Volume 6, Special Issue, Number 2 **ISSN 1944-656X H**
ISSN 1944-6578 O

BUSINESS STUDIES JOURNAL

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Sam Houston State University

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

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This is a Special Issue edited by Joey Robertson as a result of the Sam Houston State University conference held in April. We appreciate the opportunity to present the outstanding papers selected from the participants of that conference.

Tommy J. Robertson, Jr.
Special Issue Editor
Sam Houston State University

CORPORATE GOVERNANCE IN INDIA: CHALLENGES FOR EMERGING ECONOMIC SUPER POWER

Siva Prasad Ravi, Thompson Rivers University

ABSTRACT

Corporate Governance has become a necessity due to the separation of ownership and control in modern day corporations. Corporate governance is all about managing the relationships between the stakeholders of a firm, mainly between shareholders (principals) and the professional managers (agents) who manage the corporation and the board of directors. Different corporate governance mechanisms are employed to manage the relationships among the stakeholders of the company. Indian economy has witnessed a sustained economic growth during the last decade and India has now been acknowledged as one of the emerging economic super power of the future. Indian corporate sector has played a significant role in the country's economic growth. However Indian corporate governance still leaves much to be desired. Starting from 1980s India has opened up its economy and is making all efforts to attract foreign direct investment. However the high-profile corporate failures, which seem to be recurring at regular intervals during last three decades, the latest one being Satyam computers exposed the weaknesses and insufficiency of corporate governance practices in India. While corporate governance failures have become pretty common all over the world, developed countries in North America and Europe have taken some effective steps to prevent their recurrence; the same cannot be said about India. Ineffective corporate governance can scare away both domestic and the foreign investors and can be detrimental to the economic growth of the country. The Indian government, fully aware of this fact, has tried to put in place an effective legal and regulatory frame work in order to improve the corporate governance, but it has not been fully successful. Its major weakness lies in the implementation.

This paper is a case based study of evolution of corporate governance in India and the approaches India has taken to deal with the corporate governance. Basing on the analysis, the study recommends the measures India can take to make the corporate governance more effective.

INTRODUCTION

During the last two decades, Corporate Governance has become one of the most hotly debated topics all over the world. A series of corporate scandals, frauds and failures all over the world like Enron and WorldCom in US, Parmalat in Italy, Sanlu in China and Satyam computers in India and more recently Madoff investments in US have all brought corporate governance to the center stage (Celani, 2002; Branigan, 2008; Ravi & Ahmad, 2010). The shareholders of Enron and WorldCom between them, lost nearly US $205 billion due to the monumental frauds committed by their managements (Albert, 2003). Whereas developed countries like US have taken effective steps to improve the corporate governance standards and prevent such failures in future, the same thing cannot be said about many developing countries, including India. During the last decade, India with its sustained growth rate of 9% is emerging as an economic superpower (CIA World fact Book, 2010; Wilson & Purushothaman, 2003). Indian corporate sector has immensely contributed to this growth with their excellent performance but the same can be said about their corporate governance. The recent failure of Satyam Computers, India's 4th largest software company has only reinforced this perception (Ravi & Ahmad, 2010).

The periodic recurrence of corporate governance failures in India during the last three decades raises many questions. Has India learnt any lessons from the many corporate governance failures that have taken place during the last three decades? Has India taken any steps to prevent such frauds and failures in future? Are these corporate governance enhancement measures effective? What are the grey areas in Indian corporate governance? What more is needed to be done to improve corporate governance in India?

This paper which is an exploratory research attempts to answer these questions. The layout of the paper is as follows. Part one is the introduction. Part two covers the concept and the need for corporate governance. The third part deals with corporate governance in US (Anglo– American Model). Fourth part covers the methodology followed. The fifth part provides history and evolution of Indian corporate governance till India's independence in 1947. The sixth part covers the some prominent corporate governance failures in India till the year 2000. The seventh part is the analysis of corporate governance reforms in India after 1991 till date. The eighth part discusses the failure of Satyam Computers during 2009 and why enhancements in Indian corporate governance framework could not prevent it. The ninth part is an analysis. The tenth part provides some comprehensive recommendations about what needs to be done for improving the corporate governance in India. The eleventh part discusses opportunities for further research and the twelfth part concludes the paper.

CORPORATE GOVERNANCE: CONCEPT AND NEED

According to Schapiro (2009), Chairperson, Securities and Exchange Commission, USA, Corporate governance is "about maintaining an appropriate balance of accountability between three key players: the corporation's owners, the directors whom the owners elect, and the managers whom the directors select. Accountability requires not only good transparency, but also an effective means to take action for poor performance or bad decisions". Corporate form of business structure existed for many centuries. The modern-day corporations are characterized by the separation of ownership and management control. According to Hansmann et.al (2000) the five common characteristics of corporations are ownership by shareholders (investors), limited liability, transferrable shares, separate legal personality of the corporation and delegated management by board of directors. The professional managers run the business as agents of the owners, control all the resources of the firm and make all the decisions. In an ideal world, the managers are expected to work in the best interest of shareholders and the owners are expected to control the managerial decisions through the board of directors. However in a not so ideal world we live in, this situation creates a conflict of interests among owners and managers. As the managers (CEO and top Management) are in a position to make all the decisions, they can resort to 'managerial opportunism', making decisions that are in their own interest rather than the interests of shareholders. In reality, the shareholders, especially the small shareholders in most corporations have no say in the management of the company. Mayer (1997) is of the view that corporate governance has been traditionally associated with principal-agent relationship problem, caused by separation of ownership and management. According to him, corporate governance brings in line the interests of the investors and mangers and ensures that the companies are run for the benefit of investors.

According to Sir Adrian Cadbury, corporate governance is "the system by which business corporations are directed and controlled' (Cadbury Committee, 1992). The Organization for Economic Development and Cooperation (OECD), provides the most authoritative functional definition of corporate governance. According to OECD corporate governance is "the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance (OECD, 2004)". Securities and Exchange Board of India (SEBI) defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company". The quality of corporate governance in a country depends on three important factors, the legal and regulatory framework, the individual company policies and the institutions governing capital market.

CORPORATE GOVERNANCE (ANGLO–AMERICAN MODEL)

Anglo-American model of corporate governance is followed by many countries across the world and India is trying to harmonize its corporate governance with this model. Hence this model is being discussed briefly. During 1800s, the initial years of corporation formation in US, cohesive and concentrated groups of shareholders owned and managed their businesses; it has changed after 1900s and more importantly between the two world wars, leading to separation of ownership and control. This has led to divergence of interests between the shareholders and managers, and also increased the agency costs, the costs that were incurred for ensuring that the agents (managers) are acting in the interests of owners (shareholders). In the American system managers are certainly at an advantage and the central issue of corporate governance practices in US is to control the opportunistic behavior of the managers. The corporate governance mechanisms in US hence revolved around the three players, the shareholders, the board of directors and the managers. The three internal corporate governance mechanisms corporations in US developed are concentration of shareholders, enhancing the effectiveness of board of directors and managerial compensation. In US, there is an active movement among small shareholders to pool their share holdings and form large block shareholders. Most organizations are strengthening their board of directors through various measures like requiring more independent outsiders selected to be members of board of directors and mandating that audit committee must be chaired by an independent director. There is also strong public debate in favor of separating the roles of CEO and the chairman of the board. Also most corporations want to control managerial actions, by linking the executive compensation to the performance of the firm. However the strongest force that acts on the managers in American corporations for good corporate governance is the external threat of market for corporate control. If the firm is underperforming but has the potential to do better, other companies may take over the corporation and replace the management. This threat and consequent risk to their jobs, acts as an incentive for mangers to perform to the best of their ability and in the interest of the company (Hitt et.al. 2011; Ooghe & De Langhe, 2002).

On the regulatory front the Sarbanes - Oxley Act, came into existence after the infamous Enron debacle, signed by US president George W. Bush as a law in July 2002, laid quite a stringent regulatory frame work by incorporating sweeping changes in financial reporting of corporations. Still there are many calls for more reforms in corporate governance in US. However notwithstanding some recent corporate governance failures and frauds like Bernie Madoff scandal, the US model, also known as Anglo-American model has become quite effective.

METHODOLOGY

This qualitative study will be based on case study approach using secondary data sources. Discussion on issues like corporate governance or Information systems, where a number of mainly qualitative factors need to be included in the study, case study approach has been found to be very effective (Lee, 1989). According to Rowley “On the other hand, despite this scepticism about case studies, they are widely used because they may offer in- sights that might not be achieved with other approaches. Case studies have often been viewed as a useful tool for the preliminary, exploratory stage of a research project, as a basis for the development of the ‘more structured’ tools that are necessary in surveys and experiments (Rowley, 1990)”. Case studies are “Particularly well suited to new research areas or research areas for which existing theory seems inadequate. This type of work is highly complementary to incremental theory building from normal science research. The former is useful in early stages of research on a topic or when a fresh perspective is needed, whilst the latter is useful in later stages of knowledge (Eisenhardt, 1989)". According to Yin, case studies are appropriate when "A how or why question is being asked about a contemporary set of events over which the investigator has little or no control (Yin, 1994)". Yin (2003) defines case study research as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident." Hakim (1987) notes "The selective case study may focus on a particular issue or aspect of behavior with the objective of refining knowledge in a particular area, to provide a better understanding of causal processes. The selective case study may lead to questions about 'how' and 'why' issues or behavior conspired to produce the resulting outcomes: This leads into explanatory evaluation". Yin (2003) is of the opinion that "the case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points and relies on multiple sources of evidence".

Brief case studies will be used to support the main issues discussed in the paper. In Indian context there are many cases of poor corporate governance during the last three decades, but the case studies have been selected by their ability to bring out the many issues that are the focus of this research paper. The criteria used in the selection was the impact (mostly negative) these cases had on various agencies that triggered further action by them, either by the government or the industry in the area of corporate governance.

CORPORATE GOVERNANCE IN INDIA (COLONIAL PERIOD TILL 1947)

Corporate governance in India has evolved in three different phases, the first phase during the British colonial rule, the second after India's independence in 1947 till the start of economic reforms in 1990, and the third phase after 1990s.

During the colonial days (pre1947) the system that was followed in India for management of corporations was known as 'Managing agency system'. Joint stock companies in India appointed individuals or partnership firms or companies to manage their affairs. These managing agents were normally from well-known merchant families. This was a win-win situation for both the companies and managing agents. Profits were the primary motive for both and the managing agencies violated the rights of other shareholders and tried to exclude them from the running of the company and mostly succeeded. There was little or no corporate governance (Reed, 2002).

The second phase was after Indian independence from 1947 till the beginning of economic liberalization in 1990s. At the time of Independence, the Indian capital market was very small. Government of India through Capital Issues (Control) Act of 1947 established the office of Controller of the Capital Issues (CCI). Companies desirous of changing their capital structures through issue of shares and debentures had to get the mandatory approval from this agency. This established politician–bureaucratic control over the capital market. CCI decided the quantum of shares that can be issued by any company and the premium. The Industries (Development and Regulation) Act of 1951 also covered some aspects of corporate governance that included the registration requirements for companies, licensing requirements, apart from the right of the government to takeover mismanaged industries. The other legal frameworks that affected the corporate governance included Foreign Exchange Regulation Act and Import and Export Control Act of 1947. During this period the government of India adopted socialism and practiced central planning, and promoted public sector. The industrial policy of Government of India 1956 divided the industry into dominant public sector (government owned/controlled), joint sector (both public and private sector could participate) and private sector. With this policy the government controlled the businesses by deciding what is to be produced, in what quantities, and at what cost it is to be sold. Government controlled all these activities with a licensing system, popularly called 'license–permit raj'. Anyone who could influence the government and get a license could get the financing from public sector banks or government financial institutions, captive markets and assured of profits. In 1956 the Indian Parliament passed the 'Companies Act', which is very similar to British Corporate Law. In 1969 the Indian government nationalized, 14 large, profitmaking private banks i.e. took over the ownership and management and made them public banks (Reddy, 2011). Indian government established Life Insurance Corporation of India and Unit Trust of India, two public Financial Institutions that provided the corporate finance along with nationalized banks. During this period promoters started the companies by providing minimum capital required, sometimes as low as 0.02% and a major part (30% to 50%) in many cases was provided by government owned banks or public financial institutions. A small part was generally offered to public. The promoters secured their interests by interlocking their shares in companies belonging to the same business house, building circular chains between companies of the same group. On the corporate governance front, the outside shareholders had no say in management of the company. Government protection meant that there were virtually no threats of takeover. The public financial institutions normally held a large chunk of shares in majority of the companies and nominated their officers to these company boards, but did not show much (any) interest in management or corporate governance. A cumulative effect of all these factors resulted in a no/ very week form of corporate governance.

The third phase of the corporate governance in India coincides with the economic reforms ushered in by Indian Government during 1990. India faced a severe foreign exchange crisis in 1990s and was compelled to turn to IMF, World Bank and US for bailout. India got the help, but was compelled to initiate economic reforms. With regards to capital market and corporate governance, the first reform was to revise the Indian Company Act. The second was, during 1992, the Controller of Capital Issues was repealed (Indian parliament, Bill number 106-C of 1992) and was replaced with Securities and Exchange Board of India, modeled on SEC of US, (though compared to SEC, SEBI did not have much power). The third reform was dismantling license–permit Raj. Number of industries in the domain of public sector has been reduced. The fourth reform was to overhaul the foreign investment model. The draconian Foreign Exchange Regulation Act was replaced with Foreign Exchange Mechanism Act. The fifth reform is reduction of customs duty on imports from a peak of 200% in 1991 to 65% in 1994. The sixth was Indian rupee was made convertible on the current account resulting in the exchange rate being determined by the market, subject to intervention by the apex bank, if needed. These reforms have brought the Indian Corporate governance model close to Anglo American Model (Reed, 2002).

CORPORATE GOVERNANCE FAILURES IN INDIA (TILL THE YEAR 2000)

Corporate Governance failures and frauds have become fairly common occurrences in India during the last two decades (Singh 2010). The following list will provide a glimpse of the seriousness of the problem of corporate governance failures during this period. The list is not exhaustive and contains only the most widely reported major failures and frauds.

1. 1992 - Harshad Mehta Scam involving public banks and stock market- Fraud Amount Rs 3,500 Crore ($ US 566.79 million).
2. 1993 – Preferential share issue scam by transnational companies (at discounted prices to controlling groups) – Fraud Amount Rs 5000 Crore (US $ 809.7 million).
3. 1993 - 1994 Disappearance of newly listed companies after IPO – Fraud – Rs 25000 Crore (US $ 4.05 billion).
4. 1995-1996 Plantation companies scam.
5. 1995-1997 – Non-banking Financial companies scam.
6. 1998 -1999 – Price rigging of selected companies by Harshad Mehta (Videocon, BPL and Sterlite).
7. 1999 – 2000 IT Scam – companies changing their names to include ‘infotec’ in their names.
8. 2001- Ketan Mehta Scam - Fraud Rs 1400 crores (US $ 226.71 million)(Subramanyam & Dasaraju, 2009).

There were a number of corporate governance failures and frauds in India during this period, of which, two important ones are being covered here briefly.

Case 1: In 1992, Mr. Harshad Mehta, a stock broker on India’s Bombay (Mumbai now) stock exchange (BSE), perpetuated a massive fraud on the Indian Banking system and capital markets. The economic reforms initiated by the Indian government during 1990s, attracted a number of small investors to the stock market and the sensitive index (Sensex) of the Bombay Stock Exchange (BSE) started moving up. The BSE Sensex which was hovering around 1000 in February 1991 rose to a peak of 4500, in March 1992, just before the scam came to light. Some national newspapers reported of a shortfall noticed in the in the government securities held by State Bank of India (SBI), the premier state owned Indian bank. The subsequent investigation led to a massive fraud by stock broker Harshad Mehta, which was estimated at Indian Rupees (Rs) 3500 crore (US $ 566.79 million). Once the fraud became public, the share prices dropped by 40% in two months that resulted in market (capitalization) value loss of firms by Rs 100,000 crores (US $16.194 billion). The scam exploited weakness in the practice of ready forward (RF) deal by Indian banks, a system of interbank lending, in which banks sold/ bought government securities from each other, for short periods to keep up their Statutory Liquid Ratios. Harshad Mehta used these funds elsewhere and could not deliver the securities he sold to the banks, resulting in the market crash. Of course many bank officials, stock exchange authorizes and others were bribed. This resulted in such a massive fraud to the tune of Rs 3500 crore (US $ 566.79 million) and most people lost confidence in the capital market. Mehta was charged in 28 cases, but was convicted only in one and in that also he could secure bail. This case shows poor state of corporate governance practices in India during this period (Economic Times, 2003).

Case 2: Another major corporate governance failure and fraud in India occurred during the year 2000, is known as 'UTI Scam'. Unit Trust of India (UTI), the largest Indian mutual fund company was created by Government of India by an act of Indian Parliament in 1964. The aim behind establishment of UTI was to channel the small savings of citizens, especially low income groups and provide them with assured returns. Till the year 2000, UTI was very popular with Indian public and had more than 20 million investors, mainly low income people, retired persons, and women. However The UTI scam resulted in a loss of Rs 20,000 crores (US $ 3.2 billion) to UTI and Indian Public and has shaken the confidence of the Indian Investor in stock markets and Indian corporate governance. This is a case of how public sector financial institutions (their managers), under the control of political masters, sacrificed prudential investment norms and harmed the interest of their small investors (shareholders), mostly low and middle income groups and pensioners. During 1992, as part of economic reforms, the investment structure of their flagship scheme, the US-64 scheme, was changed from debt based fund to equity based fund (investing in equities), resulting in an increase of UTI's equity investment from 28% in 1992 to 70% in 2000. Coupled with this the CEO (who is also the chairman) was granted arbitrary and discretionary powers to personally decide an investment up to Rs 40 crores (US $ 6.48 million), in a single transaction, without any need to inform or get prior approval from the board. UTI which did very well for many years and a favourite of small and medium investors in India, lost Rs 15,000 crores (US $ 2.43 billion) in just one year, 2000. This is because the UTI management redeemed units from many big business corporations totaling Rs 4114 crores (US $ 666.2 million), at the price of Rs. 14.20 per share (face value Rs.10) when in fact its actual value (NAV — net asset value) was not more than Rs. 8. As a result UTI's small investors lost a further Rs. 1,300 crores (US$ 210.05 million) to the big corporations. The cumulative effect of all these is near collapse of UTI. Many investors committed suicide, and many more went bankrupt, and UTI's reputation shattered for ever. This is a shining example of poor corporate governance, lack of accountability and transparency, managerial opportunism and political influence that pervades Indian Corporate Governance. (Chada, 1998; Times of India, 2001).

CORPORATE GOVERNANCE REFORMS IN INDIA (AFTER 1990)

Indian corporate governance reforms are not proactive and best characterized by knee jerk reactions to the corporate frauds and governance failures. Indian government started deregulation and economic liberalization, as a result of the foreign exchange crisis of 1991. The various organizations and committees that were set up to improve corporate governance in India are:

9. 1992 – Creation of Securities and Exchanges Board of India replacing Controller of capital issues (CCI).
10. 1997 - Confederation of Indian Industry (CII) code of conduct.
11. 1999 - Kumara Mangalam Birla Committee.
12. 2002 – Naresh Chandra committee.
13. 2003 – NarayanMurthy Committee.
14. 2005 - JJ Irani Committee on company Law.
15. 2009 - Revised companies Act 2009.

Some of the above are discussed very briefly in the following paragraphs.

Creation of Securities and Exchanges Board of India: Securities and Exchanges Board of India (SEBI), on the lines of SEC of US was created for regulating capital markets replacing inefficient CCI, as a reaction to Harshad Mehata scandal. Though on paper SEBI appeared to be a good piece of legislation, in reality, unlike the Securities and Exchanges commission (SEC) of US, it did not have much power or control over the corporations with regard to implementation. Whatever little powers SEBI had, were diluted over next few years with lobbying of business houses and political intervention.

CII Code of Conduct 1998: In this background, Indian industry's most visible and powerful representative, Confederation of Indian Industry (CII), in 1998, proposed a voluntary corporate governance code to be followed by large Indian firms. 30 large firms voluntarily adopted the guidelines (Subramanyam & Dasaraju, 2011).

Kumarmangalam Birla committee report 1999: A year later, on May 07, 1999, SEBI (government of India) set up a committee under the leadership of Kumarmangalam Birla, Kumarmangalam Birla committee (KMBC), to propose a new corporate governance code**.** The committee's report was adopted by SEBI on October 14, 1999. These suggested reforms were included in Company Law as 'clause 49' of the listing agreement. There are a number of similarities in 'Clause 49' and Sarbanes and Oxley Act (SOX) of US, as the report drew heavily from SOX and made a sincere attempt to harmonize Indian corporate Governance practices with that of Americans.

Narayana Murthy Committee 2003: Another committee on corporate governance under the chairmanship of N.R. Narayan Murthy, Chairman of Infosys, India's top Information Technology firm, was appointed to recommend improvements to clause 49 of Indian Corporate governance code. According to Subramanyam & Dasaraju (2011) "This is a very comprehensive document on corporate governance anywhere in the world and is comparable to best legal frameworks of the other countries in the world. It was built upon the KMBC (India), SOX (US) and the Cadbury Report (UK) and many best practices from other countries. The committee's recommendations were incorporated into the clause 49 and the revised clause was made applicable from January 01, 2006".

The cumulative effect of all these reports were to strengthen the rights of the shareholders, to establish the responsibilities of management including CEO, strengthen the institution of board of directors and make it effective by clearly defining their role and composition and finally to ensure transparency in financial reporting by laying clear guide lines about the audit committee's role and composition.

The regulatory framework on corporate governance in India as it exists on paper is impressive. Going by legal framework alone, it can be said that India has one of the world's best and robust legal framework on corporate governance. Total transparency and accuracy was supposed to have been ensured by making it mandatory for CEO and CFO to sign the financial statements of the firms. The regulatory mechanism for corporate governance in India as on today includes SEBI with its wide ranging powers, Ministry of Finance, Reserve Bank of India, Registrar of companies, Company Law board and Department of Company affairs. The stock markets with their regulations on listing and financial disclosure are expected to act as another watchdog on the matters of corporate governance. Then there are self-regulating institutions like Institute of Chartered Accountants of India, Institute of Company Secretaries of India, Institute of Costs and works Accountants of India, Association of Mutual Funds in India, and the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Together the combination of legal, regulatory and self-regulatory organizations and mechanisms were expected to provide a world-class corporate governance infrastructure in India.

Notwithstanding such world-class legal and regulatory framework, the fraud and failure of Satyam computers during 2009, once again proved to the world the deficiencies of corporate Governance in India.

CASE 3: SATYAM COMPUTERS

Yet another major corporate governance failure and fraud in India came to light during 2009, this time in the high-technology IT Industry. Satyam Compuetrs, a software development and IT consultancy services firm was incorporated as a private limited company and a100% export oriented unit on June 24, 1987, by Mr Ramalinga Raju. In 1991, Satyam Computers became the first Indian company to provide offshore services. From 1993 onwards Satyam embarked on a growth strategy involving mergers, acquisitions, joint ventures and strategic alliances. During 2000, Satyam formed joint ventures/ strategic alliances with many companies from all over the world, including Microsoft Corporation. At this point it appeared that the growth of Satyam is unstoppable and would continue for many years to come. The reported financial performances made this company, a favorite with investing public and stock exchanges. This is one of the few companies that has gone for the American Depository Receipts (ADRs) on New York stock Exchange (NYSE). Apart from getting the finances needed for growth, the NYSE listing has also enhanced the firm's reputation internationally. However, On January 07, 2009 Chairman of Satyam, Ramalinga Raju shocked India and the world by revealing that company's financial statements of the past few years were false and the company books of accounts were cooked. According to him, the revenues of the company were inflated and the liabilities under reported for 'past several years', resulting in inflated cash balances on the balance sheet by US $ I.1 billion, as on January 07, 2008. He had also admitted to overstating Satyam's September 2008 quarterly revenues by 76% and profits by 97%. Consequently, Chairman Ramalinga Raju, CEO Rama Raju and the CFO Sreenivas Vadlamani have been arrested. The investigation into the issue by various agencies have uncovered that Raju has been spiriting away cash from Satyam from 2001, by resorting to practices like forgery, inflating expenses, stripping assets, and manipulating income, inventory value and profits. Satyam's auditors, Price Waterhouse Coopers, certified the account-books as correct and accurate without verification and failed to detect huge transfers of funds. Later investigations reveled that Chairman Raju siphoned away the money by opening up fictitious organizations and showing 10,000 fictitious employees in these companies. India's fourth largest IT company lost a staggering Rs 10,000 crore (US $ 1.62 billion) in market capitalization.

On paper corporate governance at Satyam computers had all ingredients of best practices suggested by Indian regulatory framework and also that of American SOX, as it was listed on New York stock exchange also. The board comprised of more number of independent outside directors, one of them also happens to be world-renowned professor of strategy at Harvard Business School. The company had two different people as Chairman and CEO, though they are brothers. The audit for all the years was performed by the one of the top accounting firms of the world, Price Waterhouse Coopers. This firm was also using international reporting standards about their financial reporting. Unfortunately none of these factors could unearth the real failure of corporate governance. Though the CEO and others were arrested in this case, so far no one has been sentenced. The case is going on in the Indian courts for the last 5 years. This case clearly demonstrates that having good corporate governance code of conduct or legislation alone is not sufficient to ensure effective corporate governance and more important is the need for effective implementation (Ravi &Ahmad, 2010).

DISCUSSION AND FINDINGS

During colonial days Indian capital markets were very insignificant and most businesses were controlled by 'managing agents', with family member partnerships, 'pyramid structures' while holding very limited capital in these companies. These managing agents or holding

companies actively sought to isolate the other shareholders from management decisions of the company. Corporate governance of Indian corporations during this period was very poor.
During the second period starting from 1947 till 1990, the government of India, adopted socialism. The socialist policies, license-permit raj, politician-businessman (industrialist) - bureaucrat nexus resulted in lack of transparency, poor accountability, and poor corporate governance and a source of many corporate frauds.

Poor economy of the 1980s and the eventual foreign exchange crisis of 1990s, forced India towards economic liberalization. The economic liberalization process had a significant effect on the Indian corporate sector. Stock markets started growing and witnessed a large participation from small investors. The insufficiency of regulation, unwillingness of corporations to give any say in management to small shareholders, inactivity of public financial institutions, poor supervision by regulatory bodies, political influence and corruption have all lead to poor corporate governance and resulted in a series of corporate frauds.

The attitude of Indian government towards corporate governance has always been reactive, as a response to various scandals and corporate governance failures. The sheer size of the scams and also the loss suffered by many honest and small investors compelled the government to take some remedial measures. These measures like replacing CCI with a more comprehensive body like SEBI, modeled on the SEC of the US, were more of knee-jerk reactions than a sincere attempt. This can be seen from the fact that though the SEBI was modeled on SEC, turned out to be an ineffective body without powers of SEC, as the powers once again were concentrated in hands of politicians and bureaucracy.

What really forced the business leaders and government to move towards making improvements in corporate governance is their need to attract capital. The corporate frauds and malpractices scared away many small investors from the capital market. The economy was not doing well and corporate sector could not depend on the public financial institutions, the way as they used to in the past. The liberalization of economy allowed foreign investment in capital markets, but the foreign investors wanted transparency and better corporate governance. All these and many others reasons collectively, motivated the apex body of the Indian industry, the CII, to come out with a voluntary code of conduct for large corporations in 1998.

Realizing the importance of corporate governance for the growing Indian economy, the government of India initiated reforms in the area of corporate governance, by instituting Kumarmangalam Birla Committee (KMBC), through SEBI during 1999. KMBC drew heavily from SOX of US, which was enacted in the aftermath of the Enron debacle and honestly tried to harmonize Indian corporate governance with that of Anglo–American Model. The committee's recommendations were accepted by SEBI and were incorporated into the Indian Company Act as clause 49 during 2000.

Narayanmurthy committee was instituted for the purpose of improving clause 49 and it revamped the clause 49, which made Indian regulatory framework as good as that of advanced countries like US and one of the best in Asia, on paper.

Notwithstanding the efforts of Indian government and Indian Industry to improve the corporate governance standards in India and to bring in transparency in to corporate functioning and reporting, they are still not successful in their endeavors. The fraud and failure of corporate governance in 2009, at Satyam computers, the fourth largest Indian multinational IT firm, demonstrated the weaknesses and fragility of corporate governance in India.

While regulation is important, more important is the capacity of the regulatory bodies to enforce and implement the provisions of the frame work. The Indian experience clearly demonstrates that good legal and regulatory framework can still fail, if the implementation is poor.

Further culture, values and ethics of the corporations have a profound effect on their corporate governance practices of any corporation (by their management) . The Satyam episode reflects that any amount of regulation cannot improve the corporate governance and transparency, unless the corporation is ethically and morally committed to it.

The slow Indian legal system is another important factor that contributes to slack corporate governance. It is surprising that in the last 6 decades after Indian independence, not even single person was convicted for offenses relating to corporate governance in a country, where many companies knowingly flout the rules.

Many companies pay scant regards to the corporate governance as not many violators of corporate governance regulations were punished. For example Harshad Mehta, faced 28 charges, sentenced in one case and managed to get bail in that case also. This is the same with other corporate frauds also. The perpetrators of fraud at Satyam Computers were not punished even after 5 years.

