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LETTER FROM THE EDITOR

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THE ROLE OF CONTEXTUAL CAPABILITY IN DEVELOPING A MARKET ORIENTATION: A CASE STUDY OF A NEWLY FORMED COMMUNITY BASED ORGANIZATION

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ABSTRACT

Privatization is a radical and complex change effort in which there are opportunities for newly formed organizations to develop more desirable business-like practices. Market orientation theory has been associated with several key internal factors; however, development of a market orientation may also involve contextual capabilities found in the external environment in addition to internal factors and antecedent conditions. Based on results of a case study, we suggest tenets from organizational development and change literatures would benefit the advancement of market orientation theory. We explore the development of market orientation in a community based privatization initiative where our case study results show a high level of market orientation and lead us to a set of propositions for contextual capability and its role in developing a market orientation.

INTRODUCTION

Beach Haven [1] is a thriving metropolis in the United States where its business and community leaders and concerned citizens often work together to address community issues. Social service issues became a concern for the community during the late 1990s when a marked increase in critical cases occurring both statewide and in Beach Haven were brought to national attention. Cited causes included a breakdown in the provision of services by a mammoth statewide bureaucratic agency. As a result, there was a mandate to privatize the services and to launch a complex organizational arrangement where the funds and oversight would still be administered at the state level, but the provision of the service would be directed from the community level. The citizens of Beach Haven proactively formed and launched a new private community-based organization (CBO) with the focus on providing quality service to its clients becoming the driver for all decisions made during the transition period from state to community delivery. Independent third party assessment of the CBO's performance indicated that the mandated privatization effort was tremendously successful.

The Beach Haven CBO privatization example of creating new organization resulting from complex or "decomposed" organizational arrangements is an increasingly familiar occurrence (Augier & Teece, 2006; Emmert & Crow, 1988; Steier, 1998). Increased complexity in environmental conditions along with a blurring of boundaries between external influences and an organization's internal resources challenges the traditional stand-alone hierarchical organizational form's ability to sustain successful performance (Lowendahl & Revang, 1998). Further, in order to survive, organizations are often in a state of flux and transition (Augier & Teece, 2006). Not surprisingly there is an increased research agenda centered on organizational change and development seeking greater understanding of the nature of change and circumstances contributing to successful change efforts (e.g., Amis, Slack & Hining, 2004; Grobman, 2005; Plowman, Baker, Beck, Kulkarni, Solansky & Travis, 2007). With the infusion of precepts from complexity theory, organizational change theory becomes sensitive to initiating events when new organizations are created through radical change (e.g., Anderson, 1999) and recognizes how initiating events are found in both internal activities and the external environment or contextual setting (Johns, 2006).

Beach Haven's CBO initiative illustrates the characteristics of a privatization joint venture: the new organization is independent but draws resources and/or governance structures from one or more pre-existing organizations (Borys & Jemison, 1983). Failure is common in privatization initiatives despite efforts to align with environmental conditions as is prescribed by classic strategic management tenets (e.g., Duncan, 1972; Galbraith, 1973; Porter, 1987), and merely transferring the delivery of services from a bureaucratic organization to a private sector business model does not guarantee success (Handler, 1996; Martin & Parker, 1997). One study showed a 22% failure for privatization (Warner & Hefetz, 2004). The remarkable success of Beach Haven offers a rare opportunity to understand and identify key success factors.

A frequent driver for privatization initiatives is the belief that services can be provided more effectively and efficiently when there is a greater emphasis on business-like methods (Vasquez, Alvarez & Santos, 2002). Market orientation theory offers an increasingly popular theoretical base from which to study an organization's performance, and this stimulated our qualitative study of the Beach Haven CBO. Market orientation theory is often centered on customer-driven practices in an organization (Jaworski & Kohli, 1993; Naver & Slater, 1990). Originally developed to identify private sector performance success factors, market orientation theory has also been extended to the study of public, private non-profit, and privatized organizations (Balabanis, Stables & Philips, 1997; Barberis, Boycko, Shleifer & Tsukanova, 1996; Cervera, Molla & Sanchez, 2001; Vasquez et al., 2002) and is appropriate to consider in the Beach Haven case.

Market orientation theory has identified the performance antecedent conditions of 1) supportive leadership, 2) an open organizational system and 3) organizational connectedness (Kirca, Jayachandran & Bearden, 2005). We developed our case study interview framework to capture data describing each of these antecedent conditions in Beach Haven's CBO supported by sound qualitative study practices (Miles & Huberman, 1994; Yin, 2003). As we gathered and analyzed the data we realized that Beach Haven's development of a market orientation and the success of the privatization included more than the three market orientation antecedents. We also found that market orientation studies tend to retain a distinction between the internal and external contexts of an organization; specifically an organization's internal actors and the organization's processes *respond* to external conditions in developing a market orientation (Qu & Ennew, 2005). Beach Haven's CBO initiative showed the significant *influential* role of external contextual conditions in the development of a market orientation. We found that the community's efforts were especially focused on a customer-driven approach to providing the best possible services for the client, i.e., "what is best for the child." Further, we found many of the community's actions and allocation of resources appeared to be instrumental in the development of a market orientation far in advance of the establishment of the CBO.

While external conditions have been considered in market orientation models, their presence has been unsuccessfully tested as a moderator between market orientation and performance outcomes (Kirca et al., 2005). This gap in capturing the role of external factors in developing a market orientation is also noted in research of organizational development in transitional economies (e.g., Qu & Ennew, 2005), and Ramaswamy and Von Glinow (2000) proposed that the nature of the external environment plays a role in assuring that privatization initiatives are successful. Thus, we propose including external contextual elements in market orientation theory at least in cases of CBO privatization efforts toward developing a market orientation.

The Beach Haven CBO study found the new organization was the result of a purposeful and planned change effort to secure the "best of the best" in resource capacity. The organizational form evolved from a single hierarchically bound structure to an elongated network. The organizational components included the state agency which was to provide oversight to the new CBO which was then responsible for the delivery of the service primarily through contracted service providers. The Beach Haven CBO develop a high level of market orientation (seen in the results of a previous empirical study by the authors) was aided by external contextual conditions in the community that were long-term and deeply embedded as well as more immediate and jolting.

Tushman, Newman and Romanelli (1986) describe privatization as a frame-breaking change strategy, thus, we also considered contributions found in organizational change and development theory. Our interest in *how and why* market orientation develops in a privatization initiative (i.e., an institutional level change effort) led us to contributions from institutional and process oriented works. Gebhardt, Carpenter and Sherry (2006) incorporated organizational change and development theory to explain the creation of market orientation in *existing* organizations by way of *internal* dynamics, including organization culture, learning, and intra-organizational relationships. The Beach Haven study results suggest that dynamics in an organization's *external* contextual capability also play a pivotal and influential role in the development of a market orientation in *newly formed* organizations.

THEORETICAL OVERVIEW

Market Orientation Theory

Organizations typically focus attention and activities on customers to gain competitive advantage, and this market orientation became the basis for the development of marketing thought. Over time it has gained prominence as an approach which can be beneficial when embraced by the organization as a whole (Slater & Narver, 1994). Market orientation has also been identified as an effective cultural form acting as an element of cohesion in organizational performance (Gebhardt, et al., 2006; Narver & Slater, 1990).

Recent studies of market orientation have included frameworks which address its relationship with antecedents, organizational outcomes, and moderating conditions. Jaworski and Kohli's frequently cited model (1993) tested the relationship of a multi-dimensional market orientation construct (Kohli & Jwaorski, 1990) with three categories of antecedents, 1) top management, 2) organizational systems, and 3) inter-departmental dynamics. Their work along with others produced mixed support for the moderating impact that external factors of environmental turbulence, competitive intensity and technological turbulence can have on the relationship between market orientation and performance (Kirca et al., 2005).

Typically, studies of market orientation have been cross-sectional in nature and unable to capture the impact of the dynamics of change (Gebhardt et al., 2006). Kirca et al. (2005, p. 38) encourage future research to address *how* the "antecedents of market orientation interact and impact implementation" suggesting that contextual differences may play a role in the extent to which a market orientation is advanced in an organization. Evidence of a market orientation has also been identified in non-profit organizations (Balabanis et al., 1997; Cervera et al., 2001; Vazquez et al., 2002) and privatized organizations (e.g., Barberis, Boycko, Shleifer & Tsukanova, 1996) suggesting the concept of a customer orientation and the theoretical tenets developed in market orientation theory is a universal element in the study of organizational activity.

Identifying organizational culture and significant antecedents in the development of market orientation theory provides a useful platform for examining the internal dynamics in the Beach Haven case study. Thus, we focused on capturing data to describe the state of the organization's culture as well as the specific antecedents of 1) supportive leadership, 2) complementary organizational systems, and 3) inter-departmental dynamics. However, market orientation theory inadequately reflected what we regard as influential external contextual dynamics because our study suggested that community dynamics also provided a necessary platform from which the new CBO cultivated a market orientation. We found that by incorporating contributions from organizational change and development theory, we could advance the proposition that external factors play a significant role in the development of a market orientation in a newly formed organization (i.e., the CBO) as found in a complex organizational arrangement.

Organizational Change and Development Theory

Type of Change

From a strategic perspective, privatization is considered a frame-breaking change strategy (Tushman et al., 1986). The service provided undergoes a significant delivery transition from a bureaucratic style to a private, business-oriented organization. The impetus for change is often due to pressures in the institutional field resulting from an unforeseen crisis or "jolt" (Meyer, 1982) in the delivery of the service or a significant political shift (Erakovic & Wilson, 2005).

In general, privatization can be categorized as a purposely planned, radical change effort as opposed to a slower evolving change. This type of change requires a corresponding change in an organization's template and its internal activities (Greenwood & Hinings, 1996). Further, the change process may be unpredictably paced and the sequence of events may be nonlinear in nature (Amis et al., 2004; Grobman, 2005; Plowman et al., 2007). Thus, in complex organizational arrangements the use of mechanistic models to explain an organization's success by way of its internal "parts" gives way to the use of complexity theory where successful change is recognized in the value of the organization's context, its sensitivity to initiating conditions, and the incidence of feedback loops in its environment (Anderson, 1999; Holland, 1995; McKelvey, 1999).

Process of Change

Organization change approaches may also consider the manner in which the change is implemented (i.e., process). Lewin's (1947) three step model of change has been refined by others such as Amenakis and colleagues (1993, 1999, 2002), and their work considers three overlapping phases: 1) readiness; 2) enacting the change; 3) institutionalization. At the organizational level, change is influenced by socially interacting individuals and in this regard change theory can be enhanced with the integration of Bandura's social learning theory (1982).

Readiness for change in Armenakis' model recognizes the extent and the manner in which change agents communicate the change message to those who will be affected by it (Armemkis & Bedeian, 1999). Readiness is a precursor of change behaviors and is reflected in the organization's attitudes regarding the need for change and the capacity to make the change (Armenakis, Harris & Mossholder, 1993). For the change message to be accepted, it must address five key domains: 1) convey the discrepancy between the current state and the desired state; 2) convey a sense of confidence about the change (Bandura, 1982); 3) convey the change as an appropriate solution to the identified discrepancy; 4) identify sufficient resources and commitment for implementation and institutionalization; 5) convey a sense of fairness to those involved with the change process. Conveyance occurs through active participation of the organization's members, the use of persuasive communication, and credible information from sources interested in the change both within and outside the organization (Armenakis & Harris, 2002). Once accomplished, the organization is in a state of "readiness."

The Role of Context in Change

Damanpour (1991) in his meta-analysis of organizational change research concludes that a successful change effort may rely more on the fit between "…content, contextual, and process considerations than in the nature of an intended change" (Armenakis & Bedeian, 1999, p. 299). Other research on organizational change and context has produced findings that while complementary do not provide integrated results for broad generalizations (Armenakis & Bedeian, 1999). Research on privatization has led some to conclude it is perhaps an anomaly with idiosyncratic tendencies making the progress of theoretical development a difficult task (Zahra, Ireland, Guiterrez & Hitt, 2000). Our interest in privatization and market orientation development leads us to recognize the unique contextual attributes which may be influential. Thus we draw primarily on the works developed by Aramankis and colleagues with regard to the *process* of organizational change, yet we also consider readiness related to the specific *contextual setting* of a CBO and its efforts to develop a market orientation. Specifically, we direct our attention to the activities of the Beach Haven community as it prepared for the change initiative. In following Peredo and Chrisman's assertion (2006) that characteristics of the community are embedded in its newly formed organization, we also suggest that the community is an appropriate influential context for the CBO.

We propose that two distinct characteristics of the privatization initiative warrant theoretical development. First, our focus is on a major change effort which is transformational as opposed to a more simplistic or transactional change effort. That is, the energy needed to implement a privatization change strategy must be influential enough to allow a "leap" from one organizational type to another, namely from a bureaucratic organization to that of a CBO which embraces private-sector business practices. We would expect that characteristics of the community effort would of necessity exhibit strong support for business-like activities while simultaneously retaining a focus on the primary customer/client served by the CBO. Second, we focus on understanding the role the community plays in the change process. We propose that the CBO is linked to a network of relationships found in the community and that the community is a member of a broader network at state and national levels. We expect the strength of these networks would influence the success of the change process.

METHODS

Our research effort began as a project to identify *how* and *why* a market orientation is developed in a newly formed CBO. Market orientation theory has had some application in this type of setting, but there is a noted gap in this regard. Thus, our research was undertaken to explore this gap using a case study format (Yin, 2003). Using a single case format, the Beach Have CBO offered access that was unique and critical to the analysis because of the documented success of the initiative by a team of nationally know independent third party evaluators as well as by an organization hired to provide fiscal monitoring of the contract. Further, the presence of a high level of market orientation was found in the CBO in a previous study (Tworoger et al., 2006). There was also an unusual opportunity for the researchers to freely access subjects at various points in the history of the organization (Yin, 2003), and longitudinal observations were of particular interest to this research.

Yin (2003) recommends use of a tentative theoretical frame from which to derive data allowing further refinement of the theoretical lens as the data collection process advances. Marketing orientation antecedents provided the theoretical frame in the initial phase of data collection at the CBO. Interview responses indicated a strong and continual reference to the role the community played in the development of organizational practices in the CBO. Thus, a follow up second phase of data collection followed seeking insight on community characteristics. Data was collected from two sources: semi-structured interviews with principals involved in the privatization process, and secondary materials comprised of newspapers articles, minutes of meetings, CBO documents, Web sites, third-party evaluator reports, fiscal monitor reports, and state accountability reports. Discussion of the data collection process for the two phases follows.

Data Sources and Analysis

Interviews

In-depth interviews were conducted with the top management team, key employees, and key community and business leaders involved in the early stages of development of the CBO. These interviews were conducted by two researchers during 2005 and involved eleven individuals. The interview sessions were approximately one and one half hours per individual. Validity in the study was established with triangulation of the information generated from the interviews with multiple sources of documentation (e.g., minutes, newspaper articles, fiscal monitor and third party evaluator reports, state accountability reports, and the CBO's website). Three researchers evaluated the data and multiple informants reviewed a draft of this report, which further contributed to validity of the data (Yin, 2003).

Reliability was achieved by observing case study protocol and suggested field procedures as outlined by Yin (2003). The interviewers used a 13- question guide to enable the inquiry. The questions were open ended and designed to capture the experiences of the respondents as related to the research objectives. Questions included, "Tell the story of your experiences regarding privatization", and, "Please discuss key early decisions and strategies that led to success." To be sure that the respondents were able to freely discuss their perspectives on the phenomenon in question, the interview ended with inquiries such as "What questions didn't we ask you that might be important to understand the nature of your organization?" Interview transcripts were checked for accuracy by the two researchers who conducted the interviews.

Table 1 reflects direct quotes of main themes from the interviews which were utilized to analyze the data (Griggs, 1987; Miles & Huberman, 1994). Four themes were identified related to the development of a market orientation: 1) mission and core values, 2) top management, 3) organizational structure and activities, and 4) organizational culture. Identified by two of the researchers, they were cross-checked for similarity to validate their presence in the CBO by a third researcher (Yin, 2003).

Table 1- Developing market orientation in community-based organizations

New Mission and Core Values	**Source of quote**
"Because we created a business plan with business leaders behind it, the top management was able to exercise won't do it if we don't have the money to do it right policy.'"	Board Member
"At every level of the organization when decisions are made, the first question is "what is best for the child?"	CBO Executive
"If it is not in the best interest of the child we will give up the keys and walk away"	CBO Executive
"Executive leaders of this organization need to wear bullet proof vests to shield the field staff to keep bureaucracy away from them so they can do their jobs."	CBO Executive
"Operate openly and seek public participation and support."	CBO Executive
"Use proven best practices….but will neither undertake nor continue any task unless there are the resources to provide it…at a superior level of performance."	CBO Executive
"The CBO is "strong enough to just say no." "Community involvement makes the difference."	CBO Executive
"A lot of people got involved so that we didn't lose another generation of children"	Board Member
"This is a business model, not a social services model"	Board Member
"Never ending commitment to a simple mission drives our difficult decisions"	CBO Executive
Top Management	**Source of Quote**
"Hiring the CEO we did was the single best move we made as he has set the tone of the organization."	Board Member
"He leads by example" by "looking at a situation from all angles and remaining calm and not overreacting" by demonstrating "a willingness to learn and admitting he doesn't know everything" and by being a "good listener."	Board Member

Table 1- Developing market orientation in community-based organizations	
The CEO "inspires a collegial atmosphere"	CBO Executive
Our CEO has "a passion for action" and "integrity" He has a "continuous focus on the interests of the client"	CBO Executive
CEO is "open" "not autocratic" and "understands change management"	CBO Executive
CEO "is an excellent leader who knows when to step back and let the experts takeover"	CBO Executive
Organizational Structure and Activities	**Source of Quote**
"It also allows me to do all the things I'm supposed to do"	Line Worker
"We learn from employees….they talk to us.	Board Member
"If we mess up, our CEO calls the press himself."	Board Member
CBO has "freed up people to do what they need to do"	CBO Executive
The public bureaucracy has "paralyzing degree of sign-off"	CBO Executive
"We have the ability to enhance the life of the workers-they can do their jobs better"	CBO Executive
"Need to maximize modern technology to support workers"	CBO Executive
"There is "energy and freshness, a unique opportunity to do things differently"	CBO Executive
Organizational Culture	Source of Quote
CBO has "to fight hierarchical culture"	CBO Executive
"Access to systems, to write our case notes, and make us more productive." "More time to do what I am supposed to do because of resources and support"	Line Worker
"…light years ahead with technology"	CBO Executive
"Doers not just managers," and it's a place where line workers believe they're "able to resolve any issue on the spot"	CBO Executive
"Individualized decision-making culture here. Everyone believes this".	CBO Executive
"We have flexibility to make changes"	CBO Executive
"Not doom and gloom and crisis driven—we are forward thinking". We are not "driven by myth and legend'	Line Supervisor
"More accountability here" Going back to old system "would be like going back to the stone age"	CBO Executive
I "had the flexibility and ability to implement everything I felt was necessary" "No red tape-don't just sit around talking about it" "Magic of this thing is that we can adjust and change" "not written in stone"	CBO Executive

Secondary sources

Forty nine newspaper articles related to the change process, minutes of the organizing committee as well as the CBO meetings, CBO website, reports from the third party evaluator, fiscal monitor, and state accountability office were reviewed. In addition, multiple site visits to the CBO provided opportunities for observation, as well as attendance at board meetings of the CBO and organizing committee afforded researchers additional occasions for observation. The use of secondary sources provided the ability to conduct longitudinal analysis and was particularly insightful with regard to the role that activities in the community played in influencing the development of a market orientation in the CBO. Table 2 presents a summary timeline reflecting an eight year period: five years prior to the formation of the CBO and three years post implementation. In this instance, we were interested in developing a chronological arrangement of key events which occurred during the transition of the child welfare service from a state-run agency to the CBO. This approach allowed for insight into the potential nature of causality between the four antecedent market orientation factors occurring during the transition period (Yin, 2003).

Table 2 Timeline for change effort

Timeline	Event or Outcome
1997	In the wake of unprecedented reports of abuse and 62 deaths of children at the hands of caretakers (five deaths in one week) the state legislature mandates the department establish pilot programs to privatize child protection services through contracts with community- based agencies.
1998	A national advocacy group for children filed a federal lawsuit in county against state bureaucracy alleging that system is in crisis
	Grand Jury in county issues a report condemning the state child welfare system saying it is not funded properly and lacks accountability and credibility.
1999	Judge certifies all foster children in county as a class-preparing the way for a class-action lawsuit
	"Children's Summit" held in county which brings together business, civic and social services leaders to tackle issues in child welfare system
	CEO business organization, State Attorney's Office, and the Chamber of Commerce form children's initiative in county to discuss privatization and to encourage business and civic leaders to join together to implement child welfare reform to include possible privatization.
	The state public bureaucracy is required by the state legislature to submit a statewide privatization plan by July, 1999
	Selection of managing partner of a law firm and immediate past chair of Chamber of Commerce and a Sr. V.P. of national real estate company as co-chairs of children's initiative in the county
2000	Settlement announced in lawsuit. County given an additional $11 million in funding for child welfare system
	Former CEO of International Car Rental Co. and board chair of United Way advises to develop a business plan to communicate the privatization concept to business and civic community in the county
	United Way board of directors, with leadership of board chair and board member, vote $90,000 to secure consultant to write business plan for privatization in county
	Meeting of Leadership Council, which includes business and civic leaders, to begin work on privatization in county.
	Nationally know consultant begins work on business plan with civic and business leaders for transition to privatization/community based care in county.
	County voters agree to pay higher taxes to create a children's foundation to raise funds to improve children's services. This special taxing district for children becomes the sixth one in the state
	One civic leader, who helped lead the children's taxing district effort and was instrumental in privatization efforts in county, was subsequently elected to state legislature

Table 2 Timeline for change effort

Timeline	Event or Outcome
2001	State's 4 privatized pilot projects out performed state system and yielded positive results, but findings also state that private system could be more costly
	Resolution by children's initiative in county that no transition to community based care will be undertaken until a "realistic and fully funded transition plan is in place"
	Business plan findings by the consultant indicate that $60,000,000 or $11,500 per child will be needed to fully fund move to community based care in county
	Children's foundation in county approves new budget that will provide $25million dollars to "make a difference in the lives of children" through a new taxing district for children approved by voters in 2000 (Miller, 2001).
2002	Newly formed community based organization (CBO) wins competitive bid process to be the lead agency in the county.
	CBO Board selects CEO. Two final candidates were interviewed-one a public organization leader with social and child welfare experience. Second, a 30 year real estate executive with law degree and a masters in city planning who led the children's initiative. Board selected real estate executive to lead new CBO in county
	Key staff hired for CBO in county
	Start up contract signed between state public bureaucracy and CBO in county
	Grand jury in county declares child welfare system in "ongoing chaos"
2003	State governor "Frustrated by his administration's failure to protect children in state custody governor… will accelerate plans to turn over… child welfare services to private companies" (Hollis & Kennedy, 2003)
	Bridge contract signed between CBO and state public bureaucracy
	Children's foundation and community group contract with Child Welfare Policy and Practice (nationally known experts in Child welfare) to serve as 3rd Party evaluator of CBO in county
2004	End of first formal assessment period of CBO in county by third party evaluation team (July 2004 start) indicates that there has been an overall improvement of child and family status indicators from 79% to 91% (Third Party Independent Evaluation Report of CBO, 2004)
	Transition of services from state public bureaucracy to CBO in county completed
2005	State finishes privatizing child welfare system with the signing of a final $75 million contract

Finally, data from secondary sources were coded to reflect themes associated with the change process. In this phase of our research effort we focused our analysis on identifying evidence of the market oriented change message, "what is best for the child" in the organization's contextual setting, which in our study of a newly formed CBO is its community. In this regard we coded themes of 1) a planned and radical change effort to substantiate the characteristics and nature of the type of change experienced as advanced by the tenets of neo-institutional theory (Greenwood & Hinings, 1996), referred to in our coding as *catalyst conditions*, 2) a state of change readiness (Armenakis & Harris, 2002) in the community to substantiate its role in the change process as seen in the development of a market orientation in the CBO, referred to in our coding as *capacity conditions*, and 3) conveyance of the change message (Armenakis & Harris, 2002) of the need to support a market orientation to improve service delivery by those in the community as seen in its networking linkage of viable constituents with the CBO, referred to in our coding as *connector conditions*. Table 3 reflects evidence of the three themes, associated sub-themes and relevant data.

