Volume 6, Number 1 **Print ISSN 1944-656X**
Online ISSN 1944-6578

BUSINESS STUDIES JOURNAL

Gary Schneider
Quinnipiac University

The official journal of the
Academy for Business Studies,
an Affiliate of the Allied Academies

The *Business Studies Journal* is owned and published by Jordan Whitney Enterprises, Inc. Editorial content is under the control of the Allied Academies, Inc., a non-profit association of scholars, whose purpose is to support and encourage research and the sharing and exchange of ideas and insights throughout the world.

The *Business Studies Journal* is owned and published by Jordan Whitney Enterprises, Inc. PO Box 1032, Weaverville, NC 28787, USA. Those interested in communicating with the *Journal,* should contact the Executive Director of the Allied Academies at info@.alliedacademies.org.

EDITORIAL BOARD MEMBERS

TABLE OF CONTENTS

LETTER FROM THE EDITOR

The *Business Studies Journal* is the official journal of the Academy for Business Studies, an affiliate of the Allied Academies, Inc., a non profit association of scholars whose purpose is to encourage and support the advancement and exchange of knowledge, understanding and teaching throughout the world. The *BSJ* is a principal vehicle for achieving the objectives of both organizations.

The *BSJ* is a journal which supports the exploration of traditional as well as non-traditional and qualitative issues. The journal follows the established policy of accepting no more than 25% of the manuscripts submitted for publication. All articles contained in this volume have been double blind refereed.

It is our mission to foster a supportive, mentoring effort on the part of the referees which will result in encouraging and supporting writers. We welcome different viewpoints because in those differences we improve knowledge and understanding.

Information about the Allied Academies, the *BSJ*, and the other journals published by Allied affiliates, as well as calls for conferences, are published on our web site, www.alliedacademies.org, which is updated regularly. Please visit our site and know that we welcome hearing from you at any time.

Gary Schneider, Editor
Quinnipiac University

QUANTIFYING THE VALUE OF THE SERVICE-ORIENTED APPROACH TO BUSINESS INFORMATION SYSTEMS

Sibylle E. Mabry, Louisiana State University Shreveport
Chengho Hsieh, Louisiana State University Shreveport
William R. Bigler, Jr., Louisiana State University Shreveport

ABSTRACT

Identifying opportunities for innovation and growth via information technology (IT) is vital to the success of any organization. This intricate process can be facilitated if managers properly determine and measure the strategic impact of their pioneering endeavors. In this paper, we suggest a methodology to identify and quantify the strategic and innovative value of a complex IT architecture, specifically, service-orientated architecture. By operationalizing the conceptual complexity and intangibility of the architecture, the financial net-present-value model can be employed in an ***effective*** *way. Managers, particularly in resource-challenged businesses, can use this practical valuation framework to determine risk and success probability of complex IT architectures before, during and after their implementation.*

INTRODUCTION

Senior executives' chief concern has shifted from controlling information technology (IT) costs to maximizing the strategic benefits of IT (Brynjolfsson & Hitt, 2000; Heffner, 2011; Kohli & Devaraj, 2004; Merrifield, Calhoun, & Stevens, 2008; Murphy & Simon, 2002; Renkema, 1998; Shang & Seddon, 2002; Silvius, 2006; Zhu, 2004). In recent years, information systems (IS) scholars and practitioners have been particularly interested in demonstrating how innovative IT infrastructure is able to support enterprise-wide and inter-organizational business processes and thus enhance organizational competitiveness. Based on our understanding of the literature, Figure 1 in the Appendix is our overview which links the functionality of an approach to information technology philosophy and implementation to some of today's critical business imperatives. To quantify how businesses can add strategic value to their organizations by investing in the right IT strategies, researchers have been using a variety of traditional and newly developed assessment methods (e.g., Kohli & Devaraj, 2004; Murphy & Simon, 2002; Zhu, 2004). Since many of these methods do not always succeed in adequately measuring the strategic impact of innovative IT strategies, we attempt to address this shortcoming.

In this paper, we utilize the net present value (NPV) methodology to identify the strategic value of a multifaceted business information system called service-oriented architecture (SOA). SOA is not merely an IT product, but a creative approach to enhancing business performance through information technology. Its architecture is based on a business philosophy that includes a holistic IT-design paradigm. For our purposes, architecture is defined as the blueprint of all the software assets of an organization. The service-oriented design is built on modularizing business logic and/or individual business processes. The technology is offered as loosely coupled, platform-independent services for business applications (Erl, 2008). Companies that adopt the SOA philosophy holistically strive to be agile, lean organizations that use every resource in the most effective and efficient way, react proactively to changes in the market and in customer demographics, and swiftly transform their processes, structure, and initiatives to match the dynamics of the competitive environment. By operationalizing the conceptual complexity and intangibility of this architecture, the NPV model can be employed effectively. In this article in particular, we use scenarios to quantify the impact of SOA on systems interoperability, business agility and alignment, as well as IT infrastructure, which in turn have a positive impact on organizational performance and competitive advantage.

NPV is used for capital budgeting purposes to assess the value of business projects. It is a well-known economics concept that takes into account the time value of money, the project's ability to generate cash flows, and the underlying risk. Typically, NPV indicates how much value an investment adds to the organization. Specifically, the method uses a project's cost of capital to discount future cash flows emanating from the project to determine the present value, which is then weighed against the initial costs of the project. If the present value is greater than the initial costs, the project is acceptable. The cost of capital reflects the risk of the project. Managers, particularly in resource-challenged businesses, can use this practical valuation framework to determine risk and success probability of complex architectures before, during and after their implementation.

Over the last decade, scholars in a variety of disciplines, including strategic management, finance, and IS, have recognized the strategic significance of interconnecting a flexible IT infrastructure with organizational goals (e.g., Armstrong & Sambamurthy, 1999; Kumar, 2004). This interplay of IT infrastructure flexibility and strategic alignment and the extent to which IT activities support strategic business goals have been cited frequently as a catalyst for superior business performance (Byrd & Turner, 2000; Ross, 2003). Hence to successfully measure the degree to which an agile IT infrastructure contributes to the firm's competitive advantage has been of utmost interest.

Very recently, organizations have shown increasing interest in service-oriented architecture (SOA), the underlying logic of agile IT infrastructures (Aimi & Finley, 2007; Erl, 2008). Although some of the concepts of SOA have been around for a few decades, businesses only in recent years were able to exploit SOA on a strategic level.

HOW CAN BUSINESSES BEST UTILIZE SOA?

SOA is a holistic IS approach to helping businesses become leaner, more productive, and more agile. The term SOA defines two different aspects of business technology (Florea, et al., 2011; SOA definition, 2012), software development and IT architecture. “Service-oriented” describes a component-based software development methodology, such as XP or Agile. The requirements of component-based development are to

(a) Build small, self-contained chunks (services) of code that can be easily linked with other software components.
(b) Create a complex wrapper (interface) around the bundled code.
(c) Place those chunks in a software library (repository).
(d) Reuse and share the chunks extensively and in many different areas of the company.

For example, Ally Bank needs to automate many business activities such as sending a query to a credit reporting site to determine if a customer qualifies for a loan. Using service-oriented development, programmers collaborate with users to gather business requirements and develop business-oriented components. During the design and development phase, programmers abstract the complex code that goes into the task and create the interface that describes what the service does and how to connect to it. They package the service into a single unit called "get credit rating" and the next time the bank launches a new loan product that requires the same information, rather than writing the code from scratch, the service will be procured from the repository and reused. Additionally, through the collaboration process during the development and test phases, users (executives and other stakeholders) gain useful insight into and significant understanding of the business effectiveness of the system.

The term “architecture” in SOA defines the blue-print of all the software assets of a company. Since service-oriented architecture is agnostic (i.e., has multi-purpose logic), it has the capability of running on myriad operating systems, platforms, locations, and applications. Its modular architecture is broken into compound and granular services with the option of recombining and reusing services. The architecture’s component-based nature and development encourages effective collaboration of the IT organization and the business unit through early and continuous delivery of valuable services (Heffner, 2011; Kelly, 2006).

SOA strategy is holistic in that it encourages organizations to view and act on its software needs from a business process and business transactions perspective. This means a SOA strategy entails the development of services for specific business activities. Organizations must usually redefine and restructure their business processes and activities to take advantage of the new development process. Companies like eBay, IBM, or Harley Davidson that use SOA for strategic business transformation embrace it and expand it to create competitive advantage (Heffner, 2011). SOA promotes the concept of modularity, providing compelling flexibility and exceptional economics for addressing business demands. Undertaking the transformation to SOA is challenging and the inventory of SOA assets and modification to existing services that may disrupt other business processes must be governed to make sure SOA will always be manageable. Effective SOA governance makes business processes and its services transparent and lets business stakeholders view and administer the relationships and interdependencies that link services to other elements of the SOA across the organization. Hence SOA governance creates a strategic focus by comprising people, processes, and technology to successfully manage and strengthen the organization's investment in SOA (Top reasons, 2010).

Like other innovative IT architectures, SOA provides the organizing logic for enterprise-wide application development, systems integration, and data sharing across business units, throughout the organization, and across enterprises independent of geography (Kress & Wölfing, 2008). Its modular, innovative IT architecture uses object-orientation, web services, virtualization, and loosely linked components (see Table 1) to create infrastructure flexibility (Erl, 2008).

Table 1 SOA-Induced IT and Business Goals/Benefits

Service-Oriented Architecture	Business Goals	Business Benefits/drawbacks
Service orientation • Creating architecture • Shaping services as agnostic enterprise resources	**Improved visibility** • Business process management • Enterprise application integration	**Flexibility/Complexity** • Involving strategic aspects of business • Affecting existing business processes
Web services • Facilitating point-to-point service integration • Linking smoothly to other IT components	**Systems interoperability** • Vendor-neutral communications • Improved information sharing	**Agility/Involvedness** • Reorienting business strategies • Support of network-oriented view of firm
Code reusability • Drawing from pool of existing services (reuse)	**Business agility** • Improved information sharing • Reduced redundancies • Scalability	**Requiring governance** • New resources, roles, processes • Reliability & security concerns
Modular design • Based on object orientation • Loosely coupled	**Modularity** • Increasing infrastructure's ability to handle increased volumes of data and inputs • Plug and play	**Requiring documentation/training** • Increased organizational business/technology alignment • Creating business models

Current research by scholars (e.g., Merrifield *et al.*, 2008) and practitioners (e.g., Rogers, 2008) has classified SOA as an IT architecture that creates an infrastructure able to dramatically increase the value of strategic business processes, thereby creating competitive advantage. Since SOA typically designs an agile, reliable, and scalable infrastructure (Paoli et al., 2008), academia and businesses are more and more interested in measuring the strategic value of SOA. Yet, while chief executives and IT managers are well aware of the strategic implications of a dynamic IT infrastructure and the significance of appraising its impact, effectively articulating and quantifying its value remains challenging.

So far, assessing the value and impact of innovative, versatile IT infrastructure has shown to be rather thorny (Adomavicius *et al.,* 2008; Bacon, 1992; Irani & Love, 2001) because of the diverse technological aspects and the organizational complexity involved in flexible IT infrastructure. Most of the valuation studies focus on information technology in general and use typical valuation methodologies, such as payback period, return on investment, cost-benefits analyses, and benchmarking (Silvius, 2006). Yet these methods have been identified as being either too one-dimensional or too ill-equipped for evaluating the multifaceted environment of IT infrastructure to determine the strategic impact of SOA-initiated business information systems (Adomavicius *et al.,* 2008; Silvius, 2006). Furthermore, much of the evidence concerning the strategic impact of SOA is still anecdotal, and IT managers cannot easily justify large and expensive infrastructure investments on such a non-scientific basis.

Scholars and practitioners have expanded valuation methods in recent years to include the organizational context (Kumar, 2004; Wagner & Weitzel, 2007) and multiple organizational variables (McPartlin, 2003; Silvius, 2006); however, these approaches are either too complex or do not take into account the scalability and the plug-and-play capabilities of SOA. Thus, suitable methods to assess the strategic impact of an innovative IT architecture like SOA are still absent. Yet failure to address the assessment problem effectively can result in authorizing inappropriate investments and consequently wasting organizational resources.

In this paper, we address the valuation problem and utilize net present value (NPV) to identify the strategic value of SOA. We begin by briefly reviewing the main methodologies applied by scholars and practitioners to measure the strategic effect of IT approaches, pointing out their major shortcomings. We then explain how the concept of net present value ties in with the valuation of SOA. To demonstrate how the NPV approach can be employed in assessing the critical and much discussed strategic connection between SOA infrastructure and the organization (see also Merrifield et al., 2008; Paoli, Holtman, Stathel, Zeitnitz, & Jakobi, 2008), we present a specific numerical example for assessing SOA's contribution to a particular corporate strategy.

Existing Valuation Tools for IS/IT: LITERATURE

In recent decades, the IS literature has suggested several assessment methods to measure the strategic impact of IT investments on business performance. These tools and methods, along with their major goals, limitations, and sample published literature are summarized in Table 2 below.

Return on Investment, Payback Period, and Breakeven Analysis

IS literature shows that chief financial and information officers typically use one-dimensional, quick financial methods such as return on investment (ROI) (Hall, 2003; Murphy and Simon, 2002), payback period, and breakeven analysis to evaluate IT investments (Kiava, 2002; Silvius, 2006). Applied to almost every IT project, ROI is the percentage of money lost or gained on an investment relative to its cost. The ROI method has become popular because of its simplicity in quantifying the variables for the calculation. Also, using a percentage to compare different projects is easily understandable. However, ROI typically uses estimated accounting profits instead of cash flows and does not take into account the time value of money and project risks (Kiava, 2002; Silvius, 2006).

Payback period is the number of years needed to recover the initial cost. The payback period of an investment is compared to a pre-specified cutoff period. If the payback period is longer than the cutoff period, the project is rejected. Several flaws in this technique are documented (Mahmood & Mann, 1991; Schniederjans *et al.,* 2004). First, the selection of a suitable cutoff period is usually arbitrary. Second, similar to ROI, payback period does not take into account the time value of money and project risk. In addition payback period does not consider cash flows beyond the payback period.

Table 2: Key Assessment Methods for Information Technology Investment

IT assessment methods	Description	Limitations	Related studies
Return on investment (ROI)	Calculates costs and benefits related to IT investments	Ignores risk and time value of money (TVM);	Kiava (2002)
Payback period	Calculates the time period required to recover initial costs	Ignores long-term cash flows and TVM;	Mahmood & Mann (1991)
Break-even analysis	Forecasts at which point a firm breaks even in terms of profits and losses	Does not consider the changes in cost and income functions	Schniederjans et al.(2004)
Production function	Quantifies the output of a company for a given set of inputs	Does not consider intangible assets such as agility	Brynjolfsson & Hitt (1996); Wagner & Weitzel (2007)
Scenarios & combination of IRR & scorecards	Attempts to assess IT investments holistically	Is very complex	Othman (2008), Silvius (2006)
Resource-based approach (RBA)	Evaluates attributes of IT with respect to resources	Is not always consistent	Baradwaj (2000), Ray (2000)
Critical success factors (CSFs)	Evaluates performance of essential IT activities	Focuses on intangible criteria	Gottschalk (2002), Pollalis & Frieze (1993)
Benchmarking (BVI) business value index	Compares against best-in-class organizations	Does not look past implementation costs	Gordon (1994), McPartlin (2003)
Real options analysis	Estimates difference between equity value and DCF value	Favors market-leading businesses	Benaroch & Kauffmann (1999); Violino (1997)

The breakeven method has been used to determine when an IS investment generates a positive return by determining the relationships among fixed costs, variable costs, and revenues (Gutierrez and Dalsted, 2008; Schniederjans *et al*., 2004). Yet breakeven analysis has its drawbacks. It is typically only suited to analyze one activity or equipment at a time. Variable and fixed costs cannot be classified correctly in most cases. Also, it does not consider the changes in cost and income functions (Gutierrez and Dalsted, 2008; Schniederjans *et al.,* 2004). In conjunction with capital budgeting techniques, breakeven analysis can provide useful information as to how to prevent losses.

Production Function

The production function specifies the output of a firm or an industry given a combination of inputs. It can be used to measure the allocation efficiency of an organization's resources, including information systems. However, the production function does not typically model business processes, thus ignoring critical aspects of SOA, the role of management, and the relation between variable and fixed costs. Wagner and Weitzel (2007) identify and model key IT value drivers as an IT production function to understand and assess the IT value creation process and to guide managers in finding effective ways of employing IT resources. But this method is inflexible because it depends on the law of diminishing returns, meaning that multiple outputs need to be combined into one single effectiveness value comparable to ratio analysis (Wagner and Weitzel, 2007). Hence, the production function is not an ideal assessment tool for complex IT artifacts.

Multi-Criteria IT Evaluation Methods

These methods include (a) the combination of scenario analysis and balanced scorecard, (b) the resource-based approach, and (c) the critical success factors approach. They have been developed to more effectively capture and assess the value of complex information technology paradigms and to give better advice to managers concerning IT investment decisions (Baradwaj, 2000; Gottschalk, 2002; Schniederjans *et al.,* 2007; Silvius, 2006).

Although the combination of scenario planning and the balanced scorecard can yield reliable results, very few practitioners like to use it (Othman, 2008; Silvius, 2006). Scenario analysis is a strategic planning tool to develop flexible long-term plans. In the analysis, simulation "games" are generated for policy makers. Games may combine known data such as political and industrial information with conceived trends (e.g. social or political) as the main drivers. The balanced scorecard, on the other hand, is a performance assessment tool that quantifies intangible assets such as information, brand image, and innovation (Kaplan and Norton, 1996). It retains traditional financial measures, but also suggests that the analyst view the firm from the perspectives of the customer, internal business processes, and change. The goal of combining the balanced scorecard with scenario analysis is to overcome some of the limitations of the balanced scorecard and to make it more practical and reflective of future changes (Kaplan and Norton, 1996; Othman, 2008). To use the balanced scorecard effectively, managers must identify several goals within each of the scorecard's perspectives before they can demonstrate the inter-linking among these goals via causal links on the diagram. However, the plotting of causal links among a considerable number of medium-term strategic goals is relatively abstract, and the valuation process is entirely subjective and neglects to assess quantities. The scores are not based on any established financial or economic theory. The assessment on risk and economic value are not well founded. Finally, the balanced scorecard does not provide a unified score and a clear metric; it is usually a long list of metrics.

Although combining scenario analysis with the balanced scorecard can overcome some of these drawbacks, it typically adds new problems to the evaluation process. For example, it is necessary to forecast potential scenarios for the economy (e.g. slow growth versus rapid growth), the probability for each scenario to occur, and the correlations among the scenarios (Othman, 2008). Hence, adding the complexity of the scenario analysis to the complexity of the balanced scorecard can result in a daunting exercise, specifically with respect to assessing SOA projects. Also, foreseeing the scenarios and assigning probabilities to them may invite a tendency to take into account only the scenario with the highest probability. Considering only the extreme cases is likely to lead to biased conclusions. The planning, writing, and implementing of good scenarios is a very complex, intricate, and time-consuming process which cannot be simplified by combining it with the balanced scorecard.

Another multi-criteria evaluation method is the resource-based approach. It is based on the theory that organizations can create competitive advantage if they acquire tangible and intangible resources that can be developed into unique capabilities (Bharadwaj, 2000). Some researchers have assessed the capabilities of IT artifacts, such as ERPs, and have found that management-related IT attributes can increase company performance (Bharadwaj, 2000; Ray, 2000). Since this approach often produces inconsistent results, the valuation method has not caught on as a reliable assessment method in the IS community.

The critical success factor (CSF) method is also considered a multi-criteria valuation approach. Its main purpose is to identify information-intensive areas and viable investment opportunities so as to meet organizational information needs within the value chain (Schniederjans *et al.,* 2004). IS researchers were able to extract useful and relevant lists of CSFs and to identify internal and external factors that could be influential in the decision-making process. Although studies have shown that CSF techniques can be very beneficial in evaluating the performance of essential IT activities, they also point out several problems. Certain critical success factors, such as system quality and system efficiency, overlap. Some factors are more time-dependent than others, which increases the complexity of the estimation. Also, employing the method usually results in a very slow and time-consuming process, and the results concerning IT investments are not consistent (Huotari and Wilson, 2001).

Benchmarking

Benchmarking compares specific indicators, such as cost per unit and productivity per unit, to industry standard or best practice to measure performance. Typically, the outcome of the benchmarking process is a business case for business improvement or business transformation (Schniederjans et al., 2004). However, unstructured and nonrecurring processes such as the development or purchase of complex software or hardware equipments usually do not use benchmarking techniques for evaluation purposes. The major shortcoming of this technique is that it can involve high costs and time-consuming processes related to gathering and analyzing data. Also, regarding the adoption of a complex IT paradigm, benchmarking does not look beyond implementation costs (McPartlin, 2003) to determine the strategic benefits (Kumar, 2004). Obviously, benchmarking is not a one-time evaluation activity. It is meant to be a long-term process that focuses on step-by-step improvement toward meeting customer expectations on the firm's performance.

Real Options Analysis and NPV

One valuation technique, the real options analysis, has become popular among IS scholars in recent years due to its coverage of uncertainty, flexibility, and the ability to delay investment (Silvius, 2006). Real options analysis relates put option and call option valuation procedures to capital budgeting decisions (Benaroch and Kauffmann, 1999). The approach employs the option pricing model commonly used for financial assets to evaluate contingent decisions on a project. Contingent decisions include the options to expand, modify, delay, or abandon a project. This method is typically suitable for IT systems that are flexible in nature, but the application of this method to evaluate enterprise software and infrastructure-related projects has had some limited success (Amram, 1999; Kumar, 2004) for the following reasons. The real options technique requires restrictive assumptions on some variables in the model. Besides, some variables are difficult to estimate. Additionally, real options analysis faces major barriers in the business community because of its complexity and a lack of appreciation by technology executives. Some practitioners are not in favor of real options because the method is too conceptual and less straightforward than the NPV method and still requires the calculation of the project's net present value (Yu, 2008). By offering a workable NPV framework to appraise enterprise-wide IT projects, our paper attempts to meet organizational needs.

Existing Valuation Tools for IS/IT: Industry and Consulting Field Experience

Over the last 20 years, industry has used related, but different, valuation tools for large IT projects. Their efforts were aided by large consulting firms like PriceWaterhouseCoopers, Ernst and Young, Computer Sciences Corporate, and others. This trend started with enterprise resource planning (ERP) projects developed by SAP, Baan, Oracle, PeopleSoft, JD Edwards, etc. where consulting implementation fees could be well over $100 million. Industry had never seen such high consulting fees before, so a method had to be developed to demonstrate that there was a huge benefit to the client firm over and above the consulting fees paid.

The approach was to justify those fees with a detailed estimate of the payback to the client. The typical goal was to demonstrate a 10 to 1 payback to the client. So for example, if fees were $100 million, the consulting firm tried to demonstrate and prove $1 billion in benefits. This discipline has now been incorporated into industry as CIOs attempt to argue for their slate of proposed new large IT projects.

The typical approach was to start off with the classic drivers of shareholder value (Rappaport, 1986, 1998). In parentheses in the following list is the direction required to help increase shareholder value.

Sales Growth Rate	(increase)
Operating Profit Margin	(increase)
Income Tax Rate	(decrease)
Incremental Working Capital Investment	(decrease)
Incremental Fixed Capital Investment	(decrease)
Weighted Average Cost of Capital	(decrease)
Competitive Advantage Period	(increase)

Typically, these large ERP projects would likely not impact Income Tax Rate or Weighted Average Cost of Capital, so these drivers would be ignored from the analyses. For the remaining five drivers, very detailed tree diagrams for each would be developed that followed a suggested cause and effect to get at more detailed benefits for the client firm. Along the way, benefits would be added up and then totaled to get the expected payback related to the proposed fees. There was also a time table developed to demonstrate when the benefits would be realized and the proposed schedule to pay the total consulting fees. These proposals were almost always debated until either the fees were reduced or benefits proved beyond a reasonable doubt.

This evaluation is still the predominant method found in industry for almost all large IT projects. Clients firms liked the level of detail these proposals proceeded to, but in the end the decision was almost always a leap of faith that the chosen consulting firm could deliver on their proposed fees to benefits calculation. As we reported above, more often than not, however, large IT projects would experience cost overruns and longer times to complete the project than planned.

One of the reasons for this and one of the recurring criticisms of this prevailing practice that while very detailed, each project would end up with its own specific detail of benefits with no way to rank order all projects comparatively. In many observers' views, what was missing from the approach was to include the time value of money into the analyses via some form of net present value analyses. This inclusion creates a measure that can be used to compare and rank all proposed IT projects at once. As such this eliminates the problems in assessing IT projects one project at a time, and using different benefit categories for each one.

With academic and industry experience suggesting improvement potential in valuation tools for complex IT projects, the next section presents a net present value framework for SOA, or any complex IT project.

An NPV framework for SOA

A SOA-based IT infrastructure is an amalgamation of information and communication technologies, as well as an interplay of information, people, and processes; its value depends on how it is utilized in an organizational context (see Broadbent and Weill, 1997; Kumar, 2004). We propose using the NPV methodology to measure the strategic business value of SOA by assessing its potential impact on business agility and performance.

Net Present Value

As described earlier, the NPV method measures the value created by the project. It uses the cost of capital to discount future cash flows generated from the project to find the present value. The NPV is equal to the difference between the present value and the initial costs required to start the project. If NPV is greater than zero, the project is profitable. The cost of capital reflects the risk of the project. A project with a higher risk would have a higher cost of capital. Holding other factors constant, a higher cost of capital (i.e., a higher discount rate) should result in a lower NPV. We can exemplify the equation for NPV as follows:

$$NPV = -I_0 + \sum_{t=1}^{N} \frac{NCF_t}{(1+R)^t} \tag{1}$$

In the equation, NCF_t corresponds to the net cash flow from the SOA project at the end of year t. Net cash flow is equal to operating cash inflows minus operating cash outflows and minus non-operating expenditures, if any. The initial costs (I_0) include all costs associated with investing in the SOA project at the present time. The project's anticipated length of life is N (in years), while R is the project's cost of capital. NCF_t and R are explained in details in the following.

Net Cash Flows

In the following, we attempt to identify and monetize the contributions and costs linked to SOA (see Rogers, 2008). Ultimately, all the contributions from the SOA project are reflected in the increased revenues (sales) or reduced operating costs. And the costs are reflected in operating fixed costs, operating variable costs, and non-operating costs. Examples of contributions that can be credited to SOA due to its business alignment, communications, scalability, and sustainability efforts include:

- Reduced time to manage core processes
- Increased organizational agility
- Cooperative work climate
- Improved information sharing
- User and customer satisfaction

Likewise, we can give examples of operating costs that are directly related to SOA activities:

- Planning, analysis, design, development, and implementation costs
- Training costs
- Maintenance costs

We use a specific example to illustrate how to implement the NPV evaluation on a SOA project. Table 3 is based on a company whose strategy focus is transformation. The organization is a U.S. insurance company with over a million customers across the globe and annual revenues of $9 billion. The firm spends around 3% of its annual revenues on information technology. Since the executive team has brought in and divested of many insurance businesses, the company's administrative and financial systems become disconnected. The organization tries to meet its business and technological challenges via SOA.

The strategic goal is to become technologically integrated and to make business processes more efficient. Since SOA is unique for each organization that adopts service orientation, it can add to efficiency and competitive advantage. Every company implements SOA projects in its own way because the implementation typically changes the current organizational structure, exposes old and composes new business processes, enforces governance policies, and takes advantage of existing systems. However, embarking on SOA projects also means educating IT staff and business partners, upgrading the infrastructure, setting up central program offices, and implementing service-oriented programming (see Table 3).

Table 3: Contributions and costs of SOA				
SOA-initiated activity	**Estimated Contribution in terms of increased sales**	**$ (annual)**	**Estimated Cost**	**$ (year of occurrence)**
Changing the organizational structure	Increased agility (reduced time to managing core processes) Increased visibility (reduced complexity)	900,000 700,000	Evaluation costs Initial development costs of business process engineering Subsequent development costs of business process engineering Lost productivity costs	250,000 (0) 500,000 (0) 350,000 (1-2) 200,000 (0)
Changing the accounting practices	Reduced redundancy	350,000	Adjustment costs	120,000 (0)
Educating IT staff in SOA programming and business requirements	Increased speed of programming	300,000	Training costs Recruiting costs Consulting costs	150,000 (1-10) 70,000 (1-10) 100,000 (0)
Educating business partners to ensure consistent architecture and knowledge	Improved and faster information sharing – reduced lead time	430,000	Educational material Travel costs	40,000 (1-10) 90,000 (1-10)
Upgrading infrastructure to reduce proprietary platform and middleware	Reduced electricity bill Reduced storage room	120,000 80,000	Initial architecture development costs Subsequent architecture development costs	160,000 (0) 110,000 (1-10)
Setting up communication office for SOA projects	Improved info sharing; alignment	370,000	Material costs Property costs New hires costs	400,000 (0) 600,000 (0) 300,000 (1-10)
Governance	Reduced time to reuse services Improved maintenance Open standards	200,000 80,000	Developing repository, documentation, & rules for using services Governance Maintenance	400,000 (0) 100,000 (1-10) 250,000 (1-10)

Table 3 reflects how SOA activities can be quantified. For example, the move to SOA entails (1) working on an initial business process adjustment and an architectural analysis, (2) creating a long-term plan related to business process management, (3) educating organizational staff and business partners, (4) creating services and upgrading the IT infrastructure, and (5) centralizing organizational communication and governance.

The outcome of (1) can be quantified by estimating the costs and contribution to the increased agility of the business, increased visibility of the core business processes, and streamlined sales-oriented activities. Process (2) can be monetized by gauging the architecture's impact on reduced redundancy and adjustment costs, (3) by assessing the increased access to reliable and consistent information about the business, as well as the costs of creating such access, and (4) by analyzing development costs, including new code creation, new composite applications development, and integration of legacy code.

Centralization of communication and governance (5), which constitutes an important move toward successful SOA implementation, can be quantified by analyzing SOA characteristics. For example, the loosely coupled character of SOA can only improve the organization's ability to expose and manage core processes if the software services are governed effectively. Developing repositories can be quantified.

Also, enhanced visibility of processes leads to increased flexibility, which needs to be documented adequately and differently from the formerly inadequately documented application silos. Documentation can be quantified.

Additionally, SOA's ability to reuse services can be quantified because it involves standardization, centralization, and documentation. Through increased reuse, for instance, SOA reduces the cost of installing new functionality and lead time; through standardization and centralization, SOA plays an important role in supporting alignment and business-centric collaboration by employing a business/IT governance approach; and by repurposing existing software and assets, SOA decreases the time and costs to reap the benefits. On the benefit side, SOA increases the need for governance while it reduces the reliance on highly specialized skills regarding specific languages, platforms, or middleware. By leveraging open standards, SOA can control the cost of software integration, which has typically been a main obstacle for IT organizations in supporting the business (Heffner and Fulton, 2006).

In this example, for simplicity, the property acquired for the SOA project is depreciated based on the evaluation time frame of 10 years. More accurate annual depreciation can be calculated based on the modified accelerated cost recovery system (MACRS). SOA projects typically do not have a clear length of life. The example uses 10 years as the length of life. This is a judgmental call by the management. If management wants SOA to be profitable within, say five years, then five years are used as the length of life. Since SOA projects involve fundamental changes in many aspects of the firm, a longer time period may be needed to see its effect. The net cash flow in year *t* is calculated based on the following equation,

$$NCF_t = (R_t - FC_t - VC_t - D_t)(1-T) + D_t - A_t$$

where R is revenue, FC is the operating fixed cost, VC is the operating variable cost, D is the depreciation, A is the non-operating costs, and T is corporate tax rate. Any cash flow item in Table 3 is based on estimation. If desired, more elaborate estimation procedures can be employed, for example, for each variable in the equation, assessing the probability distribution of possible outcomes and calculating the mean value accordingly.

SOA Cost of Capital

Current financial theories put forward that the cost of capital for a project is a function of the project's market risk (referred to as the beta coefficient). The cost of capital can be estimated based on the Capital Asset Pricing Model (CAPM),

$$R = R_F + (R_M - R_F)\beta \qquad (2)$$

where R_F is the risk-free rate of interest, R_M is the expected rate of return of the market portfolio, and $R_M - R_F$ is the market risk premium. The beta coefficient (β) is the market risk of the project. Market risk assesses the project's value volatility caused by economic factors, including interest rates, energy prices, and industrial output, among others. To put it another way, market risk measures the sensitivity of the project's value to market movements. The fluctuations of a project's value come from two sources, (a) firm-specific events such as technological breakthroughs and labor strikes, and (b) economic factors described above. In a capital market where investors generally hold a well-diversified portfolio, the risk caused by firm-specific events can be diversified away and therefore is not relevant. However, market risk cannot be diversified away and thus should be included in the cost of capital. Typically, we use the 10-year Treasury bond yield as R_F, which is currently about 2%. The market risk premium, $R_M - R_F$, changes over time. During times when the market participants in general are optimistic about future economic conditions, the premium becomes lower, and vice versa. The majority opinion in the finance literature supports a range of 3 to 10% for the market risk premium (see for example, Fernandez, 2009). During times when market participants are neutral about economic outlook, use the average of 6.5%; when they are pessimistic, choose a number between this average and 10%, depending on how pessimistic they are. For example during 2008 at the height of the financial crisis, you may use 10%. Choose a number on the other side of the range if the market participants are optimistic. In the example, we use the average of 6.5% as the market risk premium.

To determine the market risk (β) for a SOA project, we argue that an SOA's market risk can be proxied by the organization's market risk because SOA is tied to the entire functioning of the organization; the value of SOA and the value of the organization should be closely related. Therefore, it is reasonable to assume that the value of SOA is as sensitive to the market movements as the value of the organization. But is the firm's market risk obtainable? For a publicly traded firm it typically is. The market risk of the firm's equity, β_S is obtainable from public sources or can be estimated using historical stock price data. This equity market risk can be converted into the market risk of the firm based on the Hamada equation (1972)[1]

$$\beta_{FIRM} = \beta_S \left[\frac{1}{[1+(1-T)(D/S)]} \right]$$

where β_{FIRM} is the market risk of the firm, D is the market value of the firm's debt, and S is the market value of the firm's equity. Once β_{FIRM} is obtained, the organization's, and hence SOA's, cost of capital can be calculated based on equation (2). If the organization is not publicly traded, an effective approach would be to calculate the cost of capital of a comparable firm that is publicly traded using the same method, [2] then use it as the project's cost of capital. A comparable firm has business as a whole similar to the organization. In the example, we assume that the firm is average-risk; that is, β_{FIRM} is equal to 1. Therefore, the market risk for the project, β, is also 1. The cost of capital for the project is equal to

$$R = R_F + (R_M - R_F)\beta = .02 + .065(1) = .085.$$

After determining the initial costs, the net cash flows, and the cost of capital, the NPV for the SOA project can be calculated. The importance of obtaining the cost of capital for our SOA project is twofold: it not only calculates its NPV, but also serves as a benchmark for ROI, which should be higher than R to imply an acceptable performance by SOA. The Appendix shows detailed calculations of the NPV. Since a positive NPV is obtained, we can conclude that the SOA project adds value to achieving the organization's business goal.

CONCLUSIONS

One key concern for senior executives is the effective exploitation of the strategic benefits of complex information technology architectures. Identifying opportunities for innovation and growth via information technology is vital to the success of any organization. In this paper, we have shown that this intricate process can be facilitated if managers properly determine and measure the strategic impact of their innovative endeavors. We have suggested a method to identify and assess the strategic value of a complex IT architecture, specifically, service-orientated architecture. By operationalizing the conceptual complexity and intangibility of the architecture, the net-present-value model can be employed in an economical way.

Our discussion of a variety of traditional and newly developed evaluation methods used in recent years has shown that those evaluation models are seldom appropriate for the assessment of strategic, enterprise-wide, inter-organizational IT architecture when resources are an issue in the organization. Each of the models has its merits, but also major weaknesses.

Our business scenario illustrates how the operationalized tangible and intangible SOA variables can be employed in the NPV model. NPV effectively supports the quantitative assessment of strategic SOA features, such as vendor neutrality, systems interoperability, and software reuse. The strengths of this method include evaluating the time value of money, considering all benefits and costs, and more importantly, assessing the project risk based on well-established financial theories.

The case illustrates that SOA may not be appropriate for every company. Firms, for instance, that build services in isolation and do not apply a centralized software development methodology and centralized repositories will not be able to take advantage of a comprehensive SOA strategy. Also, firms that do not have technologically savvy, supportive business executives may not be able to use SOA strategically and as a means to understand how their business processes are constructed and how they are integrated with their sophisticated technology.

The case also shows how our proposed SOA valuation technique cannot only facilitate the investment decision process for senior executives but also support reevaluation processes. Managers, particularly in resource-challenged businesses, can use this practical valuation framework to determine risk and success probability of complex architectures before, during and after their implementation.

AUTHORS' NOTES

Dr. Sibylle Mabry teaches Strategic Information Systems Management at Louisiana State University Shreveport. Her current research interests include IT infrastructure capabilities, business intelligence and organizational leadership, as well as business model innovation.

Dr. Chengho Hsieh received his Ph.D. in finance from Louisiana State University and his Bachelor's and Master's degrees in Business Administration from the National Chengchi University in Taiwan, and the University of Missouri, respectively. Dr. Hsieh's research interests include project evaluation, merger/acquisition evaluation, value-based management, and complex investment strategies.

William Bigler is Associate Professor of Strategy and Director of MBA Programs in the College of Business at LSU in Shreveport, Louisiana. His research interests are in the linkages among innovation, robust competitive strategy, growth, strategy execution, risk management and firm valuation that bridge academia with practice.

ENDNOTES

1 See, for example, Brigham and Daves (2010).

2 In other words, obtain the comparable firm's equity beta and then use the Hamada equation to convert it to the firm's beta. Here, D, S, and T should the market value of debt, market value of equity, and corporate tax rate of the comparable firm. Then use Equation (2) to calculate cost of capital.

REFERENCES

Adomavicius, G., Bockstedt, J.C., Gupta, A., & Kauffman, R.J. (2008). Making sense of technology trends in the information technology landscape: A design science approach. *MIS Quarterly, 32*(4), 779-809.

Aimi, G., & Finley, I. (2007, May/June). SOA: The new value driver. *Supply Chain Management Review*, 12-14.

Armstrong, C. P., & Sambamurthy, V. (1999). Information technology assimilation in firms: the influence of senior leadership and IT infrastructures. *Information Systems Research,* 10(4), 304-327.

Bacon, C.J. (1992). The use of decision criteria in selecting information systems/technology investments. *MIS Quarterly, 16*(3), 335-353.

Bharadwaj, A.S. (2000). A Resource-based perspective on Information Technology capability and firm performance: An empirical investigation. *MIS Quarterly,* 24(1), 169-196.

Brigham, E. F., & Daves, P. R. (2010). *Intermediate financial management*. (10^{th} ed.). Mason, OH: Cengage Learning.

Broadbent, M., and Weill, P. (1997). Management by maxim: How business and IT managers can create IT infrastructures. *Sloan Management Review, 38*(3), 77-92.

Brynjolfsson, E., & Hitt, L.M. (2000). Beyond computation: Information technology, organizational transformation and business performance. *Journal of Economic Perspectives, 14*(4), 23-48.

Byrd, T.&Turner, D.(2000). Measuring the flexibility of information technology infrastructure: Exploratory analysis of a construct. *Journal of Management Information Systems,* 17(1), 167-208.

Datz, T. (2004). What you need to know about service-oriented architecture. *CIO News.* Retrieved April 7, 2009, from http://www.cio.com/article/32060/What_ You_Need_to_Know_About_.

Erl, T. (2005). *Service-oriented architecture (SOA): Concepts, technology, and design.* Boston, MA: Prentice Hall.

Erl, T. (2008). *SOA Principles of service design.* Boston, MA: Prentice Hall.

Farbey, B., Land, F., & Targett, D. (1992). Evaluating investments in IT. *Journal of Information Technology*, 7(2), 100-112.

Fernandez, P. (2009). The Equity Risk Premium according to 150 Books. *Journal of Financial Transformation*, 13, (69-85).

Florea, A., Andreescu, A., Diaconita, V., & Uta, A. (2011). Approaches regarding business logic modeling in service oriented architecture. *Informatica Economica*, 15(3), 88-98.

Gordon, S. (1994). Benchmarking the information systems function. *CIMS Working Paper Series 94-08.* Retrieved March 9, 2009, from http://faculty.babson.edu/gordon/papers/F94BENCH.HTM.

Gutierrez, P. H., & Dalsted, N. L. (2008). Break-Even Method of Investment Analysis. Retrieved from http://www.ext.colostate.edu/PUBS/farmmgt/03759.html.

Hall, M. (2003), Forget ROI, *Computerworld*, Vol. 37 No. 7, p. 40.

Heffner, R. (2011). How to use a business-focused approach in SOA design and governance. *CIO News.* Retrieved from http://www.cio.com/article/687093/How_to_Use_a_Business_Focused_Approach_in_SOA_Design_and_Governance?page=1&taxonomyId=3000.

Heffner, R., & Fulton, L. (2006, June). Best Practices: The scope and focus of SOA governance.White Paper: Forrester Research.

Huotari, M-L. and Wilson, T.D. (2001). Determining organizational information needs: the Critical Success Factors approach. *Information Research*, *6*(3), 103-115.

Irani, Z., & Love, P. E. D. (2001). The propagation of technology management taxonomies for evaluating investments in information. *Journal of Management Information Systems*, Vol. 17 No. 3, pp. 161 – 178.

Kaplan, R. S., & Norton, D.P. (1996). Using the balanced scorecard as a strategic management system. *Harvard Business Review,* Jan – Feb, pp. 75-85.

Kelly, D. A. (2006). The SOA collaboration challenge. *ebizQ*. Retrieved from http://www.ebizq.net/topics/soa_management/features/6968.html.

Kiava, L. (2002). An ROI primer: Learn the basics and the key shortcomings of this metric. Retrieved March 9, 2009, from http://articles.techrepublic.com.com/5100-10878_11-1048998.html.

Kohli, R., and Devaraj, S. (2004). Realizing business value of information technology investments: An organizational process. *MIS Quarterly Executive*, *3*(1), 55-70.

Kress, M., & Wölfing, D. (2008). Operational metrics and technical platform for measuring bank process performance. In D. Seese, C. Weinhardt, & F. Schlottmann (Eds.), *Handbook on Information Technology in Finance* (1st ed.) (pp. 291-310). Berlin, Springer.

Kumar, R.L. (2004). A framework for assessing the business value of information technology infrastructures. *Journal of Management Information Systems, 21*(2), 11-32.

Leach, J. (2007). The rise of service-oriented IT and the birth of infrastructure as a service. *CIO Research & Analysis.* http://www.cio.com/article/101100/ The_Rise_of_Service_Oriented_IT_and_the_Birth.

McPartlin, J. (2003). IT budgets and ROI. *CFO-IT* , 20-21.

Merrifield, R., Calhoun, J., & Stevens, D. (June, 2008). The next revolution in productivity. *Harvard Business Review,* 73-80.

Murphy, K.E., & Simon, S.J. (2002). Intangible benefits valuation in ERP projects. *Information Systems Journal, 12,* 301-320.

Othman, R. (2008). Enhancing the effectiveness of the balanced scorecard with scenario planning. *International Journal of Productivity and Performance Management, 57*(3), 257-266.

Paoli, H., Holtmann, C., Stathel, S., Zeitnitz, O., & Jakobi, M. (2008). SOA in the financial industry – technology impact in companies' practice. In D. Seese, C. Weinhardt, & F. Schlottmann (Eds.), *Handbook on Information Technology in Finance* (1st ed.) (pp. 9-28). Berlin, Springer.

Rappaport, A. (1986). *Creating Shareholder Value: The New Standard for Business Performance,*New York: The Free Press.

Rappaport, A. (1998 Revised and Updated). *Creating Shareholder Value: A Guide for Managers and Investors*, New York: The Free Press.

Renkema, T.J.W. (1998). The four P's revisited: business value assessment of the infrastructure impact of IT investments. *Journal of Information Technology, 13,* 181-190.

Rogers, S. (2008). *A study in critical success factors for SOA* [White paper]. Retrieved from www.idc.com.

Ross, J. (2003). Creating a Strategic IT Architecture Competence: Learning in Stages. *MIS Quarterly Executive,* 2(1), 31-43.

Schniederjans, M. J., Hamaker, J. L., & Schniederhans, A.M. (2004). *Information technology investment*. Danvers, MA: World Scientific.

Shang, S., & Seddon, P.B. (2002). Assessing and managing the benefits of enterprise systems: The business manager's perspective. *Information Systems Journal, 12,* 271-279.

Silvius, A.J.G. (2006). Does ROI matter? Insights into the true business value of IT. *The Electronic Journal of Information Systems Evaluation, 9*(2), 93-104.

SOA definition & solutions. (2012). CIO Applications. www.cio.com/article/40941/SOA_Definition_and_Solutions

Top Reasons to Implement an SOA Governance Strategy: A List for IT Executives. (November 2010). *An Oracle White Paper* [White paper]. Retrieved from http://whitepapers.pcmag.com/content18578.

Wagner, H.-T. and T. Weitzel (2007). Towards an IT production function: understanding routines as fundament of IT value creation. *Journal of Enterprise Information Management,* 20(4), 380-395.

Willcocks, I., & Lester, S. (1991). IS investments: evaluation at the feasibility stage of projects. Technovation, 11(5), 283-302.

Zhu, K. (2004). The complementarity of information technology infrastructure and e-commerce capability: a resource-based assessment of their business value. *Journal of Management Information Systems, 21*(1), 167-202.