RECOMMENDATIONS FOR ENHANCING THE EFFECTIVENESS OF CORPORATE GOVERNANCE IN INDIA

The following measures if implemented can enhance the effectiveness of corporate governance in India.

Board of Directors: The institution of Board of directors must be strengthened so that it has the power and ability to monitor and correct the managerial decisions. The board must have the capability to be the real custodian of the shareholder and stakeholder interests. The important issues to ensure this are composition of the board of directors and quality of the members. Basing on the nature of industry and extent of operations of the company, the skills, experience and independence of the board must be balanced. The annual performance of the board of directors must be evaluated objectively.

Independent Directors: Having a majority of independent directors, with expertise in diverse fields will help the board to be really effective. The process of selection of independent directors must be transparent, objective and must be aligned with the needs of the company.

Roles of CEO and Chair of Board: The roles of CEO and Chair of Board should be separated. This will also makes the CEO accountable to the board for the decisions and firm performance. Further the CEO should not have the power to appoint the board members unilaterally.

Transparency and Disclosure: Most of the corporate governance problems can be traced back to lack of transparency in decision making and non-disclosure of financial information in a truthful and objective manner. The legal and regulatory frame work must be explicit about this requirement and must ensure that there is no scope left for the companies to provide misleading or false information.

CEO Compensation: Compensation of The CEO and other officers must be linked to the performance of the corporation. However the performance evaluation measures must include both financial and non-financial criteria.

Legal Frame work (Clause 49 and The Companies Bill 2009): However some of the provisions of Clause 49 needs further strengthening. Similarly the revised companies Bill 2009 that is pending in front of the Indian Parliament should be improved so as to prevent frauds like Satyam Computers in future.

Implementation: Legal or regulatory framework is as good as its implementation. Implementation of the regulatory provisions in letter and spirit can have a salutary effect on the corporations in this regard.

Penalties: The penalties for violations at times are so small that they do not act as deterrents. Harshad Mehata got convicted only on one count. The penalties for corporate governance violations should be heavy. Government must send unambiguous signals that non-compliance with the regulatory framework can be very costly to the corporations and its officers.

Prosecution: Corporate governance frauds and failures have taken place in many countries including US, China and Italy. In US each person involved in such corporate frauds and were handed over severe sentences ranging from few years in prison to 130 years, in case of Madoff scandal. In China two of the mangers responsible for Milk scandal were executed. However in India, hardy anybody got convicted in any of these frauds discussed above. Indian legal system allows the case to drag on for years. If Indian genuinely wants to improve their corporate governance, they should address this problem. One way is to establish fast track courts for speedy disposal of cases.

Strengthening minority shareholders: Companies should allow and encourage the shareholders to have a say in the affairs of the corporation. Management must understand that they are only trustees to the capital provided by shareholders and are not the owners.

Ethics and Codes of Conduct: Effective corporate governance cannot be achieved only through regulatory frame work. All the companies must develop an ethical code of standards covering various aspects of the governance issues. This code of conduct must be well publicized and all the employees must be encouraged to follow the code in letter and spirit. Companies should have a sound whistleblower policy as recommended by Narayanmurthy committee and whistle blowers must be protected.

Market for Corporate Control: The government must be like a neutral empire in case of acquisitions and takeovers. Market for corporate control can be a very effective motivator for god corporate governance. Government also must not permit 'poison pills' type of activities by the management to ward of takeovers of poorly managed companies.

OPPORTUNITIES FOR FURTHER RESEARCH

Notwithstanding the fact that India has become one of the most sought after destinations for Foreign Direct Investment (FDI) during the last decade and now attracting second highest FDI in the world, after China, there is not much academic research into corporate governance practices in India. Though some top scholars like Krishna Palepu, Khanna, Nandini have contributed to this area immensely, there is a lot of room for further research into the many aspects of corporate governance in India. The present paper can be considered as an introductory paper highlighting the present state of Indian corporate governance. Further research into the areas of shareholder activism, effectiveness of board of directors, market for corporate control, transparency and financial reporting can immensely contribute to the body of knowledge to this important area. Most importantly there is a big opportunity for research into the ways and means of enhancing the effectiveness of implementation of legal and regulatory framework of corporate governance in India.

CONCLUSION

Though starting from 1990, India has tried to develop a world class regulatory framework for corporate governance, the unending regularity with which corporate failures and frauds are taking place are a grim reminder that the corporate governance is not effective. Finally, this study concludes that, for effective implementation of corporate governance, having regulatory frame work is only one part, and the other two parts that are important are the will of the government to implement the regulatory framework in letter and spirit and the will of the corporations to enforce a voluntary ethical code of conduct with regards to corporate governance. This study recommends a number of measures, if followed in letter and spirit by all agencies involved, will make Indian corporate governance effective.

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LOST IN SPACE: THE CASE FOR (OR AGAINST) THE OPEN OFFICE

Traci L. Austin, Sam Houston State University
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CASE DESCRIPTION

This case asks students to research and analyze contrasting views of a pressing and practical workplace issue: the open office plan. In this assignment, students will examine whether open workspaces—a growing trend in business—either foster or inhibit their intended outcomes: increased productivity, more effective employee collaboration, more and better quality ideas. In completing this assignment, the students will conduct secondary research and employ APA citation skills. The case is appropriate for junior- or senior-level courses and may be adapted for classes in business communication, retail management, human resource management, interior design, or organizational communication. It is estimated that this case will take three to five hours of classroom instruction and discussion, and the students will spend four to six hours outside the classroom conducting research and completing the projects.

CASE SYNOPSIS

Farley Designs is a fashion house headquartered in Honolulu, Hawaii. Marianne Farley is the CEO of Farley Designs. In the past several years, Farley Designs has experienced such growth that new office facilities are needed. Instead of renovating their current space, the leadership team has decided to build an entirely new facility that reflects their corporate culture and image. The new facility, in their eyes, should be a physical embodiment of the creativity, innovation, and fashion-forwardness that their company values.

Not long ago, Farley read an article in The New York Times about the "open offices" implemented at City Hall by Mayor Michael Bloomberg and continued by new mayor, Bill de Blasio. The arrangement of the employee workstations in a "bullpen" layout with no walls or other barriers was meant to encourage inter-office cooperation and genuine communication among employees. While it represented a complete break from the traditional office layout in their current facility, Farley decided that an open office plan might be just the thing to take Farley Designs to a new level of success in their soon-to-be-built space. She decided to discuss the topic with her leadership team in their upcoming meeting.

In that meeting, however, Farley's idea for a radical re-imagining of Farley Designs workspaces was met with muted enthusiasm from the leadership team. While the CFO was *intrigued by the costs savings an open office would represent, the other members of the team were concerned about issues ranging from privacy to noise to visual clutter. By the end of the meeting, it was clear to everyone that further investigation of the open office concept was necessary.*

INTRODUCTION

Marianne Farley was looking forward to the meeting this afternoon—and for someone who usually didn't care for meetings, that was saying something. This meeting was with the leadership team for Farley Designs, the fashion house founded by Marianne's grandmother, Gabrielle Farley, in the 1930's. The topic for today: the new facility that Farley Designs was planning to hold its offices (and other workspaces). Consistent growth over the past several years had prompted the need for larger and more modern spaces for [number of employees here] to do their work of designing, manufacturing, and distributing the latest in men's and women's fashions.

The new facility, in the eyes of Farley and her leadership team, should be a physical embodiment of the creativity, innovation, and fashion-forwardness that the company has always valued. At Farley Designs, employee satisfaction has always been a crucial part of company success, and the management has implemented many programs and policies to keep Farley Designs employees happy and productive. The current office and workspaces, however, have been causing more and more problems and inconvenience, especially as the company has grown.

The current Farley Designs offices are very traditional in layout. The majority of employees have individual walled offices; only the receptionist and two other administrative employees work in open desks or low-walled cubicles. There are conference rooms available when employees need to work together on projects. There have been complaints that employees have a difficult time collaborating; the conference rooms are often booked, so employee teams are left to crowd into an individual's office around a single computer. In addition, Marianne Farley has noticed that employees tend to e-mail or instant message one another rather than walk out of their own offices and down the hall to another employee's office for actual face-to-face conversations. In short, the closed-off spaces in the current building seem to be stifling collaboration, and by extension all the benefits that are supposed to come from that collaboration: stronger employee relationships, more prolonged and profound brainstorming of ideas, increased innovation, etc.

Farley would like the new Farley Designs building to make it easier for employees to work together and create, in the words of one writer, "a happy utopia of shared ideas and mutual goals" (Feifer, 2013). A few months ago, she read an article in *The New York Times* about the new "open offices" implemented at City Hall by Mayor Michael Bloomberg and continued by new mayor, Bill de Blasio (Karni, 2013). The arrangement of the offices—40-plus workstations housed in a large, open chamber and arranged in a "bullpen" layout with no walls or other barriers—was meant to emulate the Wall Street trading floors where Bloomberg began his career. This layout, the mayor believed, would encourage inter-office cooperation and genuine communication between employees.

This got Farley thinking. Perhaps an open office plan, where desks were arranged in pods or clusters in a large room, would make it more convenient for employees to collaborate on projects, share information, and also to build strong interpersonal and intercultural relationships with one another. It might also increase the chances of serendipitous creativity—overheard conversations might inspire other employees in their own work. Also, instead of wall-off conference rooms, coffee-house style areas, with sofas and low tables (and, of course, a supply of beverages) might encourage employee collaboration. The more she read about the benefits of open office plans in the popular press, the more she liked the idea. She decided to propose to the management team at Farley Designs that the new facility be designed with an open office plan for all employees.

Armed with a list of benefits of an open office plan, Farley went to the meeting confident that the others on the leadership team would agree with her proposals. Her idea for a radical re-imagining of Farley Designs workspaces, however, was met with skepticism and uncertainty. “But I like my own space,” said the head of IT. “Won’t an open space be awfully noisy?” asked the communications manager. “My cousin works in an open office, and there are no places for private talks—employees have to go into the broom closet if they want to have a confidential conversation!” said the human resources director. On the other hand, the CFO was intrigued: “Think of all the money we could save by not building walls or even cubicles!” he said. “We’d only need desks and a few sofas, and we’d be good to go.”

By the end of the meeting, it was clear to everyone that further investigation on the open office concept was necessary. And Marianne Farley had just the person in mind to research and analyze the topic and issues at hand: David Steele, the new intern in Human Resources.

INSTRUCTOR'S NOTES
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In that meeting, Farley's idea for a radical re-imagining of Farley Designs workspaces, however, was met with muted enthusiasm from the leadership team. While the CFO was intrigued by the costs savings an open office would represent, the other members of the team were concerned about issues from privacy to noise to visual clutter. By the end of the meeting, it was clear to everyone that further investigation of the open office concept was necessary.

RECOMMENDATIONS FOR TEACHING APPROACHES

At the beginning of this assignment, students will need to know about the kinds of office plans/layouts commonly used in the business world as well as the terminology used to describe these organizational plans: open office plan, bull pen, clusters or pods, high- or low-paneled cubicles, offices, etc. This can be accomplished through an instructor-delivered lecture or suggested readings (see list of references). Students should also become aware of the impact that office layout and design has on individual employees, teams of employees, interpersonal and intercultural interaction, and the overall corporate culture. Many studies show the psychological and physical impacts of an open office (e.g. Pejtersen, et al., 2011); other studies emphasize the impact on employee productivity, collaboration, and communication (e.g. Jahncke, 2013; Lee & Brand, 2005). Other articles in the scholarly and popular press describe the impact of open/collaborative offices on dynamics and culture within organizations, for good or ill (e.g., Hodgkinson, 2011). The discussion questions below will help the students explore these issues in detail and begin to form their own reactions to open or non-open offices.

Students should also have familiarity with library-based secondary research methods before beginning this case; if these have not been addressed in previous courses, the instructor will need to cover them as a part of this assignment. They should also be familiar with the standard content and formatting for memo or traditional reports. In the courses taught by the authors, *Shwom and Snyder's Business Communication: Polishing Your Professional Presence* (2nd Ed.) was used to provide instruction both in research methods and in report composing and formatting.

Once the background for the topic has been discussed in class, and the instructor has ensured that the students have a solid grasp of the research process, the students will be asked to research the following issues:

1. The kinds of office plans commonly used in the business world
2. The reasons why collaborative workspaces have gained popularity. (Some reasons they may uncover: the lower cost of collaborative spaces, the trend toward a team structure in business, the belief—documented or otherwise—that collaborative spaces enhance productivity, encourage collaboration, and increase the quality and number of ideas, outcomes, and solutions to problems and challenges.)
3. The drawbacks of collaborative workspaces, as enumerated in current scholarly research as well as the popular business press. (Some reasons they may find: incompatibility of collaborative spaces with individual personality characteristics, including introversion; incompatibility of

collaborative spaces with intercultural communication; the increased noise and number of distractions; decreased productivity; higher stress and other negative effects on employee health; and—interestingly—less interaction with co-workers, as employees often resort to wearing earphones, or avoid talking with co-workers because of the lack of space for private conversations.)

4. Current thinking on the benefits of collaboration vs. the benefits of privacy among employees
5. How the physical arrangement and appearance of workspaces impacts corporate culture and corporate image or "branding."

DISCUSSION QUESTIONS AND WRITING ASSIGNMENT

Preliminary Questions

1. This assignment involves a written recommendation report to the CEO and other leaders of Farley Designs. Therefore, students should be asked: what are the CEO's main concerns in this matter? What is she most worried about, and what does she want the most? (Some student answers may be worker productivity, retention of employees, the costs of building the ideal workspace, quality of employee work and outcomes, etc.)
2. What benefits does an open/cooperative office plan offer to employees? To bosses and managers? To customers/clients? What drawbacks can they envision for each of these constituencies? Students can be asked to think about their own study and living habits as parallels. Do they prefer a completely private space? A mixture of privacy with access to places to interact with others? Or do they like having completely open spaces with no need for privacy?
3. What benefits does a more traditional office plan (i.e., one with walled private spaces, individually assigned technology, etc.) offer to employees? To bosses and managers? To customers or clients? What drawbacks can they envision for each of these constituencies?
4. What do the terms "introversion" and "extraversion" mean? It would be interesting for students and instructors to take relevant personality tests (e.g. MBTI) and discuss results in class.
5. How do introverts and extraverts work differently? Talk about how students like to study or complete class assignments as a parallel.
6. What are some intercultural issues that might arise among employees of different cultural backgrounds in an open office plan?
7. Where should students go to find the information they need to help answer Marianne Farley's questions about the open office? What kinds of sources are the most appropriate?

Writing Assignment

For this assignment, students should imagine that they are David Steele, the new intern at Farley Designs. Marianne Farley asks Steele to research the topic of the open office plan and identify its benefits and drawbacks. Farley also wants him to recommend the type of layout that would best fit the corporate culture at Farley Designs as well as the needs and desires of its employees. The students should write up their results and recommendations in a report—either an informal memo report or a formal APA report. Examples of both of these can be found in Chapters 8 and 9 of Shwom and Snyder (2014).

Floor Plan Assignment

In interior design or retail merchandising/design courses, students may also be asked to complete space studies and other programming activities. The results can be used to create a space plan that reflects their recommendations for the office layout. The instructor will need to provide a floor plan of the overall office. Students may or may not be required to design the interior, depending on the objectives of the course where this case is being used.

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SOCIAL FRACTIONALIZATION AND ECONOMIC GROWTH: A LITERATURE BASED FORECAST FOR ARAB SPRING ECONOMIES' GROWTH CHALLENGE

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ABSTRACT

This paper explores the literature tying ethnic or religious fractionalization to economic growth. It reviews the concept of fractionalization and its measurement, the effect of fractionalization on growth, and draws parallels to what may the Arab spring economies expect in terms of growth challenges. The negative effect of ethnic or religious fractionalization on growth was found to be largely established in the literature. In addition, literature demonstrates that polarization, or the distance separating rival groups in a society seem to be of more importance than typical fractionalization in predicting conflict and its impact on growth. Fractionalized and polarized countries also seem to influence the efficiency of their governments limiting their ability to apply reforms and increasing their consumption. Ethnic and religious databases are not accurate and have limitations; the ranking of countries according to their degree of fractionalization was found to differ from one study to another according to the data base used. In drawing parallels to the Arab spring economies, it seems that the new polarization occurring between liberals and Islamists may form growth challenge and limit government actions for as long as the rivalry continues. In order to utilize polarization correlations with growth and to more accurately predict conflict in the Middle East, a more accurate data base should be created, one that takes into consideration the new rivalry groups.
Keywords: Economic Growth, Social Fractionalization.

INTRODUCTION

The Arab spring revolutions have brought about serious divisions among its countries' populations. What began as movements by educated bloggers hoping for a better future and a real democracy seems to have ended up in the rise of severe ideological differences within those countries. Tunisia, Yemen, Libya and Egypt have been witnessing power struggles, daily riots and demonstrations, sporadic violent clashes with voices warning of looming civil wars and an obvious deterioration in the powers of the states and the rule of law. In each of those countries the power struggle seems to largely be between liberals and Islamists, not to neglect the fact of the tribal characteristic of Libya and Yemen and others in the region such as the Sunni - Shiite division in Syria and Iraq.

A new form of ideological division is so apparent in Egypt; the first elected president after the 25th of January 2011 revolution won by a little over 1% of the votes; a 51% to 49%

brought Islamists into power and sharpened the division in the country. While that result may not reflect the real number of supporters of the Muslim Brotherhood, as many casted their votes to end the Mubarak era, it did lead to bring the ideological divisions to the surface. This division was intensified by passing a constitution, drafted mostly by representatives of the Islamist parties, and was approved by a little over 60% of the votes. On the 30th of June 2013, millions resorted to the streets to oust the president, and to reject the Muslim Brotherhood rule. With the army siding with the people, a quick end to the Brotherhood ruling occurred and a new liberal constitution won over 98% of the votes. However, with three years after Mubarak's ousting, Islamists ideas came to the light, what was brewing under the surface suddenly became apparent to everyone. There is a group of people that believe in an Islamic state, and there are liberals, it has been so for a long time and became more apparent than ever now. Before 2011, the Brotherhood operated in the shadows, recruiting people over the years to believe in an Islamic state that doesn't recognize borders between Arab nations, a one state the resembles the last Autumn empire. In fact, one would argue, that over the years, the Egyptian government couldn't carry on reforms the way it should in fear of angering the public and drawing more sympathies to the brotherhood cause, slowing down growth and limiting Egypt's potential. Even with the Brotherhood ousted, the existence of such polarization in a country can still have negative consequences on growth. In the literature, such divisions are studied under the title of fractionalization. A lot of research was carried out to find how societal divisions; ethnic, religious or ideological can affect growth and limit the efficiency of governments.

The purpose of this paper is to explore the literature concerning the effect of ideological or ethnic divisions on economic growth and to draw parallels with the situation in the Arab spring countries, and Egypt in particular. This paper is divided into several sections. The first discusses the measurements of ethnic and ideological divisions, the second discusses the effect of those divisions on economic growth, the third draws parallels to the situation in the Arab countries, and the fourth draws some conclusions.

SOCIAL FRACTIONALIZATION

A typical dictionary definition of a society goes as follows; an organized group of persons associated together for religious, benevolent, cultural, scientific, political, patriotic, or other purposes. In a broader form, a society can be seen as a body of individuals living as members of a community. Fractionalism refers to the state of being non homogeneous or inharmonious. Hence, social fractionalization or Ethnic fractionalization refers to the number, sizes, socioeconomic distribution, and geographical location of distinct cultural groups, usually in a state or some otherwise defined territory. Specific cultural features can refer to language, skin color, religion, ethnicity, customs and tradition, history, or another distinctive criterion, alone or in combination. Those features can frequently be used for social exclusion and the monopolization of power.

Measuring Social Fractionalization

One of the most popular measures of fractionalization is the one introduced by Taylor and Hudson (1972) known as the index of Ethno Linguistic Fractionalization (ELF) and takes the form:

$$FRAC = 1 - \sum_{i=1}^{N} \pi_i^2$$

It can be applied to any diversity that needs to be measured. If considering religious fractionalization, then π_i will be the proportion of individuals with the religion *i* and the total number of religions in the society is *N*. The measure calculates the probability that two randomly selected individuals in a society will belong to different religious groups; as the number of religions increase the fractionalization index increases.

Esteban and Ray (1991, 1994) focused on the concept of polarization as a more accurate measurement for societal divisions that can be later correlated with the rise of conflicts and/or different socioeconomic conditions. Polarization occurs if a population of individuals can be grouped according to some characteristics into clusters where each cluster would have members that are similar in their attributes and different clusters would have members with very dissimilar attributes. The measure of polarization thus, is designed to reflect the separation or distance across clustered groups in a distribution. Duclos et al. (2004), Esteban and Ray (1991,1994), and Reynal (2002) have proposed measures of polarization where the number of groupings are determined arbitrarily. On the other side, a set of measures proposed by Foster and Wolfson (1992), Wolfson (1994), Wang and Tsui (2000), and Foster and Wolfson (2010) deals with polarization as a two group phenomenon. In addition, some measures apply formulas suitable for continuous distributions, and others propose formulas suitable for discrete distributions. While some of the proposed measures applied or used income distributions for clustering, yet the polarization measure is different from any inequality measure; factors that can cause the GINI coefficient to show more equal distribution can cause degree of polarization to increase.

One of the earliest measures of polarization was introduced by Esteban and Ray (1994) and was designed to attempt to capture social conflict, it took the form:

$$P(\pi, y, k, \alpha) = k \sum_{i=1}^{N} \sum_{j \neq i} \pi_i^{1+\alpha} \pi_i \left| y_i - y_j \right|$$

Where π_i or π_j is the proportion of a group relative to the total population, $\left| y_i - y_j \right|$ measures the distance between the two groups *i* and j, and α and *k* are parameters. While this measure can function well when it comes to polarization resulting from a continuous distribution like that of income for example, attempting to use it to measure religious polarization would require one to know exactly the distance between any two groups $\left| y_i - y_j \right|$ which is rather difficult. Reynal-Querol (1998, 2002) and Montalvo and Reynal-Querol (2002) assumed such distance is fixed between any two groups and hence the polarization measure would only depend on the size of the groups in the society and for any given value of α there will be a different polarization measure. The measure usually referred to in the literature as the RQ or Q measure can be rewritten as:

$$P(\pi, y, k, \alpha) = k \sum_{i=1}^{N} \sum_{j \neq i} \pi_i^{1+\alpha} \pi_i$$

Montalvo and Reynal-Querol (2002) argued that this discrete polarization measure must satisfy some basic properties of polarization. Some of these properties include the following: for a three group society, if the smallest two groups merge, then polarization would increase, if there are two groups and one of them splits into two groups or more then polarization would decrease, a two group society will give the maximum polarization, and if there was three groups and a mass shift occurred from one of them equally to the other two groups then polarization would increase. They demonstrated that the only values of α and k that can satisfy those conditions are 1 and 4 respectively and that those values would yield a measure that is normalized between zero and one.

SOCIAL FRACTIONALIZATION AND ECONOMIC GROWTH

Investigation of the nature of the relationship between social fractionalization and economic growth and other socioeconomic status started in the early 1990's. Easterly and Levine (1997) investigated the empirical relationship between economic growth and a host of economic variables that included initial income, schooling, political stability, infrastructure and fiscal, trade, exchange rate, financial sector policies. They also investigated the relationship between ethno linguistic fractionalization and economic growth. Their dataset covered the span of 30 year and many sub-Saharan African nations. In addition, they included data for many successful South East Asian countries for comparison purposes. There cross country regressions also investigate the relationship between growth and different ethno linguistic fractionalization indices. Their findings indicate a logical relationship; low school enrollment, political instability, poorly developed financial systems, large black market exchange rate premiums, large government deficits, and inadequate infrastructure are negatively and significantly correlated with economic growth and account for roughly two- fifths of the growth differential between the countries of Sub- Saharan Africa and fast growing East Asian countries. They also point out to a negative relationship between ethno linguistic fractionalization and growth that on their scale, going from complete homogeneity to complete heterogeneity is associated with a fall in growth of 2.3 percentage points. The authors also argued that Africa's growth failure is mainly due to ethnic conflict and that many of the explanatory variables associated with growth are endogenous to ethnic linguistic fractionalization. The later argument implies that fractionalization induces bad policy decisions by governments. That proposition was supported by a theoretical model introduced by Alesina and Drazen (1991) in which government would delay imposing a much needed tax to fix a budget deficit because of political unrest stemming from a polarized society, and stabilization would occur only when one group concedes and is forced to bear a disproportionate share of the fiscal adjustment.

Montalvo and Reynal-Querol (2002) argued that the intuition between conflict and fractionalization does not hold for more than two groups, hence, a measure of a societal heterogeneity should be one that belongs to the family of polarization measures. They argued that the polarization measure proposed by Reynal-Querol (2002) is a discrete polarization measure that satisfies the basic properties of polarization. Utilizing that measure, and a data set that covered 138 countries for the period 1960 to 1989, Montalvo and Reynal-Querol (2005) empirical tests indicated a positive correlation between ethnic fractionalization and ethnic polarization for low levels of fractionalization, but zero or negative correlation for higher levels with similar results when religious fractionalization and religious polarization are correlated. Further, utilizing commonly used specifications for the incidences of civil wars and growth, and correlating it to ethnic and religious polarization and fractionalization measures turned out interesting results; their findings indicate that either ethnic or religious polarization has a large effect on civil war incidence and hence an indirect effect on growth, whereas fractionalization has no effect on armed conflicts.

Alesina et al. (2003) provided three separate measures of fractionalization, one for ethnic, one for linguistic, and one for religious fractionalization; all driven from the commonly used fractionalization measure. They applied those measures for 190 countries using variable data sources. Their data set on religious fractionalization and different languages spoken within a country was obtained from the Encyclopedia Britannica and the CIA World Fact Book, data on ethnicity was assembled from the Encyclobedia Britannica, CIA World Fact Book, Minority Rights Group International, and other sources. Using the data and the fractionalization measures, they examined the effect of each type of fractionalization on economic growth and the quality of institutions and policy. In addition, they utilized polarization measures and checked on the nature of the relationship between the polarization degree and both economic growth and institutional quality. Their analysis method followed that of Easterly and Levine (1997) and their findings indicate a negative effect of ethnic fractionalization on growth, that ethnic fractionalization is closely correlated with per capita GDP and geographic factors; the more fractionalized the society is the poorer it is and those poorer more fractionalized ones are those closer to the equator. In addition, they indicate that religious fractionalization was found to be positively correlated with measures of good governance and that religious fractionalization seems to have no effect on growth. As for polarization, their findings indicate that the measure of polarization produced similar but slightly weaker results than that of fractionalization.

Societal fractionalization or polarization can often lead to political violence that in essence is harmful to growth. Bodea and Elbadawi (2008) analyzed the impact of political violence on economic growth in a sample of 68 countries out of which 58 are developing ones. They used a concept of political violence that accounts for three types of acquiring political power; riots, coups, and civil wars and used fractionalization indexes to account for the degree of ethnic, religious and linguistic fractionalization of societies. They utilized an endogenous growth model to analyze the general equilibrium growth effects of political violence. Their model predicts that the effects of organized political violence are likely to be much higher than its direct capital destruction impact which seems to be a logical conclusion since the lasting effect of violence on growth rates would usually surpass the cost of physical destruction. Their empirical findings indicate that political violence has a robust and negative effect on growth, and in line with their model specifications, the damage on growth rates surpasses the negative effect of physical destruction. In addition, their findings indicate that ethnic fractionalization had a negative direct effect on growth in addition to its indirect effect through political violence and economic and political institutions. They also indicate the positive direct effect of democracy on growth especially in ethnically fractionalized societies. They conclude that for African countries with large ethnic diversity to develop, they should work on achieving an inclusive non factional democracies noting that a democratic but non factional policy would not work and would be marginally better than an authoritarian regime. Finally, they note that polarization and fractionalization indices have positive and close relationship in homogeneous countries but for high levels of heterogeneity, the correlation between fractionalization and polarization indices is close to zero or even negative and hence, polarization is a more adequate measure for predicting conflict and in growth correlations.

Campos et al. (2011) investigated the relationship between ethnic fractionalization, polarization and economic growth. Their data set was constructed from 26 former centrally planned economies and covered the period from 1989 to 2007. They utilized various fractionalization and polarization measures and the standard augmented Solow growth model where output per capita depends on rates of investment in physical and in human capital, population growth rate, rates of technological change and depreciation. Their findings indicate that endogenous ethnic fractionalization and polarization are negatively related to economic growth. They also demonstrate that the degree of ethnic fractionalization has changed over time in the countries that constitute their data sample.

The role of government in economic activity has had its share of research. A common assumption is that the better the quality of government the more growth that can be attained. Shleifer & Vishny (1993) concluded that the more regulatory and taxing powers a government holds, and the more intervention in the economy, the less the government efficiency will be and the higher the corruption. Barro (1991) concluded that higher subsidies, higher transfer payments and higher government consumption may reflect high levels of distortionary taxes and redistribution policies. Alesina et al. (1999) constructed a model that links heterogeneity of preferences across ethnic groups in a city to the amount and type of public good the city supplies. Testing their model on U.S. cities, urban counties, and metropolitan areas after controlling for other socioeconomic and demographic factors, their findings indicate that productive public goods such as roads, education, sewers, libraries, .etc are inversely related to ethnic fragmentation. They conclude that ethnic fragmentation is a determinant of local public finances and affects the performance of local government.