Table 3: Evidence of contextual capability

Catalyst Conditions	Event or Outcome
Critical Event	• Unprecedented reports of abuse and 62 deaths of children at the hands of caretakers (five deaths in one week) in state
	• Grand Jury in county issues a report condemning the state child welfare system saying it is not funded properly and lacks accountability and credibility.
	• A national advocacy group for children filed a federal lawsuit in county against state bureaucracy alleging that system is in crisis
	• State legislature mandates the state department establish pilot programs to privatize child protection services through contracts with community based agencies
	• The state public bureaucracy is required by the state legislature to submit a statewide privatization plan by July, 1999
Legitimizing Event	• 2001- State's 4 privatized pilot projects out performed state system and yielded positive results, but findings also state that private system could be more costly
Capacity Conditions	**Event or Outcome**
Supportive Mindset	• 1999- "Children's Summit" held in county which brings together business, civic and social services leaders to tackle issues in child welfare system
	• 1999-CEO business organization, State Attorney's Office, and the Chamber of Commerce form children's initiative in county to discuss privatization and to encourage business and civic leaders to join together to implement child welfare reform to include possible privatization.
Tangible and Intangible Resources	• 1999-"Children's summit" held in county which brings together business, civic and social services leaders to tackle issues in child welfare system
	• 1999-Involvement by CEO business organization, State's Attorney's Office, Chamber of Commerce leads to selection of past chair of Chamber and real estate business leader to lead children's initiative in county
	• 2000- Settlement announced in lawsuit. County given an additional $11 million in funding for child welfare system
	• 2000- United Way board of directors, with leadership of board chair and board member, vote $90,000 to secure consultant to write business plan for privatization in county
	• 2000-County voters agree to pay higher taxes to create a children's foundation to raise funds to improve children's services. This special taxing district for children becomes the sixth one in the state.
	• * 2001-Children's foundation in county approves new budget that will provide $25million dollars to "make a difference in the lives of children" through a new taxing district for children approved by voters in 2000(Miller, 2001).
	• 2002-Start up contract signed between state public bureaucracy and CBO in county with funding as outlined in business plan

Table 3: Evidence of contextual capability	
Awareness	• 1997-2003-Extensive media coverage of poor services for children resulting in deaths around state. Class Action lawsuit in county
	• 1999-CEO business organization, State Attorney's Office, and Chamber of Commerce form children's initiative in county to discuss privatization and to encourage business and civic leaders to join together to implement child welfare reform to include possible privatization
	• 2000-Campaign by child advocates and broad coalition of business and civic to pass taxing district to fund children's services in county
	• 2000-Former CEO of International Car Rental Company and board chair of United Way advises to develop a business plan to communicate the privatization concept to the business and civic community in the county
	• 2000-United Way board of directors, with the leadership of board chair and board member, vote $90,000 to secure a consultant to write business plan for privatization in county and to aide in communication efforts.
	• 2001-Resolution by children's initiative
Connector Conditions	**Event or Outcome**
Internal and External Communication	• 1999-"Children's Summit" in county brings together business and civic leaders, and social services leaders who commit to tackling child welfare system problems
	• 1999-Involvement by CEO business organization, State's Attorney's Office, Chamber of Commerce leads to selection of past chair of Chamber and real estate business leader to lead children's initiative in county
	• 2000-Many of the same business, civic, and social services leaders join together to insure passage of new taxing district to fund children's services in county.
	• 2000-One civic leader, who helped lead the children's taxing district effort and was instrumental in privatization efforts in county, was subsequently elected to state legislature
	• 2000-United Way board of directors votes $90,000 to write business plan for privatization in county
	• 2000- Nationally know consultant begins work on business plan with civic and business leaders for transition to privatization/community based care in county.
	• 2001- Resolution by the children's initiative, which is comprised of business and civic leaders in county, that no transition to community based care will be undertaken until a "realistic and fully funded transition plan is in place"
	• 2002-CBO selects as CEO the former real estate executive who led children's initiative in county
	• 2003-Children's foundation, which was created through new taxing district, joins with community alliance to provide 3rd party evaluator for the CBO in the county
	• 2004-End of first formal assessment period of CBO in county by the third party evaluation team (July 2004) indicates that there has been an overall improvement of child and family status indicators from 79% to 91% (Third Party Independent Evaluation Report of CBO, 2004).

FINDINGS

This portion of the paper distills the findings regarding *how* and *why* key early events can lead to the development of a market orientation at a CBO. We begin our discussion of the findings with the results of the interview phase of the research which provided evidence of the existence of the four market orientation factors and follow with a discussion of the findings centered on the contextual capability of the community to influence the development of a market orientation of the CBO.

Evidence of Internal Market Orientation Factors

This section briefly reviews the internal market orientation factors found at Beach Haven. It is supplemented by Table 1: Developing a Market Orientation in a Community Based Organization where many participant responses are included.

Mission and core values

We found the mission and core values of the CBO were newly established and seemingly aligned with current environmental expectations from the community to provide excellent child welfare services. Participants frequently indicated the purpose of the CBO is not only to focus on service to the client but also to act as a champion for community interests by strongly advocating to funding sources that best practices can be delivered only when there are adequate resources.

Top management

Top management exerts considerable influence on the fate of an organization (Hambrick & Mason, 1984). This was certainly true at the CBO studied where an entirely new top management team was created and included executives with considerable private sector experience, in particular, the new CEO. The top management team is committed to the mission of the organization and has used their business expertise to create a supportive and enabling culture of "very high standards". With a new top management team, the CBO has been able to bring fresh new perspectives and skills (Barberis et al., 1996) to the challenges of managing a child-welfare service organization and are supportive of market oriented activities. They also appear to be influential in creating an open and innovative organizational climate.

Organizational structure and activities

Changes in organizational structure allow long standing practices to cease and new patterns of activities to be established such as the initiation of business practices in privatization efforts (Ashburner, Ferlie & FitzGerald, 1996). In our study, changes in these organizational elements were evident from the very beginning of the transition of services to the CBO. Our research focus was on the areas of structure, feedback and compensation (Jaworski & Kohli, 1993). Our findings indicate a complex dynamic involved with these structural elements.

The structure and processes of this entirely new CBO organization are purposefully aligned with its mission and core values. This is evident not only in the areas of its structure, but also in the extensive openness in feedback both externally and internally within the organization. The use of technology to provide easy dissemination of information is another important structural process in place in the new CBO and has become a critical success factor in supporting the mission. We find that control mechanisms reinforce the CBO's commitment not only to its clients but also to the community and its funders. We also find that the CBO's compensation system reinforces the commitment to providing high quality staff. See participant comments in Table 1 for additional insight.

Organizational culture

Organization culture is the last of the four internal factors of our model to be considered with particular emphasis on customer orientation and innovativeness. As suggested by Ramaswamy and Von Glinow (2000, p.307), "the organization culture that typically prevails in an SOE is unlikely to prove effective upon privatization." The early leaders, by developing a new organization with a new mission and new leadership, appear to have enabled a dramatically new culture to emerge at the CBO. Change was enhanced by selecting employees most likely to be aligned with the new culture of the organization rather than guaranteeing jobs to former state agency employees (Salama & Easterby-Smith, 1994). We propose this type of action contributed to the development of a market orientation in the CBO with a definitive break from the old bureaucratic organization to the newly privatized one.

Thus, we found that the new management and mission as well as elements in the CBO's organizational structure and activities have been influential in the development of its culture. A recurring theme throughout the organization was an orientation toward serving the needs of the client. A climate of innovation focused on providing services was not limited by past constraints and standardized solutions. Both centralized and decentralized approaches were used to assure efficient and effective service delivery, the empowering use of technology, and the involvement of Child Advocates throughout the entire process provide further evidence of an innovative climate.

Evidence of Contextual Capacity in the Development of Market Orientation

The consideration of contextual variance which may impact the initiation of a change effort (Damanpour, 1991) provides a suitable frame from which to refine our discussion of the development of a market orientation in a contemporary complex organizational arrangement such as a CBO. The case study approach allowed for the collection of richer and more fine-grained data collection (Eisenhardt & Graebner, 2007), including the relevant contextual setting of the community and its impact on the development of a market orientation in the CBO. We consider "community" to be a group of individuals in a shared geographic location in which the boundaries are established by a governing body (Peredo & Chrisman, 2006). In our study, community is aligned with the county in which the CBO was established. Thus we turn our discussion to the characteristics of the community and its readiness to pursue change which in turn we suggest influences the ability of the CBO to develop a market orientation.

Catalyst Conditions

Researchers contend that a crisis is needed in order to reduce resistance to change (Fernandez & Rainey, 2006; Plowman et al., 2007). Table 3 shows instances of a condensed series of critical events, i.e. deaths associated with the provision of the social service at the state level. This crisis was accentuated at the county level by a grand jury report and a class action lawsuit challenging the delivery of the social service provided by a state-run agency. These crises became the catalyst which led to the formation of the CBO.

We also found activity which legitimized a shift from one organizational template to another (Greenwood & Hinings, 1996). First, the state mandated a pilot programs to shift service from the state-run agency to community based organizations (CBO) during the same time period as the crisis. The new CBO organizational template was a purposeful and planned attempt to transfer service delivery to the lowest level possible while retaining the provision of funds at the federal or state level (Mulroy, 2003). Second, the pilot projects were found to yield positive results, confirming that the current method of service delivery was not satisfactory (Greeenwood & Hinings, 1996) with the existing state-run agency. More importantly, the pilot study indicated that the CBO model would be more costly than the state-run model. This finding became a focal point for the community leaders associated with the Beach Haven CBO where they focused their decision making on "what is best for the child." Their central negotiating point was that providing "what was best for the child" the service needed to be funded at the appropriate state level, or the community would not go forward with the formation of the CBO which supports a "legitimizing event."

Capacity Conditions

We contend that the two catalyst conditions 1) a critical event and 2) legitimizing events provided impetus for elements in the CBO's contextual setting (i.e., the community) to develop into a pattern of behavior supportive of the change effort. We found, as suggested in the study of change in other complex organizations (Plowman et al., 2007), similar or fractal patterns of behavior between the organizational levels of the CBO and its community (Johns, 2006; McKelvey & Lichtenstein, 2005). That is, there was evidence at both levels of readiness for change in the delivery of services in that decisions were based on "what was best for the child". We coded themes found in the community based on terms used by Armenaksis and Harris (2002) to describe conditions of readiness for change as the community displayed evidence of 1) awareness, 2) a supportive market-oriented mindset and 3) resources (tangible and intangible) to allow for the successful change from one organizational template to another.

Awareness

From a cognitive perspective, for a change effort to be successful actors need to perceive a discrepancy between the ideal and actual state (Armenaksis & Harris, 2002). In the community associated with our study, there was extensive media coverage of the crisis in the provision of the social service. Soon after the grand jury report and lawsuit filing, community members held a summit to discuss issues regarding provision of the social service. The summit was attended by community members with civic and social service backgrounds as well as leaders from the business sector, and the awareness of a need for change was also articulated in meetings with state level administrators.

Supportive market oriented mindset

Community members of Beach Haven were also focused on the need to change to more business-like practices in providing services. There was strong agreement that all decisions be made based on “what is best for the child” and led to a formal resolution dictating to the state that no transition to community based care would be undertaken until a “realistic and fully funded” plan was in place demonstrating a market oriented approach. This unified approach provided the community a strong sense of common identity and an opportunity for tight coupling to advance the change effort (Plowman et al., 2007). Thus, the community’s strong stance with the state demonstrated a positive sense of efficacy (Bandura, 1982) that they would be able to successfully implement the change effort.

Tangible and intangible resources

We found evidence of activities to secure sufficient resources to adequately facilitate the change effort (Armenikis & Harris, 2002). For example, $90,000 was allocated by the community’s United Way to secure a nationally known consultant to write a privatization business plan with input from the community. The community received its targeted funding allocation as sought in the business plan which was clearly a by-product of the resolution not to begin the transition until a fully funded plan was in place. The community was also instrumental in establishing a new taxing district to provide additional local funds for the provision of services to children.

In addition to the tangible resources acquired for the start-up, intangible resources and capabilities (Hall, 1993) were brought to bear on the process. Skills, abilities, experience, knowledge, and the power of the parties involved helped enable the change. The community leaders including CEOs, business owners, lawyers, and civic activists exhibited an active and committed focus never before seen in the state on children's issues. Evidence of community efficacy was evident in that service delivery decisions were controlled by the community, the issue was driven to the top of the community's agenda as well as a strong endorsement of the business plan written by a nationally known consultant with their input. Thus, a necessary setting to facilitate the development of a trusting relationship in the complex organizational arrangement was established (Kim, 2005).

Connector Conditions

The development of a market orientation in an organization rests not only on adequate support by its leaders and its organizational practices, but also on the ability to effectively communicate a market orientation focus throughout the organization (Jaworski & Kohli, 1993). In Beach Haven, the community played an important role in the communication efforts of the new, complex organizational arrangement from which the CBO evolved. Communication facilitates an organization's ability to sustain focus on customer-driven practices, serve as a forum for feedback, and allow for continual improvement. Parallel to Armenakis's idea of conveyance of the change message, we found instances of network linkage between 1) the community and the CBO, and 2) the community and the state/federal agencies.

Internal communication

Numerous comments seen in Table 1 provide evidence that the communication between the community and the CBO was expected, open and supportive. Reference to collaborations, networks, and trust among the parties involved in the process was noted. Evidence found in the archival data confirmed relationships among some of the community's largest and most influential groups: the Chamber of Commerce, the United Way, and the organizing group for the CBO. This suggests the presence of a synergistic coupling (Plowman et al., 2007) which led not only to the creation of the CBO but also enabled the passage of the special taxing district for children. This organic creation of the CBO to develop a "community based solution" (Peredo & Chrisman, 2006, p. 458) rather than an external solution imposed by others appeared to be an especially visible theme which we suggest is a key success factor.

Openness was reflected also in comments by the CEO of the CBO that the new organization "…operates openly and seeks public participation and support" and "Community involvement makes the difference." The CEO, in addition to having a business background, was a community leader in the privatization effort. The emphasis on open communication is also evident in the structural arrangements between the community, the Board, and the CBO. Using an independent third party consulting group to apprise the community of the CBO's performance created a sense of transparency, suggesting that a trusting relationship was formed between the community and the CBO.

External communication

In addition to evidence of open communication between the community and the CBO, we also found that there was strong network linkage between community members and state and federal level constituents. Recalling that it is at this level that funds for the social service are administered, we suggest that the strength of these ties serve to provide the ability for on-going support to sustain the CBO and to allow it to continue its development of a market orientation. Examples of interaction began very early in the transition period. For example, two years before the CBO was begun there was a meeting between community leaders and state officials to discuss the mandated privatization order and to encourage business as well as civic leaders to join in the effort. The strength of this interaction also continued throughout the transition period. As an example, one year after the CBO was started, a key community leader was elected to the state legislature. This individual heralded the need for appropriate funding for the social service in the legislature. We suggest that the strength of these types of external network linkages allowed for the on-going conveyance of the market oriented change message to consider what was best for the child throughout the entire complex organizational arrangement.

DISCUSSION AND IMPLICATIONS

This paper explores the manner in which a market orientation is developed in a complex organizational arrangement as seen in the efforts of a privatization initiative. The existing theory of market orientation while recognizing internal factors which contribute to the development of a market orientation does not consider the role that an organization's contextual capability plays in this regard. The evolution of organizational structure to more complex arrangements in which boundaries between internal and external factors are blurred (Lowendahl & Revang, 1998) as seen in our case study points to a need to extend an important organizational theory perspective in this direction. While organizational change and development theory has been used to extend the understanding of internal elements related to the development of a market orientation (Gebhardt et al., 2006) its tenets have not been applied to conditions external to the organization. The case study of the CBO in Beach Haven suggests that context plays an active role in planned and radical change efforts. As found in emerging change efforts (Plowman et al., 2007) we contend that the recent advances in organizational development literatures with relevant complexity theory most notably cross-level or factal patterns between the organization and its contextual setting and the importance of initiating contextual conditions (Johns, 2006) is a relevant platform from which to advance market orientation theory.

As shown in Table 4, we suggest that four propositions be considered with regard to the role that contextual capability plays in the development of a market orientation in newly formed organizations. The table also presents a summary of the contribution that each proposition has to market orientation theory, as well as the basis for the proposition as explained by organizational change and development theory. The first proposition simply considers that a newly formed organization's environment plays a role in the development of a market orientation. As suggested in the tenets of institutional theory which address change efforts, the impetus for change can be found in environmental conditions and can be indicative of the type of change which can be expected to occur in an organization (Meyer, 1982; Greenwood & Hinings, 1996; Peredo & Chrisman, 2006). The second proposition suggests that critical and legitimizing events in the environment prompt change. We contend that the nature of these events which can provide a critical spring board or "enabling dynamics" (Greenwood & Hinings, 1996) to instigate synergizing and tight-coupling inertia which impacts behavioral response to support the change effort (Plowman et al., 2007).

The third proposition suggests that elements of awareness, a supportive market oriented mindset and the commitment of tangible and intangible resources in the organization's contextual setting are evidence of readiness for change (Armenakis & Harris, 2002) and serve to provide the favorable conditions in which a capacity to develop a market orientation would be possible. The presence of these conditions appear to portray cross-level (Johns, 2006) or factal characteristics (Plowman et al., 2007) in that the patterns of behavior in the community provide a platform for the newly formed organization to mimic (Di Maggio & Powell, 1983) a set of behaviors supportive of a market orientation. Of note and as found in other studies of privatization initiatives (Aggestam, 2006; Qu & Ennew, 2005) the favorable conditions were in existence before the change effort was initiated and as suggested in the second proposition emerged with the incidence of catalyst conditions. We found as suggested by other research efforts (Amis et al., 2004; Plowman et al., 2007) that these conditions were critical and highly influential in successfully advancing the planned and radical change effort associated with the privatization initiative. We also observed these conditions in the community were evident throughout the transition period and suggest that these instances of collective learning led to successful collective action that then resulted in the development of trusting relationships (Kim, 2005;Peredo & Chrisman, 2006)

Finally, the fourth proposition suggests that on-going network linkage allows a sustained focus on the development and institutionalization of a market orientation throughout the entire complex organizational arrangement. There was evidence of linkage between the community and the CBO as well as between the community and external constituents responsible for the provision of funds for the social service. The institutionalization of new behavior requires viable feedback mechanisms so that there can be continual self organizing behaviors to address the dynamic nature of contemporary organizational systems (Grobman, 2006).

Table 4: Summary table of propositions:
The Role of Contextual Capability in the Development of Market Orientation in a Newly Formed Organization

Proposition	Contribution to Market Orientation Theory	Organizational Change and Development Explanation
1. The level of contextual capability in an organization's field to support a market orientation is related to the level of development of market orientation in a newly formed organization.	The development of market orientation in a newly formed organization is related to external as well as previously identified internal factors. The level of contextual capability is evident in catalyst, capacity and connector conditions.	Contextual capability characteristics in the external environment are embedded in newly formed organizations and influence the development of an organization.
2. Catalyst conditions in the environment unleash existing institutional templates and allow for the development of a market orientation in a newly formed organization.	The development of a market orientation is prompted by the instance of (a) critical event(s) and corresponding legitimizing event(s).	New organizations are often formed in response to deficits in existing organizations. Successful change is the result of a planned and radical change effort, which is sensitive to the influence of initial conditions. These conditions serve as inertia to prompt a synergizing impact on existing resources in the environment which are needed to allow the development of a market orientation
3. The level of capacity conditions in the newly formed organization's environment is related to the development of market orientation in a newly formed organization.	The extent to which there are favorable antecedent conditions to support the development of a market orientation is related to the extent to which there is support in its environment as evidenced by awareness of the need for change, a market oriented mindset and tangible and intangible resources.	The concept of fractal patterns provides for the notion that similar patterns can emerge at various levels in an institutional field. Favorable conditions of readiness in a newly formed organization's environment provide a necessary platform to foster its ability to mimic new behaviors supportive of a market orientation.
4. Connector conditions in a newly formed organization's environment provide for the continuance of favorable conditions to support the sustainability of a market orientation.	The presence of market orientation is related to the extent to which actors in its environment maintain internal and external network linkage with viable constituents to sustain support of the change effort.	Once change has been implemented there is a need to institutionalize the accepted new behavior which is sustained when communication linkage is focused to herald resources to continue support of a market orientation in the newly formed organization.

However, as found in any research effort our study has limitations. Our findings are centered on the planned and radical change conditions found in a privatization initiative in which a market orientation is developed. Noting an absence of theory in this regard, we used a single case study approach from which to develop testable propositions. Thus, future case study research which is more comprehensive in nature is clearly needed. Selecting CBOs that demonstrated lower levels of market orientation as well as those which demonstrate deficits in internal market orientation factors may provide further insight into the dynamics played by an organization's context. Second, while our case study provided evidence that conditions identified in concert with the tenets of organizational change and development theory contributed to the development of a market orientation in the CBO, the nature of relationship is not as defined. Noting the inconclusive findings regarding the role of environmental factors serving a mediating relationship between an organization's market orientation and its performance outcomes (Kirca et al., 2005), we are inclined to suggest that contextual capability plays an initiating role and is more likely related to the antecedents of market orientation or to market orientation directly as opposed to playing a moderating role between an organization's market orientation and its performance outcomes. More specifically we suggest that the capacity conditions of awareness, a supportive market oriented mindset and resources play a direct role in shaping the organization's antecedents, while the catalyst and connector conditions may provide contingent conditions which serve to amplify or diminish the ability of contextual capacity conditions to influence the characteristics of the antecedents associated with the development of a market orientation. Longitudinal and path analysis studies will help to better define these relationships.

These findings also raise questions regarding the extent to which our propositions may be generalizable. In our study we considered the community to be the relevant contextual setting which influenced the development of market orientation in a CBO. While we suggest that the external contextual capability elements of catalyst, capacity and connector conditions are influential in the development of market orientation in newly formed organizations which are a part of complex organizational arrangements, there is a need to define in a more generalizable manner the characteristics of a relevant contextual setting. Context is a multi-faceted construct (Johns, 2006). The influence of regulatory and industry settings as inferred by Ramaswamy and Von Glinow (2000) and observed by Qu and Ennew (2005) in the development of a market orientation suggests that defining relevant context in the study of market orientation may be a significant undertaking. Consideration of contextual capability defined in terms of task versus general environment (Duncan, 1972) as well as the extent to which contextual elements may have a configurational influence (Johns, 2006) on the development of a market orientation are suggested approaches.

With regard to framing the nature of the change effort, and the role of contextual capability on the successful development of a market orientation we note that the privatization initiative in our study is a radical change effort. That is, the service provided shifted from an existing orientation of a public sector template to that of a private sector template. However, the extent to which a change effort is radical in any new organization found in a complex organizational setting may vary. For example, a new joint venture organization may have been created by two private sector organizations in the same industry sector. In this instance the magnitude of the change effort would not be expected to be as radical as that found in a privatization initiative. Pursuing a research agenda which seeks to better define the extent to which radical change influences the relationship between external contextual elements and the development of a market orientation would be beneficial. Finally, our study did not consider the contractual relationship of the CBO with its service providers in advancing the development of a market orientation. The dynamics of these organizational relationships are in all likelihood complex and also influential on the success of the CBO (Mulroy, 2003).

However, in light of our preliminary findings, we suggest to communities, who face the challenges of providing citizens with social services, that the success of the privatization effort begins long before the new organization is established. We further contend that activities in the community play a vital role in the success of the new organization. We suggest that communities consider actively pursuing the inclusion of not only citizens interested in the provision of social services, but also its business leaders. Finally, we point out that when communities are able to secure adequate resources, both tangible and intangible, they are more likely to gain meaningful and successful service delivery for their citizens.