APPENDIX

Figure 1: Structure for Aligning Business Imperatives With SOA Functionality Based On the Literature

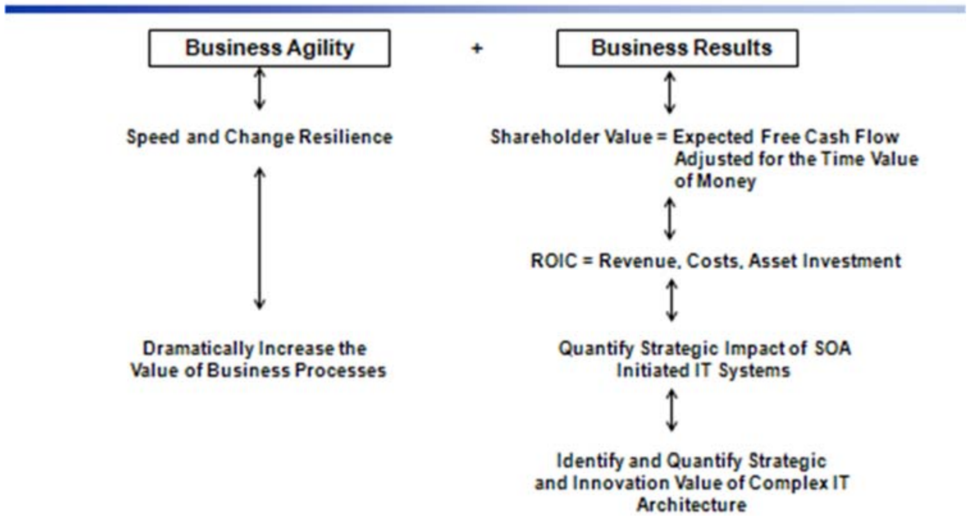


Figure 1. SOA Project Evaluation Worksheet		
Initial costs: Non-operating costs in year 0		
Evaluation costs	250000	
Lost productivity costs	200000	
Adjustment costs	120000	
Consulting costs	100000	
Material costs	400000	
Development costs of Bus. Process Engineering	500000	
Architecture development costs	160000	
Developing repository	400000	
Reduced storage room	-80000	
Depreciable assets:		
Property costs	600000	
Total initial costs		2650000
Additional non-operating costs:		
Development costs of Bus. Process Engineering	350000	per year from year 1 through 2
Increased sales in year 1		
Increased agility	900000	
Increased visibility	700000	
Reduced redundancy	350000	
Increased speed of program.	300000	
Improved and faster info.	430000	
Improved info sharing	370000	
Reduced time to reuse services	200000	
Improved maintenance	80000	
Total increase in sales in year 1		3330000
Estimated sales growth rate		0.04
Operating fixed cost in year 1		
New hires	300000	
Travel costs	90000	
Educational materials	40000	
Training costs	150000	
Recruiting costs	70000	
Reduced electricity	-120000	
Architecture development costs	110000	
Total operating fixed cost in year 1		640000
Fixed cost increases at the same rate as inflation		
Operating variable costs in year 1		
Maintenance costs	250000	
Governance costs	100000	
Total operating variable costs in year 1		350000
Variable costs as a percent of increased sales		0.105105105
Expected annual inflation rate		0.025
Corporate tax rate		0.34
Project length of life (year)		10
Annual depreciation		60000

Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Initial costs	(2,650,000)										
Sales		3,330,000	3,463,200	3,601,728	3,745,797	3,895,629	4,051,454	4,213,512	4,382,053	4,557,335	4,739,628
Operating fixed cost		640,000)	(656,000)	(672,400)	(689,210)	(706,440)	(724,101)	(742,204)	(760,759)	(779,778)	(799,272)
Operating variable cost		350,000)	(364,000)	(378,560)	(393,702)	(409,450)	(425,829)	(442,862)	(460,576)	(478,999)	(498,159)
Depreciation		60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Before-tax cash flow		2,280,000	2,383,200	2,490,768	2,602,885	2,719,738	2,841,524	2,968,447	3,100,718	3,238,558	3,382,197
Taxes		(775,200)	(810,288)	(846,861)	(884,981)	(924,711)	(966,118)	(1,009,272)	(1,054,244)	(1,101,110)	(1,149,947)
After-tax cash flow		1,504,800	1,572,912	1,643,907	1,717,904	1,795,027	1,875,406	1,959,175	2,046,474	2,137,448	2,232,250
Depreciation		60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Additional non operating costs:											
Devel. costs of Bus. Process Engin.		(350,000)	(350,000)								
Net cash flow	(2,650,000)	1,214,800	1,282,912	1,703,907	1,777,904	1,855,027	1,935,406	2,019,175	2,106,474	2,197,448	2,292,250
Cost of capital for the project	8.50%										
Net present value	**8,902,076**										

ASSESSING STUDENTS' KNOWLEDGE OF BUSINESS ETIQUETTE FOR AMERICAN DINING

Karen McDaniel, Arkansas State University
Sandra Bevill, Arkansas State University
Carolyn McNeely, Westside School
Dana Bevill Watson, Jonesboro Arkansas

ABSTRACT

Soft skills, which help develop one's professional presence or professional image, have become especially important with today's high unemployment and difficulty in getting and keeping a job. One soft skill is business etiquette and is particularly essential with so much of today's business being conducted over breakfast, lunch, or dinner. Many companies have a provided etiquette training so their managers could acquire these skills. To prepare their students for job interviews over dinner, many colleges, including Harvard, are offering business dining instruction for their students. This paper will present the findings of a survey designed to determine what students currently know (and don't know) about business etiquette for American dining as well as provide information about dining guidelines and recommendations to help students develop this important skill.

INTRODUCTION

While the labor market has improved since 2008, it remains distressing for many workers; and younger workers are facing an especially difficult labor market (Shierholz, Sabadish, & Wething, 2012). The downturn in the economy has brought about huge changes in employment; layoffs are occurring even in fields that have traditionally experienced shortages (Kermis & Kermis, 2010). While being recognized as an expert in one's field is still an important ingredient for success, it is not enough ("Managing Dining Mess-Ups," 2012). Even in fields such as accounting and business intelligence, the critical technical skills may not be enough for a "career that includes an individual's selection, retention and advancement" (Kermis & Kermis, 2010, p. 1; Watson, 2012). Along with technical skills, workers must develop the soft skills that are especially important in today's grim job market.

Soft skills include strong interpersonal skills, the ability to handle difficult situations, adaptability to change and diversity (Marsh, 2012). Soft skills are a blend of interpersonal skills and social skills as well as problem solving (Dixon, Belnap, Albrecht, & Lee, 2010). With the increased difficulty in getting a job—along with the increased difficulty of keeping a job—the importance of soft skills has similarly increased. Pamela Eyring is President of The Protocol

School of Washington which is an accredited global leader in business etiquette and international protocol and says that "in the U. S. soft (people) skills account for 85% of job success…" ("The Protocol School of Washington," p. 1).

Soft skills help develop a polished professional presence or a positive image. Anna Bass (2010) writes the "… intangible quality called 'professional presence'… sets an individual apart and instills a sustainable, competitive advantage" (p. 57). Helen Wilkie (2003) compares establishing one's professional presence—or positioning oneself as a professional—to the vital and complex marketing activity of positioning products in customers' minds. Having a positive professional presence involves getting along with and interacting well with others (Kirch, Tucker, & Kirch, 2001). A component of interacting well with others is the knowledge of business etiquette including business dining guidelines.

Today's workday often includes conducting business over breakfast, lunch, or dinner. Estimates are that half of all business deals are closed over a meal (Hamilton-Wright, 2004). Closing a business deal or making a good impression on a prospective client is difficult enough without having to stress about one's table manners (Mah, 2004).

Many corporations recognize the importance of etiquette skills to productivity and profitability. Consequently, they are investing in current and future leaders by making training opportunities available so that these leaders can acquire or improve these skills (Bass, 2010). In fact, over a decade ago, Patricia Buhler (2000) wrote that American companies were spending hundreds of thousands of dollars to send their managers to etiquette seminars—often $2500 a day—to help them learn how to mind their manners in a variety of business situations. Furthermore, colleges and universities have also begun to offer dining etiquette training to help prepare students for careers in the business world ("Manners Matter," 2001).

For colleges that are considering offering or currently offering business etiquette, what information should be covered? How much do students already know about business dining? If they were being interviewed over a meal, how comfortable would students feel?

In an effort to determine what students know about business etiquette for American dining, a survey was conducted of students at an AACSB-accredited College of Business during the fall of 2012 and spring of 2013. Two commonly used styles of eating are the American style (used primarily in the United States) and the Continental style. The Continental style, also called the European Style, is widely used around the world. However, for the purposes of this survey, the questions focused on the students' knowledge of American dining guidelines since that is the dining style with which these students would most likely be familiar.

Of the 254 students taking the survey, 198 met the criterion of having lived in the United States at least a decade and thus were used for the sample. Of these 198 students whose responses are presented, 50.8% were male, and 49.2% were female. Most of the respondents were traditional students between the ages of 17-22 (66.7%); ages 23-28 was the second largest group (18.7%), and ages 29-39 was the third largest (10.1%). The two smallest age groups were the 40-49 group (3.5%) and the 50-59 group (1%). None of the respondents were over 60 years of age. Of the 198 respondents, 89% were business majors; most were juniors (44.9%) followed by seniors (29.3%), then sophomores (20.7%), freshmen (4.0%). Two were working on a second degree (1.0%).

The results of 198 respondents are presented to help faculty and other interested parties decide which business dining etiquette areas might best be emphasized in their class discussions, through college-sponsored etiquette presentations, and other student events.

RESULTS

The students were asked to rate their knowledge of business etiquette for American dining. Figure 1 shows that of the 197 responses (one student skipped this question), fifty percent (50.8%) rated their knowledge as average, and almost thirty percent (26.9) rated their knowledge as poor or nonexistent. Fewer than four percent (3.6%) rated their knowledge as excellent with almost nineteen percent (18.8%) rating their knowledge as good.

Figure 1: How would you rate your knowledge of business etiquette for American dining?

Answer Options	Response Percentage
Excellent	3.6%
Good	18.8%
Average	50.8%
Poor	21.8%
I have no knowledge	5.1%
	N = 197

However, the students appear to recognize the importance of business etiquette knowledge even while admitting theirs was average or below. Figure 2 shows the degree of importance students placed on business etiquette knowledge for businesspeople. Over ninety percent (92.0) rated knowledge of business dining as very important or important for business people.

Figure 2: How Important do you think the knowledge of business etiquette is for business people

Answer Options	Response Percentage
Very important	59.9%
Important	33.0%
Somewhat important	6.1%
Not important at all	1.0%
	N = 197

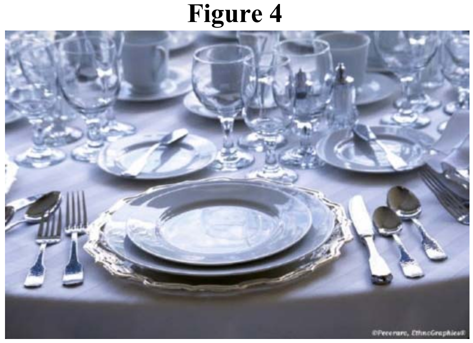
With so much business being conducted over a meal, students should expect the possibility of being interviewed over one or more meals. When asked how comfortable they would feel being interviwed over dinner, over half (52.53%) reported they would feel comfortable or very comfortable. This is interesting since only 22.4% of the students rated their knowledge of business etiquette as good or excellent. Interviews tend to be stressful situations in general for the applicant, so it's likely that many of the students who think they would feel comfortable or very comfortable being interviewed over a meal—yet rate their own dining knowledge as average or poor—might not feel as comfortable or very comfortable during the actual situation as they imagine. Figure 3 shows the students' response to this question.

Figure 3: How comfortable would you feel about being interviewed over dinner?

Answer Options	Percentage Response
Very comfortable	11.62%
Comfortable	40.91%
Not too comfortable	38.38%
Not comfortable at all	9.09%
	N = 198

Knowing how to read a place setting is one of the most basic yet most important points of enhancing one's professional presence (Pachter, 2010). Figure 4 shows a table that one might expect to see at a business conference or dinner and how confusing the placement can be at a full table where the glasses, cups, and small plates seem to merge together around the table.

Figure 4



Professionals need to know where their bread and butter plate and glassware are located; otherwise, they could mistakenly eat the bread or drink the wine belonging to their boss or client. Figure 5 shows that fewer than half (48.5%) of the students correctly identified where their bread and butter plates would be on the typical place setting (n = 194 with 4 skipping this question). Lizzie Post, co-author of *Emily Post's Etiquette, 18th edition* and the great-great-granddaughter of Emily Post, writes that one's bread and butter plate is to the upper left of one's dinner plate while one's glasses are to the right (Hevrdejs, 2010). A simple trick that helps remember this order of service is to think ***BMW*** when looking at the individual's place setting left to right: **B**read and Butter plate, then **M**eal (dinner plate), then **W**ater.

Figure 5: Where on your place setting will you usually find your bread and butter plate?	
Answer Options	Response Percentage
On the upper left side of your dinner plate	48.5%
On the upper right side of your dinner plate	19.1%
Centered above your dinner plate	29.4%
It doesn't matter in American style dining	3.1%
	N = 194

Once the diners have found their bread and butter plate, the next source of confusion is how to correctly eat the bread. The correct way to eat a piece of bread is to break off a bite, butter it, and then enjoy it. In her etiquette boot camps, etiquette trainer Syndi Seid says breaking off and buttering more than one piece of bread at a time is the second most commonly made dining blunder (O'Brien, 1998). Figure 6 shows that over two-thirds (68.5%) did not know the correct way to eat bread during a business dinner and likely would have made that very common blunder during a business meal.

Figure 6: What is the correct way to eat bread?	
Answer Options	Response Percentage
Cut or break the roll in half, butter both halves, and pick up one of the halves when you're ready for a bite	21.3%
Cut or break the roll in half, butter only one half at a time, and pick up the buttered half when you're ready for a bite	47.2%
Break off one bite at a time and butter that one bite	31.5%
	N=197

Once the utensils have been used, they do not go back on the table. During the course of the meal, the diner may have to leave the table or may just pause in the eating process and must lay down the utensils; this is called "rest position" as shown in Figure 6.1. Imagining the plate as a clock, the knife would be across the top of the plate with the serrated edge toward the diner, and the fork would lay across the center of the plate in the 9 o'clock – 3 o'clock position. When the diner is finished eating and ready for the server to remove the plate, the utensils are laid in "finished position" as shown in Figure 6.2. The knife and fork are laying across the plate in the 9 o'clock – 3 o'clock or 10 o'clock – 4 o'clock position (Bowman, 2009). Since the utensils are removed from the right, the finished position makes it easier for the server to pick up the dinner plate and the utensils together. Note that the knife is never placed partly on the table and partly on the plate as shown in the "incorrect position" as shown in Figure 6.3.

Fig. 6.1 Rest position

Fig. 6.2 Finished position

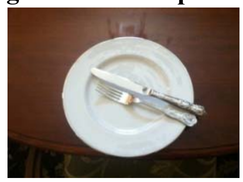


Fig. 6.3 Incorrect position

Figure 7 shows the students' responses when asked where their utensils go to indicated finished position (shown in Fig. 6.2). Only about one-fourth (25.38%) chose the correct answer. Approximately one-third chose the "x" position which is sometimes used as the finished position in Continental or European style dining, not American.

Figure 7: Which of the following best described finished position in American dining?

Answer Options	Response Percentage
Knife and fork laying across the top of the plate	21.3%
Knife laying across the top of the plate with fork across the middle of the plate	19.80%
Knife and fork laying across the middle of the plate	25.38%
Knife and fork laying in an "x" position across the plate	33.50%
	N = 198

Another common source of confusion during a business meal is how the common items, such as the bread basket and salad dressing, should be passed around the table. The correct way is for the person nearest the common item to begin the passing, always passing to the right (Wilbanks, 2012). Usually, the person closest to the item picks up the item, offers it to the person to his/her left, helps him/herself, and continues passing the item to the right (Glick, 2008). Over seventy-five percent (76.5%) of the students responding answered correctly in that the person nearest the bread would begin passing it around which is good although it will be unfortunate if the almost twenty-five percent who missed the question are the ones sitting nearest the common items.

The table napkin has been getting some attention lately. The traditional white napkin is being replaced by some restaurants with black napkins. Restaurant patrons often express appreciation for this because of the lint a white napkin can leave on dark clothing (Ruggless, 2002). Even a new type of napkin with adhesives is patent pending and, presumably, would be less likely to fall off the diner's lap ("Napkin Apparatus," 2012). The students were asked to indicate the most acceptable time to put the napkin in their laps; as show in Figure 8, the respondents' answers varied—but so do the experts' recommendations. Most etiquette experts tend to agree that the napkin goes on the lap when everyone at the table is seated (Mah, 2004). However, others suggest the napkin goes in the lap immediately upon being seated ("Etiquette Manor," 2012). If there is a host, the diners would follow the host's lead including when to put the napkins in their laps (Ford, 2001).

Figure 8: When is the most acceptable time to put your napkin in your lap?	
Answer Options	Response Percentage
When everyone at your table has been served	38.9%
When everyone at your table has been seated	36.4%
Immediately after you are seated	17.2%
When at least half of your table has been seated	4.5%
When at least half of your table has been served	3.0%
	N = 198

The napkin should be placed in the diner's lap quickly and with little fanfare; do not snap the napkin in the air or wave it as if at a bullfight (Wilbanks, 2012). If, during the course of the meal the diner has to leave, the napkin should go on the seat of the chair or over the back of the chair ("The fork and the knife," 2009).

Being intoxicated is a sure-fire way to sabotage a job interview, lose a client, or end one's career. Even moderate intoxication can dull one's senses at a time when it is most important to be at the top of one's game or most responsible (Wilbanks, 2012). Knowing one's limit is paramount to a positive professional presence. A business meal is not the time to experiment with alcohol, and even those who may know how alcohol typically affects their speech, behavior, and judgment, should limit their alcohol consumption to one or two drinks (Ramsey, 2004).

The majority of the students responding to the survey understood the importance of limiting one's alcohol during a business meal. As shown in Figure 9, the students were asked how many drinks they should have if they were being interviewed for a job over a meal, assuming that they enjoyed alcoholic drinks. Over one-third (37.6%) of the students suggested not having any drinks with 46.7% saying one drink was the maximum and 11.2% saying two drinks were the maximum. One might speculate that the advertisements against drinking and driving have made college students more aware of the potential risks involved with alcohol.

Figure 9: You're being interviewed over dinner by three people from the company. Each of those three people orders an alcoholic drink. Assuming you enjoy alcoholic drinks, which number below matches the maximum number of alcoholic drinks you (as the interviewee) should have?	
Answer Options	Response Percentage
0	37.6%
1	46.7%
2	11.2%
However many drinks the others have is appropriate	4.6%
	N= 197

The students were asked two questions pertaining to introductions in a professional setting. One question asked if a woman is expected to stand when being introduced in a professional setting, and the other question asked if a man is expected to stand when being introduced in a professional setting. In fact, a man and woman are *both* expected to stand when being introduced in a professional setting because gender does not play a role in professional settings (Leonard, 2006; O'Brien, 1998). Figure 10.1 shows that only slightly over fifty percent (56.06%) of the students realized that a woman is expected to stand although, as shown in Figure 10.2, over ninety percent (92.35%) knew that a man is expected to stand when being introduced. Women are expected to stand and may look less professional if they do not. In a survey of marketing professionals about the importance of business etiquette, the respondents were asked to give examples of good and poor business etiquette. "Not standing when being introduced" was listed among the examples of poor business etiquette given by the professionals (Schaffer & Kelley, 1993).

Figure 10.1: When being introduced in a professional setting, is a woman expected to stand?	
Answer Options	Percentage Response
Yes	56.06%
No	43.94%
	N = 198

Figure 10.2: When being introduced in a professional setting, is a man expected to stand?	
Answer Options	Percentage Response
Yes	92.35%
No	7.65%
	N = 196

When asked to list any pet peeves they had about dining, the students had no problem listing several. One hundred and thirty-eight of the students responded with almost all listing more than one pet peeve. The pet peeve most often mentioned by the students was noise—whether it involved smacking food too loudly, talking too loudly, or chewing too loudly. Figure 11 shows the top five pet peeves mentioned by the students and additional pet peeves that were mentioned at least two or more times.

Figure 11: Please describe any pet peeves you have about dining. ("Pet peeve" would be something that others do while dining that bother or irritate you.)	
Top Four Pet Peeves As reported by Student	**Percentage Response**
Smacking food	33.81%
Talking (with food in mouth, too loudly, on the phone)	33.81%
Chewing (with mouth open or too loudly)	27.34%
Eating (too fast, before everyone receives their meal, with mouth open)	15.83%
Table (elbows on the table, waiter forgetting table)	12.23%
Additional Pet Peeves given by at least 2 or more respondents	
Being rude to servers	
Not putting napkin in lap	
Taking large bites that barely fit in their mouths	
Putting used utensils on table cloth	
Texting	
Not putting napkin in lap (leaving on table)	

CONCLUSIONS

Students, like many adults, do not have the dining etiquette knowledge they need. In our study, only 22.33% of the students rated their own knowledge as good or excellent, and less than half of the students knew where to find their bread and butter plate in a place setting, and fewer than one-third of the students were able to choose the correct option on how to eat a piece of bread. However, many students will be interviewed over a business meal, and the way they conduct themselves will be an important part of the job process (Bockanic, 2012; McPherson, 1998). Almost half of the students did not realize a woman is expected to stand when being introduced professionally. These are all mistakes that can lessen the students' chances of impressing potential employers, clients, and colleagues. Technical skills are not enough; students deserve an opportunity to develop the soft skills that are so important to careers.

RECOMMENDATIONS

1. Colleges should consider sponsoring meals during which students can receive etiquette training. Most colleges do this on a relatively small budget with the students paying part or all of the cost of the meal; other colleges are able to use funds to pay the entire cost. Campus personnel with dining etiquette expertise or community experts may volunteer their time. However these are funded, the dining skills developed in college will serve the students throughout their business careers. Eva Gabby, career management director at California State University, says these etiquette skills are not just for right now but for the next 30 years (Smith, 2010). Even Harvard's Office of Career Services offered students a professional etiquette dinner to help educate the students for social as well as business situations and to provide tips that would help them become even more polished and impressive to potential employers, friends, and colleagues (Smurro, 2011).
2. Faculty, club sponsors, or other interested adults can help the students understand the importance of the soft skills or professional presence to their careers and personal lives through discussions, assignments, events, and other methods that will enable students to grasp the important role professional presence will play throughout their careers to ensure they have a polished professional presence. The manner in which they conduct themselves over a meal, including how and what they order, what they talk about, and how they interact with others, are just a few of the skills that are part of the professional presence by which others will judge them (Casperson, 2001).
3. Colleges should consider funding a faculty member or another interested party to become a certified business etiquette instructor in return for agreeing to conduct frequent etiquette training for students.

REFERENCES

Bass, A. N. (2010). From business dining to public speaking: Tips for acquiring professional presence and its role in the business curricula. *American Journal of Business Education, 3*(2), 57-63. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/195912242?accountid=8363

Bockanic, N. (2012). Making the job interview work for you. *Strategic Finance, 94*(6), 47-50. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/1269664638?accountid=8363

Bowman, J. (2009). *Don't Take the Last Donut : New Rules of Business Etiquette*. Career Press.

Buhler, P. M. (2000). Business etiquette: A renewed interest in a lost art. *SuperVision*, 61(12), 14-16. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/ 195593424?accountid=8363

David, P. K., Mary, L. T., & Christine, E. K. (2001). The benefits of emotional intelligence in accounting firms. *The CPA Journal, 71*(8), 60-61. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/212304917?accountid=8363

Dixon, J., Belnap, C., Albrecht, C., & Lee, K. (2010). The importance of soft skills. *Corporate Finance Review, 14*(6), 35-38. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/751644804?accountid=8363

DuPont, M. (2009). *Business Etiquette & Professionalism : Conduct Yourself with Confidence*. Axzo Press.

Etiquette manor: Where learning good manners is fun, (2012). Retrieved on February 17, 2013, from http://etiquettemanor.com/FAQ.html

Ford, C. (2001). *21st century etiquette*. J. DeMontravel (ed). New York, NY: Penguin Press.

Glick, S. (2008). Marketer's role vis á vis business etiquette. *CPA Practice Management Forum, 4*(4), 19-21. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/221162262?accountid=8363

Hamilton-Wright, K. J. (2004). BUSINESS DINING ETIQUETTE. *Black Enterprise*, *35*(1), 124.

Hevrdejs, J. (2010, Jul 13). Place-setting decoder. *McClatchy - Tribune Business News*. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/608907375?accountid=8363

Kirch, D. P., Tucker, M. L., & Kirch, C. E. (2001). The benefits of emotional intelligence in accounting firms. *The CPA Journal, 71*(8), 60-61. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/212304917?accountid=8363

Klein, K. E. (2007, Apr 19). The ins and outs of wining and dining. *Business Week (Online),* , 1. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/217410079?accountid=8363

Leonard, M. (2006). Making that professional introduction. *American Bankers Association.ABA Banking Journal, 98*(9), 8-8. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/218482537?accountid=8363

Mah, A. (2004). "Let's do lunch". Women in Business, 56(2), 13-13. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/197125510?accountid=8363

Managing dining mess-ups (2012). Retrieved February 16, 2013, from http://www.bizetiquettes.com/managing-dining-mess-ups/

Manners matter. (2001). *Careers & Colleges*, *21*(3), 5.

Marsh, G. (2012). Soft skills and the future. *Training Journal,* , 39-41. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/921234499?accountid=8363

McPherson, W. (1998). Learning business etiquette at dinner. *Business Communication Quarterly, 61*(4), 104-106. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/236901845?accountid=8363

O'Brien, T. (1998). Etiquette tips for the not-ready-for-prime-time geek. *Upside, 10*(12), 96-104. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/218004764?accountid=8363

Patents; "napkin apparatus and method" in patent application approval process. (2012). *Marketing Weekly News,* , 316. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/1179020419?accountid=8363

Napkin apparatus and method in patent application approval process. (2012). *Marketing Weekly News,* 316. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/1179020419?accountid=8363

Pachter, B. (2010). Mind your business manners: Etiquette suggestions for success. *CPA Practice Management Forum, 6*(5), 16-18. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/619746516?accountid=8363

Ruggless, R. (2002). Operators see the light, offer diners black-napkin option. *Nation's Restaurant News, 36*(39), 206-206. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/229352158?accountid=8363

Shierholz, H., Sabadish, N., and Wething, H. (May 30, 2012). The class of 2012: Labor market for young graduates remains grim. Economic Policy Institute. Retrieved on Feb. 21, 2012, from http://www.epi.org/ press/class-2012-faces-high-unemployment-depressed/

Smith, D. (2010, Apr 12). Job front: Students learn the etiquette of a company meal. *McClatchy - Tribune Business News*. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/458278296?accountid=8363

Watson, H. J. (2012, Soft skills for professional success. Business Intelligence Journal, 17, 4-8. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/1095370543?accountid=8363; http://linksource.ebsco.com/linking.aspx?sid=ProQ%3Aabiglobal&fmt=journal&genre= article&issn=15472825&volume=17&issue=3&date=2012-07-01&spage=4&title=Business+Intelligence+Journal&atitle=Soft+Skills+for+Professional+Success&au=Watson%2C+Hugh+J&isbn=&jtitle=Business+Intelligence+Journal&btitle

Wilbanks, L. (2012). Dining like an executive. *IT Professional Magazine, 14*(2), 8-9. doi: http://dx.doi.org/10.1109/MITP.2012.35

Wilkie, H. (2003). Professional presence. *The Canadian Manager, 28*(3), 14-14,19. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/213665707?accountid=8363

Schaffer, B. F., & Kelley, C. A. (1993). Education in business etiquette: Attitudes of marketing professionals. *Journal Of Education For Business*, *68*(6), 330.

Smurro, C. (2011). Professional etiquette dinner. Retrieved on February 19, 2013, from http://ocsharvard.tumblr.com/post/2927731296/professional-etiquette-dinner

The fork and the knife: Together in the end, (2009). Retrieved Feb. 17, 2013 from http://www.socialprimer.com/2009/04/the-fork-and-the-knife-together-in-the-end/

The protocol school of washington; studies show half of college grads lack professionalism at work: PSOW(R) launches 5th national business etiquette week June 5-11 offering "job interview tips" and "workplace advice" for the class of 2011. (2011). *Technology & Business Journal,* , 2291. Retrieved from http://ezproxy.library.astate.edu/login?url=http://search.proquest.com/docview/871974390?accountid=8363

INFORMATION TECHNOLOGY PROCESS STANDARDIZATION AT COBB EMC: A CASE STUDY

Bryon Balint, Belmont University
Bob Arnett, Cobb EMC

ABSTRACT

Within large organizations, departments that provide information technology (IT) services have undergone a transformation over the past few decades. In contrast to the previous view that IT departments are merely a necessary commodity, many IT departments are now seen as integral to business operations and supportive of competitive strategy. While IT departments have increased in importance, many have turned to process standardization frameworks in order to gain consistency and provide greater value to their organizations. This case study describes the transformation of the IT department within Cobb EMC, a provider of electric power and natural gas in metropolitan Atlanta. The case focuses on changes in perception of the department within Cobb EMC, as well as the processes the department put in place to manage operations.

INTRODUCTION

The role of information technology (IT) within organizations has changed over the past several decades. When IT was first introduced into organizations, it was seen as an important step in developing and maintaining competitive advantage. Many large firms implemented Enterprise Resource Planning (ERP) systems in order to centralize IT and standardize processes (Hitt et al, 2002). Once the adoption curve for ERP reached its peak and the year 2000 passed, perceptions began to change. Many organizations viewed IT as a commodity – necessary for operations but not something that was worth additional investment. This view was articulated by Nicolas Carr in his seminal article "IT Doesn't Matter" (2003), which influenced the purchasing decisions of many IT managers in the United States.

Since 2003 managers have begun to realize that expenditures on IT do matter, but not as much as the way in which IT is used. Many manufacturing and service organizations have begun to use IT in a transformative way, streamlining business operations and facilitating the dissemination of information throughout the organization (McAfee and Brynjolfsson, 2008). Companies have begun to apply data mining techniques to the data they have collected, generating new insights into marketing and strategy. Thus, many organizations have begun to view IT departments as integral to operations, even to the point that they may be used to influence an organization's value chain and increase competitive advantage. While the practice of IT outsourcing has risen, many of the more valuable, difficult-to-imitate business functions that use IT have remained in-house (Aron et al, 2005).

Many providers of IT services, including both internal departments and external (outsourcing) providers, have turned to process standardization frameworks to gain greater consistency and control over their operations. In the software industry, many firms have implemented process improvement programs such as the Capability Maturity Model Integration, or CMMI (Harter et al 2000; Ramasubbu et al, 2008). More recently, software firms and other services firms have begun to adopt the Six Sigma framework to further refine and standardize their processes (Schroeder et al, 2008; Gowan et al, 2008). Healthcare service providers have also increased process standardization efforts in order to lower costs and gain efficiencies in delivery (Shah et al, 2006; Kwon, 2008). In manufacturing industries that make heavy use of information technology, the application of Total Quality Management (TQM) programs and formal process standards such as ISO 9000 have enabled firms to reduce process variation and realize significant economic returns (Corbett et al, 2005; Sila, 2007). IT departments in multiple industries have implemented process standards in order to transform themselves into more effective service providers.

This case study will examine the impact of process standardization within the IT department at Cobb EMC, a provider of electric power and natural gas in the southeastern United States. The study examines a 7-year period (2003 – 2010) in which Cobb EMC's IT department transformed itself from a largely isolated provider of technology as a support function to an integrated provider of technology services. Two initiatives are largely responsible for this transformation. First, the department underwent an extensive, purposeful change management effort that helped the department become an integral part of the business. As part of this effort, the department changed its name from the Information Technology department to the Information Services department. Second, the department did not manage its workload effectively and lacked any semblance of procedures or standards. This drove the implementation of an internally developed process standardization framework in order to standardize and maintain control over its processes. Remarkably, this transformation also took place concurrently with one of the biggest IT projects in the company's history: the replacement and migration of critical legacy applications for customer service to new information systems.

Case Background – Cobb EMC

Cobb Electric Membership Corporation (Cobb EMC) is based in Atlanta, Georgia and is one of the five largest electric cooperatives (of 900) in the country. Cobb EMC acquired Southern Company Gas in 2006 and re-branded it as Gas South. Today, Cobb EMC provides electric power to 185,000 customers within 430 square miles and natural gas to 270,000 customers throughout Georgia. Cobb EMC has 550 employees and 600 contractors overall, and 39 employees and 42 contractors within the Information Services department.

2003: THE INFORMATION TECHNOLOGY DEPARTMENT

When one of Cobb EMC's business units had a technology need, it was sent to the Information Technology department. New requests were handled by whatever resource was freely available and had the appropriate skills. The existing Department Manager kept a list of all open requests. At the time the new CIO came on board, there were over 150 open requests. A month later, the list was approaching 200. When analyzing this list, it was discovered that the Forestry Department only had one request on this list – it was for a simple report. But, the request was two years old! There was a reason why the other departments at Cobb EMC found ways to work around the IT department.

In another example of workload balancing, if a new interface was requested and only an MQ Series developer happened to be available, the interface was assigned to the developer and created using MQ Series, although it may have been more appropriate to use FTP, or Secured Sockets. At the end of 2003 there were 192 interfaces, with no standard development platform or strategy for reuse. New requests took too long, and there were no analytics describing operational efficiency. There were over 6000 reports, forms, and letters in inventory; very few standard reports existed. This was largely because there was not a standard approval process for new work that was requested.

In addition, Cobb EMC was continuing to pay programming fees to out of state contractors, who maintained its billing system legacy code. There was no tracking of progress for work being done by programmers, either on-site or off-site. In fact, there was no Project Methodology being followed at all. People were held accountable for their work, but without deadlines and commitments activities tended to drag out. There was definitely a need for a formal Project Management Office (PMO). Approximately 90 initiatives existed with no formal method of prioritization. Additionally, the organization had not standardized on a project management tool such as MS Project. When work was completed, there were no formal processes for testing or change management. Instead, work was tested and promoted to production systems on an ad-hoc basis.

Perhaps most importantly, there was very little integration between the IT department and core business functions. After making an initial development request, business users were not involved to a significant extent in testing or design. In fact, business users had very little visibility into the IT department at all. Tim Sosebee, a longtime employee of Cobb EMC and manager of the Customer Service Department, stated:

> *I have been here for 25 years and three different customer information systems. And before 2003, I had never been asked to participate in an IT project.*

The culture within the IT department was that it made its own decisions, leaving the business functions frustrated by their lack of input.

THE TRANSFORMATION

In 2003 Cobb EMC hired a new CIO, Bob Arnett, who had over 20 years of experience in the IT industry. Bob's first task was to learn about each department within the company. He met with every department manager and had very frank discussions about how they felt about the IT department. The results were mixed, but mostly non-flattering. Bob committed that change was coming.

For the Transformation Project, Bob installed a projection screen in his office and utilized a portable projector to help facilitate the work. He created a small team with 2 other IT employees, one of whom was the IT Department Manager. This team met Monday, Wednesday, and Friday for 12 weeks from 9am-noon in Bob's office. The goals of the project were:

- Understand what the department does now.
- Figure out what the department needed to do in the new environment (under development).
- Understand what processes could be standardized.
- Understand how the department should be organized.

The team brought in virtually everyone within the IT department for brief interviews. Bob's only request was: "Tell me what you do, and it has to start with a verb." Through this process, the team uncovered a total of 343 task-oriented processes. These processes were then grouped into 12 categories based on similarity of task. Finally, at the highest level, the team determined that there were 4 primary groups of processes; Infrastructure, Solution Development, Solution Delivery, and Management. These four groups would later serve as a base for the Foundation Processes used to manage the department.

It became obvious that the IT department needed some structure and leadership. The department was restructured into three groups. *Infrastructure and Operations* was made responsible for hardware, operating systems, databases, networks, security, desktops, batch processing, and the help desk. *Information Systems Programs* was made responsible for the PMO and project managers, as well as enterprise integration, enterprise applications, and business intelligence. *Communications* was made responsible for telecommunications equipment, cellular phones, and radio equipment.

At this time, the name of the department was changed from Information Technology to Information Services. This was done largely to instill a greater sense of accountability and a service-oriented mindset within the department. Another goal was to change the mindset of the business people, helping them to view the department as a partner rather than an adversary.

The Information Systems Programs group (IS Programs) was a new group within the department. Bob split off some of the responsibilities from the existing IT Department Manager to form the new IS Programs group. The remaining responsibilities were left in what became the Infrastructure and Operations group. The third group, Communications, was left intact.

The first task for the IS Programs Group was to take ownership of the newly created PMO. Earlier, Bob had created a PMO consisting of himself and personnel from the systems integration (SI) firm he had brought on board to help manage and facilitate some ongoing application replacement implementations. This PMO reported to a Steering Committee that Bob also sat on. It was now time for that PMO to be managed internally by the new IS Programs group. Bob's goal was to have his own staff take ownership of the PMO, which pushed the SI down into a Project Management only role. Bob turned over the PMO Chair role to a new staff member, and maintained his existing role on the Steering Committee. Bob found a resource within an affiliate company, Tim Jarrell, to fill the IS Programs Manager role. Tim was well qualified, and very detail and process oriented.

Once the PMO was re-organized, the department took on a "project mentality". As each year's budget was being prepared, Bob and his direct reports would meet with the department managers across the company. They would ask three (3) questions:

- How did we do for you last year?
- What can we do better?
- What do you want us to do next year?

The last question resulted in a list of future project requests. This list has varied from 60-90 requests over the past few years. The PMO categorized the requests as High, Medium, or Low priority. Senior Management would eliminate about half of the projects during an initial review, and then additional information was gathered on the remainder. Some of these projects were then eliminated. A detailed ROI analysis was done on the remainder. At the end of the process, about 25 projects typically made the cut. The annual budget was built around these projects, plus normal operational maintenance and infrastructure needs for the following year.

Concurrent with this restructuring, Bob and his direct reports developed the eight *Foundation Processes*. These processes were originally taken from the Information Technology Infrastructure Library (ITIL) and subsequently adapted to meet Cobb EMC's specific needs. The Foundation Processes are:

Resolution Management: To respond to routine and emergency / critical issues for applications or products in the production environment, as well as standard helpdesk requests.

Project Management: To establish a standardized methodology and associated processes to identify, plan, budget and manage projects involving IS resources. Cobb EMC also developed their own project methodology called the *5D Project Methodology*: Discover, Define, Design, Develop, and

Deploy. The 5D naming convention was intentionally chosen because it would be simple to understand and follow. Part of the strategy was to train the entire organization, including Senior Management, about how projects should be done in phases.

Change Management: To establish the rationale and approval for change requests, and to define the criteria for change requests (CR) and Change Orders (CO).

Configuration Management: To ensure that the interrelationships of varying versions of infrastructure HW and SW are documented accurately, and to manage and control changes to the environment components.

Software Management: To establish the process of adding, modifying or retiring changes to a software environment.

QA & Testing Management: A systematic process to ensure that an application, product or service meets specified requirements and standards; and to ensure that requirements and specifications are verified and validated using various methods of testing.

Release Management: To manage the process through which software releases are made available to and obtained by users, and to provide the coordination, control, and scheduling of releases.

Education Management: To standardize the approach to assessing learning requirements, developing training plans and programs with the aim of raising IT skills in standard IT process execution.

2010: THE INFORMATION SERVICES DEPARTMENT

The IS Department is largely managed on a project basis, but the department also has a great deal of operational tasks that take place daily, weekly, and monthly. The PMO has 5 full-time Project Managers. New projects are prioritized in terms of importance and must be justified using either cost-benefit analysis, internal rate of return, or payback period methods. There is also a PMO Swat Team consisting of senior-level PMO resources that work to resolve issues. When projects are completed and go live, they are transferred to operations. A portfolio model is used to manage all operations resources, including both projects and maintenance work. Operations people are reallocated from project to project as needed.

Tracking project estimates is very critical to Bob's organization. His stated goal to Senior Management and the Board of Directors is to "Be Predictable". This means that, when his department gives an estimate on a budget and a timeline, he wants the requestor to feel confident that these estimates are within reason.

Project budget estimation is much more accurate than before. The goal is to keep project budgets within 25% of the "first guess" estimate, which is generated within 5 days of the original request. Then, after initial requirements gathering (the "Discover" phase) another estimate is generated; the goal with this "educated" estimate is to be within 15% of the schedule and budget estimates. The final estimate (after the "Define" phase) is anticipated to be within 5% of schedule and budget at project completion. Currently, the IS department is tracking very close to these metrics; if the highest and lowest projects are eliminated, it is well within the 25%, 15%, and 5% tolerances. Project managers are held accountable to their cost and schedule targets during weekly project status meetings. The PMO usually manages around 10 – 12 active projects. When projects involve packaged applications, vendors are asked to adopt the 5D Project Methodology instead of using their own methodologies. This prevents the IS Department from having to re-educate the workforce and managing different sets of terminology.

Configuration Management is also much tighter than it was previously. There are 5 different environments in which to test changes. People from the core business departments are involved in testing and reviewing the test results. Perhaps most importantly, authorization from the core business department that requested the change is needed before code can be promoted to the production system. There is a monthly release schedule for configuration changes instead of the previous ad-hoc schedule. Changes must also go through a rigorous approval process.

A Change Control Board (CCB) consists of senior-level VP's and C-level executives. The CCB reviews and approves all change requests estimated over $5000. If a request is approved over $20,000, it automatically becomes a project and is assigned a project manager and a budget. This is Bob's way of solving the everlasting dilemma of aligning Business with IT. The CCB prioritizes the work the IS Department needs to do. Bob has no issues when the CCB declines, denies, or cancels a request. This means that the IS department does not waste time, energy, and money on something that does not add value to the business.

Reporting of metrics is used to keep the IS department accountable to the rest of the organization. A monthly "Technology Services Status Update" reports the number of change orders and change requests submitted, active project status by phase, physical infrastructure uptime and applications uptime. Bi-monthly reporting at the project level indicates the overall project status, scope, schedule, budget, resources, and risk.

Generally, there is now much tighter integration between the IS department and the business and much greater visibility across areas than before. The core business, not the IS department, drives change requests and change orders. Also, business users are involved in testing new development. According to Customer Service Department Manager Tim Sosebee:

> *Sometimes development work takes longer than before, but there is more accountability. From an operational perspective, we are definitely benefiting from the new technologies.*

There is now much less re-work and fewer defects due to the rigidity of testing procedures in place.

The IS department in 2010 places a much greater focus on process management and control. The Foundational Processes are well-documented and available; IS personnel are clearly using them and they have visibility throughout the organization. There are several large laminated posters of these processes strategically located around the campus. Owners are currently being assigned to all processes within the IS department. The out-of-state contractors were eliminated once the legacy billing system was replaced. Cobb EMC's current offshore resources include personnel from Oracle, Sybase, and Wipro. These resources are evaluated every year and are starting to be thinned out as well. Ultimately, the goal is to bring all support in-house.

The IS department has made more extensive use of technology tools to manage these processes. Resolution management and change management are managed using Rational Clear Quest, while testing and release management are managed in Rational Clear Case. Database administrators can also run scripts for regression and other types of testing. The PMO is managed using Microsoft SharePoint, as well as an internally developed PMO Portal.

DISCUSSION

From 2003 through 2010, Cobb EMC's IS department transformed itself dramatically from a merely necessary function to a valuable component of the organization. The following factors played an important role in this transformation.

Trust. Prior to 2003, it was difficult for the core business functions to put their trust in the department. There was not much transparency, and business users were not often asked to participate in technology-related activities. Over time, the IS department was able to build trust across the enterprise by proving itself to be a well-managed, competent unit. This trust took time and patience to build, but is critical to positive perceptions across the enterprise.

Predictability. Part of building trust is increasing predictability (McEvily, 2003). The IS department developed new procedures for estimating project effort. The personnel in the department are committed to their estimates and have measured their results for the past 3 years. Now, business management and the Board of Directors have confidence that when the department estimates a project, it will be within 25% of the "first guess" estimate, within 15% of the "educated" guess (after the Discovery Phase), and within 5% of the final estimate (after the Define Phase).

Coordination and Communication. A restructuring of the IS department increased coordination and communication among department personnel. Generally, there is a greater culture of teamwork and collaboration, which has been shown to increase the success rate of IT initiatives (e.g. Loh and Koh, 2004). The IS department has also been intentional about increasing communication with other business departments. The budgeting process and monthly communications from the department give greater transparency into IS operations for the rest of the organization.

Standardization. Implementation of the Foundation Processes has enabled the IS department to reduce variation in its operations. This has resulted in greater efficiencies, less rework, and fewer defects (Sila, 2007). The use of new systems such as Sharepoint and the Rational Suite has also helped in the management of processes and organizational knowledge.

Project-Based Management. The movement to a project-based structure enables work to be managed in more discreet units. The presence of the Change Control Board means that senior management is involved in prioritizing the projects, which increases engagement and ownership at the senior level. Project requests are more likely to be rejected than before, which is a positive development. It indicates that the IS department is less likely to spend unnecessary time and money on something that does not add value to the organization.

Two examples provide evidence for the success of the new project-based approach. The first is the implementation of a new multi-million dollar billing system. After three years Cobb EMC had realized savings of about almost half of the implementation costs, putting its ROI for the project at about 7 years. Around that time, a surprise acquisition of a natural gas company delayed the project a year. This acquisition also doubled the effort of the project in that Cobb EMC had to integrate both companies into the billing system, a massive effort. Cobb EMC's new gas company is now the fastest-growing gas company in Georgia, and the investment purchase has already been repaid in less than 5 years. The billing system is also integrated with the outage management and dispatch systems, preventing redundant keying of data. Customers reporting an outage can now have a maintenance truck in their driveway within minutes instead of hours.

The second example is a joint project with the U.S. Department of Energy to implement Smart Grid technology to Cobb EMC's entire customer base (U.S. Department of Energy, 2012). This technology allows Cobb EMC to capture more detailed consumption statistics and also to plan its electric power purchases more effectively. Additionally, electric service can now be connected and disconnected remotely, saving time and money. Cobb EMC invested $16 million into the project and has realized about 25% of that in savings after the first year, an ROI of just over 4 years.

CONCLUSION

Cobb EMC's IS department has become a valuable part of the organization. It has transformed itself by developing trust within the organization, standardizing its processes, and moving to a project-based structure. In 2007, Bob Arnett won an International award within the Utilities Industry as "CIO of the Year". In 2008, his team won the "Best CIS Implementation Award". Recently, in 2010, Bob won the "Georgia CIO of the Year" award for managing several large initiatives in the midst of this transformation. Because of the IS departments' efforts, it is well-positioned to continue to deliver value to Cobb EMC.

REFERENCES

Aron, R., Clemons, E. K., and Reddi, S. (2005). Just Right Outsourcing: Understanding and Managing Risk. *Journal of Management Information Systems*, 22(2), 37 – 55.

Carr, Nicholas (2003). IT Doesn't Matter. *Harvard Business Review*, March – April 2003.

Corbett, C. J., Montes-Sancho, M. J., and Kirsch, D. A. (2005). The Financial Impact of ISO 9000 Certification in the United States: An Empirical Analysis. *Management Science*, 51(7), 1046 – 1059.

Gowan, C. R., Stock, G. N., and McFadden, K. L. (2008). Simultaneous Implementation of Six Sigma and Knowledge Management in Hospitals. *International Journal of Production Research*, 46(23), 6781 – 6795.

Harter, D. E., M. S. Krishnan, and Slaughter, S.A., (2000). Effects of Process Maturity on Quality, Cycle Time, and Effort in Software Product Development. *Management Science,* 46(4), 451 – 466.

Hitt, L. M., Wu, D.J., and Zhou, X. (2002). Investment in Enterprise Resource Planning: Business Impact and Productivity Measures. *Journal of Management Information Systems*, 19(1), 71 – 98.

Kwon, S. (2008). Does the Standardization Process Matter? A Study of Cost Effectiveness in Hospital Drug Formularies. *Management Science*, 54(6), 1065 – 1079.

Loh, T. C., and Koh, S. C. L. (2004). Critical Elements for a Successful Enterprise Resource Planning Implementation in Small- and Medium- Sized Enterprises. *International Journal of Production Research*, 42(17), 3433 – 3455.

McAfee, A., and Brynjolfsson, E. (2008). Investing in the IT That Makes a Competitive Difference. *Harvard Business Review*, July – August 2008.

McEvily, W., Perrone, V., and Zaheer, A. (2003). Trust as an Organizing Principle. *Organization Science*, 14(1), 91 – 103.

Ramasubbu, N., Mithas, S., Krishnan, M.S., and Kemerer, C. F. (2008). Work Dispersion, Process-Based Learning, and Offshore Software Development Performance. *MIS Quarterly*, 32(2), 437 – 458.

Schroeder, R. G., Linderman, K., Liedtke, C., and Choo, A. S. (2008). Six Sigma: Definition and Underlying Theory. *Journal of Operations Management*, 26, 536 – 554.

Shah, R., Goldstein, S. M., Unger, B.T., and Henry, T. D. (2008). Explaining Anomalous High Performance in a Health Care Supply Chain. *Decision Sciences*, 39(4), 759 – 789.

Sila, I. (2007). Examining the Contextual Factors on TQM and Performance through the Lens of Organizational Theories: An Empirical Study. *Journal of Operations Management*, 25, 83 – 109.

U.S. Department of Energy (2012). *Cobb Electric Membership Corporation: Cobb EMC Smart Grid Program*. Retrieved May 17, 2013 from the U.S. Department of Energy Web site: http://www.smartgrid.gov/project/cobb_electric_membership_corp_cobb_emc_smart_grid_program

CAN WOMEN IN BUSINESS BE AUTHENTIC LEADERS?

Michael R. Luthy, Bellarmine University
John T. Byrd, Bellarmine University

ABSTRACT

The concept and value of leaders have been the focus of countless academic business studies. Additionally, they have been examined and commented upon by philosophers, historians, military theoreticians, writers, and poets. Of more recent origin is the construct of the "authentic leader." Along with this developing concept, in the United States there has been an ongoing emergence of women as leaders both in business and in other workplace arenas. Consequently, an examination of what constitutes an authentic leader generally, and specifically whether men and women view it differently, is worthwhile. The current study, exploratory in nature, presents the views of a sample of over 100 working, part-time MBA students on this subject. While there is a great deal of overlap between the genders concerning the traits of an authentic leader, personal contact and experience has led the two groups to identify different examples of those who exemplify the concept.