La Porta et al. (1998) investigated the relationship between the quality of government and societal fractionalization. To define the quality of government they proxy government intervention by an index of property rights protection. They also included an index for the quality of business regulations, and for the top marginal tax rate. They measured government efficiency using survey scores on corruption, bureaucratic delays, and tax compliance. In addition, they included a measure of relative wages of government officials to investigate if higher wages are associated with more efficient government. The output of public goods was measured by infant mortality, school attainment, illiteracy, and an index of infrastructure quality. The size of the public sector by government was measured by government consumption, transfers and subsidies. In addition, they utilized an index of the size of the state enterprise sector, and a measure of the relative size of public sector employment. They also used indices of democracy and of political rights to reflect the degree of political freedom for each country. Correlating data from up to 152 countries, their findings indicate that ethno linguistically heterogeneous countries exhibit inferior government performance. The authors note that in ethnically heterogeneous societies, it has been usual that the groups that come to power deign government policies that eradicate the ethnic losers, limit their freedom of opposition, and limit the production of public goods to prevent those outside the ruling group from benefitting or getting stronger. In addition, their findings also indicate that bad quality government was found to be associated with countries that are poor, close to the equator, use French or socialist laws, or have high proportions of Catholics or Muslims. The effect of culture and religion on government quality was also investigated by Putnam (1993) and Landes (1998). Their findings indicate that societies held beliefs shape government action and where societies are intolerant or distrustful of a government then that government will not function properly. In addition, Landes (1998) indicated that countries that are predominantly Muslim or Catholic are found to be more hostile towards institutional development limiting the quality of government.

ARAB WORLD FRACTIONALIZATION

In this section we compare fractionalization and polarization rankings of different Arab countries from different empirical studies. Table I is extracted from the results given by Alesina et al. (2003). The table provides the ranking of Arab Spring countries as well as some other countries for comparison purposes. In this sample, the highest country on ethnic fractionalization is Libya with an index of 0.9270, South Africa comes second, followed by Qatar, Sudan, Iran, Kuwait, United Arab Emirates, Jordan, Syria, Bahrain, Morocco, Iraq, Israel, Algeria, Turkey, Egypt, Saudi Arabia, and finally, Tunisia with the lowest index of 0.0394. The language fractionalization index ranked South Africa as number one with an index of 0.8652, Iran ranked second with an index of 0.7462, followed by Israel, United Arab Emirates, Qatar, Morocco, Algeria, Bahrain, Iraq, Kuwait, Turkey, Syria, Saudi Arabia, Libya, Jordan, and finally Egypt then Tunisia with the least language fractionalization. The religious fractionalization index ranked South Africa number one as the highest fractionalized, followed by Kuwait, Bahrain, Iraq, Syria, Sudan, Israel, United Arab Emirates, Egypt, Saudi Arabia, Iran, Qatar, Jordan, Libya, Tunisia, Algeria, Turkey, and in the last place, Morocco.

Table II is extracted from the results given by Montalvo and Reynal-Querol (2005) and provides the ranking of the same sample of countries in Table I on ethnic and religious fractionalization and polarization with the absence of Libya, Qatar and Ukraine as they were not included in the results given by Montalvo and Renal-Querol (2005) but includes Yemen that was included in those results. The Ethnic fractionalization index ranked Iran as number one with an index of 0.756, followed by Sudan, Jordan, Kuwait, Morocco, South Africa, Iraq, Bahrain, Algeria, Israel, Egypt, Syria, Turkey, Tunisia, Saudi Arabia, and finally Yemen. The measure of ethnic polarization ranked Jordan as number one, followed by Kuwait, Morocco, South Africa, Sudan, Iraq, Iran, Bahrain, Israel, Algeria, Egypt, Syria, Turkey, Tunisia, Saudi Arabia, and finally Yemen. The Religious fractionalization index ranked Iraq as number one with the highest fractionalization, followed by Bahrain, United Arab Emirates, Yemen, Kuwait, South Africa, Sudan, Israel, Syria, Iran, Egypt, Jordan, Saudi Arabia, Morocco, Tunisia, Algeria, and finally Turkey. The religious polarization index ranked Yemen as number one, followed by Iraq, Bahrain, United Arab Emirates, South Africa, Kuwait, Sudan, Israel, Syria, Egypt, Iran, Jordan, Saudi Arabia, Morocco, Tunisia, Algeria, and finally Turkey.

Table I – Selective Ethnic, Language and Religious Fractionalization Index Figures

Country	Date (Ethnicity Data)	Ethnic	Language (2001)	Religion (2001)
Algeria	1992	0.3394	0.4427	0.0091
Bahrain	1991	0.5021	0.4344	0.5528
Egypt	1998	0.1836	0.0237	0.1979
Iran	1995	0.6684	0.7462	0.1152
Iraq	1983	0.3689	0.3694	0.4844
Israel	1995	0.3436	0.5525	0.3469
Jordan	1993	0.5926	0.0396	0.0659
Kuwait	2001	0.6604	0.3444	0.6745
Libya	1995	0.7920	0.0758	0.0570
Morocco	1994	0.4841	0.4683	0.0035
Qatar	2001	0.7456	0.4800	0.0950
Saudi Arabia	1995	0.1800	0.0949	0.1270
South Africa	1998	0.7517	0.8652	0.8603
Sudan	1983	0.7147	0.7190	0.4307
Syria	1993	0.5399	0.1817	0.4310
Tunisia	2001	0.0394	0.0124	0.0104
Turkey	2001	0.3200	0.2216	0.0049
Ukraine	1998	0.4737	0.4741	0.6157
United Arab Emirates	1993	0.6252	0.4874	0.3310

Source: Compiled from Alesina et al. (2003)

A comparison between both tables I and II shows some contradiction in the ordering of some countries. For example, on religious fractionalization, table one lists South Africa number one as the highest fractionalized, followed by Kuwait, Bahrain, Iraq, Syria and Sudan, whereas table two ranked Iraq as number one with the highest fractionalization, followed by Bahrain, United Arab Emirates, Yemen, Kuwait, South Africa and Sudan. This different ordering may have to do with a couple of factors; the data base used, as different data bases on ethnicity and religious statistics offer different estimates and the specification of the index itself. This discrepancy points out to the shortcoming of data sources. Many nations opt not to declare statistics of the size of their ethnic or religious groups or their laws may not allow such statistics. Hence, data sources provide estimates that can differ from one data base to another. Frequently used data bases exhibit such contradiction; those include the Encyclopedia Britannica, the World Fact Book, and the Word Christian Encyclopedia. However, in a large sample of countries, the relative orderings of nations on a fractionalization measure did not seem to impact correlations of fractionalization to conflict and growth in empirical studies, and did not hinder obtaining significant results.

Table II – Selective Ethnic and Religious Fractionalization and Polarization Figures

Country	Ethnic Polarization	Ethnic Fractionalization	Religious Polarization	Religious Fractionalization
Algeria	0.514	0.299	0.032	0.016
Bahrain	0.569	0.383	0.934	0.536
Egypt	0.427	0.247	0.360	0.180
Iran	0.598	0.756	0.352	0.185
Iraq	0.665	0.390	0.947	0.552
Israel	0.548	0.286	0.543	0.296
Jordan	0.982	0.515	0.347	0.169
Kuwait	0.980	0.513	0.784	0.446
Morocco	0.897	0.475	0.078	0.039
Saudi Arabia	0.114	0.059	0.113	0.058
South Africa	0.718	0.469	0.790	0.442
Sudan	0.699	0.711	0.711	0.427
Syria	0.373	0.207	0.410	0.220
Tunisia	0.167	0.087	0.039	0.020
Turkey	0.342	0.185	0.022	0.011
United Arab Emirates	0.640	0.320	0.839	0.507
Yemen	0.063	0.032	0.975	0.507

Source: Compiled from Montalvo and Reynal-Querol (2005)

Table III provides selected economic indicators for the Arab Spring economies that witnessed political turmoil starting 2011. The hardship of conflict reflects on the indicators; Egypt's GDP growth rate decreased from 5.1% in 2010; a decent growth rate in light of the financial crisis, to 1.8% in 2011. Unemployment increased from 9% to over 12% and inflow of foreign direct investment turned negative. Tunis and Yemen experienced negative GDP growth rates with Yemen having a staggering -10% growth rate in 2011. In all those countries, the dilemma is not over yet. The struggle for power and rivalries confrontation dominates the scene. In effect, one can argue that a new polarization has taken form and is evident in particular in Egypt and Tunis. The apparent division in those nations is one between Islamists with their different fractions and Liberals that include Moslems as well as Christians. Such new polarization is with no doubt of influence on any government's decision and has the potential for conflict and a large impact on growth. Relying on typical fractionalization or polarization measures may be misleading in such a case, as data bases will only include the number of people of certain religion without taking into consideration this new type of ideological division. What would be of great usefulness in the usage of polarization correlations would be the development of accurate census of the new rivalries across the Arab world countries.

Table III - Selected Economic Indicators for Arab Spring Economies

Country	Indicator	2007	2008	2009	2010	2011	2012
Egypt	GDP Growth Rate	7	7.2	4.7	5.1	1.8	2.2
	Unemployment	8.9	8.7	9.4	9	12	12.3
	Net FDI inflow	10.9	7.6	6.2	5.2	-1.1	2.6
Libya	GDP Growth Rate	6	3.8	2.1	NA	NA	NA
	Unemployment	NA	NA	NA	NA	NA	NA
	Net FDI inflow	0.76	-1.78	0.21	-0.94	-0.13	-2.5
Syria	GDP Growth Rate	5.7	4.5	6	3.2	NA	NA
	Unemployment	8.4	10.9	8.1	8.4	NA	NA
	Net FDI inflow	1.24	1.47	2.57	1.47	NA	NA
Tunis	GDP Growth Rate	6.4	4.6	3.1	3	-2	3.6
	Unemployment	12.4	12.4	13.3	13	18.3	NA
	Net FDI inflow	1.52	2.60	1.53	1.33	0.43	1.55
Yemen	GDP Growth Rate	3.3	3.6	3.9	7.7	-10.5	0.14
	Unemployment	15.3	15	14.6	17.8	NA	NA
	Net FDI inflow	0.92	1.55	0.13	-0.09	-0.7	NA

Source: Compiled from World Bank World Development Indicators.

CONCLUSION

The negative effect of ethnic or religious fractionalization on growth is statistically significant in several empirical studies. However, what seems to be more important than fractionalization is how polarized a society is in terms of predicting conflict and effect on growth. Polarization measures have their limitations, yet empirical work have largely demonstrated a negative effect of highly polarized societies on growth and the efficiency of government. Data on ethnic and religious fractionalization may have some limitations as well; empirical ranking of countries according to their degree of fractionalization differs with the difference in data bases used, however, and in drawing parallels with the new situation in the Arab world, and Egypt in particular, a typical rely on religious data may not provide the best correlations. The reason is simple, for one, it is hard to get an accurate data on how many Muslims and Christians exactly there is, and to be more functional, one needs to know how many supporters exist for the Muslim brotherhood, the different Salafi groups, and liberals. In addition, at the current time, polarization is occurring in which the division is among those who believe in an Islamic state (or empire) and those who believe in a civil state. This new polarization seems to have the biggest on the performance of any government and on growth potential for the Arab countries in general and Egypt in particular for years to come. A data base for the relative size of these new rivalry groups can facilitate more accurate usage of polarization measures in terms of correlating with growth and predicting conflict.

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IS THERE A GENDER PAY GAP IN BUSINESS SCHOOLS?

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ABSTRACT

The study examines the faculty salary differentials by sex in 13 U.S. business schools by utilizing the salary information from a publicly-accessible database. Through an analysis of variance, with a 2 x 4 x 6 factorial design, the authors investigate the main and interaction effects of gender, rank and teaching fields on faculty salaries. Results show that although women earn less than men in academics in general, the salary differences are non-significant among business school faculty members after the effects of ranks and teaching fields are taken into account. The interaction between rank and teaching fields is found to be weakly significant. The study seems to suggest that today's female business faculty members are not subjected to the pay disparities reported in many previous studies.

INTRODUCTION

Since an early study on faculty salary differentials by sex (Gordon, Morton & Braden, 1974), we are seeing an increasing interest in understanding the gender pay gap in institutions of higher education. The amount of effort on this topic is well justified by its importance for both institutions and individuals.

For institutions, there are large negative impacts from gender pay inequality. Top level executives are now required to sign-off on financial reports and are responsible for the veracity of such numbers to government regulators because of the Sarbanes Oxley Act (Bell, 2007). For higher education institutions, failing to recruit women for academic positions can bias the research and funding (Orser, 1992). The salary disparity between genders has added to the challenges business schools are already facing in trying to increase the number of female faculty members. Failure to attract female faculty could have severe consequences for the school in terms of brand image, student recruitment, and intellectual development. For example, Trower and Chait (2002) reported that the percentage of female faculty member is the most accurate predictor of success for female undergraduates. Compared to some other disciplines, business schools tend to have lower percentage of female faculty members, and it has long been a goal for business schools to increase the gender diversity within their ranks. As an important external motivation, salary could be the key in drawing females into the career, and a perception of equal pay among female and male faculty members is also vital for this effort.

For individuals, disparity in pay can have serious long-term implications on financial goals and ultimately impede financial security. One of the most significant long-term saving goals for many households is retirement. Prior literature demonstrates that Americans are not saving enough for retirement (Mitchell & Moore, 1998; Munnell, Webb, & Delorme, 2006; Skinner, 2007). If female business faculty members are indeed earning significantly less than male business faculty members, this further intensifies reduced savings towards retirement. Other opportunity costs to consider due to forgone savings/reduced salary include meeting financial challenges such as increased health-care costs and longevity protection (Brown, Coe, & Finkelstein, 2006). Suffice to say, pay inequity can compromise a household's financial goals.

Until recently most research has suggested the existence of a sizable pay gap between male and female faculty members in institutions of higher education (Bell & Joyce, 2011; Bellas, 1994; Boudreau, et al, 1997; Gordon et al, 1974; Hoffman, 1976; Rickman, 1984; Toutkoushian, 1998; Toutkoushian, et al, 2007). Because of the limitation of data sources, early studies tend to use institution specific data. For example, using a sample from a large urban university, Gordon, Morton and Brandon (1974) found that gender to be one of the main source of wage differentials for faculty. Two year later, Hoffman (1976) reported similar results by using a sample from a large research-oriented university. Similarly, Rickman (1984) also found a significant salary differences between male and female faculty members of a small teaching-oriented school.

The pay disparity has been consistently found among faculty members regardless of the type of the data used, whether it is a national data set or an institution specific sample. Gender, discipline, and rank are among the most prominent factors driving the salary disparities. Some researchers also suggest that gender is a proxy for many other factors. For example, women are overrepresented in low-pay academic disciplines and underrepresented in high-pay areas (Bellas, 1994). However, even after controlling for individual characteristics such as experience, education, rank, and research productivity, extant studies have found female faculty members earn less than their male counterparts.

The salary disparity between genders has added to the challenges that business schools are already facing in trying to increase the number of female faculty members. Failure to attract female faculty could have severe consequences for the school in terms of brand image, student recruitment, and intellectual development. For example, Trower and Chait (2002) reported that the percentage of female faculty member is the most accurate predictor of success for female undergraduates. Orser (1992) wrote that failing to recruit women for academic positions can bias the research and funding. Compared to some other disciplines, business schools tend to have a lower percentage of female faculty members, and it has long been a goal for business schools to increase the gender diversity within their ranks. As an important external motivation, salary could be the key in drawing females into the career, and a perception of equal pay among female and male faculty members is also vital for this effort.

While we deplore the persistent disparity, there is an encouraging trend toward less pay disparity between genders (Martinello, 2009). Wang and colleagues (2013), through analysis of

Census and polling data, reported that the mother is the sole or primary bread earner for four out of ten American households with children under age 18. This share has quadrupled since 1960 and it implies more women are working, and also a possibly narrowing salary gap between men and women.

Our study is part of the endeavor to better understand the salary disparity within business schools. We contribute to the stream of research on pay equality between genders in a number of ways. First, given the new trend toward pay equality, our study provides a timely update on the topic with the most recent data. Second, this is one of the few studies using a unique national sample from business schools covering all major teaching fields. This is important because with a non-discipline specific and a non-institution type specific sample, the study allows us to generalize the results. Third, ours is the first study exploring the interaction between gender and rank and teaching fields within the business school context. By doing so, we provide new insights into the salary disparity by gender in business schools.

In the remainder of the paper, we first give a literature review. Then we describe the data and methodology, followed by a presentation and discussion of the results. The last section concludes the paper by summarizing the findings and their implications.

LITERATURE REVIEW

The salary disparity between genders in academic institutions has been well documented since 1974 when Gordon, Morton, and Brandon, with a sample from a large urban university, found gender to be one of the main sources of wage differentials for faculty. Because of the limitation of data sources, early studies on this topic tend to use institution specific data. For example, using a faculty sample from a large research-oriented school, Hoffman (1976) reported similar results two years later. Rickman (1984) also found a significant difference between male and female faculty members of a small teaching-oriented university.

Similar findings have been reported in later studies with national samples. Even after controlling for other individual and institutional characteristics, researchers still observed a significant gender differences (Toutkoushian et al., 2007; Renzulli, Grant & Kathuria, 2006; Bell & Joyce, 2011).

The gender pay gap is a worldwide phenomenon. A survey distributed to 168 employees working in Lebanon found gender pay gap to be a salient issue in the higher education sector (Jamali, Sidani & Kobeissi, 2008). Another survey of the bank managers in Nigeria also suggested a gap in salary and level of satisfaction with company promotion policies (Okpara, 2006).

Salary Disparity by Gender

Researchers have proposed a number of theories to explain the gender pay gap. Ginther and Hyaes (2003) suggested that differences in promotion led to the gender discrimination. Burke and colleagues (2005) put rank and seniority as the main reasons for the pay inequality. Crothers et al. (2010) surveyed psychology faculty members from the US schools, and found female members to be less likely to negotiate for a promotion, and the lack of negotiation skills led to lower earnings. A study of business school faculties in the UK revealed that women tend to define their academic role differently from men, and the fact that they are more student-focused may have put them in a disadvantaged position because most institutions placed more emphasis on research when it comes to tenure promotion and salary raises (Shaw & Cassell, 2007).

While most studies found a significant gender difference in salaries, several researchers reported otherwise. Lamb and Moates (1999) applied multiple regression analysis and claimed there is no evidence of a consistent pattern of salary bias due to gender or race. The trend toward gender pay equality has been reported in a number of studies. Barbezat (1987) observed a declining salary differences from 1968 to 1977. Ashraf (1996) reported similar results for US faculty between 1969 and 1989, and he suggested that this is due to a less discriminatory environment for more recent hires in academia. Toutkoushian (1998) noted some progress in pay equality when disaggregate data by academic fields are used. However, because there is a high concentration of females in certain lower-paid fields and institutions, the aggregate disparity is not showing any improvement. Bellas, with colleagues, (2001) examined the gender gap for the salary growth rate and they found a narrowing gap, which may be due to that fact that faculty with the highest prospect for growth are also those most likely to jump to other universities. Martinello (2009) reported statistically insignificant gender effect on pay disparity for faculty members at the Ontario universities by the early 1990s. Ginther and Hayes (2003) examined salary and promotion differences between female and male faculty members in the humanities, and they observed a slight decline in the promotion gap over the 1977-1995 period.

Interaction between Gender and Other Factors

Factors other than gender and their interaction effects with gender have been extensively studied to explain the salary disparity. The key factors researchers have examined are ethnicity, discipline, rank, marital status, seniority, institution type, etc.

Discipline has been proposed both as an explanatory variable for the salary disparity and as one of the factors which exert its influence through gender. Bellas (1994) argued that one reason for the gender pay gap is because women are concentrated in low-pay academic disciplines. If this is the case, we will see aggregate gender differences, but not necessarily any difference when we examined each individual discipline. In other words, the magnitude of pay differences by gender may vary for individual disciplines. However, Toutkoushian in his 1998 study showed that the gender wage gap was not driven by disparities in any particular academic fields.

Equal pay regardless of ethnicity is a cause fought by many generations. But have we achieved it and how ethnicity interacts with gender to impact pay disparity? Ashraf and Shabbir (2006) gave an optimistic account of this. They found that while there is an unfavorable pay gap for black faculty at the associate and full professor levels, white faculty earn less than their black counterparts at the assistant professor level. It is speculated that progress has been made in recent years toward pay equality. Toutkoushian et al (2007), utilizing the compensation data from the 1999 National Study of Postsecondary Faculty, found non-significant role of race on influencing pay disparity. According to them, there is no interaction effect between gender and race on pay differences.

Rank is another variable that has received a lot of attention from researchers. Winkler, Tucker, and Smith (1996) analyzed survey results from 1,527 Ph.D. level atmospheric scientists, and reported a larger salary gap for tenure track faculty than non-university scientists. Furthermore, they found the gap was most evident at the full professor rank. For the entry level and associate professor level faculty, the gender differences were not significant. Boudreau and colleagues (1997) demonstrated excluding faculty rank from a gender pay equity study magnifies the gender effect.

However, there are a number of researchers arguing for excluding rank from the study. Hoffman (1976) stated that rank is a proxy for gender discrimination, and researchers may underestimate the discrimination by including rank. He attributes the pay gap to slower promotion for female faculty members. Similarly, Ginther and Hayes (2003) suggest that the gender discrimination for female faculty is due to differences in promotion.

Other individual characteristics are also shown to have an impact on the wage gap. Kelly and Grand (2012) show marital and parental statuses can impact pay disparity between female and male faculty. While there is a pay gap between men and women overall, married mothers in science, engineering and mathematics (STEM) earn as much as their male colleagues.

Besides the individual characteristics, a number of studies also examined the interaction effect between gender and institution type on the size of the pay gap. Renzulli, Grant, and Kathuria (2006) investigated the gender pay gap at predominantly white institutions (PWIs) versus historically black colleges and universities (HBCUs). They found that HBCUs had a smaller pay gap than PWIs because of the absence of the “men’s bonus.” Bell and Joyce (2011) found that the gender wage gaps exist in both AACSB and non-AACSB accredited schools. Norman (1986) reported a wide variation in gender salary gap across institutions, and the gender equality is highly dependent on the sex of the school’s dean and the geographic location of the school.

Overall, the literature supports testing the factors of rank and teaching field against salary magnitudes between male and female business school faculty. The magnitude of salary is an indicator of female dissatisfaction if salary significantly interacts with rank and/or teaching field leading to inequality in salary distributions across the levels.

RESEARCH HYPOTHESES

This paper will focus on the effects of gender, academic ranks and teaching fields, and how they interact to influence the pay disparity within business schools. Based on the above literature review, we have developed the following nine hypotheses:

H1 *Male and female faculty members do not differ in their relative frequency or percentage among the academic ranks of instructor, assistant professor, associate professor, and full professor.*

H2 *Male and female faculty members do not differ in their relative frequency or percentage among the teaching fields of accounting, finance, management, marketing, MIS and the other business fields combined.*

H3 *There are no three –way interaction effects among gender, teaching-field, and academic rank on business faculty salary.*

H4 *There are no two-way interaction effects between gender and academic rank on business faculty salary.*

H5 *There are no two-way interaction effects between gender and teaching field on business faculty salary.*

H6 *There are no two-way interaction effects between academic rank and teaching field on business faculty salary.*

H7 *There is no main-effect of gender on business faculty salary.*

H8 *There are no main effects of academic rank on business faculty salary.*

H9 *There are no main effects of teaching field on business faculty salary.*

DATA AND METHODS

Business faculty salaries from 13 institutions of higher learning across 5 states were collected via collegiatetimes.com, a public salary database. The teaching field, rank and gender information was verified by visiting the websites of the 13 institutions. Faculty members had written biographical sketches and referred to themselves as he or she and most also showed photos. They also listed their ranks in those bios. The data analyzed included faculty members' gender, rank, and teaching field. Chi-square was used to ascertain whether differences existed between relative frequency of occurrence of male and female faculty and teaching fields. Three-Way Analysis of Variance, with a 2 x 4 x 6 factorial design, was used to test for main effects and interaction effects when gender, academic rank and fields of teaching were the factors and salary was the response variable. The means and standard deviations of salary for the different levels of factors are summarized in Table 1. Limited by data availability, we only include public universities in our study. These schools cover all major Census Bureau-designated areas and both teaching-oriented and research-oriented schools are included. We also included historically black colleges and universities (HBCUs).

TABLE 1
SALARY BY INSTITUTION, GENDER, TEACHING FIELD AND RANK

Institution	Faculty	Mean ($)	Std. Deviation ($)
Texas Southern University	43	84,562	39,214
Texas Tech University	85	132,198	45,810
Texas A&M University	154	126,517	65,667
SUNY-Buffalo	60	129,248	40,119
SUNY-Stoney Brook	19	83,416	67,721
University of California-Riverside	33	125,390	83,472
University of California-Irvine	22	185,064	114,064
George Mason University	63	115,977	28,642
Old Dominion University	67	97,258	36,691
Virginia Tech	105	121,947	42,130
University of Virginia	55	168,449	44,678
Miami University	6	133,269	140,253
Ohio State University	72	166,317	57,673
Total	784		
Gender	**Faculty**	**Mean ($)**	**Std Deviation ($)**
Male	587	135,139	60,408
Female	197	107,847	53,329
Total	784		
TeachingField	**Faculty**	**Mean ($)**	**Std Deviation ($)**
Accounting	175	125,233	60,533
Finance	127	148,406	64,896
Management	139	118,990	49,149
Marketing	105	138,267	61,061
MIS	40	121,567	57,894
Others	198	120,648	59,472
Total	784		
Rank	**Faculty**	**Mean ($)**	**Std Deviation ($)**
Instructor	140	56,081	32,775
Assistant Professor	191	129,348	33,778
Associate Professor	198	123,521	35,499
Professor	255	170,817	62,603
Total	784		

CHI-SQUARE TESTS RESULTS

Table 2 summarizes the chi-square test results for the relationship between gender and rank. We reject H1, with Pearson Chi-Square $p = .000$. Male and female faculty members differ in their relative frequency or percentage among the academic ranks of instructor, assistant professor, associate professor, and full professor. According to the Goodman and Kruskal's (1972) *tau* test in Table 3, rank explains 7.5 percent of the variance in gender when gender is dependent variable; on the other hand, gender explains only 2.6 percent of the variance in rank when rank is dependent variable. Therefore, rank is better at predicting a faculty's gender than gender is at predicting a faculty's rank. This can be explained in part due to a lag because female faculty members are late in arrival in collegiate schools of business.

TABLE 2
RELATIONSHIP BETWEEN GENDER AND RANK

	Gender		Total
	Male	Female	
Instructor	81	59	140
	(105)	(35)	
Assistant Professor	125	66	191
	(143)	(48)	
Associate Professor	154	44	198
	(148)	(50)	
Full Professor	227	28	255
	(191)	(64)	
Total	587	197	784

Chi-square = 58.583, Degrees of Freedom=3, Significance = .000
NOTE: Count numbers in parentheses are expected values.

TABLE 3
GOODMAN AND KRUSKAL'S TAU TEST FOR GENDER AND RANK

	Value	Std. Error	Sig.
Rank Dependent	0.026	0.006	0.000
Gender Dependent	0.075	0.018	0.000

The test results for relationship between gender and teaching field are summarized in Table 4. We reject H2, with Pearson Chi-Square $p = .023$. Male and female faculty members differ in their relative frequency or percentage among the teaching fields of accounting, finance, management, marketing, MIS and the other business fields combined. This infers that the academic teaching field is associated with gender. Apparently, female faculty members are over represented in the accounting field and male faculty members are over represented in finance and the combined other business fields, i.e., business law, ethics, operation research, etc. The Goodman and Kruskal's (1972) *tau* test in Table 5 shows that teaching field explains 1.7 percent of the variance in gender when gender is dependent variable; on the other hand, gender explains only 0.4 percent of the variance in teaching field when teaching field is dependent variable. Therefore, teaching field is better at predicting a faculty's gender than gender is at predicting a faculty's field of teaching. Women appear to be targeting the field of accounting as their preferred area of specialization.

TABLE 4
RELATIONSHIP BETWEEN GENDER AND TEACHING FIELD

	Gender		Total
	Male	**Female**	
Accounting	115 (131)	60 (44)	175
Finance	103 (95)	24 (32)	127
Management	104 (104)	35 (35)	139
Marketing	77 (79)	28 (26)	105
MIS	33 (30)	7 (10)	40
Others	155 (148)	43 (50)	198
Total	587	197	784

Chi-square = 13.015, Degrees of Freedom=5, Significance = .023
NOTE: Count numbers in parentheses are expected values.

TABLE 5
GOODMAN AND KRUSKAL'S TAU TEST FOR GENDER AND TEACHING FIELD

	Value	Std. Error	Sig.
Teaching Field Dependent	0.004	0.002	0.007
Gender Dependent	0.017	0.009	0.023

FACTORIAL ANOVA TESTS RESULTS

Tests of Between-Subject Effects for the three-factor model are summarized in Table 6, which shows that H3 should not be rejected, with $F(3, 734)= 0.803$, $p = .675$. This implies, therefore, that the three-way interaction among Gender, Rank, and Teaching Field is not significant. The Partial Eta Squared accounted for a small insignificant effect size of .016 or 1.6% of the variance in salary (Cohen, 1988). Next, we explore the two-way interaction between factors.

