process is often regarded with suspicion because it could override understandings in the group. The concept of time is viewed in the abstract—as a resource that helps build relationships. Time is not considered as a defining event in terms of hours and/or minutes consumed.

Argentines tend to be gregarious. Visitors are greeted warmly. Personal relationships are established with ease. People maintain eye-to-eye contact and even men embrace with physical demonstrations of affection. Relationships, based on reciprocity, tend to be informal and stable over time. This may not carry-over to the business sphere, however.



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Participation is vibrant in most discussions, especially those concerning soccer and politics. Expressiveness and emotion in verbal communication are tied to the Argentine concept of individualism. Argentines will often interrupt as an illustration of eagerness to share opinions. Argumentation is enjoyed and may dilute efforts to reach concrete goals. The Argentine is strong in the art of eloquence, wit, and charm and normally feels that no task is above him.

The fact that about one-third of the population lives in and around Buenos Aires also provides a very homogenous group. This may lead to a higher perceived performance on the various leadership practices.

There are some universal leadership similarities regardless of country or culture. Most leaders, for example, desire to be more proactive and tend to desire loose authority structures and greater autonomy in making decisions (Rodrigues, 2001). In most cases, however, the rational boundaries one finds do result in differences in leadership patterns.

Differences in perceived ratings among the respondents in the United States and Argentina may also be the result of the United States being a low context culture and Argentina being a high context culture. In high-context cultures participants are likely to establish social trust first, value personal relations and goodwill, make agreements on the basis of general trust, and like to conduct slower and more ritualistic business negotiations (Rodrigues, 2001). By contrast, in low-contact cultures participants get down to business quickly, value expertise and performance, like agreements by legalistic contract, and like to conduct business negotiations as efficiently as possible (Rodrigues, 2001). It may be that high-context cultures have a tendency to develop better individual perceptions concerning the practice of exemplary leadership.

Trompenaars (1994) also reported that the United States and Argentina differ on Universalism (belief that ideas and practices can be applied without modification around the world) versus Particularism (belief that circumstances determine how ideas and practices can be applied and, as a result, practices cannot be conducted the same everywhere). The United States is high on universalism while Argentina tends toward the particularism end of the continuum. Graciela Romer (2003) thinks that the importance of particularism is one of the differences between developed and underdeveloped countries. The priority given to family and blood relationship is not positive in terms of objectivity and universalism. It tends to stress personal loyalty over normative loyalty. This is not good if one desires to build a democratic system on the bases of law and tolerance.

Trompenaars shows a similar result between the United States and Argentina on the Specific (individuals have a large public space they share with others and a private space they only share with close acquaintances) versus Diffuse (both public and private are guarded because entry into public space also permits entry into private space). According to Trompenaars, the United States is a specific culture while Argentina tends to be a diffuse culture. In the United States people may rate themselves lower on the LPI dimensions since this correlates with openness, extroversion, and a strong separation of work and private life. A lower LPI score may be expected. In contrast, a

diffuse culture finds individuals to be more indirect, introverted, and work and private life are closely linked. A higher LPI score may be expected.

The Argentine citizen does not identify with the state and the United States citizen does identify with the state. This may be another factor contributing to differences in perceived leadership perceptions. To the Argentine, the state is an unconceivable abstraction—the Argentine is an individual and not a citizen. That the state represents the reality of a moral idea might sound like a sinister joke to the Argentina citizen. To the Argentine, the state is impersonal. The Argentine perceives only personal relations! That’s why stealing public money, for example, is often viewed as not being a crime. Carlos Artschul (1992) states that in resource rich countries distant from primary world traffic, persons develop individualist behaviors and attitudes, which results in funneling resources into short term projects. “Argentineans are part of the most individualistic tradition. For the Argentinian individual, the other is always conceived as an annoyance; hence it becomes an enemy, blocking negotiation access.” Therefore, negotiation becomes an imposition exclusively for the Argentineans own benefit. Thus, he develops skills to work creatively in chaos, but has difficulties in working as part of a team or in long term associations.

### **Comparison Between All Male MBA Students and All Female MBA Students**

The LPI-self scores of female students was significantly higher than male students on the dimensions of Inspiring a Shared Vision, Enabling others to Act, and Encouraging the Heart. There was no statistically significant difference between males and females on the dimensions of Challenging the Process or Modeling the Way (although women respondents did score higher than men on these practices). See Tables 8 through 12.

<b>TABLE 8: Challenging the Process – Male vs. Female</b>		
	Female	Male
Mean	23.56875	22.95454545
Variance	13.08958333	10.70433695
Observations	160	110
Pooled Variance	12.11946447	
Hypothesized Mean Difference	0	
df	268	
t Stat	1.424445256	
P(T<=t) one-tail	0.077740495	

**TABLE 8: Challenging the Process – Male vs. Female**

	Female	Male
t Critical one tail	1.65056008	
P(T<=t) two-tail	0.155480991	
t Critical two-tail	0.155480991	

**TABLE 9: Inspiring a Shared Vision – Male vs. Female**

	Female	Male
Mean	22.76875	21.64545455
Variance	16.09084119	17.44195163
Observations	160	110
Pooled Variance	16.64035999	
Hypothesized Mean Difference	0	
df	268	
t Stat	2.223243824	
P(T<=t) one-tail	0.013516753	
t Critical one tail	1.65056008	
P(T<=t) two-tail	0.027033506	
t Critical two-tail	1.968855941	

**TABLE 10: Enabling Others to Act – Male vs. Female**

	Female	Male
Mean	24.86875	24.05454545
Variance	8.10216195	8.639199333
Observations	160	110
Pooled Variance	8.32058387	
Hypothesized Mean Difference	0	
df	268	

<b>TABLE 10: Enabling Others to Act – Male vs. Female</b>		
	Female	Male
t Stat	2.27893046	
P(T<=t) one-tail	0.011728972	
t Critical one tail	1.65056008	
P(T<=t) two-tail	0.023457944	
t Critical two-tail	1.968855941	

<b>TABLE 11: Modeling the Way – Male vs. Female</b>		
	Female	Male
Mean	24.19375	23.15454545
Variance	35.69178459	9.030942452
Observations	160	110
Pooled Variance	24.84838238	
Hypothesized Mean Difference	0	
df	268	
t Stat	1.68316398	
P(T<=t) one-tail	0.046753919	
t Critical one tail	1.65056008	
P(T<=t) two-tail	0.093507839	
t Critical two-tail	1.968855941	

<b>TABLE 12: Encouraging the Heart – Male vs. Female</b>		
	Female	Male
Mean	24.35625	23.08181818
Variance	12.58297956	12.00241868
Observations	160	110
Pooled Variance	12.34685592	
Hypothesized Mean Difference	0	
df	268	
t Stat	2.928281795	
P(T<=t) one-tail	0.001850664	
t Critical one tail	1.65056008	
P(T<=t) two-tail	0.003701329	
t Critical two-tail	1.968855941	

This result is in line with previous findings (primarily United States based research) which states that females use more democratic leadership styles, encourage greater degrees of participation, and are more willing to share power and enhance the self-worth of others (Early & Johnson, 1990). Kouzes & Posner (1993) also found significant differences between men and women for the practice of Encouraging the Heart. Enabling Others to Act was not significant, although in the right direction with women scoring higher than men. Kouzes and Posner also found differences in the practice of Modeling the Way, with women scoring significantly higher than men.

*Business Week* (November 20, 2000) also reported that women executives are judged as being more effective than their male counterparts in motivating others, fostering communication, producing high-quality work, and listening to others. All of these practices are strongly related to Inspiring a Shared Vision, Enabling Others to Act, and Encouraging the Heart.

### **Comparison Between United States Female MBA Students and Argentina Female MBA Students.**

The LPI-self scores of female MBA students in the United States and female MBA students in Argentina illustrate that scores of women students from Argentina were significantly higher on the dimensions of Challenging the Process, Inspiring a Shared Vision, and Enabling others to Act. There was not a significant difference in the practice of Modeling the Way. United States female

students scored higher than Argentina females on Encouraging the Heart (although the difference was not statistically significant). See Tables 13 through 17 for analysis.

<b>TABLE 13: Challenging the Process - Female</b>		
	Argentina	United States
Mean	24.35514019	21.98113208
Variance	11.7972139	12.13425254
Observations	107	53
Pooled Variance	11.90813801	
Hypothesized Mean Difference	0	
df	158	
t Stat	4.095718514	
P(T<=t) one-tail	3.35154E-05	
t Critical one tail	1.654555035	
P(T<=t) two-tail	6.70309E-05	
t Critical two-tail		

<b>TABLE 14: Inspiring a Shared Vision - Female</b>		
	Argentina	United States
Mean	23.61682243	21.05660377
Variance	13.76688415	16.66981132
Observations	107	53
Pooled Variance	14.7222779	
Hypothesized Mean Difference	0	
df	158	
t Stat	3.972458644	
P(T<=t) one-tail	5.39248E-05	
t Critical one tail	1.654555035	
P(T<=t) two-tail	0.00010785	
t Critical two-tail	1.975090527	

<b>TABLE 15: Enabling Others to Act – Female</b>		
	Argentina	United States
Mean	25.20560748	21.05660377
Variance	8.542232411	16.66981132
Observations	107	53
Pooled Variance	11.2171318	
Hypothesized Mean Difference	0	
df	158	
t Stat	7.375182023	
P(T<=t) one-tail	4.35428E-12	
t Critical one tail	1.654555035	
P(T<=t) two-tail	8.70857E-12	
t Critical two-tail	1.975090527	

<b>TABLE 16: Modeling the Way – Female</b>		
	Argentina	United States
Mean	24.27102804	24.03773585
Variance	12.2560395	84.11393324
Observations	107	53
Pooled Variance	35.90547288	
Hypothesized Mean Difference	0	
df	158	
t Stat	0.231787336	
P(T<=t) one-tail	0.40850156	
t Critical one tail	1.654555035	
P(T<=t) two-tail	0.817003119	
t Critical two-tail	1.975090527	

<b>TABLE 17: Encouraging the Heart – Female</b>		
	Argentina	United States
Mean	24.14953271	24.77358491
Variance	10.99629695	15.79390421
Observations	107	53
Pooled Variance	12.5752563	
Hypothesized Mean Difference	0	
df	158	
t Stat	-1.047688857	
P(T<=t) one-tail	0.148191007	
t Critical one tail	1.654555035	
P(T<=t) two-tail	0.296382013	
t Critical two-tail	1.975090527	

The reasons for Argentina women scoring themselves higher than United States women on all dimensions except Encouraging the Heart may be explained by the differences in national culture which were discussed under section 1.1.1.

### **Comparison Between United States Male MBA Students and Argentina Male MBA Students.**

The LPI-Self scores of Male MBA students in Argentina were significantly higher than male MBA students in the United States on all dimensions: Challenging the Process, Inspiring a Shared Vision, Enabling Others to Act, Modeling the Way and Encouraging the Heart. See Tables 18 through 22 for an illustration of the differences.

<b>TABLE 18: Challenging the Process - Male</b>		
	Argentina	United States
Mean	24.05660377	21.92982456
Variance	7.477503628	11.6735589
Observations	53	57
Pooled Variance	9.65323599	
Hypothesized Mean Difference	0	



<b>TABLE 18: Challenging the Process - Male</b>		
	Argentina	United States
df	108	
t Stat	3.58727743	
P(T<=t) one-tail	0.000251812	
t Critical one tail	1.659086593	
P(T<=t) two-tail	0.000503625	
t Critical two-tail	1.982170943	

<b>TABLE 19: Inspiring a Shared Vision - Male</b>		
	Argentina	United States
Mean	23.33962264	20.07017544
Variance	11.03628447	18.45927318
Observations	53	57
Pooled Variance	14.88524158	
Hypothesized Mean Difference	0	
df	108	
t Stat	4.440945105	
P(T<=t) one-tail	1.08624E-05	
t Critical one tail	1.659086593	
P(T<=t) two-tail	2.17248E-05	
t Critical two-tail	1.982170943	

<b>TABLE 20: Enabling Others to Act - Male</b>		
	Argentina	United States
Mean	25.20754717	22.98245614
Variance	6.398403483	8.446115288
Observations	53	57
Pooled Variance	7.460179975	
Hypothesized Mean Difference	0	
df	108	

<b>TABLE 20: Enabling Others to Act - Male</b>		
	Argentina	United States
t Stat	4.269255538	
P(T<=t) one-tail	2.11477E-05	
t Critical one tail	1.659086593	
P(T<=t) two-tail	4.22954E-05	
t Critical two-tail	1.982170943	

<b>TABLE 21: Modeling the Way – Male</b>		
	Argentina	United States
Mean	24.30188679	22.0877193
Variance	7.214804064	8.474310777
Observations	53	57
Pooled Variance	7.867881619	
Hypothesized Mean Difference	0	
df	108	
t Stat	4.136762447	
P(T<=t) one-tail	3.49665E-05	
t Critical one tail	1.659086593	
P(T<=t) two-tail	6.9933E-05	
t Critical two-tail	1.982170943	

<b>TABLE 22: Encouraging the Heart - Male</b>		
	Argentina	United States
Mean	24.03773585	22.19298246
Variance	10.72931785	11.72994987
Observations	53	57
Pooled Variance	11.24816409	
Hypothesized Mean Difference	0	
df	108	

	Argentina	United States
t Stat	2.88254779	
P(T<=t) one-tail	0.002380304	
t Critical one tail	1.659086593	
P(T<=t) two-tail	0.004760609	
t Critical two-tail	1.982170943	

The higher scores on all leadership practice dimensions was a surprise to the authors (especially the degree of difference in the rankings). Reasons which may account for Argentina male students consistently scoring higher on this dimension were previously discussed under section 1.1.1.

#### **Comparison Between United States Male MBA Students and Argentina Female MBA Students.**

It is interesting to note that Argentina females also scored significantly higher on all LPI-self dimensions than United States males. The absolute mean differences were approximately the same as evidenced between Argentina males and United States males. See Table 23 for a comparison and ranking of the leadership practice differentials between United States males and Argentina females.

Leadership Practice	United States - M		Argentina - F	
	Mean	Rank	Mean	Rank
Challenging the Process	21.93	4	24.35	2
Inspiring a Shared Vision	20.07	5	23.62	5
Enabling Others to Act	22.98	1	25.20	1
Modeling the Way	22.09	3	24.27	3
Encouraging the Heart	22.19	2	24.15	4

Although the mean scores between United States Males and Argentina Females were wide and significant, the rankings of the dimensions was similar with both genders scoring highest on Enabling Others to Act and lowest on Inspiring a Shared Vision. Argentina female respondents

definitely perceive themselves as performing on all leadership practices. Perhaps Argentine women view themselves (especially in this sample) as being more educated, more ambitious, and possessing greater leadership potential than others in the study.

Maria Jose Lubertino (2000) stated that although Argentine women produce 60 percent of the goods and services, they only receive 40 percent of the remuneration. Men, on average, are paid 30 percent more than women. It also reported, however, that in 1994 the National Constitution guaranteed equality between men and women and that Argentina has institutionalized policies to achieve gender equity. In the Argentina Chamber of Deputies, women hold approximately 27 percent of the seats. There are, however, only two women among the 72 senators. Women do make up 30% of all those running for office in recent elections. Perhaps the Argentine women of this new century see a change coming and this is reflected in their leadership practices scores.

### **Comparisons Between Argentina Male MBA Students and United States Female MBA Students.**

Argentina males scored significantly higher than United States women on the dimensions of Challenging the Process, Inspiring a Shared Vision, and Enabling Others to Act (See Tables 24, 25 and 26). They also scored higher than United States Females on Modeling the Way, although the difference was not statistically significant (See Table 27). American women scored higher than Argentina males on the Encouraging the Heart Dimension, but, once again, the difference was not statistically significant (See Table 28).

<b>TABLE 24: Comparison of Argentina Males to United States Females</b>		
Challenging the Process		
	U.S. Females	Argentina Males
Mean	21.98113208	24.05660377
Variance	12.13425254	7.477503628
Observations	53	53
Pooled Variance	9.805878084	
Hypothesized Mean Difference	0	
df	104	
t Stat	-3.411901681	
P(T<=t) one-tail	0.000460011	
t Critical one tail	1.659636837	
P(T<=t) two-tail	0.000920022	
t Critical two-tail	1.983034963	

<b>TABLE 25: Comparison of Argentina Males to United States Females</b>		
Inspiring a Shared Vision		
	U.S. Females	Argentina Males
Mean	21.05660377	23.33962264
Variance	16.66981132	11.03628447
Observations	53	53
Pooled Variance	13.8530479	
Hypothesized Mean Difference	0	
df	104	
t Stat	-3.157619314	
P(T<=t) one-tail	0.001040995	
t Critical one tail	1.659636837	
P(T<=t) two-tail	0.002081991	
t Critical two-tail	1.983034963	

<b>TABLE 26: Comparison of Argentina Males to United States Females</b>		
Enabling Others to Act		
	U.S. Females	Argentina Males
Mean	24.18867925	25.20754717
Variance	6.656023222	6.398403483
Observations	53	53
Pooled Variance	6.527213353	
Hypothesized Mean Difference	0	
df	104	
t Stat	-2.052943149	
P(T<=t) one-tail	0.021294161	
t Critical one tail	1.659636837	
P(T<=t) two-tail	0.042588322	
t Critical two-tail	1.983034963	

<b>TABLE 27: Comparison of Argentina Males to United States Females</b>		
Modeling the Way		
	U.S. Females	Argentina Males
Mean	24.03773585	24.30188679
Variance	84.11393324	7.214804064
Observations	53	53
Pooled Variance	45.66436865	
Hypothesized Mean Difference	0	
df	104	
t Stat	-0.201227056	
P(T<=t) one-tail	0.420457037	
t Critical one tail	1.659636837	
P(T<=t) two-tail	0.840914075	
t Critical two-tail	1.983034963	

<b>TABLE 28: Comparison of Argentina Males to United States Females</b>		
Encouraging the Heart		
	U.S. Females	Argentina Males
Mean	24.77358491	24.03773585
Variance	15.79390421	10.72931785
Observations	53	53
Pooled Variance	13.26161103	
Hypothesized Mean Difference	0	
df	104	
t Stat	1.040192053	
P(T<=t) one-tail	0.150331446	
t Critical one tail	1.659636837	
P(T<=t) two-tail	0.300662891	
t Critical two-tail	1.983034963	

Women seem to universally score higher than males on the leadership practice of Encouraging the Heart. This may be attributed to the female tendency to value quality of life values, relationships, and nurturing behavior more than men. Another reason may stem from women's traditional roles as mother and homemaker where encouraging children and fostering relationship-behavior is very important.

Higher scores from male Argentina respondents on the remainder of the dimensions were not unexpected and may be explained by the reasons enumerated in section 1.1.1 of this paper.

### **Comparison Within the United States and Argentina**

#### **Comparison Within the United States Between Male and Female MBA Students.**

The LPI-Self scores between United States males and United States females revealed two statistically significant differences (See Tables 29 through 33). Women respondents reported engaging in the dimensions of Enabling Others to Act and Encouraging the Heart behavior more significantly than did their male counterparts. Challenging the Process, Inspiring a Shared Vision, and Modeling the Way were not significantly different for males and females.

	U.S. Females	U.S. Males
Mean	21.98113208	21.92982456
Variance	12.13425254	11.6735589
Observations	53	57
Pooled Variance	11.89537435	
Hypothesized Mean Difference	0	
df	108	
t Stat	0.077959839	
P(T<=t) one-tail	0.469002127	
t Critical one tail	1.659086593	
P(T<=t) two-tail	0.938004253	
t Critical two-tail		

<b>TABLE 30: Inspiring a Shared Vision – United States</b>		
	U.S. Females	U.S. Males
Mean	21.05660377	20.07017544
Variance	16.66981132	18.45927318
Observations	53	57
Pooled Variance	17.59768043	
Hypothesized Mean Difference	0	
df	108	
t Stat	1.232301126	
P(T<=t) one-tail	0.110256328	
t Critical one tail	1.659086593	
P(T<=t) two-tail	0.220512655	
t Critical two-tail	1.982170943	

<b>TABLE 31: Enabling Others to Act – United States</b>		
	U.S. Females	U.S. Males
Mean	24.18867925	22.98245614
Variance	6.656023222	8.446115288
Observations	53	57
Pooled Variance	7.584219108	
Hypothesized Mean Difference	0	
df	108	
t Stat	2.295362211	
P(T<=t) one-tail	0.011822128	
t Critical one tail	1.659086593	
P(T<=t) two-tail	0.023644256	
t Critical two-tail	1.982170943	



<b>TABLE 32: Modeling the Way – United States</b>		
	U.S. Females	U.S. Males
Mean	24.03773585	22.0877193
Variance	84.11393324	8.474310777
Observations	53	57
Pooled Variance	44.89338826	
Hypothesized Mean Difference	0	
df	108	
t Stat	1.525197643	
P(T<=t) one-tail	0.065066473	
t Critical one tail	1.659086593	
P(T<=t) two-tail	0.130132946	
t Critical two-tail	1.982170943	

<b>TABLE 33: Encouraging the Heart – United States</b>		
	U.S. Females	U.S. Males
Mean	24.77358491	22.19298246
Variance	15.79390421	11.72994987
Observations	53	57
Pooled Variance	13.68666863	
Hypothesized Mean Difference	0	
df	108	
t Stat	3.655537546	
P(T<=t) one-tail	0.000199054	
t Critical one tail	1.659086593	
P(T<=t) two-tail	0.000398107	
t Critical two-tail	1.982170943	

These differences would be supported, for example, by the Griggs (1989) study which states (among other things) that women tend to view power in relational terms and as something to be shared and do spend more time than men in building supportive work environments.

### **Comparison Within Argentina Between Male and Female MBA Students.**

No significant differences existed between Argentina Males and Females concerning perceived behavior on any of the leadership practices. In fact, the recorded scores were almost identical on each of the dimensions (See Table 34). It is interesting to note that both genders self-ranked their best practice as Enabling Others to Act and their worst practice as Inspiring a Shared Vision. The remainder of the scores are so close that a ranking is not really relevant.

The authors were slightly surprised by the equality of LPI scores by gender. As mentioned previously, gender equality may be viewed as a reality in Argentina. Gender discrimination has been discouraged and promoting women equality has been institutionalized. This phenomenon, however, may be more prevalent in Buenos Aires than in the provinces where specific plans to incorporate the concept of gender in public policy are practiced to a lesser degree (Lubertino, 2000).