ENDNOTE

[1] To help assure that the respondent's comments remain anonymous and to preserve the integrity of future research, the authors have elected not to identify the CBO studied. In doing so, related cites and references are not included. Requests for such may be made directly to the authors.

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DISCRIMINATION, DIVERSITY AND AN HRM MODEL: UPDATED NOVEMBER, 2009

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ABSTRACT

This paper will examine the relative impact of "bad" discrimination on different employment outcomes for differing groups in American enterprise. It will primarily focus on "African American" versus "American Caucasian" and male versus female groupings. And, since the normal response to discrimination is diversity, which results in diversity candidates, hires, training, functions, and executives and so on, the diversity response will be vetted.

Sadly, we continue to be fearful of discussing race or sex related employment issues in the American workplace specifically when the topics relate to discrimination and diversity. This paper is unorthodox in its approach when compared to many academic papers, but then perhaps that is a part of the problem: academic unwillingness to publish new and different approaches or politically difficult topics. This paper presents experience and opinions (ours and others) as well as meaningful data used to develop questions for future research. The intent is not to offend or even say this is 'the answer.' The intent is to address this research question: What is the current state of discrimination and diversity as it relates to all areas of employment outcomes among knowledge workers in mid to large size American firms? Specifically, what part of differing employment outcomes is due to sexism and racism?

INTRODUCTION

Most in the American workforce in 2009 is fearful of expressing their real feelings on the topics of discrimination and diversity (Arnott, 2000; "Black America," 2008; Crowley and Elster, 2006; Hasl-Kelchner, 2006; Lencioni, 2002; Noonan, 2007; Obama, all dates; Pinker, 2002; Ridley, 2003; Service and Arnott, 2006; Service, 2007 from *Topgrading*; Service and Ledlow, 2007; Service and Lockamy, 2008; Sowell, 2008 and Sternberg, 1996; among many others). Moreover, though there is some level of "bad (to be discussed later in this paper) discrimination," it is entirely possible that "bad discrimination" is not the primary reason for differences in employment situations; further, the area of diversity may be being abused by companies and their top managers for 'window dressing' and to appease governmental agencies ("Black America," 2008). The purpose here is to build a foundation for discussion and a solution- directed HRM model, not to address many possible points of view or research. In today's world of the internet, Facebook, blogs, Twitter and so on, effective teachers, facilitators and, indeed, bosses must understand that it is better to discuss a situation and not decide than it is to decide without discussing.

Yes, "It is possible to make progress on a seemingly impossible problem if one just ignores the skeptics and gets on with it (Smolin, 2001)."

THE ISSUES CLARIFIED

The not so public debate on diversity and discrimination in the American workplace has raged for years in back offices and homes of those that are charged with leading and managing for-profit organizations. What most have known anecdotally for years is just now seeping into the light of academic empirical testing and mention. Roland Fryer, a 30-year old African American tenured economics professor at Harvard, is said to be "obsessed with education, which he calls "the civil-rights battleground of the 21st century. . . . Why do blacks lag behind whites in school? Mr. Fryer is prepared to test even the most taboo proportions ("Black America," 2008: p. 33-34)." Tomas Sowell, Stanford Economics Professor is addressing the issue of sex and race discrimination with facts which seem to overturn most common notions (Sowell, 2008). Henry Lewis Gates, Jr., Professor of African American Studies at Harvard is debunking several reasons for unequal employment of African Americans. Thomas Friedman in *The World is Flat* (2005) and in *Hot, Flat, and Crowed* (2008) compels us to rethink our excuses and education of old. He reminds us that we are now competing against everyone in the world and our time to improve is running out. In both books, Friedman pushes innovation as a goal while reminding us that imagination can never be outsourced; we must learn how to keep building it. Likewise, in *Outliers,* Gladwell (2008) tells us very clearly that the real reasons behind successful people are simply more complex than we have been led to believe: they include unusual circumstances that need to be addressed (2008). In *Freakonomics,* Levitt and Dubner (2005) clarify our "new" competitive worlds. *Freakonomics'* five themes parallel much of what other authors have to say and should help our thinking about the common wisdom of diversity and discrimination. They, say: 1) We must realize that what we value and how we value it is not necessarily related to what and how others value different or even the same things. 2) Common sense is uncommon. 3) There are many simple explanations that are wrong. 4) Look at what the advice giver has to gain (this is a principle that often debunks experts). 5) Measure it and it will improve—be sure what "it" is.

Those cited above and many other authors make readers realize that all leaders and good mangers need to grow as intellects, repositories of information, and guides of behavior, basing their development on derived wisdom (Blanchard, et al, 2007; Hunter, 2008; Mariotti, 2008, and Tichy and Bennis, 2007). Curiosity, the desire to know more, seems to be a self-regenerating force, because, the more we know, the more we want to know, and need to know. Effective innovative leaders find ways to receive and process more new direction setting information better. Superior leaders learn more, faster, from more perspectives, and adapt and adjust for newly gained information quicker than less effective leaders (Lane, 2008). We only advance as leaders and managers by understanding existing information in different lights or obtaining new information. Leveraging the enormous amounts of dormant talent and creativity within organizations is a function of leadership learning and knowledge building directed toward innovation: lofty, but a Human Resources Management (HRM) goal none the less! This HRM goal is being hampered to a certain degree by attitudes about diversity and discrimination though not totally in a way we have been told in our "mediagenic" society.

All managers and leaders must know that "Americans are more discerning and less herdable than their cultured despisers suppose (Will, 2007: p. 9A)". Organizations cannot stay wrong for long, and will not stay right for long, as perhaps Ford and GM are belatedly discovering. Many of these organizations seem to be mixing social engineering, often in the wrong way (much as we did with home mortgages in America), with effective leadership. They are not necessarily mutually exclusive, but unanticipated consequences often occur when one attempts to influence markets by adopting social "feel goods" that have not been shown **not** to cause harm. The wisdom that "none of us knows how to regulate what is coming next in the markets" seems lost on Congress, the current and past administrations, and their critics. Yes, it is easy to regulate what happened last; but not so easy with what will come next. The point is simply that there is much out there that says we have a problem with interpretations of responsibilities and consequences related to markets and ethics, and businesses' interpretation of diversity and discrimination that go beyond what the common wisdom wants us to buy.

Articles by Lobb, Dizik and Porter (2009), and Middleton and Porter (2009) pointedly show Universities are scrambling to excuse why they did not prepare more of us for the 2008-09 economic down turn. Moreover, they prove Universities are still doing little to prepare us for what is coming next. These articles were not intended to prove the inadequacy of higher education in preparing students for the next "what-ever," but they do it none the less.

Pinker (1997 and 2002), Ridley (2003), Gates (2002) and Sternberg (all dates) approach genetics and success in a more open and honest way though they are not actually weighing in on the issues of diversity and discrimination. A lot of what is now being entertained is shared by African American conservatives who while never denying that racism persists, think it much less severe than before and no longer the main obstacle to black advancement. Harvard's Fryer when he says (p. 33)". . . . Such figures [black men earn 70 cents to white men's dollar] are sometimes bandied around to imply that nearly this entire gap is caused by discrimination. That is bunk. If a firm could really get the same work done 30% more cheaply simply by hiring blacks, someone would have noticed and made a fortune doing just that. . . . many firms are desperate to hire and promote blacks, if only to avoid lawsuits ("Black America," 2008: p. 34)."

Despite what has been reported here and what happens in reality the public debates by most academics and civil-rights activists indicate discrimination is rampant in the U.S. and "Diversity" training and functions are the answer. This could be true but the proof is lacking and it would seem logically that there may be bigger pay back areas than the discrimination blame game.

If you wonder why the wonderful and free "academy" has not jumped on these apparent disparities: read on; for now just think about Goodman's words and ask if they fall close too home for those of us in academia:

> Our public-school system and our health-care systems may seem as different as night and day. Yet both systems share something in common: Mediocrity is the rule and excellence, where it exists is distributed randomly.
>
> In both cases their reason is the same. There is no systematic reward for excellence and no penalty for mediocrity. As a result, excellence tends to be the result of the energy and enthusiasm of a few individuals, who usually receive no financial rewards for their efforts (2007: p. A13).

In academia, there is a strong need to be alert to what behavior is rewarded and what is punished. We get rewarded for publishing, not writing things that do not get published. For the most part academic editors and publishers are like all other firms in America, wanting to avoid controversy and being called bigots. Moreover, outside academia, behaviors need to innovatively address issues of getting the best people not just remaining in the status quo. We must seek to give birth to more ideas, whether in academia or practice, whether radical or conservative, or blockbuster or mundane. Getting a lot of *good* ideas requires getting a lot of ideas. Several attempts at publishing this paper have shown that there are few academic publications that are not totally risk adverse.

Isaac in an article about the mortgage crisis cites three things he says cause public disinformation. Those three are: "1) a 24/7 news cycle; 2) a hotly contested presidential election in which roughly half of the population wants us to feel angst; and 3) we are spoiled by 25 years of unprecedented prosperity (2008: p. A15)." Add to this the *Freakonomics* uncommonness of common sense, the hammer of tenure (Williams and Ceci, 2007; among others cited in this paper), the nature of politics to dichotomize everything, and finally, the extremely bad labeling (and possibly firing) of anyone who suggest a lesser impact on discrimination in differing employment outcomes, and see why most are restrained from discussing these important issues.

Before we continue, ponder a couple of profound points from Pulitzer Prize winner Leonard Pitts Jr.'s discourse on "What does 'Black' mean?." Pitts says, "So when we ask what black means, well pollsters say it may mean as many as 6 percentage points in lost votes for Obama. . . Obama . . . has answered racial questions when they have been unavoidable, but has visibly striven not to be defined or confined by them, to make his candidacy about something other than his paint job and his culture (p. 2008: p. 7A)." Perhaps we should all realize that the topic of race in America today could not be pickier, for it is "just a paint job." Again, perhaps the six percent figure could parallel the degree of employment outcomes due to black racial discrimination in America. Yes, "Opinions about affirmative action vary depending on how researchers word their questions (: p. A8) . . . [but that said, we should] have no time for double standards and propagation of victim mentality (Kaufman, 2008: p. A1)." Today few beyond Fryer, Sowell and some others have addressed these issues logically without hidden agendas. All sides have hidden agendas. Think about what one Academician said:

> But as an academic who is neither a liberal nor a conservative . . . And because there's a consensus, there is precious little self-examination . . . Academic consensus is a particularly irritating variety of groupthink. First of all, the fact everyone agrees and everyone has a doctorate leads to the occasionally explicit idea that all intelligent people think the same way. . . . [We attack {he named names}] not for their political positions but for their grades and IQs. . . Professors [yes we are and with Ph.Ds. no less!] are as herd-like in their opinions as other groups that demographers like to identify—"working-class white men," for example. Indeed, surely more (Sartwell, 2008: p. 5A).

The above quote is from an editorial piece, but does that make it less so? We academicians need to start accepting useful information, or at least logic, whatever its source for when we cannot attack a position we attack the person or the method—"it's not empirical; it's anecdotal; it's from an editorial; who said it? They did not address so and so. . . ." Empirical is not equivalent to truth.

The real solution must start by allowing academics to address issues of diversity and discrimination openly and honestly. Thomas Friedman says in his books and articles that if we don't start thinking strategically and fix our political and educational systems, U.S. competitiveness will continue to decline and our uniquely and advantageous world beating country will erode as other countries arise. The issues here are critical to America's continued competitiveness in the world.

BUILDING THE CASE FOR ALLOWING REAL RESEARCH

In many ways we limit diversity and it ends up being something we can only see (the paint job analogy is powerful). Within even the most homogenous of groups there is great diversity. Within churches, businesses, clubs and associations, and indeed even families there is great diversity: we are all individuals and mostly categorized by others and not that often categorized correctly.

In late 2007 an executive Vice President with a large national insurance firm said on discrimination and diversity: "There are a lots of reasons for hiring, firing, promoting and personnel movements, . . . [when asked about 'bad' discrimination] . . . Yes, I suppose it happens, but I'd say only about 1 time in 50 at most. . . . [when pressed further about diversity he said] we have a diversity function and a bunch of statements about it but sadly it's a joke. . . . that's what everyone privately thinks—but are afraid to say. We do diversity because of political correctness and to make up for sins of someone I've never met." Though this is one anecdotal quote, it best represents what most have heard, many times over, during their years of managing and teaching when they really press those that trust them. Discrimination and diversity seem topics worthy of discussion and research.

Analyzing hundreds of these reported disconnects has led us to address the following related concerns: 1) diversity; 2) discrimination; and 3) a better human resource management (HRM) model. This paper will explore these topics without consideration for political correctness, realizing, as was said earlier, that a situation is better discussed and undecided, than decided and never discussed. This paper does not go into every consideration, but it will simply present the issues, as if we were talking around the virtual water cooler. Our initial purposes are to use various materials and approaches in introducing facts and suppositions that can be used as a basis for dialogue followed by empirical testing and further research. This call to use multiple approaches is found directly in the highly academically sound 2008 3rd edition of *Qualitative Research.*

> The world is very complex. There are no simple explanation for things. Rather, events are the result of multiple factors coming together and interacting in complex and often unanticipated ways. . . . it is important to capture as much of this complexity . . . as possible. . . . Obtain multiple perspectives (p.8). . . . something occurs when doing analysis that is beyond the ability of a person to articulate or explain. . . . Interpretation is an art that cannot be formalized (Corbin and Strauss, 2008: p. 9).

Why These Topics? Important and Urgent

The topics of discrimination and diversity in the American workplace are simply too big for any one system or solution and they must be addressed again and again from many perspectives. Hopefully this paper can be of use as a starting point for open an honest academic debate not just in these areas but in many more areas that need to be opened up for discussion. There is evidence that suggests that tenure and promotion, and academic journal editors and reviewers actually stifle creativity versus open it up (Isaacson, 2007; Smolin, 2001; Sowell, 2008; and Sternberg, 1996 among many others). As an example read what Williams and Ceci address in their article "Does Tenure Really Work?"

> The biggest increase in the tendency to speak one's mind, to teach courses unpopular with one' colleagues, to publish controversial research, and to blow the whistle on ethical transgressions came when a professor was finally promoted from associate professor with tenure to full professor. That point in a scholar's career usually comes 12 to 20 years after the receipt of the Ph.D., which means that for many years, academic freedom is stifled, or at least muted. . . . Our survey leads us to conclude that tenure is not living up to its original promise: It does not liberate professors to exercise the freedoms of speech, writing, and action (2007: p. B16).

This brief quote speaks to this topic in a way that can be found in many sources and most academic tenure track minds! In fact, it is doubtful that any current academic reader would disagree with this conclusion.

The Toughest Issues First – Diversity and Discrimination

America has the means to solve its complex concern, but we lack the will especially in academics to openly discuss them. If we will not talk freely about the most pressing of issues, then we cannot expect to solve them. Start a movement to throw out political correctness within yourself and replace it with honesty and openness. For as Obama said:

> Race is an issue that I believe this nation cannot afford to ignore right now. . . . to simplify and stereotype and amplify the negative to the point that it distorts reality. . . . And if we walk away now, if we simply retreat into our respective corners, we will never be able to come together and solve challenges. . . . . when they hear that an African American is getting an advantage in landing a good job or a spot in a good college because of an injustice that they themselves never committed . . . . Like the anger within the black community, these resentments aren't always expressed in polite company (p. 4 and 5 of 7 pages from Obama's speech on race, 2008).

Yes, travesties of all types continue to occur even in our wonderfully free America. Wishing they did not makes them no less true. In addition to this lack of resolve, we see:

> Our whole educational system, from the elementary schools to the universities, is increasingly turning out people who have never heard enough conflicting arguments to develop the skill and discipline required to produce a coherent analysis, based on logic and evidence (Sowell, 2006: p. 6C).

From Dr. Henry Lewis Gates, Jr., famed author and Professor of African American Studies at Harvard, most recent works, *Finding Oprah's Roots:*

> My great inspirations were people who happened not to be black, that is, happened not to look like me but people with whom I shared a certain sensibility. So it has never ever occurred to me that to be a mentor one must look like one's subject or share the same religion. . . . Our (at Harvard) notion of affirmative action is you hire the best person possible, without regard to race or gender, and that's what we do in the department. . . . I rebel at the notion that I can't be part of other groups, that I can't construct identities through elective affinity, that race must be the most important thing about me. . . .

Gates' statements equate to points more people should consider, if not embrace: 1) We can learn from those that are not like us: many confuse "cannot" with "will not!" Many have learned the most from those unlike us: all of us already know what others like us think; 2) For selection and promotion, we need only to know if someone can do the job and be an overall positive influence in our organization and its overriding purposes; and 3) We need to identify our own blind spots, before others use them in promotions decisions. Realizing that these simplistic points could be expanded greatly does not make 'their' basic principles incorrect.

A recent quote from the *U.S. News & World Report* said," When women do choose to run for office, studies have shown that they are increasingly as successful as men (Halloran, 2008: p. 37)." Perhaps we are too quick to blame factors other than the fact that not as many try (could this apply to race)? As Barack Obama has continued to say in interviews, there are some that will not vote for a candidate just because they are black just as there are some that will vote for a candidate only because they are black; it seems logical that the same could be said for women candidates. We can only hope that these numbers off set each other for it is indeed sad to make a choice on something that is basically skin deep. We should choose the best person—who's best for the position in the world as it is developing.

"Few subjects produce more fallacies than race. Some might even say that race itself is a fallacy (Sowell, 2008: p. 153)." Useful diversity is unidentifiable by sight, just as "race" cannot be determined genetically (great sources for understanding of race, heritability, genetics and success are Pinker, 1997 and 2002; Ridley, 2003; and Sternberg 1996). In fact, we have known since 1972 that the genetic differences of people within a "race" classification are greater than those between, so-called races, yet we keep using "race" (Lewontin, 1972). And, yes, unfortunately, much anecdotal evidence says that though it is politically incorrect to say so, much harm has been done by hiring diversity candidates. People are very often so fearful of firing "a diversity candidate" that they avoid hiring or promoting "categories" of individuals. Few will admit this to anyone other than their closest friend or relative. Additionally, we have lulled many into thinking they are doing a job well, when they are not, because we are simply afraid of giving honest constructive feedback. Every one of us, who is honest about it, can recount many examples of diversity abuse: other types of abuse are for another paper.

It is a vicious cycle, because bad discrimination does occur and this in turn causes the need for preferential treatment, which causes more bad discrimination; and so on. Break the cycle. Just forget preferential treatment and never ever practice bad discrimination. You simply cannot make up for someone else's discrimination by giving an individual something they do not deserve, cannot handle or are not qualified to handle. This 'undeserved giving,' which only perpetuates the cycle, is happening at an alarming rate and is only mentioned in breathy whispers (Service and Arnott, 2006-collected information from about 1,000 supervisors and managers that supports this contention). Talk about it in the open. By doing so, one does not become a bigot.

Think about what Warren Buffet said: when someone predicts what will happen in stock markets, their predictions tell you a lot more about the person making the predictions, than they do about the direction any market will take. Equate this to motives and remember, when you assign motives, your assigned motives say more about you than the one that gets your assignment. This is an example of not *describing the world we see, but seeing the world we describe.*

The following should be useful to those that continue on the path of not understanding *bad* versus *good* discrimination:

> Every job interview is about genetic discrimination. Even if the interviewers correctly ignore race, sex, disability, and physical appearance and discriminate on the grounds of ability alone, they are still discriminating, and unless they are prepared to decide on the basis of qualifications and background alone—in which case, why hold an interview?—then they are looking for some intrinsic, rather than acquired talent. The more they are prepared to make allowances for a deprived background, the more they are genetic determinists. Besides, the other point of the interview is to take into consideration personality, and remember the lessons of twin studies: personality is even more strongly heritable in this society than intelligence (Ridley, 2003: p. 262).

Simply put, the primary HR objectives must become: To have and utilize the right people; at the right time; with the right skills and abilities; motivated and committed to accomplishing desired organizational purposes: and do it in the right way with fairness, consistency and equity (see Becker, et al, 2001; Blanchard, 2007; and Service and Lockamy, 2008). This implies no bad discrimination and the elimination of considerations beyond the job requirements and overriding organizational and societal issues. It won't always go smoothly, but remember you must try for as Churchill said: "I should have made nothing had I not made mistakes (Best, 2003: p. XIII)."

With this brief clarification, a big part of the intent of this article is to show what people actually feel is happening in Corporate American related to discrimination and diversity so that we can better avoid future hard feelings; thus breaking a vicious cycle. Even reports of discrimination must be verified and not just accepted. We need to examine the possibilities that differences can cause different employment outcomes and the differences might not be bad discrimination regardless of the conventional wisdom the news media want us to accept.

The reasons for differences in outcomes for races and sexes are a complex matter. In 2009 corporate America, to lump differences in outcomes in pay and position into the discrimination bucket, or even to assign the lions share to discrimination, demonstrates a prejudice that exemplifies categorization over understanding and hype over analysis. Think about these simple facts: "By 1972 that share [of women receiving doctoral degrees] was again as high as it had been back in 1932 (p. 60). . . . As of 2005, for example, women received more than 60 percent of the doctorates in education but less than 20 percent of the doctorates in engineering (p. 67). . . . The percentage of black families with incomes below the poverty line fell most sharply between 1940 and 1960, going from 87 percent to 47 percent over that span, before either the Civil Right Act of 1964 or the Voting Rights Act of 1965 and well before the 1970s, when "affirmative action" evolved into numerical "goals" or quotas (p. 159). . . . [think about the following] if all white people lost their racial prejudices overnight, it would not make much difference to most black workers (Sowell, 2008: p. 185)." This litany of examples could go on from Sowell and many other authors of note as well as from the reports the current authors have received and our experiences have demonstrated. Again, you do not have to agree with someone in all areas or even any areas to admit logic in their arguments.

THE RESEARCH METHODS: THE MBA REPORTS

The 200+ formal MBA responses used to support this research can be summarized as follows: On Diversity: "diversity is talked about a lot in my company, but we don't do it well." Over three quarters said "diversity" is used as an excuse to promote or hire the undeserving. Moreover, this same subset says that once a diversity candidate is promoted, they cannot be demoted; or if performing poorly they cannot be fired. Complainants said that if someone tries to fire or demote a diversity candidate, they are told to turn them around and if they cannot then they are blamed and labeled as a poor manager. Therefore, they say they just put up with poor performance. Or, "I am not going to promote a diversity candidate because if they don't work out it will be my fault." One situation had gone on for two years through several personal coaches. "I finally gave up in trying to get her demoted or fired. I'm now just working to get her transferred or even promoted if it's just out of my area. . . . It is clear that upper level managers must think that a diversity candidate cannot perform badly. How could that be true?" Many agreed with this situation and say this is the most frequent outcome.

On discrimination: Here again over 75% of the respondents' comments can be summarized with one statement: "I have not seen it except as perhaps reverse discrimination where a non-diversity candidate just cannot get promoted and in a few cases hired." Many agreed with this statement: "Who would hire someone who could not do a job regardless of any stereotype and who would not want anyone who was a good performer. It just doesn't make sense to not hire or promote the best. . . . I guess that it occurs but I just can't figure out where or why." Let's review these situations of diversity and discrimination using logic and the too uncommon common sense.

As Sowell said:

> Many individual fallacies are part of a larger pattern (p. 217). . . . Perhaps most dangerous of all is the practice of not subjecting fashionable beliefs to the test of facts, but instead accepting or rejecting beliefs according to how well they fit some pre-existing vision of the world (p. 219). . . . Among the many preconceptions that cannot be subjected to any empirical test, because they are so subjective, is the notion that third-party observers know better what is good for people than those people knows them. . . . A special variant of the implicit assumption of vastly superior knowledge is the sweeping dismissal of the first-hand observations of other people as "stereotypes," such dismissals often being based on little or no first-hand observation by those who dismiss, but based instead on assumptions widely shared by similarly inexperienced and presumptuous people often insulated against criticisms—or facts—by academic degrees (2008: p.220).