INTRODUCTION

The concept of the leader as a line of introspection and speculation for scholars, philosophers, writers, and poets is an old one. Whether it is William Shakespeare considering Hamlet or Sun Tzu's writings in The Art of War (Tzu and Griffith, 1971), much has been written on leaders. And whether in business, politics, the military, history, or any other field of human endeavor, perspectives have changed over time and the concept has evolved. From whatever perspective one comes at the concept from the goal is similar. In attempting to define and categorize a leader they seek to identify traits or characteristics that can either be learned or identified ahead of time, or emulated. In the current study, the focus will be on the business world and in particular, a relatively recent aspect of leaders, authenticity.

BACKGROUND

The emphasis on authenticity as a construct helpful to leaders is relatively new. It is being developed as a way of counteracting practices, performed by some "leaders", which have been identified as unethical. Since some support the viewpoint that authentic leaders positively influence employees' attitudes and behavior, there is an assumption that authenticity by someone in a leadership position creates the conditions for improved organizational performance (Khan, 2010).

The numerous moral dilemmas that have come to the public's attention in recent years gives credence to the notion that authentic leadership is a continuous challenge due to social pressures that impact leaders (Cranton and Carusetta, 2004). This alone argues for serious inquiry into the concept and its implications for leadership.

The moral implications of leadership are not new to the world of business. Chester Barnard, a pioneer who focused on executive leadership combined the business aspects of good leadership with the need for moral excellence. He espoused the view that there should be self-reflection by the leader as moral excellence is pursued (Barnard, 1958).

A review of his work indicates that he separated personal and organizational responsibility and emphasized the significance of both of these elements for the leader. Specifically, he maintained the importance of honoring promises and keeping commitments. (Barnard, 1958). Recent research validates the need for individuals to take action as a result of conflicts due to personal responsibility issues (Kernis, 2003).

Personal conflicts which require action on the part of leaders can be a challenge to the leader's authenticity, especially if the leader views authenticity as being true to oneself. Organizational values, do in fact, conflict in the personal values of those in leadership positions (Ryan and Brown, 2003). The decision for the leader is not just a conscious decision based on rationality, but can be affected by the confidence of the leader (Kashdan, 2002). This makes the situation more complex for the leader and argues more for the leader to reflect on the meaning and application of authenticity.

A FRAMEWORK FOR AUTHENTICITY

Authenticity as a concept can be viewed from numerous perspectives (Avolio and Gardner, 2005). As a moral virtue, it can be seen as being your own person and rising above the expectations of others. (Pianalato, 2003). In terms of ethical choices, emphasis is on the self as a difference between a real and ideal mind and soul (Danzinger, 1997).

Aside from philosophical meanings, authenticity can be viewed from a psychological vantage point. For example, what makes one authentic reflects self-awareness of one's motives and unbiased perceptions of self, and the ability to behavioral and relational choices. (Kernis, 2003). This approach requires psychological freedom so the individual leader can regulate their actions in accord with their needs for competence, self-determinations and relatedness. (Deci and Ryan, 1995). This is closely related to the idea of "being oneself" and acting in accord with one's personal inner thoughts and feelings (Harter, 2002).

There has been a debate regarding leadership and the psychological meaning of authenticity (Bass and Steidlmeier, 1999). Current interest stresses a developmental view of authentic leadership (Gardner, Avolio, and Luthans, 2005). This view is aligned with positive psychology and stresses the value of the leader's ability to influence the culture and employees (May, Chan, Hodges, and Avolio, 2003).

METHODOLOGY

Purpose

The general purpose of the current study is to explore the views and perspectives of graduate business students, those who have had at least a modicum of direct, full-time work experience, toward the emerging concept of authentic leaders. More specifically, from their responses to a number of definition-related and example-related questions, the goal was to determine if there are any gender-based differences as it relates to the concept.

Method

A one-page, two-sided pencil and paper survey was administered in classes to a convenience sample of MBA students in an AACSB accredited business school at a small private university in the south over a period of approximately one month. All respondents were enrolled in either the one-night per week, two-night per week, weekend, or executive MBA format programs offered by the university. At the university, all MBA programs are designed for part-time completion as nearly 100% of students are working either full or part-time in the community and surrounding areas.

Respondents returned 116 surveys, representing 59.8% of the MBA population at the school. Of these, 41.4% were completed by women and 56.9% by men. This roughly mirrors the percentage breakdown by gender of the entire MBA population at the university.

Survey Questions

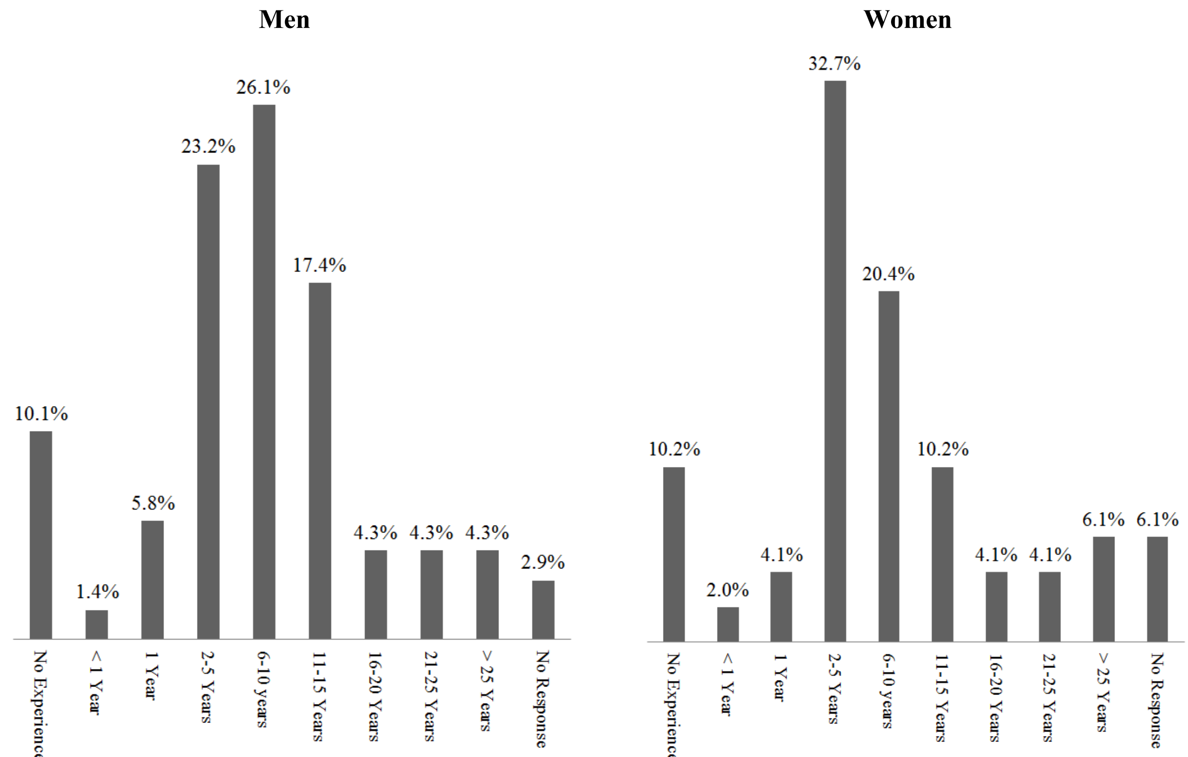
Due to the exploratory nature of the current study, the list of questions was kept to a minimum. Along with gender, age, and number of years of full-time work experience for classification questions, the instrument asked the following questions:

How would you define <u>an authentic leader</u>?
What 3 to 5 traits do you believe an authentic leader should possess?
Name three people you consider authentic leaders and how others might know them.
Are authentic leaders: more, less prevalent today, or about the same as in the past

RESULTS

Before attempting to compare survey responses to determine whether there is a gender difference the researchers attempted to determine whether there was any sample bias based on work experience. The reasoning for focusing on the categorization variable was its capture of several demographic trends and validity compared to age, for example. From an examination of Figure 1 it was determined that there was no sample bias as the distribution of respondents of both genders reflected a generally similar full-time work history.

Figure 1.
RESPONDENTS' FULL-TIME WORK EXPERIENCE



In response to the initial survey question to define what an authentic leader is, there does seem to be a common trend that authenticity is "being true to oneself." Male respondents used this language two times more frequently than did female respondents. For their part, female respondents tended to use the phrase "expressing issues honestly" as a key facet in the definition. Other terms employed frequently by men in their definitions included: integrity, being genuine, truthful, and being honest. The most frequently used words/phrases by women included: being genuine, integrity, humility, standing up for beliefs, and being real. The construct of "being oneself," while expressed in different ways, seems to be the main notion for authenticity.

Employing a variation of the definition question to get at the same idea, subjects were asked to identify three traits that they believed authentic leaders possessed or demonstrated. The responses are presented in Table 1. Only those traits listed by more than 4% of the respondents in each gender group are listed.

Table 1.
AUTHENTIC LEADER TRAITS

Men		Women	
22%	Honest	38%	Honest
18%	Effective Communicator	19%	Effective Communicator
15%	Confident	19%	Knowledgeable
15%	Integrity	15%	Confident
13%	Humble	15%	Trustworthy
12%	Intelligent	13%	Charismatic
12%	Moral Character	13%	Ethical
12%	Passionate	13%	Humble
12%	Visionary	13%	Integrity
10%	Listener	13%	Motivating
9%	Motivator	10%	Fair
9%	Trustworthy	10%	Moral Character
7%	Charismatic	10%	Open-minded
6%	Courageous	8%	Listener
6%	Decisive	8%	Passionate
6%	Driven	8%	Patient
6%	Enthusiastic	6%	Determined
6%	Ethical	6%	Emotionally Intelligent
6%	Focused	6%	Empathetic
6%	Knowledgeable	6%	Genuine
6%	Organized	6%	Positive
6%	Strong Work Ethic	6%	Reliable
6%	Understanding	4%	Common Sense
4%	Approachable	4%	Competent
4%	Compassionate	4%	Courageous
4%	Determined	4%	Creative
4%	Disciplined	4%	Driven
4%	Flexible	4%	Inspirational
4%	Patient	4%	Leadership Skills
4%	Perseverance	4%	Loyal
4%	Reliable	4%	People Skills
4%	Selfless	4%	Persuasive
		4%	Self-Confident
		4%	Supportive
		4%	Visionary

Honesty and effective communicator are the two most often cited traits by both genders, although women's citation of the former is much more frequent. Indeed, of the top ten traits cited by each gender, there is agreement on four specifically with potentially additional agreement depending on whether you make the case for moral character and trustworthy expressing the same thing. While percentages may differ slightly, there is a very high degree of overlap by men and women concerning the traits they believe authentic leaders possess. For those seeking a more complete listing, Table 2 reflects those traits provided by only one respondent.

Table 2.
SOLO MENTIONED AUTHENTIC LEADER TRAITS

Men		Women	
Analytical	Mentally & physically fit	Adaptable	Keeps commitments
Articulate vision	Middle-aged	Approachable	Knows how to deal with others
Assertive	Modest	Broad-minded	Leads by example
Assess what is best for group	Motivated	Compassionate	Level-headed
Authentic	Objective	Congenial	Likeable
Authoritative	Observant	Consistent	Negotiator
Belief	Occasionally self-deprecating	Credible	Networker
Bold	Open-minded	Dedicated	Organized
Can isolate key factors	Original	Delegator	Outgoing
Can make tough decisions	Original ideas	Detail-oriented	Perseverance
Challenging	Outspoken	Diversified	Positive influence
Clear value set	Paternalistic	Educated	Problem solver
Concerned	People manager	Effective	Professional
Conviction	Personality	Empowering	Recognize where people fit best
Creative	Persuading	Enduring	Respectful
Decision-maker	Poised	Energetic	Responsible
Delegator	Presence	Engaging	Responsive
Demanding	Pulls the best out of people	Enthusiastic	Risk-taker
Democratic in thought	Reflective	Facilitator	Selfless
Develops others	Resilient	Flexible	Sincere
Diligent	Savant	Genuine desire to serve	Strong
Domain knowledge	Self-aware	Good judgment	Strong work ethic
Dreamer	Self-empowered	Goodwill	Team player
Energetic	Self-motivated	Hard worker	Thoughtful
Equality	Sense of purpose	Individualistic	Transparent
Even keel	Sincere	Influential	Understand differences
Excellent judgment	Somewhat crazy	Innovative	Understanding
Fair	Straight talker	Intelligent	Unselfish
Faith	Strategic		
Genius	Street smart		
Genuine	Tall		
Guidance	Time management skills		
Insightful	Unafraid		
Intuitive	Unbiased		
Leadership skills	Voice that carries		
Leads by example	Well educated		
Leads from the heart	Willing to be wrong		
Likable	Wise		
Managing Personalities			

While the concept of an authentic leader is relatively new, it is worth considering the perspective of respondents and their view of whether past or more recent events reflect a change in the number of authentic leaders. This issue was addressed by asking directly how they believed the prevalence of authentic leaders today compared to the past.

Figure 2.
AUTHENTIC LEADERS TODAY COMPARED TO THE PAST

Men **Women**

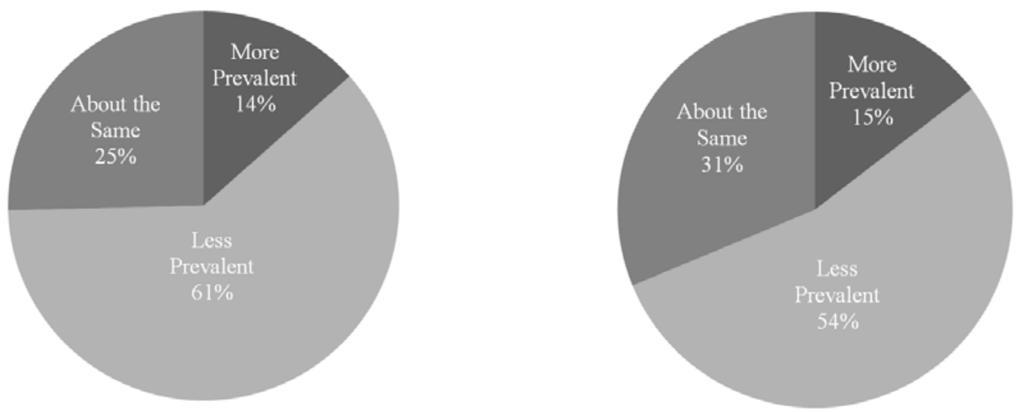


Figure 2. indicates that men are more pessimistic in that they see authentic leaders less prevalent than in the past than women do. Interestingly, with the more prevalent response roughly the same between the genders (although in the minority) the men's less prevalent view comes at the expense of the about the same option.

Table 3.
AUTHENTIC LEADERS MENTIONED

--------------------------- Men ---------------------------			-------------------------- Women ---------------------------		
	Person	Field		Person	Field
41%	Steve Jobs	Business	42%	Steve Jobs	Business
16%	Barack Obama	Politics	23%	Barack Obama	Politics
10%	Martin Luther King Jr.	Religion	19%	Oprah Winfrey	Entertainment
7%	Abraham Lincoln	Politics	19%	Martin Luther King Jr.	Religion
6%	Warren Buffet	Business	13%	Mother Teresa	Religion
6%	George Washington	Politics	10%	Abraham Lincoln	Politics
6%	John F. Kennedy	Politics	6%	Bill Clinton	Politics
6%	Nelson Mandela	Politics	4%	Bill Gates	Business
6%	Ronald Reagan	Politics	4%	John F. Kennedy	Politics
6%	Mohandas Gandhi	Religion	4%	Jerry Abrahamson	Politics - Local
6%	Tim Tebow	Sports			
4%	Jack Welch	Business			
4%	Winston Churchill	Politics			
4%	Michael Jordan	Sports			

In order to make more concrete the specifics respondents were drawing on they were asked for examples of individuals who they would identify as authentic leaders (see Table 3). Again, only those individuals identified by at least four percent of the sample are included.

Information in Table 4 reflects all responses, categorized by field and groups into levels of agreement by gender. Aside from areas of gender agreement in politics, business, and the news, examples of authentic leaders cited by women came more from religion, entertainment, and personal connections. Men tended to dominate their examples from the fields of sports and the military.

Table 4.
FIELDS OF CITED AUTHENTIC LEADERS

	M	W	
Roughly Equal			
Politics	24%	28%	Current & Past U.S. Presidents; Other National, International & Local Political Figures
Business	17%	18%	Steve Jobs, Warren Buffet, Bill Gates, Jack Welch, some local
In the News	3%	3%	Rosa Parks, Princess Diana, Nelson Mandela, Randy Pausch
Female Dominant			
Religion	9%	16%	Martin Luther King, Jr., Gandhi, Mother Teresa, Pope, Jesus Christ
Entertainment / Arts	6%	13%	Oprah Winfrey, Bono, Dr. Oz, Maya Angelou
Personal Connection	6%	13%	Relatives, People at their organization, Teachers
Male Dominant			
Sports	20%	5%	Coaches, Players, and Sports League Commissioner
Military	13%		Recent and Civil War Generals, e.g. Cincinnatus, Leonidas
Miscellaneous			
Law	1%		Supreme Court Justice Louis Brandeis
Explorer		2%	Christopher Columbus
Media		2%	Anderson Cooper (CNN anchor)

CONCLUSIONS

The purpose of an exploratory study is to do just that – begin the examination of an issue or set of questions pertaining to a specific concept. Although responses were gathered from a convenience sample, there is sufficient evidence to state some valid, but tentative, conclusions as well as point a path forward for further study beyond the exploratory.

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

While the results reported here show that there are indeed some differences between the genders in terms of who and what these authentic leaders are there is still some areas of agreement.

Further work with both a larger sample and one that delves more deeply into the sources of respondents' evaluations and reasoning, as well as how to transmit those traits to others in order to develop as an authentic leader are some next logical steps.

REFERENCES

Avolio, B. and W. Gardner (2005). Authentic leadership development: Getting to the root of positive forms of leadership," *Leadership Quarterly,* 16 (3), 315-338.

Barnard C. (1958). Elementary conditions of business morals, *California Management Review,* 1 (1), 1-13.

Bass, B. and P. Steidlmeier (1999). Ethics character and the authentic transformational leadership behavior, Leadership *Quarterly*, 10 (2), 181-217.

Cranton, P. and E. Carusetta (2004). Developing authenticity as a transformative process, *Journal of Transformative Education*, 2, (4), 276-293.

Danziger, K. (1997). Historical formulation of selves, R. Ashmore and L. Jussim (Eds.) *Self and Identity: Fundamental Issues,* 137-159, New York: Oxford University Press.

Deci, E. and R. Ryan (1995). Human autonomy: The basis of true self-esteem, M. Kernis (Ed.) *Efficacy, Agency and Self-Esteem*, 31-49 New York; Plenum.

Gardner, W., B. Avolio, and F. Luthans (2005). Authentic leadership development: Building integration and differentiation, *Leadership Quarterly*, 16 (3), 343-372.

Harter, S. (2002). Authenticity, Synder, C.R. and S. Lopez (Eds), *Handbook of Positive Psychology*, 382-394, London, Oxford University Press.

Kashdan, T. (2002). Social anxiety dimensions, neuroticism and the contours of positive psychological functioning, *Cognitive Therapy and Research*, 26 (6), 789-810.

Kernis, M. (2003). Optimal self-esteem and authenticity: Separating fantasy from reality," *Psychological Inquiry*, 14 (1), 83-89.

Khan, S.N. (2010). Impact of authentic leaders on organization performance, *International Journal of Business and Management*, 5(12), December, 167-172.

May, D., A. Chan, T. Hodges, and B. Avolio (2003). Developing the moral component of authentic leadership, *Organizational Dynamics*, 32, (3), August, 247-260.

Pianalato, M. (2003). Resuscitation of a moral ideal, Richard Lee (ed.) *Contemporary Ethical Theory*, 218-230.

Ryan, R. and K. Brown (2003). Why we don't need self-esteem: Our fundamental needs, contingent love and mindfulness, *Psychological Inquiry*, 14 (1), 71-76.

Tzu, S. and S. Griffith, Translator (1971), *The Art of War*. Oxford University Press.

THE CREATION OF A NOT-FOR-PROFIT INDUSTRY: HOMELESSNESS AS A MANUFACTURED PHENOMENON

Jay I. Chok, Keck Graduate Institute

ABSTRACT

What accounts for the rise of the not-for-profit industries? This is a fairly important theoretical question, given that social scientists have long been puzzled about the behavior and origin of not-for-profit organizations, which stand outside both markets and the state. But it is difficult to theorize about the not-for-profit organizations because there may be a great variety of not-for-profit organizations that serve different communities. Focusing on a single, specific no-for-profit industry where there doesn't appear to be any apparent effective demand backed by consumer purchasing power, this study aims to begin a conversation and contribute some tentative answers to this question.

INTRODUCTION

By several accounts, the not-for-profit organizations have created a cluster of so called-not-for-profit sector, which contain industries that parallel some of the for-profit industries in the private sector. According to Salamon and Sokolowski (2006), 9.4 million workers are employed by charitable organizations (including 501[C] organizations) and a further 4.7 million full-time equivalent volunteers (i.e. divide the number of hours volunteered by the hours in a typical work year) help out with the charities; these workers represent 10.5 percent of the total American work force and outnumbered those working for some industries such as the utilities (800,000),wholesale trade (5.6 million) and construction (7.1 million) industries both in terms of number of paid employees as well as the total wage bill. Moreover, from 2002 to 2004, the number of paid nonprofit workers grew 5.1 percent even while the nation's total work force contract by 0.2 percent. Clearly, the size of the not-for-profits is beginning to resemble an industry. But the not-for-profits are a huge amalgamation of diverse entities operating in different markets that often parallels the for-profit sector; for example, education, healthcare, arts and social services such as nursing homes could be either for-profit or not-for-profit (Lakdawalla and Philipson, 2005).

What accounts for the rise of the not-for-profit industries? This seems to be a fairly important theoretical question as social scientists have long been puzzled about the behavior and origin of not-for-profit organizations, which stand outside both markets and the state (Dimaggio and Anheier, 1990). But it is difficult to theorize about the not-for-profit organizations not just because not-for-profit organizations operate under different state policies, institutional factors, cultural influences and philosophies but also because there may be a great variety of not-for-profit organizations that serve different communities; for example, some organizations such as art museums, universities and elite hospitals seem to revolves around gentrified communities with dense networks and certain lifestyles whereas other not-for-profit organizations are meant to serve poor communities (Dimaggio and Anheier, 1990). In the former case, an intriguing question would be the competition of different organizational forms. Why would the non-profit organizational form necessarily out-compete the for-profit organizational form in parallel industries (for example, for-profit education versus not-for-profit education, private for-profit hospitals versus foundation supported hospitals, commercial fitness clubs versus country clubs based on professional membership and etc)? Questions about the competition of organizational forms frequently revolve around ecological niches, efficiencies, the distributional versus non-distributional constraints and incentives for employees/donors/shareholders under different organizational forms.

In the latter case, the question is even more interesting. In a capitalistic society, why would a not-for-profit industry even operates when there is no effective demand? A good example would be the homeless people on the streets. This paper therefore proposes a modest goal: to theorize about the creation of the homelessness industry.

Hambrick and Johnson (1998) first coined the phrase "homelessness industry" although Funiciello (1994), a political activist and a one-time welfare mother, preceded them with the much narrower term "shelter industry". And New York Times, in reference to the National Coalition for the Homeless, uses the term "homeless lobbyists" in 1987 (Accessed on 8th Nov 2012:http://www.nytimes.com/1987/02/07/us/washington-talk-the-homeless-become-an-issue.html). United States first experienced a sharp increase in the level of homelessness in the late 1970s and early 1980s when the economy went through a deep recession. But the level of homelessness never really recedes as the economy recovers. Instead, the United States begin to see the emergence of a homelessness industry that involves a range of service providers such as urban shelters, kitchen service, social workers, specialized researchers and mega charities such as the National Coalition for the Homeless Coalition, which was founded in 1982.

How do we begin to theorize about the homelessness industry? This paper explores three post-Fordist arguments and one Bourdieuan argument to explain the creation of the homelessness industry in subsequent sections.

FORDIST AND POST-FORDIST ARGUMENTS

In this section, we examine three Fordist/post-Fordist arguments with respect to homelessness. We start by examining Fordism and post-Fordism and ask whether a persistent level of homelessness would have occurred in the United States if not for the heavy fiscal expenditure that counter-balance business cycles. Then, we ask whether homelessness had increased because the United States government, in a fiscally-constrained post-Fordist era, could no longer afford to care for the poor. Finally, we ask whether homelessness might be less due to the government reducing management of the economy but perhaps due more to the change in the government's orientation in managing the economy.

The Fordist era was characterized mainly by huge fiscal expenditure, heavy governmental regulation in markets and a core-peripheral structure (with a stable core and a fluctuating periphery). Investments in infrastructure (such as education, transportation and etc) and institutional structures (federal agencies and etc) provided economic stability, created jobs, facilitated mass production and usher in the middle class, which generated the demand for mass consumption. In contrast to the Fordist era, it can be argued that there was a significant pull-back by the government in the post-Fordist era, which is characterized by the rise of the financial industry, the emergence of flexible modes of production and increasing income inequalities.

First, we ask whether homelessness is a phenomenon similar to unemployment. That is, our first Fordist argument is to ask whether homeless people form part of the reserve army of surplus labor. In one of Hambrick and Johnson (1998)'s scenarios wherein homelessness developed into an industry, policy makers begun to see homelessness as a phenomenon similar to unemployment. That is, there is a natural rate of homelessness just as there is a natural rate of unemployment. To the extent that one might argue that homelessness is a capitalistic phenomenon, we will need to ask why class-relations in a capitalistic society would produce a natural rate of homelessness in the near future but not before.

After all, in an earlier era in England where the industrial revolution first took place, the enclosure movement had produced vigorous rural-to-urban migration as peasants that lost their lands flocked to the urban slums looking for work. To the extent that the homeless peasants were required to be subject to market forces in the labor market by stripping them off their homes, which also facilitate primitive accumulation (Holmstrom and Smith, 2000), this argument would parallel that of the natural rate of unemployment.

If it can be argued that the Fordist era was an aberration and acted as a temporary brake on business cycles, it follows that in the post-Fordist era, the level of homelessness would have fluctuates with the business cycles. Based on the NBER records on business cycles, there were two recessions (Jan 1980 to July 1980 & July 1981 to November 1982) in the early 1980s followed by a years of prosperity in the 1980s and 1990s, which was interjected by a nine-month recession (Accessed on 8th Nov, 2012: http://www.nber.org/cycles.html). If unemployment was only cyclical and homelessness arises from cyclical unemployment, the level of homelessness would have fluctuates around business cycles. Indeed, Marxist explanations (including Harvey (1992)) tend to include argue implicitly that homelessness and its source (the urban poor) is necessary because the capitalistic mode of production requires a reserve army of surplus labor, which correspond with the economists' theory about a natural rate of unemployment wherein the economy would need a certain number of unemployed workers to look for jobs so that the labor market can function properly and the wages do not increase unnecessarily. Thus, we seek for evidence that homelessness might fluctuates around business cycles in the post-Fordist era.

Baby boomers' entry into the labor market depresses wage conditions in the 1970s. Likewise, the oil crises (1973 and 1979) increases business costs substantially. The confluence of both events therefore worsens employment prospects considerably. But high oil prices in the 1970s had stimulated capital expenditure in oil production both domestically and aboard (Barksy and Kilian, 2004) and cause the global markets to experience an overproduction of oil and significant declines in oil prices known as the 1980s oil glut. Thus, the decades after the early 1980s were particularly conducive to economic growth. Moreover, there was also a demographic reversal in the late 1980s. While the 1970s was characterized by the baby-boomers entries into the job market, the proportion of young people's entries in the labor market shrank in the late 1980s, which place considerable downward pressure on the unemployment rate as (Flaim, 1990).

Yet, surprisingly, homelessness turns out to be a visual fixture on the streets. Although it is commonly assumed that the rising tide of economic growth in the mid-1980s could have reduced poverty levels, the proportion of urban poor (individuals and families living in poverty) did not really recedes in the 1980s (Freeman, 2001).

In other words, the notion of having a reserve army of surplus labor in the United States cannot explain the persistent level of homelessness since the early 1980s. Moreover, it can be argued that corporate America is unlikely to hire the homeless people for any conceivable position. In fact, some of the homeless people had never entered the labor market in the private sector at all; this is especially the case for women with low educational endowments, had no work histories and had been previously dependent on their family members or partners (Hill, 1991; Levin, Mckean and Raphael, 2004). Moreover, by the time individuals are pushed onto the streets, their health, working capacity and other attributes associated with productivity may have been permanently damaged. For example, Hwang (2001) reports that in Canada, homeless people have a higher risk of premature death, suffers from a variety of health problems including seizures, chronic obstructive pulmonary disease, musculoskeletal disorders, tuberculosis, and skin and foot problems, and face significant difficulties in accessing health care services. Wenzel et al (1993) reports that it can take years before veterans break down and ultimately lose social support after which it can be very difficult to rebuild the human capital to exit homelessness (Accessed on 8th Nov, 2012: http://www.nytimes.com/2007/11/08/us/08vets.html). Similarly, Hill (1991), in an ethnographic study at the Sisters of Mercy Shelter, found that many women became homeless only after they exhausted all sources of handouts from families, friends and neighbors.

The second possible post-Fordist argument is that without Fordism, homelessness would be a natural consequence of a pure capitalistic society simply because of the way that resources are accumulated (Holmstrom and Smith, 2000). That is, homeless people need not form part of the reserve army of surplus labor. By virtue of the fact that they cannot afford to survive in the economic system, they would be homeless unless the government somehow provided fiscal support to help this bottom rung of the society in some way or another.

To the extent that stability and the post-war boom in the Fordist era were in fact unsustainable because such successes were a result of heavy Keynesian expenditures that were partially financed by treasury debt, homelessness would naturally arise when the federal government pulls back from fiscal welfare expenditures independent of whether the homeless population constitute part of the reserve army of surplus labor or not. This is therefore an affordability hypothesis: the United States government cannot afford to care for the poor in the sustainable long-run.

To analyze this affordability hypothesis, we first examine how Fordism breaks down. Because Harvey (1992) suggests that the Nixon Shock mark the beginning of the post-Fordist era, it makes sense to start from the dollar-gold peg. Under a stable system of monetary exchange (Bretton-Woods of 1944), the major western European currencies are tied to the American dollar, which is pegged at $35 per ounce of gold. Because the majority of the developing economies were politically and economically linked to the western economies more as subordinates than equals, these nations had to accept the international economic system that the United States had established. From 1954 to 1971, the developing economies experienced forty-eight major devaluations (Edwards and Santaella, 1992). Some of the developing nations that kept their economies open went through a cycle of asset buy-ups by foreign investors and capital flight by locals. In effect, during this period, the United States was able to purchase raw materials from the developing economies and expand the manufacturing industry with tremendous profits. Surplus funds are used to rebuild the western European economies under the Marshall Plan. Just as it was deemed necessary to invest in main stream America and the Fordist households to create mass markets, it was deemed necessary to rebuild the major western countries to create a strong European market for U.S. goods and services.

Under the Bretton-Woods system, the United States initially ran huge balance of trade surpluses, which contribute to the United States immense and growing reserves. However, the Marshall plan, coupled with US defense spending around the globe, channeled large amounts of American dollars to Western Europe and Japan, which also benefited from significant aid to rebuild its war-torn economy. The balance-of-payment deficit increases the gold-dollar peg's downward stress, which was exacerbated by speculators' attempts to reap risk-free profits by massively selling the American dollar.

In the 1950s, the Eisenhower administration, in an attempt to stall the fall in the dollar's valuation in the open market, placed import quotas on oil and other restrictions on trade outflows. However, by the 1960s, the Vietnam War, the Kennedy-Johnson tax cuts of 1964 and the Great society programs, which were only partially funded by increases in federal revenues, created federal deficits that contributed to a substantial increase in the money supply. Further increases in domestic consumers' demand for imported goods and the subsequent lifting of the oil import quotas in 1970 under the Nixon Administration eventually resulted in the United States' trade deficit for the first time in the twentieth century. The Bretton-Woods system collapses in 1971 when President Nixon unilaterally announced that the American dollar is no longer convertible to gold. This is known as the Nixon Shock, which Harvey (1992) suggests mark the beginning of the post-Fordist era. In subsequent years, the treasury debt continues to increase while United States suffers from a twin deficit, which ostensibly culminates in an inability to financially care for the poor.

The notion that the United States government cannot afford to care for the poor is well embedded in Harvey (1999). Prior to the appointment of Paul Volcker as the central banker, funding for the Vietnam War of 1959 to 1975 and the Great Society programs were funded implicitly by an increase in money supply. The oil crises (1973 and 1979) and baby boomers' entries into the labor market worsen employment prospects. Even though union membership increases steadily in the 1970s, union efforts were largely futile when set against a bigger picture of jobs relocation to capital-friendly states and countries (Portes and Walton, 1981; Jaffee, 1986) and against inflation. Strike activities negatively affected change in employment, compensation, firms' net revenue and even the labor's share of income from 1967 to 1980 (Wallace, Leicht and Raffalovich, 1999). The stagflation period in the 1970s therefore represent the last phase of a fiscal and monetary aggressive period to hold down unemployment and thus homelessness, which conceivably results from unemployment.

But inflationary bubbles and heavy fiscal cannot go on forever. Thus, reading Harvey (1999), it seems that coordinated action by Paul Volcker and Ronald Reagan to increase interest rates and decrease welfare expenditures, which increase unemployment and the level of homelessness, are eventually inevitable. Paul Volcker, who was appointed by the Carter Administration in 1979 and re-appointed by the Reagan Administration in 1983 as the Chairman of the Federal Reserve, move aggressively to tame inflation. This was matched by the Reagan

Administration's emphasis on tax cuts and welfare expenditures cuts that epitomize the Reagan mantra to "send the welfare bums back to work".

Arguably, Harvey (1992) suggests that the series of fiscal changes culminated with the tight monetary policies initiated by Paul Volcker to induce the deep recession in the early 1980s, which trigger a sharp increase in the incidence of homelessness. Moreover, Harvey (1992) also seems to argue that the urban poor may also suffer disproportionately from financial crises; in the aftermath of the October 1987 stock market crash and just before Christmas, the US government cut $35 million from the budget for emergency help to the homeless.

However, a major problem with this analysis is that the United States government did not really pull back with regard to federal expenditures. For example, under the Reagan Administration, fiscal expenditure, including defense spending, actually increased; when coupled with substantial tax cuts and net foreign capital inflow, the results were fiscally expansionary (Sperry, 2001; Friedman, 1992). In fact, the 2000 census data indicates that federal welfare spending for housing has increased continuously from 1960 to 1995 (Accessed on 8th Nov, 2012: http://www.allcountries.org/uscensus/598_social_welfare_expenditures_under_public_programs.html). Even Funiciello (1994), a former welfare mother and welfare rights activist, reports that total welfare expenditure (state, federal and private donations) went up in the 1980s. Moreover, as discussed earlier, many homeless people did not participate in the labor market in any meaningful way to begin with (Hill, 1991; Funiciello, 1994).

A third possible post-Fordist argument is that the government's orientation in managing the economy has shifted, which contributed to homelessness. This is independent of fiscal pressures. Although inflation help to reduce the workers' real wages in the 1970s, manufacturers were seeking to further reduce costs by relocating jobs to capital-friendly states (Jaffee, 1986). Trade reforms only exacerbated the trends as firms find it easier to shift jobs and factories to emerging countries such as the NIEs, Russia, China and India with surplus labor (Portes and Walton, 1981; Baily and Lawrence, 2004; Freeman, 2001; Harvey, 1999). Set within this context, union efforts were largely futile. Thus, Wallace, Leicht and Raffalovich (1999) reports that, using regression analyses, from 1967 to 1980, change in employment, compensation, firms' net revenue and the labor's share of income were all negatively affected by strike activities. That is, in a post-Fordist era, the international capitalist is able to maximize the use of labor by shifting jobs to countries where the factors of production costs less (Mckeown, 1999). Trade reforms accelerated the decline in union power that in turn allow companies, in the post-Fordist regime of flexible accumulation, to become lean not just by stocking minimal inventories but also by drastically re-allocating the labor mix in favor of hiring temporary employees (with lower wages and no benefits) as opposed to permanent employees.

At the same time, there is a shift from subsidizing the construction of building for the urban poor to providing rent vouchers; as less subsidized apartments were constructed, housing supply for the low-income became constrained, which increased housing costs for the urban poor and pushed out poor people onto the streets (Burt, 1992; Quigley, 1999; Quigley and Raphael, 2004).

This argument would suggest a permanent increase in the level of homelessness that is independent of fiscal expenditures and business cycles. However, the level of homelessness would still be affected by housing supply and structural unemployment. While this third post-Fordist argument appears to explain how homelessness arises, it is telling that all three post-Fordist arguments as discussed cannot explain the emergence of the homelessness industry. None of these arguments can explain how a not-for-profit industry can operates in a capitalistic society with no effective demand.

BOURDIEU: MANUFACTURING THE FIELD OF HOMELESSNESS

An alternative approach is to analyze homelessness as a symbolic commodity independent of the homeless people. That is, while the preceding post-Fordist argument might explain why people without accommodation would be a natural phenomenon in a capitalistic society, we need to examine how that can be packaged into a symbolic commodity for sale to individuals and/or higher-level social actors with purchasing power. As an analogy, the individuals without accommodation would be more like raw materials found in nature that is used to produce homelessness. Using Bourdieu's (1984) theory of field and habitus, we can identify who are the producers and consumers of homelessness as a symbolic commodity. As a field, the homelessness industry would have a system of social positions structured by different players. These players can come from different habituses and thus have different mental maps from which different motives and preferences arise. Accordingly, different types of consumers can purchase homelessness to accumulate different types of symbolic capital. That is, Bourdieu's concept of field, habitus, practice and capital necessitates an IO (i.e. economics of industrial organization) analysis.

First, where are the sources of effective demand in the homelessness industry? One source would be the politicians. Both the Reagan mantra to "send the welfare bums back to work" and the Clinton campaign promise to end “welfare as we know it” can be viewed as practices to accumulate symbolic capital and thus fund initiatives in the homelessness industry. Logically, the habitus that supplied such messages would have a mental map of breaking welfare dependency. An example would be the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) that was signed into law under a Republican dominated congress and the Clinton Administration. PRWORA ended Aid to Families with Dependent Children (AFDC), which provided cash assistance to poor families with children (Caraley, 2001; Freeman, 2001). Moreover, prior to PRWORA, the Clinton administration had granted state waivers, which encourage governors to cut back on welfare expenditures (Caraley, 2001). In an unintended way, the new measures ended “welfare as we know it” (Berke, 1992; Freeman, 2001; Caraley, 2001). Harvey (1999)'s poster boy for the homeless, taken from a 1987 Coalition for the Homeless report is especially apt:

“I am 37 years old. I look like 52 years old. Some people say street life is free and easy…It's not free and it's not easy. You don't put no money down. Your payment is your health and mental stability.”

A second source would be the numerous donors that financed the large charities. Sugden (1981) argued that the existence of large charities and the income elasticity of charitable giving suggest that individuals might contribute to charity because they derived some form of non-material utility from it. This is independent of any desire to safeguard a public good. For example, donors who contributed to any foundation to help the homeless people are unlikely to benefit from it personally. They are not likely to become homeless themselves. One might argue that this help to keep the property values in one's community by reducing poverty. However, an easier response would have been to move to the suburbs. Moreover, a homeless-friendly system might well attract more homeless people to the community. The homelessness industry is conceivably well-paced to supply psychic benefits to donors who want to feel good about themselves.

The third source would be the volunteers. People may participate in volunteer work for material reasons such as improving their career prospects, learning about the broader society, learning how to fit in and get along with different social groups and engaging in psychological development that enhances their self-esteem; people may participate in volunteer work for personal reasons such as to express and act on values important to the self or to cope with inner anxieties and conflicts (Clary, Snyder and Stukas, 1996).

Funiciello (1993) offered exceptional insider insights on the network of food banks, soup kitchens, the urban shelters, the mega-charities and corporate donors-in-kind. According to Funiciello (1993), corporate donors routinely donate products that would otherwise be dumped. Mega-charities would direct food banks and soup kitchens to transport these unwanted products for distribution to the poor. A significant amount of the food is unsuitable for consumption and is dumped but some of the donated products are useful and thus the overall effort is still worthwhile for the food banks and soup kitchens. Corporate donors, in calculating the double tax deduction for donation, impute the full market price for the unwanted products. In fact, Webb (1996) found that corporations also use corporate-sponsored foundations to maximize after-tax income. Corporate charity also enhances the corporation's image, which brings in additional revenue; this is especially the case in industries that is highly sensitive to consumer perception (Lev, Petrovits and Radhakrishnan, 2006).

Thus, the habitus for the corporate donors is significantly based on the accumulation of financial capital. For the politicians, it is used to accumulate political capital. For the small-time donor, it may be used to satisfy some non-material utility. For the volunteer, a variety of needs may be satisfied. On the supply side, the food banks, soup kitchens, the urban shelters and the mega-charities are heavily financed by state and federal funding. They formed the bedrock for manufacturing homelessness as a symbolic commodity that the other players, using cash and food, exchange for. Thus, Withorn (2001) argued that non-profit agencies are now enmeshed in the system to enrich themselves. Many of the small agencies survive on government dollars. According to Funiciello (1993), urban shelters received reimbursement from the government on a per diem basis and food banks and soup kitchens also receive government support. In certain states, state contracts fund large not-for-profit agencies that subcontract to smaller, more specialized not-for-profit agencies (Withorn, 2001). As one long-time community worker that Withorn (2001) interviewed commented:

"They hold these meetings to describe the proposal process for new money and we see people in the room who have never worked with poor people before…then we hear that they got big money to make people "job-ready"….pretty soon they call us up asking for help because their clients have too many problems to hold jobs."

In fact, even for-profit agencies are in the game. National-level companies like Lockheed Martin and Maximus are now in the welfare employment market (Gooden and Martin, 2005). In a

1998 CNN Time article on Maximus going public on the stock exchanged, a stock analyst working for Lehman Brothers even estimate the potential market for welfare at more than $20 billion a year. Thus, Funiciello (1993) opined that "as the misery of poor people increased, so did the cacophony of private interests competing for government contracts, foundation grants, donations by individuals".

This Bourdieuan argument view homelessness as a symbolic commodity independent of the people without accommodation. Accordingly, taking poverty as a given in the capitalistic society, a homelessness industry can arise because the various players can accumulate symbolic capital, made money and satisfies certain psychic benefits.

CONCLUSION AND LIMITATIONS

To summarize, recall that we were initially curious how a not-for-profit industry such as homelessness could operates in a capitalistic society when there is no effective demand. In that process, we had attempted to first trace the origins of homelessness. After all, the precursor to even having the homelessness industry requires first that capitalism produces homeless people in the first place. But the inquiries hit the wall. First, it appears that homelessness is not a cyclical phenomenon; corporate America appears unlikely to require a reserve army of surplus labor extracted from a homeless population. Second, it seems that there isn't necessarily a pull-back in fiscal expenditure either. Third, a change in the government's orientation in managing the economy appears to explain homelessness but was not able to explain the emergence of the homelessness industry. Using an alternative approach, we develop an argument wherein people without accommodation actually do not constitute the source of effective demand. Rather, homelessness is packaged into a symbolic commodity by a network of actors such as the mega-charities, food banks and soup kitchens to sell to other players in exchange for cash. Thus, people without accommodation are analogized as raw materials and found in nature and used to produce a symbolic commodity termed as homelessness. Players that provide the resources, such as the corporations and the politicians, come from different habituses and seek to accumulate different types of symbolic capital from the homelessness commodity.

There are a few major limitations in this paper. First, the post-Fordist arguments and the Bourdieuan argument that I developed differs greatly with regard to the unit of analysis. I use post-Fordist arguments to trace the rise of the homelessness industry but it transpires that just because there are people without accommodation, it does not automatically mean that help would be available. Effective demand for housing and a proper lifestyle must be backed by purchasing power. Since effective demand for housing must be backed by purchasing power, some people will simply be left without accommodation. Thus, in the Bourdieuan argument, I argued that it might be that people without accommodation are not really viewed as human beings and that when the homelessness industry develops, it would not be to serve the people without accommodation. Because a capitalistic society would always have people that do not have the necessary skills and thus are unsuitable for employment, the supply of raw materials to manufacture homelessness is always there. Moreover, homelessness can be redefined to shape the field that various players used to accumulate different species of capital.

Second, this paper's analyses ignore Rawls's (2005) view of social justice. People in the broader society may feel justified to help their less unfortunate peers on the basis of need. However, I would counter that it is just as likely to argue, in the name of self-interest, that most players in the homelessness industry would angle for resources first and foremost for themselves before leaving the crumbs for the people without accommodation (Funiciello, 1993). And it is always possible to pretend that one is helping the down and out. As Withorn (2001) stated:

"Public agencies pretend that they are not in control of the money they dole out to the most loyal agencies first and that "any job is a good job" for anyone. Either nonprofit administrators and workers pretend to go along with punitive but lucrative policies in order to stay in the system, or they pretend to oppose these policies in order to connect with their longstanding community allies while making compromises they are unable to mention."

And because poverty and inequality is a given in a capitalistic society, it is equally likely to rationalize either that some homeless people chose to be lazy and can help themselves or that homeless people may be beyond help (Elkins, 2007). And this may be true. For example, Funiciello (1993) reports that welfare mothers need cash assistance rather than jobs; instead of spending time on the job, that time may be better spent with their children. Some homeless people prefer a flexible lifestyle that would not even fit into urban shelters (Accessed on 8th Nov, 2012:http://www.nytimes.com/2001/09/10/us/in-oregon-a-city-provides-public-land-for-homeless.html) and conceivably impossible in Corporate America. It is also true that even in cases when individuals without the skills and had diminished expectations, they may fail to find jobs as well. For example, veterans that fail to transition to civilian employment and low-income folks addicted to substance abuse tend not to qualify for jobs in Corporate America.

REFERENCES

Baily, M. N., & Lawrence, R. Z. (2004). What Happened to the Great US Job Machine? The Role of Trade and Electronic Offshoring: Harvard University working paper.

Barsky, R. B., & Kilian, L. (2004). Oil and the Macroeconomy since the 1970s. *The Journal of Economic Perspectives, 18*(4).

Bourdieu, P. (1984). *Distinction : a social critique of the judgement of taste*. Cambridge, Mass.: Harvard University Press.

Burt, M. R. (1992). *Over the Edge: The Growth of Homelessness in the 1980s*. New York: Russell Sage Foundation.

Caraley, D. J. (2001). Ending welfare as we know it: A reform still in progress. *Political Science Quarterly, 116*(4).

Clary, E. G., Snyder, M., & Stukas, A. A. (1996). Volunteers' motivations: Findings from a national survey. *Nonprofit and Voluntary Sector Quarterly, 25*(4), 485-505.

Dimaggio, P. J., & Anheier, H. K. (1990). The Sociology of Nonprofit Organizations and Sectors. *Annual Review of Sociology, 16*, 137-159.

Edwards, S., & Santaella, J. A. (1992). Devaluation controversies in the developing countries. *NBER Working Paper No. 4047*.

Elkins, D. (2007). Responding to Rawls: Toward a Consistent and Supportable Theory of Distributive Justice: SSRN working paper.

Flaim, P. O. (1990). Population-Changes, the Baby Boom, and the Unemployment Rate. *Monthly Labor Review, 113*(8), 3-10.

Freeman, R. B. (2001). The rising tide lifts...? *NBER Working Paper 8155*.