Leadership Practice	Male		Female	
	Mean	Rank	Mean	Rank
Challenging the Process	24.06	3	24.35	2
Inspiring a Shared Vision	23.34	5	23.62	5
Enabling Others to Act	25.21	1	25.21	1
Modeling the Way	24.30	2	24.27	3
Encouraging the Heart	24.04	4	24.15	4

## **CONCLUSIONS**

In a rapidly changing and volatile world, leadership plays a major role in our work place, our schools, and in many other areas of our lives. All research which helps people enhance their understanding of leadership, whether it be an individual situation or a global situation, is beneficial. In brief, some of the major conclusions of this study are the following:

1. In the aggregate, the LPI-Self scores of MBA students in the United States versus Argentina varied significantly with Argentina respondents rating themselves higher than United States

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respondents on four of the five dimensions: Challenging the Process, Inspiring a Shared Vision, Enabling Others to Act, and Modeling the Way.

The authors conducted this comparative study with a major presumption that there may be significant differences between the MBA respondents of the two countries. The five dimensions of the behavior of effective leaders as defined by Kouzes and Posner can be better understood within the whole range of values indigenous to a given culture. Cultural values shape and mold the workers as well as the leaders' perceptual framework. In addition, Hofstede (1984) asserts that people *carry mental programs* which are developed in the family and in early childhood and reinforced in schools and organizations, and that these mental programs contain components of *national culture*. The authors were surprised by the size and range of differences between Argentina and United States respondents in this study. Although this study did not examine the impact of various leadership practices on performance, one can make the statement that leaders from culturally different countries use many leadership practices in similar ways and with similar frequency. This at least suggests that all view these practices as effective. The perceptions of the extent to which one engages in these practices, however, can vary significantly from culture to culture. Some of the proposed reasons for differences in perceptions between United States and Argentina respondents were addressed in Section 1.1.1.

2. In the aggregate, LPI-Self scores of male MBA students versus Female MBA students showed females scoring higher than males on three of the five dimensions: Inspiring a Shared Vision, Enabling Others to Act, and Encouraging the Heart.
3. LPI-Self scores of women MBA students from Argentine was significantly higher than those of United States women on the dimensions of Challenging the Process, Inspiring a Shared Vision, and Enabling Others to Act. United States women scored higher on Encouraging the Heart (although the difference was not statistically significant).
4. LPI-Self scores of male MBA students in Argentina were significantly higher than male MBA students in the United States on all dimensions.
5. LPI-Self scores of female MBA students in Argentina were significantly higher than male MBA students in the United States on all dimensions.
6. LPI-Self scores of male MBA students in Argentine were significantly higher than female MBA students in the United States on the dimensions of Challenging the Process, Inspiring a Shared Vision, and Enabling Others to Act. United States women scored higher than

Argentine males on Encouraging the Heart (although the difference was not statistically significant).

7. Women MBA students in the United States scored significantly higher on the leadership practices of Enabling Others to Act and Encouraging the Heart than did men MBA students in the United States.
8. No significant differences existed between Argentina Males and Females concerning perceived behavior on any of the leadership practices.

One basic limitation of the study is that only self-reported and self-perceived behavior in reference to each leadership practice was measured, not actual performance in the workplace. There definitely could be a difference between reported and actual leadership practiced (a social desirability bias). If this bias varies across cultures, it can have a direct influence on the results of the study.

Cultural and institutional frameworks differ considerably among the two countries of the United States and Argentina. Some of these leadership practices may be culturally contingent and not universally practiced. Lastly, additional research needs to be concluded with a broader-based population of respondents, representing different age groups, different educational backgrounds, different organizational types, and different regions of the respective countries.

### **MANAGEMENT IMPLICATIONS**

Leadership behavior can be changed and is a learnable behavior. The study of leadership practices is valuable to all organizations and all cultures. Education and training concerning the similarities and dissimilarities in leadership practices is valuable for all countries engaged in global business. Differences in leadership practices may dictate the amount of time, energy, and cost commitments necessary for educational training and development programs.

There are numerous management implications that flow from this comparative leadership study. Among these implications are the following:

1. An analysis of leadership feedback presents an opportunity to engage in conversation with groups (both within organizations and across cultures) concerning the importance of being *different* and practicing diversity. It should provide a preliminary indication of what leadership practices need to be *improved* within each individual, work unit and organization.

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2. Leadership feedback creates a cross-cultural discussion concerning the nature of different leadership practices and improves understanding of the leadership *quotient* in organizational success.
  3. Developing an awareness of international leadership differences is an excellent place to begin an analysis of leadership strengths and weaknesses within organizations and across country clusters. An understanding of cross-cultural leadership differences should help in discussions concerning motivational approaches used with employees; the level of organizational performance attained; the use of expatriates, country locals, or third-country personnel in the host country; as well as global controls and the type of structure necessary for global governance.
  4. Perceived differences in leadership practices between men and women are important in implementing efficient and effective work units (both within organizations and across cultures). The question: *Does gender matter?* It is important to all students of leadership.

Elisa Carrio (2003) recently stated that Argentina is “a country that realizes about the present when it is past.” In other words, the country does not see “different things when they are happening but when they have happened.” The gap between reality and consciousness is equivalent to admitting that one lives in the past. By being reactive, Argentina has been unable to be creative and drive actions toward the future. To change the paradigm, it will be necessary to be proactive in order to think in terms of a future vision and mission.

According to a recent survey, Romer Graciela (2003) identified several values which Argentines said needed improvement if the country was to significantly change (See Table 35).

This survey definitely illustrates the struggle between individual and common values. In Argentina there is a tension between objectivity and subjectivity, and, even nowadays, over the issue of reality. In this survey, the values of honesty, education, patriotism or national feeling, work-effort-sacrifice, management capacity and leadership, and solidarity are deemed most needed. Interestingly, the values of first-world countries tend to be respect for moral, social and legal order, responsibility and tolerance, and the entrepreneurial spirit. These are of lesser importance on the Argentine list!

Currently, after twenty-years of democracy with the government committed to low inflation and a free economy characterized by open trade, Argentina does show change. In the cities, people are in a hurry and remain active throughout long hours of the day. However, a feeling of loss of privacy and control of their personal destiny prevails. After the radical free marketers introduced their normative structures, the income gap has widened. A percentage of Argentines definitely benefited. Cities have been modernized and tourism has grown, but the middle class is definitely pauperized as the expected trickle-down effects of free-market economics has not occurred. Civilian

governments have not found an equitable balance between democracy and efficiency. Organizations have become more rigid rather than more flexible. Courts have been ineffective and corrupt and street violence has increased. The inability to develop a competitive strategy has produced stagnation and frustration with a large segment of the populace. Unfortunately, pessimism has ensued and many immigrate: they “return to the ships.”

Item	Percent Naming Item
Honesty	56%
Education	34%
Patriotism	21%
Labor – Effort – Sacrifice	21%
Leadership & Management Capacity	19%
Solidarity	15%
Respect of Law & Social Rules	14%
Responsibility	7%
Change Disposition	5%
Tolerance	4%
Entrepreneurship Spirit	2%

*Source: Romer Graciela & Asociados. Buenos Aires. October 2003.*

Another recent survey conducted by Austral University (2004) identified that while 62% of the students believe they will improve their position in five years time, only 38% think the country will do so. This means that future leaders, professionals and scientists of Argentina conceive their future separate from that of their country. This conclusion defines the history of the Argentinean identity -- a society whose individuals are bound to save themselves alone, with no solidarity skills, just personal deliverance. The result of this investigation reveals that somehow the Argentinian context may encourage a greater development of personal and individual leadership than the USA. This does not imply, however, that the Argentinean experience leads to identity in a collective or social context.

Will the perceived usage of the leadership practices of challenging the process, inspiring a shared vision, enabling others to act, modeling the way, and encouraging the heart have a positive influence on Argentina organizations and institutions over a future planning horizon?

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## AN EXAMINATION OF THE ACCURACY OF STUDENTS' EXPECTED GRADES

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### ABSTRACT

*The accuracy of students' predictions of their final grades in an introductory collegiate course is examined. Accuracy of predictions made at the start of the course and at the time of the final exam are examined and related to selected factors believed to affect students' level of performance. Data were gathered from 376 students enrolled in Principles of Marketing courses. The accuracy of students' grade predictions were observed to improve as the course progressed and to be related to students' class attendance levels, but they were not observed to be related to self-reported time spent studying nor to students' proclivity to self handicap.*

### INTRODUCTION

From the viewpoint of many students, evaluation is one of the most important concerns in the education process. The grades earned during one's academic tenure can have far-reaching effects – they can determine whether courses must be retaken, whether academic scholarships will be maintained, and whether graduation will be achieved. In many courses, especially those of an introductory nature, students' grades are determined primarily from performances on several exams (Bacon, 2003). Given the importance of testing in the grading process, research focusing on the students who take the tests appears to be a fruitful area of study.

The goal of this paper is to examine the accuracy of students' to predictions of their final grades in a Principles of Marketing course. This is an important area of concern since “accuracy affords predictability that may help persons cope with their social and physical environments” (Kruglanski, 1989, p. 395). Furthermore, “self-perceptions that are out of touch with reality not only reveal a lack of self-knowledge, but may also impede effective self-regulation and goal setting in academic, professional, and interpersonal situations” (Beyer, 1999, p. 280). The grades expected by students determine, in part, their class strategies and level of effort expended to master new material. Hacker, Bol, Horgan & Rakow, (2000), for instance, suggest that greater predictive accuracy permits students to better manage their time and effort and allows them to maximize their test preparedness and course performance. Grimes (2002) notes that greater predictive accuracy aids students in their selection of study methods and effort expenditures. Consequently, accuracy of course grade predictions made at the start of the course and at the time of the final exam are

examined and related to selected factors believed to affect students' level of performance in the course.

### **PERFORMANCE EXPECTATIONS**

Some research attention has been placed on the performance expectations of students (e.g., Arnold, Willoughby & Calkins, 1985; Beyer, 1990, 1998; Beyer & Bowden, 1987). The focus of much of this research is on the accuracy with which students are able to predict the grades they receive on exams. Research has demonstrated that students typically possess a greater-than-chance ability to accurately predict test performance (Gillstrom & Ronnberg, 1995). Research has also shown a positive relationship between ability to accurately predict exam performance and academic success (Fitzgerald, Gruppen, White & Davis, 1997). Most of the past research on accuracy of students' performance expectations, however, is restricted to laboratory settings or asking questions concerning generic, not course specific, knowledge (Hacker, Bol, Horgan & Rakow, 2000). None of the past research has examined the accuracy of performance predictions within an introductory business course.

Students typically enter courses with an expectation of the grade they will ultimately receive. These expectations, however, are based on performances in courses already taken. At the start of a new course, however, students often possess minimal information onto which to base performance expectations for the course. This is especially true for an introductory course, since most students taking the course possess no history taking courses in the subject. Indeed, empirical research suggests that students exhibit lower predictive accuracy of their grades in introductory courses than advanced courses (Falchikov & Baud, 1989).

Although students possess performance expectations throughout most courses, there is no evidence which suggesting that these expectations remain unchanged. Indeed, it is logical to expect that the grade expectations of many students will change over time, especially as students become more acquainted with the requirements of each course and with each instructor's expectations and grading style. Specifically, it is likely that grade expectations made at the beginning of a course and grade evaluations made at the end of the course (immediately prior to the final exam) are similar, but it is also likely that the expectations will have changed during the course.

Grade expectations at the end of a course, immediately prior to taking the final exam, can be expected to be more accurate predictors of students' final course grades than grade expectations at the start of the course (Koriat, 1997). By the time of the final exam, students have typically already taken at least one previous exam and are acquainted with the form and the coverage of exams in the course. They have also received feedback on performances on previous exam(s), so they are acquainted with the performance outcomes and of any shortcomings which they experienced (Hacker, Bol, Horgan & Rakow, 2000). Furthermore, they are familiar with the material to the covered on the final exam and how well they are prepared for it.

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*H1a: Students' predictions of final course grades made at the start of course and predictions made at the time of the final exam are related.*

*H1b: Students' predictions of their final course grades change during the course.*

*H1c: Students' predictions of final course grades made at the time of the final exam will be more accurate predictors of final course grade than are predictions made at the start of the course.*

## **FACTORS HYPOTHESIZED TO AFFECT EXAM PERFORMANCE QUALITY**

The amount of effort exerted in a course, measured by time spent studying and class attendance, and personal qualities, such as one's proclivity to self-handicap, can logically be expected to affect one's performance on exams. Furthermore, effort and proclivity to self-handicap can also logically be expected to affect the accuracy of one's exam performance predictions.

### **Time Spent Studying**

The time students spend preparing for an exam, or the time spent studying, is generally assumed by most classroom instructors and students to directly relate to students' performances on tests (Grimes, 2002). It is generally believed that more time spent studying for an exam will lead to higher resulting grades. Surprisingly little research has examined whether this supposed relationship actually exists, however. A study by Schuman, Walsh, Olson and Etheridge (1985) (replicated by Michaels and Mieth (1989)) is an exception. In a series of studies employing a variety of methodologies, Schuman, Walsh, Olson and Etheridge (1985) could not find a relationship between time spent studying and exam performance. Rau and Durand (2000) observed that test performance may actually be more related more to when students study and what they do when they are not studying than to the actual time spent studying.

No known research exists, however, which looks at the accuracy of course grade predictions, at the beginning of the course or immediately prior to the final exam, and their relationships with amount of time spent studying. Although the very few studies which have been conducted examining the relationship between time spent studying and exam performance have not observed a relationship between the two, this does not necessarily mean that there does not exist a relationship between time spent studying and the accuracy of course grade predictions. Since most students believe that a relationship does exist between time spent studying and exam performance, it is likely that this belief affects students' grade predictions. Also, it seems logical that students who have spent more time studying will possess a more correct understanding of how well they are prepared for exams, permitting more accurate predictions.

*H2: The accuracy of predictions of final course grades will improve with increased time spent studying. The strength of the relationship is stronger for predictions made at the time of the final exam than for predictions made at the beginning of the course.*

## **Absences**

Most classroom instructors and students alike expect that a strong relationship exists between attendance and exam performance, similar to the assumed relationship between time spent studying and exam performance (Shimoff & Catania, 2001). Again, given the centrality of attendance to the education process, surprisingly little research has examined this issue. The relatively little research which has been conducted, however, has produced results consistent with general assumptions. For instance, Devadoss and Foltz (1996), Durden and Ellis (1995), Hammen and Kelland (1994), Park and Kerr (1990), Romer (1993), and Shimoff and Catania (2001) observed direct negative relationships between number of absences and academic performance.

Higher attendance rates (fewer numbers of absences) likely provide students with better exposure to the course material which will be included on exams. Higher attendance rates, therefore, would appear to provide students with additional information onto which to base their predictions of course grades (Grimes, 2002). Course grade predictions made before a course begins will likely be based in part on a projection of anticipated attendance in a course. Predictions made at the time of the final exam, however, will be based on the knowledge of the actual number of classes missed during the term. Predictions made at the time of the final exam, therefore, will likely be more accurate since they are based on more complete knowledge.

*H3: The accuracy of predictions of final course grades will be greater for students with fewer absences than for students with greater numbers of absences. The strength of the relationship is stronger for predictions made at the time of the final exam than for predictions made at the beginning of the course.*

## **Self-Handicapping**

Self-handicapping involves the use of excuses given prior to a possible negative performance, such as a performance on an exam (Baumeister & Scher, 1988). These anticipatory excuses are given with the goal of shielding one from the negativity which could be associated with a deficient performance (Snyder, 1990).

The self-handicapper, we are suggesting, reaches out for impediments, exaggerates handicaps, embraces any factor reducing personal responsibility for mediocrity and enhancing

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personal responsibility for success. One does this to shape the implications of performance feedback both in one's own eyes and in the eye's of others (Jones & Berglas, 1978, p. 202).

Self-handicapping, therefore, involves protecting one's image of competence by proactively arranging for adversity (Higgins, 1990).

Jones and Berglas (1978) suggest that proclivity to self-handicap should be inversely related to academic achievement. The results of empirical testing, however, have been mixed. Among competitive athletes, Rhodewalt, Saltzman and Wittmer (1984) observed such a relationship between proclivity to self-handicap and an index based on the individuals' GPA and SAT scores. Similarly, Rhodewalt (1990) observed a significant inverse relationship between proclivity to self-handicap and an index based on the individuals' GPA and ACT scores, as did Zuckerman, Kieffer and Knee (1998) and Urdan, Midgley and Anderman (1998). These findings, however, have not been found to be universal across the academic setting. Several studies (e.g., Greenberg, Pyszczynski & Paisley, 1985; Harris & Snyder, 1986; Hunsley, 1985; Jung, 1988; Rhodewalt & Davison, 1986) reported that high self-handicappers generally perform as well as do low self-handicappers. Feick and Rhodewalt (1997) also observed no relationship between self-handicapping and exam performance.

Given the evaluative nature of the testing process and since the objective of self-handicapping is to sever or lessen the responsibility connection between one's self and a possible forthcoming poor performance, it would seem likely individuals possessing a higher proclivity to self-handicap will likely have lower performance expectations than will individuals possessing a lower proclivity to self-handicap. The lower grade expectations held by individuals with higher proclivities to self-handicap can be expected to lower the target performance level in the eyes of others and in the eyes of the performing individuals. Since their predictions are likely based on factors in addition to the performance level actually expected, the accuracy of the performance predictions of individuals with higher proclivities to self-handicap, therefore, will likely be less than those with lower proclivities to self-handicap.

*H4: The accuracy of predictions of final course grades will be greater for students with lower proclivities to self-handicap than for students with greater proclivities to self-handicap. The strength of the relationship is stronger for predictions made at the time of the final exam than for predictions made at the beginning of the course.*

## METHODOLOGY

The sample was comprised of students enrolled in Principles of Marketing classes at a medium-sized university located in the Midwest. To minimize bias resulting from differing teaching and/or testing styles, all of the classes were sections of a single course taught by a single instructor.

Grades in the course were determined primarily through the use of exams (two midterms and a final exam). The final exam accounted for twice as many points as the midterm exams (200 points as opposed to 100 points each). The resulting sample was comprised of 376 students.

Students were asked to complete two short questionnaires during the course. The first questionnaire was administered at the beginning of the course and included the Self-Handicapping Scale (SHS) (Rhodewalt, 1990). Students were also asked to report their expected grade in the course through a simple question, “What grade do you expect to receive in this course?” (a question similar to that used by Campbell and Henry (1999)). The second questionnaire was administered at the end of the course immediately prior to the start of the final exam. Students were again asked to report their expected grade in the course using the same question employed in the first questionnaire and to report the amount of time spent studying for the final exam. In an attempt to minimize possible bias, students were expressly guaranteed anonymity as far as the course instructor was concerned. Finally, students’ final course grades and actual number of absences were gathered from course records by an individual other than the course instructor.

The Self-Handicapping Scale is comprised of 25 statements designed to assess an individual’s proclivity to display self-handicapping behavior (Table 1). For each statement, students were asked to indicate their level of agreement on a six-point scale. Large group testing sessions indicate that the scale exhibits acceptable internal consistency (Cronbach’s alpha = .79) and test-retest reliability ( $r = .74$  after one month) (Rhodewalt 1990). The predictive ability of the scale is confirmed by a number of studies (e.g., Rhodewalt, 1990, 1994; Strube, 1986).

1.	When I do something wrong, my first impulse is to blame the circumstances.
2.	I tend to put things off to the last moment.
3.	I tend to over prepare when I have any kind of exam or “performance.”
4.	I suppose I feel “under the weather” more often than most people.
5.	I always try to do my best, no matter what.
6.	Before I sign up for a course or engage in any important activity, I make sure I have the proper preparation or background.
7.	I tend to get very anxious before an exam or “performance.”
8.	I am easily distracted by noises or my own creative thoughts when I try to read.
9.	I try not to get too intensely involved in competitive activities so it won’t hurt too much if I lose or do poorly.
10.	I would rather be respected for doing my best than admired for my potential.
11.	I would do a lot better if I tried harder.
12.	I prefer the small pleasures in the present to the larger pleasures in the dim future.



<b>Table 1: Self-Handicapping Scale</b>	
13.	I generally hate to be in any condition but “at my best.”
14.	Someday I might “get it altogether.”
15.	I sometimes enjoy being mildly ill for a day or two because it takes off the pressure.
16.	I would do much better if I did not let my emotions get in the way.
17.	When I do poorly at one kind of thing, I often console myself by remembering I am good at other things.
18.	I admit that I am tempted to rationalize when I don’t live up to others’ expectations.
19.	I often think I have more than my share of bad luck in sports, card games, and other measures of talent.
20.	I would rather not take any drug that interfered with my ability to think clearly and do the right thing.
21.	I overindulge in food and drink more often than I should.
22.	When something important is coming up, like an exam or a job interview, I try to get as much sleep as possible the night before.
23.	I never let emotional problems in one part of my life interfere with things in my life.
24.	Usually, when I get anxious about doing well, I end up doing better.
25.	Sometimes I get so depressed that even easy tasks become difficult.

Students’ expected and actual course grades were measured on a five-point scale based on letter grade (A, B, C, D, F) with a grade of A equal to 1 (Wong, 2000). Accuracy of predictions of the final grade were computed as the absolute value of the difference between predictions of final course grade and the actual final course grade received.

## RESULTS

Results are displayed in Table 2.

<b>Table 2: Results</b>	
<b>Grade Expectations at the Start of the Course and at the Time of the Final Exam</b>	
H1: Average Course Grade Expected at the Start of the Course	1.345
Average Course Grade Expected at the Start of the Final	1.776
Correlation of Grade Expectations	.4492**
Change in Course Grade Expectations	t = -11.431**
Average Actual Course Grade	2.179
Correlation with Grade Expected at the Start of the Course	.3619**

<b>Table 2: Results</b>	
Correlation with Grade Expected at the Start of the Final	.6551**
Improvement in Course Grade Expectations Accuracy	Z = 4.85**
<b>Prediction Accuracy and Amount of Time Spent Studying</b>	
H2: Grade Prediction at the Start of the Course	.1310
Grade Prediction at the Time of the Final	-.0222
<b>Prediction Accuracy and Number of Absences</b>	
H3: Grade Prediction at the Start of the Course	.2643 **
Grade Prediction at the Time of the Final	.1744**
<b>Prediction Accuracy and Proclivity to Self-Handicap</b>	
H4: Grade Prediction at the Start of the Course	-.0356
Grade Prediction at the Time of the Final	-.0715
** p < .01	

Students' predictions of final course grade made at the start of the course and predictions of final course grade made at the start of the final exam were observed to be highly correlated consistent with Hypothesis 1a. Furthermore, predictions of final course grade were found to have significantly (at the .05 level) changed during the course, consistent with Hypothesis 1b. Students' predictions of final course grade made at the start of the course and predictions of final course grade made at the start of the final exam were both observed to be highly correlated with actual grade received. Moreover, predictions of final course grade made at the start of the final exam were found to be significantly (at the .05 level) more strongly correlated with actual grade received than were predictions of final course grade made at the start of the course (using Steiger's (1980) test for comparing dependent correlations), consistent with Hypothesis 1c. Support, therefore, was observed for all components of Hypothesis 1.