All of Sowell's classifications of types of fallacies certainly reflect our experience and research, but two are of particular interest here. First, is what he calls the chess piece fallacy? Where we forget that people are not chess pieces that can be manipulated without concern for their uniqueness. The second is the fallacy of open-endedness. Discrimination and diversity are open-ended issues and yes, improvements can always be made. It is much like the American health-care—it will always be able to be improved. Neither of these fallacies means we should not work on improving situations, but they do imply we need to understand where we are and what improvements are necessary.

Now that the subjects of discrimination and diversity have been vetted in numerous ways, it seems appropriate to offer some suggested methods for improving all matters of personnel selection, promotional and even firing decisions. Remember, 'bad' discrimination does happen, but it has not been shown in any verifiable matter to be the only or a primary reason for differing employment related situations. The reasons for inequities with employment situations from interviewing to termination are complex and interactive with many combinations and permutations.

THE *SHOULD BE* HRM MODEL

Do not assign labels without understanding: understanding beats categorization every time. Yes, this work has many limitations and much effort work is needed to gather data for model building and validation. Yet, with just the suppositions given here, progress is possible. However, until the issues are brought into the light-of-day, no progress is possible. It is hoped this article can act as a catalyst to begin a meaningful academic and practiced dialogue on the "should be" versus the "is" of this critical area of advancement for the worthy. Overall, to improve in HRM study, understand and practice the following:

- Value people first and last and everywhere in between.
- Fit HRM with resources, purposes, objectives, strategies, and people.
- Insure employees know and understand policies, expectations and objectives.
- Provide a way for employees to question or appeal decisions.
- Always look at body of research . . . don't reinvent the wheel!
- Put a progressive disciplinary procedure in place: consistently follow.
- Be consistent: exceptions become rules.
- Always follow the letter and spirit of the law.
- Commit to continuous, honest, two-way communications.
- Have HR functions that insure hiring, training and rewarding to:
    - provide best people in the most effective-efficient way
    - insure fair and equitable treatment
    - support organizational missions and values
    - support individual unit objectives
    - build strategic partnering mentality: not policing
    - hire slowly and fires fast

You won't read this in an HR text (adapted from Service and Arnott, 2006 with support from Hasl-Kelchner, 2006; and Smith and Mazin,2004).

In these critical times as abounding indiscretions and foolishness, among politicians and business people alike, rise over more worthwhile issues we should ponder the following:

> As long as political correctness regains, the more antic among us will try to break out with great streams of Tourette's-like forbidden words and ideas. We should forbid less and demand more. We should exert less pressure from without and encourage more discipline from within. We should ask people to be dignified, hope they'll be

> generous, and expect them to be fair. When they're not, we should correct them. But we shouldn't beat them to a pulp (Noonan: 2007: p.P12).

Remember, "Success is not a matter of mastering subtle, sophisticated theory, but rather of embracing common sense with uncommon levels of discipline and persistence (Lencioni, 2002)." Generally, it is not the job of professors to sell their 'brand' of thinking but to cause thinking period. The blatant ignorance of those that make something out of every argument should not deter us from spurring thought. The most severe form of bad discrimination is perhaps making what we want out of others attempts to start a teaching dialogue and not allowing speech that disagrees with one's views. We learn little by reading and thinking about only what we agree with. Make it a habit to read those that disagree with you for you already know what you know!

Please contemplate the following words of Wilber Wright: "No truth is without some mixture of error, and no error so false but that it possesses some elements of truth (p. 90). . . . I know that an ounce of fact outweighs a pound of theory. We must be sure though. . . . that we do not misapprehend what the facts really are (Tobin, 2003: p. 174).

CONCLUSIONS

Please do not discount or misinterpret the messages in this paper because of its shortcomings. The overall intent is to spur thinking that might results in developing models and gathering data to test assumptions related to the part bad discrimination, specifically racism and sexism, plays in differing employment outcomes among knowledge workers in America. By necessity, this paper presents more about one side of the topic than the other. We in academia are not lacking the view that stresses politically sensitive and sweeping difficult topics under the rug. Yes, unequal employment outcomes can be caused by bad discrimination or other factors. We need to discover the power and relationship among the bad discrimination and other factors in order to unearth the true extent of bad discrimination. Academicians have too long been fearful of discussing the other side and publishing anything that does. If true search for knowledge is our aim, then we must discuss unpopular and difficult issues.

Recall the 2007 executive's quote on diversity and discrimination cited earlier in this paper? Here it is again followed with an August 2008 update:

> There are a lots of reasons for hiring, firing, promoting and personnel movements, . . . [when ask about 'bad' discrimination] . . . Yes, I suppose it happens, but I'd say only about 1 time in 50. . . . [when pressed further about diversity he said] we have a diversity function and a bunch of statements about it but sadly it's a joke. . . . that's what everyone privately thinks—but are afraid to say. We do diversity because of political correctness and to make up for sins of someone I've never met (from 2007).

> . . . [When asked again for insights related to this paper, he added]: We are beginning to see some changes in the reluctance to fire diversity candidates. As those candidates make it to higher levels, they simple will not tolerate anyone that does not perform. They are the worst critics of the poor performing diversity candidates. Their attitude seems to be, 'I'm not about to see the gains I've made wiped because someone is afraid to fire a poor employee not matter who or what categories he or she represents.'

This article uses a lot of the concepts and thoughts from an excellent book on Qualitative Research that does a nice job of simplifying the baffling nature and responses of humans in order to advance "quality discovery" research. Yet, "What is important is that research findings don't oversimplify phenomena, but rather capture some of the complexity of life. . . . conditions/consequences do not exist in a vacuum (Corbin and Strauss, 2008): p. 91)." Use of interviews (structured and unstructured—in-person and via email), secondary reports, non-technical and technical reports are all well described in Corbin and Strauss and most texts about qualitative research; the concepts used in this article reflect some of that rigor. The key of good qualitative research is being able to look at the data no matter its source with a critical and unbiased objective eye in order to report the results properly. Fortunately, and refreshingly, Corbin and Strauss realize that objectivity is a myth and consequently stress sensitivity to the data and acknowledging one's biases. They stress that only by admitting biases, are we likely to properly account for them in the interpretation of the validity of our perceptions. "All of the past is in the present . . . . and all the future arises out of the present (p. 87)." Corbin says to remember to stay open for early analysis is about generating initial conceptualizations that can evolve into core concepts that can lead to theory. "[It is a] circular process (p. 145)." Moreover, as the authors note, in reading, writing and presenting findings and notes about one's research, views are added, shaped, re-shaped, deleted and changed.

The point is we are not telling the reader how to think or what to do. We could tell you what and how to do "it" but "it" won't work, because you are not us, your them is not our them and we all face differing situations. Your research must be yours, but you should use what is here and not reinvent everything. This should provide a launching pad for more academically rigorous testing and complete research. Be an advantage-maker that realizes we must not let what we cannot do get in the way of what we must or can do (Feinberg, 2008; and Wooden and Jamison, 2005).

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HUMAN RESOURCE PRACTICES AND CHALLENGES IN DISTRIBUTION CENTERS: AN EXPLORATORY STUDY

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ABSTRACT

Supply chain management attempts to codify the multiple interactions within and across organizations and activities. Research in this area has focused on operations management and logistics, information systems, information technology, and marketing. Further, there has been some limited research on human resource management in conjunction with supply chain management activities. The current research is an exploratory study focusing on human resource practices and challenges inherent in distribution centers, an area which to date has been largely ignored. With an objective of providing a framework to guide future research efforts in this area, the authors interviewed human resource professionals, who identified challenges, along with potential solutions, in numerous areas such as recruiting, selection, working conditions, regulations, training, performance evaluation, compensation and benefits, climate and culture, employee morale, and absenteeism and turnover. Additionally, suggestions are offered for ways that human resources professionals can share their knowledge and gain help with specific challenges they face.

INTRODUCTION

A concept as all-encompassing as coordinating all operations required in goods production and distribution, from their existence as raw materials to their final delivery to an ultimate consumer, would be a multi-disciplinary, comprehensive set of activities. Supply chain management as a discipline attempts to codify the multiple interactions within and across organizations and activities. Economic growth coming into the new millennium, expansion of e-commerce, increasing globalization all along the supply chain, and rising transportation costs have all fueled theoretical and practical interest in ways to increase efficiency. The sheer number and diversity of processes involved present tremendous investigational opportunities to researchers and practitioners alike.

Predictably, much research has come from areas such as operations management and logistics, information systems, information technology, and marketing. Also present, however, is research into various aspects of human resource management in conjunction with supply chain management activities.

One area of investigation has focused on ways that human resource activities can impact supply chain management practices to yield a competitive advantage. Marien (2000) began by identifying four key enablers for successful supply chain management: organizational infrastructure, technology, strategic alliances, and human resource management. The diversity and interdisciplinary nature of these four factors mirror that of supply chain management as an activity and as a discipline. Leveraging all four, according to the authors, is necessary for success. A different focus – yet one that also subsumes this diverse, multifaceted orientation – is found in a compelling theoretical study that presents a multiple-selection model for selecting supply chain managers (Richey and Wheeler, 2004). Factors as divergent as general intelligence, need for achievement, and adaptability are proffered as multiple hurdles in choosing supply chain managers who will be most effective at leading their organizations to success. Further, Gowen and Tallon (2003) found that support for supply chain management practices by managers and employees, along with employee training in basic job skills along with problem-solving, leadership, and team-building skills enhanced supply chain management practices to the point of creating a competitive advantage. Other research (McAfee, Glassman, and Honeycutt, 2002) has emphasized the need for a fit between organizational culture, human resource management practices, and supply chain management strategy if organizations are to contain costs and have a more effective supply chain.

While more macro-level (whole supply chain) research is needed and is flourishing, research that targets localized points along the supply chain is likewise important. The present research focuses on human resource management activities within one point in the supply chain, distribution centers.

DISTRIBUTION CENTERS

Large companies such as Federal Express, Wal-Mart, Costco, and Office Depot own super-sized warehouses that maintain substantial quantities of goods for distribution to retailers. Typically arranged in hub-and-spoke fashion, these facilities perform consolidation, storage, decomposition, repackaging, and various other freight-handling functions (Ofiwe, 2009; Rodrigue and Hesse, 2009). While their hub-and-spoke nature influences their location, an equally important factor is the ready availability of adequate numbers of potential employees (King, 2001; Ofiwe, 2009). With million-square-foot distribution centers becoming more common (Stieve, 2009), pressures on human resource functions increase even as per-unit cost savings accrue.

The focus of our research was to identify human resource practices and challenges inherent in distribution centers. This exploratory step is an important precursor to provide a framework for needed empirical research in this area. To accomplish this objective, we interviewed six human resource management professionals at four large regional distribution centers. We asked them to reflect on the distribution center environment and on their knowledge of human resource functions. We then asked them to identify the most salient areas, being as specific as possible, and to describe their organizations' current practices in these areas. We also asked that they identify any challenges they face, and how they attempt to meet them. Their responses are summarized and presented below, grouped by human resource function.

Recruiting

Recruiting for warehouse labor in a distribution or logistics center is a major focus for its human resources staff. These workers are largely unskilled; they come from different walks of life and very few have sought to work in a warehouse. Most distribution centers focus on a basic skills set and expect to do specific job training.

In forecasting hiring needs, the headcount demand is related to output demand estimates such as production tonnage or forecasts of product requested, plus expected turnover. Turnover is a major challenge for distribution centers, as discussed later.

Recruiting efforts include using advertising media such as newspaper, radio, television, billboards, and small roadside signs to advertise for positions. Human resources staff also find it useful to partner with educational and civic institutions and with student- and religion-based organizations. Networking through local civic groups and chambers of commerce and establishing relationships with elected officials, business leaders, and community advocates offer the opportunity to establish multiple steams of applicants. When human resource professionals emphasize their corporate identity in fostering these relationships, benefits can be lasting ones for the distribution center even if a particular individual moves to another market. Another idea to generate applicants is for a distribution center to host its own job fair. An event like this may draw potential applicants who might otherwise not apply because it affords an opportunity to visit the site without having a formal appointment. Local unemployment offices can also be a source of potential hires, especially in states which offer point-of-hire tax credits designed to encourage use of these agencies. A further source, often viewed as a last resort, is to use employment agencies to help with recruiting during difficult periods.

Selection

There are often two basic sets of warehouse employees, with different characteristics among those hired. More experienced, often older workers are selected for positions in departments such as receiving, shipping, quality control, quality assurance, loss prevention/asset protection and dispatch. In contrast, most younger workers and new hires are employed as selectors or order fillers.

Many new hires have limited work experience. It is not uncommon to see many gaps in employment history and past work experience primarily in construction and fast food. Both of these differ from working in a distribution center environment. Many have been being paid cash for their work and are not accustomed to receiving any overtime payment or benefits with their previous employers. In construction, weather is a deciding factor in whether an applicant works and is compensated. In the fast-food industry, positions are fast-paced and have demanding hours, but are lower paid. Also, many have not received health or medical benefits in their previous employment, and will state that is one of their motivators for seeking distribution center employment.

Human resource professionals often find it challenging to identify potential employees who will perform well and stay with the organization. For predicting potential job performance, the individuals we interviewed tend to rely on past performance information when available, and also on attitude. They favor behavior-based interviewing methods, and typically discuss topics such as teamwork, initiative, conflict resolution, and attitude during interviews.

Another favorite technique is providing applicants with a realistic job preview. Applicants may be taken to the warehouse floor in order for them to see the work activity and to physically touch the products that are received and shipped. Exposing potential hires to multiple areas, and especially to the heavier product items, allows applicants to get a tangible idea of the work they would be performing if hired. Also, in distribution centers that deal with cold or frozen items, giving them the opportunity to feel the temperature changes (dry grocery areas at 90 degrees plus, perishable/dairy/deli at 35 degrees, frozen food at 0 to minus 20 degrees) often proves to give the most accurate description of the position.

Working Conditions

Distribution centers often have challenging working conditions, although they can vary dramatically from department to department, as well as across different types of distribution centers. While not all distribution centers need facilities to accommodate items that require refrigerated or frozen storage, they all seem to have areas that can be extremely hot (sometimes exceeding 100 degrees) during at least part of the year. Many employees working in these areas, which are usually ventilated by fans, typically wear t-shirts, shorts and sneakers. In the winter, many will wear long-sleeve shirts and jeans. In distribution centers that do maintain refrigerated- or frozen-goods storage areas, as mentioned previously, temperatures can vary from around 35 degrees to minus 20 degrees. Personal protective equipment (PPE) - coats, gloves, hat, face protection, boots, etc. - is provided to those employees assigned to work in colder temperatures. Consideration shown by allowing relaxed dress codes and providing protective equipment may mitigate some of the negatives of working in extreme temperatures.

Regulations

Most of the regulations are centered on OSHA and workplace safety. Machines and equipment are used, so there are pre-use inspections that must be performed regularly. In colder environments there is the presence of anhydrous ammonia, so awareness of possible leakage is regulated. There are many chemicals used in grocery and retail distribution and logistics centers that range from chemicals used to ripen bananas to pesticides for pest control and maintenance sprays and paint. Emphasis is on having a workplace that is clean and safe. Employees throughout a distribution center are inculcated with the prospect that OSHA inspectors may arrive unannounced at any time. Awareness of safety procedures, along with introductions to the compliance staff, is included in employee training.

Training

The predominant method of training is on-the-job training. Additionally, new hires may attend training sessions that focus on policy, procedure, culture and safety. Those who are to use equipment determined by the safety department to be accident-intensive will be trained in the use of the equipment for several days before they are allowed to be trained on the warehouse floor. Training for new hires can take anywhere from one to five days, depending on the type of content involved.

Many distribution center employees are selectors (order fillers), so we were particularly interested in understanding how training for these positions is carried out. Newly-hired selectors are typically placed with a trainer for five workdays, after which they are able to select items on their own. During these five days, equipment training (such as use of a powered pallet jack) and safety training (such as safe lifting) are conducted on the warehouse floor. Although selectors are assigned to a trainer, often very little systematic methodology is used to match a new hire with the training method of a particular trainer. Further, in many situations there is not a very solid method of selecting trainers. They are often chosen based on length of time with the company and personal productivity rates. While there are generally classes designed to train an employee to be a trainer, many such classes focus on employee attitudes and motivating factors instead of standard operating procedures. Moreover, there is no one best method identified to select product inventory. Many trainers have their own unique way of selecting inventory and use that method to teach, coach and train new hires.

A new hire (or an employee transferring from another part of a center) placed in a position that requires production standards is slowly integrated into the production requirements before being required to reach the 100% standard. There is typically a graduated percentage requirement which increases weekly over a specified number of weeks. For example, a new hire might be required to select 50% of standard after the first 2 weeks, 65% after 3 weeks, 85% after 4 weeks and 100% after 6 weeks. If a new hire does not reach the specific production requirements during the prescribed time period, he or she is counseled and offered retraining. Retraining accomplishes two purposes – one, it allows the new hire additional training and time to improve productivity and reach the standard, and two, it allows the company to better defend unemployment claims.

A common theme among the professionals we interviewed was that training for positions throughout distribution centers is of prime importance, and that, even with all the time that is devoted to it, it is still inadequate.

Performance Evaluation

Employee evaluations in distribution centers target productivity, safety and quality. Maintaining an appropriate balance among these factors presents a constant challenge.

Distribution centers rely heavily on production incentives to motivate performance. Employees in receiving and shipping, production loaders, and forklift operators all have production requirements. Some of the engineering methods used to establish a scientific performance measurement include variables such as the weight of objects, number of objects (piece count), distance between objects, room climate/temperature, time of day, and the physical duration of the employee (i.e. how long they have been working that day) to determine a quantitative standard such as the amount of time required to perform a particular job. To illustrate this process, we once again use the job of selector as an example. For a job having 150 piece count items, the quantitative system might require this job to be completed in 35 minutes. If the selector completes the order in 35 minutes, he or she would receive a 100% production rating. Completing the order in less than the required time would give the employee a rating of over 100%; at this point bonus payments would be earned by the employee. Completing the order in a longer period than required would give the employee a lower than 100% production rating; at this point disciplinary action can occur. The highest end of production ratings are usually 130%-140%. Accuracy (a quality measure), such as the correct amount and type of items, is randomly checked before shipping. Incorrect amounts or wrong items could lead to a loss of bonus payment and corrective action. Similarly, production loaders and forklift operators are assigned production requirements, usually based on the number of pallets moved and the number of pallets of items loaded and replenished. Some distribution centers use a group or team incentive plan for productivity rates over the 100% required performance in addition to or instead of an individual bonus. A common theme in our research was a focus on factual, objective assessments rather than subjective judgments.

Compensation and Benefits

Among our respondents, wages for distribution center warehouse labor is usually several dollars above minimum wage, plus standard health benefits. Salary surveys are conducted annually to remain competitive with compensation in the industry and with other distribution centers in the surrounding area. Thus, there is generally very little to no negotiation in terms of starting wage.

The enticement for a new hire is to stress the economic benefit of attaining the relevant production standard (i.e. pulling production). Once this occurs and the employee can remain at the required production levels, pay increases and bonus incentives are achieved. Human resources personnel and supervisors alike have the responsibility to always push standard performance and to stress the benefits of achieving incentive pay. On average a pay increase can be attained in two to three months with substantial increases at that time and annual increases to follow. Incentive pay, based on either team or individual performance, can vary, but is a substantial addition to employees' base pay.

Climate and Culture

Much of the climate and culture at distribution centers is centered on the shared experiences and perceptions of the selectors/order fillers, who constitute a large percentage of the work contingent. When realistic job preview techniques and practices mentioned earlier are used, most new hires experience few surprises; employees know what must be done. They are expected to perform physically intensive work in unique climates, while adhering to performance standards. The work is repetitive, tedious, and at times very boring, which can lead to undesirable work-related outcomes. While there are the exceptional employees who enjoy what they are doing, the vast majority know that they must work diligently and wait to apply for positions that are less physically demanding. A large percentage of the individuals not in a selector/order filler role worked in that position when they were first hired. This does provide employees in more labor-intensive jobs hope for a future promotion; however, it can take several years before such an opportunity is possible.

Employee Morale

Because of the large percentage of workers employed in positions directly involved with movement of products, morale oftentimes varies as a function of workload. If work demand is light to average and there are enough workers to handle it, employees expect their work will be completed within a normal amount of time. Knowing the number of hours they will need to work, and having that number be within a reasonable range contributes to higher morale. Conversely, if tonnage (which translates to demand) is high or limited numbers of workers are present, employees may be called upon to work shifts often as long as 14 hours or more. If this occurs for several days in a row, morale suffers. Managers often provide food (ordering pizza, cooking hamburgers, or supplying ice cream, for example) or pull employees from other areas to assist when needed.

The professionals we interviewed generally reported that the Human Resource department receives a lot of feedback from employees. They get complaints when workloads are heavy. When absenteeism or turnover results in long hours, those responsible for hiring are often blamed for making poor selection decisions. Conversely, when those choices put hard-working, consistent employees in place, they hear more positive comments. Likewise, if employees suggest ways to improve the work situation, they respond favorably if managers incorporate their suggestions. Having a perception that they are being treated fairly and listened to contributes to higher morale.

Absenteeism and Turnover

Absenteeism and job abandonment are the top reasons for turnover, which is a constant issue in most distribution centers. High levels of absenteeism and turnover characterize the lowest paying and the most labor intensive positions. It is not unusual to have employees quit during the first week, while in training, making the company's time and energy investment in a new hire very frustrating. Exit interviews reveal that many who leave state that the work was a lot harder than they anticipated and the temperature was difficult to adjust to. Many expect hard physical work, but are not accustomed to doing it at a fast and continuous pace.

It is not unusual to have a turnover rate of upwards of 50 – 70 percent among the selector/order filler positions. The difficulty of forecasting who will be a long-term employee and who will leave early makes building relationships problematic. Because of employee morale and budgetary costs associated with high turnover, employee retention is a major, ongoing challenge.

CONCLUSION

Human resource professionals at distribution centers face distinct challenges. While a strategic focus from the top of an organization gives centers some advantages (e.g., if the company is careful to locate centers in areas with sufficient numbers of potential employees) they must still monitor and respond to difficult situations.

Some of the professionals we interviewed have devised creative responses to particular challenges, such as shoring up morale by providing pizza or ice cream. They favor realistic job previews to set employee expectations at supportable levels. And they exploit a wide variety of potential sources for attracting applicants.

The professionals included in the present study enumerated a variety of challenges, along with ways to resolve them. Input from a larger number of human resource management professionals in more distribution centers across a variety of geographical areas is needed to extend these initial results. This study was an exploratory endeavor designed to identify these challenges, thereby providing a framework for future empirical research in this area.

As this body of knowledge grows and matures, human resource professionals will likely find ways to share ideas, successes, and failures. Newsletters such as *Distribution Center Management*, *SmartBusiness* and *Multichannel Merchant* publish short feature articles about various supply chain management issues, including human resource topics. In addition to publications such as these, online forums and membership in professional groups are venues which provide a sounding board and a network of peers with common experiences. Savvy individuals will take advantage of these outlets as opportunities to enrich their knowledge and benefit their distribution center environs and to discuss ways to address the challenges they face.

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CREDIT UNION FAILURES: A NEW ROLE FOR THE 'TEXAS' RATIO?

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ABSTRACT

This paper provides an assessment of the credit union industry by reviewing trends affecting the current and future financial strength of these institutions in conjunction with comparable analysis of their commercial banking competitors. We focus the analysis around an intriguing tool that has become a cause célèbre among many looking at the current trends among failing financial institutions, the so-called "Texas ratio". This metric, although an extremely naïve tool, has proven to be quite useful in analyzing commercial banks. We examine the strengths and weaknesses of using the Texas ratio in general and then look at its potential use as a tool to help find credit unions most likely developing serious financial difficulties.

INTRODUCTION

Where one finds financial institutions, one also finds examples of institutions that have failed. Failures of financial institutions can have dramatic impacts on the lives of individuals and the economic well-being of communities and nations alike. The United States, for example, has suffered through recurring periods of financial turmoil resulting in the failure of numerous financial institutions (1819, 1837, 1873, 1907, the Great Depression of the 1930s, and the savings and loan crisis of the 1980s). It is presently in the midst of yet another serious situation.