We do not reject H4, with F (3, 736) = .219, $p = .883$, which infers that gender does not interact with academic rank. Similarly, the interaction effects between gender and teaching field are not significant because we do not reject H5, with F (5, 736) = 0.457, $p = .808$. We reject H6, with F (15, 736) = 1.701, p = .046. This indicates the existence of interaction effects between academic rank and teaching field factors beyond their main-effects on faculty salary.

The gender factor does not interact with any other factors because we do not reject hypotheses H4: *There are no two-way interaction effects between gender and academic rank on business faculty salary* and H5: *There are no two-way interaction effects between gender and teaching field on business faculty salary.* For this reason we may test the main-effect of gender on salary. We do not reject H7 with F (1, 736) = 2.179, p = 0.14, which indicates that gender has no effect on faculty salary.

The main-effect tests of academic rank and teaching field cannot be interpreted because there is a presence of interaction between the two factors. By rejecting H6: *There are no two-way interaction effects between academic rank and teaching field on business faculty salary*, we know that rank and teaching field affects the faculty salary. Furthermore, the effects of rank on salary depend on the teaching field. Since we have several non-significant interaction terms, we may want to remove these terms from the model. The results for the reduced models are summarized in Table 7 and 8.

TABLE 6
ANOVA ON SALARY WITH THREE FACTORS AND ALL INTERACTIONS (N = 784)

Effect	**Sum of Squares**	**Df**	**F**	Partial Eta Squared
Gender	4436877221	1	2.179	0.003
Rank	472775004422	3	77.409^{***}	0.240
Teaching Field	12279902740	5	1.206	0.008
Gender X Rank	1335334499	3	0.219	0.001
Gender X Teaching Field	4653250974	5	0.457	0.003
Rank X Teaching Field	51952304322	15	1.701^{**}	0.034
Gender X Rank X Teaching Field	24535891981	15	0.803	0.016

Adjusted R^2 = .432
NOTE: *** $p < .01$; ** $p < .05$; * $p < .10$

Table 7 shows that the reduced model, with only one interaction term between rank and teaching field, has an R-squared of 45.5% while, the full model has an *R-squared* of 46.6%. However, the reduced model has a higher adjusted *R-squared* of 43.8% versus 43.2% of the full model. Thus, removing the non-significant interaction terms only reduces the explanatory power of the model a little bit. The reduced model shows that the effect of gender is still not significant (p = .113). On the other hand, the interaction effects between rank and teaching field become non-significant at p = .076.

TABLE 7
REDUCED ANOVA MODEL ON SALARY WITH INTERACTION BETWEEN RANK AND TEACHING FIELD (N = 784)

Effect	Sum of Squares	df	F
Gender	5073959403	1	2.518
Rank	777794171998	3	128.649***
Teaching Field	22294667609	5	2.213*
Rank * Teaching Field	47511761540	15	1.572*

Adjusted R^2 = .438
NOTE: *** $p < .01$; ** $p < .05$; * $p < .10$

In order to assess the effects of rank and teaching field further, we may want to analyze a model with only main-effect terms. The results of analysis are summarized in Table 8. We can see that removing all of the interaction terms makes the R-Squared and Adjusted R-Squared a little lower. Using this last model, we can reject H8, with F (3, 774) = 169.247, p = .000, which suggest that academic rank has a strong effect on salary. Similarly, we can reject H9, with F (5, 774) = 2.728, p = .019 and conclude that field of teaching affects faculty salary. The effect of gender is still shown non-significant at p = .089.

TABLE 8
REDUCED ANOVA MODEL ON SALARY WITHOUT INTERACTION VARIABLES

Effect	Sum of Squares	df	F
Gender	5905105305	1	2.898
Rank	1034582711295	3	169.247***
Teaching Field	27797489767	5	2.728**

Adjusted R^2 = .431
NOTE: *** $p < .01$; ** $p < .05$; * $p < .10$

DISCUSSION AND CONCLUSION

The literature review revealed that various studies had been conducted regarding faculty satisfaction and salary differences according to gender and teaching field. Our study's contribution to the literature is derived from a study of business school faculty salaries according to gender, academic rank, and field of teaching. These results can assist administrators in devising strategies for recruiting and retention.

The literature suggests that gender and field of teaching affect the hygiene of salaries (Bell & Joyce, 2011). Women are less likely to receive the same salaries as men, regardless of rank, thus, for women salaries is less hygienic. If salary is to improve hygiene (less job dissatisfaction), there should be no meaningful differences between the means of male and female business faculty after allowing for the effects of rank and field of teaching. We expect salary differences due to levels of academic rank but there should not be huge magnitudes of difference at the various levels of teaching fields if the salary hygiene is present.

The interactions among gender, rank and field of teaching are non-significant. The profile plots of estimated marginal means (Figure 1 through Figure 6) from the model without interaction (the third model) reveal the strong effects of rank and field of teaching on faculty salary. It is clear that the rank of faculty is really the biggest factor that affects the magnitude of salary. The plots also reveal that salary for women is predicted to be lower than the salary of men of equal rank and equal teaching field. However, the analysis shows that the salary gap among gender is not statistically significant.

Our sample indicates that women are not represented as well as men in the collegiate school of business. Only about 25% of the business faculty is female. Furthermore, the salary of women, on average, is lower than the salary of men at the ranks of instructor, assistant professor, and associate professor. But, the average for female salary for full professors are higher than the average salary of male full professor in accounting, management, marketing and other fields combined.

Given the abovementioned descriptive statistics, Figure 7 demonstrates hypothetical wealth costs due to salary differences across a female professor’s working years. For example, assuming a female business faculty member enters academia at age 30, and is losing on average after taxes $5,000 annually, the wealth reduction at a retirement age of 70 is approximately $380,391. This figure assumes $5,000 invested (annuity due) at a conservative annual inflation adjusted rate of return of 2.9 ((1.06/1.03)-1) percent up until a retirement age of 70. If the pay disparity began at age 50, the wealth reduction is $136,850, since there is only twenty years left till retirement. Obviously other economic variables such as taxes, investment vehicle and uncertain market returns over time are not taken into consideration. But the illustration does demonstrate at a basic level that wealth costs are maximized at younger ages.

Equal pay for equal work regardless of gender has come a long way since Edgeworth (1922) advocated it from an economic point of view, and recently it seems the salary difference between male and female workers is diminishing, or more recently nonexistent (Bell et al., 2013; Bell, et al, 2014). Conversely, researchers found pay inequity between male and female collegiate business school faculty working in 10 Missouri schools of business (Bell & Joyce, 2011). Therefore, there is a mixture of meaning on pay equity between genders in the collegiate schools of business.

Equity theory remains to be a paramount management theory and is especially relevant today in the practice of management (Bell & Martin, 2012). In fact, managers who ignore the importance of equal pay for equal work will eventually be heading for a “bumpy ride” if they ignore a prima facie case of disparate treatment in salary or any other issue of law that protects minorities and women; inequity can lead to feelings of hostility towards nonreactive managers, as well as a general mistrust towards administrators (Bell, 2011). Women and men alike trust administrators to do the right thing when it comes to pay equity and there are three facets for communicating managerial trustworthy behavior (Bell, 2012):

> *Trust begins when people do as they say they will do; it ends when their words contradict their actions. Historically, when the antecedents of trust were violated distrust led to the American Revolution and a war with the Empire of Japan. Actions do speak louder than words when duplicity and subterfuge are detected by the other party. Trust requires the antecedents of benevolence, vulnerability and dependency, and when these antecedents are violated trust is often destroyed. Managers initiate trust. Managerial trustworthy behavior imparts a mutual benefit to both the manager and employee.* (p. 19)

Both male and female business school faculty members can trust their administrators to be fair in the administration of the salaries we examined in this study. Our findings appear to show that females do not earn significantly less than their male counterparts after allowing for the effects of rank and field of teaching. We argue that when salary is hygiene factor that influences female dissatisfaction, business schools are hygienic. Theoretically, women should be no more dissatisfied than men regarding their salaries across ranks and teaching fields in business.

FIGURE 1
SALARY AS A FUNCTION OF GENDER AND ACADEMIC RANK FOR ACCOUNTING FACULTY

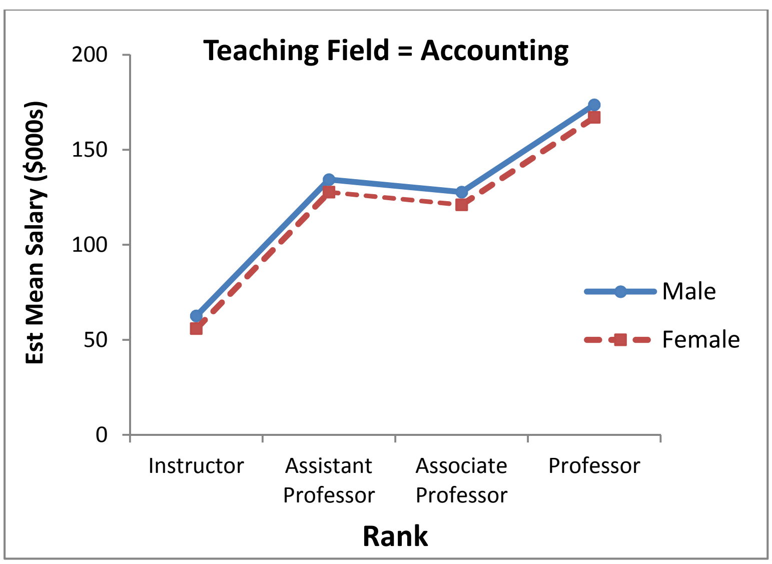


FIGURE 2
SALARY AS A FUNCTION OF GENDER AND ACADEMIC RANK FOR FINANCE FACULTY

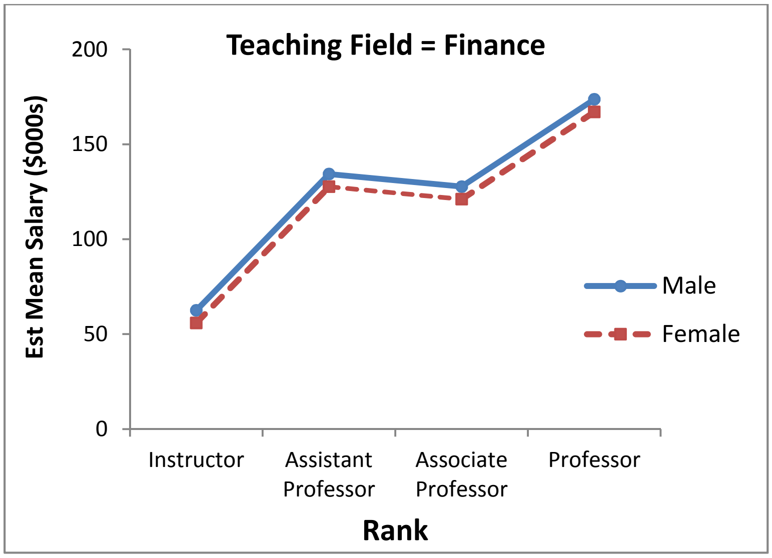


FIGURE 3
SALARY AS A FUNCTION OF GENDER AND ACADEMIC RANK FOR MANAGEMENT FACULTY

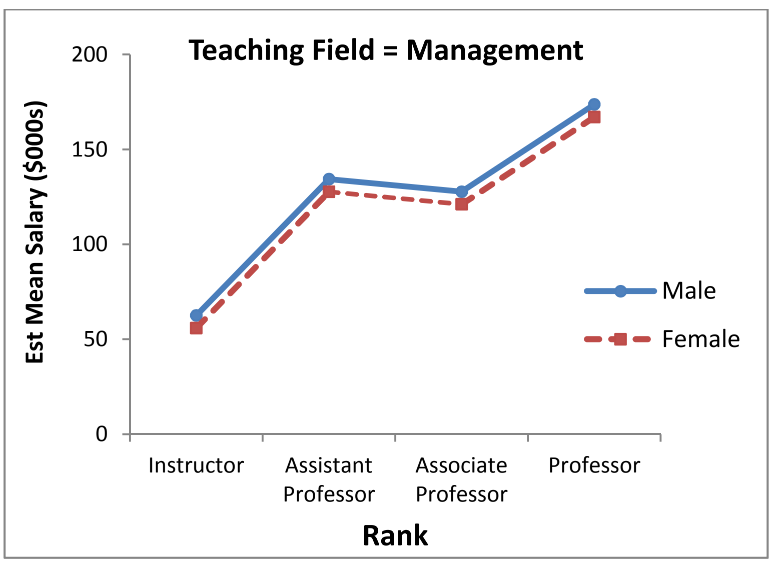


FIGURE 4
SALARY AS A FUNCTION OF GENDER AND ACADEMIC RANK FOR MARKETING FACULTY

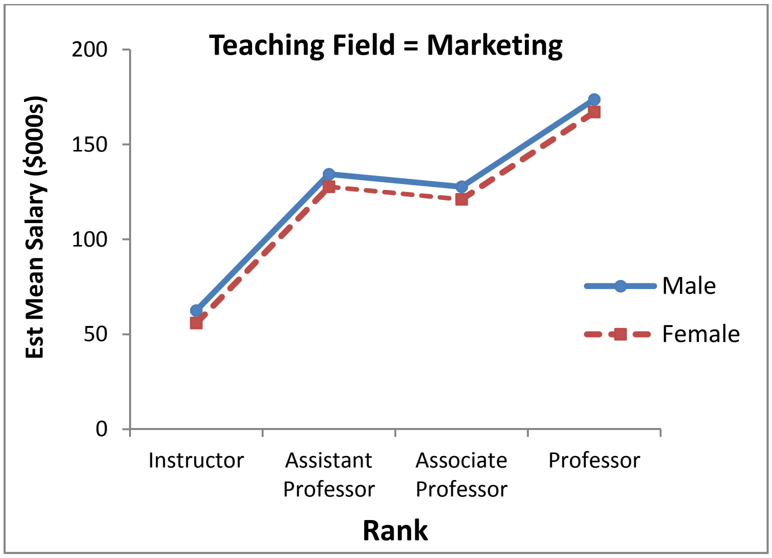


FIGURE 5
SALARY AS A FUNCTION OF GENDER AND ACADEMIC RANK FOR MIS FACULTY

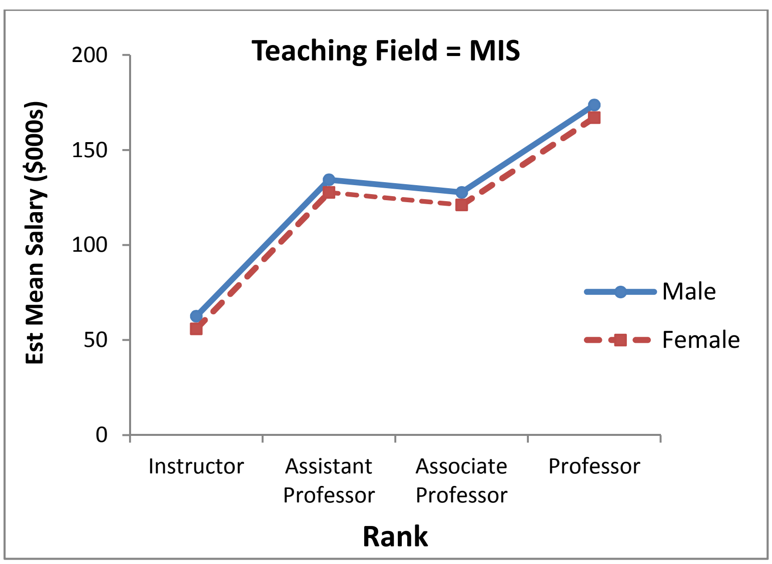


FIGURE 6
SALARY AS A FUNCTION OF GENDER AND ACADEMIC RANK FOR FACULTY FROM OTHER FIELDS COMBINED

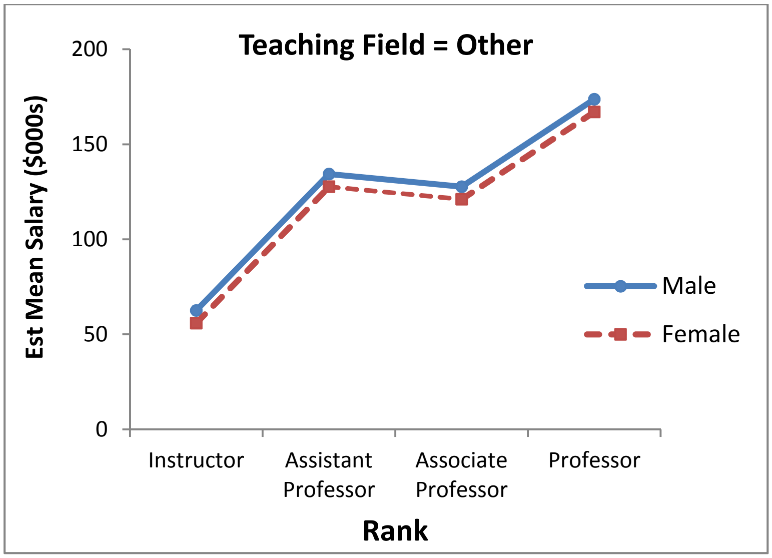
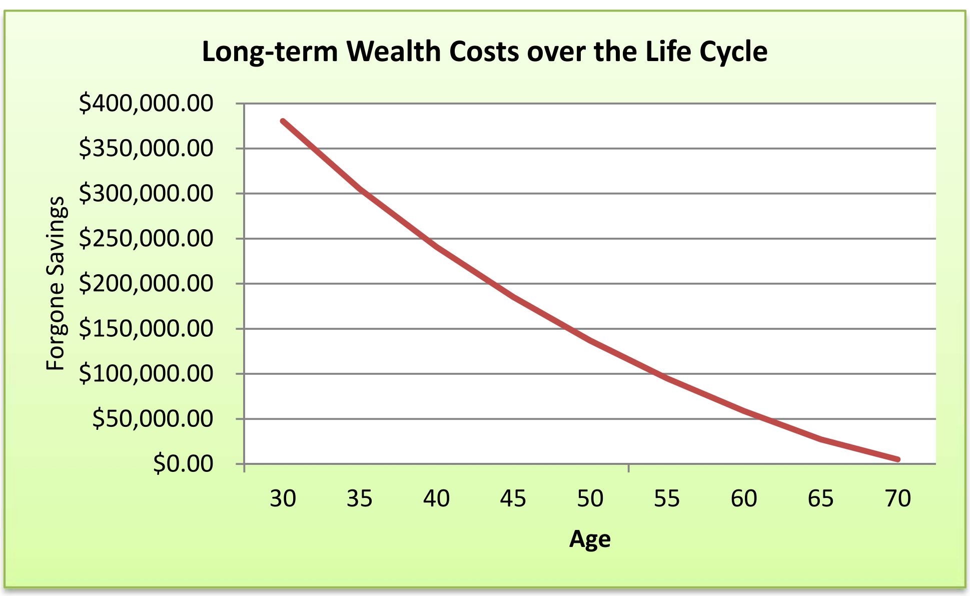


FIGURE 7
REDUCED SAVINGS DUE TO PAY INEQUALITY THROUGH RETIREMENT



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SUBJECTIVE FINANCIAL WELLBEING AND INCIDENCE OF INDEBTEDNESS AMONG YOUNG WORKERS IN MALAYSIA

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ABSTRACT

Subjective financial wellbeing and the issue of indebtedness in Malaysia have been gaining more importance in the last few years. The issue of subjective financial wellbeing is not just an increasing concern among the rural poor, but in recent times it has become an issue of concern among young Malaysians in the urban sector too. With increasing cost of living, and growing household debts, young workers earning a monthly income below RM3000 residing in urban areas face difficulties in managing their income. Using a primary survey approach, 415 respondents in two of the most urbanised states in Malaysia answered a self-administered questionnaire to capture the perception of young workers towards subjective financial wellbeing. In an attempt to understand the issue of indebtedness among young workers, this paper first identifies the link between subjective financial wellbeing and indebtedness of workers in the age group of 20 to 34 years. It then investigates whether the spending behavior of these young workers could be linked to the incidence of indebtedness. The paper finally concludes with policy recommendations so that the young workers will not end up in the poverty group. Findings reveal that young workers who live in urban areas and earn a low income have a high spending behavior in terms of credit card ownership, car ownership and low savings. This is a serious issue that may drag them into indebtedness. Being the future generation of the country, policies need to be framed towards educating the young workers to better plan their savings and manage their spending behavior. Awareness among the young about wealth creation and sustainability are issues which should be given more serious attention so as to ensure that the young workers do not end up in indebtedness which might ultimately lead to poverty.

Keywords – Subjective Financial wellbeing, Young Workers, Malaysia.

INTRODUCTION

Wellbeing is normally related to elements such as income, consumption, welfare, living standards, life satisfaction or quality of life, and empowerment. However according to Diener and Chan (2010), wellbeing is described as the satisfaction on all aspects of life. In a broader concept of wellbeing, one of the indicators to measure overall wellbeing is financial wellbeing. Financial wellbeing refers to subjective perceptions and objective indicators of individuals' personal financial status. According to Cox, Hooker, Markwick and Reilly (2009), objective indicators of financial circumstances include measures such as income, debt, savings and aspects of financial capability such as knowledge of financial products and services, planning ahead and staying on budget. Subjective perceptions include individuals' satisfaction with their current and future financial situation.

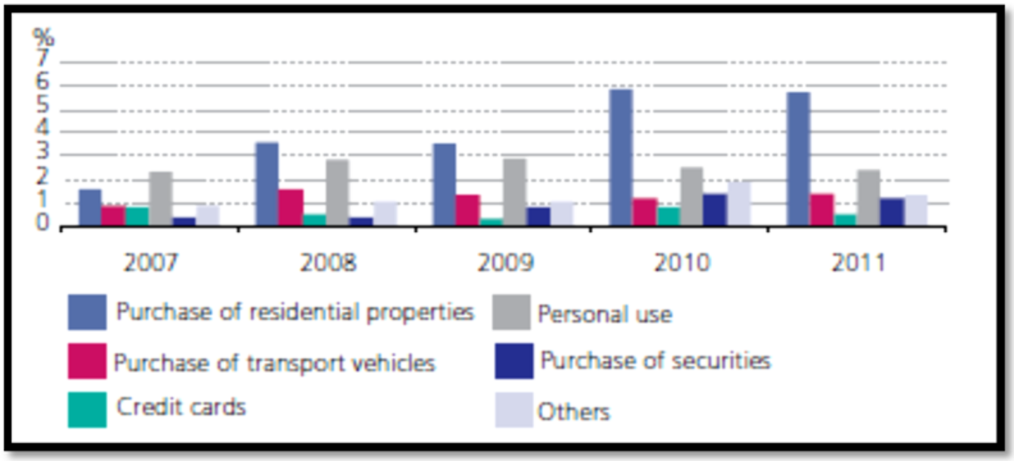
In Malaysia, household debt has been increasing in large amounts and this situation is due mainly to an increase in income growth (Financial Stability and Payment Systems Report, 2012). According to the report, the groups with a monthly income below RM 3000 who reside in urban areas or major employment areas face difficulties in managing their income. Higher cost of living has caused them to spend more of their income on basic expenditure, thus reducing their savings. Therefore, this particular income group is sensitive towards income shock and interest rates adjustment. Alias (2013) also supported this statement noting that a large chunk of wage earners' monthly income is being funneled to pay for homes, cars, utilities and education, resulting in an inability to save. Apart from that, the amount of debt taken by a household in Malaysia also shows an increasing trend.

According to a joint survey conducted by Consumer Research and Resource Centre (CRRC), Federation of Malaysian Consumers Association (FOMCA) and Education and Research Association for Consumers in Malaysia (ERA) on The Financial Behaviours and Financial Habits of Young Workers, most serious debt problems occur among those who are in the age range between 24-29 years old, earning a monthly income between RM 2000 to RM 3000. As for gender, males (55.7%) owned higher debt as compared to females (44.5%). Besides, young workers are unaware and unprepared for their retirement in the future. The survey also revealed that 47 percent of young workers had a monthly debt of 30 percent or more from their gross monthly income and when it reaches 30 percent and above, it is classified as a serious debt. Serious debt can lead individuals into bankruptcy in the future. According to Malaysia Department of Insolvency (MDI), the total number of bankruptcy cases from June 2005 to April 2012 was 116,379 cases, out of which 20 percent of those involved were individuals aged below 35 years old. The Report also states that the highest debts come from purchase of residential properties by household sector and major purchases include transport vehicle, purchase of securities and also credit cards as shown in Figure 1.

The implications of incorrect decision making by young workers in managing their financial structure will lead them to be involved in high debt and will drag them into bankruptcy in the future. As past studies done by FOMCA, CRRC and also ERA concentrated on young workers in Selangor and Kuala Lumpur only, hence this study looks at young workers in Penang also.

The main objective of this study is to examine whether certain demographic variables have an effect on the financial wellbeing among young workers by looking at their purchasing behaviour in terms of owning a house, a car and credit card. It further investigates whether the purchasing behaviour of the young workers could be linked to the high incidence of debt.

Figure 1: Household Sector: Contribution to Growth of Debts, 2007 – 2011



Source: Bank Negara Malaysia

LITERATURE REVIEW

The notion of wellbeing is receiving growing attention from many researchers in recent times due to its impact on wellbeing and quality of life. There are many methods that have been used by researchers to develop a contextual meaning for financial wellbeing. King (2008) did a study on the concept of wellbeing and its application in his study of ageing in Aotearoa, New Zealand about Enhancing Wellbeing in an Ageing Society (EWAS). Using the multi method approach to measure the phenomenon of people who are aged between 65 and 84 years old, he conceptualised wellbeing and linked it to a person's location and function in society. In line with the above study, Diener and Tay (2010) in their study on the social and societal support and subjective wellbeing indicate that there are strong relationships between societies and those with results in higher subjective wellbeing. Diener also expands the research into the Asian region and found that rapid economic development in South Korea does not guarantee their people results in higher subjective wellbeing. In fact, depression rates are higher among South Koreans and surprisingly in 2010 their suicide rate was considered the highest among the Organisation for Economic and Development (OECD) countries.

In an earlier study on college students, Leach (1999) showed that male and female students give different impact towards economic wellbeing. Results show gender also had significant difference in affecting the financial strain. Another interesting study done by Taylor et al. (2009) based on British Household Panel Survey (BHPS) which covers the period from 1991 till 2006 show that financial capability is affected by age. Using multivariate statistical models, the study found that people from below 35 years old are more towards financial incapability as compared to those from 55 years old and above.

Lusardi's and Tufano's (2009) study on Debt Literacy, Financial Experiences and Over Indebtedness found that Americans have lower debt literacy and about one third of the population is concerned about the misuse of credit cards. Lusardi and Tufano also found that there are higher possibilities for individuals with low results in financial literacy to involve themselves in borrowing and fees in credit card usage. This is because they do not know how to manage their debt.

In Malaysia, a few studies have been done on financial wellbeing. According to Sabri and Falahati (2012), "financial wellbeing can relate to being financially healthy and free from worry." Their study on college students showed that childhood consumer experience, primary socialisation and secondary socialisation can affect the financial literacy level and cause greater effect on financial management which will later boost the level of financial wellbeing among students. They stated that the most common used factor or variable that related to financial wellbeing are the demographic characteristics. This findings were supported by the previous research done at international level which specifies the demographic profile which affects financial wellbeing (Taylor, 2009; Lusardi and Tufano, 2009; Cox et al., 2009). Moreover, Sabri and Falahati also have concerns about students' financial behaviour which shows that for better evaluation in financial wellbeing, the students must have good financial behavior.

Delafrooz's and Paim's (2011) determinants of financial wellness among Malaysian workers describe financial wellness as the level of the person's financial health. In their study, the direct and indirect effect can be seen from financial behaviors, financial stress level, financial literacy, income, gender, marital status, home ownership and also education towards financial wellness. However, their study also mentioned that age and ethnicity did not significantly affect financial satisfaction.

According to Delafrooz and Paim (2011), income, education and also age are positively related to financial wellbeing for Malaysian workers. Studies also show that older Malaysians need more money to sustain their old life, indicating that educational attainment, money attitude, financial practices, financial problems, financial literacy, income and also net worth were significantly related to financial satisfaction (Fah et al., 2010).

In a nutshell, the review of existing literature above indicates that financial wellbeing can be measured in various ways. As for Malaysia, there are several studies that highlight the fact that demographic factors have a significant effect on financial wellbeing among workers, but very few studies have focused on young workers.

METHODOLOGY

This study explores financial wellbeing from existing studies. A survey study was carried out in an attempt to investigate whether demographic variables have an effect on financial wellbeing among young workers in Malaysia. A self-administered survey questionnaire was given to 415 respondents in the age group of 20 to 34 years. This study covers Penang, Kuala Lumpur and also Selangor. This area of research is chosen as these are the three largest states in Malaysia with high incidence of indebtedness among young workers. The main questionnaire was divided into five categories. Section A consists of demographic profile, while Section B, C, D and E focuses on questions on financial wellbeing adapted from Delafrooz and Paim (2011).