Neither the accuracy of students' predictions of final course grades made at the start of the course nor the accuracy of predictions of final course grade made at the start of the final exam were observed to be significantly (at the .05 level) related to the length of time students reported studying for the final exam. No support, therefore, was observed for Hypothesis 2.

The accuracy of students' predictions of final course grade made at the start of the course and the accuracy of predictions of final course grade made at the start of the final exam were both observed to be significantly (at the .05 level) correlated with number of absences incurred. The direction of the relationships were as hypothesized – the greater the number of absences incurred by students, the less accurate were their predictions of final course grade. The strength of the

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relationship, however, was not observed to be stronger for predictions made at the time of the final exam than for predictions made at the beginning of the course. Partial support for Hypothesis 3, therefore, was observed.

To provide additional insight, the correlations between differences between students' predictions of final course grades and number of absences incurred were examined (in addition to the absolute value of the differences). In both instances (predictions made at the start of the course and those made at the start of the final exam), significant (at the .05 level) negative relationships were observed ( $r = -.264$  and  $r = -.228$ ), indicating that individuals with higher number of absences tended to overestimate the final course grades they would receive.

Finally, neither the accuracy of the students' predictions of final course grade made at the start of the course nor the accuracy of predictions of final course grade made at the start of the final exam were observed to be significantly (at the .05 level) related to students' proclivity to self-handicap. No support, therefore, was observed for Hypothesis 4.

## DISCUSSION

As hypothesized, students' predictions of final course grades in an introductory collegiate course were found to be strongly related to the grades actually received. Although students were observed to be overly optimistic regarding their predictions of final course grades, grade expectations became more accurate as students gained experience in the course. The evidence suggests that predictions of final course grades by students are factually based – based on past knowledge/experience and knowledge/experience gained while taking the course.

Interestingly, although the accuracy with which students predicted their final course grades improved during the course, the improvement in accuracy was not found to be related to the amount of effort exerted in the course (as measured by time spent studying) nor with the personal quality of proclivity to self-handicap. Each of these issues will be discussed.

Although increased time studying can be expected to provide students with a better idea of what they do and do not know, and hence, result in more accurate predictions of final course grades, such a relationship was not observed. Increased time spent studying for the final exam was not found to affect the accuracy of prediction of final exam course grade. This finding further illuminates the relationship between time spent studying and performance. Not only is time spent studying not related to exam performance (as established by previous research discussed earlier), but time spent studying is not related to accuracy of students' grade predictions. Increased time spent studying, therefore, does not seem to provide students with any increased insight into their preparation and ultimate performance level.

Knowledge of this reality may prove to be beneficial to classroom instructors. Frequently, students who have experienced a disappointing exam performance will reference the time that they have spent studying and preparing for the exam and their resulting certainty of receiving a particular

grade. Although logical, such improved accuracy of grade prediction does not appear to be an outcome of increased time spent studying.

The lack of a relationship between self-handicapping and prediction accuracy was surprising. Students with higher proclivities to self-handicap were not observed to predict their final course grade with any less accuracy than did students with lower proclivities to self-handicap. A possible explanation for this finding is that students' proclivities to self-handicap do not affect the accuracy of their predictions of their final course grade. Since this explanation is not consistent with self-handicapping theory, however, an alternative explanation is more likely. An alternative explanation is that the obstacles which students with high proclivities to self-handicap erect as hindrances to appeal to in the event of a poor performance may actually depress their performance levels which, in effect, improves the apparent accuracy of their intentionally lower performance predictions. Such a possibility has been suggested by Burns (2005).

If the exam performance of students possessing relatively higher proclivities to self-handicap are indeed adversely affected by their self-handicapping activity, classroom instructors need to pursue classroom strategies which possess the possibility of reducing self-handicapping activity, such as those suggested by Urdan (2004). If successful, classroom instructors may observe that students possessing a relatively higher proclivity to self-handicap may find themselves underestimating the grades they will receive in their courses.

Increased accuracy of final grade prediction, however, was observed for students with superior class attendance – students who missed fewer classes were found to have more accurately predicted their grades in the course than were students who missed a greater number. These findings suggest that students who miss class sessions may find themselves with inadequate information onto which to base grade predictions. Indeed, students who miss a greater number of classes were observed to overestimate their final grades. The overestimation most likely results from not realizing the number of classes that will ultimately be missed in the instance of predictions made at the beginning of the course and/or misestimating the detriment that absences would ultimately have. In the issue of grade predictions at the start of the final, students' overestimations of their final course grade most likely result from a misestimation of the negative effect that absences would have on their final grade.

The overestimations of course grades by students experiencing a greater number of absences likely directly affect classroom instructors. Given their overestimation of their course grades, students experiencing a greater number of absences will more likely experience dissonance upon receiving lower-than-anticipated final course grade. Consequently, these students will likely be more apt to complain about and/or contest their course grades. Instructors need to clearly and repeatedly communicate this reality to students in their courses in attempts to increase student attendance levels. Furthermore, classroom instructors will be better able to predict which students may be most likely to contest grades, permitting them the ability to better prepare for such occasions.

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The findings of this study, therefore, strongly support that the accuracy of student' grade expectations may improve as a course progresses. Instructors, however, may not be able to expect differences in the accuracy of students' grade expectations based on the factors examined. An exception exists with the number of absences incurred by students during the course – the greater the number of class sessions missed by students, the lesser the accuracy which students were able to predict their final course grade. This was observed to be true regardless whether the grade prediction was made at the start of the course (before any absences could be incurred) or whether the prediction was made at the start of the final exam (when students were aware of how many classes they missed during the semester).

### **Limitations**

A number of limitations exist which may limit the generalizability of the results. To control of extraneous variables, the sample included only students taking the Principles of Marketing course at a single medium-sized university located in the Midwest. Furthermore, only students taking the course from a single instructor with a single teaching testing style were included. Additional research is required to establish the generalizability of the results to students attending other universities, to instructors with differing teaching/testing styles, and to different courses. Moreover, hours spent studying for the final exam was acquired through student self-report. It was not possible to check the accuracy of this information.

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# AN INNOVATIVE APPROACH FOR INTEGRATING THE SARBANES OXLEY ACT INTO THE UNDERGRADUATE BUSINESS CURRICULUM

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## ABSTRACT

*The Sarbanes Oxley Act of 2002 or “SOX” has permanently changed the way the business community operates. As a result, it is important for business students to understand this legislation so that they can add value to future employers. Currently SOX is seen as an accounting rule and so is taught to accounting majors and not business students. This paper offers an alternative approach to teaching SOX, as we believe that SOX is a business issue not only an accounting issue. We firmly believe that all business students should be exposed to the significant requirements of the Sarbanes Oxley Act as required for all management in publicly traded companies. Resources are provided to help all business instructors increase their knowledge of this legislation to ensure that SOX is fully integrated into the business school culture.*

## INTRODUCTION

“SOX” refers to the Sarbanes Oxley Act of 2002 (the “Act”) that was enacted into law by the United States Congress. It applies to all Securities and Exchange registrants (i.e., public companies) and their external auditors. The key sections of the law includes requirements for (a) the establishment of the Public Company Accounting Oversight Board or PCAOB, (b) Auditor Independence, (c) Corporate Responsibility, and (d) Enhanced Financial Disclosures.

From first glance this might lead one to believe that SOX is of interest only to accounting professionals. In reality, most professionals in all publicly traded companies are affected by SOX and they should be aware of what their responsibilities are under the Act. This article is meant to acquaint those who need to know about SOX and its place in a university business curriculum: business deans, business faculty and book publishers.

The SOX Act resulted from the mounting accounting and corporate scandals in the late 1990s and early 2000s. These scandals resulted in the loss of investor confidence in corporate

financial reporting. The bad news was nonstop as firms such as Adelphia Communications, Global Crossing, Rite Aid, Xerox and Tyco revised their earnings reports to reflect the impact of earnings management, management fraud and other ‘creative accounting’ practices. As a result, SOX was passed into law and signed by Congress and the President in record time.

Perhaps the two organizations that had the biggest impact on the passage of SOX were Enron and WorldCom. Management fraud at Enron forced the company to file for bankruptcy protection in December 2001, the largest bankruptcy in the country at that time. This company reported assets of approximately \$62 billion and spectacular and consistent earnings growth for many years. However, management inflated earnings by approximately \$600 million for the six years prior to its bankruptcy filing. Seven months later, Enron’s bankruptcy filing was overshadowed by the collapse of WorldCom in July 2002. This company, with \$100 billion in assets, was forced into bankruptcy by a massive management fraud. Both Enron and WorldCom were given clean audit reports that were distributed to the investment community for many years with the underlying financial statements audited by Arthur Anderson.

With the mounting bad news reported by these premier companies whose financial statements were audited by the Big Five accounting firms, the investing public demanded some reform from the legislators to bring credibility to corporate financial reporting. The Sarbanes Oxley Act was enacted into law in response to this demand.

### **OVERVIEW OF SOX**

SOX was implemented to strengthen and improve corporate responsibility. The area of corporate responsibility should be of interest to all business students, since corporate responsibility affects all levels of upper management in all public companies. This includes accountability by executives, boards of directors, and auditors. Another purpose of the Act was to improve companies’ communications to investors regarding their activities and the financial climate, again an area not just relegated to accounting personnel.

There is now a clear requirement for all members of the audit committee to be independent members of the board of directors and not management personnel of the corporation. Section 302 of SOX requires the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of each company to make specific certifications in their quarterly and annual reports. These individuals face significant financial penalties and/or long prison terms for making false certifications. As a result, these executives must rely on personnel throughout the organization to assist in this certification process. Today’s business students will not only be part of the SOX process in the future, but will be the future executives responsible for corporate governance in their companies.

The Foreign Corrupt Practices Act of 1977 placed the responsibility of the organization’s internal controls on management. Section 404 of the SOX Act now requires that public companies’ annual reports include an internal control report specifically stating that management is responsible

for establishing and maintaining an effective system of internal control, and management's assessment of the effectiveness of its controls. The external auditor is specifically responsible for attesting to management's internal control environment and for issuing a separate report on the effectiveness of those controls.

Business students should have a working understanding of the implementation issues faced by management in implementing and maintaining an effective internal control structure in response to Section 404.

### CLASSROOM APPLICATION

Most courses in the business school have SOX implications. However, SOX is often only taught in accounting courses, so accounting majors are the only ones exposed to its requirements. Business students could potentially leave college without working knowledge of SOX and how it could impact them in the workplace. Appendix 1 presents a summary of the key provisions of SOX, the related sections and the authors' perspectives on the impact of SOX on the business curriculum. Since SOX is far reaching, we propose the following curriculum inclusion to increase business students' knowledge of it with special emphasis on those areas that are subject to Section 404 attestation. Our ideas are presented in this section and summarized in Table 1.

<b>Table 1: Proposed Coverage of SOX in the Business Curriculum</b>	
<b>Discipline</b>	<b>Examples of Areas impacted by SOX – Classroom Emphasis</b>
Business Foundation Course (general business course)	Overview of business processes (e.g. revenue cycle) Introduction to the Sarbanes Oxley Act Introduction to Risk Assessment and Internal Control
Marketing	Product development/management Sales practices
Accounting	Financial statement preparation and disclosure controls CEO/CFO certifications (Section 302) Management assessment of Internal Controls (Section 404)
Management	Corporate governance (e.g., Oversight function of the board of directors)
Information Systems (MIS)	Systems design and development (including program and system change management, interface controls) Database management System recovery
Finance	Investment decisions (purchases/sales), Borrowings
Business Law	Legal and regulatory issues
Economics	Environmental issues

### **Business Foundation Course**

This is the foundation course for introducing business students to the operations of a typical business organization. Course content usually includes a discussion of business cycles found in typical organizations. Such cycles include: revenue and collection, acquisition and expenditure, production and payroll, and finance and investment.

This is the course where the general requirements of the Sarbanes Oxley Act should be discussed. Specifically, sections 101, 302 and 404 should be discussed in the business foundation course.

Discussions should include the reasons for the establishment of the PCAOB and how it has affected businesses (Section 101); what is corporate responsibility and who is responsible for the corporate responsibility over financial reporting (Section 302); and what are internal controls and the fact that management is responsible for designing and operating those controls (Section 404.)

Coverage should also include an introduction to risk assessment and the use of a control framework to assess the effectiveness of a company's control environment. The most common control framework used in business in the United States is the Committee of Sponsoring Organizations of the Treadway Commission or the "COSO" framework. Therefore, students should have a working knowledge of this framework.

### **Marketing**

Marketing majors often believe that understanding accounting concepts is pointless since they are not involved in the financial statement process. While this misconception was okay in the past, it is no longer appropriate under SOX since all activities that impact financial reporting and disclosures in an organization are now subject to SOX Section 404 attestation. Marketing programs often include courses (or sections of courses) on selling practices and product management. These areas are revenue-generating activities and are critical to an organization's success. Since they are part of the financial reporting process these areas are considered part of the Section 404 attestation scope and marketing majors need to be able to recognize and design controls for their areas of expertise.

In discussing these areas, instructors should ensure that students have a good understanding of the underlying business processes and the typical controls that exist over such processes. For instance, to incorporate SOX in courses instructors might focus class room discussions on the controls that should be in place in an organization to ensure that sales made by sales personnel are (a) appropriate and (b) reported and recorded in the general ledger.

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## Accounting

As financial statement preparers, accountants are impacted by all SOX provisions especially corporate responsibility and enhanced financial disclosures. The typical accounting program already includes sufficient coverage of generally accepted accounting principles in such courses as Intermediate and Advanced Accounting. However, instructors should ensure that students are knowledgeable of the related disclosures in their coverage of the financial statement components since they are a critical element of SOX. For instance, the coverage of leases should include the accounting for capital and operating leases in the financial statements and disclosures made in the footnotes to those statements.

The Auditing and Accounting Information Systems courses typically expose students to internal controls. Instructors should expand their coverage in this area to include the disclosure and certification (Section 302) and attestation (Section 404) requirements of SOX. One suggestion is for students to complete an assignment in which they review the SEC's website and obtain the CEO and CFO certifications for a particular organization (certification). A Section 404 assignment might include providing students with the description of a management process and the controls in place as identified by management. Students would then identify procedures they might perform to independently validate management's controls.

## Management

Managers are responsible for managing people and processes. Therefore, management majors clearly need to understand SOX and business processes and controls. While all areas of SOX are applicable to management majors, the sections surrounding corporate responsibility and enhanced financial reporting should be clearly emphasized. For instance, SOX has placed greater responsibilities on the board of directors of public companies to improve oversight of the organizations. Corporate governance and the role and responsibility of boards of directors are topics covered in the typical management curriculum. Instructors should ensure that SOX is fully integrated in the coverage of corporate governance issues.

In classroom discussion on the role of the board of directors, instructors should emphasize that the audit committee is now directly responsible for the appointment, compensation and oversight of the work of the external auditor under SOX. Also, in discussing corporate governance activities in an organization, management students should complete an assignment similar to accounting students by visiting the SEC's website and obtaining the CEO and CFO certifications for a particular organization (certification). Instructors should then emphasize that corporate executives are now responsible for corporate oversight under SOX and the certification process is one way of demonstrating this responsibility.

### **Information Systems/Management Information Systems (MIS)**

Information systems form the backbone of any business process. A firm cannot be Section 404 compliant unless the underlying information systems are reliable. Instructors therefore need to ensure that SOX is integrated into their course coverage. Potential areas in which SOX could be discussed are the general controls in the data processing environment and the application controls over specific systems, systems design and development (including program and system change management, and interface controls), database management, system recovery and information security. For instance, classroom discussion could focus on controls that exist in system and/or database design to ensure that only authorized personnel have access to certain system functionality.

### **Finance**

The financial function in an organization is responsible for investing excess funds and borrowing from creditors to cover shortages. These activities clearly have an impact on the financial statements and are subject to Section 404 attestation. It is imperative that finance instructors incorporate SOX in their coverage of this subject area. For instance, classroom discussions may include controls that exist in the organization to ensure that investments brought or sold are reported and recorded in the general ledger. The financial profession is also responsible for making sure that related investment transactions are adequately disclosed in the financial statements, including any related footnotes.

### **Business Law**

The legal and regulatory aspect of business is covered as part of a required course for most business majors. Clearly, the failure of an organization to comply with laws and regulations could have a significant financial impact and would be reflected in the general ledger, hence the Section 404 implication. Current business law text includes the role of audit committees, code of ethics disclosures and regulation of CPA firms in its coverage of SOX. Therefore, to integrate SOX into the course, instructors could include a classroom discussion of the above areas and its impact on an organization, as well as the processes and controls that exists in an organization to ensure compliance with applicable laws and regulations.

### **Economics**

Most business students are introduced to this subject through two courses – Macro and Micro Economics. Macroeconomics covers broad economic activities while micro covers economic decisions on a low level such as individual consumers. On the surface, these activities do not appear

to directly affect an organization's general ledger, so the assumption then is that SOX coverage is not important. However, environmental issues are topics covered in this discipline. The failure of an organization to comply with such issues could result in fines and penalties that are then reflected in the general ledger, hence the Section 404 implication. Therefore, economics instructors could discuss the processes and controls that an organization has in place to ensure compliance with the environment issues at its various locations as part of their discussion of SOX.

### CONCLUSION

This paper presents the authors' views on the necessity for including the Sarbanes Oxley Act into all business disciplines. It also offers an approach that instructors can use to introduce SOX to a wider audience of business students. Clearly, this knowledge will allow students' to be better prepared for the demands of today's work environment. We believe that students entering the job market with this knowledge will have a competitive advantage over their colleagues.

One challenge is to ensure that instructors have the appropriate knowledge of SOX to share with their students. There are a number of resources available for instructors to learn more about SOX and PCAOB. Such resources include (i) the summary and details of SOX on the AICPA's and SEC's websites ([www.aicpa.com](http://www.aicpa.com)) and ([www.sec.gov](http://www.sec.gov)), and (ii) the role and responsibilities of the PCAOB's at its website ([www.pcaobus.org](http://www.pcaobus.org)). By obtaining knowledge of SOX and sharing it with students, instructors will ensure that SOX is truly not just something we wear, but something we teach.

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Appendix 1: Impact of the Sarbanes Oxley Act on the Business Curriculum								
		Business Curriculum						
The Sarbanes-Oxley Act of 2002 (Key Provisions)	Related Sections	Marketing	Accounting	Management	Information Systems	Finance	Business Law	Economics
<i>Public Company Accounting Oversight Board (PCAOB)</i>								
	Section 101- Establishment of PCAOB	x	x	x	x	x	x	x
	Section 102 – Registration with PCAOB		x					
	Section 103 – Auditing Standards		x					
	Section 104 – Inspections of Registered Public Accounting Firms		x					
	Section 105 – Investigation and Disciplinary Proceedings		x	x			x	
<i>Auditor Independence</i>								
	Section 201 – Services outside the scope of practice of auditors		x	x				
	Section 203 – Audit Partner Rotation		x	x				
	Section 204 – Audit Reports to Audit Committees		x	x				
	Section 206 – Conflicts of Interest		x	x				
	Section 207 – GAO Study on the Mandatory Rotation of Audit Partners		x	x				
<i>Corporate Responsibility</i>								
	Section 301 – Public Company Audit Committees	x	x	x	x	x	x	x
	Section 302 – Corporate Responsibility for Financial Reports	x	x	x	x	x	x	x
	Section 303 – Improper Influence on Conduct of Audits		x	x				
<i>Enhanced Financial Disclosures</i>								
	Section 404 – Management assessment of Internal Controls	x	x	x	x	x	x	x
	Section 407 – Disclosure of Audit Committee Financial Expert		x	x				



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# TEACHING INTERNATIONAL PUBLIC RELATIONS IN THE INTERNATIONAL MARKETING COURSE: AN ORGANIZING FRAMEWORK

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## ABSTRACT

*While some international marketing textbooks today devote at least a few pages to the public relations function of multinational firms, coverage remains limited and unstructured. To date, there has been no organizing framework to facilitate the classroom discussion of international public relations' strategies by objective. This paper presents a framework that analyzes the practices of international PR practitioners and sets forth recommendations regarding additional strategies that may prove useful or appropriate within the framework. The proposed framework organizes international public relations activities based on their potential usefulness under the conditions of market entry, maintenance (once the company has entered the market), crisis management, and government PR. The organizing framework should prove useful for those teaching international public relations, particularly as part of an international marketing course.*

## INTRODUCTION

Public relations developed more or less simultaneously in Europe and the United States during the 19<sup>th</sup> century (Nessmann, 1995). At that time, the focus of scientific study was primarily limited to how public relations influenced the media and newspaper reporting (Nessmann, 1995). Since then, public relations has expanded exponentially in both theoretical and practical terms to PR as we know it today (Nessmann, 1995).

Today, we identify public relations as so much more than simply influencing the media, and its role is critical to long-term organizational success. Today, public relations is defined as the marketing communications function charged with executing programs to earn understanding and acceptance with the internal and external publics on whom the organization's success or failure depends (Czinkota and Ronkainen, 1996; Cutlip, Center, and Broom, 1985; see also Grunig and Hunt, 1984). Furthermore, today's PR professionals are concerned with internal and external publics that extend beyond national boundaries. PR professionals with *international* responsibility are called on to simultaneously create trust and harmony, build consensus and understanding, articulate and influence public opinion, anticipate conflicts, and resolve disputes (Nessmann, 1995) in and across a variety of cultural settings. International PR practitioners "must do more than choose the appropriate gift for visiting customers, they must speak to them in their own languages, take part

in international business discussions, and intimately understand the global, cultural context and socio-economic negotiations (Walmsley, 1998).