Friedman, B. M. (1992). Learning from the Reagan Deficits. *American Economic Review, 82*(2), 299-304.

Funciello, T. (1993). *Tyranny of kindness*. New York City: The Atlantic Monthly Press.

Gooden, S. T., & Martin, K. J. (2005). Welfare Reform: Government Does Matter (and Resources Do, Too!). *Public Administration Review, 65*(2).

Hambrick, R. S., & Johnson, G. T. (1998). The future of homelessness. *Society, 35*(6), 28-37.

Harvey, D. (1992). *The condition of postmodernity*. Malden, MA: Blackwell Publishers Ltd.

Hill, R. P. (1991). Homeless Women, Special Possessions, and the Meaning of Home - an Ethnographic Case-Study. *Journal of Consumer Research, 18*(3), 298-310.

Holmstrom, N., & Smith, R. (2000). The necessity of gangster capitalism: Primitive accumulation in Russia and China. *Monthly Review-an Independent Socialist Magazine, 51*(9), 1-15.

Hwang, S. W. (2001). Homelessness and health. *Canadian Medical Association Journal, 164*(2), 229-233.

Jaffee, D. (1986). The Political-Economy of Job Loss in the United-States, 1970-1980. *Social Problems, 33*(4), 297-318.

Lakdawalla, D., & Philipson, T. (2006). The nonprofit sector and industry performance. *Journal of Public Economics, 90*(8-9), 1681-1698.

Lev, B., Petrovits, C., & Radhakrishnan, S. (2006). Is Doing Good Good for You? Yes, Charitable Contributions Enhance Revenue Growth: New York University working paper.

Levin, R., Mckean, I., & Raphael, J. (2004). P*athways to and from homelessness: women and children in Chicago shelters*: Center for Impact Research.

Portes, A., & Walton, J. (1981). Labor, Class and the International System. New York: Academic Press.

Quigley, J. A., & Raphael, S. (2004). Is housing unaffordable? why isn't it more affordable? *Journal of Economic Perspectives, 18*(1), 191-214.

Rawls, J. (2005). *A theory of justice*: Belknap Press.

Salamon, L. M., & Sokolowski, S. W. (2006). *Employment in America's charities: A profile*: The Johns Hopkins Center for Civil Society Studies.

Sperry, P. B. (2001). *The Real Reagan Economic Record: Responsible and Successful Fiscal Policy*: Heritage Foundation.

Sugden, R. (1982). On the Economics of Philanthropy. *Economic Journal, 92*(366), 341-350.

Wallace, M., Leicht, K. T., & Raffalovich, L. E. (1999). Unions, strikes, and labor's share of income: A quarterly analysis of the United States, 1949-1992. *Social Science Research, 28*(265-288).

Webb, N. J. (1996). Corporate Profits and Social Responsibility: "Subsidization" of Corporate Income Under Charitable Giving Tax Laws. *Journal of Economics and Business, 48*, 401-421.

Wenzel, S. L., Gelberg, L., Bakhtiar, L., Caskey, N., Hardie, E., Redford, C., et al. (1993). Indicators of Chronic Homelessness among Veterans. *Hospital and Community Psychiatry, 44*(12), 1172-1176.

Withorn, A. (2001). Friends or foes? Nonprofits and the puzzle of welfare reform. *Annals of the American Academy of Political and Social Science, 577*, 107-117.

A FRAMEWORK FOR DEVELOPING A TAXONOMY OF SOCIAL MEDIA

Rosa Lemel, Kean University

ABSTRACT

This paper discusses the importance of developing a taxonomy for social media and the attempts that have been made thus far. Currently no universally accepted classification scheme exists. Scholarly and business research studies analyze social media usage behaviors and draw upon past studies to come to an understanding of how business can use social media to market products and services. Unfortunately there is no classification scheme to standardize these studies so that a literature review and the comparison of results is not necessarily drawing from the same underlying definition of what constitutes a social networking site. The focus of this paper is to review the current state of the literature regarding a classification scheme and to identify a direction for creating a unified approach that will bring order to the study of social media and result in more consistent findings. A framework for creating a taxonomy that will help to unify future research on social media and social networking is proposed.

Key words: *Social Media, Social Networking Sites, Taxonomy of Social Media*

INTRODUCTION

As the Internet evolves and offers greater possibilities to business, an increasing number of studies are being conducted to measure both the effectiveness of using social networking as a marketing tool in e-commerce, as well as the implications of its use on consumer behavior. These studies also focus on social media and usage behaviors. Unfortunately, since there is no universally accepted taxonomy for classifying social media and social networking sites, the results for these studies cannot be understood in the aggregate. Some studies distinguish between social media and social networking, other studies do not. Those studies that do differentiate between the two are not necessarily defining each in the same way. Indeed, over time many sites have evolved into social networking sites that would not have been considered as such in the past. As a result of this discrepancy in the underlying definition of social media and social networking, the results of these studies become questionable when used as a benchmark for analyzing similar studies and gaining insight into usage patterns and trends.

DEFINITION OF SOCIAL MEDIA AND SOCIAL NETWORKING

Social media is defined as (Kaplan & Haenlein, 2010) "a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content." This definition encompasses many subcategories such as Internet forums, weblogs (blogs), microblogs, wikis, social networks, photo and video sharing, product reviews and ratings, and podcasts, to name a few. This list of subcategories grows continuously as the Internet evolves.

Under the umbrella of social media is the category of social networking. While social networks may have many of the elements of social media, they are unique in that they allow for social networking to take place. Social networking sites are online services that allow for the collaboration and sharing of information by users with like-minded interests or hobbies. This is distinguished from first generation websites that allowed for information providers to display their own content which was then updated periodically. Users were relegated to the role of merely accessing information. With the advent of second generation technologies in the late 1990's (also known as Web 2.0) it became possible for users to generate and upload their own content. This dynamic interchange of information stands in stark contrast to the early days of viewing static web pages as they slowly loaded into the browser window.

Boyd and Ellison (2008) define social network sites as services that allow users to create profiles and share those profiles with other users. Furthermore, to be viewed as a social *network*, users must be able to see the connections each user has with other users on the site and make connections with those users they have in common. According to this definition early "chat rooms" and instant messaging sites such as America Online's AIM would not qualify as a social networking site. Likewise, Classmates.com launched in 1995 to help people find former classmates from kindergarten on through college and beyond, was not considered a classic social networking site (SNS) in its original form since it did not allow users to create their own profiles or list their friends to create a social network. Since its inception, however, the site has evolved to allow users to develop their own profiles and to network with other users. In 2010 Classmates.com was absorbed into a website called Memory Lane and redesigned to appeal to older users with nostalgic content (Bishop, 2011). At various points along its evolution this website may be classified differently depending on which networking features were available to users at that time. This is true for many websites that have evolved in the past decade to offer an increasingly wider array of social networking tools for users.

THE EVOLVING NATURE OF SOCIAL MEDIA

It is clear from the discussion above that social media and social networking sites have evolved since the first free and publicly available Web site appeared in 1993. Once users obtained the ability to upload and share their own content we began to see the appearance of blogs, podcasts, forums, wikis and other user generated content. As computer technology improved and internet connections became faster the sharing of pictures and videos became possible. To remain true to the definition of a social network, the ability to find and connect with other users is crucial. Early forms of social communications such as e-mails and the subsequent appearance of blogging and podcasting would not necessarily be considered a social network. Email communication is generally a form of communication initiated from one person to another. Blogs and podcasts are created to communicate thoughts from one individual to many. And Wikis and forums allow many individuals to share information with many other individuals. These early forms of social communication would not allow users to communicate with each other, or to search and connect with others who were interested in the same topic.

With the advent of faster computers, more reliable Internet connections, and savvier computer users these early forms of social communication ultimately evolved into social networking sites. Users are able to "friend" other users and create their own profiles that are then linked in some way to the original profile. A user can visit another user's page and also see which users his friend visited to peruse those pages as well. Sometimes the user has to be asked permission to be included in the network of friends, but the ability to do this is what changed the dynamics of social communication sites into the social networking sites that exist today. This ability to form relationships with other users is what allows a site to be considered a social *networking* site.

This natural and evolutionary progression of the Internet makes the development of a taxonomy a difficult undertaking. What has further complicated the classification effort is the introduction of new platforms for social media that now include mobile devices such as smartphones, tablets, smart TVs, and even gaming consoles such as the Wii, Xbox, or PlayStation. Innovative uses of technology such as GPS chips now allow for further integration of social media into every aspect of our lives from using a camera to driving a car. An example of this is Waze, a social GPS application which offers community-based mapping and traffic information. In a practical sense Waze offers users real-time information about road conditions and even local gas prices, but the application does more than that socially. Waze allows users to coordinate with friends on the road and even connect to Facebook to see if friends are also headed in the same direction. The app will also let you know when your friends are expected to arrive via real-time ETA. As of July 2012 the company claimed to have 20 million users (Lardinois, 2012).

The introduction of Google Glass in 2013 moves social media from the palm of your hand to literally in front of your face. This device is worn like glasses, putting the equivalent of a 24 inch screen in front of your eyes. It responds to voice commands and can take photos and video from the user's visual perspective. The term "mobile" in the context of "smart glasses" takes on a whole new meaning, and with this new platform will come a new way of accessing information and networking with social groups. It is impossible to predict how social media might further be integrated into our lives in the future. Television has already become "smart." Digital photo frames now allow for photo sharing and access to popular social networking sites. It is quite possible that our refrigerators will soon be open for viewing and suggestions from diet conscious social networking friends.

DEFINITION OF TAXONOMY IN THE SOCIAL MEDIA LANDSCAPE

The quest for developing a taxonomy of social media remains worthwhile. The word "taxonomy" derives from the ancient Greek word "taxis" which means "arrangement." Taxonomy is used predominantly in the biological sciences to categorize organisms into groups based on shared characteristics. Additionally these groups are classified hierarchically, so that organisms can be grouped together and then placed under another higher ordered group. The naming of new taxa is regulated by a set of rules for various fields of study in the biological sciences. For example, in botany the naming of taxa is regulated by the International Code of Nomenclature for algae, fungi, and plants (ICN). The names of each taxon must be based on the Latin alphabet and has various requirements for naming and referencing a new species or grouping.

Developing a taxonomy is a complex process for any field, but it is a crucial part of furthering study in a discipline. Classifying objects allows researchers to analyze complex relationships by breaking down that complexity and identifying the similarities and differences among and between groups of objects (Bailey, 1994). Once a taxonomy is established, the standardized definition of the constructs and vocabulary used allows for the accumulation to the knowledge base. This allows researchers to study relationships with more validity and lays the foundation for future research in a field of study (Hevner et al., 2004). While much of the literature about taxonomy is in the biological sciences, Baily (1994) discusses the development of taxonomy in the social sciences and furthermore distinguishes between a typology and a taxonomy. According to Baily, using a conceptual typology approach a researcher proposes "types" of categories based on a theoretical ideal or model. On the other hand, a taxonomy employs an empirical approach rather than a conceptual approach to developing a classification scheme. The classification is derived from data using cluster analysis to find similarities among the data.

The advantage to a typology is that although it is not based on empirical data it allows for the conceptualization of a set of items into multidimensional groups. These groupings may not be mutually exclusive or collectively exhaustive, but provide a heuristic upon which a basis for comparison might be developed. A typology is used mainly for descriptive purposes rather than inferential or predictive determinations. Taxonomies, on the other hand, use empirical data to develop classification schemes, and are therefore more practical in an applied setting. While there are various definitions of typology and taxonomy across the disciplines, it is clear that the two are related in that they provide for a classification scheme that can then be used for observation and research. It would be useful to first develop a typology of social media based on theoretical and ideal concepts, and then a taxonomy based on observation and data. In reality, the field of social media is evolving so quickly and unpredictably, that any classification scheme that is widely accepted by the social sciences would be better than none. The semantics of "typology" vs.

"taxonomy" will be left to others to debate. Since the classification schemes that are reviewed in this paper and proposed for further study are based on actual websites and therefore empirical data, we will consider the proposals herein to be taxonomies, not typologies.

LITERATURE REVIEW OF TAXONOMIES IN SOCIAL MEDIA

A review of the literature reveals a disparate and relatively small group of articles concerned with providing a taxonomy of social media or social networking. The vast majority of published research concerning social media revolves around the results of data analysis and is not concerned with the definition or classification of social media and its progeny. Most articles are published to highlight the uses of social media and networking, but ignore the need for a cogent classification system. Some articles distinguish between social media and social networking, but they do not present a justification for how they decided to classify the sites used in the study. For example, some studies classify YouTube as a social networking site, others do not. This lack of consistency is directly related to the absence of a commonly accepted taxonomy for the study of social media.

While there is no universally accepted taxonomy for social media in general, there are proposals in the literature for various taxonomies that are for specific fields of study. These can be useful in the development of an overall and more widely accepted classification scheme. For example, Bardo (2012) proposes a taxonomy for social networking users in education using Bloom's taxonomy as a foundation. He proposes that users move through five levels before fully engaging in social media. Level I is Curiosity, where a user is first interested in social media. Level II – Lurking, is following various websites to develop a better understanding of the content, process and rules with very little participation. Level III – Understanding, is when the user will begin to participate and consume information. This is the make or break point of the taxonomy. According to Bardo, if there is no understanding, then the user will not move on to the next stage, Level IV, which is Contributing. Once the user has a comfortable feeling and understanding of social media, he will participate in the process by Tweeting, or re-tweeting, or posting a link to an article or blog. The user may then move on to the next level, Level V – Integrating, where the user develops their own original content and integrates the media into their profession.

Brandtzæg (2011) proposes a very similar taxonomy of social networking users, but he refers to his classification scheme as a typology. In this scheme Brandtzaeg proposes five groups of users: 1. Sporadics, 2. Lurkers, 3. Socializers, 4. Debaters, and 5. Actives. This typology is validated using empirical data from 5,233 respondents in four major Norwegian social networking sites. The groupings are surprisingly similar to those of Bardo, and although he does not reference the work, it seems likely that Bardo was influenced by Brandtzaeg's typology. It is also conceivable that both were influenced by the classic diffusion of innovations model (Rogers, 1962, 2003) which is referenced in Brandtzaeg's work. Rogers describes diffusion of innovations where the process is categorized by types of users based on adoption over time, from 1. Innovators, 2.

Early adopters, 3. Early majority, 4. Late majority, and 5. Laggards. The classic model easily describes the process users go through when deciding whether to adopt, and at what level to participate in social networking as part of the Internet experience. Schiffman and Kanuk (2010) describe a model for consumer decision making that proposes three stages consumers move through in making a decision, Input, Process, and Output. In the second stage, Process, consumers must first recognize a need, conduct a prepurchase search, and then proceed with an evaluation of available alternatives. The speed and efficiency at which this is conducted will help propel the consumer/user of social networking through the adoption process. Without the first stage, need recognition, users will remain at the Curiosity or Sporadic level described above.

The two prototypes proposed by Bardo and Brandtzaeg do not offer a taxonomy for social media or social networking per se, but rather a classification scheme for types of social networking users. While this is an important contribution to the field when examining usage behavior and patterns, it does not help to classify the sites themselves. To this end Zheng and Gretzel (2010) describes six different classifications of websites for users seeking information specifically for the travel industry. This consists of 1. Virtual Community Sites, 2. Consumer Review Sites, 3. Blogs and Aggregators, 4.Social Networking Sites, 5. Media Sharing Sites, and 6. Other. The authors attempt to provide a conceptual framework for understanding how users find travel information by classifying the various social media into these six categories. While the paper offers the hope of a classification scheme, the conclusion ultimately is that users primarily seek information via search engines. They do not succeed in positing a cohesive taxonomy for travel websites. The list itself is not mutually exclusive in that media sharing sites can be overlapping with social networking sites etc.

Kietzmann and Hermkens (2011) attempted to address the lack of understanding what social media are and how it might be used by presenting a honeycomb framework of seven social media building blocks to provide an understanding of who the audience is for a particular social media and what their engagement needs are. The seven building blocks are: 1. Identity (revealing identities in social media; e.g. LinkedIn), 2. Conversations (ability to communicate with other users; e.g. Facebook), 3. Sharing (ability to exchange, distribute and receive content; e.g. YouTube, Flickr), 4. Presence (can users know if other users are online; e.g. FourSquare, Skype, Facebook, Google+), 5. Relationships (extent to which users can be related to other users; e.g. Skype, LinkedIn), 6. Reputation (identify the standing of themselves and others; e.g. StumbleUpon, LinkedIn) 7. Groups (ability to form communities and sub-communities; e.g. YouTube, Google+). While this design also includes overlapping categories, it distinguishes between the various websites by examining how each are used. This taxonomy allows us to classify both the social media sites and their users in one model. The model itself needs to be refined and defined more before it could actually be used as a theoretical basis for research. Empirically it would not work to classify a specific website since the site can belong to more than one category.

What complicates the typologies described above is the use of mobile devices and other platforms that host social networking sites. Social media that is available on a PC is not represented the same way on mobile devices such as smartphones, ipod's and tablets. The capabilities of a mobile site may be diminished in some ways, and enhanced in other ways. Kaplan (2010) explores the use of mobile social media and how it is distinguished from PC based social media in two very important ways. First it incorporates location/GPS information about the user (location sensitive), and second it may incorporate a time delay between the sending and receiving of information (time sensitive). Using these differences, Kaplan has constructed four typologies specifically designed for mobile social media applications as follows: 1. Space-timers (location and time sensitive; e.g. Foursquare) 2. Space-locators (only location sensitive; e.g. Yelp), 3. Quick-timers (only time sensitive; e.g. Twitter), and Slow-timers (neither location nor time sensitive; e.g. YouTube).

Other studies that seek to create a taxonomy for social media and social networking include a proposed taxonomy of social networking based on the size, business model, and attitudes of the business owner (Harris, Rae & Misner, 2012) . This proposed taxonomy was based on empirical data collected from 645 firms in the USA and Europe. The perspective of this taxonomy was on the differences between the small business owners in their responses to an online survey. While providing a useful contribution to the literature in highlighting how small business owners use Web 2.0 tools, it does not further our understanding of developing a taxonomy for either social media or social networking per se.

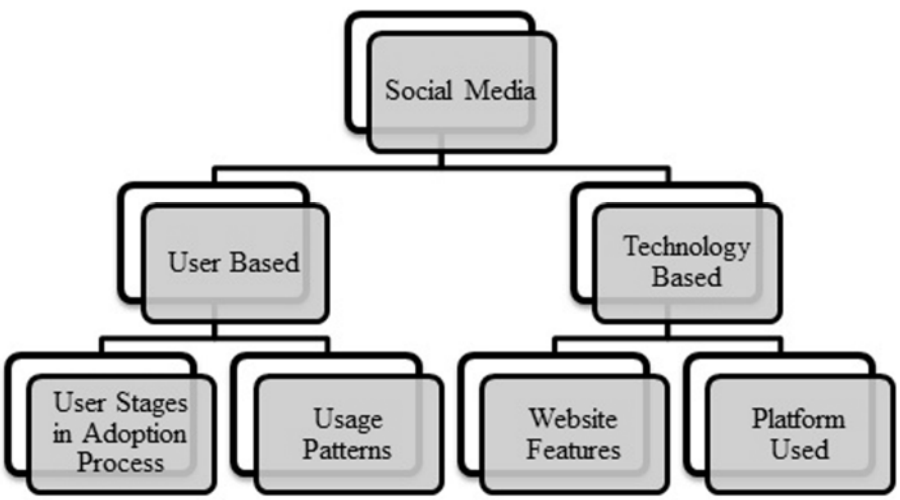
CREATING A TYPOLOGY OF TAXONOMIES: AN ATTEMPT TO CATEGORIZE EXISTING CLASSIFICATION SCHEMES

It is apparent that there is no standardized taxonomy for social media or social networking. Furthermore, there are no standardized definitions for using terminology, so while one study uses the term *social media*, another study uses the term *social networking*, and both research studies are referring to the same variables of interest. A literature review reveals four basic types of methodologies that are frequently employed to create a taxonomy for social media research. These four methodologies are: user stages in the adoption process, usage patterns such as frequency of use and purpose, website features, and platform used. These methodologies can be simplified into two broader categories; user based and technology based (Figure 1).

Before developing a taxonomy of social media it must first be determined which of these two broader categories best fits the purpose of the research. Studies conducted over the past decade are not consistent in distinguishing between these two very different approaches. It is proposed that we use either one or the other approach depending on the types of studies that are being conducted. Studies examining social media segmentation and targeting strategies are more likely to look at variables by user based profiles rather than website technology. For example, in their attempt to segment the Web 2.0 market in order to better understand social media Carlota, Efthymios, del-Amo, and del-Carmen (2010) conclude that the degree of online experience (i.e.

stage in adoption process) is one of the most important predictors of trust and satisfaction with social media. They use frequency and duration of Internet access, access locations, and online purchasing habits to segment the market. They include in the study various types of Web 2.0 pages visited by users, including blogs, social sites, file-sharing sites, etc. without really differentiating between these sites. Their conclusion is to identify three differentiated segments of Web 2.0 users; embryonic, amateur, expert. This type of study is typical of a user based approach to classifying social media.

Figure 1: Frequently Employed Methodologies for Classification in Social Media Research



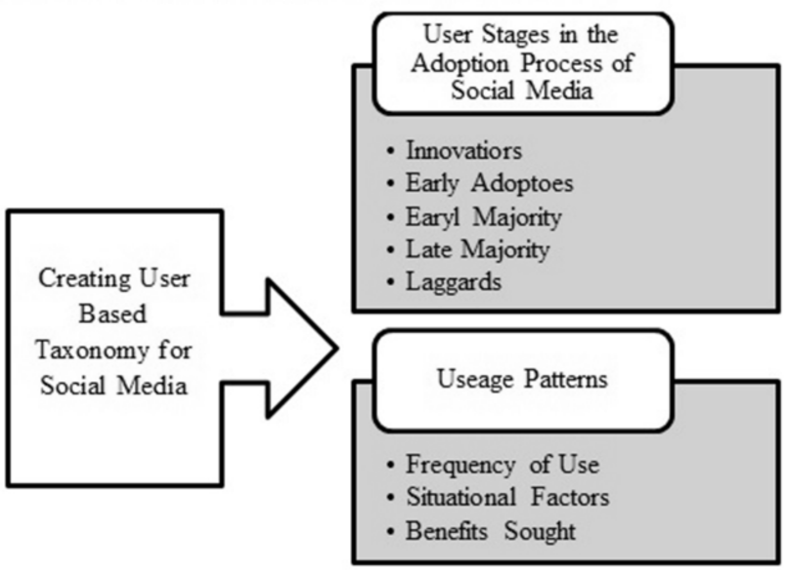
On the other hand, studies examining the usefulness of social media marketing tend to focus on the technology rather than the users. Trattner and Kappe (2012) use this approach to examine the results of a social marketing campaign using Facebook. These researchers examine the use of tools and applications such as the Facebook Like Button and the Facebook Application Post method and the effectiveness of placing ads on a user's social steam. While this study is technology based, the conclusions of the study point to a user based strategy by finding relevance in user based variables. These relevant user based variables include the number of friends, number of likes, number of comments, activity level based on lag between posts, and interestingly, the number of Second Life fan page likes.

There is no question that both approaches are needed to understand the usefulness of social media in developing and maintaining a cohesive and effective marketing strategy. An example of this is a study by Kocak and Oyman (2012). These researchers look at the frequencies of use of various social media platforms by user characteristics. This study combines an analysis of the usage patterns with the various social media platforms used ranging from social networking sites to blogs, wikis, and podcasts.

The first decision to be made in conducting research in social media is to determine whether the analysis will focus on user based characteristics or will be technology based. These two categories are not mutually exclusive, but the research design must state which classification scheme is primary. A user based approach can first segment the users based on stages in the adoption process or usage patterns, and then more closely examine the tools and platforms used. A technology based approach can focus on the different tools and platforms available to users, and then as a secondary approach segment each tool by user based characteristics.

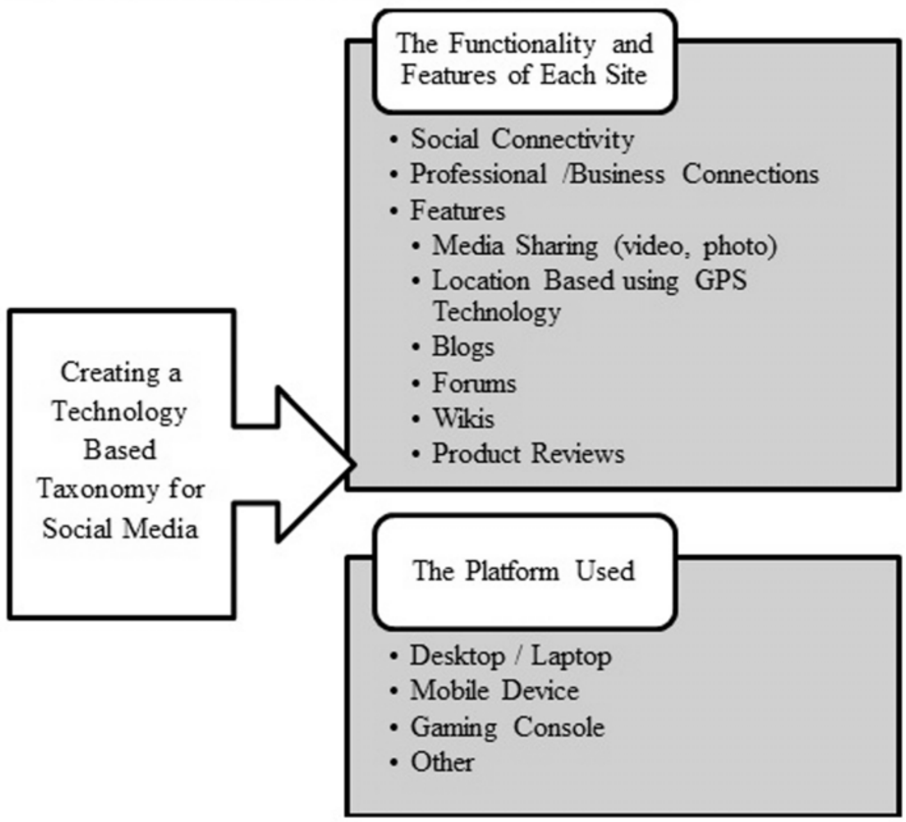
A user based taxonomy is rooted in classical diffusion of innovation theory. This approach segments users based on where they are in the adoption process, and how they use technology based on observable patterns. These segments are Innovators, Early Adopters, Early Majority, Late Majority, and Laggards (Rogers, 1963, 2003). These segments can be determined by the amount of time spent on various sites and the level of activity and contribution to those sites. As part of this classification scheme the researcher can examine the primary benefits the user is seeking, whether it is to stay in touch with friends, get recommendations for products or entertainment, network for jobs, share a video, etc. The focus in this taxonomy is the user's perspective (Figure 2).

Figure 2: User Based Taxonomy for Social Media



A technology based taxonomy relies on the functionality of each site and the platform that is being used to develop a classification scheme. The focus here is not on the users, but rather on the websites and the tools and applications that are available. Some sites allow for real-time GPS data to be incorporated into the networking features. Others allow music to be shared, but not photos or video. Other sites are purely video sharing or photo sharing. Still others offer only one way communication and do not allow users to participate in an exchange of ideas. This taxonomy also distinguishes between platforms used, such as PC, tablets, and smartphones. With the advent of newer technologies this schema will need to be updated very frequently and might not be practical for that reason. As an example, the introduction of Google Glass, and the integration of social media on gaming consoles further complicates this classification scheme. (Figure 3).

Figure 3: Technology Based Taxonomy for Social Media



DIRECTIONS FOR THE FUTURE

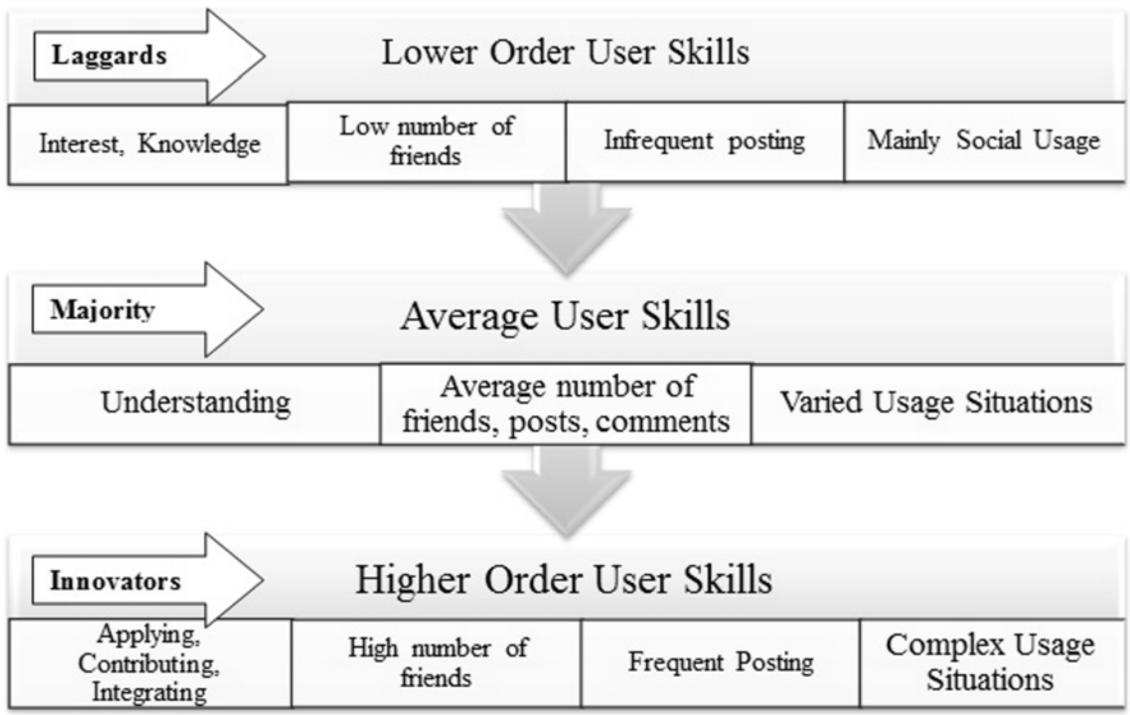
To move forward in developing insights into the usage of social media the research community must first agree on an accepted definition for social media and social networks. This can be accomplished by standardizing published research to conform to a set usage of basic terminology. Editors of journals and reviewers would have to agree to conform to the suggested categories and insist on this terminology by authors. The first place to start would be with the terms social media, and social networking sites. Once that distinction is recognized and adhered to, then other terms such as mobile social media, social media marketing can be addressed. The definitions by Kapplan and Haenlan (2010) and Boyd and Ellison (2007) are a good starting point. The definition for social media by Kaplan and Haenlein (2010) and has been cited 1441 (Retrieved 5/01/13) times in the past two years according to Google Scholar, showing considerable acceptance of this definition. Social networking has been defined by Boyd and Ellison (2007) and has been cited 3572 times according to Google Scholar (Retrieved 5/01/13) showing the definition to be widely accepted. The major issue with this quest using a technology based approach is the ever changing landscape of the Internet. The melding of technologies makes separating out distinct categories an almost futile task. Any taxonomy that is created must allow for the adaption of new categories as technology changes. A user based taxonomy would not suffer from this drawback, but constrains the researcher to look at social media only from the user's perspective and not the medium.

It would facilitate the classification process if a central and universally recognized and respected organization took charge as "the keeper" of social media terminology just as the International Commission on Zoological Nomenclature developed an international code for the taxonomy of biological organisms. When a new species is discovered, a structure is in place to allow biologists to classify that species within the framework of the accepted code. New terminology in social media is developing at such a fast pace, it is difficult to keep up. For example, a recently added term to the social media landscape is "social broadcasting." Shi, Rui, and Whinston (2013) attempt to classify Twitter as a combination broadcasting service and social network in their article on social broadcasting. The authors introduce a new terminology called "social broadcasting technology." This new terminology must be integrated into a taxonomy in a standardized manner.

Although it is tempting to give up on the search for a grand classification scheme, it is too important an endeavor. The above discussion shows that there are two main ways of classifying social media; by examining the users, and by looking at the technology used. Classifying the websites is the most challenging endeavor, and probably not as useful to business research as classifying the users. In an attempt to develop a taxonomy of social media websites we discover that the parameters keep changing as the technology changes. What were once mutually exclusive and collectively exhaustive categories in the 1990's are no longer so. Worse yet, we have no way of knowing what the future holds, and developing any taxonomy at this point would probably result in an obsolete and useless classification scheme in less than a decade. A case in point, it is hard to imagine anyone predicting the use of GPS technology and its integration into social media ten years ago before "smart" phone were introduced into the market.

Shirkey (2005) made this point by drawing very much the same conclusions as just discussed. He reviews the usefulness of the Periodic Table, the library classification schemes, and even Yahoo and its shortcomings. In summary, Shirkey believes that ontological classification works better in some disciplines than in others. As a scientific tool it is a good thing, but when applied to classifying the Internet it is useless. With the ever-changing face of the Internet he concludes that while a classification scheme is good for science in general, it has fallen short of expectations in many disciplines including the classification of the Internet.

Figure 4: Taxonomy of Social Media Usage



It is therefore recommended that any attempt at developing a taxonomy for social media (once the nomenclature has been resolved) should focus primarily on users rather than websites. Focusing on usage patterns and the benefits derived will allow researchers to focus on the most important part of business research, understanding consumer behavior and segmentation strategies. This taxonomy can use Rogers' (1962, 2003) adopter categories and Bloom's taxonomy of learning objectives (1956) as a foundation for developing a taxonomy that looks at the objectives of users. The taxonomy can either focus on the level of usage based on how frequently the social media is used and for what purpose. Within the same framework the taxonomy would classify users by what benefits they expect to gain using social media, whether it is to foster business or social relationships, to learn about products, or to acquire education about unfamiliar topics. Figure 4 depicts this type of framework. Social Media users are classified based on their usage patterns and frequency of use. Users with lower order skills are generally lagging in their usage of social media and other technology based media. Usage level can be measured by number of friends and the time lag between postings. The benefits sought from social media are also minimal for users with lower order usage skills. At the other end of this spectrum are users with higher order skills that are superior in their knowledge and usage of social media. These users have a higher than average number friends, posts, comments, and other social tags. They will also use social media in highly complex ways and for a wide variety of usage situations from personal to professional.

The goal of this proposed taxonomy of social media is to foster further discussion and lead to a more widely accepted model for a user based taxonomy. After an exhaustive review of the literature we can conclude that ultimately most of the research is concerned with user activity. From a practical point of view, the user is a constant. It is the technology that is changing in unpredictable ways and therefore difficult to classify. By focusing on the user we can move forward to developing a classification scheme for any type of social media, whether it offers networking capabilities or not. This type of classification scheme could then be used as the foundation for a vast majority of the social media research even as the terminology and technology continues to evolve. It is hoped that once this taxonomy is developed it will be universally accepted as Bloom's taxonomy is for education research and Rogers model for studying the diffusion of innovation. These two models have withstood more than 50 years of changes in society and technology, and they are still used as foundations for their areas of study. It is hoped that by using these suggestions a taxonomy for social media can be develop that will also withstand the test of time.

REFERENCES

Bardo, J. (2012). The Taxonomy of Social Media, *Social Media Today*, Retrieved April 23, 2013 from http://socialmediatoday.com/jessebardo/1084676/taxonomy-social-media

Bailey, K. D. (1994). *Typologies and Taxonomies - An Introduction to Classification Techniques*. Thousand Oaks, California: Sage Publishing.

Bloom, B., (1956). *Taxonomy of Educational Objectives, Handbook I: The Cognitive Domain*. New York: David McKay.

Boyd, D.M. & N.B. Ellison, (2008). Social Network Sites: Definition, History, and Scholarship, *Journal of Computer-Mediated Communication*,13(1), 210-230.

Brandtzæg, P.B. & J. Heim, (2011). A Typology of Social Networking Sites Users. *International Journal of Web Based Communities*, 7(1), 28-51.

Harris, L., A. Rae & I. Misner, (2012), Punching above their weight: The Changing Role of Networking in SMEs. *Journal of Small Business and Enterprise Development*, 19(2), 335-351.

Hevner, A. R., March, S. T. and Park, J. (2004). Design Science in Information Systems Research, *MIS Quarterly*, 28(1), 75-105.

Kaplan A.M. & M. Haenlein, (2010). Users of the world, unite! The challenges and opportunities of social media, *Business Horizons*, 53, 61.

Kietzmann, J.K. Hermkens, I. McCarthy & B. Silvestre, (2011). Social media? Get serious! Understanding the functional building blocks of social media, *Business Horizons,* 54, 241–251.

Kocak, N. & M. Oyman, (2012). Social Media Usage Behaviors of Individuals: An Application in Eskisehir. *International Journal of Business and Social Science*, 3(22), 177-188.

Lardinois, F., (2012). Waze Doubles Its User Base To 20 Million In 6 Months, Retrieved April 23, 2013 from http://techcrunch.com/2012/07/05/waze-20-million

Lorenzo-Romero, C., C. Efthymios, A. del-Amo & M. del-Carmen, (2010). Segmenting the Web 2.0 Market: Behavioral and Usage Patterns of Social Web Consumers. *Journal of Business Case Studies*, 6(7), 55-66.

Li, J., H. Wang, H. Khan & U. Samee, (2012). A Semantics-based Approach to Large-Scale Mobile Social Networking, *Mobile Networks and Applications*, 17, 192-205.

Rogers, E.M. (1962, 2003), *Diffusion of Innovations,* New York, NY, Free Press.

Schiffman, L. & L. Kanuk, (2010). *Consumer Behavior*, Boston, Mass., Pearson Higher Education.

Shi, Z., H. Rui, & A.B. Whinston, (2013). Content Sharing in a Social Broadcasting Environment: Evidence from Twitter, *MIS Quarterly,* forthcoming, Retrieved April 23, 2013 from *http://www.misq.org/skin/frontend/default/misq/pdf/Abstracts/ShiRuiWhinstonAbstract.pdf*

Shirky, C., Ontology is Overrated: Categories, Links, and Tags, Retrieved April 23, 2013 from *http://www.shirky.com/writings/ontology_overrated.html*

Trattner, C. & Kappe, F. (2012). *Social Stream Marketing on Facebook: A Case Study, International Journal of Social and Humanistic Computing, 56-58.*

Xiang, Z. and Gretzel, U. (2010). Role of Social Media in Online Travel Information Search, Tourism Management, 32 (2), 179-188.

THE EMPATHETIC SORTING TECHNIQUE: MEASURING CORPORATE CULTURE BY SORTING ILLUSTRATED VALUE STATEMENTS

Norihiko Ogawa, Hosei University
Kiyoshi Takahashi, Kobe University
Daisuke Osato, Fukuoka Jo Gakuin University

ABSTRACT

The purpose of this study was to examine the factor structure of a set of scales that were designed to measure seven dimensions of corporate culture: 1) collectivistic vs. individualistic, 2) human-oriented vs. task-oriented, 3) autonomy vs. heteronomy, 4) logical vs. intuitive, 5) innovative vs. conservative, 6) process-oriented vs. result-oriented, and 7) long-range oriented vs. short-range oriented. The scales adopted the empathetic sorting technique that asked respondents to rank the degree to which they felt empathy to the seven value statements with illustrations. The confirmatory factor analyses showed that the hypothesized seven-factor model of corporate culture fitted well the data obtained from Japanese university students (n=10,787). Implications for putting the present scales into staffing practices are discussed.

INTRODUCTION

The purpose of this study was to develop a tool to assess corporate culture, and to verify the factor structure and the reliability of the measure. It was part of a research project to develop a personnel selection tool to assess the degree of fitness between corporations and their new applicants.

It has been reported that 'the collective hiring of new graduates' is a practice of Japanese companies (e.g., Cabinet Office, Government of Japan, 2006). This is the prevailing practice of big and small companies in Japan; they adopt third-year undergraduates as prospective regular employees for the next company year. This practice, also called the 'principle of new graduate hiring,' is closely related to the custom of long-term employment (known as lifelong employment) in Japan, wherein Japanese companies tend to adopt under-developed young talent and train them in the long term rather than hiring personnel with specific job abilities or full-time job experience.

Despite widespread rumours regarding the collapse of the lifetime employment system among Japanese companies, our research on 413 listed companies in 2011 has shown that 56% of the companies continue to follow the lifelong system, and 64% retain long-term employment (Ogawa & Osato, 2013a, forthcoming). According to the report, 76% of the companies have adopted a tenure-based payment system, and 85% of the companies use a tenure-based promotion system. These data suggest that the Japanese companies retain the traditional human resource management practice of nurturing young newcomers in their early twenties for a long term.

The requirements or standards set for new employees, when companies adopt new graduates who do not have specific job ability, are classified into (1) general cognitive or intellectual abilities, enabling quick and effective learning of new tasks, and compatibility with a company, enabling them to work for the company long-term. As Ogawa & Osato (2013b, forthcoming) suggested, most Japanese companies demand a certain level of the former intellectual abilities, and the higher the level of abilities, the better the applicant evaluated if other conditions were constant. Commercial assessment tools, which include basic mathematics, measured this general intellectual ability, and the results of the assessment often function as 'cut-off points' at a relatively early stage of the selection process (Ogawa & Osato, 2013b, forthcoming). The latter compatibility with a company is the requirement for long-term continual service. It consists of compatibility with the nature of work the company is engaged in, and compatibility with group members, to communicate smoothly and build and maintain cooperative relationships (Ogawa & Osato, 2013b, forthcoming).

In the process of the evaluation of compatibility, the most popular criterion companies use was 'whether the interviewer wants to work with the applicant or not' (if the interviewer is a manager, that was translated as 'whether the applicant is adequate to be his/her subordinate or not'). The companies repeatedly judged their applicants by members of different departments and managers with different positions. During the interview process, the applicant's characteristics, values, and behaviours were evaluated through his or her responses to random questions rather than structured and explicit questioning (Ogawa & Osato, 2013b, forthcoming). As a whole, the process was very subjective and comprehensive.

The viewpoint of compatibility might be thought much of when the applicants who may be 3rd year college students select their employer. Ogawa & Osato (2011) explored the criteria that Japanese college students used to choose their employment companies, using a policy-capturing method, and showed that the compatibility of company characteristics was as important to students as the salary.

As shown above, though compatibility between the organization and persons was regarded as an important standard when they select each other, the evaluation of compatibility was a blinded and subjective tacit process. The present study was an empirical trial to investigate the aspects or contents of group compatibility. In other words, our aim was to develop a new recruitment tool which enabled the explicit evaluation of person-organization compatibility, focusing on the organizational culture of a company (we use 'organizational culture' and 'corporate culture' interchangeably), which was rooted in an almost unconscious level (Schein, 1985) and functions as a criterion for decision making regarding hiring or joining (Itami & Kagono, 1989).

REVIEW

2.1 Assessment of Person-Organization fit

Before exploring the dimensions of corporate culture, it was useful to discuss the construct of person-organization fit (P-O fit). Most studies on this subject showed that P-O fit had positive effects on an employee's organizational commitment and performance, and had negative effects on turnover (Hoffman & Woehr, 2005; Verquer, Beehr, & Wagner, 2003).

However, there were at least two hard questions we should consider: what did the word 'fit' or 'match' mean, and how the construct should be operationalized?

P-O fit is a subcategory of person-environment (P-E) fit, which was defined as 'the degree of congruence or match between a person and environment' (Kristof, 1996, p.3). P-E fit also encompasses person-vocation fit, person-job fit, person-group fit, and person-person fit. To assess P-O fit, it was important to determine which organizational objects should be used, because the organization had multiple matching objects such as vocation, job, sub-groups, and persons (managers and peers).

In addition, the construct of fit includes supplementary and complimentary fit as shown in Kristof's (1996) comprehensive definition: 'the compatibility between people and organizations that occurs when: (a) at least one entity provides what the other needs, or (b) they share similar fundamental characteristics, or (c) both' (pp. 4-5). Therefore, operationalization of the construct involved making various choices of terms and imposing limits.

Based on our purpose to develop a hiring tool for new graduates, supplementary fit was used in this paper. Most Japanese new graduates did not have specific job-skills or competencies, and so it was thought that the complementary perspective, which assumed that persons had certain abilities that the companies need, was not suitable for them. The second reason for which we chosed supplementary fit was related to the hiring standard of Japanese corporations. The most common standard used in hiring new graduates was 'whether the employment interview officials want to work together with him/her or not' (Ogawa & Osato, 2013b forthcoming). An applicant chosen by this standard would typically be a person with something in common with other members of the organization, that is, a person with similarity to existing members. Interviewers tend to appreciate applicants with characteristics similar to themselves (Silvester, et al., 2002; Simons, 1995; Graves & Powell, 1988).

In addition to the meaning of the fit construct, another problem existed that should be examined: what characteristics of the organization should be focused on when we assessed the P-O fit? At least four categories of P-O fit had been suggested (Kristof, 1996): value congruence, goal congruence with organizational members, match between individual preferences or needs and organizational systems and structures, and match between the individual personality and organizational personality (climate).

We should use the characteristics of the organization to assess the degree of matching because our purpose was to develop a corporate hiring tool. Corporate culture was adopted especially because it was thought to be a relatively stable characteristic of organization compared to others such as organizational objectives, structures, or strategies (Chatman, 1991). The term 'corporate culture' refers to the values shared by the members of a certain corporation. With the custom of long-term employment in Japanese companies, it seems essential that applicants are congruent with the critical organizational values.

Because corporate culture functions as a criterion in organizational decision-making (Itami & Kagono, 1989), it was also expected to play the role of a criterion for selecting new applicants.

From our arguments, it seems appropriate, at least in the context of Japanese employment practices, to adopt supplementary perspectives and to use organizational culture (value) to assess the compatibility between an organization and a person. We examine the dimensions of organizational culture in the following section.

2.2 Dimensions of corporate culture

There were many definitions of organizational or corporate culture, such as 'a pattern of basic assumptions—invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration' (Schein, 1985, p. 9), 'the pattern of shared beliefs and values that give members of an institution meaning, and provide them with the rules for behaviour in their organization' (Davis, 1984, p.1), and 'the way of thinking and/or the way of viewing and feeling shared by organizational members' (Itami & Kagono, 2003, p.349: the writers translated this definition from the original Japanese work). However, 'there seems to be agreement that organizational culture refers to a system of shared meaning held by members that distinguishes the organization from other organizations' (Robbins & Judge, 2007, p.248).

Previous studies of corporate culture seemed to have been performed in an idiographic manner (e.g., Deal & Kennedy, 1982; Ouchi, 1981; Peters & Warterman, 1982). Idiographic approaches might be based on the viewpoint that it is impossible to understand the essence of corporate culture quantitatively (e.g., Schein, 1985). It will surely be difficult to understand corporate culture by using a questionnaire, which demands awareness of organizational culture from respondents, if the substance of corporate culture is 'basic assumptions and values' (Schein, 1985).

Although we recognized the importance of the idiographic approach, in this study, we focused on the level of 'espoused value' (Schein, 1985) of organizational culture in light of our purpose to develop a tool for hiring.

The corporate culture assessed by cognitive methods is not always shared by organizational members, because cognition is a personal experience. However, 'espoused' or explicit value stated in words affords the possibility of a shared culture because every organizational member can recognize the words.

With regard to cognitive approaches to corporate culture, a concept similar to organizational culture is organizational climate. It was defined as a 'set of characteristics that (a) describe the organization and distinguish it from other organizations (b) are relatively enduring over time and (c) influence the behaviour of people in the organization' (Forehand & Gilmer, 1964, p.362). As shown in this definition, organizational climate is a comprehensive construct and can include organizational or corporate culture. Although some researchers have strictly distinguished between the two concepts, it is appropriate to include both in this study because (1) we cannot but depend on the perceptions of the respondent organizational members at the time of assessment, (2) each construct refers to enduring organizational characteristics, and (3) both affect the attitude of organizational members.