Findings

The frequency tables obtain the general demographic profile of the respondents. For this study, the total response from 415 respondents were obtained and analysed based on their demographic characteristics, spending behaviour, financial literacy, financial behaviour and also financial stress. From the descriptive statistics, most of the respondents (56%) are female. In terms of age, a majority (44%) of the respondents are in the age group of 25 to 29 years old. Most of the respondents (58%) come from urban areas. Out of 415 respondents, about 62% are single and 38% are married. Malay respondents dominate this study which is represented by 64%. In terms of educational level, about 33% percent of the total respondents did not pursue their education into tertiary level. Job categories show that 31% of total respondents are working in the Associate Professional and Technical category. For monthly income, most of the respondents earn RM 2001 to RM 3000 per month which represents 37% of the total respondents. This is followed by 28 percent of them earning from RM 1001 to RM 2000 per month. Most of the respondents' household monthly income earned is RM 2001 to RM 3000 per month range. 255 respondents are single, and about 134 married respondents admit that their spouse is also working.

From the 415 respondents, most of them (63 %) did not own a house and 74 percent of the total respondents did not own a credit card. In contrast, a majority (62%) of the respondents own a car. Out of 415 respondents, 78 percent of the respondents do save in their working time. About 53 percent of total respondents admit that they have their retirement plan.

In order to answer the objective, cross tabulation was done with their demographic and socio-economic characteristics against the satisfaction of financial wellbeing. The Chi Square test indicates that there is the presence of relationship if p-value is less than 0.05.

Table 1
Demographic Profile of the Respondents and Level of Financial Wellbeing

No	Demographic Profile		Satisfied with Financial Wellbeing	Pearson Chi-Square Value
1	Gender			
	(i)	Male	40%	0.241
	(ii)	Female	34%	
2	Age			
	(i)	20 to 24 years old	32%	0.000
	(ii)	25 to 29 years old	27%	
	(iii)	30 to 34 years old	63%	
3.	Place of Origin			
	(i)	Rural	27%	0.000
	(ii)	Urban	44%	
4.	Marital Status			
	(i)	Single	28%	0.000
	(ii)	Married	49%	
5.	Ethnicity			
	(i)	Malay	30%	0.000

Table 1
Demographic Profile of the Respondents and Level of Financial Wellbeing

No	Demographic Profile		Satisfied with Financial Wellbeing	Pearson Chi-Square Value
	(ii)	Chinese	59%	
	(iii)	Indian	27%	
6	Educational Level Achieved			
	(i)	Up to secondary school	39%	0.454
	(ii)	Diploma	35%	
	(iii)	Degree	38%	
	(iv)	Post Graduate	28%	
7	Monthly Income			
	(i)	Less than RM 1000	8%	0.000
	(ii)	RM 1001-RM 2000	19%	
	(iii)	RM 2001-RM 3000	41%	
	(iv)	RM 3001-RM 4000	56%	
	(v)	RM 4001-RM 5000	77%	
	(vi)	RM 5001-RM 6000	50%	
	(vii)	RM 6001-RM 7000	50%	
	(viii)	RM 7001 and above	100%	
8	Savings			
	(i)	Yes	37%	0.935
	(ii)	No	36%	
9	Monthly Savings			
	(i)	Below RM 100	29%	0.094
	(ii)	RM 101-RM 300	36%	
	(iii)	RM 301-RM 500	48%	
10	Retirement Plan			
	(i)	Yes	47%	0.000
	(ii)	No	25%	
11	Financial Literacy			
	(i)	Low Financial Literacy	0.8%	0.000
	(ii)	High Financial Literacy	88%	
12	Financial Behavior			
	(i)	Low Financial Behavior	5%	0.000
	(ii)	High Financial Behavior	93%	
13	Financial Stress			
	(i)	Low Financial Stress	70%	0.000
	(ii)	High Financial Stress	8%	

From table 1 it can be seen that gender, educational level and savings do not influence financial wellbeing. Similarly, whether the person is female or male it does not have an effect in their level of financial wellbeing. This findings contradicts previous research which states that gender shows significance difference in affecting financial wellbeing (Leach et al., 1999; Fah et al., 2010). This may be due to different time periods, and times have changed with more females entering the labour market. This study only concentrates on financial wellbeing of young workers whereas Leach et al. (1999) focused on the college students and Fah et al. (2010)

focussed on older generations. Compared to women, males are more satisfied with their financial wellbeing. In addition, educational level achieved by the person also does not affect their level of financial wellbeing. For the educational level achieved, most of the respondents (39%) finished their secondary school before they enter the working environment and 38 percent of the respondents were also degree holders.

Monthly savings too do not have a significant relationship with financial wellbeing and as presented in the table, those with higher savings may not necessarily have higher financial wellbeing. This contrasts to previous researches done by (Sabri, 2008; Rahim and Samad, 2012; Falahati and Paim, 2011). This could possibly be due to the small amounts they are able to save. Whether the individual saves or not does not have an effect on the satisfaction of the financial wellbeing but what is more important is the amount they save. However, results show a significant relationship between age, place of origin, marital status, ethnicity, job categories, and monthly income. In terms of age, most of the respondents from 30 to 35 years of age are more satisfied with their financial wellbeing while the younger generation (Gen Y - 20 to 29 years old) is less satisfied with their financial wellbeing. This is in line with the research done by Taylor (2009) which states that "younger generations are more towards financial incapability".

In terms of monthly income, those with higher income are believed to have higher financial wellbeing. This is supported by research done by Delafrooz and Paim (2012) which states that income can affect financial wellness of workers in Malaysia. Apart from that, Cox et al. (2009) also stated that those with a higher income can experience higher financial wellbeing.

CONCLUSION

In conclusion, respondents who are more satisfied with their financial wellbeing are those from the 30 to 34 years age group, living in urban areas, and have income higher than RM 4000 per month. In this study also, a majority of the young workers only earn RM 2000 to RM 3000 per month. With this amount, it is considered hard for them to survive in major employment areas. Young married workers also can be more satisfied with their financial wellbeing because a majority of their spouses are also working. It will strengthen their monthly income. Findings reveal that young workers who live in urban areas and earn a low income have high spending behaviour in terms of credit card ownership, car ownership and low savings. This is a serious issue that may drag them into indebtedness.

Even though the study has many policy implications, there are a few limitations which need to be addressed. In this study, only three states in Malaysia which have the highest indebtedness issue were identified. Maybe, future studies can look at a nationwide study and a larger age group.

POLICY RECOMMENDATIONS

In terms of income level, young workers should try to spend based on their income level. They should improve their financial literacy in order to maintain satisfaction in financial wellbeing. To enhance this matter, policy makers can introduce subjects which highlight the importance of financial literacy and spending behaviour at an earlier stage of the school education. This may improve their financial knowledge and help the young workers to plan ahead. It is very significantly important because students with lower financial literacy and low financial behaviour may end up in high indebtedness when they enter the working environment in the future. People with higher knowledge and know-how to manage their income may result in good spending behavior.

Effective advertisements also can affect the spending behaviour of young Malaysian workers. There are many advertisements that attract the young workers to consume more than what they should. To encourage more young workers to save during their working era, young workers must know that they should save at least 30% of their income. Some of them misunderstand and keep on spending first before they save. This bad behavior will drag them into lower savings, and besides individuals with lower savings are not prepared for any emergency cases.

Being the future generation of the country, policies need to be framed towards educating the young workers to better plan their savings and manage their spending behavior. Awareness among the young about wealth creation and sustainability are issues which should be given more serious attention so as to ensure that the young workers do not end up in indebtedness which might ultimately lead to poverty.

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THE INFLUENCE OF ORGANIZATIONAL EFFECTIVENESS AND OTHER CORRELATES ON THE JOB SATISFACTION OF STAFF EMPLOYEES AT FOUR YEAR INSTITUTIONS OF HIGHER EDUCATION

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ABSTRACT

The purpose of this study was to explore the effects of organizational effectiveness, total compensation, and quality of work on job satisfaction among university staff employees. There is a significant and growing concern among members of state legislatures and other state leaders across the country regarding the turnover of their public workforces, to include non-faculty employees of state universities. Structural equation modeling was used to examine the relationships between and among these construct variables. Respondents consisted of staff employees of seven Texas institutions of higher education represented in one dataset for fiscal year 2010. The study generated statistically significant findings between the following variables: organizational effectiveness and total compensation, quality of work and organizational effectiveness, and quality of work and total compensation. However, none of the estimates associated with job satisfaction were significant at a .05 level of significance. This is quite surprising in light of the prevalence of strong, positive and significant relationships evident in the existing body of research literature. Given the characteristics of the participating institutions, we suggest this inconsistency may be due to the effects of relative deprivation. This research is intended to aid managers in instituting practices which enhance job satisfaction and influence levels of voluntary turnover. The research addresses universities, an area which has not previously been explored in the extant literature.

INTRODUCTION

Public agencies perform critical and fundamental services to the citizens they serve, ranging from law enforcement to healthcare to education. Like any other organization, agencies must maintain adequate staffing levels, ensure that employees are functioning at their greatest capacity, and successfully demonstrate positive outcomes. However, there is a significant and growing concern among members of state legislatures and other state leaders across the country regarding the turnover of their public workforces. For example, one fourth of the 17,000 state employees responding to a survey from the Office of Performance Evaluations (2013) in Idaho stated they are likely to leave their current situation within the next two years. The state of North Carolina finds that it is struggling with both short and long term problems in meeting its mandate of efficiently providing high quality services to its public (Service Employees International Union, 2009). This is due in large part to the fact that fully one third of its state employees leave their employment within the first year of service. According to Nickerson (2014), the Wyoming legislature is recommending increases to state compensation for the first time since 2009. The 1,273 employees who either changed positions or left Wyoming's payroll in 2012 are estimated to have cost taxpayers $23.7 million dollars. And, in response to national concern over the state of public employment, Governing Magazine recently published an article entitled, *3 Ways to Keep Public Employees from Leaving* (Barrett and Greene, 2014, February) that details worrisome trends in state employment. According to the article, the turnover rate in Georgia was up from 13.6 percent in 2009 to 17.9 percent in 2013; and in Louisiana, turnover rose from 12.8 percent in 2011 to 18.9 percent in 2013. Finally, the most recent report from the Texas State Auditor's Office (2014) indicates that public employee turnover has gradually increased in that state from 14.4 percent in 2009 to 17.6 percent in 2013 (Texas State Auditor's Office, 2014). Statistics such as these are alarming, as turnover rates in federal, state and local government are historically quite low. Therefore, public leaders and researchers alike are seeking to understand the root causes of this turnover and to implement programs to mitigate and manage these factors. A recent study explored some of these considerations.

Of the reasons cited by public employees in Texas who voluntarily exited state employment and completed the state employee exit survey, ineffective supervision looms large as a principal reason for their departure. Specifically, these employees mentioned work-related stress, high workloads, inadequate work resources, opportunities for better pay and benefits elsewhere, issues with co-workers, and issues with their supervisor as determining factors (Texas State Auditor's Office, 2014). It is generally recognized and understood that supervisors within organizations occupy positions of influence and control over work-related concerns such as these. Seminal research (Hackman and Lawler, 1971; Hamner, 1974; Herzburg, 1959; Vroom, 1964) conducted in the areas of employee motivation, job satisfaction, and organizational culture reinforces this belief. To more fully understand and appreciate the significance of this issue, it is instructive to explore the many organizational challenges presented by the departure of talented, competent employees as described in these seminal works. These challenges include performance and productivity shortfalls arising from:

- the absence of trained and productive workers;
- disrupted work schedules;
- efforts to recruit, hire, and train replacement workers;
- decreased employee morale in response to an uncompensated increase in workload; and
- loss of intellectual and relationship capital built by the departing employee.

In the coming years, as an increasing number of employees approach retirement age, it is expected that the number of retirements will rise dramatically. Along with voluntary turnover unrelated to retirement, this additional surge in departures, often referred to as the *silver tsunami,* could potentially cripple state workforces (Governing, 2013, December).

PURPOSE OF THE STUDY

In response to anticipated retirements and the compounding effect of additional voluntary turnover, it is imperative that action be taken now to reduce the rate of selective departures among public workers. As public agencies, institutions of higher learning occupy a unique role in the economic, social and cultural development of the state. For over a century in the United States, higher education has been held as the key mechanism by which an entire nation and its people could move forward. Public institutions of higher education have been supported through collective investments aimed at subsidizing and encouraging a college-going culture and generating positive outcomes for all in the form of innovation, leadership, economic growth and social progress. While state leadership still holds high expectations of higher education, state funding for public colleges and universities markedly declined between 1987 and 2012, as both citizens and legislators began to view higher education as a personal benefit, not a collective one, and policies and federal financial aid practices began to benefit the for-profit education sector (Fischer and Stripling, 2014). Unlike spending for healthcare and K-12 education, state funding for higher education is not linked to federal mandates and matching funds requirements. Coupled with increases in the cost of pension plans and mandated programs, such as Medicaid, higher education has become a popular target for spending cuts (Barr and Turner, 2013). Thus, so-called public institutions of higher education are now more reliant on tuition, endowments and other revenue resources than on state funding. In contrast, other state agencies typically rely on the state or federal flow-through sources for nearly all of their funding. As such, this new government model of higher education lies somewhere in between the fully-funded, public agency and a fully private enterprise. The extant literature on the role of workplace factors in job satisfaction and turnover is limited to for-profit, private sector businesses and a few public sector agencies. Due primarily to the significantly different cultural influences and operational imperatives that exist between these organizational types and institutions of higher education, the transference of findings from these earlier studies cannot be assumed. There is therefore a clear and compelling need for further research in this area related to public universities.

The failure to provide a sufficiently staffed, motivated, and talented university workforce presents tremendous challenges in meeting the administrative and educational requirements inherent to the mission of any university. As such, and in an attempt to influence the level of voluntary turnover experienced by public universities in Texas, the purpose of this study was to explore the effects of organizational effectiveness on job satisfaction among staff employees of public, four-year universities. In addition, the effects of two other factors—quality of work and total compensation—and their relationships to job satisfaction were examined. These factors were selected in response to findings from previous studies which revealed that these variables are critical measures of supervisor effectiveness and closely tied to employee job satisfaction (Jiang, Lepak, Hu, and Baer, 2012; Abii, Ogula, and Rose, 2013; Mehtaand Maheshwari, 2013).

THEORETICAL FRAMEWORK

A behaviorist epistemological perspective was utilized throughout the course of this research. Skinner (1974), credited as the Father of Radical Behaviorism, advanced the belief that environmental factors have an enormous effect on individual behavior. According to Skinner, information regarding these environmental factors adds substantially to the prediction and influence of individual behavior. This is achieved by considering only those behavioral details which can be directly and objectively detected and measured relative to environmental history. The prediction of such behavioral tendencies based on environmental conditions upon which those behaviors are often linked formed the theoretical and practical basis for this study. Additionally, the pivotal works of Frederick Herzberg and Victor Vroom related to workplace motivation were also examined. Herzberg (1959) posits that a variety of factors affect the workplace environment by directly or indirectly influencing employee motivation and job satisfaction. According to Herzberg, job satisfaction is considered an outgrowth of achievement, recognition, quality of work, responsibility, and career advancement. When these factors are present in a job, the employee will experience positive feelings towards his employment that inevitably result in improved work performance and organizational association. Conversely, job dissatisfaction is driven by other factors present in the work environment. For example, Herzberg states that job dissatisfaction often stems from organizational policies and practices, quality of supervision, relationships with others (particularly supervisors), work settings, job security, benefits, and pay. These dissatisfiers or *hygiene factors* can reduce or eliminate job dissatisfaction and enhance performance to a degree but are not capable of delivering optimal levels of performance or employment satisfaction. To achieve these outcomes, management must introduce strategies that focus on the nature and quality of the work.

Similarly, Vroom (1964) explored the notion that employees have a tendency to favor certain purposes or outcomes over others. According to Vroom, employees are inclined to anticipate and experience feelings of satisfaction should a favored outcome be realized. Vroom employs the term *valence* to characterize the feelings associated with outcomes. For example, should a positive valence exist, achieving the outcome is preferred to not achieving it. Conversely, negative valence is characteristically experienced when the achievement or realization of an outcome is not preferred. In essence, the magnitude of the valence of a given outcome is contingent upon the degree to which it is seen as contributing to other outcomes and the valence of those outcomes. Vroom applied this proposition to research associated with occupational choice, job satisfaction, and job performance.

Organizational Effectiveness as an Influence on Job Satisfaction

In their case study analysis involving a large, governmental organization, Long and Spurlock (2008) explored the relationship between change management and organizational effectiveness. The authors suggest that the motivation and morale of employees who are faced with immediate and substantial changes are highly influenced by a manager's leadership style. They go on to discuss how factors such as the quality of communication and a compelling need for change can affect employee acceptance, and that an organization-level communications plan coupled with the necessary training in the face of such substantial change will produce higher levels of job satisfaction among employees.

Caillier (2011) explored the association between organizational effectiveness and job satisfaction through the lens of agency goal attainment. His findings indicate that agency goal attainment is positively correlated with job satisfaction, suggesting that employees want their organization to successfully accomplish its mission. In doing so, such effectiveness of operations provides an intrinsic motivator that can heighten job satisfaction.

Similarly, Ahuja and Gautam (2012) explored various indicators of organizational effectiveness using employee satisfaction as a key measure of that construct. The job satisfaction indicators utilized by the authors included supportive work environments, promotions based on achievement, challenging assignments, and higher salaries. They concluded that these job satisfaction indicators are likewise critical indicators of organizational effectiveness. They recommend that organizations broadly adopt and utilize these indicators as a framework for the enhancement of job satisfaction among their employees.

In the area of employee commitment, Shahid and Azhar (2013) explored the degree to which this factor influenced organizational achievement, productivity, and effectiveness. They attempted to determine if employees who are absorbed in their work and dedicated to their organizations give those organizations significant competitive advantages such as higher productivity, increased job satisfaction, and lower employee turnover. The authors determined that employee commitment and engagement is very closely linked with organizational effectiveness. This effectiveness is characterized by increased productivity, increased consumer loyalty and profitability, and higher levels of job satisfaction.

In light of these findings, we proposed the following hypothesis:

H1 Organizational Effectiveness is positively and significantly related to Job Satisfaction.

Quality of Work as an Influence on Job Satisfaction

In their study of federal worker responses to the Merit Principles Survey of 2000, Park and Rainey (2008) explored the effects of several leadership-related, behavioral factors on the study's criterion variables: job satisfaction, perceived performance, quality of work, and intention to stay. The authors concluded that higher levels of autonomy in the workplace related significantly and positively to increased levels of employee motivation. This enhanced motivation related positively and significantly to job satisfaction and lower turnover intention which, in turn, positively and significantly affected perceived performance and quality of work among the respondents.

Similarly, in his study of factors influencing cross-national differences in job satisfaction, Westover (2012) examined 2005 data from the International Social Survey Program to explore the effects of state-directed development on employee job satisfaction. His findings clearly show that, regardless of country classification, intrinsic work characteristics provide the best predictor of employee job satisfaction.

This finding was further borne out in a study by Murphy and Fridkin (2004) involving nursing home administrators that directly explored the relationship between quality of work and job satisfaction. In comparing work satisfaction and job satisfaction among members of this population, the authors found that these employees had a significantly lower level of job satisfaction than their counterparts in other industries. While they were generally unhappy with their compensation and long hours, their job dissatisfaction and dissatisfaction with their quality of career choice related more to the nature of their work; specifically, the quality of and satisfaction with the coworkers they were tasked to manage. The authors attribute this result to the high number of minimum wage positions in nursing homes and the comparatively small number of professionals contributing to a work situation where performance expectations routinely exceed the quality of actual performance. This contributed to a very high turnover rate among these administrators averaging a change of position every 31 months and resulting in very significant quality of care issues among facility residents.

Similarly, Mazurenko and O'Connor (2012), in their study of physician groups operating within the U.S. healthcare industry, explored the effects of quality of work attitudes on physician job satisfaction. They postulate that a high performing workforce, coupled with appropriate human resources policies and practices, can result in greater organizational success and profit-generating potential. In fact, their findings indicate that overall job satisfaction among these physicians was highly correlated with the financial performance of the organization, a key indicator of high quality work output.

These findings gave rise to the following hypothesis statement:

H2 Quality of Work is positively and significantly related to Job Satisfaction.

Total Compensation as an Influence on Job Satisfaction

In their study of the relationship between intrinsic/extrinsic motivators and job satisfaction among retail workers, Stringer, Didham, and Theivananthampillai (2011) reported that intrinsic motivators were positively and significantly associated with job satisfaction while extrinsic motivators such as compensation level (one aspect of our total compensation construct consisting of fair pay and quality benefits), were negatively associated with job satisfaction. The authors concluded that pay fairness was very important to these workers and those who perceived a pay inequity issue often made comparisons to others or felt that their level of compensation was not reflective of their efforts. Conversely, equitable pay was associated with positive attitudes towards employment satisfaction.

In a similar examination into the association between compensation and job satisfaction, Udechukwu, Harrington, Manyak, Segal and Graham (2007) explored the reasons for correctional officer turnover at a correctional facility in the southern portion of the United States. The authors found that factors such as recognition, direct and indirect compensation, advancement, creativity, responsibility, moral values, and achievement were significant contributors to employee attitudes regarding job satisfaction and were also highly predictive of turnover intention. In the case of total compensation, it was determined that a poor perception of personal compensation (consisting of salary and benefits) negatively affected employee attitudes regarding job satisfaction and increased levels of turnover intention among these employees.

Focusing on indirect compensation, Artz (2010) explored the relationship between fringe benefits and job satisfaction utilizing data extracted from the National Longitudinal Survey of Youth. The author determined that fringe benefits are often considered quite desirable components of an employee's overall compensation. Since they are typically taxed at a lower rate than wages, and employers often contribute to the cost of these benefits, they are secured at a much lower cost to the employee than is generally available on the open market. However, under certain very strict conditions these benefits may be viewed as detractors to job satisfaction levels. If, for example, these benefits are already available to a spouse, expenditures related to this unnecessary expense may be viewed as wasteful by employees. Additionally, benefits can serve as anchors compelling employees to remain with an employer if the benefits they possess cannot be gained at a more attractive, more satisfying job elsewhere. That said, in general, fringe benefits served to increase levels of employment satisfaction among study participants. Artz's findings were further supported by the work of Lambert, Steinke, and Harris (2012) in their study of benefits intended to better balance the relationship between work and family life. Their findings indicated that both benefits availability and usage were positively correlated to higher levels of job satisfaction and that these factors had significant interactive effects suggesting that benefits provide the greatest organizational benefit when they are both available and utilized by employees.

In light of these findings, we propose the following hypothesis:

H3 Total Compensation is positively and significantly related to Job Satisfaction.

Supervisor Effectiveness as an Influence on Job Satisfaction

Mehta and Maheshwari (2013) undertook an examination of poor organizational effectiveness practices on employee job satisfaction and commitment to the organization. The specific behaviors utilized by the authors were abusiveness, promoting inequity, indecisiveness, and lack of integrity. It was determined that a significant, inverse relationship existed between these management behaviors and employee job satisfaction, lending further support to previous findings that such behaviors are functionally destructive and dysfunctional and have a negative impact on organizational effectiveness and employee job satisfaction.

Abii, Ogula, and Rose (2013) researched the association between compensation and job satisfaction, as represented by turnover intention, among employees in the information technology profession. They also explored a variety of other factors thought to be linked to job satisfaction such as challenging work, balanced work life, degree of autonomy and assumption of risk, and, as in the Mehta and Maheshwari (2013) study, effective leadership. The authors determined that compensation was significantly associated with turnover intention among the study's participants. Additionally, the following factors: quality workplace relationships, balanced work life, respect, and effective leadership were strong motivators and influenced satisfaction with employment.

Regarding the association between quality of work as a dimension of supervisor effectiveness and job satisfaction, Jiang, Lepak, Hu, and Baer (2012) conducted a study of the effects of skill-enhancing, motivation-enhancing, and opportunity-enhancing outcomes on employee motivation and turnover. Each of these outcomes is associated with aspects of the present study's quality of work construct. The authors concluded that to retain talented workers and achieve financial and operational targets, organizations need to utilize progressive HR practices to enhance skills and levels of motivation. In the area of staff motivation, the authors suggest considering how to most appropriately appraise performance and compensate workers, how to make work more meaningful and interesting, and how to involve workers in team activities and decision making.

As discussed earlier, this study applies the work of Herzberg (1959) and Vroom (1964) in the integration of the study's predictor variables; organizational effectiveness, quality of work, and total compensation, as indicators of effective supervision and explore their relatedness in the context of that dimension.

Based upon these seminal works, we postulate the following hypotheses in our estimations of the relationships between the study's predictor variables:

H4 *Total Compensation is positively and significantly related to Organizational Effectiveness.*

H5 *Organizational Effectiveness is positively and significantly related to Quality of Work.*

H6 *Total Compensation is positively and significantly related to Quality of Work.*

DESIGN OF THE STUDY

A correlational model (Figure 1) was used to examine the relationships between the four factors: Organizational Effectiveness, Total Compensation, Quality of Work, and Job Satisfaction.

Sample and Data Collection

The data utilized in this study was derived from the Survey of Organizational Excellence (SOE), which was produced by The Institute for Organizational Excellence (IOE) at The University of Texas at Austin. The SOE is intended to assist management at all levels within state government by delivering information about workforce related issues that influence the operational effectiveness of the enterprise. The information derived from this survey not only communicates employees' views regarding the efficiency and productivity of their organizations but also their perceptions of satisfaction with employment. Being cognizant of such perceptions is vital to an employer's ability to recruit and preserve a high quality workforce. The SOE consists of 16 demographic measures and 84 survey items. The demographic measures produce both ordinal and nominal data, depending on the dichotomous or polytomous nature of the measure. The survey items are polytomous and generate ordinal data utilizing a five-point Likert scale with response categories ranging from strongly disagree to strongly agree. While the instrument allows for six possible responses, records containing one or more *not applicable* responses for the indicator variables utilized during this study were treated as unanswered items and eliminated from consideration. In FY 2010, the SOE was administered to employees of seven public, four-year institutions of higher education in Texas. For the purpose of this study, the data gathered from these institutions was limited to staff employees and analyzed in the aggregate providing cumulative findings for the sample population. Additionally, incomplete records were purged from the study through the use of listwise deletion, which is considered an appropriate method for treating missing data in SEM (Hair, Black, Babin, Anderson, and Tatham, 2006).

Data Screening

In examining the descriptive statistics presented in Table 1, it is immediately apparent that none of the survey items generate a normal distribution of participant responses. This is quickly determined from an analysis of skewness and kurtosis indices. A central assumption in the performance of SEM investigations in general, and the utilization of Analysis of Moment Structures (AMOS) software specifically, is that the data used for analysis are multivariate normal (Byrne, 2010). Of particular concern are those data that are multivariate kurtotic. While skewness has a tendency to affect tests of means, kurtosis severely affects tests of variances and covariances (DeCarlo, 1997). While there seems to be no consensus as to how great values should be before findings of severe kurtosis can be established, values equal to or greater than 7 are commonly deemed to be divergences from normality (West, Finch, and Curran, 1995). Using the threshold of 7 as an indicator, a review of the values presented in Table 1 shows no item to be unacceptably kurtotic. This signifies that the item distributions are adequate for the use of structural equation modeling in the analysis of these data.