Most international marketing textbooks today devote at least a few pages to the public relations function of multinational firms. Often, the coverage is limited to a select few anecdotes about public relations disasters and few, if any, textbooks provide any sort of organizational framework for the various PR activities. As such, little guidance is provided to the international marketing professor in terms of content or structure. The purpose of this paper is to develop a framework for examining the practices of international PR professionals and to set forth recommendations regarding additional activities that may be useful or appropriate within the framework. The paper is presented in six sections. First, the organizing framework is briefly described. In the next three sections, international PR practices associated with (1) market entry, (2) maintenance (including public relations setbacks), and (3) government PR are identified. Each section includes examples of public relations activities in use, as well as suggestions for additional PR activities. Next, some general guidelines to practitioners regarding implementation of public relations activities are noted. The intention here is to provide students with a link between theory and application. Finally, trends affecting the future of international public relations are identified.

### **FRAMEWORK FOR ORGANIZING INTERNATIONAL PUBLIC RELATIONS' ACTIVITIES**

International marketing textbooks generally cover the various methods of market entry (e.g. exporting, licensing, joint venture, and foreign direct investment), as well as the marketing mix strategies (product, price, promotion and distribution) used by an organization following market entry. A coherent discussion of public relations activities may reasonably be organized in much the same way. That is, one can examine the public relations activities appropriate to each method of market entry, as well as those activities appropriate for maintaining a positive corporate presence once the company has entered the foreign market.

There are at least seventy separate PR tactics currently in use (Harris 1998). Several activities helpful for achieving international PR objectives are presented (following the discussion) in Table I, within the organizing framework. The table includes the anecdotal examples identified in the existing literature, as well as those PR strategies presented as suggestions.

### **MARKET ENTRY**

The four methods of market entry (exporting, licensing/franchising, joint venture, and foreign direct investment) can be considered as lying along a continuum from less integrated to more integrated strategies. Less integrated strategies are characterized as involving discrete transactions, a lesser commitment of assets, low risk/low profit potential, and low control. More integrated

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strategies are characterized as involving relational transactions, a greater commitment of assets, high risk/high profit potential, and high control. Public relations, as a marketing communication activity, gains in strategic importance to the extent that the method of market entry becomes more integrated. Foreign direct investment is at the most integrated end of the continuum; therefore, we begin the market entry section of this paper by looking at foreign direct investment.

### **Foreign Direct Investment**

Conflicts typically arise when a firm enters a new country by acquiring a local company or investing in manufacturing (Johansson, 1997). When foreign companies become heavy investors in local businesses, local firms as well as consumers become alarmed (Johansson, 1997). Even though the economic justifications of these and other FDI entries are usually sound, and the host countries also benefit, the companies' PR departments have to work hard to establish a good local citizen image among stakeholders (Johansson, 1997). These stakeholders may include local governments, the general business community, and members of the trade. To minimize resistance by governing agencies, companies may compile local statistics about the number of locals employed, the local content of products, and the tax contribution made to the local municipality – and publish this information (Johansson, 1997). The intention is to quantify the economic impact of the business on the community. An example comes from IKEA, the Swedish furniture retailer, who has been required to fund studies to prove that entry into markets won't hurt local businesses (Sims 2005). IKEA says that the studies typically cost about \$25,000 per potential store and that decisions take nearly a year (Sims 2005).

To further facilitate market entry into the local business community, the country manager may be required to involve the local business and surrounding community in the business plan (see Gornitsky, 1997). For example, companies may involve community members in planning, appoint groups to monitor development projects, appoint local specialists to an advisory board, and/or meet with special interest groups to provide updates on progress. As a result, such companies may be able to deter or resolve potential controversies, forge closer relationships with stakeholders, reduce opposition, and gain greater "buy-in" (Wasserstrom and Reider, 1998).

With members of the trade, Wal-Mart adopts an open-door approach. For example, when the Bentonville, Arkansas based retailer was interested in entering the British market via an acquisition, British retailers and manufacturers were eager for insights into how Wal-Mart runs its businesses. Ex-Wal-Mart executives met with representatives of top British chains as well as consumer goods companies to explain how Wal-Mart deals with suppliers, controls costs, and relates to consumers (Nannery, 1998).

Businesses looking for international expansion into developing countries often face a different situation. For example, oil and gas companies operating in Latin America, Africa and Asia have been called upon by communities in remote regions to provide basic education, health care,

and other services (that normally fall within the domain of regional or national governments) in exchange for right-of-way access for seismic exploration (Wasserstrom and Reider, 1998). Prior to the early 1990s, community demands were comparatively straightforward; the crew chief merely had to negotiate small cash payments with community leaders in order to gain right-of-way access (Wasserstrom and Reider, 1998). Over time, political associations called “federations” emerged to win legal title to native lands (Wasserstrom and Reider, 1998). The federations looked to foreign companies (which generally operate under contracts with local governments) to provide a variety of essential services (Wasserstrom and Reider, 1998). Companies that refused to negotiate with local villagers or provide community benefits faced significant delays or had their exploration projects interrupted (Wasserstrom and Reider, 1998). A consensus among country managers is emerging that good long-term relationships are necessary for companies that hope to operate in the foreign market for a number of years (Gornitsky, 1997; Wasserstrom and Reider, 1998). The result is a win-win situation that translates to bottom-line benefits for the company (Gornitsky, 1997).

Although helping nearby communities is recognized as the “right” thing to do (Gornitsky, 1997; Wasserstrom and Reider, 1998), some ways of helping are proving more sound than others. Companies need to help communities help themselves, rather than just help the communities (Wasserstrom and Reider, 1998). Hewlett Packard Company’s donation of computers to the University of Prague (Schroeder and Kapstein, 1991) is an example of helping communities. Another example is the one-hour promotional film produced by a British TV production company for the Seychelles government in exchange for being granted the privilege of hosting the Miss World Pageant in Seychelles, Africa (Anonymous, 1998). Seychelles, which relies heavily on tourism for hard currency, wanted to use the promotional video to attract more visitors to the islands.

Helping communities directly encourages long-term dependency and endlessly growing wish-lists (Wasserstrom and Reider, 1998). Helping communities help themselves places the emphasis on training rather than giveaways, on providing seed capital for new businesses, and on creating employment opportunities outside the company’s operations (Wasserstrom and Reider, 1998). For example, as part of its long term strategy for growth in Latin America, IBM invested millions of dollars in an initiative to bring the latest technology to local schools (Czinkota and Ronkainen, 1996). Rather than donating computers, IBM provided the needed instruction and technological support (Czinkota and Ronkainen, 1996).

### **Additional Recommendations**

The primary objectives of public relations for foreign direct investment are to establish a positive corporate image and to minimize resistance from the government, the community, and the trade. Toward promoting a positive corporate image, the company should seek corporate image assistance, as well as advice about cultural norms and expectations. To minimize resistance, the company can hold meetings with local officials to keep them informed and solicit input, and seek

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ways to identify with the local community. In some developing economies, it may be necessary to help develop the infrastructure for transportation of supplies or product distribution prior to establishing a foreign operation. As a result of these PR strategies that may be used during FDI market entry, companies may be able to deter or resolve potential controversies, forge closer relationships with stakeholders, reduce opposition, and gain greater “buy-in.”

### **Joint Venture**

In an international joint venture, a domestic firm buys part of a foreign company or joins with a foreign company to create a new entity with a particular objective in mind. Many joint ventures either fail or fall victim to a takeover by one of the partners. Each partner benefits from the skills, capabilities, and resources of the other. Often, the domestic company benefits from (and relies on) the foreign partner's local knowledge and contacts.

The primary role of public relations in the formation of a joint venture is to develop a solid corporate reputation that will attract joint venture partners (Eidson and Master, 2000) and maintain a positive image throughout the formation of the joint venture. Any faux pas could quickly turn into a public relations disaster.

When conducting research and negotiations with potential foreign partners, companies must take care not to offend anyone along the way, particularly those companies that are eventually rejected (Melvin, 1995). For example, if a company rejects a well-connected Chinese partner at a late stage, the company may find that it has alienated not only a potential partner, but also powerful players within the industry (Melvin, 1995). Further, the company's chances of entering the market may be damaged if the disappointed partner has some political influence over future ventures in the area (Tsang, 1995). PR representatives can be invaluable in advising negotiating personnel regarding cultural practices and expectations. Once an agreement is reached, the PR representative can assist in developing a corporate identity for the joint venture that is distinct from the identity of either partner and is relevant to the marketplace (Ackerman 1994).

### **Additional Recommendations**

While it is important to develop a positive image to attract joint venture partners and to maintain a positive image throughout partnership negotiations, it is also important that the company be accepted by the local community and government as a new partner in the business community. A company seeking a joint venture may anticipate being able to depend on its partner for foreign contacts and acceptance. However, the high incidence of joint venture failures suggests that the company should seek relationships on its own prior to the selection of a joint venture partner. The partnership may eventually be discontinued for any number of reasons. If the company wishes to continue doing business in the foreign market, the company may acquire its partner or set up its own

operations. In any event, it behooves the company not to be a stranger to the local business community or the local government. PR strategies that may be useful in this regard include meeting with trade and local officials to start building relationships that are independent of the joint venture, advising personnel about cultural norms and expectations to promote a positive image, and to localize the company image in an effort to reduce the “foreignness” of the company.

### **Licensing/Franchising**

Many companies adopt a less integrated approach to market entry. Rather than entering a market via foreign direct investment, companies may instead expand internationally by licensing or franchising. Licensing is a legal process whereby a licensor agrees to let another firm use its manufacturing process or intellectual properties in exchange for royalties and fees. Franchising is a form of licensing that has grown rapidly in recent years. The main advantage of franchising over licensing is that it allows greater control over business operations.

Public relations can play a dual role when it comes to licensing/franchising. According to Jim Amos, who in recent years sold master licenses covering 24 countries for I Can’t Believe It’s Not Yogurt, “Public relations not only generates qualified prospects, it provides credibility for expansion into a given country” (Hayes, 1993). Mike Minihane, who awarded 14 master licenses in nine months for Los Angeles-based Futurekids, says 25 percent of his leads are generated by public relations (Hayes, 1993). Credibility for expansion into a country comes from articles that appear about the franchise in trade magazines or newspapers; “investors pay more attention to the editorial copy than to a paid advertisement,” Amos says (Hayes, 1993). One article in a Canadian publication resulted in more than 300 telephone inquiries (Hayes, 1993). Once a master license has been awarded, a company may decide to get on the trade show circuit to recruit franchisees (Hayes, 1993).

### **Additional Recommendations**

Under licensing or franchising, an individual or company in the foreign market produces and markets the product or service. The revenues accrued to the licensor/franchisor grow in proportion to the number of licensees/franchisees successfully recruited. Therefore, the focus of public relations is primarily on recruiting. A second concern is to make sure that the company's ways of doing business are acceptable to the foreign market. Once again, advice regarding cultural norms and expectations is critical. A third concern is to promote the success of the licensee or franchisee by building demand for the brand. Offering public seminars and providing an Internet home page to present information about the company and its opportunities may attract licensees/franchisees, as well as increase public awareness and favorable opinion. Using celebrity spokespersons may help build demand for the brand, as well as attract potential licensees/franchisees.

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## Exporting

When a company decides to enter the global market, exporting is the most common method of market entry. Exporting is selling domestically produced products in another country. The most common intermediary is the export merchant, who is usually treated like a domestic customer by the domestic producer. The buyer assumes all risks and sells internationally for its own account; the domestic firm is involved only to the extent that its products are purchased in foreign markets (Lamb, Hair, and McDaniel, 1994). Therefore, the role of public relations for exporters is more limited than with the other market entry strategies. The main objective for public relations using an export strategy is to build selective demand for the brand to support the sales efforts of intermediaries. Companies may use publicity or appear at trade shows to build selective demand.

## MAINTENANCE

Once a company enters a foreign market, public relations activities are directed at maintaining a positive corporate image for the company and its products. According to Briggs (1998), maintaining the reputation of an organization ultimately may be the most important function of public relations. Maintenance activities generally focus on corporate citizenship, corporate image, brand awareness, and issue management.

### Corporate Citizenship

A significant part of public relations activity is portraying multinational corporations as good citizens of their host countries (Czinkota and Ronkainen, 1996). Corporate citizenship is important to employees, customers, and communities. As Czinkota and Ronkainen (1996) explain, employees don't want to work for companies that have no social conscience, customers don't want to do business with companies that pollute the environment or are notorious for shoddy products and practices, and communities don't welcome companies that aren't good corporate citizens. A recent Roper survey found that 92 percent of the respondents felt that it was important for marketers to seek out ways to become good corporate citizens (Krol, 1996). Consumers are particularly interested in those who get involved in environmental, educational and health issues (Krol 1996).

Good corporate citizenship can involve a variety of activities. Some companies exhibit good corporate citizenship by funding special projects. For example, the Heinz foundation contributed \$50,000 toward the construction of a hospital at the Kutama mission and helped to fund the construction and operation of a medical clinic in Zimbabwe. IBM funds projects worldwide and promotes employee volunteerism (Czinkota and Ronkainen 1996). In Thailand, IBM provided equipment and personnel to universities and donated money to the nation's wildlife fund and environmental protection agency (Czinkota and Ronkainen 1996). To Wal-Mart, corporate

citizenship means sponsoring local sports events, donating to or sponsoring local charity events, building schools, and befriending government officials by inviting them to visit the company's Bentonville, Arkansas headquarters (Nannery, 1998; Wonacott, 2000). McDonald's sponsors schools, sports clubs, and children's hospitals (Block, 1999). According to McDonald's managing director in Yugoslavia, such activities integrate the company into the community and afford them protection against potential anti-American sentiment (Block 1999).

Some companies find it beneficial to communicate to stakeholders initiatives the company is taking. Unilever publishes a yearly progress report on its global environmental and social initiatives. For example, they reported that 90% of the energy used in its Indian Tea factory came from renewable resources, up from 14% the year prior.

In many countries, increased privatization and government cutbacks in social services offer numerous opportunities for companies to make substantive contributions to solving various global, regional, and local problems (Czinkota and Ronkainen 1996). Conservative governments in Europe are welcoming private sector programs to provide job training for inner city youth, to meet the needs of immigrants, and to solve massive pollution problems (Czinkota and Ronkainen 1996).

### **Building Corporate Image**

In addition to assisting with community needs, multinational corporations can build corporate image through cause-related marketing. Cause-related marketing first came into prominence in the 1980's when many companies were flush with cash and looking for a novel way to promote themselves as socially responsible corporate citizens (Mihaly, 1997). Most people regard cause-related marketing as tying the sale of a product to a cause, with a portion of the proceeds going to the cause (Fellman, 1999; Mihaly, 1997). However, many companies have gone beyond such tactics by tapping into issues important to the target market and developing special programs to either raise awareness for the cause or respond directly to the nature of the cause. For example, New York Based Avon Products, Inc. has been a recognized leader in cause-related marketing with programs aimed at raising awareness of breast cancer, a problem afflicting its target audience of women (Fellman, 1999). The Body Shop, a women's apparel retailer, launched a major outreach campaign to increase awareness of HIV and AIDS among women, the fastest growing group affected by the disease (Miller, 1993). Liz Claiborne has called attention to domestic violence (Miller, 1993).

Bristol-Meyers and Estee Lauder have taken cause-related marketing a step farther. Bristol-Myers is spending about \$18 million in Botswana to build a Harvard University-associated AIDS research laboratory and to pay for clinical trials (Walldholz, 2000). Estee Lauder Co. formed The Breast Cancer Foundation to fund research into the causes and treatment of breast cancer (Miller, 1993). As explained by a senior marketing executive for Liz Claiborne, "because most of our



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products are sold to women, it seems only right to help women with some of the very pressing issues in their lives” (Miller, 1993).

Quantitative research conducted in the United States and in the UK in 1996 and 1997 demonstrated that the reaction of consumers to cause-related marketing was far more positive than businesses had anticipated (McNeill and Mirfin, 1998). For example, 86% of UK consumers agreed that they would have a more positive image of a company that was involved in cause related marketing (McNeil and Mirfin, 1998). A similarly high number asserted that, if price and quality were equal, they would be more likely to buy a product associated with a cause or charity (McNeil and Mirfin, 1998). A similar study by Chaney and Colli (2001) found that 15 percent of New Zealand customers had been induced to purchase a cause-related marketing product even though it was not their usual brand, and 10 percent of purchasers claimed to have increased the quantity of the product they bought as a result of the promoted charity link. Studies conducted in Australia by Cavill + Co. (1997, 2001) report that more than half of the Australian population (54%) are prepared to switch brands for one that supports a good cause providing quality and price are equal. The results from these studies are notably in line with US research, suggesting that cause related marketing can translate successfully across the Atlantic (McNeil and Mirfin, 1998) and is perceived as more favorable by consumers than commercial sponsorship activities (d'Astous and Bitz, 1995).

In addition to cause-related marketing, companies can build corporate image using several other more traditional PR strategies. These may include appearances at trade shows, media appearances, having a corporate presence on the Internet, sponsoring seminars, and having a celebrity spokesperson. Making an effort to adapt to cultural norms can also help build corporate image. For example, the typical gathering of Wal-Mart employees at US stores each morning to recite a company cheer is designed to build team spirit (McCartney 2006). This activity is very much in keeping with social norms in the United States. However, German workers find these activities offensive and arrogant (McCartney 2006). If Wal-Mart were to insist that German stores implement these team-building strategies, the company would risk alienating its employees and make the firm vulnerable to negative publicity. In keeping with strategies designed to develop a positive image in the countries in which it operates, Wal-Mart adapted to cultural norms of Germany. The cheer is optional and some stores choose not to participate (McCartney 2006). Adapting to the German culture could advance the image of the company in Germany.

### **Building Brand Awareness**

While maintaining the reputation of a corporation may be the most important public relations objective, PR efforts may be directed toward other goals such as building brand awareness in the global marketplace. In fact, Briggs (1998) argues that the two are virtually synonymous. Maintaining the corporate image of a company equates to “managing brand equity, the difference between an organization’s fixed asset value and its worth in the marketplace. Often five or 10 times

greater, or even more, than the cash assets, brand equity is the bottom line. It is a company's most important asset. It is measurable. It is what board, CEO, and shareholders care most about" (Briggs, 1998).

Some of the PR strategies that may be used to build brand image include special events designed to generate publicity, using celebrity spokespersons, and sports and special event sponsorships. One example of public relations efforts used to generate brand awareness through publicity is the famous chess game rematch of 1997 between Russian chess-master, Gary Kaparov, and IBM's computer named "Deep Blue" (Ziegler, 1997). IBM estimates that the match generated about \$100 million in favorable earned media.

According to Pepsi-Cola, efforts to build brand awareness can have added benefits. For example, Pepsi, a minor player in Japan, wanted to become recognized as a major international brand (Onkvisit and Shaw, 1997). The company tied its promotional campaign to Michael Jackson's thirteen concerts in Japan (Onkvisit and Shaw, 1997). The publicity generated resulted in improved employee morale as well as a 100 percent increase in summer sales (Onkvisit and Shaw, 1997).

Heineken has been particularly active in sponsoring sports and other special events in building brand image. In the past, Heineken sponsored such sporting events as the US and Australian Opens and the Davis Cup (Dorsey 2000). More recently, Heineken has moved from sponsoring events to organizing them. The company created the Shanghai Open, China's first international tennis tournament, as well as the regatta off the island of St. Maarten (Dorsey 2000). Heineken also organizes special events. In the Netherlands, Heineken introduced "Heineken Night Life, a music and film event featuring big name performers (Dorsey 2000). It also organized a Heinken Night of the Proms music event in the Netherlands and an annual Jammin pop festival (Dorsey 2000). Heineken organizes hundreds of locally tailored music events in bars, cafes and pubs in France (Dorsey 2000). Heineken's international marketing manager wants consumers to say "Only Heineken can give me this memorable experience" (Dorsey 2000).

Building brand or corporate image may be particularly challenging to corporate entities organized as joint ventures. PR communications become more complex since the partners must reach agreement on key messages and news content (Shore, 1997). Such agreement may be particularly challenging in countries such as China, where knowledge of how to promote corporate image is rare (Anonymous, 1995). Finally, the planning and approval cycles of the partners may differ, creating delays (Shore, 1997).

## **Issue Management**

With the diversity of issues that are important to any multinational company, developing an early-warning system for tracking public issues that can negatively affect corporate image is crucial (Mackiewicz, 1993). The goal of an issue management plan is to identify potential problems before they develop so that the company has an opportunity to shape, rather than merely react to, public

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opinion and decision-making. Petroleos De Venezuela, SA, which operates in Europe and the U.S. (where it is the sole owner of CITGO), adopted the issues management process in 1991 and has since helped shape public policy decisions in such areas as export taxation and environmental regulations (Mackiewicz, 1993).

### **Additional Recommendations**

For companies already established in foreign markets, an ongoing image campaign may include sending newsletters to employees, customers, suppliers, and other stakeholders. Newsletters, as well as press releases sent to the media, can emphasize the company's involvement in the community, support of charitable causes, environmental practices, infrastructure developments, awards sponsorships, and prize contributions. To build corporate and brand awareness, the company can participate in trade shows, sponsor seminars, make appearances on radio or television shows, use local celebrity media spokespersons, and establish a presence on the Internet. With regard to issue management, the company should meet regularly with special interest groups and have a crisis communication plan in place.

Furthermore, many companies (like many of the oil companies) are using role-play to simulate a crisis situation, complete with reporters, families of the injured, the company spokesperson, etc. "For years, Southwest Airlines diligently studied other companies' processes for handling disasters and practiced crisis-management using role play drills" (Griffin 2000). Role-play exercises should be conducted at least annually to maintain an effective and ready crisis management team.

### **PUBLIC RELATIONS SETBACKS AND CRISIS MANAGEMENT**

Despite the best of intentions, not all public relations efforts work out as intended. When Reebok agreed to officially sponsor a month-long 1994 World Cup soccer tournament, the teams of two of Reebok's four big-name stars (Columbia and Argentina) unexpectedly lost early in the tournament (Power, 1994). The company, expressing empathy with Columbian and Argentine soccer fans, reacted by running an ad on Cable News Network's weekly highlights program with the slogan: "Soccer is not a matter of life and death (Power, 1994). It's much more important than that". Unfortunately, the company had to cancel the ad after angry fans murdered Columbia's Andres Escobar (Power 1994). To make matters worse, Reebok drew further negative attention when the evidence seized in the O.J. Simpson murder case included Simpson's white Reeboks (Power, 1994).