Even at such a cognitive level, there seems to be little agreement about the common dimensions that can be used to describe organizational culture or climate. The P-O fit measure of O'Reilly, Chatman, & Caldwell (1991), which used the Q-sort technique, has often been employed in European and American studies (Van Vianen, 2000), but we believe there are not many studies on P-O fit itself in Japan. In addition, many research studies have proposed their original dimensions of organizational culture and climate. Sakikawa (1998 in Japanese) extracted seven organizational cultural dimensions from the data of 361 Japanese companies: strategic, human relations, bureaucratic, merit system-like, intuitive, consensual, and boosting sales. Similarly, Sato (2009 in Japanese) suggested eight pairs of dimensions, such as organizational vs. individual, based on a literature review. Ogawa & Osato (2010), the authors of this study, also employed the measure of O'Reilly, Chatman, & Caldwell (1991) in 277 listed Japanese companies and found six dimensions: enterprising, result-oriented, cooperative, freedom-oriented, stable and secure, and precise. In sum, although various cultural dimensions have been presented, the attempts to integrate those findings have been limited, and the results are divergent.

Therefore, prior to this study, Ogawa, Osato, & Morinaga (2012) reviewed existing Japanese studies on organizational culture (Adachi, 1982; Ogawa & Osato, 2008, 2010a; Kagono et al., 1993; Kono, 1989, 1993; Sakai, 1990; Sakikawa, 1998; Sato, 2009; Sekimoto & Misawa, 1997; Nishikawa, 1984; Takahashi, 1989; Umezawa, 1983) as well as the Western studies (Bower, 1983; Cambell et al., 1970; Collins & Porras, 1994; Deal & Kennedy, 1982; Hall, 1976; Hofsted, 1980, 1991; Hofstede et al., 1990; Likert, 1967; Litwin & Stringer, 1968; Kluckhohn & Strodtbeck, 1961/Mead, 1998; O'Reilly, et al., 1991; Ouchi, 1981; Payne & Pheysey, 1970; Peters & Warterman, 1982; Tayeb, 1988; Trompenaars, 1993; Walton, 1985). Next, Ogawa and Osato both independently classified the dimensions of organizational culture, and each result was integrated into 20 dimensions. The proposed 20 dimensions of organizational culture were examined using questionnaires administered to 392 Japanese listed companies. Data were subjected to exploratory factor analyses, and ultimately 14 dimensions were identified (Ogawa et al., 2012; Osato, Ogawa, & Morinaga, 2012): innovative, collectivistic, long-term oriented, prompt oriented, analytic, sensuous, result-oriented, process-oriented, autonomous-minded, familistic, top-down, quality-oriented, cautious, and matter-of-fact.

Moreover, through the exchange of opinions with six businesspersons familiar with adoption practices and with two other researchers who are conversant with adoption studies, including our co-author Takahashi, we finally narrowed the values down to seven dimensions: (1) collectivistic vs. individualistic, (2) human-oriented vs. task-oriented, (3) autonomy vs. heteronomy, (4) logical vs. intuitive, (5) innovative vs. conservative, (6) process-oriented vs. result-oriented, and (7) long-range-oriented vs. short-range- oriented.

Collectivistic vs. individualistic referred to whether the organization emphasized organizational (or group) objectives, or personal thought and interest. *Human-oriented vs. task-oriented* referred to whether the organization emphasized economic rationality, or instead attached great importance to consideration of its members' individual opinions in decision-making. *Autonomy vs. heteronomy* referred to whether the organization encouraged the members to act based on their own ideas or faithfully abide by rules and orders. *Logical vs. intuitive* referred to whether the organization considers logic and scientific attitudes or feeling and intuition to be critical in problem solving. *Innovative vs. conservative* referred to whether conventional customs and traditions were regarded as important, or whether high value was placed on changing. *Process-oriented vs. result-oriented* referred to whether the organizational members tended to value aspects of the process leading to a result, such as input effort and adequacy of procedures and methods, or only the result. (7) *Long-range-oriented vs. short-range-oriented* was concerned with whether the value of something was accepted even when a result was not immediate (a long-term view) and tackling that thing was encouraged, or if only immediate results were appreciated.

The present study examined whether values related to these seven cultural dimensions could be identified in Japanese undergraduates by using the empathetic sorting technique explained in the following section. The validity of the measuring method was also confirmed through data analysis.

METHODS

3.1 Overview

A web-investigation was conducted on 10,787 students who agreed to participate in this research. They were chosen from 100,000 registrants who included graduate students, college students, junior college students, and vocational training school students who had registered with an employment support website. All responses were voluntary and confidential.

Data were collected from the beginning of February until the end of March 2012. Items about attributes such as age, sex, school years, and other associated items were included in the questionnaire in addition to the items on the aforementioned seven dimensions.

3.2 Samples

The average age of the 10,787 respondents was 21.5 years (s. d. 1.13). Further, 58.5 % of the sample was female, and 41.5% was male.

As for school years, 218 (2.0%) were in the 1st year, 29 (0.3 %) were in the 2nd year, 8,336 (77.3 %) were in the 3rd year, 471 (4.4 %) were in the 4th year, and 1,733 (16.15%) were graduate students and others. The sample consisted largely of first-year (junior college) and third-year students (university) because Japanese university students and junior college students generally look for jobs one year before they graduate.

3.3 Sympathetic sorting technique

The measure of O'Reilly, Chatman, & Caldwell (1991) using the Q-sort technique has been utilized relatively often when assessing organizational culture. The Q-sort technique is a method that lets a respondent classify cards of measurement items according to the number approximated to a normal distribution (e.g., 2-4-6-9-12-9-6-4-2), and thereby allows the identification of various unique dimensions of corporate culture. Using the Q-sort technique, compatibility between an organization and a person can be judged by comparing the personal value preferences profile to the value profile of an organization (corporate culture) and checking for similarity.

However, the technique has some limitations, for example, the difficulty of comparison between the same value dimensions, and the lack of information about the fitting direction whether there is a deficiency or an excess of a particular value (Edwards, 1993).

As a preparatory step for this research (cf., Ogawa, et al., 2012), the common dimensions of Japanese corporate culture were explored with two premises: (1) in spite of various value dimensions, Japanese companies have some values or culture in common, just like the well-known Big Five model of personality, and (2) among those common dimensions, certain values substantially influence the quality of P-O fit.

In order to reflect these two premises in our assessment, respondents were allowed to classify each item describing the seven values in a way that integrates the 'alternate ranking method' (Cascio, 1991) and 'the forced distribution method.' First, a set of seven items, each of which represented seven values, were presented to respondents. The respondents chose the item they sympathized the most with and the item they sympathized the least with. Then, they chose the second item they sympathized the most with and the one they sympathized the least with. The remaining three items (representing three value dimensions) were automatically classified as 'moderate sympathetic.'

The item with which a respondent could sympathize most was given five points, the item sympathized with next was given four points, items moderately sympathized with were allotted three points each, the second-least sympathized item was allotted two points, and the least sympathized item was marked one point.

The assessment to classify a set of seven value items was repeated eight times and, according to the conversion rule, the sum total of points was considered to be the score of each value dimension.

We named this measuring method the 'empathetic sorting technique' (EST). In contrast to the Q-sort technique, the EST can compare the same value dimension between a person and an organization, as well as compute the relative importance of each value dimension for an organization or person.

For the EST, we also developed the items with illustrations (Figure 1). In this study, we developed the eight items for each of the seven dimensions of corporate culture.

Traditional psychological assessments depending on written information are based on premises that respondents have enough cognitive ability to understand the text of items, and should have the ability to continue to respond adequately to a large number of items. Although every questionnaire item needs respondents to have a certain level of patience to read and respond to many items, it might be difficult to maintain adequate level consentrations. Such a problem can occur in the judgment of the answer too. Researchers know that rating errors, such as leniency, strictness, or central tendency errors, are likely to occur as a result of having reserved uneasy judgments or decreasing cognitive ability. Traditional test theory has compensated for those problems by collecting many samples.

However, in the assessment of P-O fit, it is more important to measure each personal response precisely than to make the distribution of the whole response data normal. In this study, to record the respondent's unconscious feelings as well as their cognitive value, we developed the items with wise sayings that reflect corporate values and attached illustrations that evoke spontaneous preferences because of the tacit characteristics of one's values. We also administered these stimuli to respondents so that the respondents did not get bored with the text-based questions.

We also designed the answering method such that respondents could sort the items with illustrations themselves by dragging and dropping them, in order to utilize the advantage of web-based research. This device also prevented neglectful response attitudes that arise owing to the monotony of simply clicking a radio button.

The present study was a trial to verify the factor structures of the newly developed EST and to confirm that it has sufficient internal consistency.

RESULTS

4.1 Results of confirmative factor analyses of the EST

To test how adequately the hypothesized seven dimensional models of corporate culture fit the sample data, a confirmatory factor analysis was performed for each dimension on the 8 observed items (figure 4.1-7). Table 4.1 shows the goodness-of-fit indices (GFI, AGFI, RMR, RMSEA) for each dimension as well as Cronbach's alpha reliability coefficients.

Table 4.1 The indices of fitness and reliabilities

dimensions	GFI	AGFI	RMR	RMSEA	α
Collective vs. Individualistic	.99	.99	.02	.04	.78
Human-oriented vs. task-oriented	.97	.95	.05	.07	.76
Autonomy vs. Heteronomy	.99	.98	.04	.05	.64
Logical vs. Intuitive	.98	.96	.05	.07	.72
Innovative vs. Conservative	.99	.98	.03	.04	.77
Process-oriented vs. Result-oriented	.99	.98	.03	.04	.75
Longterm-oriented vs. Shortterm-oriented	.96	.93	.07	.09	.64

As for the goodness-of-fit index (GFI) (the variance ratio accounted for by the estimated population covariance) and the AGFI (which adjusted the GFI by degrees of freedom), all seven models exceeded the criteria of .90. These data show that the models had adequate fit.

The root mean square residual (RMR), which represents the average residual value of variance-covariance, was less than .05. This indicates adequate fit, except for the model of long-range oriented vs. short-range oriented. Even the RMR of long-range-oriented vs. short-range-oriented was .07, a value below .08, which has previously been deemed acceptable (Hu & Bentler, 1999).

The root mean square error of approximation (RMSEA), the index representing the distance per 1 degree of freedom between the distribution of the model and the true distribution, was under .05 for four models apart from the human-oriented vs. task-oriented, logical vs. intuitive, and long-range-oriented vs. short-range-oriented ones. Values below .05 indicate good fit. The RMSEA values of the three models in question were under .10, which were considered acceptable. However, the model of long-range-oriented vs. short-range-oriented had an RMSEA of .09, which indicates rooms for item improvement.

While the chi-square value is a widely used measure of overall model fit, we did not use it in this study in consideration of our sample size (n = 10,787). For large samples, chi-square results are almost always significant, thereby indicating that the model should be rejected (Bentler&Bonnet,1980; Jöreskog&Sörbom,1993; Hooper, et al., 2008).

Figure 4.1 The result of the CFA on collectivistic vs. individualistic dimension
Note: All the path coefficients were significant at the level of .01.

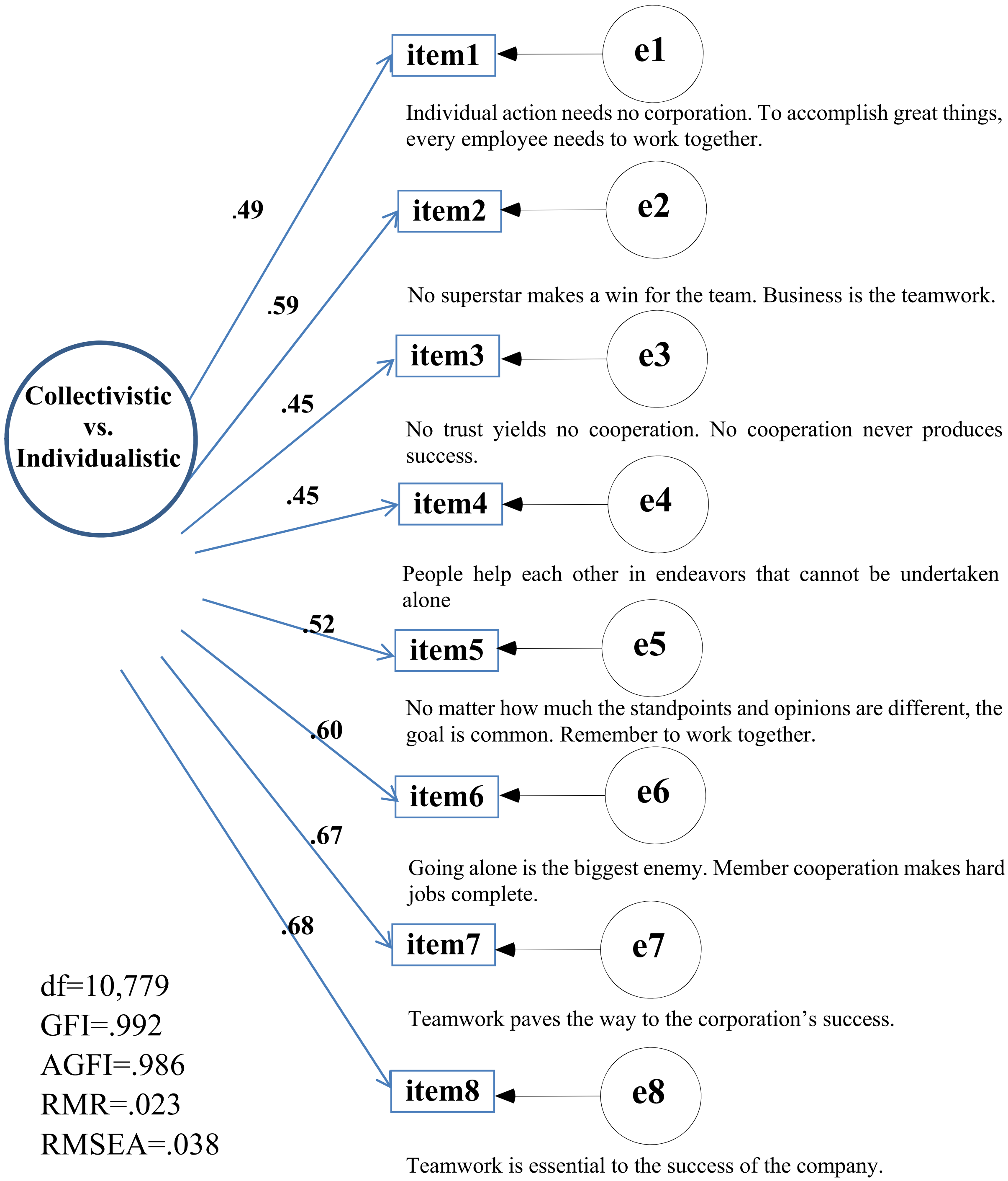


Figure 4.2 The result of the CFA on human-oriented vs. task-oriented dimension
Note: All the path coefficients were significant at the level of .01.

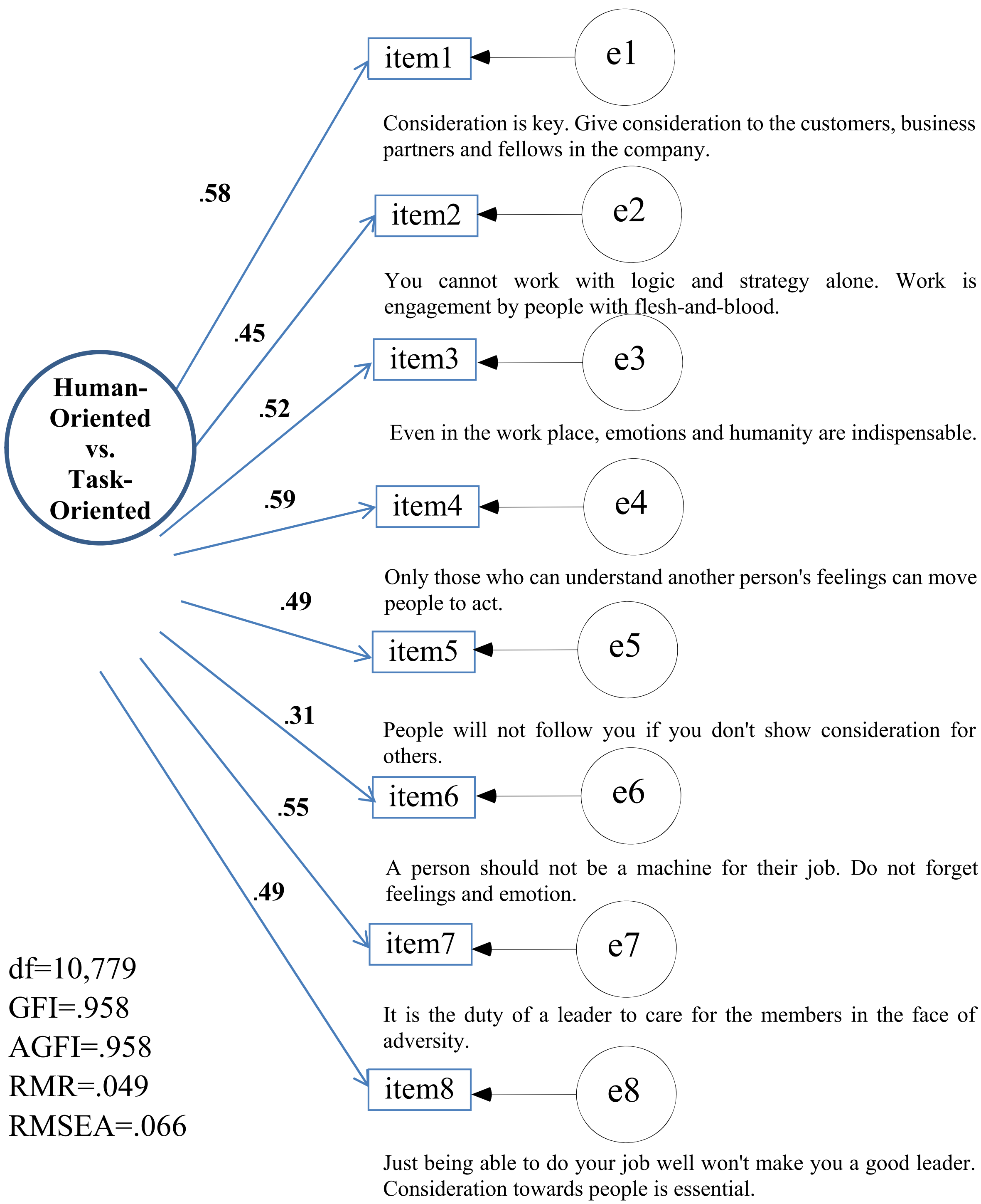


Figure 4.3 The result of the CFA on autonomy vs. heteronomy dimension
Note: All the path coefficients were significant at the level of .01.

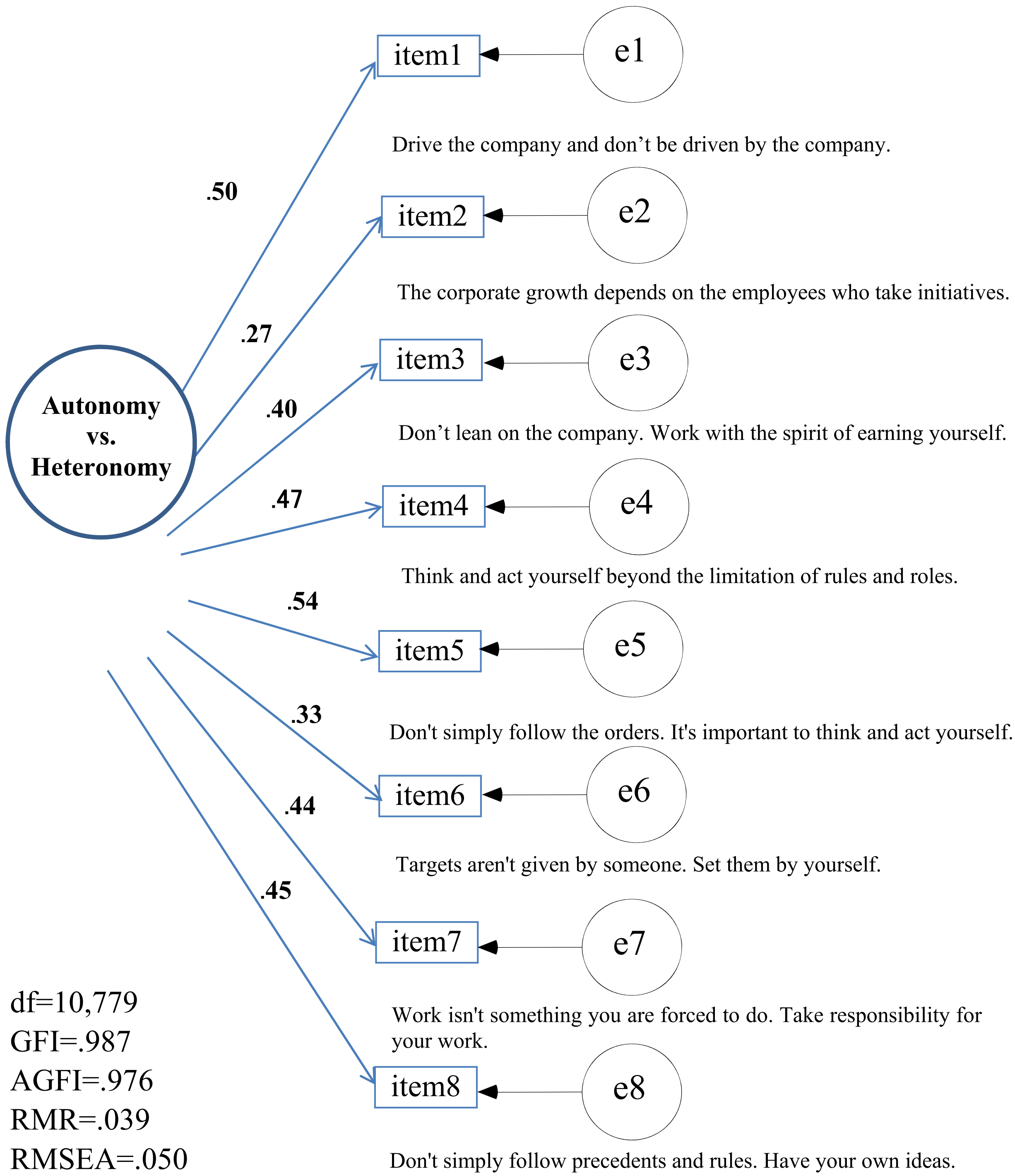


Figure 4.4 The result of the CFA on logical vs. intuitive dimension
Note: All the path coefficients were significant at the level of .01.

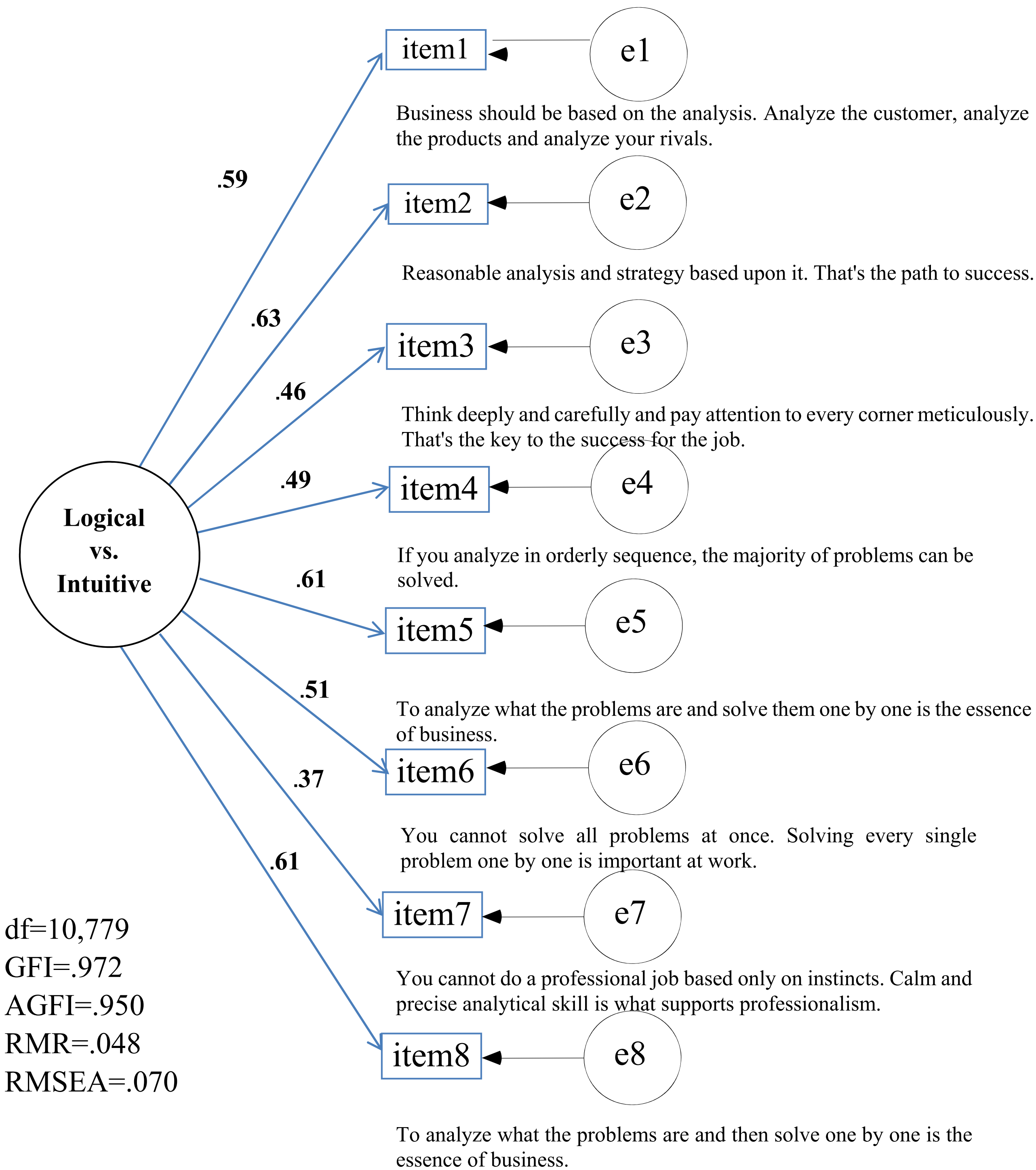


Figure 4.5 The result of the CFA on inovative vs. conservative dimension
Note: All the path coefficients were significant at the level of .01.

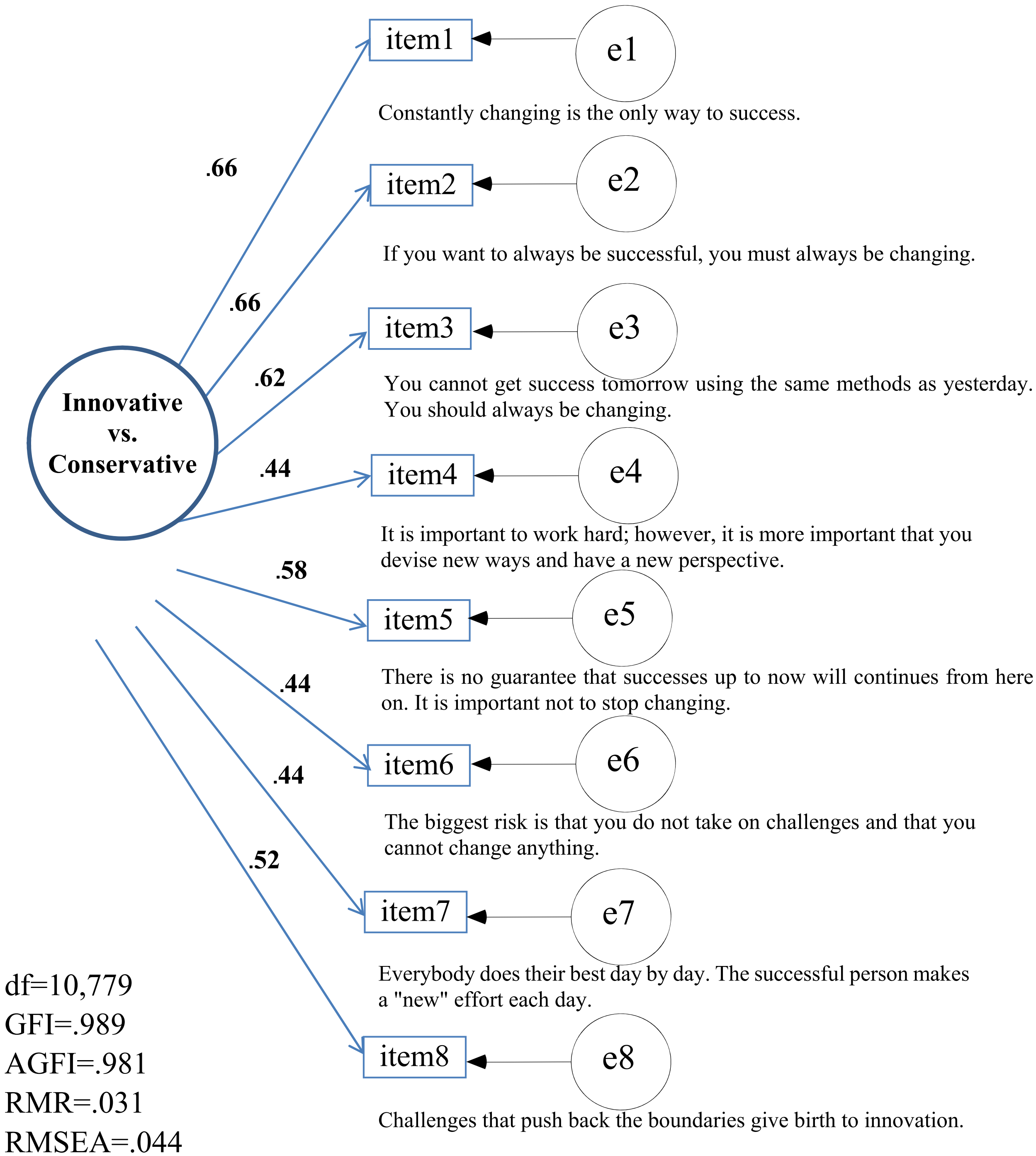


Figure 4.6 The result of the CFA on process-oriented vs. result-oriented dimension
Note: All the path coefficients were significant at the level of .01.

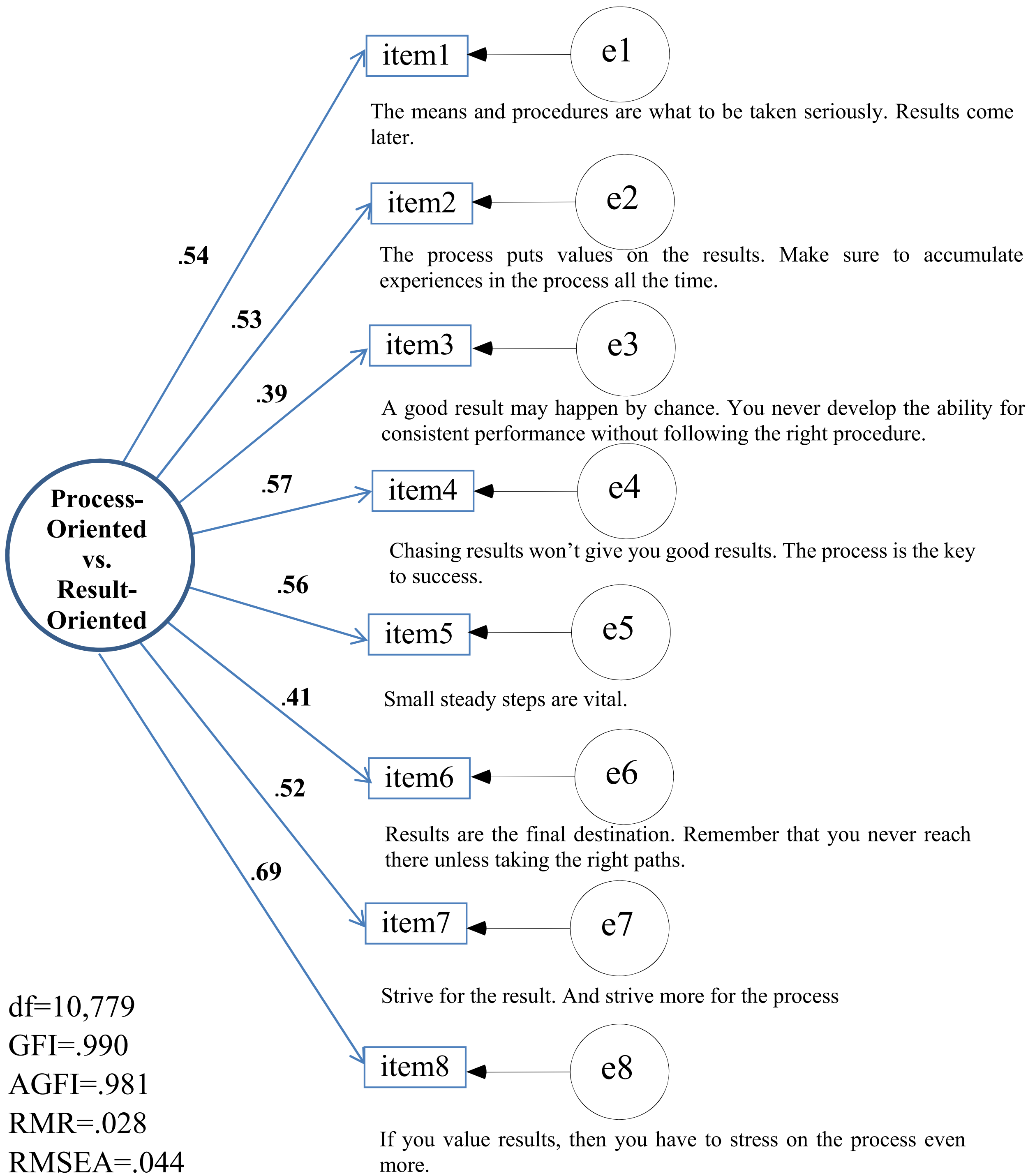
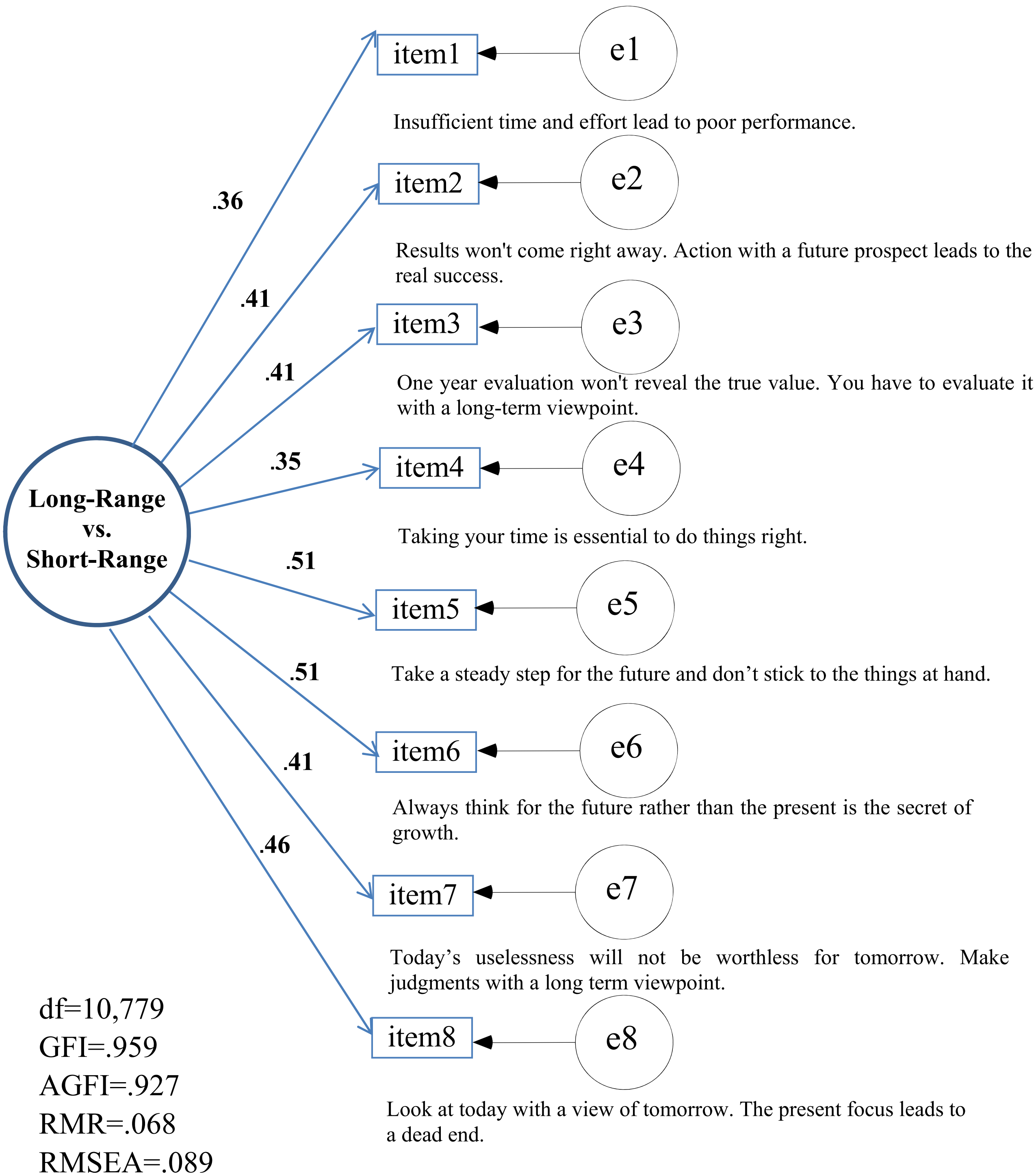


Figure 4.7 The result of the CFA on long-range oriented vs. short-range oriented dimension
Note: All the path coefficients were significant at the level of .01.



Although the Cronbach's alpha coefficients (indices of the internal consistency) of autonomy vs. heteronomy (.64) and long-range-oriented vs. short-range-oriented (.64) showed some room for improvement, those of the other five dimensions were acceptable (.72-.78).

In sum, the results show the validity of the models and adequate reliability in the item set as a whole.

4.2 Correlations among factors of corporate culture

On the basis of the construct validity examination using CFA, the relationship among the factors of corporate culture was explored. All correlations were moderate (table 4.2), indicating that each construct had adequate independency.

Table. 4.2 The internal correlation matrix of the corporate culture

dimensions	1. C vs.I	2. H vs.T	3. A vs. H	4. L vs. I	5. I vs. C	6. P vs. R	7. L vs. S
1 Collectivistic vs. individualistic	(.78)						
2 Human-oriented vs. task-oriented	.19 ***	(.76)					
3 Autonomy vs. heteronomy	-.30 ***	-.17 ***	(.64)				
4 Logical vs. intuitive	-.30 ***	-.33 ***	-.21 ***	(.72)			
5 Innovative vs. conservative	-.28 ***	-.31 ***	.28 ***	-.20 ***	(.77)		
6 Process-oriented vs. result-oriented	-.13 ***	-.16 ***	-.28 ***	-.09 ***	-.33 ***	(.75)	
7 Longrterm-oriented vs. Shortterm-oriented	-.21 ***	-.21 ***	-.29 ***	.09 ***	-.28 ***	.03 **	(.64)

n=10,787
parentheses means coefficient α
p***<.001; p**<.01

DISCUSSION

5.1 Conclusions and future research

This study examined the usefulness of a measure of corporate culture (values) by using a large quantity of student data to develop an assessment tool of P-O fit. Analysing the data using a unique method (the empathetic sorting technique with illustrated value items) showed that the hypothesized seven dimensions of corporate culture could also be identified in the students. The index of fit of those seven models and their moderate internal consistencies suggested that the EST was adequate overall.

The EST, which uses value statement items with illustrations, could ease the burden on respondents and assess their implicit values intuitively in a different way to traditional psychological assessments. The EST can also compare the value of the same dimensions between persons and organizations, and assess the relative importance among several dimensions of corporate cultural values, which were the limitations of Q-sorting.

In future studies, the illustrated items need to be adjusted to improve model fitness and factor reliability, and there also needs to assess the P-O fit using EST based on data of both the companies and persons. Then, the external validity of the P-O fit assessed by EST should also be examined.

A good deal of examinations is needed on how to assess or evaluate the P-O fit because various ways of assessing P-O fit have been presented: (1) considering the sum of the absolute or squared values of differences of each cultural dimension between a company and a person as the degree of fitness or divergence; (2) rather than calculating the difference, examining the effects of the difference (on external criteria such as organizational commitment) independently in the case where a certain value of a corporate cultural dimension excels the corresponding personal value, and in another case where the corporate cultural value is less than the corresponding personal value; or (3) using only one or some cultural dimension(s) that record(s) high value rather than all seven dimensions.

Moreover, the calculation of the central or representative corporate value is a basic but difficult problem. The representative can be computed in various ways, such as by using the normative or actual value given by the top management, who affects corporate culture and other subsystems, including recruitment criterion; using the mean of the actual value given by the many employees; or using the average value assessed for each department, as subgroups also have individual subcultures.

Therefore, apart from operationalizing P-O fit and determining which representative of an organization to use, our next challenge is to examine the relationship between P-O fit and external criteria such as organizational commitment, intention to turnover, and tenure of adopted employees.

5.2 Implications for corporate recruitment practices

Ogawa & Osato (2013 forthcoming, b) pointed out that in Japanese hiring practices of new graduates there was the conflict between their effort to form large-scale population of new graduates and their preference for direct interview with new graduates. That is, although ‘the marketing model of new graduate hiring’ (Takahashi, 2010), which referred to the effort to recruit large numbers of new graduates (often over ten thousand) is customary, Japanese companies have tried to judge the applicants by interviewing as many as possible. They attract new graduates through aggressive public relations such as job fairs for college students of dozens of times and recruitment web sites requiring millions of yen of funds to use, but it is almost impossible to meet all students face to face because of staff, location, and time constraints. Therefore, the companies have arbitrarily rejected on the basis of a check of their personal resumes called entry sheets and/or the results of cognitive tests. It also takes so much time and money or manpower.

In spite of those costs, these measures do not match the traditional and common criterion used by many Japanese companies: 'Do we want to work together with the applicant?' If the companies could assess the compatibility between their organization and the students in advance, they would not need to create large samples of suitable and unsuitable candidates costly and rather could form appropriate size of applicants the companies can interview directly.

Admittedly, as multiple interviews by many concerned staff functions as the groundwork or process for obtaining consensus on the hiring of newcomers, it is not pragmatic to select applicants by depending only on this P-O fit assessment tool. However, using an index tailored to each company, rather than an arbitrary standard like a cognitive ability test, would enable more economical and effective hiring practices.

One of the reasons why Japanese companies too much highly regards direct interviews in hiring process, there seems to be the distrust of the existing assessment tools. Based on the above, the development of the tool with high precision seems to be demanded still more in future.

REFERENCES

Adachi, A. (1982 in Japanese) *Psychological Climates and Personality.* Keiso Publishing.

Bentler, P.M. & Bonnet, D.C. (1980) "Significance tests and goodness of fit in the analysis of covariance structures," *Psychological Bulletin*, 88 (3), 588-606.

Bollen, K.A. (1990), "Overall Fit in Covariance Structure Models

Bower, G.H. (1983). *Affect and Cognition*. Philosophical Research Society of London.

Caldwell, D. F., & O'Reilly, C. A., III. (1990) "Measuring person-job fit with a profile-comparison process," J*ournal of Applied Psychology*, 75, 648-657.

Cabinet Office; Government of Japan (2006) *White Paper on the National Lifestyle 2006: Towards a society in which a variety of challenges are possible.*

Campbell, J., Dunnette, M. D., Lawler, D. D., & Weick, K. E. (1970) *Managerial Behavior, Performance, and Effectiveness*. NY, McGraw-Hill.

Cascio, W. F. (1991) Applied Psychology in Personnel Management (4th ed.). Englewood Cliffs, NJ: Prentice-Hall.

Chatman, J. A. (1991) "Matching people and organizations: Selection and socialization in public accounting firms," *Administrative Science Quarterly*, 36, 459–484.

Chatman, J. A. (1989) "Improving interactional organizational research: A model of person-organization fit," *Academy of Management Review,* 14, 333–349.

Chatman, C. A., & Jehn, K. A. (1994) "Assessing the relationship between industry characteristics and organization culture: How different can you be?" *Academy of Management Journal*, 37, 522–533.

Collins, J. C. & Porras, J. I. (1994) *Built to Last: Successful Habits of Visionary Companies.* New York: Harper Business.

Davis, S.M. (1984) Managing Corporate Culture. New York: Harper & Row.

Deal, T. E. & Kennedy, A. A. (1982). *Corporate Cultures: The rites and rituals of corporate life*. Reading, MA: Addison-Wesley Longman.

Edwards, J. R. (1993) "Problems with the use of profile similarity indices in the study of congruence in organizational research," *Personnel Psychology*, 46, 641-665.

Forehand, G. A., Gilmer, B. V. H. (1964) "Environmental variation in studies of organizational behavior," *Psychological Bulletin*, 62(6), 361-382.

Graves, L. M., & Powell, G. N. (1988) “An investigation of sex discrimination in recruiters' evaluations of actual applicants,” *Journal of Applied Psychology*, 73, 20-29.

Hall, E. T. (1976) Beyond Culture. New York: Anchor Press/Doubleday.

Hoffman, B. J., & Woehr, D. J. (2005) “A quantitative review of the relationship between person-organization fit and behavioral outcomes,” *Journal of Vocational Behavior*, 68, 389-399.

Hofstede, G. (1980) Culture's Consequences: International differences in work related values. Beverly Hill, CA: Sage.

Hofstede, G. (1997) Cultures and Organizations: Software of the mind. London: Mc Graw-Hill.

Hofstede, G., Neuijen, B., Ohayv, D. D., & Sanders, G. (1990) “Measuring organizational cultures: A qualitative and quantitative study across twenty cases,” *Administrative Science Quarterly,* 35(2): 286–316.

Hooper, D., Coughlan, J. & Mullen, M. R. (2008) “Structural equation modeling: guidelines for determining model fit,” The Electronic Journal of Business Research Methods, 6(1), 53 – 60

Hu, L.T. and Bentler, P.M. (1999) "Cutoff Criteria for Fit Indexes in Covariance Structure Analysis: Conventional Criteria Versus New Alternatives," Structural Equation Modeling, 6 (1), 1-55.

Itami, H. & Kagono, T. (1989 in Japanese) Introduction to Business Administration Seminar (3rd ed. 2003). Nikkei Inc.

Jöreskog, K. & Sörbom, D. (1993) *LISREL 8: Structural Equation Modeling with the SIMPLIS Command Language.* Chicago, IL: Scientific Software International Inc.

Kagono, T., Yamada, K., Kakuta, K., & Kansai Productivity center eds. (1993 in Japanese) Restructuring and Organizational Culture. Hakuto-Shobo Publishing Company.

Kono, T. (1989 in Japanese) Innovative Corporate Culture. Kodansha Ltd.

Kono , T. (1993 in Japanese) “Whole corporate culture and department culture,” Organizational Science,27(2), 48-60.

Kluckhohn, F. R. & Strodtbeck, F. L. (1961) Variations in Value Orientations. Evanston, III: Row, Peterson.

Kristof, A. L. (1996) “Person-organization fit: An integrative review of its conceptualizations, measurement, and implications,” Personnel Psychology, 49(1), 1-49.

Litwin, G. H. and Stringer, R. A. (1968) *Motivation and Organizational Climate.* Cambridge, MA: Harvard Business School, Division of Research.

Likert, R. (1967) *The Human Organization: its management and value.* New York: McGraw-Hill.

Mead, R. (1998) *International Management: Cross cultural dimensions (2nd ed.)*. Oxford: Blackwell.

Nishikawa, K. (1984 in Japanese) *Psychological Studies on Job Satisfaction.* Keiso-Shobo Publishing.