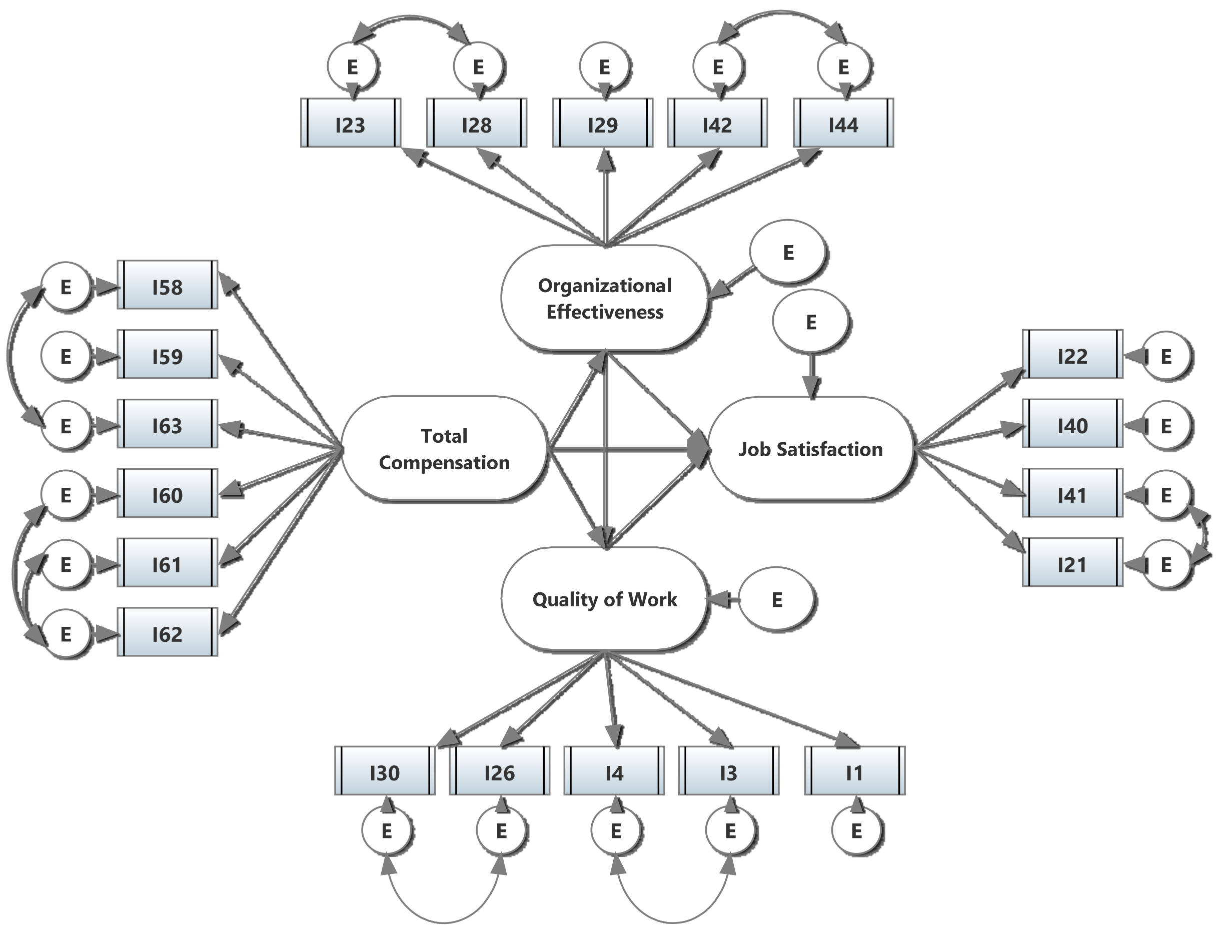

Figure 1. **Conceptual Structural Equation Model**

Latent constructs are shown in ellipses, and observed variables are shown in rectangles. Factors: Organizational Effectiveness, Total Compensation, Quality of Work, and Job Satisfaction. I## represents the specific survey items used in the measurement models. E represents measurement error or the residual value associated with variables.

Table 1
DESCRIPTIVE STATISTICS

Survey Item	N Statistic	Minimum Statistic	Maximum Statistic	Mean		Std. Dev. Statistic	Skewness		Kurtosis	
				Statistic	Std. Error		Statistic	Std. Error	Statistic	Std. Error
I1	1464	1	5	3.99	.025	.960	-1.054	.064	.921	.128
I3	1464	1	5	4.06	.024	.912	-1.120	.064	1.325	.128
I4	1464	1	5	4.03	.024	.921	-1.106	.064	1.256	.128
I21	1464	1	5	3.31	.030	1.138	-.436	.064	-.683	.128
I22	1464	1	5	3.83	.026	.995	-1.011	.064	.769	.128
I23	1464	1	5	4.15	.023	.888	-1.195	.064	1.657	.128
I26	1464	1	5	3.40	.030	1.132	-.508	.064	-.585	.128
I28	1464	1	5	3.51	.028	1.082	-.643	.064	-.281	.128
I29	1464	1	5	3.79	.024	.934	-.944	.064	.890	.128
I30	1464	1	5	3.63	.027	1.033	-.745	.064	-.005	.128
I40	1464	1	5	3.69	.027	1.023	-.794	.064	.168	.128
I41	1464	1	5	3.79	.024	.900	-.899	.064	.781	.128
I42	1464	1	5	3.86	.023	.898	-.941	.064	.946	.128
I44	1464	1	5	3.70	.027	1.036	-.843	.064	.306	.128
I58	1464	1	5	2.74	.030	1.150	.061	.064	-1.049	.128
I59	1464	1	5	2.66	.030	1.151	.113	.064	-1.033	.128
I60	1464	1	5	3.83	.023	.868	-1.081	.064	1.645	.128
I61	1464	1	5	3.91	.019	.738	-1.053	.064	2.071	.128
I62	1464	1	5	3.77	.024	.925	-.947	.064	.923	.128
I63	1464	1	5	2.63	.030	1.135	.180	.064	-.984	.128

Note. I## = survey item.

Data Analysis

The method of analysis utilized during this study was Structural Equation Modeling (SEM). SEM allows for the ability to analyze construct variables that cannot be measured directly but that can be estimated from other directly measured variables (Schreiber, Nora, Stage, Barlow, and King, 2006). Statistical Package for the Social Sciences (SPSS) was used to generate the descriptive statistics associated with the dataset as well as to ascertain the bivariate correlations that exist between the study variables. Analysis of Moment Structures (AMOS) software was used to construct the study path diagrams as well as to evaluate model fit from the program's text outputs. SEM was employed to determine the strength of the correlational relationships between the various study variables. According to Byrne (2010), use of statistical models offers an effective, efficient, and expedient way of characterizing the composite construction underlying a set of directly observed and measurable variables. Once a path model is constructed, SEM can be used to calculate direct estimates of relationships between the various study variables. Unlike path analysis which employs simple bivariate correlations to ascertain the degree of relationships present in a series of structural models and their mathematical foundations, SEM provides for the simultaneous analysis of all variable relationships utilizing data from each of the mathematical equations that comprise the foundational basis of a research model (Hair et al., 2006).

Regarding goodness of fit indices (Table 2), while the chi-square and the CMIN (minimum discrepancy)/*df* (degrees of freedom) statistics were determined to be unacceptably high, these measures were likely influenced by the very large size of the sample. The values for the AIC (Akaike's Information Criterion) and BCC (Browne-Cudeck criterion) were also determined to be unacceptably high. The RMSEA (root mean square error of approximation) value indicated acceptable model fit and the CFI (comparative fit index) indicated very good fit.

Table 2
GOODNESS-OF-FIT INDICES

Model	χ^2	*df*	*p*	CMIN/*df*	CFI	RMSEA	NPAR	AIC	BCC
Default Model	1859.789	156	<.001	11.922	.902	.086	74	2007.789	2009.945
Saturated Model	.000	0			1.000		230	460.000	466.699
Independence Model	17504.616	190	<.001	92.130	.000	.250	40	17584.616	17585.781

Note. CFI = comparative fit index; RMSEA = root mean square error of approximation; NPAR = nonparametric statistic; AIC = Akaike's Information Criterion; BCC = Browne-Cudeck criterion.

Scale analyses were conducted to determine the degree of internal consistency among those survey items used as indicator variables in the study's measurement models. Results of those analyses are presented in Table 3. According to Krathwohl (2004), internal consistency reliability provides substantiation that the survey items employed as indicator variables in a structural equation model are homogeneous, measure a specific construct, and correlate highly with one another. High internal consistency reliability is necessary for a measure to be interpretable. Cronbach's Alpha provides an internal consistency reliability measure that ranges from 0 to 1, with values of .60 to .70 considered the lowest levels of acceptability (Hair et al., 2006). As displayed in Table 3, the sample utilized during this study provides adequate internal consistency reliability values for the construct variables under investigation.

Table 3
RELIABILITY STATISTICS

Indicator Variable	Construct Variable	Cronbach's Alpha
I21, I22, I40, I41	Job Satisfaction	0.829
I23, I28, I29, I42, I44	Organizational Effectiveness	0.874
I1, I3, I4, I26, I30	Quality of Work	0.812
I58, I59, I60, I61, I62, I63	Total Compensation	0.812

Note. I ## = survey item.

RESULTS

Standardized path coefficients were generated to examine the relationships between the study's predictor and criterion variables in terms of their statistical and practical significance. In determining practical significance, the r^2 Coefficient of Determination was employed to assess degree of practical effect among statistically significant factor relationships. This analysis provides for the amount of variance shared by the factors and will be examined in the context of Cohen's operational definitions of small (.10), medium (.30), and large (.50) effect sizes (Cohen, 1987). The findings presented in Table 4 provide the standardized regression relationships generated by the construct variables.

Table 4
STANDARDIZED REGRESSION WEIGHTS AND PROBABILITIES

Variable Relationship	Direct Effect	Indirect Effect	Total Effect	Probability (P)
Job Satisfaction <--- Organizational Effectiveness	.149	.800	.950	.972
Job Satisfaction <--- Quality of Work	.830		.830	.851
Job Satisfaction <--- Total Compensation	-.042	.588	.546	.885
Organizational Effectiveness <--- Total Compensation	.562		.562	<.001
Quality of Work <--- Organizational Effectiveness	.964		.964	<.001
Quality of Work <--- Total Compensation	.065	.542	.607	.003

In exploring the first hypothesis, the relationship between the variables Organizational Effectiveness and Job Satisfaction, we found the relationship generated a weak standardized regression estimate of .149 but failed to achieve statistical significance ($p = .972$). In this case, we were unable to show a predictable and meaningful relationship existed between these two factors. In addressing the second and third hypotheses, neither of the two predictor constructs (Quality of Work and Total Compensation) produced statistically significant results ($r = .830$, $p = .851$ and $r = -.042$, $p = .885$ respectively) with the criterion variable, Job Satisfaction. As a result, we were unable to establish the existence of any statistically significant relationships between the model's predictor variables (Organizational Effectiveness, Quality of Work, and Total Compensation) and the criterion variable, Job Satisfaction. In exploring the fourth hypothesis, the effects of Total Compensation on Organizational Effectiveness, we found the relationship generated a moderate standardized regression estimate of .562 that also achieved statistical significance at a .001 level indicating a predictable and meaningful relationship exists between these two factors. A corresponding r^2 value of .32 indicates that 32% shared variance exists between the factors thus providing a medium or moderate practical effect. The relationship between Organizational Effectiveness and Quality of Work, our hypothesis five, was likewise positive, significant and, in this case, produced a very substantial regression estimate of .964. The resulting r^2 value of .92 indicates 92% shared variance between the factors thus resulting in a very high practical effect. Finally, the relationship between Total Compensation and Quality of Work, hypothesis six, generated a very weak, standardized regression estimate of .065 that was significant at a .003 level of significance. The resulting r^2 value of .004 indicates an extremely small practical effect.

DISCUSSION AND CONCLUSION

The primary purpose of this study was to determine if retention of university staff employees, in this case inferred by the construct variable, Job Satisfaction, was dependent on factors such as Organizational Effectiveness, Quality of Work, and Total Compensation. Surprisingly, none of these factors showed statistical significance. Yet Caillier (2011), Ahuja and Gautam (2012), and Shahid and Azhar (2013) all found significant and positive relationships between organizational effectiveness and job satisfaction. Park and Rainey (2008) concluded that higher levels of autonomy in the workplace related significantly and positively to increased levels of employee motivation and job satisfaction. Likewise, Murphy and Fridkin (2004) found that the employees participating in their study were generally dissatisfied with their career choice due primarily to the nature of their work. And Udechukwu, Harrington, Manyak, Segal and Graham (2007) found that factors such as recognition, direct and indirect compensation, advancement, creativity, responsibility, moral values, and achievement were significant contributors to employee attitudes regarding job satisfaction and were also highly predictive of turnover intention.

Thus, a key question of this study relates to the reasons why strong, significant and positive relationships between the predictor variables and criterion variable were not realized. A review of the descriptive statistics reveals that most of the respondents are well satisfied in their jobs. The mean score of the Job Satisfaction factor was 3.66 out of a possible 5.00. One consideration driving the generally high level of job satisfaction among respondents may be the effects of relative deprivation as it relates to the local, social circumstances of the study's participants. As discussed by Walker and Smith (2002), the construct has been used extensively in social sciences research to better understand the development of social identity and the reactions to disadvantage by both disadvantaged outgroups and advantaged ingroups. The phenomenon derives its effect from the generalization of personal experiences which are then translated and applied to the larger group and is closely linked with the collective attitudes and actions of those group members. A close examination of the study's participating universities reveals that they are all located in rural to very small, urban areas. It is immediately apparent that these universities are employers of choice in their communities. As such, employees may see themselves in roles that serve the greater good. They also enjoy competitive pay and quality benefits, including participation in a state operated pension program. They are likely employed in jobs which are highly valued by others and which serve to elevate their standing within their communities. In short, they are considered big fish in their relatively small ponds. In light of this consideration, the general satisfaction of these employees with their employment appears much less surprising.

The finding that there existed significant and positive associations among the predictor variables Organizational Effectiveness, Quality of Work, and Total Compensation is not nearly so surprising. Each of these factors could be viewed as an indicator of a progressive, employee oriented work environment. It would be expected that an administration interested in the production of high quality work outputs would structure work in the most efficient and effective manner, strive to establish a positive and productive organizational environment, and implement reward and benefits programs which serve to reinforce the delivery of such outputs.

IMPLICATIONS FOR PRACTICE

Among respondents, there appears to be an extremely weak but positive and significant relationship between total compensation provided to employees and their quality of work. It is recommended that management make a greater effort to target compensation, both direct and indirect, to the specific contributions of their employees. In the present study, total compensation provided to employees is considered a poor predictor of their attitudes regarding the quality of their work output. From a practical standpoint, it appears the respondents do not consider their compensation to be tied to the quality of their performance. However, there exists a moderately strong correlation between total compensation and employee perceptions of organizational effectiveness. This would indicate that respondents do view the quality of their compensation, both direct and indirect, as a substantial indicator of their organization's operational effectiveness and suggests that efforts directed towards compensation management would further enhance employee attitudes regarding the quality of their organizations. The importance of such a measure is clearly apparent in the association between organizational effectiveness and employee perceptions regarding the quality of their work output. A very strong and positive correlation of .964 exists between these two factors indicating that employee attitudes regarding organizational effectiveness are a very strong predictor of employee attitudes regarding the quality of their work. In fact, the results of this study indicate that efforts directed towards improving the quality of work are best applied and directed towards measures which improve employee attitudes regarding their organization's operational effectiveness.

LIMITATIONS OF THIS STUDY

A significant limitation of the study is the use of an existing database drawn from an established survey instrument that was unintended for this purpose. The instrument was administered numerous times in the past but the data generated was strictly used for frequency analysis and not for the purpose of analytical modeling. Table 5 displays the factor scores for the latent constructs utilized during this study. These “factor scores” represent the mean item scores of the items that comprise each factor or construct variable.

Table 5
FACTOR SCORES

	Job Satisfaction	Organizational Effectiveness	Quality of Work	Total Compensation
Number of items	4	5	5	6
Factor Scores (Means)	3.66	3.80	3.82	3.26
Minimum	3.31	3.51	3.40	2.63
Maximum	3.83	4.15	4.06	3.91
Possible Minimum	1	1	1	1
Possible Maximum	5	5	5	5

Examination of these scores shows a lack of variability in them. Almost all of the scores fell between 3 and 4 on a 1 to 5 point scale. Perhaps a homogeneity or uniformity in respondents created a situation where it was difficult to discover significance where others researchers had found it. Or, as postulated in the Discussion section, the phenomenon of relative deprivation explains the relationships between the predictor variables and the criterion variable. As noted in the previous section, further research with this population would be needed to determine why the findings from this work do not match existing models.

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THE TRADE BALANCE AND THE REAL EXCHANGE RATE IN BELARUS: A COINTEGRATION APPROACH

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ABSTRACT

The goal of the paper is to analyze whether a long-run cointegrating relationship existed between the trade balance and the real exchange rate in a post-communist country Belarus during a mature stage of transition 2003-2013. During this period, the Belarusian ruble had been steadily depreciating, with two significant devaluations in 2009 and 2011. Real devaluations are expected to improve the trade balance in the long-run, although it may worsen initially (the J-curve effect). The literature on the relationship between the real exchange rate and the trade balance in developed countries is voluminous, but the findings are contradictory and seem to depend upon the country and the period selected for the analysis. Research on this subject matter remains very scarce and virtually non-existent for East-European post-communist countries, particularly Belarus. In this study, we use monthly data from January 2003 to December 2013, estimate a single-equation ARDL model, and apply the bounds testing approach to test for long-run cointegration. We focus on the trade (exports-to-imports) ratio and examine its relation with the real effective exchange rate. Overall, we find considerable evidence that the real exchange rate did have a significant impact on the trade balance in the long run: a 1-percent devaluation of the real effective exchange rate led to a 1.064-percent increase in the trade ratio. For the short run, no evidence of a J-curve is found.

INTRODUCTION

There is an on-going debate in the economic literature on whether a real depreciation of the domestic currency improves the trade balance, and whether the responses are different in the short and long run. It is commonly believed that the link between depreciation and trade is described by a J-curve, that is, a real depreciation initially worsens the balance of trade, but improves it over time. However, no solid economic theory underpins this belief. As emphasized by Rose and Yellen (1989, p. 57), "no theoretical argument leads one to the presumption that the response of the trade balance to an exchange rate perturbation is initially perverse. (…) There is also no theoretical reason why the long-run response of the balance of trade to a real depreciation must necessarily be positive." The existing empirical literature on the topic is voluminous for developed countries, but the findings are contradictory and seem to depend upon the country and the period selected for the analysis [see Bahmani-Oskooee and Hegerty (2010) for a comprehensive overview of empirical analyses]. Research remains very scarce for Central European post-communist countries and virtually non-existent for the ex-USSR countries. To the best of our knowledge, the papers by Stucka (2004), Hacker and Hatemi-J (2004), Tochitskaya (2007), Aristovnik (2008), Hsing and Sergi (2009), Bahmani-Oskooee and Kutan (2009), Petrovic and Gligoric (2010) are the few published studies on this subject matter.

The goal of this study is to analyze whether there is any empirical evidence for a stable long-run relationship linking real exchange rates and the balance of trade in Belarus in 2003-2013. If there is evidence that such a relationship exists, this finding may be relevant for policy-making as Belarus has been experiencing a permanent trade balance deficit since the 1990s. The Belarusian authorities may decide to use the nominal exchange rate as a policy tool in order to manipulate trade flows (although how and whether a nominal depreciation/appreciation translates into a real depreciation/appreciation is another question). In addition, studying the relationship between international trade and exchange rates is important for all transition economies where the trade balance is often a major determinant of the balance of payments due to undeveloped financial markets.

The paper is organized as follows. The next section provides a brief overview of Belarusian international trade and exchange rate policy in 2003-2013. The "Theory" section presents the underlying theoretical framework. The "Data" section describes the data set used in this study. The "Estimation and results" section contains a discussion on the modeling approach and reports our findings. We estimate a reduced-form equation in which the exports-to-imports ratio is a function of the real effective exchange rate and real income. The econometric technique involves cointegration and error-correction analyses, namely a single-equation Autoregressive Distributed Lag model and bounds testing procedures of Pesaran *et al*. (2001). Unlike other cointegration techniques, this estimation approach does not require pre-testing for unit root. Furthermore, it allows to separate the short-run effects from the long-run effects. Finally, it outperforms other estimators in small samples. The final section summarizes and concludes.

BELARUSIAN TRADE AND EXCHANGE RATES IN 2003-2013

The volume of Belarus' foreign merchandise trade grew from \$21.5 billion in 2003 to \$80.2 billion in 2013, that is, almost four-fold or by approximately 14 percent annually. During 2003-2013, the predominant portion of the trade turnover – about 60 percent – was between Belarus and the Commonwealth of Independent States (CIS) countries, that is, the ex-USSR republics except the Baltic States and Georgia. The volume of exports to the CIS countries increased from \$5.4 billion to \$23.0 billion (about 16 percent annually), the volume of imports from the CIS countries increased from \$8.0 billion to \$25.2 billion (about 12 percent annually), and the trade balance was in deficit for each year in the decade. On the other hand, during the same period the trade balance with the non-CIS countries was generally in surplus (with the exception of 2010 and 2013), the volume of exports grew from \$4.5 billion to \$14.2 billion (about 12 percent annually), and the volume of imports grew from $3.5 billion to $17.8 billion (about 18 percent annually). The overall trade deficit of Belarus grew from $1.6 billion in 2003 to $5.6 billion in 2013.

Belarus had trade relations with more than 180 countries around the world, with the Russian Federation being the largest export and import merchandise trade partner. During 2003-2013, Russia accounted for 32-49 percent of Belarusian exports and 52-68 percent of Belarusian imports. The trade balance was consistently negative and so huge that it could not be offset by trade with all other countries. The Belarus' trade deficit with Russia was about $2.7 billion in 2003, reached nearly $13.0 billion in 2008, and gradually declined to $6.0 billion in 2013.
In 2013, Russia, Ukraine, the Netherlands, Germany, and Lithuania were the top-5 importers of goods from Belarus, with the respective shares of 45.2, 11.3, 9.0, 4.7, 2.9 percent. Russia, Germany, China, Ukraine and Poland were the top-5 exporters of goods to Belarus, with the respective shares of 53.2, 7.1, 6.6, 4.8, 3.7 percent. These top-5 trading partners represented approximately 75 percent in total Belarus' exports and imports. Out of the 7 aforementioned countries, three (Ukraine, the Netherland and Lithuania) had trade gaps in Belarus' favor, while four (Russia, Germany, China and Poland) had trade gaps in their favor. Among the major export commodities of Belarus were petroleum products, potash and nitrogen fertilizers, tires, chemical fibers and yarns, machinery and equipment, trucks and tractors, metal products, food and agricultural products. Belarus' imports were mainly composed of energy resources (crude oil and natural gas), raw materials and components, manufacturing equipment.

From 2003 until the recent crisis, Belarus pegged the Belarusian ruble to the U.S. dollar. The peg anchor helped keep inflation under control while economic growth remained strong. With the looming global financial crises, the Belarusian authorities relaxed monetary policy in the belief that strong internal and external demand would help Belarus to weather the crisis. This easing led to rapid lending and to a sharp appreciation of the real effective exchange rate in the summer of 2008. In October 2008, the authorities were forced off the narrow dollar peg because of the high volatility of dollar-ruble and dollar-euro rates. A change in the exchange rate regime was implemented in January 2009 and took the form of a one-time steep devaluation of 20 percent against the U.S. dollar and a simultaneous switch to a currency basket (Russian ruble, Euro, U.S. dollar) which reflected the structure of Belarus' trade. The targeted band versus the currency basket was initially set at 5 percent, but eventually widened to 10 percent. The REER depreciated by 16 percent from October 2008 to early 2010 and returned to its pre-crisis level.

In 2010 – the year of presidential elections – the political promise to increase the national average monthly wage to $500 was mainly secured by a fast expansion of government-directed lending programs. This expansionary monetary policy fuelled a rapid economic recovery in 2010-2011: real GDP surged by 7.7 percent in 2010 and 5.5 percent in 2011. However, the recovery came at the expense of a further deterioration of the current account deficit, heightened pressure on the exchange rate and foreign exchange reserves, and became a trigger for the foreign currency crisis in early 2011. The authorities tried to support the exchange rate, but did not have sufficient reserves for intervention. In March 2011, the National Bank sharply devalued the Belarusian ruble from 3,000 to 5,000 rubles per U.S. dollar. The unofficial "gray" exchange rate depreciated further to 9,000 rubles per U.S. dollar. In October 2011, the National Bank unified the official and gray exchange rates and switched to a managed float regime with limited intervention. The real effective exchange rate depreciated by 28 percent during 2011, but then stabilized and even appreciated modestly amid the substantial NBRB interventions in foreign exchange markets. Overall, during the entire period under consideration – from January 2003 to December 2013 – the real effective exchange rate depreciated by about 32 percent.

In this paper, we strive to analyze whether a real devaluation of the Belarusian ruble in 2003-2013 brought about any competitiveness gain and, hence, helped improve the balance of trade. The next section provides theoretical underpinnings for the relationship between the trade balance and the real exchange rate.

THEORY

The theoretical exposition presented below replicates that of Rose and Yellen (1989). Standard two-country models of trade assume that the quantity of goods imported by each country depends on real income in this country and on the relative price of imported goods (Eqs. 1). In turn, assuming a perfectly competitive environment, the supply of exportables in each country depends on the relative price of exportables (Eqs. 2). Finally, in equilibrium, the quantity of exported goods equals the quantity of imported goods (Eqs. 3).

$$Q_M = f(Y, p_M) \text{ and } Q_M^* = f(Y^*, p_M^*) \tag{1}$$

$$Q_X = f(p_X) \text{ and } Q_X^* = f(p_X^*) \tag{2}$$

$$Q_X = Q_M^* \text{ and } Q_X^* = Q_M \tag{3}$$

where Q_M (Q_M^*) is the quantity of goods imported by the home (foreign) country, Q_X (Q_X^*) is the quantity of goods exported by the home (foreign) country, Y (Y^*) is real domestic (foreign) income, p_M (p_M^*) is the relative price of imported goods in the home (foreign) country in domestic (foreign) currency, p_X (p_X^*) is the relative price of exportables in the home (foreign) country in domestic (foreign) currency.

Let P (P^*) denote the price level in the home (foreign) country, P_X (P_X^*) denote the price of exportables in the home (foreign) country in domestic (foreign) currency, E denote the domestic currency per foreign currency exchange rate, and $RER \equiv \frac{E \cdot P^*}{P}$ denote the real exchange rate. Then, $p_X = \frac{P_X}{P}$, $p_X^* = \frac{P_X^*}{P^*}$, $p_M = \frac{E \cdot P_X^*}{P} \equiv RER \cdot p_X^*$, $p_M^* = \frac{P_X}{E \cdot P^*} \equiv \frac{1}{RER} \cdot p_X$ and the value of trade balance in real (domestic output) terms is

$$RealTB = \frac{TB}{P} = \frac{P_X \cdot Q_X}{P} - \frac{E \cdot P_X^* \cdot Q_M}{P} \equiv p_X \cdot Q_M^* - RER \cdot p_X^* \cdot Q_M . \tag{4}$$

Rose and Yellen (1989) show that p_X, p_X^*, Q_M, Q_M^* in Eq. 4 can be expressed as functions of RER, Y and Y^*, and Eq. 4 can be re-written as a partial reduced form

$$RealTB = f(RER, Y, Y^*) . \tag{5}$$

Rose and Yellen (1989) also show that the effect of the change in RER on $RealTB$ in the home country will depend on the sign of the partial derivative

$$\frac{\partial RealTB}{\partial RER} = p_X \cdot Q_M^* \cdot \frac{(1+\varepsilon)\cdot \eta^*}{\eta^* + \varepsilon} - RER \cdot p_X^* \cdot Q_M \cdot \frac{(1-\eta)\cdot \varepsilon^*}{\eta + \varepsilon^*} \tag{6}$$

where η (η^*) and ε (ε^*) are the absolute values of the price elasticities of demand and supply respectively in the home (foreign) country. If the partial derivative is positive, it is said that the Bickerdike-Robinson-Metzler condition is satisfied, and a depreciation of the real exchange rate (*i.e.*, an increase in RER) will improve the trade balance. This condition reduces to the Marshall-Lerner condition in the case of infinite supply elasticities and initially balanced trade. It is worth noting that the short- and long-run impacts of RER on $RealTB$ can be quite different. Although the empirical evidence is inconclusive, many economists believe that real devaluations improve the trade balance in the long run, but worsen it in the short run (*i.e.*, J-curve effects). This is due to the fact that the price elasticities of demand and supply tend to increase over time.

DATA

The data in this study come from the National Bank of the Republic of Belarus and represent the trade of goods – imports and exports – in millions of U.S. dollars. The data do not include services. While many studies use quarterly data, we believe that quarterly data are insufficient for our analysis as there are not enough quarterly observations in the period under consideration to make reasonable inferences. We focus on monthly data from January 2003 to December 2013, totaling 132 observations.

Although the balance of trade is typically measured by the difference between exports and imports, more and more researchers have started using the exports-to-imports ratio (a. k. a.

the trade ratio or the trade balance ratio) instead. First, the ratio is not sensitive to the use of different currencies. Second, it is possible to use the logarithm of the ratio regardless of whether imports are greater or less than exports. Third, the results obtained for the ratio can be easily transformed back to the difference, if required. Hence, our dependent variable in this study is an exports-to-imports ratio. The ratio was seasonally adjusted by using the X-12-ARIMA Seasonal Adjustment Program (U.S. Census Bureau, 2011).

For convenience, we define the real exchange rate as $RER \equiv P/(E \cdot P^{*})$ so that a decrease in RER means a real depreciation of the domestic currency and an increase in RER means a real appreciation of the domestic currency. Since we deal with aggregate data, we use the average monthly real effective exchange rate (REER) calculated as a weighted average of bilateral exchange rates adjusted by relative consumer prices. The weighting pattern was based on trade in 2012 (0.584 for Russian ruble, 0.189 for Euro, 0.105 for Ukrainian Hryvnia, 0.046 for Latvian Lat, 0.031 for Polish Zloty, 0.021 for Lithuanian Lit, 0.012 for GB pound sterling, 0.012 for Kazakhstan Tenge, 0.000 for US dollar).

Our next explanatory variable is real income (real monthly GDP in constant 2009 prices) in Belarus. During this period, real monthly GDP grew from about 5.7 trillion to about 13.3 trillion rubles, that is, on average by 0.7 percent per month. Since monthly GDP exhibited a strong seasonal pattern, we adjusted the data series by using the X-12-ARIMA Seasonal Adjustment Program (U.S. Census Bureau, 2011). As real foreign income is not available on a monthly basis, we could not include this explanatory variable in our model.