A crisis can occur with little warning, anywhere, anytime (Darling 1994). When a crisis strikes, a company often finds itself thrust into the spotlight (Keegan 1999). What defines a crisis in international business depends on a number of variables: the nature of the event; how many

people, if any, need emergency care; the importance of the issue to foreign and US governments; the impact on other firms (including suppliers or distributors) and industries; who and how many individuals, inside or outside the organization, need to be informed, and how accessible those people are; how much interaction with the media is necessary and what the media choose to emphasize; how much the organization needs to assert control and demonstrate that it is capable of responding; and how quickly the firm is actually able to respond (Darling, 1994).

The source of public relations crises can be primarily external or primarily internal. External crises are those associated with occurrences in the firm's political, legal, economic, or socio-cultural environment that draw negative attention to the organization. For example, one day after the 78-day air war against Yugoslavia broke out, McDonald's restaurants were vandalized by angry mobs (Block, 1999). McDonald's Corp. was forced to close its 15 restaurants in Yugoslavia for about three weeks (Block, 1999). "McDonald's is a global symbol of western pop culture, Yankee know-how, and American corporate cunning. But prominence on the world stage can be a lightning rod for trouble, and the company is often exposed to outbursts of anti-American sentiment and a myriad of political grievances" (Block, 1999, B1). External public relations crises may also occur when celebrity spokespersons for a company receive negative publicity. Kobe Bryant lost millions in endorsement deals with McDonalds, Sprite, and Nutella after he was charged with sexual assault (Levenson 2005). Similarly, O.J. Simpson's relationship with Hertz ended in late 1992 when reports of domestic abuse surfaced ([http://en.wikipedia.org/wiki/The\\_Hertz\\_Corporation](http://en.wikipedia.org/wiki/The_Hertz_Corporation)).

Internal crises are those associated with occurrences thought to be under the control of the organization. For example, oil giant Shell came under fire from environmentalists over the proposed dumping of the oil platform Brent Spar at sea and the effects of its projects in Nigeria (Wilkinson, 1999). Fast food company McDonalds had to contend with the media after bringing a libel action against two individuals who had made allegations about the fast food chain in campaign leaflets (Wilkinson, 1999). IBM's high profile sponsorship of the Summer Olympics in Atlanta turned into a public relations disaster when its scoring system spewed out the wrong results for reporters (Ziegler, 1997). Coca-Cola was blamed when a batch of bad carbon dioxide was used by one of its plants and chemicals used in another factory apparently got into some cans (Schmidt, 1999).

According to Hamish Pringle, former vice chairman of Saatchi & Saatchi, "The problem that these companies are facing is that information about their activities is becoming ever more widely available. If you go back ten to 20 years, it was hard to see what companies were doing. Now the media has made them much more transparent" (Wilkinson, 1999).

### **Complicating Factors**

One of the many complicating factors in international public relations is that consumers in one market may react to marketing strategies employed in another market (Czinkota and Ronkainen, 1996). The question is raised whether multinational companies should be held to the same standards

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of ethics and taste as they are in their home country (Parker-Pope, 1996). Does it make a difference if images that are offensive in one culture are benign in the market where the ads are shown (Parker-Pope, 1996)? For example, the Interfaith Center in Corporate Responsibility urged Colgate-Palmolive to stop marketing Darkie toothpaste in Asia because of the term's offensiveness in other parts of the world (Czinkota and Ronkainen, 1996). Colgate responded by redoing the package and changing the brand name to Darlie.

When Ford Motor in Europe decided to modify its U.K. ad campaign to run in Poland, it used computer graphics to super-impose white faces on photos of its Black, Indian, and South Pakistani workers (Strassel, 1996). The picture surfaced when a handful of the workers who had posed for the original photo saw a reprint of the new company brochure (Strassel, 1996).

Anheuser Busch faced a similar situation when it used American Indians to sell Budweiser beer in Britain. While the ads were popular in Britain, Indian advocacy groups said the campaign was insensitive to the problem of alcoholism among American Indians. The ad was part of a campaign airing only in Britain and British consumers were unaware of negative stereotypes of Indians and alcohol (Parker-Pope, 1996).

As often as not, questionable ads airing in foreign markets boomerang back to the advertiser's home market (Parker-Pope, 1996). That's when advertising in foreign markets suddenly becomes a critical public relations issue for the multinational at large.

### **Mishandling Negative Publicity**

When negative publicity is mishandled, the situation faced by the corporation can deteriorate quickly. For example, the adverse publicity generated by powdered milk formula as a breast-milk substitute marketed in less developed countries by Nestle became a publicity nightmare that engaged the company in a long and costly conflict (Onkvisit and Shaw, 1997), not to mention a six year boycott of Nestle's products (Czinkota and Ronkainen, 1996). Church groups and consumer groups accused Nestle of promoting the product to those who could least afford it or were unable to use it properly (Onkvisit and Shaw, 1997). Nestle added fuel to the fire when it ran an anti-boycott ad in the Oxford Independent, a student newspaper at Oxford Brooks University (Wilkinson, 1999). The Advertising Standards Authority found three claims made in the ad to be unsupported and warned Nestle not to repeat the three claims (Wilkinson, 1999).

Perrier mishandled negative publicity by responding with inaccurate information. In 1990, Perrier was forced to recall 160 million bottles of its sparkling water after traces of benzene contamination were found (Magiera, 1994). Perrier botched its communications efforts in the early days following the crisis by claiming that a technician had contaminated a tank during routine cleaning (Magiera, 1994). Ultimately, Perrier executives were forced to admit that the company's water contains benzene when it comes out of the ground; the chemical has to be removed by filtration (Magiera, 1994).

Nike and other marketers have received a great deal of negative publicity regarding alleged sweatshop conditions in factories run by subcontractors (Keegan, 1999). Nike's public relations team has not done an effective job counteracting the criticism by effectively communicating the positive economic impact Nike has had on the nations where its sneakers are manufactured (Keegan, 1999).

It took seven days for Coca-Cola to respond to press reports of children and adults in Belgium and Northern France becoming ill after drinking Coca-Cola products (Schmidt, 1999). Coke misread consumers' level of concern when the reports first surfaced (Schmidt, 1999). While Coke focused on denying that its product was responsible for the illnesses, the media filled the information vacuum with speculation and accusations from other sources (Schmidt, 1999). Before Coke had the chance to selectively recall products that may have been part of the affected shipments, governments throughout Northern Europe were banning and recalling Coke soft drinks or, in some countries, all Coke products (Schmidt, 1999).

Ignoring adverse publicity gives the impression of arrogance, and it wastes critical time that could be used to solve the problem (Onkvisit and Shaw, 1997). A 'no comment' response conveys the impression of uncooperativeness and implies guilt (Onkvisit and Shaw, 1997). In the absence of formal comment, people assume it's worse than it is (Schmidt, 1999). The best response is to be forthright and direct, reassuring the public, and providing the media with accurate information (Keegan, 1999). The first response must be to express concern for the situation. The public's perception must be that the company cares about those affected by the crisis. For example, McDonalds in Yugoslavia reached out to its local customers during the air war against Yugoslavia by redesigning the McDonald's logo to add a sajkaca (a Serbian cap symbolizing cultural heritage) to the golden arches, reintroducing the McCountry pork (the most Serbian of meats) burger to the menu, and handing out free burgers at anti-NATO rallies (Block, 1999).

When the source of the crisis is internal, the company must be willing to take responsibility and to implement change measures to prevent the situation from worsening or the crisis from occurring again in the future. This may involve, for example, the immediate recall of suspect products, the closure of sweatshop factories, or the cancellation of offensive advertising.

Finally, the company needs to remedy the situation by providing restitution to those affected. Following reports of illness in Belgium and France resulting from drinking Coca-Cola, the company ultimately set up a consumer hotline and offered to pay all medical bills (Schmidt, 1999). When Ford Motor of Europe superimposed white faces over photos of the Black, Indian, and South Pakistani workers who posed for its ads, Ford ended up apologizing, awarding each of the workers the equivalent of \$2,318 in compensation (Strassel, 1996), and pulling the ads (Parker-Pope, 1996).

Albritton and Manheim (1985) argue that when the publicity is particularly negative, there may be a benefit to reducing visibility for a period of time (a cooling off period). Then, a gradual increase in the percent of positive exposure may produce incremental shifts in attitude in a generally positive direction (Albritton and Manheim, 1985). In general, all decisions regarding the handling

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of a crisis situation should be made based on the public good, rather than on cost (Onkvisit and Shaw, 1997).

### **Additional Recommendations**

When a crisis occurs, the primary public relations objectives are to have a crisis communications plan in place and to be responsive. The company can be responsive through press releases to the media, holding press conferences, establishing media and consumer hotlines, making television and radio appearances, and holding meetings with special interest groups.

### **PUBLIC RELATIONS IN THE GOVERNMENT SECTOR**

While much of the discussion of international public relations tends to focus on the corporate sector, governments are increasingly becoming aware of the importance of public image, particularly as trade barriers continue to fall. The PR activities undertaken by foreign governments vary widely. Many national governments have been criticized for their lack of communications with the public and the media, as well as for inept handling of crisis situations. Taguchi (1995) discusses the mishandling of the Kobe earthquake crisis by the Japanese government. She suggests that “the government’s non-practice of public relations caused a second, avoidable disaster for Japan’s relationships with the international community and with its own citizenry” (Taguchi 1995, p.31). First, the central government failed to order troops to rescue more than 1,000 trapped survivors until four hours after news of the incident (Taguchi 1995). Second, the government failed to respond quickly to international relief offers (Taguchi 1995). “People worldwide were outraged since this was against universal human values” (Taguchi 1995, p.33). Third, the government did not advise residents where to find water, medical care, or other assistance (Taguchi 1995). Fourth, there was no communication between relevant agencies. Fifth, the Prime Minister appeared to be unaware of the earthquake even three hours after it occurred (Taguchi 1995). Two and a half days later, when he visited the site, he was shocked to learn of the scale of destruction (Taguchi 1995). Despite the fact that significant earthquakes had hit Japan three times in the three months prior, the government had no crisis plan in place (Taguchi 1995).

Japan’s lack of public relations is not limited to crisis management. Japan’s image suffered miserably during the Gulf War as a result of its failure to communicate.

*“Despite contributing \$US13 billion, more than any non-Arab country, Japan’s effort was partly seen as “too little, too late” in the U.S. It is interesting to note that Americans had a much better impression of Germany, whose contribution was smaller than Japan...The simple fact is that during the Gulf Crisis, Germany practiced good PR, and Japan did not.” (Taguchi 1995, p.33)*

Fortunately, the trend toward awareness and advancement of government public relations is notable. A number of third world countries have hired US public relations firms to directly lobby with the US government, prepare press kits and similar materials, counsel embassy personnel regarding how to phrase discussions of such topics as terrorism or human rights, organize field trips for the press, conduct meetings and programs highlighting economic or other resources of the client country, establish personal contact between client-government officials and influential US officials or journalists, and provide advice as to specific policies that could favorably affect the image of the client government (Cooney, 1979; Davis, 1977; Tedlow and Quelch, 1981).

China, in particular, has had a "tremendous international image problem" (Brauchli 1996, A1). Wanting to ensure that the U.S. doesn't endanger business ties, Boeing Co., General Motors Corp. and other multinationals formed an unconventional alliance called the China Normalization Initiative to help Beijing moderate its image through better public relations (Brauchli, 1996).

### Additional Recommendations

Governments are increasingly concerned with public image. Often, the public relations tactics are directed at explaining or clarifying the government's position on key issues. To this end, suitable public relations tactics include meetings with special interest groups, making information available via an Internet home page, having public officials make TV and radio appearances, holding press conferences, and establishing media hotlines. When a government implements a new initiative, a special event may be useful to earn public support.

PR Strategies	Market Entry				Main-tenance	Crisis Manage-ment	Govern-ment
	<i>Foreign Direct Investment</i>	<i>Joint Venture</i>	<i>Licensing/ Franchising</i>	<i>Exporting</i>			
Create employment opportunities outside company	x						
Involve community members in planning	x						
Appoint groups to monitor development projects	x						
Provide seed capital for new businesses	x						
Establish local advisory board	x						
Set meetings with the trade	x	x					



<b>Table 1: Public Relations Strategies</b>							
PR Strategies	Market Entry				Main-tenance	Crisis Manage-ment	Govern-ment
	<i>Foreign Direct Investment</i>	<i>Joint Venture</i>	<i>Licensing/ Franchising</i>	<i>Exporting</i>			
Set meetings with local officials	x	x					
Advise personnel about cultural norms and expectations	x	x	x				x
Image consulting	x	x	x				x
Localize the company image	x	x	x				
News release			x	x	x	x	x
Trade shows				x	x		
Internet home page			x		x	x	x
TV/radio appearances			x		x	x	x
Develop essential services for foreign market	x				x		
Providing training/tech support to external entities	x			x			
Develop infrastructure	x				x		
Meet with special interest groups	x			x	x	x	
Measure/report economic impact of the firm on community	x						
Solve local environmental problems					x		
Donate products to local institutions					x		
Issue management					x		
Fund research					x		
Fund special projects					x		
Donate to charities					x		
Employee volunteerism					x		
Sports and event sponsorships					x		
Cause-related marketing					x		
Contribution of prizes					x		

PR Strategies	Market Entry				Main-tenance	Crisis Manage-ment	Govern-ment
	<i>Foreign Direct Investment</i>	<i>Joint Venture</i>	<i>Licensing/ Franchising</i>	<i>Exporting</i>			
Awards sponsorship					x		
Newsletters					x		
Host government officials at corporate headquarters					x		
Celebrity media spokesperson					x		
Special events					x		x
Seminars and symposia					x	x	
Lobbying				x	x		
Crisis communication plan					x	x	
Consumer hotline					x		
Maintain low profile						x	
Media hotline						x	x
Press Conference						x	x
Field trips for the press							x
Report on initiatives					x		x

Key: x = examples from existing literature; x = additional tactics recommended

### **General Guidelines Regarding Implementation**

In reviewing the experiences of some companies' public relations efforts, a few lessons can be learned. First, as mentioned previously, companies need to help communities help themselves, rather than just help the communities (Wasserstrom and Reidel, 1998). Helping communities (by providing giveaways) directly fosters long-term dependency and endlessly growing wish lists (Wasserstrom and Reidel, 1998). Whatever impact the company wishes to have should be self-sustaining once the funding is withdrawn or redirected.

Second, companies looking to assist in solving community or national problems would be wise to seek input from the community and the government. When Bristol-Myers set up its program to fund medical research and AIDS education, the company did not reach out in the beginning to members of the community or to the very top people in government (Waldholz, 2000). As it turned out, members of the community were more concerned about protecting the unaffected and providing prenatal care for young and infected pregnant women than for money to conduct expensive research

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or for testing new drug combinations (Waldholz, 2000). Government officials that were not consulted felt slighted, and even suspicious of the company's motives (Waldholz, 2000).

Third, although companies want to be able to publicize the positive impact they are having on a community or a cause as a result of their public relations efforts, they should be careful not to overdo the fanfare. Local citizens may be offended by a company's efforts to publicize its projects (see Waldholz, 2000). The net effect may be to hurt, rather than help, the company's image and relationships with its publics.

Fourth, companies must be sensitive to cultural differences worldwide and assess the impact that a given strategy implemented in one country might have on consumers and organizations in other countries. In this age of global travel and electronic communication, negative consumer reactions can originate anywhere and be disseminated everywhere.

Finally, companies should recognize that no matter how much care they take in implementing their public relations strategies, things can (and sometimes do) still go wrong. The company must have a crisis management system in place *before* a crisis occurs. The system must include for example, a list of whom in the corporation needs to be informed, established relations with the media, and a global public relations team ready to advise regarding cultural nuances. Most importantly, a response that reflects sensitivity and empathy to those affected by the crisis must be made in a timely fashion.

### **TRENDS AFFECTING INTERNATIONAL PUBLIC RELATIONS**

The emergence of the Internet presents a whole new set of challenges for multinationals (as well as foreign governments). Based in part on the power of the Internet, some suggest that we are seeing the dawn of the “transparent corporation” (Pinkham, 1998). “For example, look at the furor that is being raised over working conditions in U.S. owned manufacturing plants located in third world countries. There was a time when contractors in a plant in eastern Asia were unearthed by the parent company and – ideally – were promptly corrected. Now we live in a world where news about violations of law or even violations of good moral behavior are disseminated worldwide sometimes before the company knows about it” (Pinkham, 1998). There are now an estimated 349 million Internet users worldwide, and that number is projected to grow to 766 million by the year 2005 (Lawrence 2000).

Computer chip-maker Intel experienced the power of the Internet when it failed to acknowledge a technical defect in the company's flagship Pentium chip (Keegan and Green, 1997). The college professor who discovered the flaw posted his complaint on the Internet and word spread quickly, not only about the flaw, but about Intel's lack of response (Keegan and Green, 1997). Only after weeks of negative publicity did Intel announce that new Pentium chips would be available to anyone who requested them (Keegan and Green, 1997).

Companies that are unresponsive to consumer and public concerns may find themselves the target of an Internet consumer complaint forum. These company-specific complaint sites are established by individuals (or groups) who are not affiliated with the target company (Harrison-Walker and Erdem, 2000). The typical motive is to use the site as a weapon against a company that is otherwise untouchable.

On the positive side, people who work in public relations have a greater ability to send information out over the Internet at warp speed (Pinkham, 1998). Research services can be contacted round the clock; the media can be contacted in an instant; and a grass roots campaign to enlist the support of shareholders, customers, employees, retirees, or suppliers can be up and running almost overnight (Pinkham, 1998). An interesting new development world-wide is the emergence of online press rooms. From this area on a corporate web site, companies can deliver any type of news to the press, making it easy for journalists to obtain information about the company, while simultaneously serving as a channel for information requests to the company (Naude, Froneman, and Atwood 2004). Seventy percent of journalists list company websites as the first place they look when researching a breaking story or a feature (Anonymous 2002).

An analysis of 120 corporate websites from Denmark, France, Germany, Norway, Singapore, Spain the United Kingdom, and the United States underscored the importance of web-based media centers for meeting journalists' demands for information and achieving organizational objectives (Alfonso and Miguel 2006). While 87% of the web sites analyzed had specific links on their homepages targeting customers, a full 78% had hyperlinks to media-specific pages (Alfonso and Miguel 2006). Ninety-two percent of large companies had online press rooms (Alfonso and Miguel 2006). The content in these press rooms may include press releases, backgrounders and biographies, historical information, financial data , press clips, and photo/video/audio archives that journalists can download (Alfonso and Miguel 2006).

It's not just companies that spread the news about companies. Consumers can prove to be quite helpful in generating positive publicity for a company or a brand. With growing interactive technologies, consumers can initiate interest in a brand by engaging in a variety of online communications including email, online bulletin boards, blogs, and web sites (Vranica and Terhune 2006). This kind of consumer-led activity, referred to as consumer-generated media ("CGM"), is said to be growing at 30% per year (Vranica and Terhune 2006). To leverage CGM to the marketer's advantage, someone in the company needs to be in charge of monitoring and disseminating relevant information (Vranica and Terhune 2006). An excellent example of CGM occurred in the summer of 2006 when over 800 amateur videos flooded the Internet showing an experiment dropping quarter-sized Mentos candies into bottles of Diet Coke (Vranica and Terhune 2006). The combination resulted in a geyser of soda that shoots as high as 20 feet in the air (Vranica and Terhune 2006). The popularity of the videos (see [www.EepyBird.com](http://www.EepyBird.com)) is free publicity for Mentos. Mentos estimates the value of the free publicity at over \$10 million (Vranica and Terhune 2006). The company is considering a marketing deal with the two men who had the most elaborate

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video using 101 two-liter bottles of Diet Coke and 523 Mentos to create a dancing fountain like at the Bellagio Hotel in Las Vegas (Vranica and Terhune 2006).

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# THE EFFECT OF TEACHER COMMUNICATION AND COURSE CONTENT ON STUDENT SATISFACTION AND EFFECTIVENESS

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## ABSTRACT

*The effectiveness of student evaluation of faculty (SEF) has received increasing attention from the academics. In light of this, the present study advances the contributions to the literature in two ways: a) it provides a conceptualization of the constructs in a SEF instrument by discriminant and convergent validity and reliability of the measures, and (b) simultaneous analysis of instructor-wise and class-level analysis of correlates of evaluations. This study examined the relative influence of class-level and individual-level perceptions of communication, course content, fairness in grading exams on perceived satisfaction and effectiveness of instructors. Based on the SEF instrument used in a university in south, the present study provides some interesting insights. The results from the analysis of 4186 students and 35 instructors indicated that students' perceptions of teacher's communication skills in the class room and course content set by the instructor were positively related to both effectiveness and satisfaction. The results also suggest that the exams (i.e. perceived fairness of the instructor's grading procedures) moderate the relationships between communication, course content and student satisfaction with instructor's teaching and students' perception of teacher effectiveness. The results of hierarchical regression results show validity of the instrument used by the students in evaluating the teacher effectiveness. The results support the view that student evaluation instruments need to be taken seriously rather than a mere ritual.*

Key Words: Student evaluations, Teacher effectiveness, Perceptions of grading

## INTRODUCTION

It is a widely accepted practice for all the American Colleges and universities to use student evaluation of faculty (SEF) to measure instructional effectiveness of teachers. Literature review on SEF reveal both positive and negative side of the evaluation. On the positive side, academicians

argue that the SEF are highly reliable, moderately valid, and assist teachers in improving the methods of instruction subsequently. Available empirical evidence suggests that students ratings can lead to changes in course delivery and thus more favorable student evaluations (McKeachie, 1996). Meta analysis and review articles conclude that students ratings are acceptably reliable and valid indicators of teaching effectiveness that can lead to modest improvements in teaching (Braskamp & Ory, 1994). Personality is correlated to instructor's class room behavior and educational goals which in turn are related to teaching effectiveness.

On the other hand, critics argue that (i) SEF are biased in that students tend to give higher ratings when they expect higher grades in the course (called grading leniency bias), (ii) SEF encourage teachers to dumb down courses to keep students happy at all costs, (iii) SEF ratings are often influenced by the cosmetic factors that have no effect on student learning, and (iv) SEF are a threat to academic freedom in the sense teachers may feel inhibited from discussing controversial ideas and presenting challenging questions to students because they fear that students may express disagreement through the SEF (Braskamp & Ory, 1994).