Ogawa, N. & Osato, D. (2008 in Japanese) “The relationship between organizational culture and organizational socialization tactics,” *The Proceedings of the 11th Annual Convention of Japanese Association of Administrative Science*, 51-56.

Ogawa, N. & Osato, D. (2010 in Japanese) “Search for the relationship between organizational culture and socialization tactics,” *Working Paper Series No.97,* The Research Institute for Innovation Management, Hosei University.

Ogawa, N. & Osato, D. (2011 in Japanese) “Identification of Criteria Used by Japanese College Students in Selecting a Potential Employer Using Direct Questioning and Policy-Capturing Methodology,” *The Japanese Journal of industrial and organizational psychology*, 25(1): 25-41.

Ogawa, N. & Osato, D. (2013a in Japanese) “Report on Hiring Practices of Japanese Companies about New Graduates,” *Working Paper Series,* forthcoming. The Research Institute for Innovation Management, Hosei University.

Ogawa, N. & Osato, D. (2013b in Japanese) “The process of new graduate hiring and adoption criteria of Japanese Companies (tentative title)” *Working Paper Series,* forthcoming. The Research Institute for Innovation Management, Hosei University.

Ogawa, N., Osato, D., & Morinaga, Y. (2012 in Japanese) “Organizational culture and adoption criteria of Japanese companies (Part 1),” *The Proceedings of the 15th Annual Convention of Japanese Association of Administrative Science*, 169-172.

O’Reilly, C. A., III, Chatman, J., & Caldwell, D. F. (1991) “People and organizational culture: A profile comparison approach to assessing person-organization fit,” Academy of Management Journal, 34: 487-516.

Osato, D., Ogawa, N., & Morinaga, Y. (2012 in Japanese) "Organizational culture and adoption criteria of Japanese companies (Part 2)," The Proceedings of the 15th Annual Convention of Japanese Association of Administrative Science, 173-176.

Ouchi, W. (1981) *Theory Z: How American business can meet the Japanese challenge*. Addison-Wesley.

Payne, R. L., & Pheysey, D. C. (1971) "G. G. Stern's organizational climate index: A reconceptualization and application to business organizations," *Organizational Behavior and Human Performance,* 6: 77–98.

Perters, T. J. & Waterman, Jr. R. H. (1982) *In Search of Excellence: Lessons from America's best-run companies*. New York: Harper & Row.

Robbins S. P. and Judge T. A. (2007) *Essentials of Organizational Behavior* 9th Edition, Pearson Prentice Hall.

Sakai, T. (1990 in Japanese) Human relations in the workplace, In Daibo,I., Ando,K.,& Ikeda, K.(eds.), *The Perspectives of Social Psychology* (pp.267-275). Seishin-Shobo.

Sakikawa, T. (1998 in Japanese) *Organizational Culture and Innovations.* Chikura-Shobo.

Sato, Y. (2009 in Japanese) *The Corporate Culture of the Japanese Model: A theoretical and empirical studies on the horizontal groupism*. Keio University Press.

Schein, E. H. (1985) *Organizational Culture and Leadership: A dynamic view*. San Francisco: Jossey-Bass.

Sekimonto, A., Kamagata, M., & Yamaguchi, Y. (2001 in Japanese)"A development of the measure of organizational climate (part 1)", *Bulletin of Toyohashi Sozo College*, 5: 51–65.

Sekimoto, A. & Misawa, M. (1997 in Japanese) "A consideration of the relationship among organizational climates and compatibility of personalities and organizational commitment, intention of retention, and performance," *Bulletin of Toyohashi Sozo College*, 1: 143-155.

Silvester, J., Anderson-Gough FM, & Anderson NR ve ark. (2002) "Locus of Control, Attributions and Impression Management in the Selection Interview," *Journal of Occupational and Organizational Psychology*, 75: 59-76.

Simons, T. (1995) "Interviewing job applicants," *Cornell Hotel and Restaurant Administration Quarterly*, 36(6):22-27.

Takahashi, K. (2010a, in Japanese) "Free from the marketing model in employment/selection processes," *The Kokumin-Keizai Zasshi (Journal of Economics & Business Administration,* 202(1), 113-128.

Takahashi, K. (2010b, in Japanese) *The General Science of Personnel Evaluations: the evaluations for efforts, abilities, and behaviors of employees*. Hakuto-Shobo.

Takahashi, N. (1989 in Japanese) The Assessment of Organizational Activation and the Evidence. Japanese Productivity Center.

Tayeb, M.H. (1988) *Organizations and National Culture.* London: Sage Publications.

Trompenaars, F. (1993) *Riding the Waves of Culture.* London: Nicholas Brealey Publishing Ltd.

Umezawa, T. (1983 in Japanese) *Suggestions for New Management from the Viewpoint of Organizational Culture.* Gyosei.

Van Vianen, A. E. M. (2000) "Person-Organization Fit: The match between newcomers' and recruiters' preferences for organizational cultures," *Personnel Psychology,* 53: 113-149.

Verquer, M. L., Beehr, T. A., & Wagner, S. H. (2003) "A meta-analysis of relations between person– organization fit and work attitudes," *Journal of Vocational Behavior*, 63: 473–489.

Walton, R. E. (1985) "From control to commitment in the workplace," *Harvard Business Review,* March-April, 77-84.

ACKNOWLEDGEMENT

This work was supported by Japan Society for the Promotion of Science KAKENHI Grant Number 23730370 (Grant-in-Aid for Young Scientists B, Principal Investigator, Ogawa Norihiko). We would like to also express our gratitude to DISCO Inc. which supported implementation of this research.

PROBLEMS AND PITFALLS WITH 360^0 FEEDBACK

George Vukotich, Concordia University Chicago

INTRODUCTION

One of the challenges with 360^0 Feedback is the misperception of what it can actually do. Many see it as a quick fix to deal with personnel issues (Atwater & Waldman, 2007). In her research Alexander questioned the relative effectiveness of 360 degree performance improvement and whether it had an impact on individual behavior (Alexander, 2006). It should be noted that often the challenges associated with 360 Feedback are a sign of deeper organizational issues and lack linking an organizations strategy to individual feedback and development (Heathfield, 2001). Major organizations have cited negative behavior as a reaction to 360 feedback as individuals go through stages of; sadness, anger, rejection and finally acceptance (Computer Sciences Corporation, 2004). 360^0 Feedback is not a quick fix or substitute for dealing with individual personnel issues and the potential larger issues related to the organization's culture that are tied to it (Vukotich, 2010). The current practices and use by coaches and consultants are often based on opinions and fads by assessment vendors and organizational consultants rather than evidenced based empirical data (Nowack & Mashihi, 2012).

While 360^0 Feedback can be an effective tool to help individuals develop and to help organizations build a culture of continuous improvement, it is not a substitute for building an organizational culture based on openness and trust. Implementing a 360^0 Feedback process without doing it correctly can lead to individuals disengaging from interactions with others and a decline in their overall work performance (Nowack, 2009). The exact opposite of what it is intended to do. From an organizational perspective, it creates a culture where less sharing and less openness prevail for fear that what an individual says can and will be used against them. Even organizations such as the Center for Creative Leadership which is known for its pioneering work in the field have found cases where there are issues with 360 Feedback (Bracken, 1997).

Jai Ghorpadi from San Diego State University wrote in the Academy of Management Executive that "while it delivers valuable feedback, the 360 degree concept has serious problems relating to effectiveness." Ghorpadi looked at more than 600 feedback studies and found that only about one third found improvements in employee performance (Pfau, Kay, 2002). There are many issues that need to be addressed in implementing or giving new credibility to existing 360^0 Feedback programs. While 360^0 Feedback can be a very effective tool, it cannot be seen as a quick fix. In addition not all feedback interventions can be seen as equal and as studies have shown some may actually do more harm than good (Carruthers, 2003).

HISTORY AND OVERVIEW

The idea behind 360^0 Feedback started with the concept of assessment centers developed by the German military during World War II (Fleenor & Prince, 1997). By 2002, over 90% of Fortune 500 companies were using some type of 360 degree performance review process (Linman, 2006). The idea behind 360^0 Feedback is to gain performance insights from multiple perspectives. This includes the individual evaluating herself as well as her supervisor, peers, subordinates, and others that the individual interacts with on a regular basis. (Regular basis is a point we will address in more detail later in the article). A number of categories such as communication ability, teamwork, and leadership effectiveness are common areas of measurement. Often a scale of 1 to 5 with the range of "not at all" to "always" is used. With some versions of the assessment there is an opportunity to add comments to expand or clarify the rating.

Table 1 – Sample Rating Scale

Individual is a team player:	1	2	3	4	5
	not at all				always
Individual is an effective communicator:	1	2	3	4	5
	not at all				always

Generally 8 to 12 individuals provide feedback. Categories of responders include the individual herself, supervisors, peers, subordinates, and others the individual interacts with such as customers and business partners. Often today much of the input is done online (Fenlason & Christianson-DeMay, 2002). Once the data is gathered, generally over a 4 to 6 week period, the data is categorized and the individual is provided with the feedback.

Often, the way feedback is presented plays a major role in the extent to which an individual receiving it accepts it and in what she does as a follow up to it. Feedback should never just be given to an individual in an envelope or email attachment. Individuals receiving feedback should be walked through and prepared for what may be presented so they are not surprised by what is presented and understand what it means (Browning & Van Velsor, 1999). Individuals tend to focus on the negative aspects of feedback and often when presented with it do not get past it (Tornow, 1993). The focus can turn to thinking that others do not understand them or appreciate them; rather individuals need to understand the overall meaning including how to leverage the strengths that others see in them.

BRINGING 360^0 FEEDBACK INTO AN ORGANIZATION

Providing feedback to individuals on their work performance in general is often difficult to begin with. The traditional employee/supervisor model has challenges based on relationships and criteria used in providing feedback related to job performance and how effectiveness is measured. The communication in the process is also often misinterpreted. For example, today most individuals feel it is no longer acceptable to only be seen as an "average performer." If they are not considered "above average" they are offended. A missing point is that when it comes to employees a true average will have some performers above average and some below. Not everyone can be a top-performer due to the simple fact that an average does not allow for it (Vedantam, 2012).

One challenge in implementing a 360^0 Feedback process is that the very nature of work has changed. Individuals no longer work in an assembly line type environment where there are well defined processes and the number of pieces and quality of the pieces produced can easily be measured to provide clear feedback to the individual on their performance. In addition, job descriptions have become more encompassing getting to the point where individuals and those around them may think they are responsible for doing much more than is possible. It is important to keep the criteria of the assessment in mind. The problem many organizations run into is that they create an extensive set of competencies that are put into a job description and which they tell individuals they will be assessed on, but the 360 instrument they use is not aligned to the competencies identified as being required to be successful in the organization (Bartram, 2005).

With the nature of how work has changed it only makes sense to change the way feedback is provided to individuals on the work they do. There is a challenge in trying to implement a new way of providing individuals with feedback that is different from what they have had in the past. Individuals are often reluctant to change even when what they have is not working well, they may not like what they currently have, but they at least know what exists and the issues that come with it.

Organizations bring 360^0 Feedback in for a number of reasons. On the positive side, 360^0 Feedback can be used to help change a culture into one of sharing and openness. The goal is to help individuals have an opportunity to learn how others see them as compared to how they see themselves (Chiaburu, Van Dam & Hutchins, 2010). From here it can be used as a tool to understand how effective they are in the environment they are in and to also to give individuals tools to plan on how best to change and improve. A key point is that the change may not always lead to the individual being more effective personally, but it may be more effective in how the individual is seen by others in the organization that are providing the feedback.

Identifying stakeholders is a key aspect that is often overlooked. The individual having the 360^0 Feedback process is the starting point, but who else should be considered should be based on individuals that can provide relevant feedback which can be acted on. A key point is the "acted on" component. Too often the number scores are difficult to relate to and the comments are made in a general format, e.g. "She is not a good leader." Comments like this do not give the individual receiving the feedback anything to work with to improve on.

An individual's supervisors should be included since they are responsible for guidance and performance evaluation. Peers and others the individual interacts with should be included, but keep in mind these should be individuals that have enough interaction to do an evaluation and not to just respond on a high level of first impressions. Each of these type raters appears to provide a unique perspective for developmental actions (Fleenor, Taylor, & Chappelow, 2008). Another thing to keep in mind in the case of peers is the context they will provide feedback in. If the group is collegial the ratings may be high. If the group is competitive the ratings may be seen as low. If the culture is supportive peers will be seen as providing helpful feedback, but if the culture is seen as competitive peers may take a different perspective (Vukotich, 2010). If subordinates are involved keep in mind it may not just be about evaluating a boss that is fair and doing his or her job effectively, but one that is evaluated on how easy he or she is. The process should not become a popularity contest (Roos, 2002). There are also other stakeholders (clients, suppliers, family members) that can be considered depending on the goal of the feedback. An example would include customers if customer service is an area of measurement in the assessment process or family members if work-life balance is a goal.

The 360^0 Feedback process needs to keep business goals in mind and the overall changes the organization is trying to make. One model proposed by Katzenback (2012) suggests looking at the cultural and observing the behaviors prevalent in an organization today as well as how people would need to change their behavior to support the business objectives going forward. If the organization had the kind of culture desired what would be the kinds of new behaviors that would be common? As 360^0 Feedback is introduced into an organization, there should be a process that explains why it is being put into place and how it will help individuals develop to support the goals of the organization.

SETTING THE STAGE

Too often, 360^0 Feedback is seen as an annual check-the-box process. The problem with this is that behavioral issues are best addressed near the time an incident happens and where the behaviors of individuals are observed. Waiting months in between an event and the feedback related to it leaves open the chance that the inappropriate behavior will happen multiple times and become part of a person's work habits before being addressed. A second issue is that waiting long periods clouds the memory of what happened. The specifics and details of an incident become fuzzy on both sides and the realization of exactly what happened as well as the opportunity to correct any misperceptions has minimal impact. For co-workers that provided input, it also reinforces an overall image which may have easily been modifiable had the person had immediate feedback on what had happened and an opportunity to discuss and clear up any misunderstanding. Just think about having the wrong information and considering it as part of a person's character for a year. There could be a major and negative impact on how the individual is viewed and treated on a daily basis, which could have been a simple misunderstanding that could have easily been corrected. Feedback should be ongoing (Berryman-Fink & Fink, 2005). It should be a natural part of the relationship between all individuals working with the employee. The feedback an individual receives when the formal process takes place should not be a surprise. In cases where expectations and actual feedback differ discouragement and frustration can happen (Atwater & Brett, 2005).

Training individuals, whether raters or the individuals being rated, is often a step that is skipped due to the time and cost involved. This short sighted attempt to save on short term costs has greater costs in the long run. It is important to give everyone in an organization a context in which to work. For example, a scale may include a numeric value associated with a description. The numeric aspect makes it easy to give a grade with averages, but the real difference is in how individuals interpret the meaning assigned to the numbers.

1 = never

2 = seldom

3 = sometimes

4 = regularly

5 = always

For example, raters may give different meanings to the terms assigned. When a statement such as, "communicates effectively" is asked raters may have different perspectives on what the term means as well as how to assign the rating to it. How they see the level depends on their perspective on what "communicates effectively" is as well as how often they see the behavior described displayed by the individual being assessed. Does "never" mean never?

Another aspect which needs to be considered is how well the rater knows and interacts with the ratee. Some may consider a person a "5" if they have only had minimal interaction with the individual being rated, while others that interact with her on a regular basis may have a different perspective. It is important to have some baseline of knowledge of the individual. This can be addressed by limiting those that provide input to having had at least 10 interactions (project related, knowledge shared, meeting interaction, or other conversations related to work projects). Without having a base level of understanding of an individual's behaviors, it may leave assessment to: first impressions, most recent interactions, or other biases such as the Halo or Horn Effect (Grcic, 2008). Some raters may also set expectations based on the position the person is in. The goal is to get ratings based on facts that are supported by observable behaviors in each of the areas addressed.

Chances are an individual will not receive all high ratings in all categories. If an individual, for example, receives 5s in all areas, there is cause to be suspect. A guideline can be to do a comparison to others in similar roles in the organization. There may also be cases where it makes sense to throw out the highest and lowest rating if they are far from the average. Here, a look at the comments would be more appropriate to see what is driving the ratings. Another factor not used often enough in selecting raters is how well the rater knows the individual and also how much work they have done with the ratee over the period being measured.

From the perspective of a person being evaluated, individuals need to understand what the scores mean and how they will be used. Disasters can happen when a person is just given their feedback results without any explanation or someone there to coach and help them understand what the data mean (Cannon & Witherspoon, 2008). Individuals that generally have a strong self-perception and receive feedback that highly contradicts their self-perception can be brought to tears and may withdraw or, on the other end of the scale, lash out at others. Often, individuals feel they have been betrayed by co-workers they have shared information with when they find out it was used in providing their 360^0 Feedback.

A calendaring system also helps facilitate the process. If the organization attempts to do all 360 assessments of all individuals at the same time, real work will grind to a halt. Often, raters are requested to be involved in the assessment of so many individuals at one time they focus more on getting through the assessment than doing a quality job of providing input into the assessments. Scheduling out assessments throughout the course of the evaluation cycle turns the task into an ongoing process which can more easily be managed.

DEVELOPMENTAL VS. EVALUATIVE

There are two general frameworks in which 360^0 Feedback is conducted: (1) for developmental purposes and (2) for evaluative purposes (Hannum, 2007). There is an ongoing debate as to whether 360^0 Feedback should be used solely for developmental purposes to help individuals improve performance or if it should be used as an evaluative tool to help address areas such as pay increases and promotions. How the tool will be used impacts how individuals will respond. In fairness, those participating in the process should know up front what they are providing feedback for. Credibility is lost when individuals believe they are providing input to help an individual develop and after the fact find out the data was actually used for evaluative purposes.

Often, when talking about 360^0 Feedback from a developmental perspective raters see it as a way to help an individual and are more open to what they feel the individual should focus on in order to get better (Harris & Kuhnert, 2007). When it is known that the assessment will be used for evaluative purposes, individuals often don’t want to be responsible for what happens to an individual and don’t want their feedback used to determine a person’s future. In other cases raters can see it as a means of power and use it as a way to provide input to reward or punish the ratee.

Are the right people providing the feedback? Helping individuals change and improve is the goal, but in order to do so the right people with the right knowledge should be providing the feedback. Making sure the right stakeholders are involved is important. This includes deciding how raters will be selected. Too often, management selects the raters without ratee input. Part of the issue with this is whether the ratee values and will accept as accurate the feedback from the raters. If the culture of the organization is supportive, individuals will be more open to providing and accepting the feedback provided. If the organization's culture is seen as competitive and punishing, individuals will not be willing to share information that shows weaknesses. Further issues were found when the feedback was used for evaluative rather that developmental purposes (Brett, Atwater, 2001). A further organizational issue occurs when an organization starts out telling employees it is implementing the feedback process for developmental purposes and then changes the rules to use the data in personnel decision making. This results in mistrust and questions about the fairness of an organizations processes (DeNisi, Kluger, 2000).

In an organization focused on development, a supportive learning culture includes mentors and coaches along with the individual's direct manager, who should provide guidance on how to improve. Effective organizations tend to not only have a 360^0 process but also have coaches and mentors that work with the individuals on development plans (Luthans & Peterson, 2003).

TRAINING

An organization focused on helping individuals develop should train its members before the actual process starts. Training should focus on both how to be a rater and for the individual being rated on how to look at the feedback. There should also be an explanation of how to interpret results. This includes understanding the quantitative as well as the qualitative aspects. For example, does all getting all 5's mean good and all 1's mean bad? A number without a clear link to what it means will only cause problems.

Formalized rubrics or rating guidelines should be explained up front so all individuals come at ratings from a consistent perspective. If there will be a comparison to others in the group, organization, or larger population, an explanation of what it means should be involved. How to deal with outliers should also be established up front. Some organizations throw out the highest and lowest score of an individual to try to keep more consistency. A similar ranking by all raters tells a pretty clear story. A wide range of perspectives requires further investigation to determine where the variability is coming from (Nieman-Gonder, Metlay, Kaplan, & Wolfe, 2006).

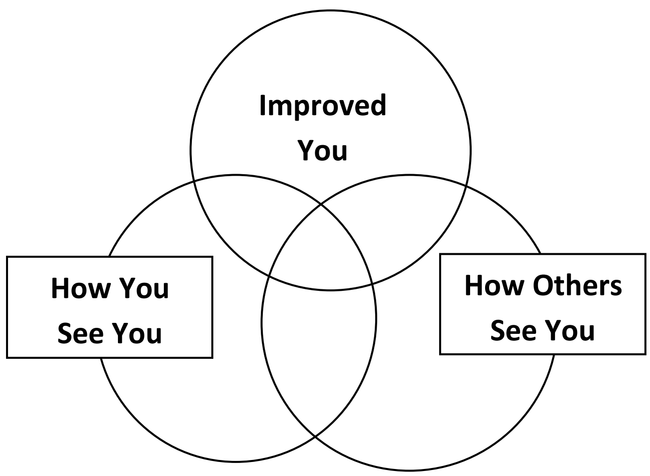
Individuals need training in how to provide feedback and individuals also in how they should receive feedback themselves. Honest feedback is most effective, but keep in mind this will only happen if individuals feel comfortable that the information they provide will not be used against them. Some might remember the days when their supervisor sat down with them and asked them about their strengths and weaknesses. Sure enough, when the annual review came around the weaknesses where what the individual told the supervisor a year ago were those that showed up on the appraisal. This happens because it is easy for the supervisor to point back and say you said these were your weaknesses so how can you argue. If the supervisor points out issues with what the person identified as strengths it is much harder to convince the person that what they thought were their strengths have now become weaknesses.

It helps to provide a context in which individuals understand how they will be rated. Before starting the process, pre-assessment goals should be identified and measures of progress related to them set. During post-assessment, an individual's supervisor and others as appropriate including a potential coach should be brought together to get agreement on what was provided in the feedback and to create a development plan for going forward.

Table 2 - PROVIDE THE CONTEXT:

Pre-Assessment
- Set Goals
- Determine measures of progress

Post-Assessment
- Get agreement from supervisor on feedback
- Select and prioritize areas to address looking at your ratings as compared to how others see you and compared to the goals to develop an "improved you"
- Create a development plan



CHALLENGES

Confidentiality is also an issue that needs to be addressed. To what degree is it needed? If it is true that the more an individual shares the more he or she can be helped does it beg the question that less confidentiality is better or does it bring into the open the issues that can point out an individual's weaknesses and hinder his or her growth? Some co-workers don't want to feel responsible for any career consequences another employee is subject to based on the rating they gave them (Coates, 1998).

From a compensation perspective it should be made clear up front whether any type of pay raise or promotional evaluation will be based on the 360 process. Linking 360^0 Feedback directly to pay and performance will have an impact on how raters respond. When the data from 360^0 Feedback is used as input into pay and performance appraisal it will impact how individuals respond (Bracken, 1997). Using the data from 360^0 Feedback as part of the appraisal process can put an organization at risk and have a negative impact on the motivation of individuals and the openness in the work environment (Lasiter, 1997).

Individuals may not have a clear direction on what to do with the feedback received. Just because an individual receives feedback does not mean they will on their own do anything about it. In some cases individuals may not know how to improve on their own, in other cases they may not care. Just giving someone feedback without giving them reasons as to why the type of feedback is being provided does not do much. Specific examples including the scenario, what happened, how it was interpreted, and how it could have been handled differently should be included.

Managers should not count on behavioral change as a result of the feedback an individual receives. Giving a individual a report that shows rating greatly different from what their own self-perception is may cause disbelief and in some cases even defiance as the individual that is receiving the feedback will not accept the perspective of those that provided it. The individual may even become defiant and push the matter. There have also been instances where individuals take a "take care of me and I'll take care of you" attitude when they feel the data will be used for evaluative purposes.

Anonymity of raters has been something that has been emphasized in the 360 process. There is a belief that individuals will be more open if they can provide feedback without it being known that it came from them (Sullivan, 2012). There are challenges with this. The most often is getting clarification about a rating and why it is what it is and what can be done to change it in the future. Giving an individual a "1" for being a poor communicator indicates the person is a poor communicator, but does not explain how this rating came up nor what the individual can do about it. In the case of pay, promotions, and terminations there can be larger issues. If cases come before the judicial system any promise of confidentiality may be lost as well (Pollman, 1997). To be more effective organizations need to provide a context where individuals can share their views openly and not have to worry about any negative repercussions. If better understanding is the goal it starts with better more open communication.

There is the time factor. While qualitative data with examples always help an individual understand what may be behind the numeric feedback it can take a considerable amount of time for a rater to provide this level of detailed feedback. With an average of 10 to 1 raters to ratees it takes time and most raters are happy just to get the large number of feedback forms done, not to mention no one has time allocated in their schedules for doing someone's 360. Did anyone ever take that into consideration? Reality is most raters do the 360's when they can and consider it an addition to their regular work.

The global aspects of completing assessments and providing feedback include individuals from other cultures that may not understand the 360 type feedback model and do not feel comfortable providing such direct feedback to another individual. There is also the difference in contextual meaning and that in some cultures a "1" could mean poor and a "5" could mean high, in other cultures it could be the other way around. Other issues with rating scales come from individuals focusing on the middle because if everyone is in the middle then no one is bad.

DECISIONS WITHOUT DIALOGUE

One of the most frustrating things in the 360^0 process is when the providers of feedback have a frame of reference they refer to in responding which often is not the same frame of reference the individual receiving the feedback has. Since 360^0 Feedback is an asynchronous process it does not allow for a dialogue which could clear up misunderstandings and actually provide feedback that can be worked with and one where the individual receiving the 360^0 Feedback is put on the defensive. This lack of common reference causes misinterpretation. Providers make decisions and the recipient without being able to have a multi-way dialogue is left hurt without an understanding of what really needs to be done. Open ended comments can help, but these are often put at the end of the survey instrument and often are out of context. In some cases a single event, no matter how insignificant, is the only data point that is used as the evaluation criteria in giving feedback to the individual. A number of studies have shown that the level of developmental support that participants receive after receiving their feedback is poor and often does not like to the actual feedback (Silverman, Karrin, Carter, 2005).

Dialogue provides the opportunity for individuals to get feedback that can be acted on. It is a two way communication process. Unfortunately so many individuals lack the skill of dialogue or do not feel comfortable in the dialogue process. Often if it is known that the information they provide will be attributed to them they will not say what they normally would. Further instances are left open to interpretation what the feedback actually means (Bracken, Timmreck, Fleenor, Summers, 2001). This makes it difficult for the ratee to adjust his or her behavior. If an individual cannot openly state what they believe for the other person to be able to act on it the question comes up if it should be brought up at all. Raters need to be able to not only say how they feel, but need to translate it into words that can address actions that can be acted on by the ratee. One of the biggest hindrances to effective performance in the workplace is due to the nature of negative covert behavior, not talking to a person, but talking about them behind their back. Covert behavior not only hurts the individual but also sets the tone for an overall negative organizational culture.

TIMES WHEN 360^0 FEEDBACK MAY NOT BE BEST

There are times when a situation does not call for 360^0 Feedback as an intervention and where actually using 360^0 Feedback may cause more problems than it solves. One example is where managers, instead of confronting inappropriate behavior hope that by putting an individual through a 360 process they may get the same type feedback from not only them as the manager, but also from others that may support the manager's position. The problem is that the manager needs to deal with the inappropriate behavior at hand and not hope that when the data comes in it will support his or her position. The time factor should also be kept in mind. The sooner an issue is addressed from the time it happens the more effective the attempt in correcting it will be. Setting up and putting in place a 360^0 Feedback process takes time. For corrective matters 360^0 Feedback is not the right tool.

Using a 360 process to "fix" an individual is also not an effective approach. When an individual is singled out to have a 360 "done on them" it sets the context and the individuals being asked to participate as raters know there is some issue since this is not part of the normal process. The underlying message being sent throughout the organization is that the purpose of 360^0 Feedback is that it is used for corrective action. In these organizations comes the stigma that if they are doing a 360 on you there is something wrong with you and you need to be put back in line (Wimer, 2002). With this as the context it indicates to raters that there is something wrong with the individual being 360'd and they should help out by providing the necessary criticism. It encourages and also provides a greater justification for providing negative feedback since the message is that this individual needs to be fixed. Along with this is the message it sends to the individual having the 360 done on them and the embarrassment factor and negative impact on getting their day-to-day work done. In this case where individuals are singled out for having a 360 done on them it is often just a symptom of a much larger organizational culture issue related to how individuals work together. In this approach the problem is often further compounded by the fact that data points are sought out to justify a pre-determined opinion or decision.

When an organization is going through major changes additional stress often comes with it. Using 360^0 Feedback in times of major change needs to be addressed from that perspective. Major technical implementations or structural reorganizations such as mergers and acquisitions fall into this category. People in these environments are often expected to change in order to support the new organizational reality. Sometimes the change is looked forward to and at other times it is rejected or happens with reluctance. Individuals feeling they are being forced to change will often look for someone to blame and 360^0 Feedback provides the opportunity to push back. The individuals making change happen may be under time and financial deadlines and may have to push more than they normally would or may not have the time to get the level of buy-in they would normally would. A larger set of circumstances based on a higher level organizational change can impact the feedback.

ORGANIZATIONAL CULTURE

Culture as defined by Deal and Kennedy (1982) is the way things get done in an organization. From an individual's perspective they have a set of values they try to live by. It should be clear 360^0 Feedback is not a quick fix. It takes time to set the context so the culture can understand what 360^0 Feedback is and how it will be use. How an organization uses 360^0 Feedback says a lot about its culture. If individuals are open to sharing information 360^0 Feedback can be a great way to help individuals develop. In organizations that are "winner takes all" it may not have the same impact since the thought of helping someone else may mean lower ratings overall to the person providing the feedback. There are also organizations that have used 360^0 Feedback in an evaluative way where poor ratings may be seen as a career ender.

There are cases where the 360^0 Feedback initiative becomes a popularity contest. Often it is more about perceptions than performance. There have been times when individuals scheduled for their 360 fear what the feedback will show. Their character changes, donuts start to come in, questions on how family and friends are doing and even offers to help others on their projects start being offered. What raters perceive often impacts the feedback they give more than the level of performance an individual has contributed. Development should not be about approval seeking (Risher, Stopper, & Frisch, 2001). In psychology there are a number of concepts that can come into play. One example is the halo effect. Here raters give an individual high marks not only in the areas they have observed, but also in all areas based on the assumption that because an individual has done well in one area is assumed that they will do well in all areas (Jackson, 2009). A guideline often given for rates is that they know the ratee well for a period of at least six months. While six months is an easy measure, determining what "well" is leaves a lot of variability. Retaliation or getting even with peers may also come into play. If an individual is rated poorly by others it can cause an environment where individuals want to get even with the peers, subordinates, and managers that provided the ratings. If can go from being an objective evaluation to a "getting even" exercise.

PROVIDING THE FEEDBACK

The main difference is in how feedback is provided and what is done with it once it is given. Empirical analysis has shown that there is a positive effect when 360 degree feedback is combined with coaching and it is directed at enhancing self awareness related to the individual' performance (Luthans, Peterson, 2003). Feedback needs to be clear and unambiguous. It should not be open to interpretation. It needs to have a standard to measure against (Jones, 1996). Competencies from an individual's job description act not only as a point of measurement, but also act as a standard to use in development.

Individuals should never just be given an envelope with their feedback. An often incorrect term is "results." 360^0 Feedback is not a contest (Taylor, 2011). Just the language alone makes the process seem like a test. Individuals often feel they have worked hard and rate themselves at the high ends of the scale. Wouldn't you? If you have an issue you would fix it wouldn't you? So individuals complete their own 360 and anxiously await their results. When they do come in there should be a trained facilitator to set the context for the information, not results, they will be receiving and to keep in mind the purpose of the tool in the first place.

Table 3 – Things to Keep in Mind

360 Feedback Should Not Be Used:	**Be Cautious Of:**
- As a quick substitute for performance evaluation - To "fix" someone - As an annual event. It is part of an ongoing feedback process - As an event without a follow up plan of action - As a substitute for ongoing communication. It should be used to enhance it Without having a job description with competencies to measure against - When individuals do not know the ratee well. This could lead to biases both positive and negative (e.g. Halo effect, Primacy-Recency, Discrimination) - As a substitute for a supervisor taking the time to provide feedback and dialogue with the individual being rated - As a comparison to others approach. You don't want it to become a popularity contest - To judge an individual's personal values - By individuals that have not been trained in both how to give feedback and how to receive it. Providing a common frame of reference is key to understanding	- Relationships driving evaluation more than performance - 360 being a game played to take care of certain individuals or to hurt certain individuals - Having a 360 process without having it linked to organization initiatives - Ratees trying to get a personal advantage by seeing the ratee as competition and marking them down - Ratees seeing this as a chance to "get even" with others - Use of the assessment – Evaluative or Developmental should be addressed up front - Making decisions based on 360 data without having a dialogue with the ratee - Improper comments which are used simply to insult and which the ratee cannot improve on - Individuals not being able to comprehend what the statements in the 360 instrument mean - Fairly considering data based on cultural aspects provided from individuals from different parts of the globe - The level of confidentiality. Will this be openly available information or kept private

As individuals review the data others have provided they may get some surprises. The context needs to be set that the feedback is a perspective others are providing. What you don't want to happen is have the person that just received the feedback angry at everyone for the data provided. An organization's culture will have a major impact on this. On the flip side if individuals feel comfortable providing feedback does there even need to be a 360 process? An alternative would be to have a process to allow individuals to give others feedback on a regular basis not just during the annual 360 process. King and Downey (1998) found rating errors increased particularly as it related to specific behaviors the longer the time from the incident to the time of the feedback.

Often when an individual opens his envelope and the feedback is out of line with what the individual expects it can be a very stressful time. They go through stages that range from shock to anger and then hopefully moving on with what they have. The challenge is to get the individuals to move on. You don't want individuals to start questioning their own competencies in place of developing on areas of opportunity. Here is where a feedback coach can make a difference. Working with an individual to identify and prioritize the few things at a time they will work on to improve. You don't want to make the mistake of saying all areas are as important as others and have the individual become overwhelmed because there is simply too much to change over the evaluation period of time.

Another consideration that has shown to be effective is to have a coach an individual can work with and turn to. An empirical study conducted by Luthans and Peterson confirmed that combining 360's with coaching that was focused on enhanced self-awareness and behavior management improved the effectiveness of the feedback. Their findings revealed that learners need coaching along with the feedback to gain self awareness and plan for improvement (Luthans, Peterson, 2003). Other approaches such as using Frame of Reference Scales which have definitions with examples of effective and ineffective behaviors associate with the areas being assessed have also shown clarity in identifying opportunities for improvement (Hoffman, Gorman, Blair, Meriac, Overstreet, & Atchley, 2012).

Based on the literature review and findings to date a model focused on feedback related to a model specifically tied to job competencies and focused development based on self-awareness and actionable behaviors is currently being piloted to measure long-term effectiveness.

CONCLUSIONS

While 360^0 Feedback has been around for decades and can be an effective tool there are many places it can go wrong. There are a number of factors to consider and areas to be cautious of. The literature from the past has shown mixed results, but the concept of getting feedback from not only an individual's supervisor, but also from others an individual interacts with makes sense from a teamwork, customer service, innovation, and developmental perspective. Among researchers and coaches there is agreement that under the right conditions using an evidence-based 360-degree feedback process can increase self-awareness, the key to personal improvement and team and organizational effectiveness (Atwater & Brett, 2006; Fleenor, Taylor, & Craig, 2008). The key is helping the individual develop a greater self understanding and providing a context, environment, and tools to help improve. Coaches can play a significant role, but guidance needs to be based on evidence of actions to help in self-understanding (Nowack, 2009).

Table 4 – Action Plan Matrix

COMPETENCY	SELF EVALUATION (Scale 1-5) 1 = Not Effective 5 = Model for Others Explanation	FEEDBACK FROM OTHERS (Scale 1-5) 1 = Not Effective 5 = Model for Others Explanation	COACH'S INSIGHT (Prioritized planning linked to the action plan) - Evidence Based Observations - Behavioral Actions Identified	ACTION - DEVELOPMENT PLAN (What will be done, by when, and how will it be measured)
Dependability: Extent to which the person can be counted on to help: - Be there to support others - Proactively helps when and where needed				
Teamwork: Extent to which the person works well with others: - Knows his / her role and can adapt to what is needed. - Takes direction - Gives direction				
Knowledge of the Position: Extent to which the individual knows what is needed to perform in his/her assigned role. - Current knowledge - Desire to learn - Ability to learn				
Leadership: Extent to which the individual is effective in leading others: - Skill in leading others - Extent to which others want to follow				
Communication Skills: How well the individual is perceived to listen, understand, and explain: - Verbal - Written - One-on-One - Group				
Change Management: How well the individual is in dealing with change: - Adapting to changes happening - Leading change - Level of insight on what change needs to happen				
Innovation: Extent to which the individual can create new products, services, and approaches to the organizational environment: - Problem solving - Opportunity Identification				
* Competency Scale: 1 = Not Effective, 2 = Somewhat Effective, 3 = Effective, 4 = Very Effective, 5 = Model for Others				

What the feedback is and how it is given make the difference in whether it helps the individual build a plan for improvement or discourages the individual from even trying. Providing feedback to individuals on their work performance in general is often difficult to begin with. The traditional employee/supervisor model has challenges based on relationships, criteria used in providing feedback, and the communication that happens in the process. To be effective these issues must be overcome. There can be multiple factors that negatively affect the way a ratee sees her feedback including the relationship of the individual to those providing the feedback, the clarity of the feedback given, whether an individual is motivated to change.and whether the individual has a supportive environment and coach they can work with.

REFERENCES

Alexander, D. (2007). How do 360 Degree Performance Reviews Affect Employee Attitudes, Effectiveness and Performance. University of Rhode Island.

Anonymous, April 2004. CSC 360 Degree Coaching Certificate Handbook. Computer Sciences Corporation.

Atwater, L.E. & Brett, J.F. (2005). Antecedents and consequences of reactions to developmental 360-degree feedback. Journal of Vocational Behavior, 66, 532-548.

Atwater, L.E. & Brett, J.F. (2006). 360 degree feedback to managers: Does it result in changes in employee attitudes? Group and Organizational Management, 31, 578-600.

Atwater, L.E. & Waldman, D.A. (2007). The Power of 360 Feedback, Gulf Publishing, Houston, TX.

Bartram, D. (2005). The Great 8 competencies: A criterion-centric approach to validation. Journal of Applied Psychology, 90, 1185-1208.

Berryman-Fink, C. & Fink, C. B. (1996). *The manager's desk reference (2nd ed.)*. New York, NY: AMACOM

Bracken, D.W. (1997). Should 360-degree feedback only be used for developmental purposes? *Center for Creative Leadership.* Retrieved from http://www.ccl.org/leadership/pdf/research/should360feedback.pdf

Bracken, D.W., Timmreck, C.W., Fleenor, J.W., Summers, L. (2001). 360 Feedback from Another Angle, Human Resource Management, Vol 40, No 1,

Brett, J.F., Atwater, L.E. (2001). 360-feedback: Accuracy reactions, and perceptions of usefulness. Journal of Applied Psychology, Pgs. 86, 930-94.

Browning, H., Van Velsor, E. (1999). Three Keys to Development: Defining and Meeting Your Leadership Challenges. Center for Creative Leadership.

Cannon, M.D. & Witherspoon, R. (2005). Actionable feedback: Unlocking the power of learning and performance improvement, Academy of Management Executive, Vol. 19, No. 2.

Carruthers, F. (2003). Nothing but the truth. Australian Financial Review. P. 78.

Chiaburu, D.S., Van Dam, K., Hutchins, H.M. (2010). Social support in the workplace and training transfer: A longitudinal analysis. International Journal of Selection and Assessment, 18 187-200.

Coates, D.E. (1998). Don't tie 360 feedback to pay. *Training*, *38*(9).

Craig, S.B., & Hannum, K. (2006). Research update: 360-degree performance assessment. Consulting Psychology Practice and Research, 58, 117-122.

Deal, T.E. & Kennedy, A.S. (2000). Corporate Cultures: The rites and rituals of corporate life. Cambridge, MA: Perseus Books

DeNisi, A.S., Kluger, A.N. (2000). Feedback effectiveness: Can 360-degree appraisals be improved? Academy of Management Executive, Vol. 14, No. 1.

Effron, M. (2012). How to use 360 feedback to your advantage. *The Economic Times*. Retrieved from http://articles.economictimes.indiatimes.com/2012-01-17/news/30635876_1_behaviours-feedback-gaps

Fenlason, K. J. & Christianson DeMay, C. (2002). Paper-and-pencil and web surveys: Different methods, same results? A DRC Survey Practice Paper. Maple Grove, MN: DRC. Retrieved from http://www.datarecognitioncorp.com/survey/websur.html.

Fleenor, J.W., & Prince, J.M. (1997). Using 360-degree feedback in organizations: An annotated bibliography. *Center for Creative Leadership*. Retrieved from http://www.ccl.org/leadership/pdf/research/Using360Feedback.pdf.

Fleenor, J., Taylor, S., & Chappelow, C. (2008). Leveraging the impact of 360-degree feedback. New York, NY: Wiley.

Grcic, J. (2008). The Halo Effect Fallacy. Electronic Journal for Philosophy. Retrieved from http://nb.vse.cz/kfil/elogos/mind/grcic08.pdf

Hannum, K. M. (2007). Measurement Equivalence of 360^0 assessment data: Are different raters rating the same constructs. *International Journal of Selection and Assessment*, *27*(3), 293-301

Harris, L.S., & Kuhnert, K.W. (2007). Looking through the lens of leadership: A constructive developmental approach. Leadership & Organization Development Journal, 29m 47-67.

Heathfield, S. (2001, April 25). 360 degree feedback: the good, the bad and the ugly defines and examines multirater feedback. Retrieved from http://humanresources.about.com/library/weekly/aa042501b.htm.

Hoffman, B.J., Gorman, C.A., Blair, C.A., Meriac, J.P., Overstreet, B., & Atchley, E.K. (2012). Evidence for the effectiveness of an alternative multisource performance rating methodology. Personnel Psychology, 65, 531-563.

Jackson, M. (2009). The halo effect in overdrive, *Psychology Today*, Retrieved from http://www.psychologytoday.com/blog/natural-history-the-modern-mind/200907/the-halo-effect-in-overdrive .

Jones, J. E., & Bearly, W. L. (1996). 360 feedback: Strategies, tactics, and techniques for developing leaders. HRD Press.

Katzenbach, J. R., Steffen, I., & Kronley, C. (2012). Cultural change that sticks: Start with what's already working. *Harvard Business Review*. Retrieved from http://hbr.org/2012/07/cultural-change-that-sticks/ar/1

King, C.B., & Downey, R.G. (1998). Cognitive processes in performance appraisal; Prior impressions and delayed evaluations, Paper presented at the 13th Annual Conference of the Society for Industrial and Organizational Psychology, Dallas TX.

Lassiter, D. (1997). The dangers of using 360 feedback for performance appraisal, performance and improvement, *P & I Journal*

Linman, T. (2006). 360-degree feedback: Weighing the pros and cons. Retrieved from http://edweb.sdsu.edu/people/Arossett/pie/Interventions/360_1.htm

Luthans, F., & Peterson, S. (2003). 360-degree feedback with systematic coaching: Empirical analysis suggests a winning combination. *Human Resource Management*, *42*(3), 243

Mayo, E. (1993). The human problems of an industrial civilization. New York, NY: The MacMillan Company

Nieman-Gonder, J., Metlay, W., Kaplan, I., & Wolfe, K. (2006, May). The effect of rater selection on rating accuracy. Poster presented at the 21st Annual Conference of the Society for Industrial and Organizational Psychology, Dallas, TX.

Nowack, K. M. (2009). Leveraging multirater feedback to facilitate successful behavioral change. *Consulting Psychology Journal: Practice and Research*, 61, 280-297

Nowack, K. M. (2007). Why 360-Degree Feedback Doesn't Work. Talent Management, August 2007.

Nowack, K.M., & Mashihi, S. (2012). Evidence-Based Answers to 15 Questions About Leveraging 360-Degree Feedback. Consulting Psychology Journal: Practice and Research, Vol 64, No.3, 157-182.

Pfau, B., Kay, I. (2002). Does 360-Degree Feedback Negatively Affect Company Performance? HR Magazine.

Pollman, V.A. (1997). Should 360-degree feedback only be used for developmental purposes? *Center for Creative Leadership*. Retrieved from http://www.ccl.org/leadership/pdf/research/should360feedback.pdf

Risher, H., Stopper, W.G., & Frisch, H. (2001). Going around in circles with 360 tools: Have they grown too popular for their own good? *Human Resource Planning*, *24*(2), 7

Roos, T. (2002). *Mental Coaching*. Victoria, Canada: Trafford Publishing.

Silverman, M., Karrin, M., Carter, A. (2005). 360 Degree Feedback: Beyond the Spin. Institute for Employment Studies. Report 418.

Sullivan, J. (2012). The top 40 problems with 360-degree employee feedback processes, part 2 of 2. *ERE Media.* Retrieved from http://www.ere.net/2012/03/05/the-top-40-problems-with-360-degree-employee-feedback-processes-part-2-of-2/

Taylor, S. (2011). Assess Pros and Cons of 360-Degree Performance Appraisal. Retrieved from http://www.shrm.org/hrdisciplines/employeerelations/articles/pages/360degreeperformance.aspx

Tornow, W.W. (1993). Perceptions or reality: Is multi-perspective measurement a means or an end? Human Resources Management, Vol 32: Pp. 221-229.

Vedantam, S. (2012). Put Away The Bell Curve: Most Of Us Aren't 'Average'. Retrieved from http://www.npr.org/2012/05/03/151860154/put-away-the-bell-curve-most-of-us-arent-average

Vukotich, G. (2010). The 360 process: Planning for action. *OD Practitioner*, *42*(3)

Vukotich, G. (2010). Breaking the Chains of Culture: Building Trust in Individuals, Teams, and Organizations. IAP Publishing.

Wimer, S. (2002). The dark-side of 360-degree feedback. *TD*, *56*(9).

CORPORATE SOCIAL RESPONSIBILITY: ENSURING SUPPLIER DIVERSITY IN THE ADVERTISING INDUSTRY

Sheryl C. Oliver, Howard University
Rochelle L. Ford, Howard University
Yuvay J. Meyers, Howard University

Research for this article was underwritten by the American Advertising Federation's Mosaic Center

ABSTRACT

This article explores the construct of corporate social responsibility through the lens of supplier diversity programs in the advertising industry. Using a ground research qualitative data analysis methodology drawn from roundtable discussions with c-suite executives at a series of forums sponsored by the Mosaic Center of the American Advertising Federation, this study finds that lack of guidance from the industry hampers supplier diversity efforts, c-suite commitment shapes the agencies, advertisers and media companies' approach to supplier diversity and several inhibitors to vendor success exist.

INTRODUCTION

The tumultuous business environment of the past that was categorized by political unrest and social activism has motivated today's business environment toward a greater emphasis on humanistic matters (Dunn et al., 1994; Bell & Emory, 1971; Dawson, 1980; Feldman, 1971; Koder, 1972). Companies must work hard to maintain efficiency while producing a profit and also while building a socially positive reputation. The level of social responsibility that consumers equate with a company is directly and positively correlated to the goodwill, liking and purchase intent directed towards that business (Menon, 1999). Therefore, corporate social responsibility is, "a meaningful and valuable perception to foster among consumers" (Menon, 1999). Corporate Social Responsibility has been defined as the responsibility of firms to acquire profits while also doing what society perceives to be morally fair (Polansky & Hyman, 2007). Consumers expect companies to demonstrate congruence with the social values they hold; simply providing a product is no longer enough for relationship building (Marin & Ruiz, 2007). This new environment makes it necessary for corporations to ensure that all of its actions are in line with the best interests of its reputation.