The current crisis has caused many to become increasingly concerned about the health of their local financial institutions. From the beginning of 2008 to early 2010, more that 200 financial institutions have failed. Most of these, over 170, have been commercial banks but the total also includes more than 30 credit unions. With failures appearing at such regular intervals it is not unusual to find news headlines such as "If it's Friday, there must be a bank failing somewhere across the country" (Ellis, 2009). Thus, we find a keen interest in attempts to find those financial institutions most in danger of failure, among academic researchers, government regulators, and the general public alike.

Most of the concerns tend to focus on the banking sector, with very little concern directed at credit unions. Yet with credit unions claiming more than 90 million members and controlling of nearly $1 trillion of credit in the U.S. economy (Credit Union National Association, 2010), their importance to the U.S. economy should not be overlooked. The strength of the industry as a whole and the individual members comprising the industry can be of paramount importance to those elements of society that rely on credit unions for their basic financial needs.

Trends in the credit union industry have paralleled those of other financial institutions over the past two years. For example, the number of credit unions with nonperforming loans comprising more than two percent of their loan portfolios has jumped from 19 to 34 percent, and those with nonperforming loans greater than five percent rose from 2.5 percent to 5.8 percent. Furthermore, the National Credit Union Administration, the prime regulator of and provider of deposit insurance for credit unions, has increased its official number of "problem" credit unions by over 50 percent, up to 351 institutions. These "problem" credit unions control some $50 billion of total assets. Although their problems may still pale in comparison to those of banks (55 percent of commercial banks have nonperforming loan rates that are greater than two percent and 24 percent have rates above five percent), one should not overlook that failed credit unions and failed commercial banks can have equally distressing results for the many users of these institutions. Therefore, a careful review of the trends within the industry is warranted.

Past studies

The search for insights into the failures of financial institutions has a varied history. Although one can find studies of bank failures beginning in the 1930s, most developments do not appear until much later. Research into bank failures began in earnest following the seminal work of Beaver (1966) and Altman (1968) in their studies of the use of financial ratios in predicting bankruptcies among business entities. Meyer & Pifer (1970) and Sinkey (1975) present the initial adaptations of the Altman and Beaver bankruptcy studies in examining the problems of failing banks. Subsequent studies have focused on using financial ratios to develop *early warning systems* designed to minimize the probability of bank failures (Kolari, Glennon, Shin & Caputo, 2002; Wheelock & Wilson, 2000). Others (Curry, Elmer & Fissel, 2007; Purnanandam, 2007) have included other variables (e.g., stock prices and interest rates) that also potentially affect the financial condition of financial institutions. The bank regulatory agencies have also worked to develop models for screening institutions most likely to suffer financial difficulties (Cole & Gunther, 1998; Collier, Forbush, Nuxoll & O'Keefe, 2005; King, Nuxoll & Yeager, 2006).

Similar work does not appear to have been made with respect to credit unions. Kharadia & Collins (1981) appears to be the lone early example of an attempt to adapt failure models for use with credit unions. And although the operational aspects of credit unions and the credit union industry has been extensively studied (Goddard, McKillop, & Wilson, 2002, 2008; Kane & Hendershott, 1996; Karels & McClathchey, 1999; Boldin, Leggett & Strand, 1998; Sollenberger & Stanecki, 2009), little can be found related to examining the potential risks of failure of those institutions. One potential exception, a study by Sollenberger and Taggert (2007), examined trends in various financial ratios that have occurred within the credit union industry. They painted a pretty picture of changes that occurred between 1986 (as the S&L crisis was just getting started) and 2006 (just prior to the development of the most recent financial crisis). They focused on key figures such as the fall in the percentage of delinquent loans for (2.19 percent in 1986, 0.68 percent in 2006) and the increase in the amount of capital and reserves available to protect institutions against loan losses (11.2 percent in 1986, 17.1 percent in 2006). However, looking at more recent data (the most recent being from the fourth quarter of 2009), we see troubling reversals in these ratios with the percentage of delinquent loans rising to 1.74 percent and capital and reserves falling to 14.6 percent.

Given the rise of interest in bank solvency, aside from academic studies in the area, one finds an increasing number of private entities offering assessments on the health of financial institutions. IDC Financial Publishing, Veribanc, Sheshunoff Information Services, and SNL are among many of the companies offering proprietary ratings and rating systems for evaluating the viability of financial institutions. There are similar online services that offer "free" ratings such as Bankrate.com and TheStreet.com. Academic institutions have also become involved as the School of Communication at American University offers its free Banktracker database at http://banktracker.investigativereportingworkshop.org.

The Banktracker site focuses on a metric it defines as the "troubled asset" ratio. This ratio closely mimics another tool, the so-called *Texas ratio*, which has derived some notoriety in recent times. The Texas ratio is attributed to Gerard Cassidy and others at RBC Capital Markets in their analysis of Texas banks and savings and loans that experienced difficulties during the 1980s (Barr, 2008). The ratio can be found by dividing a financial institution's non-performing assets, generally defined as the sum of its non-performing loans plus other real estate owned, by the sum of its equity capital and loan loss reserves. Cassidy noted that the Texas ratio was a good indicator of potential failure whenever the ratio reached 100 percent. It has gained much visibility as the public media and various elements within the blogosphere have begun publicizing it, in part due to its simplicity and in part due to its apparent rate of success.

One website, bankimplode.com, has received much publicity since it began publishing a watch list of troubled banks based mainly on its use of the Texas ratio. Both the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Association (NCUA) maintain official watch lists of troubled banks and credit unions, respectively. However, given the private nature of the FDIC and NCUA assessments, there has been much speculation of how to ascertain which institutions are on the official lists (and which are not). Services like bankimplode.com appear to have had quite a lot of success in that regard. For example, in reviewing the bankimplode.com watch list published using data from the third quarter of 2008 (arguably the *nadir* of the current banking crisis that included, among other things, the collapse of Lehman Brothers) we find that thirty-four of the forty banks seen as most at risk at that time had failed by the end of 2009; and another three had moved "higher" up the list by the end of the fourth quarter of 2009.

Although there is some discussion of the use of the Texas ratio within the professional literature (see for example, Fajt, 2010), we find little academic research into its usefulness or robustness. A review of the literature turns up only one short piece that attempts to make some preliminary judgments of the potential usefulness of the Texas ratio (Jesswein, 2009). Despite the dearth of academic studies of the metric, tools such as the Texas ratio do appear to provide quick albeit most likely naïve or incomplete assessments of banks most in danger of failing. Given that assumption, it would seem only natural to extend such an analysis to credit unions. Given that both sectors have experienced continuing financial difficulties, the use of simple tools like the Texas ratio may becoming even more relevant.

DATA AND METHODOLOGY

Bank data for the study were gathered from quarterly FDIC and OTS call reports that are available through the FDIC's *Statistics on Depository Institutions* database available at http://www2.fdic.gov/sdi/index.asp. Credit union data were gathered from NCUA call reports and made available through its website at http://www.ncua.gov/DataServices/FOIA/foia.aspx. The data collected were from each quarter of 2008 and 2009.

The focal point of the study was placed on the fourth quarter of 2008. The sample of institutions to be examined is constantly changing as more of them fail over time. Likewise, subsequent data from failed institutions disappears after the failures. Choosing the end of 2008 as the artificial point in time provides us with essentially five quarters of operating data (the fourth quarter of 2008 and four quarters from 2009) along with four quarters of failure data (institutions failing during calendar year 2009).

The analysis focuses only on institutions with total assets between \$10 million and \$10 billion. Virtually the entire population of financial institutions failing over the past ten years has fallen within that range. Limiting the study to these institutions allows us to eliminate extremely large institutions (over \$10 billion in total assets), which is predominantly made up of banks, and extremely small institutions (under \$10 million in total assets), dominated by credit unions.

Although the resulting samples remain somewhat skewed with banks tending on average to be larger than credit unions, we see in Table 1 that a breakdown by asset size reveals a surprisingly high proportion of credit unions of significant size and with the resulting sample populations perhaps less divergent than might be expected.

Table 1: Sample Breakdown by Total Assets as of December 2008

	Credit Unions		Banks	
Total assets	Number	Percent	Number	Percent
\$1 bn – \$10 bn	143	3.1%	558	6.9%
\$500 mn – \$1 bn	189	4.1%	722	8.9%
\$250 mn – \$500 mn	308	6.7%	1,242	15.4%

Table 1: Sample Breakdown by Total Assets as of December 2008				
	Credit Unions		Banks	
Total assets	Number	Percent	Number	Percent
\$100 mn – \$250 mn	672	14.5%	2,522	31.2%
\$50 mn – \$100 mn	766	16.6%	1,704	21.1%
\$25 mn – \$50 mn	1,017	22.0%	974	12.0%
\$10 mn – \$25 mn	1,531	33.1%	361	4.5%
Total	4,626	100.0%	8,083	100.0%

The study examines some of the key similarities and differences that exist between banks and credit unions that have recently failed and those that have not failed. We also review how well the Texas ratio may work in terms of isolating those institutions most in danger of failing, banks and credit unions alike. Simple mean and median comparisons are made to ascertain the basic similarities and differences. Discriminant analysis is also used to help isolate those sets of variables that may be more significantly related to failure.

As mentioned above, the Texas ratio is calculated by dividing an institution's non-performing loans by the sum of its equity capital and loan loss reserves. The variables chosen for the study are thus either directly related to the calculation of that ratio or are components of its key determinants. A summary of the variables included in the study is found in Table 2.

Table 2 **Summary of Variables Used in Study**	
texas	ratio of nonperforming loans to equity capital plus allowance for loan losses
nonperform*	total nonperforming loans; sum of delinquent loans and other real estate owned
delinquent*	loans 60 days past due (credit unions) or 90 days past due (banks)
oreo*	other real estate owned; collateral owned by institutions from defaulted loans
protect*	sum of equity capital and allowance for loan losses
all*	allowance for loan losses; reserve account to protect against defaulted loans
equity*	total bank equity
homemtg	home mortgage loans as a percentage of total loans
cre	commercial real estate loans as a percentage of total loans
busloans	commercial and industrial loans as a percentage of total loans
helocs	home-equity lines of credit as a percentage of total loans
size	natural log of total bank assets
*Scaled by total assets	

One complication is that while most variables (e.g., total loans, total equity, and allowance for loan losses) are defined similarly across the FDIC and NCUA data sets, others such as nonperforming loans are not. Therefore, assumptions and adjustments are needed to make the data sets comparable. The most significant of these adjustments is in defining nonperforming loans. For example, credit unions define them as the sum of delinquent loans (delinquent defined in terms of loans more than 60 days past due) and other real estate owned. For banks, it is defined as the sum of loans in nonaccrual status (loans that are more than 90 days past due), of loans more than ninety days past due but still accruing interest, and of other real estate owned. Thus, although the variable is used the same, it is not technically defined the same.

SUMMARY OF RESULTS

We begin by examining the key similarities and difference between institutions that have failed and those that have not. Note that although statistical results based on means are also provided, the discussion focuses on the median statistics in that tests showed that virtually all variables exhibited non-normal distributions as well as unequal variances.

Unsurprisingly, given the large sample size and the high level of correlations among the many variables in the study, most differences between failed and nonfailed institutions were statistically significant beyond the 99th percentile. We look instead at those differences with lower levels of significance as summarized in Tables 3 and 4.

Table 3
Differences in Selected Variables – Banks
Data as of 12/31/08

	Means			Medians		
Variable	Nonfailed (n = 7878)	Failed (n = 205)	t-statistic*	Nonfailed (n = 7878)	Failed (n = 205)	Z-score*
texas	0.1529	1.2874	13.78	0.0915	0.9609	21.50
nonperform	0.0244	0.1361	14.34	0.0152	0.1031	20.59
protect	0.6706	0.1171	-2.12*	0.1595	0.1088	-15.96
delinquent	0.0192	0.1041	14.92	0.0115	0.0845	20.59
oreo	0.0057	0.0328	7.95	0.0013	0.0154	15.32
all	0.0142	0.0313	10.62	0.0124	0.0262	16.76
equity	0.6565	0.0858	-2.38*	0.1457	0.0801	-19.17

Table 4 Differences in Selected Variables – Credit Unions Data as of 12/31/08						
	Means			Medians		
Variable	Nonfailed (n = 4614)	Failed (n = 12)	t-statistic*	Nonfailed (n = 4614)	Failed (n = 12)	Z-score*
texas	0.0957	0.7722	2.52*	0.0580	0.4407	4.51
nonperform	0.0159	0.1022	2.57*	0.0116	0.0581	3.94
protect	0.2412	0.1311	-5.83	0.1922	0.1139	-3.85
delinquent	0.0148	0.0886	2.40*	0.0109	0.0541	4.00
oreo	0.0011	0.0137	2.49*	0.0000	0.0047	4.13
all	0.0095	0.0510	3.47	0.0069	0.0405	4.47
equity	0.2317	0.0801	-10.13	0.1834	0.0751	-4.84
* significance at *only* the 95% level						

For the means, folded-F tests provide evidence that the variances were different so the use of the Satterthwaite t-test was indicated. For the medians, Wilcoxon z-scores are provided due to the presence of non-normal distributions.

As a whole, both banks and credit unions demonstrated very similar characteristics, with Texas ratios being significantly greater for failing institutions. Likewise, the components and sub-components that cause the Texas ratio to rise (increased loan problems affecting the numerator, decreased protection from capital and reserves affecting the denominator) also are generally consistent between banks and credit unions. One potentially interesting observation is that the smaller denominator appears to be more closely related to financial institutions having lesser amounts of equity rather than lower amounts of loan loss reserves. In fact, both failing banks and failing credit unions had significantly more reserves set aside to cover loan losses than nonfailing institutions but the availability of these reserves was more than offset by the failing institutions holding lower amounts of equity.

As Table 5 summarizes, we also examine differences between banks that failed and credit unions that did likewise. We look for both similar and dissimilar factors that could provide insights into the extent to which the Texas ratio approach may be applicable to credit unions. As with the previous tables, although both means and medians presented, given the statistical problems of using the means, the discussion focuses on results found among the medians.

Table 5
Differences in Selected Variables Between Failed Banks and Credit Unions
Data as of 12/31/08

	Means			Medians		
Variable	Banks (n = 205)	Credit Unions (n = 12)	t-statistic*	Banks (n = 205)	Credit Unions (n = 12)	Z-score*
texas	1.2874	0.7722	1.84	0.9609	0.4407	2.27*
nonperform	0.1361	0.1022	0.98	0.1031	0.0581	1.64
protect	0.1171	0.1311	-0.72	0.1088	0.1139	-1.08
delinquent	0.1041	0.0886	0.50	0.0845	0.0541	1.63
oreo	0.0328	0.0137	3.15**	0.0154	0.0047	1.96**
all	0.0313	0.0510	-1.64	0.0262	0.0405	-1.63
equity	0.0858	0.0801	0.37	0.0801	0.0751	0.46
size	12.6784	11.3386	4.97**	12.5689	11.5670	3.47**
homemtg	0.2183	0.2722	-0.89	0.1613	0.2432	-1.02
cre	0.2692	0.0590	9.03**	0.2635	0.0098	4.94**
busloans	0.1247	0.0149	9.33**	0.0910	0.0052	4.89**
helocs	0.0405	0.1043	2.13*	0.0239	0.0983	2.52*
**significance at greater than 99% *significance at greater than 95%						

For the means, folded-F tests provide evidence that the variances were different so the use of the Satterthwaite t-test was indicated. For the medians, Wilcoxon z-scores are provided due to the presence of non-normal distributions.

Despite the small sample size, it does appears that the Texas ratio may have some validity for evaluating credit unions, although clearly not as strongly as for banks. Whereas the suggested critical level suggesting potential failure when using the Texas ratio is 100 percent, both the mean and the median for failing credit unions were way below that level. Although the number of failures has been low, it may be that the Texas ratio "threshold of danger" might need to be lowered when applying the tool to credit unions.

In terms of the primary components of the Texas ratio, banks and credit unions demonstrated very similar characteristics. However, key differences between the institutions are seen when examining their respective lending portfolios. Banks that have failed have had significantly higher proportions of their loans invested in commercial real estate and commercial loans. Credit unions that have failed had a much higher proportion of home equity lines of credit as well as home mortgages (although the difference in home mortgages is not statistically significant). Thus, it appears that the Texas ratio may provide insights into potentially failing credit unions as well as for commercial banks, albeit at a lower threshold point, analysis of the drivers of the ratio (e.g., which loans are providing the greatest problems) may need to be altered giving the different make-ups of their lending portfolios.

Next, in deference to the earlier work of Altman and others, basic discriminant analysis tests were conducted to examine if there were any differences in the relative importance of individual variables associated with failure that exist between banks and credit unions. A summary of the results is found in Table 6.

Table 6
Stepwise Discriminant Analysis Results: Failed Banks vs. Failed Credit Unions
Data as of 12/31/08

Banks				Credit Unions			
Variable	Partial R^2	F value	Pr > F	Variable	Partial R^2	F value	Pr > F
texas	0.2972	3414.4	<.0001	nonperform	0.0659	326.4	<.0001
all	0.0065	52.7	<.0001	all	0.0108	50.5	<.0001
nonperform	0.0043	34.8	<.0001	oreo	0.0033	15.4	<.0001
size	0.0010	8.2	0.004	texas	0.0019	8.9	0.001
cre	0.0007	5.3	0.002	protect	0.0006	2.9	0.009
homemtg	0.0012	9.9	0.002				
oreo	0.0006	4.6	0.031				

Using discriminant analysis, it appears that the Texas ratio is much more closely associated with failing banks that it is with failing credit unions, although major components of the Texas ratio such as nonperforming loans and allowances for loan losses are strongly associated with failures within credit unions. It may be interesting to note that although the earlier analysis (Tables 3 and 4) appeared to show the greater importance placed on equity levels over loan loss reserves as explanatory factors associated with failures, equity levels were not associated with failures whatsoever using discriminant analysis whereas loan loss reserves were very strongly associated. This apparent contradiction should be more fully examined although it is not considered in this study.

To further examine the apparent relationships of variables associated with the use of the Texas ratio, stepwise regression analysis was conducted to examine that factors most closely related to the Texas ratio itself with the results summarized below in Table 7.

Table 7
Stepwise Regression Results: Determinants of Texas Ratios for Failed Banks and Failed Credit Unions
Data from All Quarters: 2008 and 2009

Banks				Credit Unions			
Variable	Partial R^2	F value	Pr > F	Variable	Partial R^2	F value	Pr > F
nonperform	0.1696	13152.0	<.0001	nonperform	0.0344	1329.6	<.0001
all	0.0123	965.8	<.0001	oreo	0.0021	81.2	<.0001
homemtg	0.0003	22.8	<.0001	equity	0.0007	27.9	<.0001
helocs	0.0004	31.6	<.0001	all	0.0005	19.3	<.0001
busloans	0.0001	11.7	0.001	size	0.0001	5.3	0.021
size	0.0001	4.1	0.044				
cre	0.0001	5.1	0.024				

In the regression analysis we looked at data from each of the past eight quarters (years 2008 and 2009) to look for factors associated with the Texas ratio over that period of time. Once again, it appears that the numerator variable (nonperforming assets) clearly dominates the denominator variables (equity and allowance for loan losses). For failing banks and credit unions alike, the extent of the problems with nonperforming loans has clearly overwhelmed the levels of protection designed to shield the financial institutions from extreme financial difficulties. A second look at the results also shows that the composition of loan portfolios appears to have some influence on the Texas ratios of banks whereas there is does not appear to be the case for credit unions.

SUMMARY AND CONCLUSIONS

The Texas ratio has become a highly publicized measure associated with financial institutions that are most likely to fail. Although it is an extremely simplistic and naïve methodology, it has proven itself to be an effective measure for evaluating banks most in danger of suffering financial distress. And despite some complications due to differing data definitions, it appears that the tool may also be effective in evaluating credit unions.

While banks and credit unions are often viewed as interchangeable with respect to the services provided, particularly at the consumer level, they generally have very different operating agendas and strategies. So, at least in historical terms, one may question the ease with which one can evaluate the overall financial strengths and weakness of one versus the other. However, as credit unions have begun to move into more traditional banking markets with two-thirds of credit unions now reporting outstanding home equity lines of credit and one-quarter reporting commercial real estate holdings, they are likely beginning to face many of the same problems as their banking counterparts.

To the degree that the Texas ratio may be useful in finding those financial institutions most in danger of failing, it certainly has its shortcomings. Much like trying to use the beta measure in the capital asset pricing model framework to capture all of the relevant risk of a company's stock, attempting to capture all of the intricacies of potential financial institution failures within one easy to measure variable is likely overzealous. As with beta, the metric attempts to look at possible future events based on past activities, often a recipe for miscalculations.

For example, there are marked differences between various types of lending and an individual institution's exposure to those types of lending. The Texas ratio is based on broad measures such as total nonaccruing loans and overall allowance for loan losses; and it does not specifically examine the make-up of individual loan portfolios. Given the assumption that some types of loans are more likely to be defaulted on than others, institutions making a higher proportion of riskier loans would (should?) also likely be more prone to failure.

In addition, focusing on nonperforming loans overlooks the value of any collateral associated with those loans and the specific amount of loss associated with any actual defaults. Losses arise when borrowers default and the full amount of the losses can be mitigated by the profitability of the loans prior to default (profits that provide the resources to fund the reserve accounts and equity that protect against those very defaults) as well as the value of any collateral collected upon default.

In conclusion, using the Texas ratio to examine the potential failure of financial institutions is a very interesting trend. The ratio is based on publicly available data, involves simple calculations, and provides very straightforward output. This simplicity is the key difference from more rigorous models. And although initially designed to examine commercial banks, it appears that such a tool may also be useful when looking at credit unions.

Being a simplistic model, the Texas ratio certainly has its shortcomings. It may need some revisions to make it a more robust tool and there are some data comparability problems when adapting it for use with credit unions. Nonetheless, in a complicated world, often one is tempted to find simple explanations and in that regard, the Texas ratio produces what it intends: a simple tool that helps isolate financial institutions, banks and credit unions alike, that are most in danger of failure as they operate in an increasingly complex financial environment.

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SWINDLER'S LIST: ONE HUNDRED YEARS OF PONZI

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ABSTRACT

In the wake of the $65 billion scheme perpetrated by Bernard Madoff, interest in all things Ponzi has never been greater. This article describes how frauds perpetrated against individuals succeed by providing an understanding of the basic concept of white collar crime, the typical profile of a person most likely to engage in fraudulent activity, and details of representative Ponzi schemes orchestrated over the past century. The crimes documented were selected from a history of financial frauds in which early investors were paid higher than usual dividends from cash infusions of later investors.

INTRODUCTION

Until Edwin Sutherland challenged conventional criminology theories in 1939, all crimes were thought to be the result of either poverty or psychopathic and sociopathic conditions. Sutherland proposed criminologists consider the "improper business practices of individuals in powerful positions as criminal offenses and not simply civil wrongs" (1949, p. 4). First to identify white collar, Sutherland declared "crime committed by a person of respectability and high social status in the course of his occupation" (1949, p. 5) to be a criminal offense.

Time has not diminished Sutherland's suggestion that the key to this offense is: its intent to deceive; and, its lack of force. However, as Strader wrote, "As white collar crime began to capture the attention of prosecutors and the public in the mid-1970s, the term came to have definitions quite different from the one Sutherland used. Indeed, studies have shown that crimes we generally consider "white collar", such as securities fraud and tax fraud, are committed not just by persons of "high social status" but by people of divergent backgrounds" (2002, p. 1).

In 1981, the United States Department of Justice described white collar crime as "nonviolent crime for financial gain committed by means of deception by persons whose occupational status is entrepreneurial, professional or semi-professional and utilizing their special occupational skills and opportunities; also nonviolent crime for financial gain utilizing deception and committed by anyone having special technical and professional knowledge of business and government, irrespective of the person's occupation" (Strader, 2002, p. 2).