Critics also argue that 'why teacher effectiveness is defined in terms of 'student satisfaction' and 'why are faculty so willing to trust judgments made by students in areas beyond their competence to judge?' (Gray & Bergmann, 2005). Some scholars suggest that (a) do not use student ratings as the only measure of teaching effectiveness as they do not provide evidence in all areas relevant to teacher effectiveness (e.g., command of subject matter, appropriateness of course content and objectives). Perhaps some other useful sources to assess teacher effectiveness are instructor's teaching portfolio and student's actual achievements; (b) make the SEF be 'achievement' oriented rather than 'satisfaction' oriented. This can be done by adding questions such as how much the students learned from the course and by removing the questions such as how well the instructors know the subjects they taught because students may not have adequate knowledge to judge knowledge of teacher.; (c) while making judgments about individual instructor it is better to use ratings to similar courses (e.g., comparing business course with music course may appear to comparing apples with oranges) (Emery, Kramer, & Tian, 2003).

Despite these critical arguments, SEF continue to be important and frequently contentious research area (Harrison, Douglas, & Burdsal, 2004). Literature so far focused on (a) validity of teaching evaluation scales (Greenwald, 1997; McKeachie, 1997), (b) multidimensionality of teaching (Marsh and Roche, 1997), (c) structure of student ratings of instructional effectiveness (d'Apollonia and Abrami, 1997), (d) the effect of grading leniency on SEF (Greenwald and Gillmore, 1997), and (e) bias in student ratings (Gillmore and Greenwald, 1999; Marsh and Roche, 1999). Most of the research focused on the multilevel factor analysis of SEF and examine the factor loadings of the items on (a) instructor's delivery of course information (e.g., enthusiasm, organization, presentation, clarity) (b) teacher's role in facilitating instructor / student interactions (e.g., group interaction,; rapport understanding learners' backgrounds, ethnicities, and attitudes), and (c) instructor's role in regulating student learning (e.g., exams, assignments, readings, quizzes). In

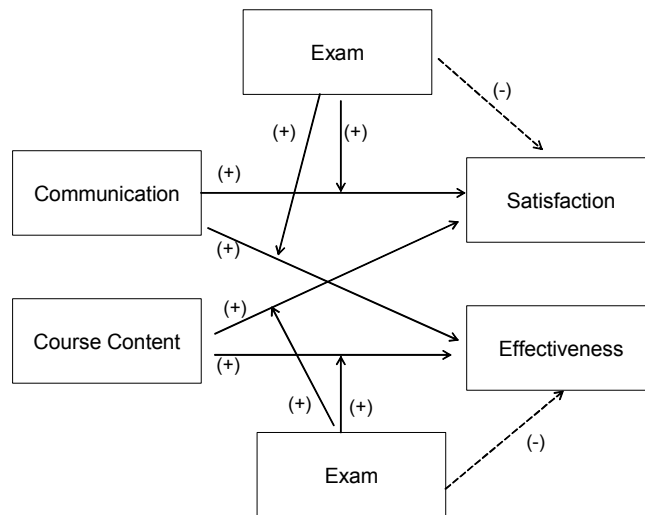
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general, student ratings data is analyzed by the use of summary statistics of central tendency (e.g. mean) and variability (e.g. standard deviation) (Jensen & Artz, 2005). Researchers examine the factorial validity of the scores of the scales (Students' Evaluation of Teaching Effectiveness Rating Scale (SETERS) by both conventional confirmatory factor analysis using the total covariance and pooled within-covariance matrices, and also by multilevel factor analysis to allow simultaneous examination of the within- and between-class structures while taking account the measurement error (Toland & De Ayala, 2005). Thus, despite the negative points or objections, academic institutions continue to use SEFs because they are the only objective measure of teacher's performance, easy to administer (less expensive), and provide a basis for teacher's retention, promotion and pay raises.

Some anecdotal evidence is available to explain the relationship between teacher communication and perceived teacher effectiveness: In the famous Ceci's experiment (Stephen J. Ceci, a professor at Cornell University) an instructor taught a developmental psychology course twice—once using his customary style. The second time he made a big effort to be more exuberant - adding hand gestures and communicating with varying pitch of his voice. Though he followed the same text book, same content in both situations, his ratings were higher second time. Surprisingly, students gave higher ratings to the text book also second time. This experiment conveys a message: communication style does matter to impact the evaluation of teachers by students (Gray & Bergmann, 2005). In some studies it was found that lecture content affected student achievement but had only negligible impact on student ratings. In one of the recent studies it was found that instructor satisfaction was significantly related to the perceived fairness of the instructor's grading procedures, perceived fairness of the expected grades and fairness of the instructor-student interactions (Wendorf & Alexander, 2005).

Yet there remains a potential gap in the area in the sense that none of the researchers dealt with how the constructs in the SEF instrument are related to each other. The review of prior research shows the relative importance of various specific instructional characteristics (normally represented by various dimensions in the measurement instrument) and research is not yet clear as to how these are related. The SEF instruments generally contain the following components: course organization and design, rapport with students, grading quality, and course value. What is missing in the research is that how these factors are related to each other is not examined by the researchers. The present research is aimed at bridging the gap and providing an extension of research. Not only the validity and reliability of the measures is important, the relationship between the constructs need a statistical examination before fully relying on the instrument. The hypothesized model is presented in Figure 1.

**Figure 1 Hypothesized Relationships in the model**



The terms we used are interpreted as follows:

<i>Exams:</i>	Perceived fairness of the instructor's grading procedures
<i>Communication:</i>	Students perception of teacher communication
<i>Course content:</i>	Students perception of course content as instructors mention in the course outline.
<i>Effectiveness:</i>	Perceived effectiveness of the instructor

We therefore, propose the hypothesized relationships between the constructs and express them through our hypotheses H1 through H4. We also propose that the students' perception of grading and examinations by the teachers moderates the relationships between the criterion variables and outcome variables. The hypotheses are listed thus:

*H1 Students perception of teacher's communication is positively related to student satisfaction with teacher.*

- 
- H2 Students perception of teacher's communication is positively related to perceived teacher effectiveness.*
- H3 Students perception of course content is positively related to student satisfaction with teacher.*
- H4 Students perception of course content is positively related to perceived teacher effectiveness.*
- H1a: Students' perception of exams moderate the relationship between communication and satisfaction such that greater scores on exams are associated with higher satisfaction.*
- H2a: Students' perception of exams moderate the relationship between communication and effectiveness such that the greater scores on exams are associated with greater effectiveness.*
- H3a: Students' perception of exams moderate the relationship between course content and satisfaction such that greater scores on exams are associated with higher satisfaction*
- H4a: Students' perception of exams moderate the relationship between course content and effectiveness such that greater scores on exams are associated with higher satisfaction.*

## METHODOLOGY

### Data and Sample

University teaching evaluation scale was used in this study to measure students' perception of teaching effectiveness. Data was collected from both undergraduate and graduate students from southwest public university. All students voluntarily participated in this study. Data was collected from multiple courses and therefore it was possible for students to respond more than once. Since students were rating different courses there is no duplication of surveys. The normal procedure, as with any university, is that data was collected two to three weeks before the end of semester from students enrolled in classes. Students were given an opportunity to complete the information consisting of the demographics and measures of teaching effectiveness, satisfaction, and exams. Students were instructed that the purpose of evaluation is to see how satisfied they were with the

course content, and instructor's teaching methods. They were also asked to write comments and suggestions if necessary to improve the teaching methods.

There were 4186 usable surveys collected from students, leaving the incomplete surveys from analysis.

## **Measures**

### **Communication**

Communication is measured using three items. The reliability coefficient (Chronbach alpha) for communication is .87. Questions were asked to determine the overall communication effectiveness of instructor, such as, "Instructor communicated clearly and effectively". Answers to these questions provide valuable insight on the communication skills exhibited instructors in class room as perceived by students.

### **Exams**

Examinations and testing were measured using four items. The alpha for this measure was acceptable at .86. One of the sample items read as: "The instructor discussed and answered items on returned tests and assignments".

### **Course Content**

Course content was measured using four items. The alpha for this measure was high at .90. One of the sample items read as: "The course covered material consistent with the stated objectives".

### **Satisfaction and Effectiveness**

These were measured using one item for each measure. It is expected that these measures tap the extent to which students were satisfied with the instructors and whether instructors are effective in achieving the student goals or not.

## **Data Analysis**

The confirmatory factor analysis was estimated on the 12 items measuring the communication, exams, and course content. Using structural equation modeling, estimates are done by constraining each item to load on that factor for which it was a proposed indicator. The factor loadings are over .72 for all the items with an exception of one item on exams that loaded at .62. The

goodness of fit measures reveal the following:  $\chi^2 = 4579.36$ , 70 df; goodness-of-fit index [GFI] = 0.86; comparative fit index [CFI] = 0.97; root-mean-square error of approximation [RMSEA] = 0.12; root mean square residual [RMR] = 0.036. We further tested for discriminant validity by following the procedures outlined by Fornell and Larcker (1981) and Netemeyer, Johnston, and Burton (1990), by comparing the variance extracted estimates of the measures with the square of the correlation between constructs. Variance extracted estimate is calculated by dividing the sum of squared factor loadings by the sum of the squared factor loadings plus the sum of the variance due to the random measurement error in each loading (Variance extracted =  $\frac{\sum \lambda_{yi}^2}{[\sum \lambda_{yi}^2 + \sum \text{Var}(\epsilon_i)]}$ ). If the variance extracted estimates of the variables are greater than the squares of the correlations between the constructs, evidence of discriminant validity is said to exist (Fornell & Larcker, 1981). In this study, the variance extracted estimates for all the variables exceeds the suggested level of .50 (Fornell & Larcker, 1981, p.46) and also exceeds the squared correlation between the variables. The variance extracted estimates for the communication, course content, and exams were .65, .59, and .51 respectively and both exceeded accepted cut off of .50. These statistics, together with the CFA results, offer support for discriminant validity between the students' perception of communication, exams, and course content. Overall, these results suggest that the factor-structure of the variables is a good fit of the data and provide discriminant validity to the measures. The results of CFA for all the variables are reported in Table 1.

Table 1: Results of Confirmatory Factor Analysis and Measurement Properties					
Variable	Alpha	Standardized Loadings ( $\lambda_{yi}$ )	Reliability ( $\lambda_{yi}^2$ )	Variance (Var( $\epsilon_i$ ))	Variance-Extracted Estimate
Communication (Factor 1)	0.87				0.65
The instructor communicated clearly and effectively		0.92	0.85	0.15	
The instructor was willing to provide extra help as needed		0.75	0.56	0.44	
The instructor allowed/encouraged relevant questions or comments		0.74	0.55	0.45	
Examinations /Testing (Factor 2)	0.86				0.51
The instructor discussed and answered items on returned tests and assignments		0.74	0.55	0.45	
The instructor graded and returned tests within two weeks		0.62	0.40	0.60	
The instructor made it clear how my grade in the course would be determined		0.72	0.52	0.48	

Variable	Alpha	Standardized Loadings ( $\lambda_{yi}$ )	Reliability ( $\lambda^2_{yi}$ )	Variance (Var( $\epsilon_i$ ))	Variance-Extracted Estimate
The instructor applied grading standards consistently from student to student		0.75	0.56	0.44	
Course Content (Factor 3)	0.90				0.59
The instructor presented content in an organized, logical fashion		0.86	0.74	0.26	
The course covered material consistent with the stated objectives		0.72	0.52	0.48	
The instructor provided course materials in a timely manner		0.74	0.55	0.45	
The instructor was well prepared		0.85	0.72	0.28	
The instructor stayed on the subject		0.84	0.70	0.30	

The hypotheses were tested using hierarchical moderated regression analysis. All the models included control variables prior to introducing the main and interaction variables. Since multiple regression analysis involved interactions, the “main effect” terms and product terms could be highly correlated, thus raising the issue of multicollinearity and make regression coefficients unstable and difficult to interpret (Cohen & Cohen, 1983). As suggested by Aiken and West (1991), we used centered variables in analysis because interactional analysis using centering procedure yields coefficients that are relatively free of multicollinearity. We also plotted the significant interaction graphs for facilitating interpretation of the moderator effects.

## RESULTS

Means, standard deviations, and zero-order correlations are reported in Table 2.

Our initial analysis of descriptive statistics table suggests that communication and course content is highly correlated at .86. Kennedy (1985) suggests that correlations of .8 or higher may be problematic from the viewpoint of multicollinearity. Tsui, Ashford, Clair and Xin (1995) state that there really is no exact level of correlation that constitutes a serious multicollinearity problem and they suggest .75 as a general rule. Since the correlations between communication and satisfaction (.79), course content and satisfaction (.78) it is warranted to check for multicollinearity. We did a statistical check for multicollinearity by observing the variance inflation factor (VIF) of each independent variable. The largest VIF was less than 2; thus, there is support that multicollinearity is not a problem (Kennedy, 1985).



Variable	Mean	Standard Deviation	1	2	3	4
Exam	4.59	.76	(.86)			
Communication	4.40	.88	.78***	(.87)		
Course Content	4.46	.84	.83***	.86***	(.90)	
Satisfaction	4.21	1.22	.65***	.79***	.78***	
Effectiveness	4.28	1.21	.67***	.78***	.78***	.81***

<sup>a</sup> N = 4186. Values in parentheses represent reliability coefficients \*\*\* p < .001

Multiple regression analysis was used to test the hypothesis that communication and course content are positively related to satisfaction and effectiveness. In addition, moderated hierarchical regression analysis was used to test the extent to which exams moderate the relationship between communication and satisfaction; communication and effectiveness; course content and satisfaction; and course content and effectiveness. To test the moderator hypothesis, we created linear-by-linear interaction terms by multiplying the proposed moderator (exams) by the communication and course content variables (Aiken & West, 1991). After entering the main effects and control variables into the equation, the multiplicative terms were added. The regression weights for the multiplicative terms were then examined for significance. The results are presented in Table 3. The instructor-wise analysis of the results were presented in Table 4.

Variables	Satisfaction			Effectiveness		
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
Class	.03***	.03**	.03**	.01	.00	.01
Term	.04**	.03**	.03**	.01	.00	.01
Section	-.03*	-.03**	-.03**	.01	.00	.00
Instructor	-.04***	-.03**	-.03**	-.02*	-.01	-.01
Exam	-.09***	-.36***	-.35***	-.04**	-.23***	-.22***
Communication	.49***	.04	.49***	.42***	.09**	.41***
Course Content	.42***	.43***	.02	.46***	.47***	.17***
Communication * Exam		.69***			.49***	
Course Content *			.64***			.46***

**Table 3: Moderated Regression Analysis of Classroom instruction on Satisfaction and Effectiveness with teacher<sup>a</sup>**

Variables	Satisfaction			Effectiveness		
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
Exam						
R <sup>2</sup>	.665	.679	.677	.661	.668	.667
F- Value	1185.21	1103.98	1093.58	1162.53	1049.34	1044.91
Δ R <sup>2</sup>		.014	.012		.007	.006
Δ F-Value		179.94***	152.08***		88.26***	76.25***
df	1, 4177	1,4176	1,4176	1,4177	1, 4176	1, 4176
*** p < 0.001, ** p <0.05, * p < .10						
a Standardized regression coefficients are reported						

**Table 4: Moderated Regression Analysis of Classroom instruction on Satisfaction and Effectiveness with teacher<sup>a</sup> (Instructor-wise analysis)**

Variables	Satisfaction			Effectiveness		
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
Exam	-.36**	-.72**	-.69**	-.09	-.35**	-.34*
Communication	.84***	.26	.92***	.74***	.32	.79***
Course Content	.48*	.32	-.26	.34*	.23	-.21
Communication * Exam		1.08**			.79**	
Course Content * Exam			.99**			.74**
R <sup>2</sup>	.94	.949	.947	.964	.969	.968
F- Value	181.3***	157.93***	151.69***	312.46***		257.58***
Δ R <sup>2</sup>		.009	.007		.005	.004
Δ F-Value		6.25**	4.74**		5.38**	4.309**
df	3,35	1,34	1,34	3,35	1, 34	1, 34
*** p < 0.001, ** p < 0.05, * p < .10						
a. Standardized regression coefficients are reported						

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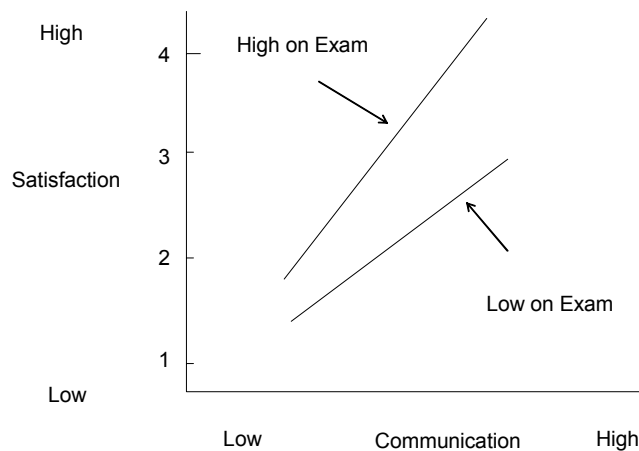
As shown in Column 1, communication ( $\beta = .49, p < .001$ ) and course content ( $\beta = .42, p < .001$ ) were positively related to satisfaction and the beta coefficients were statistically significant. In addition, exams were negatively related to satisfaction as hypothesized in the model ( $\beta = -.09, p < .001$ ). The main effects model explained 66.5% of variance in satisfaction ( $F = 1185.21, p < .001$  with  $df_{1,4177}$ ). These findings suggest that communication and course content are strong predictors of satisfaction thus supporting H1 and H3.

Column 4 shows the direct effects of communication and course content on effectiveness. Once again, communication and course content are strong predictors of perceived teacher effectiveness and the beta coefficients respectively are ( $\beta = .42, p < .001$ ;  $\beta = .46, p < .001$ ). Examination is negatively related to effectiveness ( $\beta = -.04, p < .05$ ). The direct effects model explained 66.1% of variance in effectiveness ( $F = 1162.53, p < .001$  with  $df_{1,4177}$ ). Overall the results provide support for H2 and H4.

Hypothesis 1a is related to exams as a moderator in the relationship between communication and satisfaction. The results of moderated regression (in Column 2) do show a significant interaction between communication and exams in its effect on satisfaction. The moderated regression model yielded the beta coefficients for exam ( $b = -.36, p < 0.001$ ), course content ( $b = .43, p < 0.001$ ) for the interaction term ( $b = .69, p < 0.001$ ). The moderated regression model was significant ( $F = 1103.98, p < .001$  with  $df_{1,4176}$ ) explaining 67.9 per cent of the variance. The inclusion of interaction between communication and exams accounted for additional 1.4 percent of the variance satisfaction ( $\Delta F = 179.94, p < .001$ ;  $\Delta R^2 = .014$ ). These results render support for H1a that exams moderated the relationship between communication and satisfaction.

Figure 1 shows the interaction plot by showing the regression lines linking the communication to satisfaction under the conditions of low and high exam scores. By high exam scores we mean that the instructors make it clear to the students about the pattern of exams, grading system, giving tests back on time etc. Low scores mean that instructors earned low scores on these items. While plotting the interaction plot, we followed procedure laid out by Aiken and West (1991) by computing the slopes from beta coefficients derived from regression equations that adjust the interaction term to reflect different values of moderator (low scores were defined as one standard deviation below the means and high scores represent one standard deviation above the mean scores). As shown from the figure, communication associated with high scores on exams yield higher satisfaction than the communication associated with low exam scores. These results provide support for H1a. The interaction plots are presented in Figure 2.

**Figure 2: Moderating effect of Exam on the relationship between Communication and Satisfaction**



Column 3 from Table 2 represents the moderating effect of exams on the relationship between course content and satisfaction. The beta coefficients for exam ( $b = -.35$ ,  $p < 0.001$ ), communication ( $b = .49$ ,  $p < 0.001$ ) and for the interaction term ( $\beta = .64$ ,  $p < .001$ ) were significant suggesting that H3a is supported. The overall model explained 67.7% of the variance and is significant ( $F = 1093.58$ ,  $p < .001$ ). Compared to the base model the moderated model yielded additional variance of 1.2% ( $\Delta F = 152.08$ ,  $p < .001$ ;  $\Delta R^2 = .012$  with  $df_{1,4176}$ ).

Hypotheses 2a is related to the exam as a moderator in the relationship between communication and effectiveness. Column 5 in Table 2 shows that the beta coefficients for exam ( $\beta = -.23$ ,  $p < .001$ ), communication ( $\beta = .09$ ,  $p < .05$ ), and for the interaction term between communication and exam ( $\beta = .49$ ,  $p < .001$ ) are significant with the overall model significant ( $F = 1049.34$ ,  $p < .001$ ) and explaining 66.8% of the variance in effectiveness. The moderated model yielded an additional variance of .7% ( $\Delta F = 88.26$ ,  $p < .05$ ;  $\Delta R^2 = .007$  with  $df_{1,4176}$ ).

The regression results of exam as a moderator in the relationship between course content and effectiveness are presented in Column 6. The results show that the beta coefficients for exam ( $\beta = -.22$ ,  $p < .001$ ), communication ( $\beta = .41$ ,  $p < .001$ ), course content ( $\beta = .17$ ,  $p < .001$ ), and for the interaction term between course content and exam ( $\beta = .46$ ,  $p < .001$ ) are significant with the overall model significant ( $F = 1044.91$ ,  $p < .001$ ) and explaining 66.7% of the variance in effectiveness. The

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moderated model yielded an additional variance of .6% ( $\Delta F = 76.25$ ,  $p < .001$ ;  $\Delta R^2 = .006$  with  $df_{1, 4176}$ ).

## DISCUSSION

While it is a generally accepted practice (and sometimes it is mandatory) to collect student evaluations of faculty (SEF), most of the universities tend to make it a ritual. Often, the merit decisions of faculty are partly based on the teachers' instructional effectiveness and one way to secure the measure is through the SEF instruments. Literature on educational psychology with regard to SEF is vast but is limited only to the construct validity and reliability of the instrument. One serious gap that is existing in the literature is that there is inherent assumption of underlying relationships between constructs and very rarely these relationships are tested statistically. That is to say, the relationships between the components such as course content, course description, communication and perceived teacher effectiveness as expressed by students in their evaluation forms are not examined. Instead, researchers conduct statistical tests on these constructs in terms of reliability coefficient, mean values and standard deviation. One reason why these relationships are not tested is the inherent assumption that teacher communication as perceived by students, course description as outlined by instructors, grading pattern as perceived by students will have positive effect on the perceived effectiveness of teachers.