Although maintaining a positive social image through responsible action is not a function of a company's legal obligation (Buhmann, 2006), researchers agree that it is a valuable business practice. In order to partake in socially responsible practice, companies typically involve themselves in goodwill initiatives or environmentally safe production procedures. One area that is often overlooked as an area of needed ethical mandate is in the area of supplier diversity. Businesses today are starting to recognize the social and economic benefit of increasing their supplier diversity efforts and are starting to make it a high level priority for their operation (Teague & Hannon, 2005). The advertising industry, however, has been criticized for not making significant strides in diversifying its supply chain or its workforce (Jackson, 1999; McMains, 2009; Vega, 2012). Although the current literature supports a generalized model for how corporate social responsibility works in the supply chain of most businesses (Carter, 2004), different industries are likely to have unique situations where distinct issues may arise (Maloni, 2006). Given the need to examine supplier diversity as a method of corporate social responsibility in the specific context of the advertising industry, this research manuscript seeks to explore how supplier diversity is viewed by the decision makers in this field in order to understand the barriers, hesitations, and challenges that these executives face when attempting to implement increased supplier diversity initiatives.

CONCEPTUALIZATION

Corporate Social Responsibility and Supplier Diversity

Recent trends observed in American business indicate that Corporate Social Responsibility has become a categorical term that companies utilize to create programs and initiatives that impact society. Some companies who are leaders in Corporate Social Responsibility have created a synergy between their Corporate Social Responsibility initiatives and supplier diversity goals and observed that when the two work together, the results are far greater than if both initiatives were executed individually (Trey & Wollman, n.d.).

Socially responsible behavior is, by and large, a self-regulated corporate activity. When practicing corporate social responsibility, companies must take care to adequately balance financial, environmental, and social performance. It is therefore important that research is conducted that can be used as proof of the effect corporate decisions have on its stakeholders. Without regulation, the only course of action towards enhancing and promoting ethical behavior by companies is to provide evidence via research of how their socially responsible actions positively impact the business.

Corporations are now seen as moral actors that have obligations and responsibilities to society (Reed, 1999). To the credit of corporate firms, there is a fine line between the happiness of the stockholders and doing what is largely ethical and just. Firms have the arduous task of bringing in adequate profits while doing what society perceives is morally fair (Polonsky & Hyman, 2007). However, the precise line between ethical and unethical is blurry and abstract (Aupperle et al., 1985). To this point, researchers in this area have had difficulty narrowing down the major constructs of corporate behavior and social responsibility due to the obscure nature of this topic. Carroll (1979) developed an instrument that has been used to define the major concepts involved in understanding the behavior of a company in order to define its actions as social responsibility. Carroll's construct defined corporate social responsibility based on four components. Economic, legal, ethical and discretionary actions were used as a gauge to classify actions and then classify a company based upon the level of engagement in socially responsible acts. According to this paradigm, these four categories or constructs constitutes the priorities of business that help assess orientation towards what is socially responsible behavior for a company. The economic acts of a company reflect the idea that business has an obligation to be profitable while meeting the consumer need. The legal construct of corporate behavior indicates a concern that all economic responsibilities are approached within the confines of written law. The ethical responsibility of business reflects social values and norms displayed in action that goes beyond legal guidelines. And the discretionary responsibility of a corporation includes philanthropic activity.

Supplier diversity is the business process of providing all suppliers with equal access to supply management opportunities (National Association of Purchasing Management, 2001). According to Carroll's theory of corporate social responsibility (Carroll, 1979), supplier diversity can be best understood through the ethical component. In other words, it is the social obligation of companies today to remain ethical in supplier selection, giving all potential vendors a fair chance to compete for business. However, this obligation cannot be met unless upper management, or c-suite (corporate suite) executives, are fully on board with the goal of infusing the purchasing process with socially responsible activities. They must develop policies that explicitly detail a firm's dedication to engagement in supplier diversity and mandate a corporate culture of social responsibility (Carter & Jennings, 2000).

Although there are several studies that examine the promotion of diversity within the supply chain (Spratlen, 1978; Giuinipero, 1980, 1981; Rice, 1993; Carter et al., 1999), there is a gap in the current literature that specifically addresses this action in the advertising industry and the best way to determine what is being done in a specific field is to speak directly with the leaders in the industry.

This research study explores the role that supplier diversity plays within the advertising industry as well as the challenges and opportunities for supplier diversity. In 2009 and 2010, The American Advertising Federation (AAF) held round table discussions with top c-suite executives from the advertising industry to discuss this topic of supplier diversity. Discussions from the roundtables provided an opportunity to learn from the decision makers in the industry about the actions taking place regarding the promotion of diversity within the advertising industry supply chain. Through a qualitative analysis of the transcripts and notes from these C-Suite Roundtables, this study aimed to develop key areas of considerations and actionable items that agency executives can use to further promote the practice of socially responsible supplier diversity initiatives within the advertising industry. The initial report from these AAF roundtable discussions was published in a whitepaper on the AAF's website. This study presents the research framed in a theoretical perspective and aims to encourage additional research on the topic.

METHODOLOGY

Roundtable Discussions

On September 23, 2009, The American Advertising Federation (AAF) hosted ten c-suite executives from leading companies in the advertising industry to participate in a roundtable discussion led by Kurt Albertson, an Associate Principal at the Hackett Group. This firm, The Hackett Group, is a global strategic advisory firm that serves its clients by providing best practice advisory, benchmarking, and transformation consulting services. A subsequent roundtable discussion was held with 35 professionals on April 29, 2010 and moderated by supplier diversity expert, Anita Laney President and CEO of Professional Partnering Solutions, Inc.

The purpose of the AAF agency c-suite roundtable discussions was to address the current state of supplier diversity within the adverting industry as well as, highlight the challenges and opportunities for supplier diversity. The roundtables would also help to guide the work of the AAF's Mosaic Supplier Development Committee which aims to "create and increase opportunities for diverse suppliers and helps to strengthen diverse business partnerships with advertising agencies, client companies, media organizations and other industry related businesses" (Oliver & Ford, 2010, p. 2). AAF developed the discussion guides based on best practices in supplier diversity within other industries. The leaders of the discussions were asked to moderate the roundtable discussions in a similar manner to traditional focus group research.

Sample

The 45 participants in the two roundtable discussions comprised a purposive sample and represented leading advertising agencies, major corporations, and suppliers. The roundtable participants were invited by the AAF's Mosaic Center staff because of their decision-making authority within their respective companies. Most of the corporations represented were members of AAF and all of the participants agreed to have their responses quoted in future reporting of the findings. Although neither session was audio or visually recorded, two note takers were present at each roundtable to transcribe the discussion for future analysis.

Qualitative Method Used For Analysis

To analyze these roundtable discussions, a grounded theory approach was used to look at the issue of supplier diversity in the advertising industry and the challenges that advertising executives are currently facing. Grounded theory is a qualitative research method that was developed for the purpose of studying social phenomena (Glaser & Strauss, 1967). Grounded theory is generated during the actual research (Strauss & Corbin, 1994), and is based on comparative analyses between or among groups of persons within a common area of interest (Morse & Field, 1995). Comparative analysis is the central premise of grounded theory and is often termed the constant comparative method (Glaser & Strauss, 1967; Strauss & Corbin, 1994). The constant comparative method affords the researcher an opportunity to identify commonalities and relationships in data. As the data are analyzed in grounded theory, the researcher searches for a core variable, which will serve as the foundation for theory generation (Glaser, 1978).

RESULTS

From the data analysis, three themes emerged as key areas of consideration for advertising agencies to address to ensure supplier diversity in their business actions.

1. Lack of Guidance from Industry
2. C-Suite Commitment
3. Inhibitors to Vendor Success

Lack of Guidance from Industry

One of the major areas of concern for the executives in this study was the lack of guidance from the industry as a whole regarding how to successfully implement supplier diversity strategies into their business processes. As the advertising industry is in its infancy regarding supplier diversity, the initiatives are often led by individuals rather than a team. Often, these individuals lack the formal resources to effectively strategize the implementation of this socially responsible action. Without industry standard resources or databases, the individuals responsible may make decisions that lack transparency in terms of how this supplier was selected, the budgets available to vendors, and the requirements to become a vendor. Participants agreed that a formalized and industry standard procurement operation makes engaging diverse suppliers easier. Roundtable participants representing holding company perspectives said that the ability to share diverse resources within a network is the key to success. Likewise, the ability to share best practices with clients and other member agencies can be a helpful indicator of success in supplier diversity. A standard supplier pool will enable clients to be aware of the quality and quantity of their vendors.

The resulting actionable item from this key theme of discussion was that all of the participants agreed that to help build and sustain relationships with vendors, advertising agencies must collaborate to compose a database of suppliers that meet an agreed upon standard. Some of the participants said that companies too often select a vendor based solely on race, ethnicity, sexual orientation or gender with no regard to core qualifications. The participants concurred that this is a dangerous approach that may not ensure a successful outcome. A standard needs to be set to insure quality and social responsibility in practice. Additionally, there should be an employee at each agency that is tasked with managing the relationship between this database and the company, as well as the company and the supplier. This "director of supplier diversity" should be passionate about developing the program and tracking vendor success. He or she should be sympathetic to the needs of diverse vendors and understand their challenges. Additionally, he or she should be proactive in seeking out and making contacts with potential vendors.

C-Suite Commitment

Participants overwhelmingly agreed that one of the most important elements of a supplier diversity strategy is that the initiative comes from the c-suite with buy-in at all levels of the organization. CEOs, CFOs, COOs, CMOs and presidents all need to lead the effort by establishing the objective and driving stakeholder demand. Communicating the business directive for supplier diversity and holding managers accountable for implementing the diversity initiative was emphasized by roundtable participants. The roundtable participants felt strongly that organizations must hold buyers and persons managing supplier diversity initiatives accountable by tying their incentives and bonuses to supplier diversity goals. A few of the roundtable executives commented that they have been very successful linking supplier diversity goals to the incentive plans for director level managers and above across their organizations. One executive stated, "What gets measured…gets done and linking goals drives growth." While the suggestion was raised, few of the agencies represented have actually begun to tie compensation to achieving diversity goals.

In addition to industry compliance as an influencing factor for supplier diversity initiatives, participants said c-suite executives use obtaining a competitive advantage and being socially responsible as rationale for having diverse suppliers and vendors. Many of the roundtable participants said that from a business perspective, advertising departments and agencies should reflect the customer-base. As America continues to change demographically, with some cities having "majority minority populations," businesses must ensure that the diversity of the team developing and placing the advertising reflects these populations. These diverse teams will help the advertising industry remain relevant by having key insights into the markets' needs and wants. Employees from diverse cultures tend to be more connected to the trends and what is popular in their culture, therefore making advertising efforts to specific cultures more effective. This approach makes supplier diversity a revenue-driven objective key to the company's overall mission.

Additionally, roundtable participants said that supplier diversity enhances a company's ability to deliver efficient and effective services. When teams including suppliers and vendors are diverse, more perspectives and viewpoints are presented, and more creative, richer, unique ideas and solutions to marketing problems and challenges are developed. Using diverse suppliers helps to fulfill a broader mission of creating world-class breakthrough advertising.

The resulting actionable item from this key theme of discussion was that all of the represented agencies should prepare top down directives to make supplier diversity an agency goal and or challenge themselves to use diverse suppliers even when it is not required. Additionally, measuring the personnel who manage supplier diversity initiatives is important. The group recommended that companies tie supplier diversity to performance incentives which are attached to bonuses, just as some companies tie workforce diversity goals to performance incentives. If managers focus on diversity goals, it becomes a strategic imperative.

Inhibitors to Vendor Success

Many roundtable participants said that an inhibitor to successful advertising diversity initiatives is that there exists a perceived inability of many small suppliers to respond with appropriate scale and turnaround. They agree that a harsh reality is that not all suppliers can handle large-scale projects that major corporations or advertising agencies would require. The turnaround on most projects in advertising is very quick. Unless a relationship has been already established, a new vendor – minority or not – will have difficulty meeting the demands. Therefore, participants recommended that advertising agencies mentor small businesses so that they can build capacity to handle these projects.

The resulting actionable item from this key theme of discussion was that AAF pledged to develop and maintain a database of diverse suppliers for AAF members to help address this concern in the advertising industry. The AAF has taken a lead role in cultivating opportunities for successful supplier diversity partnerships by developing the Mosaic Business Partnership Program which is designed to cultivate strong and diverse vendor partnerships. This 12-month initiative seeks to support the inclusion of minorities in various functions within advertising agencies as well as, to increase the advertising industry's expenditures with minority and women-owned suppliers. One of the program's primary roles is to thoughtfully initiate discussion among well-established agencies (serving as coaches) and business participants. Goals of the program are as follows: to build a base of qualified businesses that have the expertise and business acumen to perform a variety of advertising services, to increase the amount of work that minority and women-owned businesses are capable of winning and to increase the stability of these businesses by disseminating their work throughout the print production, broadcast production, interactive and operations sectors of the industry.

CONCLUSION

This study provides insight into how executives in the advertising industry view the task of socially responsible supplier selection. While the advertising industry may be in the early stages of promoting supplier diversity initiatives, agencies now have a guideline for areas that should be considered while attempting to address this goal. As America continues to change demographically, companies must ensure that the diversity of the people within the business process reflects these populations. When teams including suppliers and vendors are diverse, more perspectives are presented, and therefore more creative, richer, and unique ideas are developed.

With the AAF's pledge to help develop an industry wide supplier database with a goal of providing a standard and diverse pool of businesses, the advertising industry is addressing a major concern presented by its top executives, a hindering factor of supplier diversity. This industry wide support will provide agencies with easy access to diverse suppliers. Internally, these companies must address complete buy in to the concept from the c-suite and make this goal prevalent in their business actions. With this level of commitment, there should be a goodwill initiative that combines both the commitment of the industry and individual companies to help mentor and develop small and diverse supplier that have the expertise and capability to complete a contract or provide a good, but may not initially have the capacity to undertake the scale requested.

Future research is needed in this area. While this study used a qualitative approach to analyzing the discussion of executives in the advertising industry, more investigative research needs to be conducted to validate these observations. For example, a demographically based breakdown of the number of potential suppliers of a good or service would be beneficial to determine the extent to which diversity is being met or unmet. Additionally, a longitudinal study would be important to examine whether the three areas of consideration helped these companies to achieve their goal. Other future areas of investigation should include studies focused on analyzing the organizational structure, the published supplier protocols, actual expenditures on diverse vendors owned by protected groups and the perceptions of suppliers by group.

In closing, advertising agencies should not approach diversity out of a negative sense of obligation, but engage in a positive and aggressive search for partners with unique capabilities. By doing this, companies will provide clients with world class creativity that only diverse suppliers can deliver – creating a win-win scenario. This level of ethically driven corporate social responsibility by advertising agencies is not only the morally fair course of action to take, it may also be crux to increasing the bottom line in the ever increasingly diverse marketplace.

REFERENCES

Aupperle, K., Carroll, A., & Hatfield, J. (1985). An Empirical Examination of the Relationship Between Corporate Social Responsibility and Profitability. *Academy of Management Journal*, 28(2).

Bell, M. L., & Emory, C. W. (1971). The Faltering Marketing Concept. *Journal of Marketing*, 35, 37-42.

Buhmann, K. (2006). Corporate Social Responsibility and Informal Law: How Multi-National Corporations are Defining Their Own Standards of Conduct. *Managerial Law*, 48(6), 518-520.

Carroll, A. (1979). A Three Dimensional Conceptual Model of Corporate Social Performance. *Academy of Management Review*, 4(4), 497-505.

Carter, C. R. (2004). Purchasing and Social Responsibility: A Replication and Extension. *Journal of Supply Chain Management*. 40(4), 4-16.

Carter, C., & Jennings, M. (2000). Purchasing's Contribution to the Socially Responsible Management of the Supply Chain. Centre for Advanced Purchasing Studies. Retrieved September 26, 2012, from http://www.ism.ws/files/sr/capsarticle_purchasingscontribution.pdf

Carter, C. R., Auskalnis, R. J., & Ketchum, C. L. (1999). Purchasing from Minority Business Enterprises: Key Success Factors. *Journal of Supply Chain Management* 35(1), 28–32.

Dawson, L. M. (1980, June). Marketing for Human Needs in a Humane Future. *Business Horizons*, 23, 72-82.

Dunn, M. G., Norburm, D., & Birley, S. (1994). The Impact of Organizational Values, Goals, and Climate on Marketing Effectiveness. *The Journal of Business Research*, 30 (2), 131-141.

Feldman, L. P. (1971, July). Societal Adaptation: A New Challenge for Marketing. *Journal of Marketing,* 35, 54-60.

Giunipero, L. C. (1980). Differences Between Minority and Non-Minority Suppliers. *Journal of Purchasing and Materials Management* 16(1), 2–8.

Giunipero, L. C. (1981). Developing Effective Minority Purchasing Programs. *Sloan Management Review* 22(2), 33–42.

Glaser, B. G. (1978). *Theoretical Sensitivity Advances in the Methodology of Grounded Theory*. Mill Valley, CA: The Sociology Press.

Glaser, B. G., & Strauss A. L. (1967). *The Discovery of Grounded Theory*. Chicago: Aldine.

Jackson, J. (1999, September 20). Rainbow Imperative: The Next Civil Rights Frontier Demands Respect For Minorities As Consumers. *Advertising Age*, pp. C56.

Koder, P. (1972, May-June). What Consumerism Means for Marketers. *Harvard Business Review,* 50, 48-57.

Lynch, K. (1998). Advertising on Higher Ground. Business Ethics Management Series, Center for Ethical Business Cultures. Retrieved Aug. 2, 2013, from http://www.cebcglobal.org/index.php?/knowledge/advertising-on-higher-ground/

Maloni, M. J., & Brown, M. E. (2006). Corporate Social Responsibility in the Supply Chain: An Application in the Food Industry. *Journal of Business Ethics*, 68(1), 35-52.

Marin, L., & Ruiz, S. (2007). I Need You Too! Corporate Identity Attractiveness for Consumers and The Role of Social Responsibility. *Journal of Business Ethics*, 71:245-260.

McMains, A. (2009, March 5). NAACP Writes Big Advertisers in Diversity Push. *AdWeek* Retrieved on November 12, 2012, from http://www.adweek.com/news/advertising-branding/naacp-writes-big-advertisers-diversity-push-98762

Menon, S. (1999, Fall). The Socially Conscious Corporation: Can Companies Do Well By Doing Good? *Capital Ideas*, 2(2). Retrieved on August 4, 2013 from http://www.chicagobooth.edu/capideas/fall99/menon.html

Morse, J. M. & Field, P. A. (1995), *Qualitative Research Methods for Health Professionals*, 2e. Thousand Oaks, CA: Sage.

National Association of Purchasing Management (2001, Feb.). Developing a Minority Supplier Program, *InfoEdge, 6(2).* Retrieved Aug. 2, 2013 from http://www.ism.ws/pubs/infoedge/InfoEdgeIssue.cfm?ItemNumber=11853

Oliver, S., & Ford, R. L. (2010). *Mosaic Center's Supplier Diversity White Paper,* American Advertising Federation, Washington, DC.

Polonsky, M., & Hyman, M. (2007). A Multiple Stakeholder Perspective on Responsibility in Advertising, *Journal of Advertising*, 36(2), 3-11.

Reed, D. (1999). Three Realms of Corporate Responsibility: Distinguishing Legitimacy, Morality and Ethics. *Journal of Business Ethics*, 21, 23-35.

Rice, M. F. (1993). State and Local Government Set Aside Programs, Disparity Studies and Minority Business Development in the Post-Croson Era. *Journal of Urban Affairs* 15(6), 529–553.

Spratlen, T. H. (1978). The Impact of Affirmative Action Purchasing. *Journal of Purchasing and Materials Management,* 14, pp. 6–8 & 32.

Strauss A. & Corbin J. (1994). Grounded Theory Methodology: An overview. In Denzin, N. K. & Lincoln Y.S. (Eds.), *Handbook of Qualitative Research (pp. 273-285).* Thousand Oaks, CA: Sage.

Teague, P. & Hannon, D. (2005). The Changing Face of Supplier Diversity. *Purchasing*, 134(13), 52−55.

Trey, B. & Wollman, C. (n.d.). "A New Champion for Supplier Diversity is Emerging: The Office of Corporate social Responsibility*,"* *diversitybusiness.com magazine.* Retrieved August 4, 2013, from http://www.diversitybusiness.com/news/diversity.magazine/99200807.asp

Vega, T. (September 3, 2012). With Diversity Still Lacking, Industry Focuses on Retention. *New York Times*. Retrieved August 4, 2013, from http://www.nytimes.com/2012/09/04/business/media/with-diversity-still-lacking-industry-focuses-on-retention.html

THE IMPACT OF CORPORATE SCANDAL ON STRENGTHENING THE PSYCHOLOGICAL CONTRACT OF EMPLOYEES

Sho Nakahara, Kobe University

ABSTRACT

The purpose of this research is to examine the changing of employees' psychological contracts in the case of corporate scandal. This research adopts a qualitative method of interviews. On the 20th of January 2007 in Japan, it became clear that the content of a program, which had been broadcasted in the past by TV station X was a fabrication. This fabrication was taken up by the journal "Nature", being the biggest problem to all TV stations in Japan. This study focuses on the employees' psychological contracts in X.

INTRODUCTION

On the 20th of January 2007 in Japan, it became clear that the content of a program, which had been broadcasted in the past by TV station X was a fabrication. This fabrication was taken up by the journal "Nature", being the biggest problem to all TV stations in Japan.

I believe it is worthwhile to examine this corporate scandal by X from the viewpoint of psychological contracts. There are two particular reasons why I should conduct a research on the case of X. Firstly, the fact that almost all employees of X had wished to resign from their job immediately after the corporate scandal, aroused my interest. As a matter of fact, Schalk and Roe（2007）have referred that in case of extreme events or changes, where the employees may perceive them intolerable, the psychological contract will be deserted. Though corporate scandal in X could be considered as one of those events, all the employees decided to stay and revitalize the firm rather than to quit. It also turned out from the preliminary survey that the workers had become more closely united after the event. These findings suggest there are some facts that cannot be explained using the Change Model of the Psychological Contract (Schalk and Roe, 2007), and therefore, I was very willing to disclose those facts within this research. Secondly, I assumed that their psychological contracts may change because the employees stayed at work even though a big scandal occurred. Generally, it is difficult for firms to mention their risks of corporate scandals on each of their employment contracts. Hence, it could be possible to assume that there are many employees who had encountered a breach of psychological contracts after a corporate scandal. A corporate scandal is too negative for firms to mention in an employment contract, and is surely an event that cannot be expected by employees when entering into an employment contract.

Nevertheless, those employees working for X made a great effort to regain the trust in the company regardless of whether their psychological contracts were unfulfilled or not. Consequently, it can be recognized that there is a mechanism of changing generated beyond the nonfulfillment.

For these reasons, in this research, I adopt a qualitative method of interviews and examine the changing of employee's psychological contracts in the case of the corporate scandal.

LITERATURE REVIEW

Psychological contract as a change

The concept of psychological contract was first mentioned by Argyris (1960), and subsequently used by Levinson et al. (1962) and Schein (1978). These papers refer to the perception of mutual obligation to each other held by the two parties in the employment relationship, organization and employee.

These papers also refer to importance of psychological contract change. Levinson et al. (1962) refer to the ongoing nature of the psychological contract clearly when observing that the psychological contract is 'affirmed, altered, or denied in day-to-day work experience (p. 21)'.

Schein (1978) also sees the psychological contract exchange as unfolding in the sense that it is in operation at all times and 'constantly renegotiated' between employees and their organizations. Employees and organization interact in a complex fashion and this interaction has an impact on employee's working conditions（Conway and Briner, 2005）.

Rousseau (1995) said that psychological contract has changing nature and it refers to three kind of contract change; (1) contract drift, (2) accommodation and (3) transformation. Contract drift is an internal change. It refers to internally induced shifts in how the contract is understood. It occurs when beliefs gradually diverge regarding whether terms are performed. Contract drift creates flexibility in response to life cycle developments and gradual organizational changes. Accommodation is an external change. It makes adjustments within the framework of the existing contract. Accommodations modify, clarify, substitute, or expand terms within the context of the existing contract. Transformation is also an external change, but it is radical form of changes. The purpose of contract transformation is the creation of a new contract in place of an existing one, where the new contract engenders commitment and efficacy for all concerned.

Conway and Briner (2005) mentioned about why we should study the psychological contract as a process. This research is most important for change approach to think why we need to consider psychological contract as a change. 'The main reason for taking a process approach is that the psychological contract, like the contract metaphor on which it is based, is by definition a process involving a series of unfolding events and interpretations of those events (p. 132)'.

On the other hand, non-process approach of psychological contract has the limitation of examination. For example, this approach has little consideration of the time intervals between psychological contract events. As mentioned above, psychological contract has the ongoing nature, but non-process research has little consideration time frames. Conway and Briner (2005) referred to this problem. 'When empirical studies have collected longitudinal data a small number of survey waves are conducted, separated by months or even years. Time elapse between surveys is not justified in any way and the selected time intervals are unlikely to provide sufficient insight into the event-based dynamic nature of psychological contracts (p. 137)'.

Limitations of change perspective in psychological contract

Limitations of change perspective in psychological contract research are the following three points. First, it is not considered a change in the psychological contract when the situation of the organization about the collapse has occurred. As the Great East Japan Earthquake, we do not know if there is serious damage to the organization at all times, but previous research did not discuss what changes in the psychological contract under such circumstances.

Second, unless previous researches consider such changes, there is a possibility that employees turnover when serious incidents and accidents occur temporarily. Therefore, there is a need to consider such cases as soon as possible.

Third, there is likely to be considered as a serious incident or accident alters negatively the psychological contract, however, as a result negative necessarily when the accident and such incidents have occurred in the example of actual it is not the lead to. Rather, there is also a serious incident or accident will bring the unity of the employees as discussed in this study. That regard, studies on changes in the psychological contract have not been paying attention.

Therefore, this research focuses on a case of corporate scandal in this study, and then we consider the change in the psychological contract. Research Questions are as follows.

RQ1: What is the impact corporate scandal has on psychological contract?
RQ2: At that time, how psychological contract of employees has been changed?

METHOD

Case synopsis

TV station X began broadcasting information of the program in the 1990s. By broadcasting the information that the viewer does not know yet, the program was good for the viewer and it was a program to continue to enjoy life knowledge that can be actually used in daily life.

After 10 years, it was found that the program is a fake. In subsequent investigation, the person was fabricated was found to be an employee of the production company.

A responsible to oversee the program was also carried out pre-check of program content, but he did not see that inadequate information was included in the broadcast content. X was decided that it was allowed to resign the management.

Thereafter, the news became reported in Japan by the TV stations. Viewers of this program were disappointed that popular program was fabricated. Complaints flooded X, e-mail was also sent many. But a large number of employees did not know that it was fabrication. By it, they complained about it to new management.

In this case, I guessed that there was a change opportunity in the psychological contract between organizations and individuals. Therefore, I asked to research company X in order to clarify the change in the psychological contract of employees. As a result, interviews of 15 people have become possible. I will be described in detail in the following for more information about the investigation.

Data

In this study, I interviewed 15 employees of X in August and September of 2012. Some TV stations in Japan have, in general, production department, management planning department, sports department, business department, and technology development department. It was same situation in X. In this study, by doing negotiations on the selection of employees under investigation, I was able to select the respondents from each department. Among the interviewees, 13 were men and 2 were women. I couldn't ask the age for all respondents, because that was personal information. All interview participants have long work experience in between 25 years and 37 years.

Interview method

The interviews were held in the meeting room of X and on an average each interview took about 40 minutes. All the interviews were recorded with the permission of the interviewees. Interview data obtained by interview was transcribed later.

Semi-structured interviews were carried out the format of the interview. The interview method is carried out in order to hear the widely talked of the respondents. Main three questions asked in the semi-structured interview are as follows.

1. Before the corporate scandals, what did you expect to company?
   Conversely, what were you expected from company?
2. Immediately after corporate scandals, what did you feel about the scandal?
3. Corporate scandals later, what did you expect company again?
   Conversely, what were you expected from company?

Analysis

Analytical method of this study is Grounded Theory Approach (GTA).

RESULTS

This research made it clear that employee's contents of psychological contracts change over time. Results in this research are divided into 3 parts.

（1）Before corporate scandal occurred

Before corporate scandals occurred, employee's contents of psychological contracts were "organizational design," "job description" and "TV programs". I got these items form GTA analysis. "Organizational design" means what respondents expected for organizational design in work experiences. Respondents said that they could operate any structure before the scandal. X had many departments of TV, but employees couldn't operate their organizational structures by their own. Before the scandal, they complained about the way of working rules and wanted to make organizational structure creative, but they couldn't do that.

"Job description" means what respondents wanted to work in each department as they wish. It was not possible to change their work location easily. Therefore, those who expect the job description in company were many.

"TV program" means what employees engaged in production expected for X. To produce TV programs play an important role in TV station. However, employees working at production department were limited their making TV programs because employer had power to make TV program. Therefore, employees expected to make TV program as they wishes.

（2）Immediately after corporate scandal occurred

Immediately after corporate scandals occurred, their psychological contract contents didn't change. That is a reason why psychological contracts didn't focus on because of scandal impact.

（3）After corporate scandal

Contents of psychological contracts were added "corporate scandals" after corporate scandal. This means that the unity of the employees made an effort to make the scandal clear. Once this item added, the psychological contract has the function to strength identification of employees, and employees did work their role to revitalize their organization through their work. The following diagram shows the process of this three-steps.

DISCUSSION

The findings of this study suggest that there was no impact of scandal on the psychological contract. Rather than there was an impact, the contents of employee's psychological contract are added after corporate scandal. This means that the psychological contract was focused on not immediately after corporate scandal but after this because employees may haven't conscious by a large scandal. Before the scandal, employees have an assumption that "we do not cause scandal", but this assumption was overturned because of large scandal. Then, employees cooperate with each other and a new item of the psychological contract is added.

Theoretical contribution of this study is as follows. Changing of psychological contract in large scandal hasn't been considered in previous research and this study suggests these changing. In other word, corporate scandal may have the function to strength employee's psychological contracts. However, this doesn't mean that corporate scandal is good for every organization and employees. Even if negative case would generate in some organization, employee's psychological contract may have been strengthened by negative case.

This study suggests that practical contribution is a clarifying of cooperation between each employee in corporation scandal of japan. However, it does not mean that not all negative cases sure employee's cooperation.

REFERENCES

Argyris, C.（1960）. *Understanding Organizational Behavior*, Dorsey Press.

Coyle-Shapiro, Jacqueline A-M., and Shore, Lynn M.（2007）. "The employee-organization relationship: where do we go from here?", *Human resource management review*, Vol. 17, pp. 166-179.

Levinson, H., Price, C. R., Munden, K. J., Mandl, H. J., and Solley, C. M. （1962）. *Men, Management, and Mental Health*, Harvard University Press.

Rousseau, D. M.（1995）. *Psychological contract in organizations: Understanding written and unwritten agreements*. Thousand Oaks, CA: Sage.

Schalk, R., and Roe, R.（2007）. "Toward a Dynamic Model of the Psychological Contract.", *Journal of the Theory of Social Behavior*, Vol. 37, pp. 162-182.

Schein, E. H.（1978）. *Career Dynamics,* Addison-Wesley.

ENVIRONMENTAL RESPONSIBILITY, FINANCIAL PERFORMANCE, AND THE GREEN SUPPLY CHAIN MANAGEMENT OF JAPANESE AUTOMOTIVE COMPANIES

Michael Angelo A. Cortez, Ritsumeikan Asia Pacific University
Wishnu Agung Baroto, Ritsumeikan Asia Pacific University

ABSTRACT

Environmental responsibility has become a significant issue in Japan. The needs of more environmental friendly products forces producers to produce eco-friendly products for sustain their market share. Hence, the Ministry of Environment answered the phenomena by issuing a standard of environmental accounting, which proposed cost and benefits measurement in environmental responsibility operations.

This research aims to (1) investigate the relationship between environmental responsibility and financial performance in Japanese manufacturing industry, (2) determine the direction of the relationship (if any), and (3) explore the relationship among industry in Japanese manufacturing industry as green supply chain perspective. The observations are automotive, automotive spare-parts and chemical industry as they comprise a majority of companies and a key contributor to Japan's economy and they portray a green supply chain management.

Using panel data regression to examine eight automotive companies, 10 automotive spare-parts companies, 10 chemical companies' financial performance data from 2003-2012 and environmental responsibility in the similar timeframe, by the virtue of slack availability of resources, the impacts of financial performance on environmental responsibility were examined. Then, the direction reversed to explore the resource-based view perspective. Additionally, granger causality performed to investigate the existence of the equal bi-directional relationship between variables.

Statistically, the results suggest the existence of mix relationship of environmental responsibility and financial performance in the Japanese automotive automotive spare-parts, and chemical companies. Automotive companies exhibit the most virtuous cycle in the relationship of financial performance and environmental responsibility while other industries show more evidence to support the slack availability of resources. Moreover, as a green supply chain perspective, unarguably that automotive companies, automotive spare-parts companies, and chemical companies create a green supply chain.

INTRODUCTION

As the economic perspective shifted to the green economy, businessperson should answer this challenge by not only pursue for profitability but also sustainability purpose. The terminology of green business had been defined by many scholars in the sustainability research. One of the definitions was proposed by Cooney (2009), which described green business as inclusion of four environmental attributes in a business: principle of sustainability consideration in business decisions, produce an environmental friendly products and services, greener operations than other competitors, and commitment in business operations.

Those characteristics have to be informed to the stakeholders of the company using an environmental report. This report, which usually combines with social report, has several names such as corporate social responsibility (CSR report), social performance report, and sustainability report. As a tool for a company's environment responsibility disclosure, this report is notable because the more quantifiable environmental disclosures associated with better environmental performance and economic performance (Al-Tuwaijri, Christensen, & Hugher II, 2004). Therefore, standardize environmental report is important to be addressed for comparison and measurement easiness.

In Japan, standardization of environmental accounting was started in 2000 when the Ministry of Environment of Japan released an environmental accounting standard. As a result, the standardized and comparable reports increase the accountability performance, which helps companies boost public trust and confidence (Ministry of the Environment, 2005).

Environmental responsibility and financial performance in Japanese manufacturing companies are the basic idea of this research. The reason to select manufacturing companies is based on the previous research that suggests the manufacturing companies have a bigger responsibility to engage in environmental activities (Fujii et al., 2009). Therefore, knowing that environmental regulation in Japan were established and environmental accounting standard existed for more than a decade, this research intended to explore more on the relationship between environmental responsibility and financial performance in Japanese automotive industry, automotive spare-parts industry, and chemical industry.

Automotive industry in Japan is one of the earlier adopter of environmental accounting, even when the regulation has not been developed. The reason of why they were doing the environmental responsibility because they believed that the environment is important, particularly considering the effects of their operations (JAMA, 2013).

The automotive spare-parts industry as a main supplier of the automotive industry has a close relationship to the automotive industry. Therefore, more or less, the automotive spare-part industry influenced by the automotive industry's environmental responsibility.

Chemical industry in Japan also significantly contributes in environmental accounting practices. Taking into consideration that chemical companies create a chemical substance that are being used by other industries in a supply chain, chemical industries have to be in a part of the automotive industry green supply chain. Thus, it is believed that the relationship is existed.

Considering the importance of the financial performance and environmental responsibility in managing a company as mentioned before, it is necessary to examine the relationship between the financial performance and environmental responsibility in a company. This research tries to elaborate that relationship in Japanese automotive companies, automotive spare-parts companies, and chemical companies to depict the green supply chain management of the automotive industry.

The fundamental question in this research is whether undertaking environmental responsibility in Japan delivers financial advantages for companies or vice versa. The objective is to determine the relationship between financial performance and environmental responsibility in Japanese automotive companies, automotive spare-part companies, and chemical companies. Once the relationships are establish, the direction will be determined to illustrate the green supply chain of Japanese automotive companies. As a result, it is useful as an input for companies to manage their environmental responsibility, environmental accounting, and green supply chain management for their sustainability practice.

LITERATURE REVIEW

Environmental Accounting

The Ministry of Environment of Japan in 2000 released a draft guideline of environmental accounting, which was revised in 2005 and 2007. The guideline triggered companies to establish their environmental assessment and measurement. (Study Group for Developing a System for Environmental Accounting, 2000). Moreover, this guideline was the first guideline, which aimed to helps companies to achieve sustainable development, maintain community relationship, and obtain effective and efficient environmental activities (Ministry of the Environment, 2005a).

The guideline defines environmental accounting as a mechanism for quantifying environmental conservation activities (Ministry of the Environment, 2005b). This is important because of companies need to quantify their operations into monetary measurement, which is more beneficiary for decision-making. Based on the guideline (2005), monetary measurement of environmental conservation activities called as environmental cost, which classified into six categories (Ministry of the Environment, 2005b):

1. Business area cost
   Cost related to the direct management of the impact on the environment during producing goods and services. For example, environmental cost related to the manufacturing process, sales, and distribution.
2. Upstream and downstream cost

Upstream cost is an environmental cost for the area prior to the business area cost, such as raw materials and supplies. While downstream cost is an environmental cost related to the output of goods and services, for example is consumption of product, emissions, recycling of waste.

3. Administration cost
   Cost related to the process of administration of environmental responsibility. Including in this category is the cost of spreading information regarding of the environment.
4. Research and development cost
   This cost related to the research and development of a company's business strategy. As accounting treats research and development cost into either capitalize as a fixed asset or as an expense, determining the environmental cost only reflects both account in a period.
   However, some problems might arise in this category, especially to classify which cost is a cost-related to environment or not. Moreover, determine the timeframe of research and development might also become a problem.
5. Social activity cost
   This cost is all the environmental cost that used to contributes to the society; for example is community development.
6. Environmental remediation cost
   This cost is related to the companies' effort on remediate the negative effect to the environment caused by their operations.

Environmental responsibility and financial performance

The relationship between environmental responsibility as part of Corporate Social Responsibility (CSR) and financial performance always become an interest of managers because of environmental responsibility might affect the profitability of the firms. Considering this activity as an investment, environmental responsibility can be seen as a tool for creating competitive advantage and profitability by value creation (Porter & Kramer, 2006). As the main purpose of a company is profitability, the focus of its operation is maintaining financial performance. However, company has to face the environmental responsibility as concerned by the society or other stakeholders.

Regarding to the relationship between financial performance and environmental responsibility, and Jacobs et al. (2010) argued that environmental responsibility can improve companies' financial performance.They proposed that the financial performance from environmental responsibility could be generated in two ways: revenues and cost reductions

Furthermore, Barney (2001) mentioned that resource-based view perspective and slack availability of resources perspective are the basis of sustainability study. The resource-based view perspective is the basis for environmental responsibility impact the financial performance and the slack availability of resources are the vice versa (Cortez & Cudia, 2012).

Additionally, McGuire, et.al (1988) conduct a research on a correlation between financial performances as measured in ROA, average assets, asset growth, operating income growth, total return, debt to assets, and operating leverage, to corporate reputation as CSR representation. The result showed that ROA, operating income, and ratio of debt to assets correlated with CSR. Furthermore, Waddock & Graves (1997) established the concurrent bi-directional of corporate social performance and financial performance measurement (ROA, ROE, ROS, Debt to Asset, Sales, and Assets).

Related to CO_2 emissions and waste generation, Hart and Ahuja (1996) and King and Lenox (2002) in their study used the amount of emissions as environmental responsibility. The results show that reduction in emissions improves financial performance (ROS, ROE, and ROA). The recent research conducted by Iwata and Okada (2011) result that environmental and financial performance has a relationship in short and long run. The variables used by them were ROE, ROA, ROI, ROIC, ROS, and tobin q as financial performance while waste and greenhouse gas as companies' CSP.

The green supply chain management

Emmet and Sood (2010) argued that green supply chain in the automobile industry can increase profitability up to 6% from design for disassembly, procurement cost reduction, material recycling, cost for disposing unrecyclable waste reduction, and lower maintenance cost. Similar result also reflected in the chemical industry that gains up to 3% of profitability improvement when the company conducts a green supply chain management.
Related to the green supply chain management in the automotive industry, Cortez and Cudia (2012) mentioned that automotive and electronics companies require thousand global suppliers which comply with eco-friendly products, which considered as an establishment of green supply chain. He also argued that chemical companies are the upstream of those industries (Cortez, 2012).

As a practice of green supply chain management, environmental responsibility performed by the companies especially in CO2 emissions and waste reduction show the green supply chain in the business. Roy and Whelan (1992) worked in CO_2 reduction and waste management on green supply chain management. Other research point out that profitability and cost reduction has become company motivation to conduct green supply chain (Srivastava and Srivastava, 2006).

METHODOLOGY

This research involved three industries in Japan, automotives, automotive parts, and chemical companies. Data of financial performance were gathered from Research Insight COMPUSTAT for eight automotive, 10 automotive-parts, and chemical companies chosen from the Tokyo Stock Exchange listed companies, which produced environmental accounting reports. The reason to choose those three industries is because the automotive industry is the pioneer of environmental accounting in Japan. Furthermore, to depict the green supply chain management, spare-parts and chemical industry also selected.

The environmental accounting costs, waste generated, and CO2 emissions were taken from 2003, as the first revision of environmental accounting standard released, until 2012 to show a decade of observation. Panel data regression are performed for each industry using environmental cost, waste generated, and CO2 emissions as controlling variable over financial performance (sales, cost of sales, gross profit, net income, return on asset, return on equity, earning per share, stock price, and total assets). The relationships then reversed to determine bi-directional. Furthermore, granger causality tests performed to determine the direction of each variable and to determine whether virtuous cycles exist. Finally, using multivariate panel regression for establish the impact of automotive industry to spare parts industry.

Research-based view perspective suggests that environmental cost, waste, and CO_2 emissions have positive impacts on financial performance. The latter was captured in several dimensions: sales, cost of sales (which supposed to have a negative coefficient) and net income are a proxy to capture profitability, ROA, ROE, and EPS are the basis for stakeholder and shareholders intention, stock price as a future expectation of company performance, and total assets as a representative of firm size.

Therefore, the hypotheses of this relationship in all the three industries are as the following.

H1a : Environmental responsibility positive impact financial performance of automotive companies
H1b: Environmental responsibility positive impact financial performance of spare parts companies
H1c: Environmental responsibility positive impact financial performance of chemicals companies

On the other hand, previous researcher suggests the slack availability of resources as an illustration of the reverse relationship. Here, the financial performance has positive impacts on the environmental responsibility. The argument based on the deem of companies have to be profitable and have enough financial resources before engaging in environmental responsibility. Thus, the variables should be reversed to capture this relationship; environmental responsibility becomes the controllable variable and financial performance as independent variable. Therefore, the hypotheses in the three industries are as follows:

H2a: Financial performance positive impact environmental responsibility of automotive companies
H2b: Financial performance positive impact environmental responsibility of spare parts companies
H2c: Financial performance positive impact environmental responsibility of chemicals companies

The next relationship proposed by Orlitzky (2009) when he mentioned the virtuous cycle between financial performance and environmental responsibility. Moreover, Cortez (2011) conducted granger causality for depict the virtuous cycle and labeled it as an accumulated slack theory as a concurrent bi-directional relationship. Therefore, this research following the previous studies by proposing the existence of virtuous cycle between the variables in the three observed industries.

H3a: Virtuous cycle exists between environmental responsibility and financial performance of automotive companies
H3b: Virtuous cycle exists between environmental responsibility and financial performance of spare parts companies
H3c: Virtuous cycle exists between environmental responsibility and financial performance of chemicals companies

Lastly, the three industries observed above are practically integrated in green supply chain management. Automotive spare-parts industry is the first-tier supplier of the automotive industry and chemical industry is the upstream business of the other two industries. Therefore, by the virtue of network theory, the companies performs environmental responsibility because of the impact of the automotive industry.

H4a: Automotive industry performance positive impact financial performance of spare part and chemical industry
H4b: Automotive industry performance and spare part industry positive impact financial performance of chemical industry

RESULTS AND DISCUSSION

Impact of environmental responsibility on financial performance

Automotive companies: Automotive companies have a significant result in terms of financial performance and environmental responsibility. As shown in appendix A, revenues, gross profit, net income, stock price, ROA, ROE, and total assets are significantly affected by environmental cost, while CO2 emissions impact to cost of sales only which means that lower CO2 emissions can reduce cost of sales. Waste generation act differently to financial performance; it is affecting revenue, gross profit, net income, and EPS. It means that waste reduction has significant influence in the short term profitability (appendix A). As McGuire, et. al, (1988) and Waddock and Graves (1997) mentioned that financial performance determines the environmental responsibility, the previous relationship then reversed and the result shows that all financial performance impact significantly to environmental cost; CO2 emissions affected significantly on net income. Similar result appears in waste management that all profitability proxies (revenues, net income, and EPS) are significantly affecting waste management (appendix B). Therefore, H1a and H2a accepted for environmental cost proxy and not accepted in CO2 emissions; furthermore, it is accepted in waste management only in terms of profitability.

Spare parts companies: The impact of environmental responsibility on financial performance in this industry mostly resulted in environmental cost. Using level of confidence 95%, environmental cost strongly significant to revenue, cost of sales, gross profit, EPS, stock price, and firm size. Waste generation also impact positively to cost of sales and firm size (appendix A). This result shows that reducing CO2 emissions and waste in manufacturing need longer period to be affect financial performance. In reverse, financial performance also has a significant impact to environmental cost. The result shows that environmental cost affected by revenue, cost of sales, gross profit, stock price, and total assets; additionally, waste generated also affected by revenue, cost of sales and total assets (appendix B). Those results depict the relationship between financial performance and environmental responsibility mostly happen in environmental cost only. Therefore, H1b and H2b conditionally accepted only for environmental cost.

Chemical companies: Five out of eight financial performance variables (revenue, cost of sales, EPS, stock price, and total assets) are positively affected environmental cost. Waste management also affects cost of sales, net income, EPS, and total assets. Only CO2 emissions fail to explain its relationship to financial performance (appendix A). The variable then reversed to answer whether financial performances give significant influences to environmental responsibility. The result almost similar than the latter test: revenue, cost of sales, net income, stock price, and total assets impact positively to the environmental cost; revenue, cost of sales, and total assets impact to waste management, and no positive impact related to CO2 emissions. Therefore, the relationship between financial performance and environmental responsibility mostly happen in environmental cost only. In this case, H1c and H2c conditionally accepted only for environmental cost.

Virtuous cycle

Automotive companies: Using granger causality test to determine direction between variables, reflects the existence of virtuous cycle in automotive companies. Five companies have virtuous cycle in revenue and cost of sales to the environmental cost, while other factors are less than 50% from the observation. Related to CO2 emissions, virtuous cycle materialize in relationship with revenue, net income, ROA, ROE, and total assets. It explains shareholder's awareness in CO2 emissions and sustainability prospect. Next variable is waste that has less virtuous cycles in all financial performance proxy compare to environmental cost. Therefore, H3a is conditionally accepted with revenues and environmental cost as the variable. In CO2 emissions, the virtuous cycles also occurs (appendix C).

Spare parts companies: Low virtuous cycle happen between cost of sales and CO2 emissions. Environmental cost variable has bi-directional with financial performance as noted earlier but not virtuous cycle. Therefore, H3b should not be accepted.

Chemicals companies: No virtuous cycle exist in chemical companies. Bi-direction occurs in environmental cost with revenue, cost of goods sold, and firm size. Then, H3c should not be accepted.

Impact of automotive industry performance on spare parts and chemical industry

Green supply chain in Japanese manufacturing tested between automotive industry revenue as controlling variables and revenues of spare parts and chemical industry as dependent variables. The result shows a significant impact by p-value of 0.0000505 and 0,0000401. As a matter of business, this result is highly expected. The automotive industry should be triggering the revenue of its supplier. Therefore, H4a is accepted that automotive industry performance affects positively to financial performance of spare parts industry.

Impact of automotive industry performance on spare parts company

Green supply chain in Japanese manufacturing tested between automotive and spare parts industry revenue as controlling variables and revenues of chemical company as dependent variables. The result shows a significant impact by p-value of 0.0000303. Therefore, automotive and spare part industry's revenues positively influence revenue of chemical companies. Therefore, H4b also accepted.