In keeping with Sutherland's definition, the Department of Justice (DOJ) also focuses its definition on the criminal use of deception in order to commit white collar crimes. Strader argues the DOJ's description of the perpetrators being at least "semi-professional" or possess "special technical and professional knowledge" is inaccurately narrow and defendants need be neither professional nor possess any special skills to commit fraud (Strader, 2002).

The accepted contemporary definition of white collar crime developed by the National White Collar Crime Center (NW3C) in 2006 states, "white collar crimes are defined as illegal or unethical acts that violate fiduciary responsibility or public trust for personal or organizational gains." According to the Cornell University Law School Legal Information Institute, "Although there has been some debate as to what qualifies as a white collar crime, the term today generally encompasses a variety of nonviolent crimes usually committed in commercial situations for financial gain." The Cornell definition also notes that because the perpetrators of the crime use complicated strategies to conceal their fraudulent activities, these perpetrators are very hard to prosecute.

PROFILE OF A PERPETRATOR

Braithwaire's *Crime and the Average American* (1993) review on white collar crime reported "data of seven district courts that found female offenders are the minority, blacks and other racial minorities, as well as Jews are underrepresented. This study appears to confirm the stereotypes of white collar crime as a rich white male. Moreover, more than 40% of the offenders in this study had prior arrest records and 35% had prior convictions" (p. 215).

Miethe and McCorkle reported in 1998, 70% of instances studied, the "typical white collar criminal was a 29 year old white, middle class educated male with no previous criminal history" (p. 4). Weisburd, Waring, and Chayet wrote, "The typical white collar offender profile is disproportionately white, middle-aged men who possess high levels of social capital, good income, and higher education (75% of the time). Most are married homeowners who occupy supervisory positions in their organizations. They do not usually have squeaky clean pasts, as about a third of the sample had at least one police arrest in their records, but they tended to stay away from violent crimes, and drifted in and out of property or public order crimes. Compared to ordinary criminals, white collar criminals begin and end their careers later, and include smaller numbers of recorded criminal events. However, they are similar to ordinary criminals in that they are unlikely to evidence a high degree of specialization and seem to age out of crime" (2001, p. 18).

The "2008 Report to the Nation on Occupational Fraud and Abuse", commissioned by the Association of Certified Fraud Examiners profiled typical offenders as men (59%) age 40-50 with the amount of crime increasing with age. More than 77% of the fraud analyzed by the organization was perpetrated by individuals with at least some college education, and nearly 56% perpetrated by fraudsters holding a bachelor's or postgraduate degree. 82.6% of individuals studied had never been punished or terminated from employment, 5.1% previously punished and 12.3% terminated. Relative to criminal activity, 87.4% had never been charged or convicted, 5.7% had been charged but never convicted, and 6.8% had prior convictions.

It appears that time has not significantly changed the profile of the typical perpetrator of a white collar crime.

FRAUD

As John Kenneth Galbraith commented, “the man who is admired for the ingenuity of his larceny is almost always rediscovering some earlier form of fraud.” Fraud, according to Albrecht is “a generic term, and embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual, to get an advantage over another by false representations. No definite and invariable rule can be laid down as a general proposition in defining fraud, as it includes surprise, trickery, cunning and unfair ways by which another is cheated. The only boundaries defining it are those which limit human knavery” (Albrecht, Albrecht, Albrecht & Zimbekman, 2009, p. 3).

This research centers exclusively on “fraud that is committed against one individual by another in the context of direct face-to-face interaction including the classic con game and predatory activities against clients or customers by unethical investment advisers” (Duffield and Grabosky, 2001, p. 1). Ivar Kreuger, recognized as perpetrating the largest Ponzi scheme of the 1930s said, “Everything in life is founded on confidence.” Usage of this term can be traced to William Thompson, on trial in 1849 for the simplest of cons in which “he would go up to a perfect stranger in the street, and being a man of genteel appearance, would easily command an interview. Upon this interview he would say after some little conversation. “Have you confidence in me to trust me with your watch until to-morrow?” The stranger at this novel request, supposing him to be some old acquaintance not at that moment recollected, allows him to take the watch, thus placing confidence in the honesty of the stranger, who walks off laughing and the other supposing it to be a joke, allows him so to do.” (Bell & Whaley, 1982, p. 46)

The root causes of fraud, as defined by the ACFE’s *2005 Fraud Examiner’s Manual,* are “opportunity, pressure/incentive and rationalization”. In other words, “fraud is more likely to occur when someone has the pressure or incentive to commit the crime, there is a lack of oversight that provides for the opportunity for the individual to commit the fraud, and the person can justify or rationalize the behavior” (p. 3). While ACFE’s definition is considered the accepted approach to describing the elements of fraud, Wolfe and Hermanson (2004) introduced a fourth element for consideration dubbing their model the “fraud diamond”. New to the model is consideration of the “individual’s capability: personal traits and abilities that play a major role in whether fraud may actually occur even with the presence of the other three elements” (p. 38). By enhancing the model to include the capability to commit fraud, the authors believe the critical question becomes, whether or not the individual is actually capable of turning opportunity into reality.

When addressing the offenders of frauds committed against individuals in the context of face-to-face contact, Duffield and Grabosky (2001) determined interaction "may manifest a number of traits including lack of affection or empathy, lack of remorse and a general lack of conventional conscience" (p. 2). Blum (1972) characterized this criminal "as impulsive, amoral, uncontrolled and detached from normal relationships . . . and an unusually antisocial group in terms of lack of regard for others" (p. 50). It is believed he identified a solid link to antisocial personality disorder which is generally described as "a pervasive pattern of disregard for, and violation of the rights of others. This basically refers to a lack of social conscience and conventional morality. These personalities frequently deceive, exploit and manipulate others in order to achieve personal gain (for example, money, sex or power). A pattern of impulsivity is often apparent in all aspects of their lives and there is a special attraction to risk-taking, thrill-seeking and gambling. These individuals show no genuine remorse for their actions" (pp. 49-50).

ONE HUNDRED YEARS OF PONZI

Charles Ponzi, the "King of Get Rich Quick", may not have been the first to concoct a scheme designed to separate investors from their money, but he will forever be the namesake of the personality driven scam in which one charismatic individual persuades another into investing money in a phony financial venture. Perpetrating a Ponzi is not much more than "robbing from Peter to pay Paul. The swindler takes money from today's investors and uses it to pay off debts to yesterday's investors. Typically, the investors are lured by the promise of excessive profits sometimes as much as 50 to 100% and are often coached to recruit new investors to increase their own earnings. The excitement of the quick return spreads quickly as early investors collect their booty." The inevitability of the scam is "there is no investing going on and the only transactions that occur are the shuffling of money from new investors to old investors" (Darby, 1998, p. 1). Unfortunately, reality will eventually set in and the operation will implode when fresh supplies of new investors can no longer be identified.

Sarah E. Howe

Before Ponzi's scheme in the 1920s, Sarah Howe promised women 8% interest on a "ladies deposit". Perpetuating the illusion of a bank exclusively for women as safe, Mrs. Howe pocketed the money leaving investors broke. The news account of her arrest appeared in the December 8, 1888 edition of the *New York Times* stating: "Sarah E. Howe, who, it is estimated, has swindled people out of at least $209,000 by her plausible schemes, chief among which was the Woman's Bank, was arrested this afternoon upon a complaint, as far as could be ascertained, charging her with having swindled four ladies in 1886 out of $2,000. The police withhold the names of the complainants, but one of them is Miss Sophie Sanderson of Augusta, Me. Mrs. Howe has a long record for confidence games. On 2 East Brookline Street, where she had established the Woman's Bank, and by offering large rates of interest had managed to induce many women to invest their savings with her and they lost all. In 1882 she was convicted and sentenced to three years in the House of Correction. After her release she started again on West Concord Street, but the papers exposed her and she fled the city before any of her victims decided to prosecute. It was for money obtained then that she was today arrested" (p. 1).

William Miller

It is believed that Charles Ponzi's scheme to defraud investors of millions of dollars by promising massive returns on the investment was developed from the con perpetrated in 1899 by William Miller. Miller, founder of the Franklin Syndicate, told customers that he had an "inside" and a "sure pull" on Wall Street allowing him to offer investors a spectacular 10 percent return *per week* earning him the nickname William "520 percent" Miller. However, during his trial, he admitted that all of the payouts came from other investors' money and not from any genuine profits (Zukoff, 2006). According to District Attorney Jerome, "After a while it became so popular that about $100,000 a day flowed into its treasure chest for weeks in succession, and the total amount lured out of the pockets of the public has been placed at $1,200,000." After his conviction, Miller spent five years in Sing Sing and Clinton Prisons before receiving a pardon from New York Governor Higgins on the recommendation of District Attorney Jerome. While the District Attorney refused to comment on the pardon, it has been speculated Miller "helped secure the conviction of Col. Robert A. Ammon, a lawyer who, while undertaking to defend Miller, got hold of whatever funds were left. Miller's confession was of additional use in compelling Ammon to disgorge and in securing for the victims of the defunct syndicate at least a small part of their lost money" (Times, 1905). After turning state's evidence, "520 percent" became known as "Honest Bill".

While there is no evidence that Miller and Ponzi ever met, Darby (1998) wrote that Miller never truly understood how Ponzi's scam could attract the investors it did. "I may be dense, but I cannot understand how Ponzi made so much money in so short a time" (p. 2). Ironically, the interview with the *New York Evening World* was published just days before Ponzi's scheme unraveled.

Charles Ponzi

Carlo "Charles" Ponzi emigrated to the United Sates in November 1903 moving from city to city working different jobs and serving prison sentences at least twice before settling into Boston in 1917. Employed as a typist and answering foreign mail, in August 1919 Ponzi discovered his path to the wealth he had always envisioned for himself. He was going to trade in postal reply coupons. While recounting his story to the *New York Times* that he was considering issuing an export magazine, Ponzi laid out the elements of his scheme. He said, “I wrote a man in Spain regarding the proposed magazine and in reply received an international exchange coupon which I was to exchange for American postage stamps with which to send a copy of the publication. The coupon in Spain cost the equivalent of about one cent in American money, I got six cents in stamps for the coupon here. Then I investigated the rates of exchange in other countries. I tried it in a small way first. It worked. The first month $1,000 became $15,000. I began letting in my friends. First I accepted deposits on my note, payable in ninety days, for $150 for each $100 received. Though promised in ninety days I have been paying in forty-five days” (Zukoff, 2006, p. 313). After the fact, this explanation is thought to be the clearest look into the reply coupon foundation.

What Ponzi identified was a flaw in the coupon system that he could use to his advantage. He realized the value of the International Reply Coupon (IRC) had been set at fixed exchange rates that had not changed since 1919 creating a market in which he could parlay the IRCs into profit if he exchanged coupons from countries with deflated valuations into the higher valued US dollars ostensibly buying low and selling high.

To perpetuate the illusion, Ponzi’s company, the Securities Exchange Company, sent money to agents abroad who would purchase IRCs, send them back to the United States where Ponzi would trade the coupons for stamps. He would then sell the stamps reporting profits as high as 400% on some transactions. He was arbitraging the stamps, not an illegal practice. When it became evident that he was operating at a loss, Ponzi enticed investors into his scheme by promising a 50% return on a 45 day investment and a 100% return on investments in 90 days. In keeping with the fast money frenzy of repeated news accounts of his success, the number of investors grew and by July of 1920, he had investments of more than $1,000,000 a week. In the three months, May – July, Ponzi reportedly had collected more than $9.5 million from 10,000 unsuspecting investors (Zukoff, 2006).

The flaw in Ponzi’s coupon scheme was that he probably could have earned a 400 percent profit on individual coupon redemptions but in absolute terms, the net would be infinitesimal. To amass the millions of dollars Ponzi alleged, an enormous amount of coupons would have to be traded. Two important reports were about to emerge that would ultimately lead to panic and a run on Securities Exchange Company. First, after examining Ponzi’s operation, financial analyst Clarence Barron reported that to be making the money that he was, 160,000,000 IRCs would have to be in circulation when, in fact, only about 27,000 were. Second, the United States Post Office announced that IRCs were not being purchased in large lots (Zukoff, 2006). Therefore, Ponzi could not hold the millions dollars of liquid assets he claimed. Charles Ponzi was arrested on August 12, 1920.

Ivar Kreuger

While sailing to American in 1922, Swedish engineer Ivar Kreuger orchestrated a lavish charade to attract attention to himself as a well-heeled businessman. This pretense set into motion the beginning of what was to become one of the century's greatest frauds. Reflecting on the short lived success of Charles Ponzi, Kreuger was intrigued with Ponzi's victims more than the man himself. He concluded that potential investors gullible enough to believe that a 34-year check kiter was capable of doubling their money in six months by exchanging ten cent postal coupons from Europe would believe anything. If that was the case, then America was ready for Ivar Kreuger.

Kreuger's initial pitch to the investing American public was through a basic and essential product, the safety match. Already controlling several match companies in Sweden, his plan was to limit competition and increase profits on matches by securing a monopoly on match sales throughout the world which would allow Swedish Match to raise prices without losing sales. His public "holding" company, Kreuger & Toll, preyed on faltering economies after the First World War by loaning as much as $125 million to bankrupt governments in exchange for which he would receive the match monopoly of these European countries. With this exclusivity, Swedish Match was allowed to set prices by contract and the governments were able generate revenue to repay the loans by accessing a special use tax on the matches. Utilizing this approach, Kreuger & Toll was able to either monopolize or control the match markets of 34 European countries (Partnoy, 2009).

Generating interest in his business by promising to pay a very high dividend – not the 25%he had paid in Sweden, but certainly something in double digits, Kreuger & Toll enticed American investment bank Lee, Higginson & Co. into joining forces to offer "new" securities called convertible gold debentures. They affixed the new term debentures to the concept of bonds. Debentures were a fixed claim on interest payments by the corporation plus a return of the principal amount on the maturity date. In this case, Kreuger had set the maturation date at twenty years. While debentures in general had a limited upside, they were more safe than issuing shares. The "gold" debentures being offered by Kreuger were safer still, because they were payable in either dollars or gold, at the holder's option. If, at any time, Kreuger's International Match became bankrupt, holders of the debentures would be repaid first, before shareholders would receive any money. These debentures gave investors the right to receive annual interest payments of 6.5 percent from International Match, a very attractive return on the investment at the time. Finally, the debentures held a convertible option. If the company performed well and the share value increased, investors could convert from the debentures to the more valuable shares. Considered to be Kreuger's first American fraud, the convertible option made the debentures very attractive to investors because they had both downside protection and upside potential. In other words, theses securities had the best of both worlds (Partnoy, 2009).

Relying on his well honed charismatic persona, Kreuger and Lee Higginson raised 15 million dollars of International Match gold debentures selling the bonds for $94.50 for each $100 of principal yielding a 6.5% return over the 20 year life of the instrument (Partney, 2009). The question for Kreuger became, how would he get money raised in the US out of the US? Without his investor's knowledge, he began setting up subsidiaries in numerous countries, moving money between them freely. Kreuger's use of market to market accounting and off balance sheet financing sustained his business growth through the stock market crash of 1929 further solidifying his reputation as a Wall Street genius. However, "even with 75 percent of the European match market, Kreuger & Toll did not earn enough profit to support dividends between 6.5 – 25%" (p. 25). As countries began defaulting on loan payments, Kreuger's inspired strategy to control the world's match market would ultimately decline into nothing more than a Ponzi scheme, the exact scam for which he ridiculed investors over a decade before. The Kreuger & Toll fraud fell apart in the early 1930s as markets all over the world collapsed. Kreuger tried again to borrow money from the Swedish central bank, Sveriges Riksbank, but when the bank insisted on examining the books of his many holdings, Kreuger took his own life rather than cope with disgrace and ruin (it should be noted that his suicide has been questioned over the years with no proof of criminal activity established). After his death, an accounting of the financial statements of his many subsidiaries showed most of his companies had negative worth. Like Charles Ponzi, Kreuger had been exposed as a crook, the only difference being Ivar had raised fifty times more money and his scheme lasted ten times as long (Partnoy, 2009).

J. David Dominelli

The 1980s found eccentric stockbroker J. David "Jerry" Dominelli perpetrating a $200 million Ponzi scheme through his international currency and commodity trading and investing operation, J. David & Company (Gallant, 2000). Touching all levels of investors in the San Diego, California area, Dominelli's scam fell apart in late 1983 after reports of bounced checks and repeated attempts to borrow to relieve short term cash flow problems. When uncovered, it was determined Dominelli's firm was a typical robbing Peter to pay Paul operation. J. David & Company was not trading but rather paying off existing investors a 40 percent return on the investment with new investor funds. By February 1984, Dominelli was forced into bankruptcy, fled to the Caribbean island of Montserrat before being captured and returned to San Diego for trial. He was found guilty in March 1985 and sentenced to a maximum of 20 years in prison.

John G. Bennett, Jr.

John Bennett, founder of the Foundation for New Era Philanthropy is responsible for perpetrating what has been considered to be the greatest not for profit Ponzi scheme ever perpetrated. Characterized by his charisma, charm, and religious dedication Bennett devised an elaborate scheme in which wealthy, anonymous donors could match funds raised by non-profit institutions as well as money raised by philanthropists for specific charities. The scheme was very simple: the not for profits "would raise funds, deposit them with New Era, and donors would match the deposit" (Allen & Romney, 1998, p. 2). Bennett's group would then hold the money in a "quasi-escrow" account for six months allowing the principal to generate interest to pay necessary administrative fees to New Era. However, Bennett invested very little of the contributions. Instead, he used the money he collected in the name of charity to secure a large loan with Prudential (Allen & Romney, 1998). As the six month escrow dates attached to the contributions started coming due, Bennett needed new infusions of cash to continue the charade. At some point, in order to continue the fraud New Era began requiring new donations be held in escrow for nine to ten months before being distributed. Bennett "sold" the escrow extensions on the lie that the anonymous donor was restricting the matching gift making the provision non-negotiable.

New Era grew, starting with contributions of $306, 210 in 1989, to contributions of over $100 million in 1994. This was not a scam for the faint of heart. During its run, "180 organizations and 150 of the most financially-savvy philanthropists in America fell victim to the fraud" (Allen & Romney, 1998, p. 1). In September 1997 Bennett was sentenced to 12 years in federal prison.

Louis J. "Lou" Pearlman

Like so many of his fraudster contemporaries, the story of Lou Pearlman is difficult to sort out depending on the version of history Pearlman chooses to tell. In his autobiography, *Bands, Brands and Billion: My Top 10 Rules for Making Any Business Go Platinum* (2002), he spins a tell of success that was in fact, a success fabricated by many nefarious deals starting with insurance fraud as his blimp company had inordinately bad luck keeping the machines aloft. And, while Pearlman may be best known as the creator and promoter of the boy-band industry in the 1990s having represented such groups as *NSYNC and the Backstreet Boys, his core business was a network of some 100 plus companies, linked together and run as one enterprise (Gray, 2008). Pearlman's success was predicated on the ability to move money from business to business without generally acceptable accounting principle oversight. Although Pearlman's business practices and investor programs had been questioned as early as 1995 and subsequently in 1999, 2001 and 2004, his close association with influential Republican lawmakers, including Florida Governor Charles Crist allowed him to trade in unlicensed and unregulated securities for decades. His ability to escape the scrutiny of the Office of Financial Regulation allowed Pearlman to perpetrate what was, at the time, the world's longest running Ponzi scheme in history. According to Huntley (2009), "He fleeced supposedly sophisticated bankers and elderly widows with equal ease, printing phony statements and using money from his newer victims to pay off the earlier ones, the hallmark of a classic Ponzi."

In a plea agreement with the Department of Justice it was stipulated: "For more than twenty years Pearlman was successful in raising millions of dollars based on false representations about two companies affiliated with him. One of those companies was Transcontinental Airlines Travel Services, Inc. The other was Transcontinental Airlines, Inc. Pearlman represented to thousands of investors and several federally insured financial institutions that those two companies were successful companies in the airline business and that Pearlman's ownership interest in those companies was worth millions of dollars. That was not true. To the contrary, Transcontinental Airlines Travel Services, Inc. and Transcontinental Airlines, Inc. existed only on paper. Those companies had minimal employees, business operations, and revenue" (March 4, 2008). Pearlman is now serving 25 years in federal prison.

Bernard Madoff

Bernie Madoff, former Chairman of the National Association of Securities Dealers (NASD), co-founder of the Nasdaq, founder and owner of Madoff Securities was a trusted player in the Wall Street financial community. Appearing in federal court March 12, 2009, Madoff stated, "I operated a Ponzi scheme" (Levisohn, p. 38) and although his account of the workings of the scheme and information discovered by law enforcement are in conflict, the fact that the fraud cost customers some $64 billion is unquestioned. According to the Securities and Exchange Commission Office of Investigation, "between June 1992 and December 2008 when Madoff confessed, the SEC received six substantive complaints that raised significant red flags concerning Madoff's hedge fund operations and should have led to questions about whether Madoff was actually engaged in trading" (page 22). While the SEC now believes the elaborate Ponzi scheme started as early as 1982, Madoff's recollection is it started out innocently enough during the recession of early 1990.

His claim of not wanting to disappoint clients of returns on investments he had promised supposedly was the trigger for what became a twenty year long con. Believing he would make money in the future, Madoff paid the promised returns with cash infused by new investors. In court proceedings, he explained that he moved money around accounts in an effort to create the illusion of conducting the client's business and perpetuated the farce by mailing falsified verification of non-existent trades. He also pled guilty to lying to the Securities and Exchange Commission stating, "Clients would have no way of knowing the statements were false" (p. 38). Madoff has refused to implicate anyone else in his scam and has doggedly protected his legitimate businesses managed by his brother and sons.

According to Frank and Efrati, Madoff was "sentenced to the maximum 150 years behind bars for what his judge called an "extraordinarily evil" fraud that shook the nation's faith in its financial and legal systems and took "a staggering toll" on rich and poor alike" (2008, p. 1).

CONCLUSION

The popular press cried "foul" in the weeks after the Bernard Madoff confession to what was originally believed to be a $50 billion Ponzi scheme. As details of the scam surfaced, the dollars swindled from investors grew to some $65 billion. The American public was outraged. Madoff's crime has been lauded as the largest Ponzi scheme ever perpetrated. The question that needs to be asked is, is this true? An effective method to determine the scope of the offense is to measure all eight of the schemes in terms of purchasing power. Using the CPI, the proceeds of the crimes based on the calculated totals when the perpetrator was exposed as a criminal and adjusted to 2008 purchasing power is illustrated in Table 1.

Table 1: Purchasing Power of Ponzi Schemes Adjusted to 2008

Year	Name	Fraud Total	Adjusted 2008
1888	Howe	$209,000	$4,880,500
1899	Miller	$1,200,000	$32,134,800
1920	Ponzi	$9,500,000	$102,064,800
1932	Kreuger	$150,000,000	$2,364,235,000
1984	Dominelli	$200,000,000	$414,441,700
1997	Bennett	$450,000,000	$603,653,300
2007	Pearlman	$500,000,000	$519,197,800
2008	Madoff	$65,000,000,000	$65,000,000,000

Source: Lawrence H. Officer and Samuel H. Williamson, "Purchasing Power of Money in the United States from 1774 to 2009," MeasuringWorth, 2010.

Clearly, Madoff's fraud reaped the greatest reward for the fraudster but not all Ponzi schemes are created equal. Sarah Howe's scam only ran for two years. Miller's lasted a year, and Ponzi's postal coupon scheme was perpetrated over two and a half months. A characteristic of these schemes is they are generally short lived because of the constant need for new investors. Kreuger challenged the timing of a successful scheme because his scam was entwined with what, at the time, appeared to be a legitimate business. Amazingly, at one point, Kreuger controlled 50% of the entire wealth of Sweden! Dominelli's scheme was very short lived. Not considered very bright, Dominelli and socialite girlfriend Nancy Hoover eventually admitted to "diverting millions of dollars to my personal use" (Gallent, J., 2000, p.1). The New Era fraud had a shelf life of five years and although the money was tied to non-profits, Bennett confessed that very little of the money had ever been given to the designated charity. Lou Pearlman's con lasted twenty plus years. Long considered a multi-millionaire through his many businesses, Pearlman's fraud was allowed perpetuate because no one asked whether or not he was a thief. All the trappings of wealth protected his scam from exposure and even after being caught, Pearlman continued to deny any wrongdoing.