ESTIMATION AND RESULTS

In this study, Eq. 5 is the equation of our interest. While the vast majority of the empirical studies derive the impact of RER on trade by estimating a set of structural equations (see Eqs. 1-2 above), direct estimation of Eq. 5 is preferable. As stated in Rose and Yellen (1989, p. 58), "the question of interest concerns the dynamic response of the *net* trade balance, measured in *real* (domestic output) terms, to movements in the real exchange rate. The answer to this question is directly obtainable from [Eq. 5] and does not require knowledge of the structural parameters in (1) - (2)."

The estimated equation is a log-linear approximation of Eq. 5 augmented by a constant, the time trend (t) capturing policy changes (for example, trend liberalization) or unmeasured quality improvements, and a disturbance term to account for omitted factors. We hypothesize that there exists a stable long-run (cointegrating) relationship between the exports-to-imports ratio *and* the real effective exchange rate and real income in Belarus

$$TR_t = \alpha_0 + \alpha_1 t + \alpha_2 REER_t + \alpha_3 Y_t + \varphi_t \tag{7}$$

where (all variables are in logarithms) TR is the seasonally adjusted monthly exports-to-imports ratio, $REER$ is the average monthly real effective exchange rate, Y is seasonally adjusted real monthly GDP, t is the time trend, and φ is the error term.

The cointegrating relationship in Eq. 7 implies that the variables are "tied together" in the long run, can deviate from this relationship in the short run, but these deviations will be bounded, *i.e.*, $I(0)$, and the variables will always return to their equilibrium path in the longer run. The omission of short-run dynamics in the static OLS estimation of Eq. 7 may lead to biased estimates and unreliable test statistics in finite samples (Banerjee *et al.*, 1986; Inder, 1993). Hence, we resort to the Autoregressive Distributed Lag (ARDL) representation suggested in Pesaran and Shin (1999). Our ARDL(p, q_1, q_2) model allows for short-term deviations from the long-run equilibrium and can be written as

$$TR_t = \beta_0 + \beta_1 t + \sum_{j=1}^{p} \beta_{2,j} TR_{t-j} + \sum_{k=0}^{q_1} \beta_{3,k} REER_{t-k} + \sum_{l=0}^{q_2} \beta_{4,l} Y_{t-l} + \omega_t \,. \tag{8}$$

The lagged values of the dependent variable are included because the exports-to-imports ratio is likely to be dependent on previous performance and on persistent effects of previous shocks. Further, in our ARDL model, we allow for differential lag lengths on the lagged variables. This flexible choice for the dynamic lag structure does not affect the asymptotic results of bounds testing (Pesaran *et al.*, 2001, p. 299).

To ascertain the existence of a level relationship between the exports-to-imports ratio *and* the real effective exchange rate and real income, we rely on bounds testing procedures described in Pesaran *et al.* (2001). First, Eq. 8 should be rewritten as a conditional equilibrium Error Correction Model (ECM)

$$\begin{aligned} \Delta TR_t = {} & \gamma_0 + \gamma_1 t + \gamma_2 TR_{t-1} + \gamma_3 REER_{t-1} + \gamma_4 Y_{t-1} + \\ & + \sum_{k=0}^{q_1-1} \gamma_{5,k} \Delta REER_{t-k} + \sum_{l=0}^{q_2-1} \gamma_{6,l} \Delta Y_{t-l} + \sum_{j=1}^{p-1} \gamma_{7,j} \Delta TR_{t-j} + \varsigma_t \end{aligned} \tag{9}$$

Eq. 9 can be estimated consistently by OLS and then tested for the absence of any level relationship between TR *and* $REER$ and Y via the exclusion of the lagged level variables TR_{t-1}, $REER_{t-1}$, and Y_{t-1}

$$H_0^I : \gamma_2 = \gamma_3 = \gamma_4 = 0 \text{ (may also include } \gamma_1 \text{ if the linear trend is included)} \tag{10}$$

$$H_0^{II} : \gamma_2 = 0 \tag{11}$$

H_0^I is to be tested first using the bounds procedure based on the Wald or *F*-statistic. If H_0^I is not rejected, the testing procedure stops. If H_0^I is rejected, then H_0^{II} should also be tested using the bounds procedure based on the *t*-statistic. Rejection of H_0^{II} further confirms the existence of a level relationship between $TR\ and\ REER$ and Y, which, however, may be degenerate (if $\gamma_3 = \gamma_4 = 0$).

The model in Eq. 9 is based on the assumption that the disturbances ς_t are not serially correlated. In order to mitigate the residual serial correlation problem, it is very important to select sufficiently large lag orders (p, q_1, q_2) of the underlying ARDL. Furthermore, lag orders of the ARDL model simultaneously correct for the problem of endogenous regressors. Pesaran (1997), Pesaran and Shin (1999), Pesaran *et al*. (2001) showed that even when the regressors are endogenous, valid asymptotic inferences on both the short-run and long-run parameters can be drawn, provided that an appropriate choice of the lag order of the ARDL model is made. At the same time, lag orders should be as small as possible to avoid unduly over-parameterization of the conditional ECM.

To determine the appropriate lag length, we used a general-to-specific modeling approach. As proposed by Schwert (1989), with 132 months of observations, the maximum lag length could be 4 or 12 months. In addition, we also tried 6 months. We searched for the best model across a number of regressions – 48, 180, and 1,584 for the maximum lag length of 4, 6 and 12 months, respectively – using the Akaike information criterion, the extended Akaike information criterion, the Schwarz-Bayesian information criterion, and the Hannan-Quinn information criterion. All the four criteria selected ARDL(2,1,1). Panel A in Table 1 shows the estimates of Eq. 9 by OLS, with and without a deterministic linear time trend. Given that the assumption of serially uncorrelated errors is important for the validity of the bounds tests, we tested the hypothesis of no residual serial correlation against orders 1-6 using the Breusch-Godfrey Lagrange multiplier test, the Box–Pierce test, and the Box-Ljung test. The null hypothesis of no residual serial autocorrelation was not rejected at the 5 percent significance level for both specifications (Panel B in Table 1).

Table 1. Estimates of the conditional unrestricted equilibrium ECM; testing for no residual serial autocorrelation of order 1-6; bounds testing for the absence of any level relationship between $TR\ and\ REER$ and Y

	Eq. 9 without a deterministic linear trend	Eq. 9 with a deterministic linear trend
Panel A. Estimates of the conditional unrestricted equilibrium ECM: Est. coeff. (Std. err.)		
Constant	3.615 (1.037)	2.793 (1.238)
t		-0.001 (0.001)
TB_{t-1}	-0.319 (0.068)	-0.336 (0.069)
$REER_{t-1}$	-0.339 (0.095)	-0.418 (0.115)

Table 1. Estimates of the conditional unrestricted equilibrium ECM; testing for no residual serial autocorrelation of order 1-6; bounds testing for the absence of any level relationship between TR *and* $REER$ and Y		
	Eq. 9 without a deterministic linear trend	Eq. 9 with a deterministic linear trend
Y_{t-1}	-0.227 (0.068)	-0.093 (0.130)
$\Delta REER_t$	-0.018 (0.153)	-0.062 (0.157)
ΔY_t	-0.171 (0.158)	-0.110 (0.166)
ΔTB_{t-1}	-0.041 (0.089)	-0.034 (0.089)
*R*sq	0.195	0.205
*N*obs	126	126
Panel B. Testing for no residual serial autocorrelation of order 1-6 (Breusch-Godfrey LM statistic/Box-Pierce Q statistic/Box-Ljung Q' statistic) [a]		
order 1 ($\chi^2_{crit(1,0.05)} = 3.841$)	0.003/0.000/0.000	0.031/0.001/0.001
order 2 ($\chi^2_{crit(2,0.05)} = 5.991$)	0.140/0.052/0.053	0.150/0.088/0.091
order 3 ($\chi^2_{crit(3,0.05)} = 7.815$)	1.071/0.486/0.505	1.281/0.697/0.724
order 4 ($\chi^2_{crit(4,0.05)} = 9.488$)	1.992/1.862/1.949	1.925/1.756/1.836
order 5 ($\chi^2_{crit(5,0.05)} = 11.070$)	4.738/4.331/4.561	4.603/4.270/4.495
order 6 ($\chi^2_{crit(6,0.05)} = 12.592$)	4.744/4.343/4.573	4.604/4.270/4.495
Panel C. Bounds testing for the absence of any level relationship between TR *and* $REER$ and Y)		
F-test [b]		
Case III: Unrestricted intercept and no trend. [c]	7.55*	
Case IV: Unrestricted intercept and restricted trend. [d]		6.05*
Case V: Unrestricted intercept and unrestricted trend. [e]		8.06*
t-test [b, f]	-4.70*	-4.86*

NOTES:

[a] The LM, Q and Q' tests for testing H_0 : no residual serial autocorrelation. All three tests statistics follow the χ^2 distribution.

[b] See Tables CI and CII in Pesaran *et al*. (2001). $k = 2$ is the number of explanatory variables (excluding the intercept and the time trend) in the long-run relationship defined in Eq. 7.

[c] The *F*-statistic is for testing $H_0^I : \gamma_2 = \gamma_3 = \gamma_4 = 0$ in Eq. 9 with γ_1 set equal to 0.

[d] The *F*-statistic is for testing $H_0^I : \gamma_1 = \gamma_2 = \gamma_3 = \gamma_4 = 0$ in Eq. 9.

[e] The *F*-statistic is for testing $H_0^I : \gamma_2 = \gamma_3 = \gamma_4 = 0$ in Eq. 9.

[f] The *t*-statistic is for testing $H_0^{II} : \gamma_2 = 0$ in Eq. 9 with and without a deterministic linear trend.

* indicates that the statistic lies above the 0.01 upper bound.

We then proceeded to testing for the absence of any long-run level equilibrium relationship between TR *and* $REER$ and Y using the bounds testing procedure (Pesaran *et al*., 2001). The absence of any level relationship implies zero coefficients for TR_{t-1}, $REER_{t-1}$, and Y_{t-1} in Eq. 9, *i.e.*, the null hypotheses formalized in Eqs. 10 and 11. As shown by Pesaran *et al*. (2001), the problem with testing these hypotheses is that the distributions of the test statistics (F and t) are totally non-standard and also depend on the cointegrating rank of the system, that is, whether the regressors are purely $I(0)$, purely $I(1)$, or cointegrated. Whereas exact critical values for the test statistics are not available, Pesaran *et al*. (2001) provide lower and upper bounds on the critical values for the asymptotic distribution of the test statistics. If the computed test statistic falls outside the critical value bounds, a convincing inference can be drawn without needing to know the integration (cointegration) status of the variables under consideration. The results in Panel C of Table 1 indicate that the values of F-statistics exceed the asymptotic critical upper bounds at the 1 percent significance level, hence we conclude that there is evidence of a long-run relationship between TR *and* $REER$ and Y. The results from the bounds t-test show that the null is also rejected at the 1 percent significance level. Overall, the bounds test results presented in Table 1 reinforce our assumption about the existence of a level relationship between TR *and* $REER$ and Y in the conditional ECM with or without a linear deterministic trend. However, given that the deterministic trend term is statistically insignificant, we exclude it from the conditional ECM and proceed without it.

The results of the bounds tests along with the appropriate choice of the order in our ARDL model (which simultaneously corrects for residual serial correlation and endogenous variables) suggest that we can estimate the long-run equilibrium relationship defined in Eq. 7. We compute the estimates of the long-run coefficients and their associated standard errors using Bewley's (1979) transformation of Eq. 8 and rewriting our ARDL(p, q_1, q_2) model as follows

$$TR_t = \delta_0 + \delta_1 REER_t + \delta_2 Y_t + \sum_{k=0}^{q_1-1} \delta_{3,k} \Delta REER_{t-k} + \sum_{l=0}^{q_2-1} \delta_{4,l} \Delta Y_{t-l} + \sum_{j=0}^{p-1} \delta_{5,j} \Delta TR_{t-j} + \psi_t \qquad (12)$$

This representation has the advantage that it controls for short-run dynamics in order to get consistent estimates of the long-run parameters of interest, and that the coefficients (δ) on $REER_t$ and Y_t in Eq. 12 are the long-run multipliers (α) from Eq. 7. However, the contemporaneous ΔTR_t on the right-hand side is correlated with ψ_t, which renders OLS invalid. Nevertheless, the use of (1, $REER_t$, Y_t, $\Delta REER_t$, ΔY_t, TR_{t-1}, TR_{t-2}) as instruments allows for consistent instrumental variable estimation (Pesaran and Shin, 1999). The estimates of Eq. 12 are presented in Table 2. The long-run relationship between TR *and* $REER$ and Y solved from Eq. 12 is given by

$$TR_t = 11.345 - 1.064 REER_t - 0.714 Y_t + \hat{\upsilon}_t \tag{13}$$
$$(4.573) \quad (-4.719) \quad (-4.291) \qquad t-\text{statistics}$$

where $\hat{\upsilon}_t$ is the equilibrium correction term, and the *t*-statistics are shown in parentheses. By utilizing the residuals from Eq. 13, we estimate the conditional ECM regression associated with the level relationship in Eq. 13

$$\Delta TR_t = \theta_0 + \theta_1 \hat{\upsilon}_{t-1} + \sum_{k=0}^{q_1-1} \theta_{2,k} \Delta REER_{t-k} + \sum_{l=0}^{q_2-1} \theta_{3,l} \Delta Y_{t-l} + \sum_{j=1}^{p-1} \theta_{4,j} \Delta TR_{t-j} + \xi_t \tag{14}$$

where $\hat{\upsilon}_{t-1} = TR_{t-1} - (\hat{\delta}_0 + \hat{\delta}_1 REER_{t-1} + \hat{\delta}_2 Y_{t-1})$ is the lagged error correction term obtained from the residuals in Eq. 13 , and ξ_t is the short-run disturbance term. For our ARDL(2,1,1), Eq. 14 takes the following form

$$\Delta TR_t = \theta_0 + \theta_1 \hat{\upsilon}_{t-1} + \theta_{2,0} \Delta REER_t + \theta_{3,0} \Delta Y_t + \theta_{4,1} \Delta TR_{t-1} + \xi_t \,. \tag{14a}$$

The estimated coefficients are shown in Table 3.

Table 2. Bewley's regression form of the ARDL(2,1,1) equation

	coefficient	std error	*t*-statistic	*p*-value
constant	11.345	2.481	4.573	0.000
$REER_t$	-1.064	0.225	-4.719	0.000
Y_t	-0.714	0.166	-4.291	0.000
$\Delta REER_t$	1.007	0.473	2.131	0.033
ΔY_t	0.176	0.471	0.374	0.709
ΔTR_t	-2.139	0.649	-3.294	0.001
ΔTR_{t-1}	-0.130	0.281	-0.462	0.644

Table 3. Equilibrium correction form of the ARDL(2,1,1) equation

	coefficient	std error	*t*-statistic	*p*-value
constant	0.000	0.006	0.036	0.971
$\hat{\upsilon}_{t-1}$	-0.321	0.067	-4.801	n/a[a]
$\Delta REER_t$	-0.019	0.149	-0.129	0.897
ΔY_t	-0.172	0.154	-1.114	0.268
ΔTR_{t-1}	-0.041	0.088	-0.470	0.639

NOTES:

[a] The t-value for the error-correction term does not have the standard t-distribution (see Theorem 3.2 in Pesaran *et al*., 2001).

The estimated long-run cointegrating relationship between the trade ratio *and* the real effective exchange rate and real domestic income in Belarus is presented in Table 2 and Eq. 13 above. The coefficient on $REER_t$ is negative (-1.064) and statistically significant (t = -4.719), implying that a real depreciation of the Belarusian ruble led to an improvement in the trade balance. On average, a 1-percent depreciation resulted in an increase in the trade ratio by 1.064 percent. This finding is consistent with Tochitskaya (2007) who carried out a similar analysis for Belarus using quarterly data for 1995(IV)-2004(IV). She estimates the export and import demand equations and finds that the REER elasticity for imports is low and insignificant (0.057 , t-statistic = 0.23), but the REER elasticity for exports is high and statistically significant (-2.055, t-statistic = -3.37). Tochitskaya concludes that since the sum of the absolute values of the REER elasticities exceeds unity, real depreciation has a significant impact on the trade balance. However, Tochitskaya's results should be treated with caution because of a very small data set.

The estimated coefficient on Y_t in Eq. 13 is negative (-0.714) and highly significant (t-statistic = -4.291). It is worth noting that the sign of α_3 in Eq. 7 may be negative or positive. Typically, an increase in domestic income is expected to increase imports. On the other hand, a country's output (GDP) can be a driving force of this country's exports when increases in output are not matched by increases in domestic consumption. In such a case, exports will be used to dispose part of the country's additional output (*i.e.*, the 'vent for surplus' argument). Hence, economic theory cannot predict the net effect of an increase in real domestic income on the trade balance: an improvement, a worsening, or no significant change. A negative estimated coefficient in our analysis implies that in Belarus, on average, a 1-percent increase in real GDP led to a decrease in the trade ratio by 0.714 percent.

The conditional ECM estimates in Table 3 provide further evidence on the complicated dynamics that seem to exist between TR *and* $REER$ and Y. The equilibrium correction coefficient is estimated as -0.321 (t-statistic =-4.801) which is large and highly significant. A negative and significant coefficient obtained for $\hat{\upsilon}_{t-1}$ is another way (in addition to bounds testing procedures) of supporting cointegration. The magnitude of -0.321 suggests that about 32 percent of any disequilibrium between TR *and* $REER$ and Y is corrected within one period (*i.e.*, one month). At the same time, we observe that the coefficient on $\Delta REER_t$ in the error correction representation is negative and insignificant. For J-curve effects to occur, this coefficient should be positive. Hence, the estimated short-run coefficient on $\Delta REER_t$ does not follow the path outlined by the J-curve, implying that in Belarus currency depreciation/appreciation did not have short-run effects.

CONCLUSION

The goal of the paper has been to analyze whether a long-run cointegrating relationship existed between the trade balance and the real exchange rate in a post-communist country Belarus during a mature stage of transition 2003-2013. During this period, the Belarusian ruble had been steadily depreciating, with two significant devaluations in 2009 and 2011. Real devaluations are expected to improve the trade balance in the long-run, although it may worsen initially (the J-curve effect). The literature on the relationship between the real exchange rate and the trade balance in developed countries is voluminous, but the findings are contradictory and seem to depend upon the country and the period selected for the analysis. Research on this subject matter remains very scarce and virtually non-existent for East-European post-communist countries, particularly Belarus. In this study, we use monthly data from January 2003 to December 2013, estimate a single equation ARDL model, and apply the bounds testing approach to test for long-run cointegration. We focus on the trade (exports-to-imports) ratio and examine its relation with the real effective exchange rate. Overall, we find considerable evidence that the real exchange rate did have a significant impact on the trade balance in the long run: a 1-percent devaluation of the real effective exchange rate led to a 1.064-percent increase in the trade ratio. For the short run, no evidence of a J-curve is found.

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A REVIEW OF BUSINESS COMMUNICATION UNDER THE LEADERSHIP FUNCTION

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ABSTRACT

An effective way to perpetuate an academic discipline is to identify and to define its intellectual and historical roots, then to set such roots in the foundation textbooks and courses of the discipline. In that regard, Business Communication still struggles to establish its roots when compared to other disciplines in business schools, particularly Management. For this study, we undertook an extensive review of significant scholarly works on Business Communication as a discipline. We discovered there are prevalent themes in the broader context of rhetoric, technology, culture, dissemination, and impression; and this was confirmed by our examining the tables of contents for five leading Business Communication textbooks. We also found in the tables of contents for five leading management textbooks that all professional communication areas were placed under the leading function. Based on these findings, we recommend that Business Communication scholars, authors, and teachers embrace the five themes of business communication under the leading function to better establish and promote Business Communication as a discipline.

INTRODUCTION

One of the authors of this article recalls a luncheon conversation at his first ABC annual meeting where a table mate commented that a newly hired business communication instructor in his department had a master's degree in recreation and had owned a dance studio before turning to full-time teaching. As you might imagine, we took turns discussing how such qualifications might be useful in practicing business communication or in acquiring a job teaching business communication. One table mate offered that the intense listening, looking, speaking, and body language required in dance do provide powerful lessons on effective coordination. Another said she had seen a similar type of hire where the spouse of an incoming administrator was hired even though she had a social work degree. Soon, the servers brought our entrees and speakers moved to the dais, so our conversation faded and my first lesson on the disciplinary challenges in business communication ended.

Most of us would agree that there has been a problem defining business communication and the consequences of it not fitting neatly into business schools. Two decades after that luncheon and several more years of teaching experience between the two authors and we still need to clarify the meaning of business communication, the principles and philosophies of our roots, and the topics and themes that should be included in the textbooks of our foundation course. Indeed, our lack of discipline means that business communication is still a stand-alone course in most business schools, and is likely the only discipline in academia that is defined by a single course. Our disciplinary problem has hindered our ability to effectively stipulate the education and training required of prospective business communication instructors; negotiate course loads, faculty status, and remuneration at our various schools; and the proficiency to negotiate our standing as scholars and researchers among disciplines. The basic arguments of us as a standalone discipline (Krapels, &Arnold, 1998) and "who we are, and what we do" can be refined, if not resolved (Cyphert, 2009).

We, the authors, believe that in order for business communication to survive and thrive like other disciplines in business schools, we must identify and define our intellectual and historical roots, and then firmly establish such roots in our foundation textbooks and courses.

The outcomes of such efforts would drive the scholarly research undertaken by our members and improve the image of our journals. To those ends, we conducted an extensive review of significant scholarly works on business communication as a discipline to identify the themes that could constitute a business communication typology. Next, we examined the extent to which the themes appear in the leading textbooks used in foundation management undergraduate courses, a discipline to which business communication is most closely aligned in business programs. Based on the findings, we made a recommendation about the direction that scholars and instructions should take to better establish and promote business communication as a discipline.

This study sought to answer these two research questions:

Q_1 *Why has business communication been unable to find a broadly accepted definition, similar to say, the broadly accepted definition of management?*

Q_2 *Why have there not been a set of universal themes (functions of business communication) developed in the past that constitute a business communication typology?*

MAJOR WORKS ON DISCIPLINING BUSINESS COMMUNICATION

A number of recent works that have lamented our lack of discipline, but more importantly why defining the discipline might help gain credibility in academia. In this study, we reviewed key articles and textbooks as a basis to operationalize our methodology, develop meaningful research questions, and map a path of progress towards addressing discipline. This was done through a search of descriptor terms in library databases and the Sage electronic catalogue. Table 1 illustrates the number of citations each of the main articles had received as of

January 6, 2014 in the Google Scholar search, with the average citation of 18.416. Also included in the table are authors, journals and titles of the articles, and research focus. The citation frequency of the 12 articles is low, with Shelby's (1993) article receiving 46 citations or 20.814% (46/221 * 100) of the total citations for all 12 articles. Despite the limited number of citations, these articles are essential for understanding business communication scholarship addressing discipline; therefore, we will discuss them further in some detail.

The renewed search for definitions of the discipline is nothing new; some scholars see business communication as a hybrid discipline with broad theoretical traditions in rhetorical theory, communication theory and management theory making business communication the intersection of such (Shaw, 1993; Smeltzer, Glab, & Golen, 1983); while others argue that to identify the field of business communication, the conceptual problematic underlying its intellectual inquiry should be examined, rather than by its instructional practices or vocabulary (Murphy,1998). At least one scholar has her focus on the professional communication areas that make up the bulk of business communication content by using survey research methods, trying to make sense of disagreement among them and she seems to be rebuking scholars on the nuances of these disagreements concerning, "who we are, and what we do" (Cyphert, 2009).

Table 1
Citations and Research Focus of Key Articles on Business Communication Discipline

Citations*	Article Information	Research Focus of Articles
46	Shelby, A. (1993). Organizational, business, management, and corporate communication: An analysis of boundaries and relationship, *Journal of Business Communication* 30(3), 241-267.	Contrary to most papers that explore relationships between and among the disciplines, this paper likewise focuses on differences between and among the communication types (p. 245)
31	Smeltzer, L. R. (1993). Communication within the manager's context. *Management Communication Quarterly*, 10(1), 5-26.	The discipline can best distinguish itself by conducting research within the managerial context, which is difficult for professors to understand because managers and academics operate in such different environments. Also, serious obstacles exist to conducting valuable management communication research. The challenge remains to conduct rigorous, valid communication research within the managerial context that results in relevant implementation guidelines (p. 5).
26	Hagge, J. (1989). The spurious paternity of business communication principles. *Journal of Business Communication*, *26*(1), 33-55.	The few researchers who have investigated the matter date the advent of current business communication principles such as the 'Seven C's" and reader adaption from about 1906-1916. This article emends that research; demonstrates that principles supposed to have been specifically developed for the field are also found in English composition textbooks, several of which antedate 1906; and suggests that J. Willis Westlake, who enunciated similar principles in 1876, has as much right to the title of "pioneer" writer on business communication principles as do, say, A. G. Belding, Sherwin Cody, or George Burton Hotchkiss (p. 33).

Table 1
Citations and Research Focus of Key Articles on Business Communication Discipline

Citations*	Article Information	Research Focus of Articles
23	Zorn, T. E. (2002). Converging with divergence: Overcoming the disciplinary fragmentation in business communication, organizational communication, and public relations. *Business Communication Quarterly*, 65(2), 44-53.	As researchers, we often overstate the distinction between our own specialties and those fields that are clearly related, thus dismissing or ignoring research outside our specialties. Similarly, we too often fragment our teaching to focus on particular communication processes and competencies that fit our notions of what is appropriate for our chosen sub-disciplines. Such fragmentation, however, diminishes our teaching and research. To overcome this problem, we should work toward structural realignments in our universities to encourage cross-disciplinary work (p. 44).
20	Smeltzer, L. et al. (1983). Managerial Communication: The Merging of Business Communication, Organizational Communication, and Management. *Journal of Business Communication*, 20(4), 71-78.	A review of the nature of the structure, function, and system aspects of communication and the impact of the technological revolution, or information society, indicates why a merging of the discipline is important and an integrated approach is warranted (p.73).
20	Shaw, G. (1993). The shape of our field: Business communication as a hybrid discipline. *Journal of Business Communication*, 30(3), 297-313.	The field of business communication suffers from a lack of cogency as a discipline. The renewed search for definitions of the field, the wrangling for primacy in its intellectual traditions, and the paucity of robust research reflect continuing confusion over the nature our field. The author argues that business communication is a hybrid discipline… a melding of interests and characteristics in a new form. (p. 297).
14	Forman, J. (1998). More than survival: The discipline of business communication and the uses of translation. *Journal of Business Communication*, 35.1 (Jan 1998): 50-68.	To consider translation as a powerful heuristic for posing new questions about the research agenda for business communication and, ultimately, about its disciplinary character. The term "translation" refers to (1) metaphoric notions of translation considered movement between instruction and research in business communication, between discourses, or between disciplines and (2) translation studies, or complex ideas of translation drawn from histories, theories, and practices of literary translation (p. 50).
13	Dulek, R. E. (1993). Models of development: Business schools and business communication. *Journal of Business Communication* 30(3), 315-331.	Colleges of business develop by following one of two models. The first model, the vertical, involves functional specialization and the scientific examination of a specific discipline. The second model, the horizontal, stresses breadth rather than depth. This latter model examines what is often called the 'softer" side of management—leadership, communication, entrepreneurship, and strategy. Awareness of these two models is important to all business communication faculty, especially to those housed in business schools (p. 315).
13	Sherblom, J. C. (1998). Transforming business communication by building on Forman's translation metaphor. *Journal of Business Communication*, 35(1), 74-86.	The present essay envisions translation as a bi-directional, dynamically negotiated process that occurs within and between communities of scholars and that transforms the language, the person of the translator, the communities involved, and the cultural expectation (p.74).

Table 1
Citations and Research Focus of Key Articles on Business Communication Discipline

Citations*	Article Information	Research Focus of Articles
10	Cyphert, D. (2009). Who we are and what we do, 2008. *Journal of Business Communication*, 46 (2), 262-274.	Granted, the search for a disciplinary identity might well be "hopelessly old fashioned" in the contemporary educational climate and might even represent a nostalgic yearning for a romanticized academic existence that doesn't actually exist in any discipline. Still, it would be nice to have a recognizable and impressive self-identifier ready for cocktail party conversations (p. 267).
3	Murphy, M. A. (1998). Re-viewing business communication: A response to Carmichael, *Journal of Business Communication*, 35(1), 128-137.	The paper advocates the view that business communication, management communication, and organizational communication are not, as suggested by the three articles, separate disciplines but interdependent areas of study nested within the domain of the mother discipline of communication (p. 128).
2	Krapels, R. H & Arnold, V. D. (1998). Response to Murphy's "Re-viewing business communication, *Journal of Business Communication*, 35(1), 149-153.	To provide a foundation for viewing the discipline in which we teach as a stand-alone field within the academic arena. Our intent was to include the many facets of communicating in the business environment under one all-encompassing discipline since executive communication, management communication, organizational communication, as well as presentation courses and many others, are all part of communicating in business (p. 149).

***Google Citations average for the 12 disciplining articles as of January 6, 2014 = 221/12 = 18.416**

Dulek (1993) used a two model approach (vertical and horizontal) to determine if business schools adoption of either model makes it possible for business communication faculty to be promoted and tenured similar to other faculty in the business schools. Although business communication was viewed by Dulek as a softer side of management, his view was that The Association to Advance Collegiate Schools of Business (AASCB) standards at the time made it more possible that business communication faculty could receive tenure. This implies the belongingness of Business Communication in the business curriculum and schools.