These results, as exhibited in appendix D, are in line with Cortez (2011) which mention that automotive industry's requirement of environmental friendly products followed by spares parts industry because of institutional isomorphism.

CONCLUSION

Based on the analysis and discussion in the previous chapters, this sub-chapter tries to answer the research questions of this research. The summaries of conclusions of the answers are as the following.

1. Statistical analysis suggests the existence of the relationship between environmental responsibility and financial performance in the Japanese automotive, automotive spare-parts, and chemical companies.
2. Among three manufacturing industries observed, automotive companies exhibit the most virtuous cycle in the relationship of financial performance and environmental cost while other industries show evidence to support the slack availability of resources.
3. CO_2 emissions and waste disposal management as environmental responsibility proxies, advocates the mix results on the unidirectional impacts on financial performance and vice-

versa. However, statistical finding supports more on slack availability of resources rather than the resources-based view perspective. Conversely, as practiced in the automotive companies for more than a decade, other variables of environmental responsibility support the resources-based view perspective.

4. In the relationship between CO_2 emissions and financial performance, statistical results imply the long-term financial performance affects companies' CO_2 emissions reduction. On the other hand, waste disposal management affected by the short-term financial performance.
5. In the green supply chain management, statistically, the results conform to the green supply chain theory. The automotive companies have significant impacts on automotive spare-parts companies and chemical companies. A similar result exists in the impacts of automotive companies and automotive spare-parts companies on chemical companies. These results set the chemical companies as the upstream industry that supports automotive industry and automotive spare-parts industry.

REFERENCES

Al-Tuwaijri, S. A., Christensen, T. E., & Hugher II, K. (2004). The relations among environmental disclosure, environmental performance, and economic performance: a simultaneous equations approach. *Accounting, Organizations and Society 29*, 447-471.

Barney, J. B. (2001). Is the resource-based view a useful perspective for strategic management research? Yes. *Academy of Management Review 26(1)*, 41-56.

Cooney, S. (2009). *Green Your Small Business: Profitable ways to become an ecopreneur.* New York: McGraw-Hill.

Cortez, M. A., & Cudia, C. (2011a). The virtuous cycles between environmental innovations and financial performance: case study of Japanese automotive and electronics companies. *Academy of Accounting and Financial Studies Journal 15*, SI2: 31-44.

Cortez, M. A., & Cudia, C. (2012). Environmental innovations and financial performance of automotive and electronics company. *Chapter 9. Green Growth: Managing the Transition to a Sustainable Economy. Learning by doing in East Asia and Europe. Greening of Industry Networks Studies. Vol. 1 2012*, 173-190.

Cortez, M. A., & Nugroho, K. M. (2011). *Resource-based view perspective or slack availability of resources: a perception survey of Japanese automotive and electronics companies.* Journal of International Business 10, Special Issue 1, 2011.

Cortez, M. A., & Cudia, C. (2010). *The impact of environmental innovations on financial performance: the case of Japanese automotive and electronics companies.* Journal of International Business Research. 9(SI1): 33-46

Christmann, P. (2000). Effects of "best practices" of environmental management on cost advantage: the role of complementary assets. *The Academy of Management Journal, 43(4),* 663-680.

Darnall, N., Jolley, G. J., & Handfield, R. (2008). Environmental management systems & green supply chain management: Complements for sustainability? *Business Strategy & Environment, 17 (1)*, 30-45.

Hart, S. L., & Ahuja, G. (1996). Does it pay to be green? An empirical examination of the relationship between emission reduction and firm performance. *Business Strategy and the Environment vol 5*, 30-37.

Iwata, H., & Okada, K. (2011). How does environmental performance affect financial performance? Evidence from Japanese manufacturing firms. *Ecological Economics 70*, 1691-1700.

JAMA. (2013, May). *Japan Automobile Manufacturers Association, Inc.* Retrieved from Japan Automobile Manufacturers Association, Inc.: www.jama-english.jp

Keizai Doyukai. (2010, 4). *Japanese Association of Corporate Executives - CSR Summary.* Retrieved from Japanese Association of Corporate Executives: http://www.doyukai.or.jp/csr_summary.html

King, A., & Lenox, M. (2002). Eploring the locus of profitable pollution reduction. *Management Science 48 (2)*, 289-299.

Klassen, R., & McLaughlin, C. (1996). The impact of environmental management on firm performance.*Management Science, 42(8),* 1199-1214.

McGuire, J., Sundgren, A., & Schneeweiss, T. (1988). Corporate Social Responsibility and Firm Financial Performance. *Academy of Management Journal 31 (4)*, 854-872.

Nakao, Y., Amano, A., Matsumura, K., Genba, K., & Nakano, M. (2007). Relationship between environmental performance and financial performance: an empirical analysis of Japanese corporation. *Business Strategy and the Environment, 16,* 106-118. doi: 10.1002/bse.476

Roy, R., & Whelan, R. C. (1992). Successful recycling through value-chain collaboration. *Long Range Planning 25*, 62-71.

Russo, M., & Fouts, P. (1997). A resource-based perspective on corporate environmental performance and profitability. *The Academy of Management Journal, 40(3),* 534-559.

Srivastava, S. K., & Srivastava, R. K. (2006). Managing product returns for reverse logistics. *International Journal of Physical Distribution and Logistics Management, 36*, 524-546.

Waddock, S. A., & Graves, S. B. (1997). The corporate social performance-financial performance link. *Strategi Management Journal Vol. 18 (4)*, 303-319.

Yelkikalan, N., & Kose, C. (2012). The effect of the financial crisis on corporate social responsibility. *International Journal of Business and Social Science Vol 3 No. 3*, 292-300.

Zhu, Q., Geng, Y., Fujita, T., & Hashimoto, S. (2010). Green supply chain management in leading manufacturers: Case studies in Japanese large companies. *Management Research Review 33 (4)*, 380-392.

Appendix A

Dependent Variables	Independent Variables		
	CO2 emissions	Waste	Environmental Cost
	P> z	P> z	P> z
Automotive Companies			
Revenue	0.118	0.063	0.001
Cost of Sales	0.089	0.234	0.000
Net Income	0.198	0.000	0.004
ROA	0.552	0.823	0.020
ROE	0.890	0.599	0.008
EPS	0.153	0.000	0.030
Stock Price	0.042	0.109	0.000
Total Asset (Firm Size)	0.021	0.110	0.045
Spare-parts Companies			
Revenue	0.967	0.032	0.023
Cost of Sales	0.931	0.014	0.049
Net Income	0.624	0.689	0.302
ROA	0.443	0.956	0.114
ROE	0.256	0.767	0.152
EPS	0.794	0.840	0.048
Stock Price	0.826	0.641	0.003
Total Asset (Firm Size)	0.605	0.013	0.035
Chemical Companies			
Revenue	0.830	0.642	0.028
Cost of Sales	0.828	0.094	0.000
Net Income	0.507	0.088	0.229
ROA	0.304	0.842	0.123
ROE	0.307	0.110	0.266
EPS	0.352	0.084	0.043
Stock Price	0.351	0.200	0.030
Total Asset (Firm Size)	0.814	0.011	0.076

Appendix B

Independent Variables	Dependent Variables		
	CO2 emissions	Waste	Environmental Cost
	P> z	P> z	P> z
Automotive Companies			
Revenue	0.025	0.175	0.000
Cost of Sales	0.112	0.024	0.000
Net Income	0.012	0.1393	0.045
ROA	0.153	0.2642	0.026
ROE	0.313	0.1042	0.028
EPS		0.2529	0.035
Stock Price	0.195	0.1536	0.000
Total Asset (Firm Size)	0.2455	0.3087	0.000
Spare-parts Companies			
Revenue	0.010	0.177	0.002
Cost of Sales	0.041	0.253	0.026
Net Income	0.133	0.164	0.056
ROA	0.215	0.621	0.168
ROE	0.245	0.191	0.228
EPS	0.194	0.232	0.141
Stock Price	0.495	0.258	0.071
Total Asset (Firm Size)	0.005	0.589	0.025
Chemical Companies			
Revenue	0.427	0.061	0.001
Cost of Sales	0.435	0.056	0.000
Net Income	0.301	0.126	0.022
ROA	0.101	0.322	0.120
ROE	0.243	0.421	0.219
EPS	0.201	0.318	0.103
Stock Price	0.614	0.213	0.030
Total Asset (Firm Size)	0.252	0.092	0.002

Appendix C

	Automotive		Spare Parts		Chemical	
	Direction	Virtuous Cycle	Direction	Virtuous Cycle	Direction	Virtuous Cycle
Revenue impact to Environmental cost Environmental cost impact to Revenue	63% 63%	62.50%	20% 30%	0.00%	60% 50%	40.00%
Cost of sales impact to Environmental cost Environmental cost impact to Cost of sales	50% 50%	50.00%	30% 10%	0.00%	60% 60%	40.00%
Net income impact to Environmental cost Environmental cost impact to Net income	75% 63%	37.50%	20% 10%	0.00%	40% 20%	30.00%
ROA impact to Environmental cost Environmental cost impact to ROA	75% 50%	37.50%	20% 20%	1.00%	40% 20%	10.00%
ROE impact to Environmental cost Environmental cost impact to ROE	75% 63%	37.50%	0% 20%	0.00%	20% 40%	30.00%
EPS impact to Environmental cost Environmental cost impact to EPS	75% 75%	62.50%	10% 10%	0.00%	30% 40%	30.00%
Stock price impact to Environmental cost Environmental cost impact to Stock price	50% 63%	37.50%	10% 20%	0.00%	10% 20%	20.00%
Asset (firm size) impact to Environmental cost Environmental cost impact to Asset (firm size)	63% 75%	37.50%	10% 10%	0.00%	60% 60%	40.00%

Appendix C

	Automotive		Spare Parts		Chemical	
	Direction	Virtuous Cycle	Direction	Virtuous Cycle	Direction	Virtuous Cycle
Revenue impact to CO2 emissions CO2 emissions impact to Revenue	63% 75%	50%	50% 40%	20%	60% 40%	20%
Cost of sales impact to CO2 emissions CO2 emissions impact to Cost of sales	50% 50%	25%	60% 50%	40%	20% 30%	10%
Net income impact to CO2 emissions CO2 emissions impact to Net income	75% 63%	50%	30% 30%	10%	40% 20%	30%
ROA impact to CO2 emissions CO2 emissions impact to ROA	75% 63%	50%	30% 10%	10%	40% 30%	20%
ROE impact to CO2 emissions CO2 emissions impact to ROE	75% 88%	75%	30% 20%	10%	30% 30%	10%
EPS impact to CO2 emissions CO2 emissions impact to EPS	38% 50%	13%	20% 10%	10%	20% 40%	10%
Stock price impact to CO2 emissions Co2 emissions impact to Stock price	63% 63%	38%	30% 20%	10%	60% 40%	40%
Asset (firm size) impact to CO2 emissions Co2 emissions impact to Asset	50% 75%	50%	40% 40%	10%	30% 10%	0%

Appendix C

	Automotive		Spare Parts		Chemical	
	Direction	Virtuous Cycle	Direction	Virtuous Cycle	Direction	Virtuous Cycle
Revenue impact to Waste generated	38%	13%	30%	20%	50%	20%
Waste generated impact to Revenue	25%		40%		20%	
Cost of sales impact to Waste generated	50%	13%	40%	30%	40%	30%
Waste generated impact to Cost of sales	13%		40%		20%	
Net income impact to Waste generated	75%	25%	20%	10%	40%	10%
Waste generated impact to Net income	38%				20%	
ROA impact to Waste generated	75%	25%	20%	0%	20%	30%
Waste generated impact to ROA	25%		20%		40%	
ROE impact to Waste generated	50%	25%	30%	0%	30%	30%
Waste generated impact to ROE	50%		20%		40%	
EPS impact to Waste generated	25%	25%	20%	0%	10%	20%
Waste generated impact to EPS	25%		20%		20%	
Stock price impact to Waste generated	63%	13%	40%	0%	20%	10%
Waste generated impact to Stock price	25%		10%		10%	
Asset (firm size) impact to Waste generated	50%	25%	30%	0%	20%	0%
Waste generated impact to Asset (firm size)	25%		10%		10%	

Appendix D

Hypotheses	Industry	Financial Performance	Environmental responsibility		
			Environmental cost	CO2 emissions	Waste disposal
Environmental performance impacts on financial performance					
H1a	Automotive	Financial Performance	Accepted	Long-term FP	Short-term FP
H1b	Spare-parts	Financial Performance	Accepted	Rejected	Rejected
H1c	Chemical	Financial Performance	Accepted	Rejected	Short-term FP
Financial performance impacts on environmental responsibility					
H2a	Automotive	Financial Performance	Accepted	Cost of sales	Short-term FP
H2b	Spare-parts	Financial Performance	Accepted	Rejected	Short-term FP
H2c	Chemical	Financial Performance	Accepted	Rejected	Short-term FP
Virtuous cycle between financial performance and environmental responsibility					
H3a	Automotive	Financial Performance	Accepted	Accepted	Rejected
H3b	Spare-parts	Financial Performance	Rejected	Rejected	Rejected
H3c	Chemical	Financial Performance	Rejected	Rejected	Rejected
Automotive companies impacts on spare-parts and chemical companies					
H4a	Accepted				
Automotive and spare-parts companies impacts on chemical companies					
H4b	Accepted				

NATIONAL SOCIAL RESPONSIBILITY – A NIGERIAN INITIATIVE

JELENA ZIVKOVIC, AMERICAN UNIVERSITY OF NIGERIA

ABSTRACT

The concept of Corporate Social Responsibility (CSR) which requires companies to treat all their stakeholders in an ethical and socially responsible manner has gained primacy all over the world in the course of the last two decades. Today, companies are expected to behave responsibly and the number of CSR initiatives has risen significantly as companies seek to become more competitive and foster greater social cohesion. This paper sets out to demonstrate how the National Youth Service Corp scheme in Nigeria acts as a CSR program on a national level. This paper has underscored the importance of the NYSC scheme in Nigeria and the role that this scheme has played in fostering unity and also bringing about community development. The program has had significant success in promoting national integration in the multi-ethnic nation of Nigeria. The paper is presented as a literature review discussing the impact and criticism of NYSC and how these program goals are closely align to CSR.

Keywords: *CSR, NYSC, Nigeria, National Youth Service Corp*

INTRODUCTION

The concept of Corporate Social Responsibility (CSR) which requires companies to treat all their stakeholders in an ethical and socially responsible manner has gained primacy all over the world in the course of the last two decades. Today, companies are expected to behave responsibly and the number of CSR initiatives has risen significantly as companies seek to become more competitive and foster greater social cohesion. Emphasize on CSR has been due to the realization that corporate responsibility is necessary if a corporation wants to increase its chances of succeeding. A concept generated from the NYSC and CSR is coined by the author as National Social Responsibility (NSR) which explores how a nation treats its stakeholders (citizens) in a responsible manner. Jawahir and Hopkins (2008) lament that while CSR has been implemented aggressively in many countries; most nation states lack social responsibility programs for their citizens who are the key stakeholders of the state. In spite of the poor results in NSR inititiatives by many states, there have been some NSR programs which have shown great success. An example of this is the National Youth Service Corps Schemes (NYSC) which is a Nigerian national youth programme that runs for one year. While the NYSC was originally created as a Peace Keeping initiative, the program has become an instrument of making the youth more socially responsible.

This paper will set out to illustrate the similarities between CSR and the national youth service initiative in Nigeria so as to demonstrate that the NYSC is a successful model of how corporate social responsibility can impact a nation.

SNAPSHOT OF NIGERIA

Nigeria is a developing country in Africa and it is ranked as the most populous nation in the continent. Elaigwu (2008) documents that "Nigeria has a total area of 932,768 square kilometers and boasts of a population of about 130 million people, as well as a population growth rate of 2.6 percent" (p.1). It is one of the world's most ethnically diverse countries (with over 300 identifiable ethnic groups and over 400 lingo-cultural groups) and this communal heterogeneity makes governance a complex affair. The official language of the country is English but the languages of the three large ethno linguistic groups; the Hausa, Yoruba, and the Igbo, make up the major languages of the Nigerian people. There are three major religions in Nigeria: Islam, Christianity and African Traditional Religion. Of the three religions, the African Traditional Religion is the oldest one and it is also the religion that has suffered the greatest loss of followers as Nigerians move to the other two predominant religions.

An important feature of Nigeria is that it is a federation of a number of states. This federation was established by the British colonial rulers in 1954 and it has survived intact up to date. Elaigwu (2008) notes that this federation of previously independent states was not the result of voluntary union or contract between the states but rather an imposition by the British colonial rulers. While the federal system was introduced in 1954, the various states maintained a lot of autonomy and this only increased after independence due to the mutual suspicions and fears that existed among ethnic groups (Elaigwu, 2008).

Nigeria has had a turbulent history after it attained independence from Britain. The country gained its independence from Britain in 1960 and a government was formed with Nnamdi Azikiwe being the first president of the country. The post of president was largely ceremonial and the real power was wielded by the prime minister who was Abubakar Tafawa. While most other African countries had years of relative peace following independence from their respective colonial masters, Nigeria’s independence was followed by civil wars which were sparked by a number of reasons. From the onset, there existed rivalry and suspicion among the major ethnic groups: Hausa-Fulani in the north, the Yoruba in the west and the Ibo in the east. Abubakar’s rule was marred by great corruption and inefficiency in delivery of services to the county’s population. Opposition to this corrupt and ineffective government led to a coup in 1966 which resulted in the ousting of the first president of Nigeria. A counter-coup closely followed this and Colonel Yakuba Gowon took leadership.

Due to the huge militarization of the country that followed these coups, there was a secession attempt by the Eastern Nigeria region and this sparked a civil war in 1967. The war ended in 1970 having caused the death of up to 3 million people and greatly damaged the infrastructure of the young nation. Even though the federal government of Nigeria won the war, it realized that for peace to prevail in the multi-ethnic and multi-religious country, unity had to be achieved among the various constituent parts of the state. Achieving nationwide unity in Nigeria was going to be hard since the country has many ethnic groups (estimated to be around 375) and there is no common ancestry upon which loyalty for the land could be based. It was therefore recognized that the desired unity and true feelings of loyalty for the state were not going to come about naturally but they could only be achieved through a deliberate social process.

NATIONAL YOUTH SERVICE CORP. PROGRAM

The National Youth Service Corp (NYSC) was started in 1973 under the leadership of the military head of state, General Yakubu Gowon. Agumagu, Adesope and Njoku (2006) note that the core objective of the scheme is to instill in the Nigerian youth "the spirit of selfless service to the community, and emphasize the spirit of oneness and brotherhood of all Nigerians irrespective of cultural or social background" (p.70). The initiative also has unity as a central point to the entire scheme. Agumagu et al. (2006) point out that as a result of the turbulent history experienced by Nigeria since her independence, there is need for unity among the people. The NYSC program is compulsory for all graduates in Nigeria since if it were voluntary in nature, only a few youths would be willing to engage in it and this would hurt the vital goal of enhancing national unity in the highest number of people. The NYSC scheme encourages the youth to serve their nation in whatever capacity they have professional training in (Agumagu, et al., 2006). All corps members are expected to make positive contributions to the communities where they are serving.

The reason why the youth were targeted by the state as agents of change is because this group is uniquely placed to influence the society. The youth are a unique group who possess potent energies that can be channeled into meaningful activities for the purpose of national development. Obadare (2005) notes that the potency of youth as a social category in African has been trivialized and over-simplified due to the negative connotation attached to the term "youth" in Africa. The term African youth has come to be a metaphor for violence, crime, and struggling in the continent. This overgeneralization overshadows the reality that the youth can be engaged in peaceful social processes and serve important roles in advancing the prosperity of a nation.

The scheme is made up of four phases which are undertaken in a sequential manner. The first phase is mobilization where the corps members are posted to the various stations where they will serve. In order to achieve the objective of forging unity and inter-ethnic understanding, members of the NYSC are required to serve in states far away from their own home state so that they can learn the ways of life of culturally different Nigerians. Being posted in other states also helps to get rid of stereotypical views that the individual might have had concerning other ethnic groups and a more liberal outlook is adopted by the corps member (Agumagu et al., 2006).

The oriental phase takes two-weeks during which the corps members are initiated into the details of the program. The orientation phase is designed to provide the new corps members with a proper understanding of the goals of the program as well as the ideals that are held by the NYSC. The first part of the orientation consists of citizenship and leadership training during which the corps members engage in drill and non-drill activities (Agumagu et al., 2006). The non-drill activities include a series of lectures on history, politics, and administration and the activities are aimed at increasing knowledge of the corps members in their national heritage. The drill activities are conducted by Army officials and they include survival techniques, parading, uniform, and discipline.

The third phase consists of primary assignments and each of the corps members is required to perform his national service in the area where s/he has been deployed. The service provided is normally of a specialized nature and the corps member is placed in a field relevant to his academic qualification. The final stage consists of winding up activities (both the primary assignments and community development services) and a final passing out parade during which corps members are awarded with certificates (Agumagu et al., 2006). A graduate in Nigeria is only eligible for legal employment after they have acquired this certificate which acts as proof that they have successfully completed the NYSC program.

While the need for the NYSC was acknowledged by the political leaders and the youths of Nigeria, the initial reaction to the NYSC scheme was not favorable and there was widespread opposition to the program by many students. This opposition which mostly emerged from the university students was because the students had not been involved in the development of the program and there was little attempt by the government to promote the ideals of the scheme to the population. However, the scheme came to be accepted by the youth and it has been running successfully for the past 29 years.

LITERATURE REVIEW

From its conception, the NYSC had political motivations and the government of Nigeria hoped to advance some values using the program. The government had witnessed a breakdown in relations between people of differing ethnic groups and a civil war which led to immense losses for many Nigerians. For the nation to succeed in future, plans had to be put in place to foster reconciliation and promote peace and unity in the country and the NYSC purported to fulfill this objectives (Agumagu et al., 2006). In a similar manner, CSR acknowledges the political realities in the environment the company exists and stays in tune with sociopolitical movements for social equity and justice. As such, CSR is influenced by the political environment and some of the activities implemented are politically motivated.

In establishing the NYSC, the government was admitting that it needed the input of the youth so as to fulfill the goals of development and unity (Agumagu et al., 2006). This admission is based on the reality that the state has an intimate connection with its citizens and the manner in which it carries out its activities will influence the actions of these stakeholders. Similarly, CSR is emphasized upon due to the interdependence between corporations and the society and from the acknowledgement that the organization's activities will have an impact which may lead to positive or negative consequences within the community.

A core goal of the NYSC is to encourage self-reliance in the Nigerian youths. NYSC aims to foster the spirit of entrepreneurship in corps members and therefore enable them to become self-employed once they are through with the program. This deemphasize on dependency on public service employment is crucial in Nigeria where the number of employment candidates far outweighs the employment opportunities provided by the government and the private sector. CSR initiatives aim to achieve the same results for the community. Kent, Cheney, and Roper (2007) reveal that some CSR programs target unemployed members of the community and help to make them self-reliant and establish their own income generating activities.

NSR requires the state to be committed to maintaining a good overall quality of life for its citizens. This requires that resources be dedicated to communities which are poor in order to promote a rise in the living standards. In Nigeria communities, especially in the rural areas, suffer from a dire lack of skilled labor which is needed to achieve optimal results in food production and industry. The NYSC program helps to alleviate this problem by sending skilled candidates to these areas (Agumagu et al., 2006). The knowledge and skills of these skilled members of the corps is harnessed and used to achieve favorable outcomes such as food production, economic recovery and industry development in impoverished regions. Some of the CSR strategies implemented by companies also aim to improve the lives of the community members. Kent et al. (2007) reveals that in some rural areas, companies implement water and sanitation programs that program help to deliver clean water to the community therefore improving their quality of life.

CSR promotes cultural awareness which is a necessity for many companies as they serve increasingly diverse cultural groups. The NYSC promotes cultural integration through the youth. This is achieved since the program requires that each corps member serve in a state different from his/her state of origin. The youth are therefore exposed to cultures and traditions that may be significantly different from their own. This exposure to different cultures leads to an appreciation for the other people’s ways of life. Without exposure to other cultures, a person may see their culture as the only “right one” and the rigid stance will lead to poor relationships. The NYSC forces individuals to experience other cultures and this leads to an accommodative outlook since the individual appreciates that different people have different ways of doing things. The NYSC scheme does not only influence the opinion of the corps members but also their immediate relations. Obadare (2005) points out that the parents and relations of corps members acquire an interest about the specific area where their kin is posted. This forces the relatives to "think national" and therefore fosters a national consciousness and integration.

A key positive outcome of many CSR programs is to empower community members. This empowerment may be achieved through training and seminars where individuals are equipped with knowledge and life skills that help them to become productive members of the society. The NYSC has also achieved this goal of empowering corps members and the community at large. Agumagu et al. (2006) asserts that corps members develop a high level of self confidence as a result of their engagement in the program. The community members are also empowered through the teaching services that are provided by corps members. In addition to this, the national service increases the awareness of the participants of the needs of others. NYSC gives the state an opportunity to add value to its citizens by instilling professional knowledge to the youths. As has been noted, the programme is meant for graduates of tertiary institutions and a majority of these graduates possess little or no work experience. Agumagu et al. (2006) reveal that NYSC provides on-the-job training and experience for corps members therefore increasing their professional value. Individuals who have gone through the program gain important work experience which makes it easier for them to get gainful employment after they have completed their year of service.

The NYSC scheme leads to a formation of a positive attitude towards community development service as the members engage with the community. The NYSC promotes the kind of service described by Sherraden (2001) as "an organized period of substantial engagement and contribution to the local, national, or world community, recognized and valued by society, with minima; monetary compensation to the participant" (p.2). This service provided by the youth meets certain human needs and promotes the development of the community. Agumagu et al. (2006) states that as corps members attend various community development service sessions, individual members see the need to be more committed. The members are enthusiastic as they share ideas and discuss how they should act in order to bring about progress in the community they are serving. CSR also promotes community service since the companies are expected to engage in community development projects without any compensation.

NSR can be used to obtain a positive influence on citizenship. This is the case with the NYSC where some explicit ideals are instilled in the members of the corps during their service. An objective of the program is to impart a right attitude, good values, and enhance the development of good qualities in the youths of Nigeria. The service that the youth are obligated to support promotes good citizenship which helps in the development of the nation. This is similar to CSR which aims to present the company in a positive light to the public. Kent et al. (2007) reveal that while CSR has emerged as a strategic process that is beneficial to the society, the primary concern of this strategic process is managing the image of corporations and countering any real or potential criticism of the social impacts of profit-driven businesses on the lives and values of people. The companies therefore undertake image management through a guided philanthropy which is quickly publicized to the community that counts therefore raising the standing of the company. The same can be said for NYSC which was entrenched in the constitution of the country as a "national interest" as perceived by the military regime of the time.

CSR aims to address the particular social problem of social exclusion which is where some individuals or groups lack access to rights and benefits that are fundamental to other members of the community. CSR helps to alleviate this problem though implementations of programs which help enhance the social inclusion. Companies can also take up greater advocacy for sufficient social changes so as to foster social inclusion and therefore benefit the previously marginalized groups (Agumagu et al., 2006). The NYSC also promotes social inclusion through the interaction among corps members and with the communities. Through interaction among the corps members, graduates hailing from varied ethno-cultural groups are able to appreciate the similarities existing between their cultures. Interaction with the communities leads to a reduction in ethnic chauvinism and the graduates are able to develop healthy attitudes towards groups that were otherwise excluded.

A key goal of all corporate social responsibility initiatives is to bring about positive changes to the communities that the company interacts with. Arguably the most frequently mentioned vision statement in the corporate social responsibility plan of many organizations is to give back to society. CSR therefore involves giving to the community without expecting any repayment for the services rendered. The NYSC also applies the same philosophy since the corps members are expected to offer services to their nation without expecting repayments for the actions. The then Nigerian Head of State, General Yakubu Gowon, best articulated the mandate of the NYSC at the formal inauguration of the NYSC Directorate in June 1973 as; mobilizing the youths and preparing them to "offer willingly and without asking for return, their best in the service of their nation at all times" (Obadare, 2005, p.14). The corps members are supposed to learn about the higher ideals of service to the community beyond the thought of reward as they serve their nation for no payment.

Most CSR efforts have a number of tangible contributions to the society. For example, some companies build social facilities such as hospitals, schools, and roads for the community that they interact with. Others contribute labor to health care facilities or even homeless shelters. These physical contributions improve the lives of the society and also increase the wellbeing of the community members. The NYSC scheme also brings about some tangible benefits to the various stations where the corps members are deployed. These contributions are mostly in the form of skilled manpower supply and in the education sector where a majority of the corps members serve in (Agumagu et al., 2006). The program members also make a contribution to the rural infrastructure and health care delivery therefore greatly benefiting members of the community. While most urban areas have the necessary skilled labor force, the rural areas suffer from a shortage of skilled workers. The NYSC assists in tackling this skilled manpower issue since the graduates who possess technical knowledge are posted in the areas where the skilled manpower is needed but lacking. A significant outcome of NYSC is that it has served as the main source of teachers and doctors in rural communities therefore contributing to the welfare of people in these areas.

The NYSC stresses on sustainability and it teaches the corps members to protect the nation’s environment and natural resources. This is because sustainable development is critical to the overall long-term well being of the society and it is a core objective for many governments (Sherraden, 2001). For any development to be regarded as sustainable, it has to meet the needs of the present without compromising the ability of future generations to meet their own needs. CSR initiatives take this into consideration and all possible measures are made to use resources in a responsible manner.

CRITICISM OF NYSC

While the NYSC has achieved many successes in its role as a national social responsibility strategy, the program is criticized for a number of reasons. To begin with, the success of NYSC in achieving its core goals of promoting unity, patriotism and citizenship values has been questioned considering the high levels of ethno-religious intolerance and uncivil behavior that has been carried out by the youth and the rest of the population in Nigeria.

The effectiveness of some of the stages of the scheme is also below standard. Corps members reveal that the community development initiative of the NYSC which is aimed at enhancing community service and instilling values of selfless service to the nation is mostly a failure. This is because the initiative suffers from inadequate funding which makes it impossible for the corps members to carry out non-trivial projects in service to the community. Further compounding the problem is the fact that there lacks adequate supervision by the NYSC officials which has made the community development day for many corps members "a weekly holiday, another day for meetings and socialization by corps members"(Obadare, 2005, p.36).

Another criticism to the program is that it fails to sustain the values of selflessness and an emphasis on unity in the corps members. Research on the success of the NYSC revealed that a while a significantly high number of serving corps members had a positive opinion about the scheme (86.7%), the proportion of former corps members who had positive opinions about the program was lower (70%) (Obadare, 2005). From these findings, it would appear that while the program instilled values in the corps members, the same values are easily eroded. However, this might not be a problem with the NYSC scheme but rather with the overall society which makes it hard for the former corps members to live by the ideals inculcated during their year of service.

DISCUSSION

Social responsibility has become an indispensable component for both corporations and nation states since it has not only social but economic consequences. This paper has provided a discussion of the NYSC in Nigeria and how it serves as a National Social Responsibility program. The National Youth Service Corps has been in operation since 1973 and the scheme has been instrumental in promoting service to the nation by the youths. The need for unity in Nigeria cannot be over emphasized considering the upsurge in inter-faith clashes that the country has experienced in the previous years. As a result of being exposed to this program, corps members are actively involved in the community development services and have a positive attitude towards community service. The whole community has benefited since the youth are more willing to play their part in national development. As with many other national service programs in the continent, the NYSC was designed to mobilize young people for national development and foster peace and unity in Nigeria. The program has been able to bridge the gap that exists between the different peoples of the nation and therefore enhance unity and peaceful co-existence in Nigeria.

The NYSC as a National Social Responsibility has some major advantages over CSR. Kent et al. (2007) states that CSR sometimes fails to work as well as it could due to the voluntary nature of CSR. The CSR targets set by companies are therefore not always met since there is no binding obligation for the company to achieve these objectives. The regulations set to govern the CSR can also be changed as the company deems appropriate and not all companies will be willing to incur extra expenses in the name of CSR. In contrast to this, the NYSC program is compulsory for all graduates in Nigeria and the graduates cannot be legally employed until they have served they have completed their one year of service and have a certificate to attest to this. The scheme is therefore able to meet its targets since there is a binding obligation for the corps members to engage in the activities assigned to them.

In spite of the criticism that the NYSC has faced, a majority of serving corps members and alumni of the program argue for the continued existence of the program. These points to the relevance of the program in promoting advancing its core objectives of national integration and peace as well as acting as a platform for national social responsibility. Just like CSR strategies give companies competitive advantages, NSR can give a nation advantages by promoting innovation and economic growth by the nations citizens.

CONCLUSION

This paper set out to demonstrate how the NYSC scheme in Nigeria acts as a CSR program on a national level. The paper has demonstrated that while CSR is often associated with businesses, NSR emulates some of the philosophies of CSR albeit at a national level. This paper has underscored the importance of the NYSC scheme in Nigeria and the role that this scheme has played in fostering unity and also bringing about community development. The program has had significant success in promoting national integration in the multi-ethnic nation of Nigeria. Moreover, the scheme has inculcated civic ethos and improved the standard of living for a significant number of communities in the rural areas of Nigeria. The NYSC has served as an essential pillar of nation building and how its relevance in the country is still strong even after 29 years of existence. This paper has noted that there are many attributes of the NYSC which are similar to Corporate Social Responsibility. It can therefore be suggested that the NYSC scheme takes CSR to a national level since the program is implemented through the entire country. The NYSC has gone beyond inculcating the spirit of service and patriotism in the nation's youth; it has proved to be an adept tool for national social service with many positive results being reaped by the communities and the nation as a whole.

REFERENCES

Agumagu, A.C., Adesope, O.M. & Njoku, M.C. (2006). Attitude of youth corpers towards the community development service of NYSC in Nigeria. *Journal of Agriculture and Social Research*, 6(1), 70-75.

Elaigwu, J.I. (2008). *The Federal Republic of Nigeria*. NY: International Association of Centers for federal Studies.

Jawahir, A. & Hopkins, M. (2008). *National social responsibility (NSR) and nation states*. Retrieved from: http://mhcinternational.com/monthly-features/articles/96-national-social-responsibility

Kent, S., Cheney, G., & Roper, J. (2007). *The Debate over corporate social responsibility*. Cambridge: Oxford University Press.

Obadare, E. (2005). *Statism, Youth and the Civic Imagination: A Critical Study of the National Youth Service Corps (NYSC) Programme in Nigeria.* St Louis: Center for Social Development.

Sherraden, Michael (2001). *Civic Service: Issues, Outlook, Institution Building (CSD Perspective)*. St Louis, Center for Social Development.

AUDITING FOR USEFULNESS: A NEW CONCERN?

Carl Brewer, Sam Houston State University
Alice Ketchand, Sam Houston State University
Jan Taylor Morris, Sam Houston State University

ABSTRACT

This paper argues that recent changes in the U.S. Generally Accepted Accounting Principles (GAAP) hierarchy logically lead to a new audit objective. The elevation of FASB SFAC 1, The Objectives of Financial Reporting by Business Enterprises, into GAAP also elevated the objective of providing information useful for making economic decisions into the GAAP hierarchy. Since auditing standards require the auditor to indicate if the financial statements are in conformity with GAAP and GAAP now contains the useful information objective, it is a logical conclusion that the audit report must also indicate if the information in the financial statements is useful for making economic decisions.

THE CURRENT AUDIT OBJECTIVE

The primary audit objective for audits of U.S. companies is that the audit client's financial statements *present fairly* its financial position in conformity with U.S. Generally Accepted Accounting Principles (GAAP). As new GAAP is promulgated auditors must consider the new or amended accounting principles as they perform their services. However, as discussed later, when the Financial Accounting Standards Board (FASB) elevated the Conceptual Framework (the Concepts) into GAAP, this may have created a need for reconsideration of the current primary audit objective. The Concepts stress the qualitative characteristic of usefulness of accounting information. Perhaps auditors will no longer be auditing fair presentation of financial information but rather auditing for usefulness.

STATEMENTS OF FINANCIAL ACCOUNTING CONCEPTS

Statements of Financial Accounting Concepts were originally derived by the FASB as a theory on which the Board could base its Statements of Financial Accounting Standards (SFASs). The SFASs of FASB, not the FASB Concept Statements, were GAAP.

Statement of Financial Accounting Concepts (SFAC) 1, *Objectives of Financial Reporting by Business Enterprises* (FASB 1978, 16-17), stated: "Financial reporting should provide information that is useful ... in making rational investment, credit, and similar decisions." Since the Concepts Statements, as originally proposed, did not establish GAAP (FASB 1978, 6), the usefulness objective was not part of GAAP and could have no direct effect on the audit.

THE GAAP HIERARCHY AS PART OF AUDITING STANDARDS

Prior to 2008, the GAAP hierarchy was located in auditing standards rather than in the accounting standards and could be found in *AICPA Professional Standards* AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles* (AICPA 2009) . AU Section 411 described GAAP as a four-tiered hierarchy.

The Concepts were not identified as part of the four-tiered GAAP hierarchy but instead were classified as other accounting literature and to be considered when no guidance could be found in the tiered GAAP hierarchy (AICPA 2009, AU Section 411). AU Section 411.11 indicated that "the FASB Concepts Statements would be more influential than other sources in this category " (AICPA 2009).

How the GAAP hierarchy came to be under the control of the AICPA reflects back on the origins of GAAP itself. After the stock market crash of 1929, the American Institute of Accountants (AIA), later becoming the AICPA in 1957, determined that there was a need for accounting principles that had general acceptance and began to issue authoritative standards for use in preparation of financial statements. The Securities Exchange Commission, created in 1934 to oversee the securities markets and, thus, publicly traded companies' financial reports, deferred to the AIA to formulate GAAP. Thus, the public accounting profession determined both accounting standards and auditing standards from 1934 until 1973.

In 1973 the AICPA abandoned its search for GAAP and helped found the Financial Accounting Foundation. The Financial Accounting Foundation established the FASB. The SEC recognized FASB as the organization to develop new GAAP and to modify existing GAAP. The auditors, then, were getting out of the GAAP business, yet, the specification of the GAAP hierarchy remained in the auditing standards for over 35 more years.

The Sarbanes-Oxley Act of 2002 (U.S. House of Representatives 2002, Section 103) created the Public Company Accounting Oversight Board (PCAOB) to oversee the public accounting profession in the U.S., thereby ending the AICPA's authority to determine auditing standards for public companies. When the PCAOB was formed, it adopted the standards of the AICPA as interim standards, however, in 2008, the board issued Auditing Standard No. 6, which effectively removed the GAAP hierarchy from auditing standards for audits of public companies.

In 2008 FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* (FASB 2008). SFAS 162 brought the existing GAAP hierarchy into accounting standards at the same time that the hierarchy was deleted from auditing standards for public companies by the PCAOB and AU 411 was withdrawn by the AICPA.

ELEVATION OF THE CONCEPTS STATEMENTS INTO GAAP

SFAS 162 was superseded by SFAS 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, in 2009 (FASB, 2009). SFAS

168 established the FASB Accounting Standards Codification (ASC) as the only source of authoritative GAAP and also established a two tier GAAP hierarchy: 1) authoritative GAAP and 2) nonauthoritative GAAP. Authoritative GAAP is the Codification itself.

SFAS 168 (paragraph 9) indicated: "If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources."

SFAS 168 specified nonauthoritative GAAP as consisting of FASB Concepts Statements as well as other items, such as practices widely recognized in an industry, accounting textbooks, and International Financial Reporting Standards (FASB 2009, 3). In the Exposure Draft of SFAS 168 the FASB stated that the Concepts would normally be more influential than other nonauthoritative GAAP, but this was eliminated from the final standard (FASB 2009, para. A19). In SFAS 168 itself, FASB indicated that FASB may elevate the Concepts into the Codification as part of its conceptual framework project but that they would not do so at the time of issuance of SFAS 168 (FASB 2009, para. A19). Yet, the prospect looms that the Concept Statements, while already part of nonauthoritative GAAP, may become part of authoritative GAAP. In fact the SEC has indicated it envisions a GAAP hierarchy where the Concepts Statements are included in authoritative GAAP (SEC, 2003, para.IV(c)). At a minimum the content of SFAS 168, with the Concepts as a part of the GAAP hierarchy, has been incorporated into the Codification.

A CONTRADICTION

It must be pointed out that FASB has contradicted itself. SFAS 168 states that, in FASB's view, the issuance of the Statement and the Codification would not change GAAP (FASB 2009, Summary, para. A14, para. A19). Nevertheless, it has changed GAAP, because the Concepts are now explicitly recognized by FASB as part of GAAP. Also, while SFAC No. 8 (FASB 2010), which superseded SFAC 1 (as well as SFAC 2), states that it is not part of *authoritative* GAAP, SFAC Nos. 4-7 continue to specifically state that the Concepts are not part of GAAP. Again, this is a contradiction because these Concepts are now recognized by FASB as a part of nonauthoritative GAAP.

Further, as noted previously, FASB has indicated that it intends to elevate the Concepts into authoritative GAAP via the conceptual framework project. In a project update, the FASB notes that respondents to documents issued by the FASB and the IASB should assume that the Concepts authoritative status will be elevated in the US GAAP hierarchy to a status comparable to the IASB's current Framework (FASB Conceptual Framework Project Update, 2006). The IASB's Conceptual Framework currently provides guidance to financial statement preparers when there is no standard or interpretation specifically applicable to a particular or similar transaction or event. In other words, the IASB treats its Concepts as authoritative guidance.

How these contradictions will be resolved is a fundamental issue. The analysis presented below relies on and assumes to be true that GAAP has been changed in that the Concepts are now explicitly part of nonauthoritative GAAP; and moreover are expected, at the conclusion of the FASB's conceptual framework project, to be explicitly a part of authoritative GAAP.

A NEW AUDIT OBJECTIVE

At the present time the objective of the audit is to express an opinion on the fairness of the financial statements in conformity with GAAP. The audit report must state whether the financial statements are presented in accordance with GAAP. SFAC No. 8, issued in September 2010, superseding SFAC 1 and 2, notes in OB 2 that "the objective of general purpose financial reporting is to provide financial information about the reporting entity that is ***useful*** to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity" (emphasis added). However, via the Codification, SFAC No. 8 is now part of GAAP, specifically, SFAC No. 8 is part of nonauthoritative GAAP, but, as previously noted, may be elevated into authoritative GAAP.

The elevation of SFAC No. 8, which discusses the objective of general purpose financial reporting, into nonauthoritative GAAP, also elevated the objective of providing information useful for economic decision making into the GAAP hierarchy. Since auditing standards require the auditor to indicate if the financial statements are in conformity with GAAP, and GAAP now contains the useful information objective, it seems worth considering whether or not the audit must address and the audit report must indicate if the information in the financial statements is useful for economic decision making.

In other words, a simple logical inference leads to the conclusion that a new audit objective may be evolving. Perhaps the objective of the audit will no longer be focused on the question, "Do the statements present fairly?" but instead, "Do the statements provide information useful for making decisions about providing resources to the entity?" Why? Because auditing standards require the auditor to indicate if the financial statements are in conformity with GAAP and to be in conformity with GAAP under the existing hierarchy, the financial statements must provide information that is useful in making these types of decisions.

"UNDERSTANDABILITY" IN EXISTING AUDITING STANDARDS

Some may say that auditors are already concerned with usefulness. Auditing standards do require the auditor to test management assertions regarding presentation and disclosure that are embedded in the financial statements (AICPA, 2009, AU326). One, "Classification and Understandability," indicates that management asserts that financial information has been appropriately presented and described and that disclosures are clearly expressed.

Regarding auditor opinion formulation, both the AICPA and PCAOB make references to understandability. For instance, the PCAOB states "The auditor's opinion that financial statements present fairly ... in conformity with generally accepted accounting principles should be based on his or her judgment as to whether ... the financial statements ... are informative of matters that may affect their use, understanding, and interpretation ...." (PCAOB, 2010, 411.04)

In auditing, the objective is to test management's assertions, so, theoretically the auditor is supposed to be auditing "understandability" already. Of course, understandability is not the same as usefulness, but in SFAC No. 8, the FASB defines understandability as “a qualitative characteristic that enables users to comprehend the information and therefore make it useful for making decisions (FASB, 2010).” In short, information cannot be useful if it not understandable.

“USEFULNESS" IN EXISTING AUDITING STANDARDS?

So, if the Concepts will potentially be considered GAAP (nonauthoritative, albeit), one could infer that by incorporating the Concepts into nonauthoritative GAAP, FASB is raising the bar relative to the usefulness of reported information. How will this translate for auditors?

SFAC No. 8 lists two primary decision-specific qualities for information to be useful, i.e., relevance and faithful representation. Relevant financial information is capable of making a difference in a user’s decision making process. FASB notes that information is relevant if it has predictive value, confirmatory value, or both. Auditors do not currently audit for the primary decision-specific quality of relevance, nor do they audit for its ingredients. Auditors do, of course, consider materiality—which the FASB considers an entity-specific aspect of relevance that is based on the nature and/or magnitude of the related items in the context of the individual entity’s financial reports—in determining the scope of their audits but auditors do not audit for the characteristic of materiality.

Faithful representation is a different issue. Auditors routinely audit management’s assertions for occurrence, completeness, accuracy, existence, classification and understandability, and valuation. These assertions seem to address faithful representation and its ingredients of completeness, neutrality, and freedom from error (as well as the enhancing qualitative characteristics of verifiability and understandability). One can conclude, then, that auditors audit for one of the two dimensions of information usefulness already.

CONCLUSIONS

Given that auditors already audit for one of the two dimensions of information usefulness, can the audit of the other dimension, relevance and its components of predictive value and confirmatory value, be far over the horizon? Does the elevation of "usefulness" into GAAP not push the profession in this direction?

At the very least, including the usefulness criteria via the FASB Concepts into the GAAP hierarchy may further widen the "audit expectation gap" – defined by Liggio (1974) as the difference between financial statement user expectations of the audit and the expectations of the independent accountant. Perhaps a change in the stated audit objective may not occur, but—as the concepts become more fully integrated into the GAAP hierarchy—the users, including the preparers of financial statements, may begin to expect the auditor to consider the items that make up "relevance" of financial information.

REFERENCES

American Institute of Certified Public Accountants (2009). *AICPA Professional Standards*. AICPA. Retrieved on November 20, 2009, from http://www.aicpa.org/Professional+Resources/ Accounting+and+Auditing/Authoritative+ Standards/auditing_standards.htm.

Financial Accounting Standards Board (FASB) (1978). *Objectives of Financial Reporting by Business Enterprises.* Statement of Financial Accounting Concepts No. 1. Norwalk, CT: FASB.

Financial Accounting Standards Board (FASB) (2008). *Project Update: Conceptual Framework—Phase F: Framework Purpose and Status in GAAP Hierarchy.* Retrieved October 7, 2012 from http://www.fasb.org/ project/cf_phase-f.shtml

Financial Accounting Standards Board (FASB) (2008). *The Hierarchy of Generally Accepted Accounting Principles*. Statement of Financial Accounting Standards No. 162. Norwalk, CT: FASB.

Financial Accounting Standards Board (FASB) (2009). *The* FASB Accounting Standards Codification *and the Hierarchy of Generally Accepted Accounting Principles*. Statement of Financial Accounting Standards No. 168. Norwalk, CT: FASB.

Financial Accounting Standards Board (FASB) (2010). *Conceptual Framework for Financial Reporting: Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information.* Statement of Financial Accounting Concepts No. 8. Norwalk, CT: FASB.

Liggio, C.D. (1974). "The expectation gap: the accountant's Waterloo", Journal of Contemporary Business, Vol. 3 pp. 27-44.

Public Company Accounting Oversight Board (PCAOB) (2010). *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*, Auditing Section AU 411. Retrieved on November 12, 2011 from http://pcaob.org/Standards/Auditing/Pages/AU411.aspx.

Securities Exchange Commission (SEC) (2003). *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System.*

U.S. House of Representatives (2002). The Sarbanes-Oxley Act of 2002. Public Law 107-204 [H. R. 3763]. Washington, D.C.: Government Printing Office.