The major objective of this article was to study the relationships among the constructs in SEF instrument in assessing the teaching effectiveness. One interesting finding (as evidenced in Table 1) is the extremely high correlations that exist between the constructs (perceived course content, communication, satisfaction and effectiveness). This study is aimed at not only testing the validity and reliability of the instrument used in SEF, but also tests the relationships between constructs composed in the instrument. The regression results support that both communication style as perceived by students and course content are positively related to both teacher satisfaction and teacher effectiveness. The moderating regression results support that perception of students with regard to the grading and exams moderated the relationships between course content, communication and teacher effectiveness. Again, grading moderated the relationship between course content and communication and student satisfaction with teachers.

These results add value to the literature in two ways. Surveying literature we noticed that the most of the studies focused on the testing the measurement of the instrument through construct validity and reliability. The studies did not, to our knowledge, study the interrelationships between the variables the instrument is measuring or purporting to measure. What will be the use of the construct validity if we cannot find meaningful relationships between the study variables? Our study aims to bridge the gap in the literature and focus on the new dimension of studying the relationships between the variables, in addition to providing the validity and reliability of the measures the SEF instrument is measuring. The results add to the literature in that future research is needed that looks

at how the perceived course content, workload and communication are related to perceived satisfaction of students and teacher effectiveness at different types of universities. It would be useful to determine if these results obtained in this study generalize to universities in different classification according to the 2000 Carnegie classification.

Future research also is needed to see the relationship between the students' preferences and instructor's teaching methods and the teacher effectiveness, using the experimental methods. Also whether there exist any differences in the perceptions based on ethnic background, age, and gender. One of the recent studies shows that reliable differences exist between instructors and these differences may be strongly tied to the disparity in the instructor fairness, it is suggested that class is the appropriate unit of analysis (use the class means rather than individual ratings) (Wendrof and Alexander, 2005). This again give rise to the levels of analysis. Future researchers need to take into account these suggestions while evaluating the teaching effectiveness using SEF.

Overall, research on college teaching using the SEF offer clear avenue for future research. Our results, though first of its kind in analyzing SEF in a totally different dimension, is expected to enrich the understanding and analysis of student evaluations for academicians and administrators.

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# AN IMPROVED PEDAGOGY OF CORPORATE FINANCE: A CONSTRAINED SHAREHOLDER WEALTH MAXIMIZATION GOAL

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**Gina Vega, Salem State University**  
**John T. Barkoulas, Georgia Southern University**

## ABSTRACT

*The most prominent textbooks in finance literature present the goal of a firm or financial manager as “unconstrained shareholder wealth maximization (USWM)” and focus on economic efficiency and maximization of shareholder wealth, providing limited information about potential constraints. In contrast, constrained shareholder wealth maximization (CSWM) requires students to put equal emphasis on both the objective function (maximizing shareholder wealth) and the constraint (keeping natural stakeholders protected). Our survey of finance textbooks reveals an inadequate level of introduction to these topics, possibly misleading students to believe that society should define its laws in favor of firms (shareholders) at the expense of natural stakeholders. Thus, misinformed students might see stakeholder wealth expropriation as fair game in its extreme form due to our outdated finance pedagogy. In attaining the teaching goal of CSWM as an improved pedagogy, we offer specific suggestions to finance textbook authors.*

## INTRODUCTION

Bloom's taxonomy (1956) has guided pedagogical structure and innovation for half a century in the United States, and its focus on developmental learning remains relevant and instructive for us. The six developmental levels (knowledge, understanding, application, analysis, synthesis, and evaluation) separate basic knowledge acquisition from the critical thinking and analytical skills necessary for making ethical decisions or judgments. Answering questions about business ethics requires knowledge from multiple disciplines, including philosophy, psychology, political science, sociology, economics, finance, organizational management, and law. Analyzing such a vast body of data in ethical frameworks requires the highest levels (analysis, synthesis, and evaluation) of critical thinking as expressed in the taxonomy. Corporate governance, an interdisciplinary subject addressed in all these disciplines, explores the inter-workings of both for-profit firms and not-for-profit firms and is an area requiring business students to evaluate ethical issues when making decisions.

Despite the broad responsibility of teaching corporate governance in the finance classroom, the pedagogy of finance has been restricted to ideas derived primarily from economics, statistics, and finance. Competing ideas from other disciplines are generally unwelcome and/or are treated with skepticism. Even the ideas of some researchers from the fields of economics and finance such as Hart (1995) and Tirole (2001) who promote alternate solutions to corporate governance beyond agency theory are ignored or overlooked. As a result, business ethics and corporate governance topics often are introduced in a *pro forma*, compulsory fashion that may satisfy the requirements of a business school curriculum, but appear without commitment to their supporting philosophies. Even in schools whose mission should be consonant with alternative economic perspectives (such as the tenets of Catholic social teaching in Catholic institutions), students typically are given little or no exposure to unconventional governance perspectives.

Current finance textbooks do not provide enough information about the constraints of shareholder wealth maximization (SWM), competing corporate governance theories, and business ethics. Finance students are expected to address ethical issues in their careers without having been introduced to the lowest level (analysis) of critical thinking in their schooling years.

Our survey of fourteen frequently-used textbooks in the corporate finance field reveals that almost every textbook uniformly teaches or emphasizes the goal of the firm as unconstrained shareholder wealth maximization, but offers inadequate discussion of competing corporate governance theories and business ethics. The authors of these commonly-used finance textbooks argue that the goal of profit maximization is flawed due to its susceptibility to misuse and manipulation. For example, a manager whose interest is in maximizing self-utility could readily reduce R&D expenses in the short-run, increase current profits, and possibly obtain higher bonuses as a result.

Unconstrained shareholder wealth maximization and agency theory are provided as the sole focus of the firm, in agreement with the most extreme views of Friedman (1971), Jensen (2000), Marcoux (2000), and Sternberg (2000). Ironically, the authors of these same finance textbooks fail to explain the limitations of USWM and agency theory and competing corporate governance theories, and thus under-present finance ethics. This utilitarian perspective, widely accepted in the United States and increasingly accepted internationally, is vulnerable to misuse and manipulation.

Furthermore, we are taught that any divergence from USWM would be discouraged naturally by market forces, namely, stock price adjustments, takeover threats, and firm reputation. However, the very existence of consumer, investor, and environmental laws is a manifestation of the failure of these market forces. Therefore, a more comprehensive introduction to corporate governance theories and discussion of current consumer, investor, and environmental protection laws in the light of business ethics is needed.

The most popular corporate governance theory introduced in finance textbooks is called agency theory. Agency theory, which raises questions about the actions of the principals' agents in conducting business operations (Jensen *et al.* (1976)), provides suggestions as to why there might

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be different and conflicting goals among different groups in a firm. Agency theory suggests incentive schemes such as stock options, bonuses, and/or employee stock ownership programs to reduce friction arising from conflict of interest among the groups.

Agency theory is introduced in all finance textbooks as if it provided all the answers needed for business ethics questions. The limitations of agency theory (Bohren (1998) and Tirole (2001)) and other competing corporate agency theories are either only implied or not introduced at all. Nor are finance students introduced to competing ideas in corporate governance, such as stakeholder theory, the commitment to act in consonance with the best interests of all stakeholders, including shareholders (Donaldson *et al.* (1995), Donaldson *et al.* (1999), Freeman (1984), Phillips *et al.* (2003)). The argument presented is that stakeholder theory is not relevant and therefore it is better to ignore it completely.

The result is that we expect students to answer questions requiring value judgments without having provided them with the tools to do so. Students are never introduced to enough corporate governance topics to satisfy the lowest level (knowledge) of Bloom's taxonomy and therefore have a limited information set to tackle ethical problems.

Despite the existence of consumer, investor, and environmental protection laws, recent corporate scandals (Enron, WorldCom, etc.) have led us to question the validity of teachings of USWM, the effectiveness of monitoring market forces, and the appropriateness of incentive schemes provided by agency theory. Some of these scandals show that the natural stakeholders of the firm – environment, employees, and/or local community – are not protected by market forces or incentive schemes, or by the existing consumer, investor, and environmental protection laws.

The remainder of the paper is constructed as follows. In Section 2, we present and elaborate on the nature of the teaching goal of constrained shareholder wealth maximization. Section 3 provides a survey of 14 finance textbooks in reference to four dimensions. In section 4 we suggest an improved pedagogy to finance textbook authors that would achieve a balance between the goal of shareholder wealth maximization and the protection of natural stakeholders. We conclude in section 5 with a summary of our arguments.

## **TEACHING SHAREHOLDER WEALTH MAXIMIZATION WITH A CONSTRAINT**

In this paper, we propose teaching shareholder wealth maximization goal as *subject to a constraint* wherein the wealth of all stakeholders is preserved and protected. Teaching of this goal is more comprehensive and requires discussion of corporate governance theories, the adequacy of current consumer, investor, and environmental protection laws, and evaluation of business ethics. Therefore, the teaching focus is not only on the objective function (shareholder wealth maximization) and economic efficiency but also on the constraint (protection of natural stakeholders) and therefore value judgments. Thus, it is not limited to the views of Jensen (2000). Jensen assumes that market forces (stock price adjustment, takeover threats, reputation, etc.) will

provide enough protection to natural stakeholders. In Jensen's world, the externalities (side effects) arising from the managerial decisions harming natural stakeholders are left unchecked. The proponents of shareholder maximization theory claim that the protection of stakeholder wealth is achieved by market forces, and it is usually reflected in share prices. However, there were massive market force failures in addition to the protection of current laws that let us experience the recent corporate scandals.

In the case of Enron, for example, massive profits taken on projected but unfulfilled sales and the development of a flexible accounting process cost employees their retirements and destroyed a respected accounting firm. In the case of WorldCom, unintegrated acquisitions, sweetheart loans, and inappropriate relationships between analysts and the company they were reporting on led to unprecedented public and private losses. Clearly, teachings of a more effective corporate goal and a comprehensive discussion of corporate governance is required in our universities and finance textbooks.

In this paper, we do not discuss how to achieve shareholder wealth maximization goal while keeping other stakeholders protected. Nor do we suggest changing the firm goal or teaching only stakeholder theory as advocated by Freeman (1984). Rather, we suggest expanding the business curriculum to include a more complete view of business and finance ethics. Teaching CSWM is not the same as the promotion of stakeholder theory in which maximizing the wealth of both shareholders and natural stakeholders is proposed. CSWM suggests that shareholder wealth maximization should not be achieved at the expense of stakeholders such as employees, environment, local community, creditors, and similar entities. CSWM does not advocate wealth maximization for all stakeholders; instead, it proposes a better explanation and teaching of the constraints on management. The suggestion that market forces (stock market adjustment, takeover threats, market reputation, etc.) will protect stakeholders from unscrupulous actions is unwarranted by the very existence of consumer, investor, and environmental protection laws.

Corporate finance textbooks need not take a specific stance on corporate governance issues. Instead, they should take a more neutral role in promoting ideas and provide both sides of the story. Otherwise, we are likely to mislead society into defining its laws in favor of firms (shareholders) at the expense of natural stakeholders.

### **CORPORATE FINANCE TEXTBOOK SURVEY**

Surveying textbooks in research studies is not a new concept. For example, Norgaard (1981) outlined 18 finance textbooks that examined the evolution of the finance field. Hawley (1991) surveyed 22 corporate finance textbooks and analyzed the coverage of ethics and social responsibility topics for corporations. Borokhovich *et al.* (1995) examined 16 corporate finance textbooks for journal citations. Ardalan (2002) reviewed 32 introductory finance textbooks supplied by the major publishers to analyze the subject of the after-tax cost of debt. Jalbert (2002) surveyed

7 popular finance textbooks to analyze the presentation of the time-value-of-money topic. Eriksson (2004) surveyed a number of textbooks in environmental economics in respect to their treatment of ethical issues.

Our paper follows Hawley's (1991) work and reexamines the current textbooks in terms of coverage of ethics and social responsibility. In addition, our paper surveys the presence of information about constrained shareholder wealth maximization and proposes a more comprehensive pedagogy of finance teaching to include the often omitted or overlooked topics of ethics and social responsibility. This survey covers corporate textbooks taught at introductory, intermediate, and advanced levels as well as the ones in the area of international finance in the undergraduate and MBA courses.

Table 1 below provides detailed data from the survey described above. For the 14 textbooks we evaluated, these data include: i) number of pages and percentage of the total book pages devoted to a discussion of agency theory, corporate governance, ethics, and stakeholder theory, ii) number of pages and percentage of the total book pages devoted to the stated goal of the firm or financial manager, iii) number of instances that agency theory, corporate governance, ethics, and stakeholder or corporate wealth maximization appear in the index, and iv) inclusion in the glossary of these four items, that is, agency theory, corporate governance, ethics, and stakeholder or corporate wealth maximization. In addition, all publication information for the textbooks is listed. Some of the findings are surprising, some disturbing, and some confusing. All indicate a diminution over the past 15 years (since Hawley's (1991) study) of interest on the part of finance educators about issues of business ethics, stakeholder theories, and consideration of alternate firm goals.

<b>Table 1: A Survey of Frequently-used Finance Textbooks*</b>					
Textbook and Author(s)	No. of Pages and percent of the total (1)	Stated Firm or Financial Manager Goal (2)	No. of Listings in Index (3)	Inclusion in Glossary (4)	Undergraduate (UG) or Graduate (MBA) Textbook (5)
Brealey, Myers & Markus (2001) <i>Fundamentals of Corporate Finance, 3/e</i> , McGraw-Hill-Irwin, 798 pages.	9 1	USWM	(a) 4 (b) 2 (c) 3 (d) 0	(a) YES (b) NO (c) NO (d) NO	UG, MBA
Brigham & Daves (2004) <i>Intermediate Financial Management, 8/e</i> , Thomson-South-Western, 1038 pages.	36 3	USWM	(a) 14 (b) 12 (c) 10 (d) 0	(a) YES (b) NO (c) NO (d) NO	UG, MBA
Brigham & Ehrhardt (2005) <i>Financial Management: Theory and</i>	40 4	USWM	(a) 5 (b) 12	(a) YES (b) NO	UG, MBA

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<i>Practice, 11/e</i> , Thomson-South-Western, 1,000 pages.			(c) 23 (d) 0	(c) NO (d) NO	
Emery, Gary W. (1998) <i>Corporate Finance: Principles and Practice</i> , Addison-Wesley, 893 pages.	16 2	USWM	(a) 16 (b) 0 (c) 0 (d) 0	(a) YES (b) NO (c) NO (d) NO	MBA
Gitman, Lawrence J. (2003) <i>Principles of Managerial Finance, 10/e</i> , Addison-Wesley-Pearson, 882 pages.	11 1	USWM	(a) 6 (b) 0 (c) 5 (d) 0	(a) YES (b) NO (c) YES (d) NO	UG
Grinblatt & Titman, (2002) <i>Financial Markets and Corporate Strategy, 2/e</i> , McGraw-Hill-Irwin, 880 pages. <sup>5</sup>	16 2	USWM	(a) 3 (b) 0 (c) 0 (d) 13	(a) __ (b) __ (c) __ (d) __	MBA
Keown, Martin, Petty & Scott, (2002) <i>Financial Management: Principles and Applications, 9/e</i> , Prentice Hall, 801 pages.	16 2	USWM	(a) 6 (b) 0 (c) 10 (d) 0	(a) YES (b) NO (c) NO (d) NO	UG
Lasher, William R. (2003) <i>Practical Financial Management, 3/e</i> , Thomson-South-Western, 696 pages.	12 2	USWM	(a) 2 (b) 0 (c) 10 (d) 0	(a) YES (b) NO (c) NO (d) NO	UG
Madura, Jeff, (2003) <i>International Financial Management, 7/e</i> , Thomson-South-Western, 696 pages.	5 1	USWM	(a) 4 (b) 0 (c) 1 (d) 0	(a) YES (b) NO (c) NO (d) NO	UG, MBA
Moffett, Stonehill & Eiteman (2006) <i>Fundamental of Multinational Finance, 2/e</i> , Pearson-Addison-Wesley, 623 pages	24 4	USWM and CWM	(a) 2 (b) 20 (c) 1 (d) 1	(a) NO (b) YES (c) NO (d) YES	UG, MBA
Ross, Westerfield & Jaffe (2005) <i>Corporate Finance, 7/e</i> , McGraw-	14 1	USWM	(a) 13 (b) 0	(a) YES (b) NO	UG, MBA

**Table 1: A Survey of Frequently-used Finance Textbooks\***

Textbook and Author(s)	No. of Pages and percent of the total (1)	Stated Firm or Financial Manager Goal (2)	No. of Listings in Index (3)	Inclusion in Glossary (4)	Undergraduate (UG) or Graduate (MBA) Textbook (5)
Hill-Irwin, 942 pages.			(c) 0 (d) 1	(c) NO (d) NO	
Ross, Westerfield & Jordan (2006) <i>Corporate Finance, 7/e</i> , McGraw-Hill-Irwin, 892 pages.	7 1	USWM	(a) 5 (b) 0 (c) 2 (d) 0	(a) __ <sup>5</sup> (b) __ (c) __ (d) __	UG, MBA
Shapiro & Balbirer (2000) <i>Fundamentals of Corporate Finance: A Multidisciplinary Approach to Value Creation</i> , Prentice Hall, 577 pages.	27 5	USWM	(a) 23 (b) 4 (c) 0 (d) 0	(a) YES (b) NO (c) NO (d) NO	UG
Shapiro, Alan C. (2002) <i>Foundations of Multinational Financial Management, 4/e</i> , Wiley, 634 pages.	3 0	USWM	(a) 0 (b) 3 (c) 0 (d) 0	(a) YES (b) YES (c) NO (d) NO	UG, MBA
* The surveyed textbooks are at the levels of introductory, intermediate, international, and advanced corporate finance and/or financial management.					
(1) Total number of pages in which the issues of agency theory, corporate governance, ethics, and stakeholder theories are explained, discussed or mentioned in the textbook are presented on the first line and their percentage of the total number of book pages are presented on the second line.					
(2) USWM: Unconstrained shareholder wealth maximization, CSWM: Constrained shareholder wealth maximization, CWM: Corporate wealth maximization (corresponds to stakeholder wealth maximization theory).					
(3) (a) Agency theory, (b) Corporate governance, (c) Ethics, (d) Stakeholder theory and/or corporate wealth maximization.					
(4) Same as in 3.					
(5) No glossary is available.					

Finance textbooks are thick, extending from 577 pages to 1038 pages, with an average of over 810 pages. The number of pages devoted to our four areas of interest range from a high of 40 pages (out of 1038 pages) in Brigham *et al.* (2005) to a low of 3 pages (out of 634 pages) in Shapiro (2002). The proportion of the books devoted to these topics ranges from 0 percent (Shapiro (2002)) to a high of 5 percent (Shapiro *et al.* (2000)). The vast majority (9 textbooks) have 1 to 2 percent committed to the four topics.

Overall, most textbooks state that the firm's or financial manager's goal is unconstrained shareholder wealth maximization. Moffett *et al.* (2006) is the only textbook that introduced concepts similar to a constrained shareholder wealth maximization as an alternate to the traditional goal. According to Moffett *et al.*, the acceptance of unconstrained shareholder wealth maximization is a

cultural norm adopted mostly by the Anglo-Saxon countries which have a social and economic focus on the individual rather than the collective (Lutz (2003)). In contrast, many firms in Europe and Asia establish the firm's goal as "corporate wealth maximization." Corporate wealth maximization means a firm should not only maximize the shareholders' wealth but also the wealth of other stakeholders in a corporation. However, Moffett *et al.* do not go so far as to suggest that constrained shareholder wealth maximization should be a goal for the firm in the United States.

Corporate governance is also given short shrift in the textbook universe. Out of the 14 textbooks surveyed, only 2 mention corporate governance in the glossary and 8 do not even have a listing in the index for this topic. Moffett *et al.* provide a fine introduction to corporate governance issues with more than 20 mentions of the topic in its index compared to a total of 31 mentions in all the other textbooks combined. Gitman (2006) also provides some information about corporate governance and firm goals but also falls short of providing the competing theories from the literature.

One of the reasons for the lack of discussion of corporate governance in these textbooks could be the lack of a generally accepted definition of the meaning of corporate governance. Is it to be defined narrowly, as the relationship between the shareholders, directors, and management, governed by the by-laws of the corporation? Or is it to be defined more broadly as the balance between economic and social goals? If we use the former definition, we must acknowledge that the corporation has created its own universe, with its own rules, laws, and character (the problem inherent in agency theory). If the latter, we can no longer accept the position that economics is amoral, that is, we must acknowledge that some goods are "good" and other goods are "bad" and ought not to be sold. Either way, we have established an untenable position philosophically. Doing business ethically means making *ethical* choices, and these choices can be difficult, confusing, and impossible to make in the role of an agent.

Agency theory is generally accepted as an important component of the study of finance. Eleven of the 14 texts include agency theory in the glossary and all but one textbook has multiple listings of agency theory in the index. Shapiro *et al.* (2000) has a high of 23 different index listings for agency theory and this is the same textbook that devotes 5 percent of its pages to the four topics under consideration.

It seems clear that significant changes need to occur, primarily in the addition of a broader discussion of business ethics and related topics in the finance textbooks.

### **A SUGGESTED PEDAGOGY FOR CORPORATE FINANCE TEXTBOOKS**

We suggest that finance textbook authors and publishers include additional topics in corporate finance. The goal of shareholder wealth maximization should be balanced with an equal emphasis on the protection of natural stakeholders. In addition to the efficiency concerns vis-à-vis shareholder wealth maximization, the natural stakeholders interests should be discussed since the



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success of a firm depend on all participants. Students must be provided both theory and examples of practice that will allow them to make reasonably informed decisions and attain the highest levels of critical thinking in Bloom's taxonomy.

In the outline of a typical corporate finance textbook, there are usually five parts: I. Introduction to financial management and environment, II. Capital Budgeting, III. Capital Structure, IV. Short Term Financial Management, and V. Special Topics. Each part consists of a number of chapters, and commonly 15 to 25 chapters are introduced in a typical textbook.

We suggest that the following additional topics and discussions be included in corporate finance textbooks to improve the finance curriculum. These suggestions are not meant to be all-inclusive but rather provide the basic elements of attaining the teaching goal of CSWM as an improved pedagogy. Such discussion should provide a more holistic treatment of alternate firm theories and business ethics with the aim of elevating students to the highest levels of critical thinking. Such a paradigm also would help operationalize AACSB's requirement that ethics must inform every course in the business school curriculum.

## **Part I: Introduction to Financial Management and Environment**

### **Chapter 1: Introduction to Financial Management**

Discussion of a goal for the firm and financial managers provides introductory but fundamental issues for finance students. In addition to teaching a firm's goal, the possible constraints on the firm's goal should be clearly emphasized. The following elements are recommended for inclusion to provide finance students with a more comprehensive exposure to social responsibility and ethical business decision making.