Krapels and Arnold (1998) advocated that business communication is better off if people teaching in the field view themselves as members of a specific discipline, rather than a hodgepodge mixture of academics teaching in a sub-area or as a stepchild of a larger academic field. These two authors saw the potential for business communication to become a standalone discipline. In contrast to this argument, Murphy (1998, p. 128) argued "business communication, management communication, and organizational communication are not separate disciplines but interdependent areas of study nested within the domain of the mother discipline of communication." In fact, five years earlier, Shelby (1993) was decrying a communication-focused theory based analysis of the boundaries and relationships of communication subjects taught in business schools resulted in four key areas: 1) organizational communication, 2) business communication, 3) management communication, and 4) corporate communication. Yet, she argued that managerial communication connect organizational communication to business communication and to corporate communication.

In this same vein, Smeltzer, Glab, and Golen (1983) 10 years earlier decided that managerial communication should integrate appropriate communications skills with strategy development; these skills include grammar, knowledge of behavioral science covered in basic management courses and the functional areas of planning, leading, organizing, and controlling. Their belief was that managerial communication is where business communication, organizational communication and management merge. And, consistent with Smeltzer, et al (1983) and others' views of managerial communication, Bell and Martin (2008, p. 130) defined management communication as *"the downward, horizontal, or upward exchange of information and transmission of meaning through informal or formal channels that enables managers to achieve their goals."* This argument includes cross-disciplinary approaches to teaching business communication content (Laster, & Russ, 2010). Despite this, business communication is still viewed as a fragmented discipline that diminishes teaching and research in the discipline; resolving the problematic will require structural realignment from the top of the university organizational structure to all the constituent parts (Zorn, 2002). More recently, ancient rhetorical principles is seen as having congruence between systems of ancient rhetoric and modern business communication. There is argument that now the main branches of business communication is management, public relations, advertising, and marketing (Haase, 2012).

In terms of rhetorical principle, oral and written communication will always be a part of business communication (Haase, 2012). Moreover, Forman (1993) espoused factors that may profitably influence research in business communication: 1) the historical and theoretical study of composition as a discipline, 2) multicultural and literacy studies, and 3) contemporary critical and social theory. Thus, rhetoric, culture, impression management, and dissemination remain to be recurring themes in business communication instruction and research and the concept of writing in the disciplines (WID) is not likely to be removed (Hagge, 1989; Russell, 2007).

Another recurring theme in the literature is the use of technology (Penrose, 1984) and teaching business communication subjects using social media; especially since multivariate analysis of variance tests show no difference was found between male and female college professors or among the ranks of faculty concerning the advantages and concerns of social media usage in business communication instruction (Roebuck, Samia, & Bell, 2013). As a stream of research from an integrated communication approach, business communication faculty should focus on social media (Meredith 2012). The argument for a cross-disciplinary approach as a means for structural realignment seems plausible as a solution (Zorn, 2002). Translation metaphors also seem plausible (Sherblom, 1998). Forman (1998) put it two ways: 1) Metaphoric translation involves movement between instruction and research and 2) the way translation studies relay ideas drawn from theories, histories, and practices.

Therefore, this study moving forward will accomplish four things. First, we will provide more details as to how we arrived at the six enduring themes. Second, we will discuss communication under the leading function and how this has been extremely helpful in the scientific investigation of communication theories applicable to the leading function. Third, we will present a plausible of business communication. And fourth, we will answer the aforementioned research questions and provide a recommendation.

ENDURING THEMES

There are six themes with enduring relevance to business communication today. The 12 articles featured in Table 1 addressing discipline discussed the following themes directly or indirectly, explicitly or implicitly stated: rhetoric, technology, culture, dissemination, motivation, and impression. Anyone who has taught business communication knows these themes are abundant themes in the textbooks and supplemental materials they use as well.

Rhetoric includes creating and composing of messages; style and format are also included. Sophistic Rhetoric is really the bedrock of practical/technical rhetoric as we know it today with some of the same unfounded criticisms. Note the entry in Wikipedia "being persuasive could lead to political power and economic wealth" and then notice at the bottom the link to Business Speak. http://en.wikipedia.org/wiki/Sophists

Bitzer's Rhetorical Situation is "the context of a rhetorical event that consists of an issue, an audience, and set of constraints. Two differing views of the rhetorical situation are that a situation determines and brings about rhetoric, and that rhetoric creates 'situations' by making issues salient." http://en.wikipedia.org/wiki/Rhetorical_situation

Stephen Toulmin's another philosopher who has influence the writing side of the discipline. His view of practical argument is when people use qualifiers and warrants as opposed to merely trying to find an absolute argument is useful in crafting all sorts of business documents where the object is to persuade readers of the plausibility of your position. http://en.wikipedia.org/wiki/Stephen_Toulmin

Technology includes technology, especially social media, and other channels to create the message and deliver it. Business Communication has always been technology-driven, but especially now with computer and other internet and office technologies.

Culture includes the context of the message whether local or intercultural. Business communication *as taught in the classroom* has not always been strong on diversity of culture as we tend to teach the *standard* American business communication models (of writing and delivery).

Dissemination is related to technology but also includes matters of efficiency and effectiveness. Claude E. Shannon, an engineer for the Bell Telephone Company, and then Shannon and Warren Weaver (1949) on the Mathematical Theory of Communication - this is the foundation of communication studies in general, but it would also provide the scientific balance that would increase the credibility of the discipline, which includes a source to receiver with feedback. Now, this model can be criticized for its mechanistic conception of human communication, but it does contribute to the physical and logical flow of information. http://en.wikipedia.org/wiki/A_Mathematical_Theory_of_Communication

Motivation includes the motivation of the sender and the needs of the audience.
Maslow's Hierarchy of Needs - this addresses the motivation that people have in general, and how you can appeal to such needs. Much of our communication in the workplace would consider the higher level needs (social/belonging, esteem, self-actualization) but especially these days to lower level needs (physiological and security). http://en.wikipedia.org/wiki/Abraham_Maslow

Impression includes how the sender is seen and wants to be seen by audience. Erving Goffman's book "The Presentation of Self in Everyday Life" (1959) has aspect of interpersonal communication which is probably the most crucial to business communication. It is very important to employment/career/client communication in terms of making first impressions. http://en.wikipedia.org/wiki/Impression_management

COMMUNICATION UNDER THE LEADING FUNCTION

Textbook analysis for emergent themes is not new. In fact, Aronoff (1975) examined 28 general management textbooks published between 1910 and 1974 for common themes; he found human relations and consumer behavior to be paramount themes in the textbooks he examined. Villere and Stearns (1976) used 19 organizational behavior textbooks published between 1964 and 1974, using the Flesch Reading Ease Score as a measure of readability, and found the average Flesch readability index score was 32 for all 19 books. Any textbook is nothing more than a culmination of scholarly writings in a discipline. Textbooks can be a guidepost for what is considered relevant in a discipline or field because they are used to train people interested in the field. They should contain the culmination of knowledge in the field.

The reason management as a disciplined has prospered with fervor of scientific activity is because of its broadly accepted definition. The broadly accepted generic definition of management (the one found in some version in nearly every modern management textbook) follows:

> *Management is the process of planning, organizing, leading, and controlling the material, informational, financial, and human resources of an organization in order to efficiently and effectively achieve stated goals.*

In this study we found that five modern general management textbooks, published between 2007 and 2013, each has chapters that are centered on the common themes (functions of management) of planning, organizing, leading and controlling. Table 2 illustrates a cross-comparison of five leading principles of management textbooks with chapters that cover substantial content on the four enduring themes of planning, organizing, leading, and controlling in a matrix. Notice in Table 2 that each textbook has a 50% or more of the total chapters which cover content that neatly falls within each of the main themes of management.

All five of the management textbooks we examined had a derivative of the same definition and all included in their tables of contents the functional areas of management as main parts of their textbook. Any theory testing done in management discipline, therefore, can be neatly placed into one of these areas of inquiry—including the science they do on communication subjects that they place neatly under the Leading function. The Daft's (2013) book has 78.6% or 11 of 14 total chapters covering content within the four main themes. Daft also gives the leading function 35.7% of his emphasis (5/14 * 100); the next highest is Hill and McShane (2007) who give the leading function 33.3% of their emphasis (5/18 * 100). For all five textbooks, the leading function is clearly emphasized the most with it representing 25.4%, while the controlling function received least emphasis with 10.3% coverage. The four themes represent 68.9% of the total content for all five books. Moreover, most research done in the management discipline can be neatly categorized into one of these themes. Each of the themes is also associated with a pioneering philosopher scholar (Max Weber's - bureaucracy; Henri Fayol's - administrative principles; Chester I. Barnard's - coordinated systems of control through authoritative communications; Frederick W. Taylor's - scientific management; Elton Mayo & Fritz Roethlisberger's - social control and human relation perspective; and others) whose works contributed greatly to a main perspective driving themes further, thus, pushing the management discipline scientifically further.

The functional areas were first proposed by Henri Fayol (1916), and four functions of management survive today. For example, among them, four of five management textbooks examined cover professional communication under the leading function: Hill/McShane-chapter 17, Robbins/Coulter-chapter 15, Bateman/Snell-chapter 15, and Daft-chapter 13. (See Appendix A for table of contents for the five leading management textbooks).

Therefore, it is no surprise that recent research shows just how important communication is to the Leadership Function. Communication is the link to frontline leadership (Ahmed, et al, 2010). Bell (2009) argued that leaders use communication to stay dialed into the formal and informal networks of their organizations. Without proper leadership communication, organizational networks gone awry can steer an entire organization towards moral depravity. Thus, it is through communication that leaders stay dialed into these networks. In addition, leaders disseminate the long-term direction (strategic goals) of the organization to the technical core by emphasizing the component parts of the strategy and using face-to-face communication (rich channels) to reward individual contributions employees' make to achieving the larger strategy (Bell, 2012). Leaders use communication skills to cut through rhetorical obstructions of delegation so they can properly assign responsibilities and authority to the right individual at the right time (Bell & Bodie, 2012a). It is also clear that leaders are the catalyst for organizational change because change starts from the top to bottom, and leaders must continually monitor the change agenda (Bell & Bodie, 2012b). We also know that Frederick Taylor's Scientific Management Principles are prevalent for modern workers and they are infused in work that requires machine-like precision of the persons; instructing these employees on the importance of being machine like is a leadership responsibility and largely done with interpersonal communication between the boss and the worker (Bell & Martin, 2012). Therefore, management scholars appear to be correct in placing the subject matter of all the professional communication disciplines under the Leading Function. Communication that leaders do can be scientifically tested.

TABLE 2
CROSS-COMPARISON OF FIVE LEADING MANAGEMENT TEXTBOOKS WITH FOUR MAIN THEMES (FUNCTIONS OF MANAGEMENT)*

	Planning	Organizing	Leading	Controlling	*% of book*
Text 1[a]	7, 8, 9	10, 12	13, 14, 15	11	***9/18= 50.0%***
Text 2[b]	5, 6	7, 8, 9	10, 11, 12, 13, 14	15	***11/14= 78.6%***
Text 3[c]	4, 5, 6	8, 9, 10, 11	12, 13, 14, 15	16, 17, 18	***14/18= 77.8%***
Text 4[d]	7, 8, 9	10, 11, 12, 13	14, 15, 16, 17	18, 19	***13/19= 68.4%***
Text 5[e]	5, 6	8, 10, 11	12, 13, 14, 15, 16, 17	7, 9	***13/18= 72.2%***
% of book	***13/87= 14.9%***	***16/87= 18.4%***	***22/87= 25.4%***	***9/87= 10.3%***	***60/87=68.9%***

*Arabic numeral denotes which chapter in the textbook that includes substantial coverage of a theme.
a. Contemporary Management, 7/e, (2011), by Gareth Jones and Jennifer George, ISBN: 0078112699
b. Understanding Management, 8/e, (2013), by Richard L. Daft, ISBN-10: 1111580243
c. Management : Leading & Collaborating in the Competitive World, 10/e, (2012), by Thomas Bateman and Scott Snell, ISBN: 9780071318037
d. Management, 11/e, (2010), by Robbins, Stephen P. and Mary Coulter, ISBN-13: 9780132163842
e. Principles of Management, (2007), by Charles W. L. Hill and Steven McShane, ISBN13: 9780073530123

PLAUSIBLE DEFINITION OF BUSINESS COMMUNICATION

We used the tables of contents from five business communication textbooks to help us determine how the themes suggested by articles addressing discipline featured in Table 1 are used. Similar to Aronoff (1975) and Villere and Stearns (1976), in this this study we used content analysis as a method to derive six themes derived from the business communication literature and in five business communication textbooks. Table 3 illustrates a cross-comparison of the five leading business communication textbooks with five of the six original themes in a matrix. Motivation was presented sporadically in tables of contents and could not be attributed to any of the other themes, so we dropped motivation as an enduring theme.

The contents of any chapter needed to fit into the broader context of one more so than any of the others in order to be located into a particular theme. For example, report writing, virtual meetings, and the like are technology issues. Positive and negative messages are impression issues because the writer following the prescribed techniques wishes to leave a desired image on the reader. Techniques taught for presenting positive and negative messages is always for impression management of the writer. This is why for the Guffey (2014) book, chapter 7 was assigned to technology theme and chapters 8 and 9 were assigned to the impression theme. Similarly, for Lehman and DuFrene (2011) chapters 5, 9, 10, and 11 were assigned to technology theme, while chapters 6, 7, 13 and 14 were assigned to the impression theme. What's clear is impression in the five Business Communication textbooks is about achieving a desired image or outcome via communication. (See the tables of contents for the five Business Communication textbooks in Appendix B**).**

TABLE 3
CROSS-COMPARISON OF FIVE LEADING BUSINESS COMMUNICATION TEXTBOOKS THAT CONFIRM FIVE THEMES*

	Rhetoric	Technology	Culture	Dissemination	Impression	% of Book
Text 1[a]	4, 5, 6, 10	1, 7, 11, 12, 13	3	2, 14	8, 9, 15, 16	***16/16= 100%***
Text 2[b]	12, 15	5, 21, 23, 24	3	1, 2, 17, 19, 20	6, 7, 10, 11, 27, 28, 29, 30	***20/30= 67%***
Text 3[c]	3, 4, 8	5, 9, 10, 11	2	1	6, 7, 13, 14	***13/14= 93%***
Text 4[d]	2, 3, 4, 5, 8, 13, 14	10, 11, 12, 17	15, 16	1	6, 7, 9	***17/18= 94***
Text 5[e]	4, 5, 6, 10	7, 12, 13, 14, 15, 16, 17	3	1, 2, 11	8, 9, 18, 19	***19/19= 100%***
% of Book	***20/97= 20.6%***	***24/97=24.7%***	***6/97= 6.2%***	***12/97= 12.4%***	***23/97= 23.7%***	***85//97= 87.6%***

*Arabic numeral denotes which chapter in the textbook that includes substantial coverage of a theme.
a. Business Communication: Process and Product, 8/e, (2014), by Mary Ellen Guffey, ISBN-13: 9781285094069
b. Business Communication: Building Critical Skills, 5/e, (2011), by Kitty Locker, ISBN: 0073403156
c. Business Communication , 16/e, (2011), by Carol M. Lehman and Debbie D. DuFrene, ISBN-13: 9780324782172
d. Business Communication , 12/e, (2010), by Kathryn Rentz, Marie Flatley, Paula Lentz, ISBN13: 9780073377797
e. Business Communication Today, 11/e, (2011), by Courtland Bovee and John V. Thill, ISBN-13: 9780132539555

When authors contributed an entire chapter or large portion of a chapter to a theme we considered it substantial. Thus, when a chapter or large portion of it was identified with one of the themes the book's content was documented in the matrix shown in Table 3. We identified confirmed that only five of the six original themes constitute the contents of the five business communication textbooks we examined substantially. Moreover, five themes in Table 3 account for 87.6% of content in all five books. Technology (24.7%) and Impression (23.7%) are clearly the most covered content in the five business communication textbooks.

Answers to Research Question 1

Q_1 *Why has business communication been unable to find a broadly accepted definition, similar to say, the broadly accepted definition of management?*

Figure 1 illustrates the broadly accepted typology of the broader context of business, to the more narrow sub-disciplines, to the thematic content of the management functions. We now know why there has been no broadly accepted definition of business communication as a discipline.

The evidence shows there remains too much fragmentation in the discipline. A typology of the business field compared to the professional communication fields shows proof of just how fragmented Business Communication is. The business field at the college level is often the degree program, the sub-disciplines of business are often the college majors, and the themes are covered in the various courses. There is an unquestionable fluidity between the business field and its sub-disciplines. Therefore, in this study we can define business communication the following way:

> *Business communication involves creating and disseminating work-related messages through appropriate channels, while being sensitive to the needs of the audience, the context and culture in which the message is conveyed, and the impression that the audience has on the sender.*

FIGURE 1
TYPOLOGY OF BUSINESS AS A FIELD, ITS SUB-DISCIPLINES AND MANAGEMENT'S THEMES

Field of Business (college level degree program)

I. The general study of people and organizations engaged in commerce seeking a profit.

Sub-disciplines of Business

A. Accounting (college major)
B. Finance (college major)
C. Management Information Systems (college major)
D. Marketing (college major)
E. Management (college major)
  1. Themes (Functions) of Management:
    a. Planning – a blueprint for goal achievement.
    b. Organizing – who does what, and why?
    c. Leading – getting thing done through people. (Content covered in this theme, as a function of management, often includes materials from the broader context of professional communication).
    d. Controlling – calibrating organizational activity.

Answers to Research Question 2

Q_2 *Why have there not been a set of universal themes (function of business communication) developed in the past that constitute a business communication typology?*

Figure 2 illustrates the current typology of professional communication as a field, its sub-disciplines and business communication themes based on the five leading business communication textbooks and what is commonly known in the literature—meaning approaches to teaching and research. The professional communication typology goes from a broad context of professional communication to the narrow sub-disciplines to the themes of business communication. Rarely is business communication a college degree program. And in only a handful of cases business communication is a major in business degree programs in collegiate schools of business. Aronoff's (1975) study, although a bit old, sheds light the fact that 40 years ago management as a discipline that had begun to define its boundaries as a discipline, thus establishing methodological (scientific) approaches acceptable to the discipline had begun to infuse human relations and consumer behavior as prominent themes.

FIGURE 2
TYPOLOGY OF PROFESSIONAL COMMUNICATION AS A FIELD, ITS SUB-DISCIPLINES AND BUSINESS COMMUNICATION THEMES

Field of Professional Communication

I. Communication about and within professions and occupations among a variety of lay and specialized audiences.

Sub-disciplines of Professional Communication

A. *Technical Communication* - communicating about products, processes and other mechanical aspects of a field or program.

B. *Scientific Communication* - communication about products, processes, and related phenomena as part of the scientific enterprise.

C. *Marketing/Media Communication* - communication with audiences external to the organization on matters related to sales, customer relations, and stakeholders.

D. Business Communication - involves creating and disseminating work-related messages through appropriate channels, while being sensitive to the needs of the audience, the context and culture in which the message is conveyed, and the impression that the audience has on the sender.

1. **Emergent Themes of Business Communication:**
   a. Rhetoric
   b. Technology
   c. Culture
   d. Dissemination
   e. Impression

E. *Management Communication* - communication by management about work-related and strategic issues that affect the mission and goals of the organization.

The work-related part of our aforementioned proposed definition of business communication captures the operational and interpersonal aspects of the discipline, yet differentiates it from other sub-disciplines of professional communication. However, business communication falls under professional communication, and managerial communication might be viewed as a subset of business communication or vice versa. Obviously, there is no way to eliminate the overlaps and blurriness, depending on the situation, but for our purposes it helps to see the distinctions so that we can produce a reasonable argument for the construct of the discipline. Under the leadership function, professional communication has been shown to be a scientific subject matter.

Science is a process of inquiry. Quigley (1979) provides perhaps the most succinct illumination of science as a process and what science achieves. He explicates three steps to scientific inquiry. First, observe and gather evidence. Second, write a very specific hypothesis about the evidence that has been gathered. Third, test the hypothesis and accept the simplest explanation of the evidence that makes the fewest assumptions. This practicable advice is also known as Occam's razor, derived from 13th and 14th century medieval European philosopher of science (William of Ockham, 1287 - 1347) that challenged Plutonian abstractions and religious dogma that put constraints on free inquiry and halted knowledge creation for centuries. Science is a process that tests theories to create new knowledge; although scientists know ultimate truth can never be achieved in any discipline because theories will always evolve, all knowledge is tentative, they, however, continue to strive towards truth (Quigley, 1979). Figure 2 illustrates our typology consistent with the aforementioned business communication definition addressing discipline.

Business communication can create fervor in scientific inquiry with a broadly accepted definition and themes, or what might be called the function of business communication; such as the case with how management developed as a discipline through exploring scientifically the themes laid down by Henri Fayol decades earlier. Teachers of management agree that the functional areas of scientific inquiry in management (planning, organizing, leading, and controlling) can be attributed to Henri Fayol's (1916) book *General and Industrial Administration,* also listed by Bedeian and Wren (2001) as one of the 25 most influential management books of the 20th century; they write:

> *An extraordinary little book that offers the first theory of general management and statement of management principles. Fayol's ideas so permeate modern management thinking that they have become an unquestioned part of today's received knowledge on how organizations should be designed (p. 223).*

As of January 6, 2014, Google Scholar reported for *General and Industrial Administration* 2655 citations. Over the decades, these functions of management have paved the way for thousands of studies in the discipline, with the Academy of Management, founded in 1936, boasting on its website a membership of 18,000. The Association for Business Communication was founded in 1936 and has less than 1,000 members.

CONCLUSION AND RECOMMENDATION

An effective ways of perpetuating an academic discipline is by identifying and defining its intellectual and historical roots, then ensuring that such roots are set in the foundation course of the discipline. In that regard, business communication still struggles to find its footing compared to other disciplines in business schools, where it is mainly taught. For this study, we undertook an extensive review of significant scholarly works on business communication to determine the main canonical themes that would emerge. We identified six themes, but confirmed that five is what we believe constitute a business communication typology. Next, we examined the extent to which the six themes are included in leading textbooks used in foundation business communication undergraduate courses in the United States. We found substantial variation in where and how such themes are used in the textbooks.

Thus, we recommend that business communication scholars, authors, and teachers make concerted efforts to adopt the themes as functions of business communication to better establish and promote business communication as a discipline. The functional areas are rhetoric, technology, culture, dissemination, and impression. Professional communication as a field seems to encompass business communication as a discipline and all the professional fields are located under the leading function in the management discipline. Therefore, to further the discipline this study's proposed business communication definition should be adopted for research consideration and teaching as well as textbook writing by members of the profession.

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APPENDIX A
Table of Contents of Management Textbooks Used in Study

Gareth R. Jones, Texas A&M University -- College Station and Jennifer M. George, Rice University
Contemporary Management, 7/e, ISBN: 0078112699, Copyright year: 2011

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Richard L. Daft Vanderbilt University and Dorothy Marcic Vanderbilt University
Understanding Management, 8th Edition, ISBN-10: 1111580243, ISBN-13: 9781111580247
720 Pages Paperback
Previous Editions: 2011, 2009, 2006
© 2013 Published
College Bookstore Wholesale Price = $220.75

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Thomas Bateman and Scott Snell
Management: Leading and Collaborating in the Competitive World, ISBN: 9780071318037
Division: Higher Education
Pub Date: FEB-12, Pages: 800, Edition: 10/e

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Stephen P. Robbins, San Diego State University and Mary Coulter, Missouri State University
Management, 11/E, ISBN-10: 0132163845 • ISBN-13: 9780132163842
©2012 • Prentice Hall • Cloth, 672 pp
Published 12/27/2010

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Charles W. L. Hill and Steven McShane
Principles of Management, ISBN13: 9780073530123, ISBN10: 0073530123
Division: Higher Education
Edition: 1

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Chapter 15 Managing through Power, Influence and Negotiation
Chapter 16 Leadership
Chapter 17 Communication
PART FIVE CHANGE
Chapter 18 Managing Innovation and Change

APPENDIX B
Table of Contents of Business Communication Textbooks Used in Study

Mary Ellen Guffey Los Angeles Pierce College and Dana Loewy California State University, Fullerton
Business Communication: Process and Product, 8th Edition, ISBN-10: 1285094069, ISBN-13: 9781285094069
704 Pages Hardcover, Previous Editions: 2011, 2008, 2006, © 2015 Available January 2014
College Bookstore Wholesale Price = $192.00

UNIT I: COMMUNICATION FOUNDATIONS.
1. Business Communication in the Digital Age.
2. Professionalism: Team, Meeting, Listening, Nonverbal, and Etiquette Skills.
3. Intercultural Communication.
UNIT II: THE WRITING PROCESS.
4. Planning Business Messages.
5. Organizing and Writing Business Messages.
6. Revising Business Messages.
UNIT III: WORKPLACE COMMUNICATION.
7. Short Workplace Messages and Digital Media.
8. Positive Messages.
9. Negative Messages.
10. Persuasive and Sales Messages.
UNIT IV: Reports, Proposals, and Presentations.
11. Report and Research Basics.
12. Informal Business Reports.
13. Proposals, Business Plans, and Formal Business Reports.
14. Business Presentations.
UNIT V: EMPLOYMENT COMMUNICATION.
15. The Job Search, Résumés, and Cover Letters.
16. Interviewing and Following Up.
Appendix A. Grammar and Mechanics Guide.
Appendix B. Document Format Guide.
Appendix C. Documentation Guide.
Appendix D. Correction Symbols.

Kitty O. Locker, The Ohio State University and Stephen Kyo Kaczmarek, Columbus State Community College
Business Communication: Building Critical Skills, 5/e, ISBN: 0073403156, Copyright year: 2011

Unit 1 Building Blocks for Effective Messages
1. Business Communication, Management, and Success
2. Adapting Your Message to Your Audience
3. Communicating across Cultures
4. Planning, Writing, and Revising
5. Designing Documents, Slides, and Screens

Unit 2 Creating Goodwill
6. You-Attitude
7. Positive Emphasis
8. Reader Benefits

Unit 3 Letters, Memos, and E-Mail Messages
9. Formats for Letters and Memos
10. Informative and Positive Messages
11. Negative Messages
12. Persuasive Messages
13. E-Mail Messages and Web Writing

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16. Revising Sentences and Paragraphs

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19. Planning, Conducting, and Recording Meetings
20. Making Oral Presentations

Unit 6 Research, Reports, and Visuals
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22. Finding, Analyzing, and Documenting Information
23. Short Reports
24. Long Reports
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Unit 7 Job Hunting
26. Researching Jobs
27. Résumés
28. Job Application Letters
29. Job Interviews
30. Follow-Up Letters and Calls and Job Offers

Carol M. Lehman Mississippi State University and Debbie D. DuFrene Stephen F. Austin State University
Business Communication, 16th Edition, ISBN-10: 0324782179, ISBN-13: 9780324782172
656 Pages Hardcover, Previous Editions: 2008, 2005, © 2011 College Bookstore Wholesale Price = $205.50

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1. Establishing a Framework for Business Communication.
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Part II: COMMUNICATION ANALYSIS.

3. Planning Spoken and Written Messages.
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6. Delivering Good- and Neutral-News Messages.
7. Delivering Bad-News Messages.
8. Delivering Persuasive Messages.
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9. Understanding the Report Process and Research Methods.
10. Managing Data and Using Graphics.
11. Organizing and Preparing Reports and Proposals.
12. Designing and Delivering Business Presentations.
Part V: COMMUNICATION FOR EMPLOYMENT
13. Preparing Resumes and Application Messages
14. Interviewing for a Job and Preparing Employment Messages.
Appendix A: Document Format and Layout Guide.
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Kathryn Rentz, Marie Flatley and Paula Lentz
Lesikar's Business Communication: Connecting in a Digital World
ISBN13: 9780073377797, ISBN10: 0073377791
Division: Higher Education, Pub Date: APR-10, Publish Status: Limited stock, Pages: 688, Edition: 12
Price: A$ 139.95 / NZ$ 165(Incl. GST)
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Chapter Six: Directness in Good-News and Neutral Messages
Chapter Seven: Indirectness in Bad-News Messages
Chapter Eight: Indirectness in Persuasive Messages
Chapter Nine: Communicating in the Job-Search Process
Part Four: Fundamentals of Report Writing
Chapter Ten: Basics of Report Writing
Chapter Eleven: Types of Business Reports
Chapter Twelve: Graphics in Reports and Other Documents
Part Five: Oral Forms of Business Communication
Chapter Thirteen: Oral and Interpersonal Communication
Chapter Fourteen: Oral Reporting and Public Speaking
Part Six: Cross-Cultural Communication, Correctness, Technology, Research
Chapter Fifteen: Cross-Cultural Communication
Chapter Sixteen: Correctness of Communication

Chapter Seventeen: Technology-Enabled Communication
Chapter Eighteen: Business Research Methods

Courtland Bovee and John V. Thill,
Business Communication Today, 11/E
Communication Specialists of America, ISBN-10: 0132539551, ISBN-13: 9780132539555
©2012, Prentice Hall, Cloth, 720 pp, Published 08/04/2011

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