Finally, using Bernie Madoff's recollection, his fraud was perpetrated over twenty years. The Securities Exchange Commission believes the con existed since the early 1980s. Because of his stature in the financial community and on Wall Street, no one ever considered that Madoff could be a fraud. In fact, his legitimate businesses were so reputable that the existence of his securities fraud was unfathomable. Even after his confession and conviction, many clients had a difficult time reconciling the thief with the crime.

With the exposure of the Bernie Madoff scandal, one could reason the problem had been recognized and schemes such as the simple Ponzi would have enjoyed enough publicity for potential investors to adequately research the vehicles in which they choose to invest their money. However, the lure of fast, easy money appears to be more than enough impetus for Ponzi schemes to perpetuate. Shortly after Madoff, Allen Sanford was exposed as $7 billion dollar fraud.

As difficult as it may seem, the number of Ponzi schemes being investigated by the Federal Bureau of Investigation continues to increase. Investigating 389 cases in 2007 and 429 in 2008, David Nanz, chief of the Economic Crimes Unit of the FBI, reported a dramatic increase in open cases of Ponzi schemes. In 2009, the FBI had 632 open cases and expected more (Bernhard, 2009) as a struggling economy continued to plague the country.

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RANKING BEST BUSINESSES: A BALANCED SCORECARD TYPE APPROACH

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ABSTRACT

Toyota's woes have been attributed by Mr. Akio Toyoda (Chairman, Toyota Motors) to the excessive focus on profitability and market share—a departure from their main focus on customers and continuous improvement. Similarly, many businesses ranked highly in one performance category have failed in others. The balanced scorecard approach, as popularized by Kaplan and Norton, includes three non-financial measures—customer, internal processes, and innovation & learning—in addition to the financial category. Yet, there are many lists and rankings which exclusively look at business performances from a narrow focus. Four such popular rankings are reviewed. They are: 1) Best global brands, 2) Best places to work, 3) Highest stockholder return, and 4) AMR Research's Supply Chain Top 25. This paper compares the methodology used to develop these four lists. Further, it is suggested this multi-dimensional approach may be a more comprehensive method to evaluate organizations. An analysis and discussion is presented on why many businesses appear on multiple top 25 lists whereas some made it to just one—which supports our premise that a comprehensive approach for ranking is critical. Finally, a list of variables is proposed to develop a more inclusive index for rankings

INTRODUCTION

Toyota, one of the greatest icons of quality, is undergoing its worst woes of recent times. Its 2009-10 recall of about 8.5 million vehicles across the globe comprises a range of eight different models and is estimated to cost in excess of $2 billion to the company. This recall and the associated bad press is already affecting Toyota's US sales—down by over 4%—and can make a substantial dent in Japan's total export (Mochizuki, 2010). Toyota was one of the organizations that helped transform the shoddy image of "made in Japan" in the 1950s and 60s to something that now symbolizes superior quality. What has caused this symbol of quality and the largest automobile maker by market share to waver? Perhaps, it was its intense focus on becoming the largest automaker in the world—a spot Toyota snatched from General Motors in 2009. According to Akio Toyoda, Chairman of Toyota Motors—who appeared before the US Congress on February 23-24, 2010—Toyota's "expansion may have been too quick" (Yahoo Finance, Feb 24, 2010). Mr. Toyoda subsequently conceded that "excessive focus on market share and profits among 'some people' in the company" may have led to safety flaws and recalls (Shirouzu, 2010). The article further quoted Mr. Jim Press, Toyota's former top U.S. executive, that "the company's problems were caused by 'financially oriented pirates' opposed to the founding family who 'didn't have the character to maintain a customer-first focus'" (Shirouzu, 2010). This kind of downfall was unimaginable for Toyota—the most storied and admired company that "has repeatedly outperformed its competitors in quality, reliability, productivity, cost reduction, sales and market share growth, and market capitalization" (Spear, 2004) and whose admired Toyota Production System (TPS) "has been copied and analyzed ad infinitum" (Wheaton, 2010).

Toyota is not the only company that faced such falling from grace because it narrowed its focus to market share and profitability. Wallace Company is another example of a business that focused too narrowly on one measure of performance, albeit not on profitability but on quality. Wallace Company, a small oilfield supplies and service company, won the 1990 Malcolm Baldrige National Quality Award—the award, instituted in 1988, recognizes organizations with strong commitment to quality. However, within two years of winning the award, the company filed for Chapter 11 bankruptcy reorganization and later was acquired by Wilson Industries (Hill, 1993). According to a Los Angeles Times report (Going For Broke, January 31, 1992):

> *Officials at Wallace Co. forgot one thing after winning the coveted Malcolm Baldrige National Quality Award in 1990: How to run a profitable business…While basking in the award, Wallace was losing $300,000 a month, according to Gail Cooper, a consultant brought in to turn the company around. Instead of shoring up, officials spent time leading tours through the firm and on the lecture circuit, Cooper said.*

In the early years of Malcolm Baldrige National Quality Award, financial business results (profitability, growth, etc.) were not even factored in while evaluating an organization for award consideration. However, since then Malcolm Baldrige National Quality Award criteria have been modified to include business results as well.

These examples illustrate that businesses cannot succeed only by focusing on a very limited area of performance measures. Yet, each year we have different sources release various lists of top performing companies, where each source develops its own list based on some very narrow focus of performance. For example, there is a list of top performing companies based on financial return; another list of best places to work; or another list of best managed companies, and so on. However, there is a need to develop a ranking list of top performing businesses, where organizational performance is measured by multi-dimensional matrices. Perhaps, a balanced scorecard type approach can be used for this purpose. The framework of balanced scorecard (BSC)—a strategic performance management tool—has been popularized by Robert S. Kaplan and David Norton (1992) and it incorporates multidimensional performance measures. The balanced scorecard approach includes three non-financial measures—customer, internal processes, and innovation & learning—in addition to the financial measures category. This paper suggests that a balanced scorecard type approach can be used for comprehensive evaluations of businesses, especially while developing the annual ranking of top performing businesses.

In the next section of the paper, a brief literature review is presented on balanced scorecard type approach for measuring performance. Next, a discussion on four popular "annual lists" is presented. These four lists are: 1) Best global brands (InterBrand), 2) Best places to work (Fortune), 3) Highest return to the shareholder, and 4) AMR Research's Supply Chain Top 25. The methodology utilized by each of these four lists and the recent lists of companies are compared and contrasted in that section as well. Then, an analysis and discussion is presented based on why there are many businesses that made it to multiple of these four lists whereas some businesses made it to just one; which supports our suggestion that a comprehensive approach for developing such ranking is important. In the following section, a list of variables is proposed that can be included in developing a better balanced scorecard type index for ranking businesses. Finally, concluding remarks and future research directions are presented in the last section of the paper.

BALANCED SCORECARD (BSC)

As argued, businesses cannot succeed by selectively focusing narrowly on one or very few performance measures; rather, the focus should be on multi-dimensional performance metrics. The Balanced Scorecard has been heralded as an approach that captures multi-dimensional performance measures, "giving importance to both tangible and non-tangible factors" (Punniyamoorthy and Murli, 2008). The beginning of the Balanced Scorecard (BSC) dates back to 1990 when the Nolan Norton Institute, which is the research department of KPMG, conducted a one-year multi-company study titled "Measuring Performance in the Organization of the Future" (Kaplan & Norton, 1996). Many believed at the time relying on financial accounting measurements alone were becoming antiquated and may hinder a company's ability to create future economic value. David Norton, CEO of Nolan Norton acted as the leader of the study, Robert Kaplan as the academic consultant, and representatives from 12 companies from manufacturing, service, high-tech and heavy industrials met bi-monthly during 1990 developing this new model (Kaplan & Norton, 1996).

What the group developed focused around four distinct perspectives – financial, customer, internal, and innovation & learning. The name Balanced Scorecard reflected the balance provided between short and long term objectives, between financial and non-financial measures, between lagging and leading indicators, and between external and internal performance perspectives. The BSC approach alleviates the narrow focus by measuring an entity's performance from a multi-dimensional perspective. The Balanced Scorecard is not only a vehicle to communicate strategy but a strategic management system to drive corporate strategy to the operational level. The objectives and measures for the Balanced Scorecard begin from the top down and are driven by an entity's mission and strategy (Kaplan & Norton, 1996).

Companies implementing the multi-dimensional performance measurement approach may need a change in culture, since this approach requires absolute understanding, commitment and support from the boardroom to the shop floor. Perhaps this is where Toyota and Wallace may have lost their way, by monitoring and navigating with only a single gauge or two rather than the prescribed multiple gauges on a dashboard. Multiple gauges like multi-dimensional matrices will increase the probability of a successful journey to a predetermined destination. As the organization accepts the BSC approach and the culture evolves, empowered employees will find new opportunities for measurement. Employees are the key to the success of the Balanced Scorecard approach and must be accountable for attaining the tangible measures and goals. The BSC method can and has been used by many entities. Below are some examples of success with the BSC approach.

Tim Sullivan and Henry Cano (2009), authors of "Introducing a balanced scorecard for electric cooperatives: a tool for measuring and improving results" offer evidence of successful results. Two of these examples are Touchstone Energy Cooperatives and Blue Ridge EMC. Touchstone Energy developed a new Balanced Scorecard for all electric cooperatives; whereby they would be able to benchmark their performance in all four mission-critical areas against their goals, peers, and best in class performers. Blue Ridge EMC in North Carolina has been using the Balanced Scorecard for 15 years and has experienced optimal performance. Over the past several years its member satisfaction score has increased, its total cost of service has reduced to 13 percent below the statewide average, has made obvious improvements in reliability and it has recorded the best safety record in the state (Sullivan and Cano, 2009). It is doubtful that such wide-ranging improvements would have happened if the leadership were to focus too narrowly on revenue increases or the bottom-line improvement. The literature is replete with similar success stories of how various organizations have achieved superior results by adopting the BSC approach (Hsuan-Lien, 2009; Kocakulah & Austill, 2007; Sheehan, 2009; Wang, 2006; Wiersma, 2009; Windsheimer, 2009).

The BSC approach also delivered superior results for the government/public sector. For example, at the beginning of the decade, Mechlenburg County, a community in the south, was facing a growing population, reduced state funding, spending cuts in many programs and opposition on a tax increase. The county mayor, Harry Jones, was searching for a way to make planning, budgeting, and performance more transparent, responsible, sustainable, and affordable for the county's residents. The mayor decided to utilize the BSC and has achieved 60% of its goals for 2015 and has improved nearly 20% of remaining goals. In 2008, they met the goal on a mental health index, end-of-grade math scores jumped from 66% in 2007 to 82% in 2008, citizens level of satisfaction with recreational opportunities increased from 86% in 2007 to 92% in 2008, and public awareness of the county's responsibilities and services increased in 2008 and beat the 2015 goal (Perry, 2009). Positive results from a multidimensional gauge approach have proven beneficial in the medical industry as well. In Dashboard Dilemma, Philip Dunn (2009) explains how dashboards can not only tell how a hospital has performed historically but can also inform management how the hospital is positioned for the future. Dunn warns that a focus only on one area of measurement, such as financial results, does not yield enough information; much like a single gauge does not yield a driver of a business a clear windshield and a total view of the highway ahead.

John Mucci, former VP of Operations of a supplier of pneumatic and electric automation technology believes a balanced scorecard brings structure to an entity and gives a set of key performance indicators to monitor; a Balanced Scorecard is key to operations. Ellen Cooperperson, President of Corporate Performance Consultants, helps companies create and manage scorecards. She states "prior to the Balanced Scorecard, there used to be Management by Objectives." "People in different departments developed goals and objectives in silos." She said a scorecard is created by "removing walls between goals and integrating all goals within an organization so everybody moves in the same direction." Without BSC, "the quality area would come up with improving quality of product. Purchasing and finance would come up with reducing costs; if those two were not integrated, the two departments work at cross purposes" (Solnik, 2010).

The Balanced Scorecard is an approach that is typically utilized for strategic management purposes within the organization. It is not feasible to directly use the BSC approach to evaluate an organization by external stakeholders since one needs access to metrics such as cash flow, working capital, revenue mix, cross-sell ratio, employee satisfaction, defect rate, etc. That is perhaps the reason that authors such as Jim Collins (2001) of Good to Great fame used stock performance as the sole measure to attribute "greatness" to eleven companies. While his book is still a "must read" among business professionals and while it still sells in hard cover nearly a decade after initial publication, it is common knowledge that one of the eleven "great" companies—Circuit City—is now bankrupt and another—Fannie Mae—needed Federal bailout to survive. However, nine of the eleven companies that were identified in this study as "great" are relatively stable in spite of the financial roller-coaster of the last few years.

The stock performance is an obviously important ingredient while evaluating an organization. However, the authors believe that there are other important ingredients to making a company "great." Consequently, in addition to this financial measure, the authors suggest a more balanced approach to evaluating an organization's long term superiority. Employees are also critical to an organization's success. Companies such as Google have perfected the art of providing the ideal working environment for employees to be productive and innovative while keeping them happy. Several management experts have empirically demonstrated that high levels of employee satisfaction could lead to elevated customer satisfaction, market share, and profitability (e.g., Sadikoglu and Zehir, 2010 and numerous references in that article). Another crucial element to consider is the customer. While branding today is a subject discussed under the heading of *consistent and effective* *advertising campaigns to boost the image of an organization*, the most recognizable brands have accomplished that feat as a result of consistently meeting and exceeding the expectations of the customer and the market. For example, Xerox was used synonymously with copying machines for a long time while Mercedes and Rolex represented the hallmark of excellence among luxury brands in their respective industries. These and many other brands have gained iconic stature not just by advertising campaigns but by consistently assuring quality and by being responsive to customer needs and wants. Effective management of the internal business processes may be of key importance as well. Companies such as Dell, Wal-Mart and Toyota gained number one positions in their industries almost solely by operational excellence and effective management of their supply chains. While Toyota taught lean manufacturing to the world, Dell revolutionized the oxymoronic concept of mass customization in its built-to-order model. Wal-Mart's use of logistical innovations such as cross-docking and its effective use of information technology in its management of its supply chain catapulted the organization to become the unquestionable global leader in the retail and distribution environments.

This article combines these four aspects to demonstrate a balanced methodology to evaluate and rank businesses. Next, it looks at four popular "best rank" lists and then combines them to provide a more balanced approach.

POPULAR "BEST RANK" LISTS

As stated earlier in this article, there are a large number of "annual" lists that rank businesses based on some narrow performance measures. It was decided to identify and review four lists that correlate as closely as possible with the four performance perspectives identified above—a task that is easier said than done. After a lot of reviews and brainstorming, the following four lists were identified to be included in this study:

1. *The AMR Research Supply Chain Top 25*
2. *Fortune Magazine's Annual "Top 100 Companies to Work For"*
3. *Annual List of Companies with Top Stock Return*
4. *Best 100 Global Brands (Interbrand.com)*

Finding a commonly available ranking list that closely matches with the internal business perspective was very difficult as this perspective attempts to answer "what must we excel at." It was decided that best managed supply chains could serve as a surrogate for best managed operations. It was decided that the "top 100 companies to work for" list very closely mapped with the innovation and growth perspective; the basic question that relates to this perspective is: "Can we continue to improve and create value" (Kaplan and Norton, 1992). Clearly, businesses that foster innovation, growth and learning would experience high employee satisfaction and motivation, and therefore would be considered very desirable businesses to work for from the employees' point of view. For the financial perspective—which attempts to answer "how do we look to shareholders"—the "annual list of companies with top stock return" was an obvious fit. Finally, from the customer perspective—with a basic question of "how do customers see us"—the list of best 100 global brands by Interbrand seemed a perfect fit. It is important to note that this study only looks at the data until 2008 to avoid the impact of subsequent recession and stock-market turmoil.

The AMR Research Supply Chain Top 25

The annual list of 25 best companies in terms of supply chain management practices as identified by the AMR Research were obtained for the most recent four years. The reason for looking at the previous four years was to accumulate a larger set of companies. As it will become obvious, the other lists discussed later on comprise of the best 100 rather than 25 as ranked by the AMR Research. Additionally, it can be argued that investment in process improvement efforts take a longer period to yield results. Hence, incorporating companies from the last four listings can be deemed appropriate. Clearly, there were companies that appeared on the list for more than one year. Therefore, the first step was to remove the duplications. Additionally, all the companies that did not belong to Fortune 500 at the end of 2008 were eliminated from the list. The list thus obtained is included in the Table-1.

Table 1: Best Supply Chain Companies among Fortune 500

Rank	Companies	Fortune Rank
1	Apple	103
2	Procter & Gamble	23
3	IBM	15
4	Wal-Mart Stores	1
5	Anheuser-Busch	149
6	Best Buy	66
7	Cisco Systems	71
8	Motorola	65
9	Coca-Cola	83
10	Johnson & Johnson	35
11	PepsiCo	59
12	Johnson Controls	72
13	Texas Instruments	185
14	Nike	153

Table 1: Best Supply Chain Companies among Fortune 500		
Rank	Companies	Fortune Rank
15	Lowe's	48
16	Hewlett-Packard	14
17	Lockheed Martin	57
18	Publix Super Markets	107
19	Paccar	169

It is also important to understand the methodology used by the AMR Research to identify their annual list. They use the Fortune Global 500, except they eliminate all the non-manufacturing/retail businesses. Then, they use the following three financial weight (total 60%) and two opinion scores (40%) to develop their list. The three financial weights (totaling 60% of the composite score) are: 1) Return on assets (ROA) at 25%, 2) Inventory turns at 25%, and 3) Revenue growth at 10%. The two opinion scores weighs (totaling 40% of the composite score) are: 1) Peer opinion panel at 20%, and 2) AMR Research opinion panel at 20%. They normalize all raw data "onto a 10-point scale, composite scores are calculated, and the scores are then rank ordered" to finalize the list.

It must be noted that they have modified their methodology over the years: "For example, in the first year, all three financials were equally weighted at 20% each." The following year, they reduced "the weighting on revenue growth to 10%, in part to mitigate the effect of fluctuations because of acquisitions and divestitures." In 2007, they made another significant change, when they "introduced the Peer Opinion Panel to bring in the vast knowledge resident in the larger supply chain community" (Hoffman & O'Marah, 2008).

Even now, the AMR acknowledges the valid criticisms of their methodology, which include: the halo effect due to the name brand recognition (Dell, Wal-Mart, Apple, etc. get higher subjective ratings); differences in inventory turn across various industries; the impact of mergers and acquisitions on revenue growth; and asset-intensive industries that show poor return on assets even when they excel in supply-chain management. Presently, they are again tweaking their methodology to address these criticisms.

Best Companies to Work for

Each year Fortune magazine lists the "100 Best Companies to Work For" selection. In 2008, Google was selected as number one. What does Google offer that ranks it number one? That year's number one may set the standard for a Silicon Valley entity by offering free meals, a swimming spa, and free doctors on site. Engineers can spend 20% of their time on independent projects. Employees view life at the Mountain View site like a college campus. Employees have told

Fortune that it feels like the brainiest university imaginable where everyone can afford a sports car, though geeky hybrids are cooler. Many are there because there is no place they'd rather be, indicates a Google Webmaster (Fortune, 2008).

There are 11 gourmet cafeterias at the Mountain View site. Upper management has decreed that no one will be further than 150 feet from an eatery. Along with unlimited sick days, free flu shots and 5 on-site doctors, additional perks are a $500 voucher for take-out food after the birth of a child, $5,000 subsidy to by a hybrid car, and a $2,000 employee referral bonus (Fortune, 2008). Perhaps, this is why they receive in excess of 1000 resumes per day!

How does one determine a great place to work? According to the Great Place to Work Institute a company must meet the following minimum requirement to be eligible for the ranking consideration:

- Have a minimum of 1,000 regular full\part time U.S. employees
- Have been in operation at least 7 years
- Government agencies not eligible
- Not eligible if going through a merger\acquisition that adds 25% or more to their U.S. employee population
- Be a separate and unique workplace

The Great Place to Work Institute states any company can create a great workplace and they believe it is their mission to help organizations do just that. Their 20 years of research indicate that trust between managers and employees is the primary defining characteristic of the very best workplaces. At the foundation of a best place to work—a place where employees "trust the people they work for, have pride in what they do, and enjoy the people they work with"—is the idea that a great workplace is measured by the quality of the three, interconnected relationships that exist there:

- The relationship between employees and management
- The relationship between employees and their jobs/company
- The relationship between employees and other employees

The Institute bases its model on the concept of trust dimensions (credibility, respect, fairness, pride and camaraderie) and business benefits (qualified job applicants, low turnover, higher customer satisfaction, greater innovation, higher productivity). The top 25 Fortune 500 companies that secured a place on the "Best Companies to Work For" are below in Table-2.

Table 2: Best Companies to Work For among Fortune 500		
Rank	Best Company to Work for	Fortune Rank
1	Google	150
2	Cisco Systems	71
3	Starbucks	277
4	Qualcomm	297
5	Goldman Sachs Group	20
6	Whole Foods Market	369
7	Principal Financial	242
8	AFLAC	165
9	Nordstrom	299
10	CarMax	333
11	Devon Energy	221
12	Chesapeake Energy	324
13	American Express	75
14	Valero Energy	16
15	eBay	326
16	General Mills	214
17	Mattel	413
18	Marriott International	197
19	Nike	153
20	Microsoft	44
21	Yahoo	353
22	Publix Super Markets	107
23	FedEx	68
24	Sherwin-Williams	316
25	Texas Instruments	185

Companies with Best Brands Recognition

Interbrand develops a list of 100 most influential global brands each year. The minimum requirements for any company or brand to be considered are:

- *There must be substantial publicly available financial data*
- *The brand must have at least one-third of revenues outside of its country-of-origin*
- *The brand must be a market-facing brand*
- *The Economic Value Added (EVA) must be positive*
- *The brand must not have a purely B2B single audience with no wider public profile and awareness*

Through a series of forecasts and analyses based on publicly available data, Interbrand develops brand value for each brand, which is "a financial representation of a business's earnings due to the superior demand created by its products and services through the strength of its brand" (www.interbrand.com). The 2008 list was obtained from the Interbrand.com site for this article. All non-US brands and brands belonging to non-Fortune 500 companies were eliminated. From this reduced list, the top 25 brands are listed in Table-3.

Table 3: Best Global Brands among Fortune 500

Rank	Best Brands	Fortune Rank
1	Coca-Cola	83
2	IBM	15
3	Microsoft	44
4	General Electric	6
5	Intel	60
6	McDonald's	106
7	Walt Disney	67
8	Google	150
9	Hewlett-Packard	14
10	American Express	75
11	Cisco Systems	71
12	Citigroup	8
13	Oracle	137
14	Apple	103
15	PepsiCo	59

Table 3: Best Global Brands among Fortune 500		
Rank	Best Brands	Fortune Rank
16	Nike	153
17	United Parcel Service	46
18	Dell	34
19	Merrill Lynch	30
20	J.P. Morgan Chase & Co.	12
21	Goldman Sachs Group	20
22	Kellogg	227
23	Morgan Stanley	21
24	eBay	326
25	Harley-Davidson	397

Companies with Top Stock Performance

This is a relatively straight forward list. However, instead of just looking at the annual return, it was decided to look at the 5-year return to develop this list. The top 25 Fortune-500 companies on the basis of the 5-year return (2002-2007) are listed in Table-4. This list was obtained from money.cnn.com.