#### *(a) Teaching constrained shareholder maximization (CSWM)*

A constrained shareholder maximization view proposes that the firm's goal should include shareholder wealth maximization subject to the preservation of other stakeholders' wealth. Here, the concern is to *preserve* stakeholder wealth while achieving the goal of shareholder wealth maximization. This clearly recognizes that shareholder wealth maximization can be achieved at the expense of other stakeholders via a number of strategies (including manipulation). How to achieve the protective constraints is not a straightforward issue and discussions about a solution will demand students to reach the highest levels of critical thinking. An equal attention to the constraint (protection of natural stakeholders) in addition to the objective (shareholder wealth maximization) will be required. For example, Tirole (2001) questions the sole focus on the objective:

*To many people the economists' and legal scholars' sole focus on shareholder value appears incongruous. Managerial decisions do impact investors, but they also exert externalities on a number*

*of “natural stakeholders” who have an innate relationship with the firm: employees, customers, suppliers, communities where the firm’s plants are located, potential polluters, and so forth. There is no denying that such externalities may be substantial; for example, the closure of a plant by a major employer in a depressed area has dramatic consequences for its workers and for the local economy. Why should institution design ignore natural stakeholders, and favor the investors, who are “stakeholders by design,” by giving them full control rights and by aligning managerial compensation with their interests?*

Furthermore, Lutz (2003) criticizes business school teachings:

*In most Western business schools today, the principle that managers must strive to maximize long-term owner value is regarded as an axiom requiring no argument. It is, however, a normative theory of human action that has emerged from a particular philosophical and cultural tradition, and should be subjected to critique and assessment just like any other normative theory of human action. When it is assessed, it is found to be indefensible.*

*(b) Introduction to corporate governance*

Corporate governance is a prime opportunity for students to understand and discuss a wealth of intra-disciplinary topics as it intersects with other disciplines such as economics, philosophy, organizational management, political science, sociology and psychology. There is a large spectrum of ideas on corporate governance determined by cultural and historical backgrounds of nations. Defining the rights of a corporation and its limits in interaction with society is determined by electoral choice. However, most corporate laws are determined in the light of cultural norms. In the final analysis, corporate governance discussions boil down to how to share corporate wealth among participants. There are two polarized views on corporate governance: one advocating and defining laws to support shareholders as the sole claimant of the wealth created, and the other maintaining that corporate wealth should be shared among all stakeholders.

*(c) Limitations of agency theory*

Finance textbooks have ample coverage of agency theory. However, the limitations of this theory currently are not discussed. Bohren (1998) questions agency theory’s assumptions and suggests that the assumed agent’s behavioral norms deviate from commonly held ethical values in society. Additionally, Bohren proposes an analysis of descriptive validity of a non-standard agent who is pessimistic and an extreme model of man who is indifferent between honesty and dishonesty. In examining the Enron debacle, Culpan and Trussel (2005) suggest that even though agency theory explains the fiduciary behavior of agents vis-à-vis shareholders, it does not address the protection of the interests of other stakeholders of the company, including employees and creditors.

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*(d) Introduction to stakeholder theory*

Even though the stakeholder theory is the only competing theory in corporate governance, current finance textbooks do not cover stakeholder theory. Stakeholder theory proposes that a firm's goal should be to maximize not only shareholders' wealth but also the wealth of other stakeholders. According to this view, a firm is comprised of shareholders and other stakeholders and a firm's success depends on their harmonious combined operation. Therefore, the rewards of a successful firm should be shared among all the stakeholders. There are, however, several variants of this theory to consider when attempting to operationalize this approach in order to achieve a workable system among the stakeholders.

For example, Phillips (2003, 2004) explores the moral obligation owed to stakeholders and suggests that stakeholder communication is more than good for the organization – it is a moral obligation. He posits that individual and groups who contribute to the organization should be permitted some say in how that organization is managed.

## **Chapter 2: Financial Statements and Taxes**

Financial reporting and the accuracy of financial statements can be seen as a fundamental requirement for financial markets to work efficiently. An anonymous article (1997) in the *Journal of Accountancy* identifies a strong relationship between a corporation's culture and its financial statements. If there are problems such as sexual harassment or diversity clashes in a company, it should be expected that some of these problems will find their way to the financial statements.

In response to the recent corporate scandals, the Sarbanes-Oxley Act brought new regulations to ensure confidence in financial markets. According to George (2003), the Sarbanes-Oxley Act increased audit committees' responsibilities, requiring them to help prepare the audit, ratify the internal control system, and resolve disputes over accounting rules. George does not see audit committees as helpful and concerned about the independence of external and internal auditors from corporate management. Further, George suggests that an independent institution should hire and/or fire both internal and external auditors of a firm and thus keep ethical standards consistent. Staubus (2005) sees the close relationships between auditors and corporate management as a potential problem for the future. Staubus states that biased or fraudulent financial reporting is inescapable since top management in corporations is strongly motivated to produce favorable reports. Independent auditors are also heavily influenced by the management due to their clientele relationships.

Outsourcing has been a controversial topic and is increasingly a trend in the corporate world. Tax returns and the outsourcing of their preparation overseas has been questioned on ethical grounds (McGee (2005), Mintz (2004), Stone (2004)). According to them, a client is not informed that his/her tax information is being transmitted overseas electronically and that the return will be

prepared by a non-U.S. CPA. Therefore, the current problem-free application of outsourcing tax returns does not mean that the ethical standards have not been compromised. A further concern is that a U.S. CPA cannot oversee directly the operations that are outsourced overseas, nor can the U.S. CPA ensure that proper security measures are in place to protect the clients' interests. Additionally, it is difficult to verify the qualifications of the overseas accountants.

### **Chapter 3: Time Value of Money**

This chapter is essential for finance students to be able to value real assets, loans, and financial instruments. It is technical and filled with examples and applications of present and future value calculations for different types of loans. Despite the topic's technical nature, this chapter is not free from ethical issues and concerns.

The imperfect valuation of loans and assets can affect the well-being of the largest financial institutions such as banks and other depository institutions. An unfortunate failure of a bank or depository financial institution sends shock waves through the economy, affecting many people across many sectors. Trugman (1991) reminds us that, after the financial collapse of savings and loans institutions (S&Ls), a new act in 1989 called the Financial Institutions Reforms, Recovery, and Enforcement Act was passed. The main reason, Trugman explains, for the failures of the S&Ls was related to questionable loans that were collateralized with overvalued real estate assets. Additionally, Nadler (1991) warned banking institutions of their refusal to write down questionable loans because the impact of the write-down on stated earnings might result in extensive damage later as banks would be left open to class action suits.

Banks play a special role to bring the demand and supply sides of loanable funds and therefore they should be at the center of ethical business practices. Green (1989) sees deregulation and technological revolution as sharpening our ethical conflicts in the banking sector. According to Green, a bank's lending responsibilities affects whole communities and requires special attention since competition and survival might tempt us to compromise our ethical stance. Furthermore William *et al.* (1992) investigates ethical behavior among bank employees. They find that younger employees had a higher level of ethical consciousness than older employees. According to their research, the longer one works for a company, the more one may look to job security as a priority, and this might lead to rationalizing or overlooking apparently unethical behaviors. Additionally, Kitson (1996) investigates the effectiveness of corporate codes of ethics on the day-to-day behavior of British cooperative bank managers and find that banks were successful in integrating a code of ethics into daily processes, and that bank managers believe that the code of ethics policy helped them to attract new business.

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## Chapter 4: Interest Rates, Bonds, Stocks, Financial Derivatives, and Markets

Insider trading is a controversial issue and has ethical implications. Research about insider trading laws is extensive in the finance literature, and these discussions can expose finance students to both theoretical and ethical issues about market efficiency. For example, Shefrin & Statman (1993) present the trade-off between efficiency and fairness in insider discussion. They argue that prohibiting insider trading violates the right to engage freely in trade, but permitting legalized insider trading violates the right to equal information. As a result, they propose insider trading as an ethical and political consensus issue. Treynor & LeBaron (2004) also provide two opposing views. Treynor claims that insider laws provide protection and confidence to average investors from insiders with superior information. In turn, this provides access by average investors to financial markets, providing higher volume and thus liquidity. In contrast, LeBaron argues that insider trading helps price discovery and thus market efficiency. Therefore, LeBaron suggests continuous participation of insiders in daily trading to improve market efficiency. Caccese (1997) sees insider trading prohibitions as an important factor in maintaining market integrity and investor confidence. Caccese emphasizes the role of the investment analyst in the process of information dissemination and suggests a test for market participants to determine whether or not the information they receive or give is subject to insider trading prohibitions. Furthermore, Ma & Sun (1998) argue that the ethics of insider trading is an economic rather than a moral issue. They urge that it is a mistake to over-regulate insider trading since it is not clear if insider trading increases or decreases shareholders wealth.

Abdolmohammadi and Sultan (2002) observe a sample of accounting and finance students performing competitive trading in their trading room with and without insider information, and they find that there was a positive relationship between ethical reasoning and ethical behavior. They conclude that brokerage firms should train stockbrokers extensively in ethical issues since people with higher levels of ethical reasoning are less likely to use insider information in stock trading.

The techniques regarding financial derivatives are relatively difficult for beginners in finance. Financial derivatives are useful, but could be financially damaging if they are not applied properly. According to Raines & Leathers (1994), derivatives have been viewed historically as gambling instruments. However, they show that over time, our perspective on ethics has changed, making financial derivatives legitimate tools. The pricing of financial derivatives also has been an intricate and complex topic. Currently, financial institutions use the Black-Scholes and binomial pricing techniques to achieve better pricing for financial derivatives. However, Clark *et al.* (2003) suggest that implementation of the Prudent Investment Rule is important in financial advising, especially as it relates to over-the-counter derivative pricing. They suggest that an independent performance appraisal might be needed to guide investment advisors and security dealers in adhering to ethical standards due to the existence of conflicts of interest about over-the-counter derivative pricing.

## **Chapter 5: Risk and Return, and Portfolio Risk Management**

Financial engineering is a developing area in hedging against risks such as changes in interest rates and foreign exchange rates for which firms cannot buy insurance to cover themselves. Nonetheless, the scope of financial management should be expanded according to Carris & Duska (2003). Managerial actions and consequences are not fully predictable, and therefore firms may not cover all their losses with insurance. Identifying unethical behavior of managers of firms and the consequences of these behaviors might help protect against liability torts and property losses as potential risks. They urge risk managers to take into account the threat of internal ethical hazards for an organization's long-term prosperity. In addition, Drennan (2004) claims that risk management is not a new phenomenon and ethical breakdowns in corporate finance are a peril and should be seen as part of risk management since they might even cause bankruptcy or significant reputation and monetary losses. In order to manage ethical failures effectively and encourage ethical conduct of business, a system of identification and detection system is needed.

Risk and return has always been at the center of financial investments and portfolio analysis. Arnott (2004) warns that if corporations fail to enforce ethical standards, the risk will increase, and investors will expect increasing returns. The higher yields might lower asset prices, and this effect, combined with excessive regulation could cause a bear market.

In portfolio management, the share of mutual funds is growing and allowing even the smallest investor to benefit from diversification. Houge and Wellman (2005) analyze the stock market price reaction (investor reaction) to mutual fund companies when they were involved in the trading abuses (specifically late trading) of financial securities. They suggest that the SEC should help eliminate market timing schemes by using a two-pronged approach that combines fair value pricing and mandatory short-term redemption fees.

## **Part II: Capital Budgeting**

### **Chapter 6: Capital Investment Decisions**

Value estimations and acceptance or rejection decisions for the potential projects are important part of finance teaching. The decision techniques compare the benefits of projects with their costs to come up with a final decision. However, the very nature of acceptance or rejection of a project exposes project participants to conflicts of interest and ethical issues. For example, Madison (2005) provides an example in which a financial analyst is pressured by the CFO of a corporation to increase the salvage value of a corporate executive jet and reduce the lifetime of a project to make net present value (NPV) positive. Thus, NPV project estimations are sensitive to the underlying assumptions, and require ethical standards to be applied to obtain meaningful decisions.

Devaney (1991) warns against stubbornness and managerial ignorance when the financial measures show that the proposed project is not feasible. According to Devaney, bankruptcy courts are filled with companies that persisted in the development of projects long after their NPV values had become negative. Despite the early negative signs of capital budgeting projects, Devaney believes that project champions go unchallenged by accounting and finance specialists because of the corporate power structure.

The societal and ethical considerations cannot be measured in a classical capital budgeting framework. For example, Lumley (1997) suggests that using a single discount rate in the NPV process to discount cash flows of environmental projects may not be appropriate. According to Lumley, if a single discount rate is applied to environmental resources, the implication of non-monetary aspects of those resources is often ignored. Therefore, the standard practice of discounting techniques in NPV does not guide government to provide for the community good, since those projects are found to be negative net present value.

### **Part III: Capital Structure**

#### **Chapter 7: Cost of Capital, Capital Structure, and Financial Leverage**

Capital structure theories in finance address the frictions among the shareholders and natural stakeholders when debt levels and the bankruptcy probability of a firm is high. Only agency theory is introduced to resolve the conflicts of interest among the groups. However, other ethical considerations before or during the bankruptcy process should be presented in this chapter. For example, Salem & Martin (1994) question a firm's use of bankruptcy as a strategic option to escape from contractual obligations to its customers, suppliers, and other stakeholders. They discuss the balance and design of rehabilitative or punitive bankruptcy laws and their resulting consequences from an ethical perspective. In addition, Payne & Hogg (1994) view the solution of Chapter 11 bankruptcy from legal, managerial, and moral perspectives. They also question managers' manipulation of Chapter 11 laws in their own favor with substantial costs to creditors, employees, and stockholders.

During economic downturns, firms with high financial leverage are more prone to bankruptcy. The resulting bankruptcies sharpen differences between stakeholders and bring ethical considerations to the press and media attention. Kilpi (1996) suggests that wealth appropriated through financial leverage is not unethical. Kilpi warns that the punishment during the economic downturns related to business bankruptcies with high levels of debt should not be considered any differently because of the association of debt and luxuries.

Equity financing as well as debt financing can be used to make adjustments to capital structure. Debt versus equity financing is not only an issue of optimal capital structure for firms but also a discussion in development economics. Traditionally, debt has been used to finance

development projects. According to Wilson (1993), equity financing can be seen not only from a capital structure perspective but also from the viewpoint of promoting development. In the light of extensive borrowing and problems in the Third World countries, Wilson believes that equity financing could be an alternative way to promote economic development. Unlike debt, equity financing is well-justified for high-risk development projects since the risk is distributed over those who would like to participate in these projects.

The ethical issues surrounding the bankruptcy crosses even the borders of religion. For example, Sutherland (1988) introduces a biblical perspective to bankruptcy while Tamari (1990) explains a Jewish perspective of bankruptcy.

### **Chapter 8: Dividends, Stock Repurchases, and Raising Capital**

Shareholders of corporations have limited liability. One of the explanations why firms can raise capital easily is due to limited liability. Sollars (2001) defends a “proportional liability” concept instead of limited liability. Sollars claims that since shareholders receive dividends and capital gains that are not predetermined, shareholders should be liable for the same proportion of a corporation’s excess of liabilities over assets that the number of shares bears to the total number of shares outstanding.

Agency problems and ethical considerations in corporate governance are numerous, even in the case of dividend payments. Belden *et al.* (2005) report that there is a relationship between the composition of a board of directors and the level of dividend payments. Boards have greater monitoring power when there is more outside board director representation, and the dividend payments are expected to be higher. Here the underlying assumption is that managers might waste earnings without the monitoring of an outside board of directors. Brunarski *et al.* (2005) also report that their findings support the idea that higher dividend payments might reduce agency costs. They find that, on average, firms with a majority of strict outside directors on their boards experience significantly lower mean abnormal returns around the announcements of sizeable dividend increases. Government regulations are often used to enhance efficiency in financial markets. For example, shareholder passivity is a concern, and often governments introduce new rules to curb the power of corporate managers or other market players. International Financial Law Review (2005) recently reported that Germany wants to let companies pay higher dividends to shareholders who exercise their votes at the shareholder meetings. This move is intended to increase investors’ participation and reduce hedge funds’ influence as large shareholders on German corporations.

Additionally, in the finance literature, a stock repurchase program announcement is perceived as a positive signal to the market participants of a firm’s financial prospective. Therefore, at the repurchase dates there are increases in the stock prices. However, Fried (2005) introduces false signaling of firms through open market repurchases to increase firm value. Fried claims that managers buy firm shares at bargain prices, boost prices with the announcements of repurchase



programs, and sell their shares later at higher prices. Thus, managers transfer a significant value from public investors to their own wealth.

## **Part IV: Short-term Financial Management**

### **Chapter 9: Working Capital Management**

Short-term asset management and its financing decisions also require managers and employees of a firm to be ethical. Thornhill (1988) explains how managers might act unethically due to mounting pressures of daily operations. According to Thornhill, factors such as insufficient working capital, inability or reduced ability to acquire credit, and poor turnover of receivables could potentially create an environment where fraud among managers and staff members becomes common practice. Rosner (2003) investigates failing firms and possible earnings manipulation for a group of bankrupt firms and a control group of other firms. Rosner finds that there were income increasing earnings manipulations in the pre-bankruptcy statements of failing firms. Non-stressed bankrupt firms prior to their bankruptcy had greater amounts of investment in receivables, inventory, property, plant and equipment, sales, net working capital, and current and discretionary accruals than control firms in the sample. Additionally, Payne (2002) and Brannen (2002) list ten working capital mistakes. One of them is “delaying payments to suppliers as a tactic to increase cash flow without first trying to negotiate better terms and gain discounts for prompt payments.” The concerns of both Payne and Brannen obviously have ethical dimensions in the framework of working capital management as well.

Profiting float as cash management could potentially conflict with corporate ethics. Davis (1987) provides the example of The E. F. Hutton incident. Hutton was charged with fraud in 1985 in a version of cash management where checks in small banks were used to slow down payment distributions. In a similar way, a typical corporate finance book (Ross *et al.* (2005)) introduces “accelerating collections” and “paying more slowly” as methods of cash management, which opens the door to ethical criticisms.

## **Part V: Special Topics**

### **Chapter 10: International Financial Management**

Multinational corporations (MNCs) and their operations overseas have been controversial because of the many ethical violations in the past. Therefore, media attention and research into the ethical practices of multinational corporations is extensive in the finance literature. For example, Fox *et al.* (2005) analyze foreign direct investment (FDI) in China and find violations of ethical standards with poor pay, unacceptable work conditions, and employee treatment. They suggest that

the Chinese code of conduct for managers and institutions should resist the perception that all these ethical issues are a part of doing business in China. Further, Marjorie (1990) states that foreign direct investment and multinational capital budgeting decisions require moral and ethical reasoning beyond rational and normative financial thinking.

Historically, the topic of corporate codes of ethics and their effectiveness has been the focus of corporate finance literature. White and Taft (2004) introduce corporate codes of conduct for multinational corporations from Western and non-Western frameworks to allow faculty and students to explore ethical problems with a wide array of national and cultural differences.

International competition and MNCs' dumping strategies also have their ethical dimensions. Michalos (1997) introduces the ethics of "social dumping" in which companies are able to sell their products in foreign markets with prices below the cost of production at home because employees of the company or local residents have been forced to absorb the losses themselves. According to Michalos, the local costs to employees and residents for environmental pollution provide the simplest example of social dumping. Further Michalos is concerned about Third World debt as an ethical issue in international finance.

Transfer pricing is both an accounting and finance topic that envelops ethical considerations. According to Mehafdi (2000), unethical transfer pricing behavior could be damaging to corporations and host governments. Medhafdi sees Arm's length legislation in transfer pricing as insufficient and suggests self-regulating codes of conduct for senior management.

Finally, the negative environmental effects of MNC operations are a major concern in international finance. Andersson *et al.* (2005) question MNCs' commitment to ecological sustainability. They find that the employees at MNCs are sensitive to environmental issues if the issue is promoted by the top management.

## **Chapter 11: Mergers and Acquisitions**

The emphasis in finance about the effects of mergers and acquisitions is economic efficiency, and the benefits of mergers are primarily investigated through synergy and other economic factors. Ethical issues in mergers and acquisitions are usually omitted, and issues about mergers' effects on the natural stakeholders are not explored. According to Di Norcia (1988), merger decision power is not distributed in proportion to the natural stakeholder risk, and the risk falls mostly on employees, somewhat on managers, less on owners, and least on investors. Additionally, Di Norcia questions why employees should pay for investor, owner or management errors. In addition, Walter (1983) sees the scope of takeovers beyond the conflict of interest between management and stockholders. Walter suggests a conscientious research effort to sort out the complex forces at work and strengthen codes of ethics.

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## CONCLUSIONS

Our survey of corporate finance textbooks reveals that students of finance are deprived of a complete education regarding a balanced approach to the firm goal, corporate governance theories, and adequate business ethics discussion. The introduction of a constrained shareholder wealth maximization perspective will enhance the business ethics curriculum since the teaching of the objective (shareholder wealth maximization) as well as the constraint (protection of natural stakeholders) exposes finance students to corporate governance and higher levels of critical thinking. The current omission of competing theories of ethics in corporate finance textbooks leaves students with an incomplete world view of corporate governance. An ethics education for MBA and undergraduate finance students that focuses only on shareholder wealth maximization goal encourages society to define its laws in favor of corporations so that other stakeholders are left unprotected. AACSB has stated unequivocally that ethical and legal responsibilities in organizations and society must inform every course in the business school curriculum; finance textbooks are failing to do their part.

We recommend that corporate finance textbooks take the responsibility to improve their current offerings by providing both sides of the story through teaching of constrained shareholder wealth maximization and competing theories in corporate governance, and by providing adequate exposure to business ethics. By doing so, students will be able to make informed managerial decisions. In the continued long-term omission of adequate ethics teaching, corporate scandals are likely to become a mainstream phenomenon rather than an anomaly.

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### NOTES

- 1      Mentioning stakeholders of a firm, usually within agency theory, does not mean that stakeholder theory has been introduced.
- 2      Corporate social responsibility discussed in the context of agency theory does not mean that stakeholder theory has been introduced.
- 3      Including stakeholder definitions in the glossary does not mean that stakeholder theory has been defined or explained.
- 4      Corporate governance is not the same as corporate control, which is related to the mechanics of existing organizational structure and rules.



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