Table 4: Fortune 500 Companies with Best Return to Shareholders			
Rank	Fortune	Rank	Annualized return
1	Apple	103	94.2
2	Tesoro	116	84.6
3	Allegheny Technologies	441	72.1
4	Williams	208	69.4
5	Monsanto	305	65.5
6	Terex	287	63.7
7	Precision Cast Parts	444	63.2
8	Frontier Oil	462	58.5
9	Cummins	206	58.1
10	Holly	484	57.9
11	United States Steel	146	57.3
12	Peabody Energy	432	56.6

Table 4: Fortune 500 Companies with Best Return to Shareholders			
Rank	Fortune	Rank	Annualized return
13	Perini	499	56.3
14	Reliant Energy	237	52.3
15	Valero Energy	16	51.0
16	Commercial Metals	303	50.4
17	Humana	98	49.8
18	Freeport-McMoRan Copper & Gold	140	49.1
19	Corning	417	48.7
20	Wesco International	408	48.5
21	AES	183	47.9
22	National Oilwell Varco	268	46.4
23	Nucor	151	45.6
24	Pantry	405	45.5
25	Marathon Oil	36	45.2

ANALYSIS AND RESULTS

There are a total of 94 entries in the above four tables. These company listings in each of the four tables are not mutually exclusive and commonality across these tables is expected. Based on the data in tables 1 to 4, Table-5 presents the companies that appeared in multiple lists.

Table 5: Companies Appearing in More Than One List	
Companies appearing in more than one list	Frequency
Apple	3
Cisco Systems	3
Nike	3
American Express	2
Coca-Cola	2
eBay	2
Goldman Sachs Group	2
Google	2
Hewlett-Packard	2
IBM	2

Table 5: Companies Appearing in More Than One List	
Companies appearing in more than one list	Frequency
Microsoft	2
PepsiCo	2
Publix Super Markets	2
Texas Instruments	2
Valero Energy	2

Of the 94 entries in tables 1 through 4, there are only 76 unique companies. Of theses 76 unique companies, only 15 companies appear in two or more lists; 61 companies appear uniquely only in one of the four lists. Looking at the list of companies, there should be no doubt in the mind that the list comprises of iconic American companies that are truly admired businesses and are household names all over the world. The three top companies that appeare on three of the four lists are: Apple, Cisco and Nike. Unmistakably, these companies are admired by everyone. Other companies such as Coca-Cola and Pepsi are admired and recognized even in the remotest parts of the world. Google, Microsoft, HP and IBM are icons of technology. Especially noteworthy is the extraordinary resiliency of some of these companies. For example, in the early 1990s, IBM was almost written off to wither away; but instead, it made a remarkable comeback. Apple was absent only in the Best Companies to Work For list while Google topped that list. This is not surprising. Apple is known to make its employees paranoid about secrecy and about talking about the company to outsiders. It has fired as well as sued employees who have been alleged to have violated its principle of secrecy (Stone and Vance, 2009). It has been well documented that even executives in Apple are wary of CEO Steve Jobs' history of temper and expectation of perfection. On the other hand Google seems to follow a more open and supportive culture. Consider this about the Google culture from its corporate information (http://www.google.com/corporate/culture.html), which the authors have had an opportunity to witness on a half-day visit to Google's Mountain View campus on a Friday: "At lunchtime, almost everyone eats in the office café, sitting at whatever table has an opening and enjoying conversations with Googlers from different teams. Our commitment to innovation depends on everyone being comfortable sharing ideas and opinions. Every employee is a hands-on contributor, and everyone wears several hats. Because we believe that each Googler is an equally important part of our success, no one hesitates to pose questions directly to Larry or Sergey in our weekly all-hands ("TGIF") meetings—or spike volleyball across the net at a corporate officer."

Nike is the quintessential leader in branding in its industry and beyond. From Michael Jordan to Tiger Woods, Nike has used popular athletes to launch product lines (e.g., golf line) and increase awareness its brand. Woods has decided (days before this article goes to press) that he will be using the Nike logo on his golf bag when he returns from his scandalous hiatus from golf, rewarding one of his lone major sponsors that has not dumped him. After a shaky start a decade back, Nike is also a poster-child for successful implementation of Enterprise Resource Planning (ERP) and Supply Chain Management (SCM) software. Commenting on Nike's ERP and SCM implementation, Mike Maguire, V.P. of SAP America stated: "Most companies never truly optimize or integrate the supply chain with the demand chain. Nike was able to connect both supply and demand to deliver value" (Sussman, 2004). On the employee front, among other benefits, Nike Inc. provides paid sabbaticals and on-site child care service to its employees. It is not a surprise that Nike figures in three out of our four lists.

The list of 61 companies that did not make it to Table-5 also includes some very strong American businesses—to name a few, FedEx, Johnson & Johnson, McDonald's, Starbucks, Wal-Mart, and Walt Disney. One should not be misled in believing that these companies do not deserve to be ranked very highly when rated using the multidimensional or the balanced approach for evaluation. In this study, only the frequency of a company appearing across the four lists was considered without regard to its ranking within each list. That is, a company appearing on three of the four lists with the highest honor (1st rank) was placed on par with another company that also appears on three of the four lists, albeit ranked last on all three lists. For example, Apple was number one in two of the three lists that it appears in while Nike is towards the bottom of the top companies in all the three lists. We have not used any weighting or scaling approach to combine all four different facets of organizational performance. That is a goal for future research by the authors.

RECOMMENDATIONS AND FUTURE RESEARCH DIRECTION

Table-5 presents the result of a basic attempt to combine multidimensional performance measurements to arrive at the list of best companies. These companies have been identified to excel in at least two narrowly-focused performance measures. The approach demonstrated here is somewhat simplistic. However, it supports our premise that there is a need for a balanced scorecard type approach to develop such lists of top ranking businesses because that approach incorporates multidimensional measures to evaluate organizations. The authors recommend some factors that could be included in the multidimensional measure (Table-6).

As one can see from the table, some of the factors are very simple to calculate or obtain, whereas other factors may be very difficult. For example, all the factors listed under the financial perspective are straight-forward to obtain for any publicly traded company, and their inclusion in the suggested factors should be self-explanatory.

Table 6: Suggested Factor for Developing a Multidimensional Measure			
Financial Perspective	Customer Perspective	Internal Business Perspective	Innovation & Learning Perspective
% Net profitability growth	Revenue growth	Return on Assets	Number of new products
% increase in share price	Image/Brand	Increased return on assets	% sales from new products
Return on shareholder equity	Market share	Inventory Turns	R&D as % of sales
	Returned orders		Employee turnover
			Executive compensation

Of all the factors listed under the customer perspective category, revenue growth—which may reflect some aspect of customer satisfaction—is relatively easy to ascertain for most businesses. Developing an index for image/brand will require additional research and analysis. Another factor, market share, can be obtained with relative ease from independent market research companies. Customer returns as a percentage of total revenue maybe difficult to determine as not every company reports it in a consistent manner.

The factors or variables included under the internal business perspective category are: return on assets, growth in return on assets, and inventory turns. Return on assets indicates how effective an organization is utilizing its assets. Inter-industry comparisons will require normalizing the values. The second factor—growth in return on assets—would capture the essence of continuous improvement in a company's operations. Finally, inventory turn is included as it captures the sense of efficiency of an organization in managing its inventory. All of the factors suggested under the internal business perspective category are relatively simple to obtain.

The factors included under the innovation and learning perspective category are most complex to determine. These factors are: 1) number of new products offered by a company, 2) percentage of total sales from new products, 3) R&D expenditure as a percentage of total sales or revenue, 4) employee turnover, and 5) executive compensation. The first three factors correlate to a company's innovation. These factors must also be normalized for industry variations. The last two factors relate to employee satisfaction and motivation. All of these factors are somewhat difficult to obtain.

Future research can investigate and refine these factors so that a balanced scorecard type weighted index could be developed, which can then be used for evaluating companies on a multi-dimensional performance basis and for developing a new ranking list. It may also be appropriate to review other ranking lists for potential inclusion in a balanced scorecard type weighted index. Rankings such as Newsweek's Top Green Companies and Fortune's Most Admired Companies may be used to get other perspectives including environmental friendliness and social responsibility.

After developing a comprehensive set of criteria, the Delphi method can be used to rate and rank businesses and demonstrate the usefulness and validity of their approach.

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EMOTIONAL INTELLIGENCE, EMPLOYEE ENGAGEMENT AND JOB STRESS: AN EMPIRICAL INVESTIGATION

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ABSTRACT

The purpose of this study was to empirically investigate the relation between emotional intelligence, employee engagement and stress. A sample of 127 employees working in a private organization in Lebanon was surveyed. The regression results provided support for a number of proposed relations between emotional intelligence and stress and employee engagement. The limitations and further studies are discussed.

INTRODUCTION

Organizations today are setting their priorities in developing corporate strategies that yield strong competitive advantages that would be difficult to imitate (Schumacher, Wheeler, &Carr, 2000). But as soon as their workforce's solid commitment starts shaking, they learn that this plan is worthless without a dedicated crew to lead the course of their ship. It has been noted innumerable times that a workforce is any firm's best asset, but that idea continues to be unnoticed by many leaders who put employee wellbeing at the very bottom of their list of priorities.

Engaged employees and the impact of employee work engagement on performance and organizational effectiveness has lately raised a lot interest among researchers. Moreover, a lot have asserted that employee engagement forecasts employee outcome, organizational success, and financial performance (Saks, 2006). Therefore, studying the essentials of employee work engagement can be of tremendous benefit to any organization since it is classified as a factor for an organization's success. On the other hand, having engaged employees who are stressed out may bring us back to our original point of start. Stress and all its negative outcomes such as burnout, job dissatisfaction, and cardiovascular disease, have a negative effect on organizations (Bruin & Taylor, 2006). A couple of major organizational outcomes of occupational stress, namely employee withdrawal and reduced job performance were outlined by Beehr (1995), and it has been noticed that stress contributes to employee absenteeism and reduced job performance, thus decreasing the overall organizational efficiency (Bruin & Taylor, 2006). Stress is an emotional upsetting state that might lead to different outcomes, namely lateness, absenteeism, turnover, and psychological withdrawal (Bruin & Taylor, 2006).

To manage different stressors and adapt effectively to stress waves, emotional intelligence may be adopted. Oginska-Bulik argued that people who perceive their work environment as less stressful and have less negative health consequences are expected to have high levels of emotional intelligence (2005). That is, people who can better handle stress most probably have high levels of emotional intelligence. However few empirical studies examined this type of relation. Also, emotional intelligence may have another advantage when it comes to employee dedication and engagement. Abraham Carmeli found in his study that employees who are emotionally intelligent develop emotional attachments to their organizations and are more committed to their careers (2003).

The major purposes of this study are threefold. First, we examine the relation between employee engagement and job stress. Second, we examine relation between employee engagement and emotional intelligence. Third, we examine the relation between employee intelligence and job stress. The results of this paper will help managers from various organizations in their selection of employees.

LITERATURE REVIEW

Employee Work Engagement

Actually, the term employee work engagement has become widely used and popular, but astonishingly little academic and empirical research has been done on it, because most of what has been written can be found in practitioner journals where its core is in practice rather than in empirical research and theory (Saks, 2006). As a result, the definition and meaning of employee engagement has become vague. To make things worse, employee engagement has been defined in many different terms that resemble other known concepts such as organizational commitment and organizational citizenship behavior (Saks, 2006). Unlike what is believed, organizational commitment does not have to necessary lead to employee work engagement. Organizational commitment refers to a person's attitude and the extent of how attached he is towards his organization, while engagement is not an attitude; it is the degree to which an individual is focused and immersed in the performance of his roles, therefore a meaningful difference exists between job (employee work) engagement and organization engagements(Saks, 2006). This is to imply that employees who are committed and dedicated to their organization and feel a strong connection towards it do not necessarily have to be work engaged.

Gonzalez Roma, Schaufeli, Bakker, and Lioret (2006) refer to work engagement as a concept with multi dimensions and define it as a "positive, fulfilling, work related state of mind" (p. 166). As identified in the literature, employee work engagement is a multidimensional concept. Vigor and dedication are considered to be the core dimensions of employee work engagement, and absorption was found to be a relevant aspect (Gonzalez-Roma, Schaufeli, Bakker, Lioret, 2006). Schaufeli, Bakker and Salanova (2006) defined these three aspects of engagement by the following: Employees with high levels of vigor reveal high levels of energy and flexible in their thinking while performing their work tasks; they put effort in their work, and continue working even when faced with tasks of high difficulty. Dedication refers to being challenged, inspired, and strongly immersed in work and experiencing a sense of meaning, interest, and pride. Finally, absorption is when employees are fully concentrated and happily absorbed in their work tasks, they find it very hard to detach from work and according to them, time flies.

The concept of employee engagement may sound new, but actually it has existed long ago as a basic management practice and nowadays retaining employees is very important and since engaged employees show lower levels of turnover, having fully engaged employees is of benefit to the company (Devi, 2009). A lot have asserted that employee engagement forecasts employee outcome, organizational success, and financial performance, but employee work engagement may have tremendous negative effects if not correctly addressed (Saks, 2006). Previous studies showed that low work engagement, along with low job autonomy and departmental resources usually result in employees leaving the organization (De Lange, De Witte, & Notelaers, 2008). However, Bakker and Demerouti (2008) found that when job demands are high, job resources as well as personal resources have a positive effect on work engagement, which in turn has a positive effect on job performance. Therefore, it's within the organization's interest to understand the dimensions of work engagement and their effect on the different organizational outcomes.

Emotional Intelligence

In the past 15 years the issue of emotional intelligence (EI) was the topic of many researches in the different fields of management and organizational behavior (Aslan & Erkus, 2008). This concept has become greatly popular with organizations, and a lot of claims affecting the economic value have been raised concerning selecting employees on the basis of their EI (Cartwright & Pappas, 2008). Of all the different decisive concepts about the definition of emotional intelligence, it was quoted in a study by Offerman, Bailey, Vasilopoulos, Seal, and Sass (2004) that Aristotle defines it as "those who possess the rare skill to be angry with the right person, to the right degree, at the right time, for the right purpose and the right way are at an advantageous in any domain of life" (Aslan & Erkus, 2008, p.430). Previously intelligence was measured through the cognitive intelligence form, later researchers and scholars identified three general additional forms of intelligence: social intelligence, emotional intelligence, and cultural intelligence. Throndike (1920) was amongst the first to identify that EI has its roots in social intelligence, which according to Gardner is one of the seven intelligence domains, and can be defined as a combination of the intrapersonal and interpersonal intelligence of an individual, where the intrapersonal part is the capability of someone to deal with himself, while the intrapersonal part relates to dealing with others (Law, Wong & Song, 2004).

There has been also a debate on whether emotional intelligence is considered as a true form of intelligence or if "it lies at the intersection between the mental processing of emotional information and its integration with cognitive information" (Cartwright & Pappas, 2008, p.154). Goleman (1995) and Bar-On (1997) assert the idea that emotional intelligence is acquired and not a form of intelligence and that EI is a personality trait and can be a competency (Cartwright & Pappas, 2008). That is to say that EI is acquired throughout experiences, training, and higher levels of exposure to different work places.

Salovey and Meyer (1990) defined EI as a subset of social intelligence and discussed that there is a set of three theoretically related mental processes : 'appraising and expressing emotions in the self and others, regulating emotion in the self and others, and using emotions in adaptive ways that involve emotional information' (Carmeli, 2003, p.790). Later on, Mayer, Caruso, and Salovey (2000) to some extent refined that definition and extended it into a four-branch model. In this study, we adopted the definition and the scale created and validated by Law, Wong, and Song (2004). Law et al., identified the following four EI dimensions: self-emotions appraisal, others-emotions appraisal, use of emotion, and regulation of emotion (2004). To summarize, emotional intelligence is all about regulating and bringing the best use of your emotions at the right time and place. It's not only the ability to control one's feelings, but it's also about analyzing and accommodating how others feel and making use of this understanding to best make decisions. In previous research, Emotional Intelligence has been related to many factors. In a study performed by Law, Wong, and Song, (2004), they validate the two hypotheses that EI is positively related to and is a good predictor of job performance and that it's positively associated with life satisfaction. Carmeli, Yitzhak-Halvey, and Weisberg (2007) have also supported in their study that individuals with higher levels of EI reported higher levels of life satisfaction in addition to higher levels of self-acceptance, and self-esteem that than those who are relatively low in EI. Today emotional intelligence is becoming more and more important to managers and to the success of the organization. Emotionally intelligent individual is becoming an attractive candidate during the selection process.

Stress

Stress, which is intangible, is described as something upsetting to the mind and emotions, and this happens as a result of external effects and its consequences can affect physical and psychological health (Lee & Keiner, 2005). Stress' individual symptoms can be grouped into three categories, namely: Physiological Stress Psychological, and behavioral (Larson, 2004). Physiological stress may be divided into short term (for example headache), long term (for example, high blood pressure), and nonspecific (for example stomach acid), whereas Psychological responses include symptoms like apathy and dissatisfaction, and behavioral consequences include loss of appetite and change of habits in smoking and alcohol (Larson, 2004). One of the popular forms of stress is occupational stress, which is a complex and active process in which various stressors and adapting variables are related (Oginska-Bulik, 2005). The Job Strain model, defined by Karasek (1979), suggests that occupational stress results from a combined effect of the demands of the working environment and the amount of decision-making scope an individual has, so according to different combinations of low and high job demands and latitudes, a low strain job, active job, or a passive job is defined (Bruin & Taylor, 2006). Many frameworks indicating different factors have been identified regarding job stress, in this study we investigate time and anxiety as the two factors for job stress. In their study, Parker and DeCotiis identified time and anxiety as two main components of job stress (1983). They associated the Time factor with " feelings of being under substantial time pressure" and Anxiety factor with " job-related feelings of anxiety" (1983,p. 169). In this study we adopted these two factors that deal with feelings to examine their relation with employee engagement and emotional intelligence.

HYPOTHESES

Employee engagement is the extent of how much an employee is wrapped up in his job tasks. Engaged employees are those who are so involved in their job that they feel a sense of pleasure while performing it, and accordingly have no problem in staying over time to finish an interesting task. According to them, their jobs are enjoyable and time simply flies.

At work, where one has a direct relationship with one or many employees, it is hard to understand their various mood swings, feelings, and points of view. Especially today where organizations are big melting pots, it's not easy to comprehend all employees' actions since they may vary when it comes to their cultural, social, and economic background.

Therefore, no matter how interesting an employee might find his job, not understanding his colleagues' feelings and actions may lead to confusion and thus the transmission of job tasks may be less effective due to improper communication. This confusion will make the job requirements seem complex and difficult to analyze and this may lead to lessened work involvement. However, if the employee has enough emotional intelligence to overcome this problem and understand, regulate, perceive, and appraise his and others' emotions, he can resolve this problem and become more involved in his job. Accordingly, our fist hypothesis can be assumed:

Hypothesis 1: *Employee work engagement will be positively related to Employee Intelligence.*

On the other hand, stress is the feeling of anxiety and escalating nervousness that one can experience due to different upsetting factors in the workplace. Stress can be something positive, since it can sometimes trigger motivation. Yet, when it's in a negative format, stress can be very harmful for the outside and the inside of one's body. One with low levels of emotional intelligence will not be able to manage and comprehend the different waves of emotions and feelings around him. When this happens, it will be hard for this individual to cope with anxiety and understand job requirements and this will frustrate him, thus increasing the levels of stress. Again, if an individual can comprehend, regulate, perceive, and appraise his and others' emotions, communication at the workplace shall be facilitated and his environment shall be less stressful due to clearer and smoother lines of communication that will ease the comprehension of job requirements. As a result, we can assume that:

Hypothesis 2: *Emotional Intelligence will be negatively related to Stress.*

Simultaneously, engaged employees who are so involved in their jobs will not feel the burden of overloaded job tasks and will not be interrupted by upsetting factors, because they are simply so immersed and in love with their jobs that they do not feel pressured or burned out. When an employee is doing his job with pleasure and interest, that is, he is highly involved the level of stress will be reduced. Accordingly, we can assume the following:

Hypothesis 3: *Employee work engagement will be negatively related to Stress.*

METHODOLOGY

Instruments

In this study the researchers, focused on understanding the relation between emotional intelligence, work engagement and stress. In order to examine these relations a four parts questionnaire was developed. To measure the four dimensions of emotional intelligence we adopted the 16 items WLEIS scale developed by Law et al., (2004). The items were measured on a 7-point Likert-type scale (1= totally disagree to 7 = totally agree). The job stress was measured using Parker and DeCotiis (1983) scale. The two factors of stress were measured using the 13 items on a 7-point Likert-type scale (1= totally disagree to 7 = totally agree). As to the employee work engagement we adopted the 17 items UWES scale from Schaufeli and Bakker (2003). The items were measured using a scale from 0 to 6 where 0= never and 6= always.

Sample

The sample was composed of individuals working in any private organization in Lebanon. The researchers distributed the questionnaire by hand as well as by email. A total of 180 questionnaires were distributed and only 127 completed questionnaires were obtained forming a 71% response rate for our sample. Our sample consisted of 78 female and 49 male. The majority of our sample was single and their ages were between 20 and 30. More than half of the sample had either a first line or middle management position.

Results and Statistical analysis

The purpose of this study was to examine the relation between the following three variables: emotional intelligence, work engagement, and stress. Before examining the proposed relations, a descriptive statistics was conducted. Table 1 provides the descriptive figures, correlation, and cronbach's alpha for the three variables. The results of cronbach's alpha for the three construct are consistent with previous studies.

Table 1: Mean, Standard Deviation, and Reliability coefficient

Variables	Mean	SD	1	2	3
1. Emotional intelligence	5.39	.789	(.88)		
2. Stress	3.80	1.19	-.243**	(.87)	
3. Employee Engagement	4.09	1.07	.206*	-.104	(.93)

* Correlation is significant at the .05 level
** Correlation is significant at the .01 level

In order to test the proposed relations, a regression analysis was conducted using SPSS 17. In hypothesis 1 we predicted a positive relation between employee engagement and emotional intelligence and the results supported the proposed relation hence hypothesis 1 was supported. In hypothesis 2 we predicted a negative relation between emotional intelligence and stress and the regression results supported this prediction, hence hypothesis 2 was supported. Finally, in hypothesis 3 we predicted a negative relation between employee engagement and stress the results didn't provide a support for this relation, hence hypothesis 3 was not supported. Table 2 provides a detailed description of the results.

Table 2: Regression analysis results

Hypotheses	b	β	SE	R^2	t	Sig
H1: DV: Employee Engagement; P- Emotional Intelligence	.281**	.206**	.12	.04	2.35	.020
H2: DV: Stress: P- Emotional intelligence	-.367***	-.243***	.13	.05	-2.80	.006
H3: DV: Stress: P- Employee Engagement	-.115	-.104	.08	.003	-1.16	.247

*p<.1, **p<.05, ***p<.01

DISCUSSION AND CONCLUSION

The purpose of this study was to investigate the three relations between emotional intelligence, employee engagement and stress. The results provided support to the relations between emotional intelligence and the other two variables: employee engagement and stress providing additional empirical support for the previous research. Previous study showed that emotionally intelligent people show levels of engagement in both the educational and workplace settings (Duran, Extremera, Rey, Fernandez-Berrocal, Montalban, 2006).Another study shows that emotionally intelligent people show lower symptoms of job burnout in both the educational and workplace settings (Duran, Extremera, Rey, Fernandez-Berrocal, Montalban, 2006). This is to say that employees who can regulate their and others' emotions and can overcome different emotional waves and not get affected, will most likely have better chances of being immersed and dedicated to their jobs.

However the relation between employee engagement and stress the results didn't provide an empirical support. Probably even if individuals are engaged in their jobs they consider it a stressful environment and can't overcome anxiety and time pressure. Furthermore, the majority of our sample had a management position so this probably provides an explanation for the results obtained in this study.

The results of this study extend the literature and knowledge on emotional intelligence in relation to employee engagement and stress. Furthermore this study was conducted in non-western sample that provides a different perspective of emotional intelligence.

LIMITATION AND FUTURE RESEARCH

The results of this study add value to the literature and provide additional empirical evidence. However, this study has few limitations as any other study. The first limitation is the sample size, a larger sample should be obtained which may have provided a better understanding to the proposed relations. The second limitation is the self-reported data, data were collected from the individuals themselves; they evaluated their own emotional intelligence and their engagement. Future studies target to obtain data from both the employee and the manager or his co-workers. Finally, the results of this study will guide managers in the selection process.

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