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Situational Prevention and the Reduction of White Collar Crime

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This article investigates an often overlooked and inexpensive approach to decreasing a significant amount of unethical conduct and white-collar crime within organizations. It first examines the government's criminal justice response of detecting, deterring and sanctioning white-collar crime. It then examines the government's civil law approach of regulating organizational misconduct. In both cases, it is found that there is over-reliance on the government with limited results. Misconduct is then shown to stem, in part, from organizational processes rather than solely from individual behavior. Finally, the article emphasizes situational prevention instead of exclusively focusing on a potential offender and the government's response.

THE ISSUE

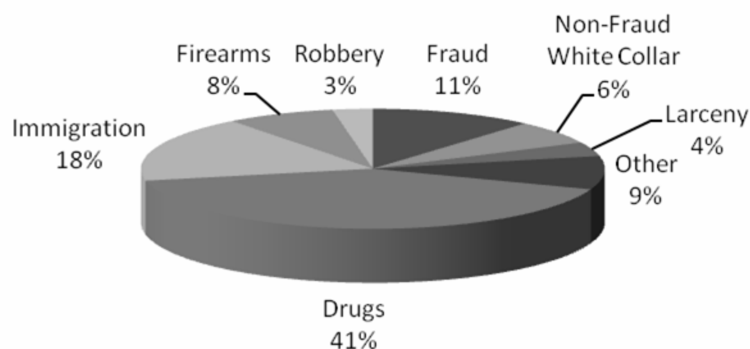
The argument can be simply stated. Instead of exclusively concentrating on the offender to reduce white-collar crime, emphasis should be placed on reducing the opportunity to commit crimes within organizations. However, within this simplicity there are complex realities about white-collar crime and our customary ways of attempting to control misconduct within organizations.

One of the main realities of the American criminal justice system is that it is a county/state based system. Reflecting the non-federal emphasis, the vast majority of incarcerated inmates are state and not federal prisoners. The last census of those incarcerated listed 1.8 million inmates in state prisons and county jails and only 150,000 in the federal prisons (BJS, 2003).

Given the complexity and difficulty of detecting and successfully prosecuting white-collar crime, almost all local jurisdictions have no ability to emphasize white-collar crime. In addition to the difficulty in prosecuting white-collar crime, there is a common perception that white-collar crime is not a "serious" problem (Benson and Cullen, 1998).

Consequently, most of the prosecutions in white-collar crime are held at the federal level. Yet, most of the federal government resources are directed towards other crimes. As Figure A illustrates, only 21% of all federal convictions can be interpreted as white-collar crimes.

FIGURE A
DISTRIBUTION OF OFFENDERS FY 2001 FEDERAL CONVICTIONS



*The Non-Fraud White Collar Category includes the following: Embezzlement, Forgery/Counterfeiting, Bribery, Money Laundering, and Tax. Source: U.S. Sentencing Commission, 2001 Datafile, USSCFY2001.

Even if there was an exponential increase in federal resources to "fight" white-collar crime, that effort would not be in alignment with the prevailing mode of dealing with corporate misconduct, which is the regulatory (civil) approach instead of the criminal approach. The goal of regulatory law is to gain compliance as opposed to the punishment approach of criminal law (Simpson, 2002; Skrzycki, 2003). Also, given the standard of proof is significantly less with the regulatory approach - "preponderance of evidence" as opposed to "beyond a reasonable doubt"; gaining compliance is much more feasible than the punishment approach (Simpson, 2003).

The difference between the regulatory and criminal approaches is striking. In the period of 1997-2000, over 3,000 civil cases were brought to court by the Securities and Exchange Commission (Leaf, 2002). However, in the much longer period of 1992-2001, only 609 of its civil cases were referred to U.S. Attorneys for criminal charges and of those only 87 actually sentenced to prison (Leaf, 2002). In addition, this was during the tenure of Arthur Levitt as Chairman of the SEC, who was generally regarded as an aggressive opponent of white-collar crime (Skrzycki, 2003).

Given these complex realities, this article argues that more emphasis should be placed on organizational processes specifically in regards to white-collar crimes; it is argued that misconduct can be significantly reduced by increasing the focus on reducing the opportunity for wrongdoing.

WE HAVE OVER-RELIED ON GOVERNMENT TO REDUCE CRIME IN ORGANIZATIONS

The Criminal Law Approach

It should not be misconstrued that the authors are calling for less government involvement in detecting, prosecuting and imprisoning white-collar offenders. To the contrary, it is believed that the federal system should leave most drug prosecutions to the states and instead concentrate on

white-collar crime and terrorism. However, given the complexities and difficulties with the government approach described below, the effects will be limited.

Policing and Prosecuting

It is extremely difficult to police and prosecute white-collar crime. Compared to a burglary or a murder, white-collar crime is markedly complex (Alvesado, 2002). Evidence is extremely difficult to gather and authorities are usually called in after an organization has conducted its own inquiry. Given that time lapse, it is relatively easy to destroy or conceal evidence. Further, our local police authorities (who account for the vast majority of policing in our country) are simply not trained to detect white-collar crime.

Even if a white-collar crime is detected and reported to authorities, prosecuting such a crime is complex, time consuming and expensive. In his study of the defense of white-collar crimes, Kenneth Mann found that defense attorneys usually have much earlier involvement in civil law cases than they have in criminal law cases. Consequently, a major objective of the defense is to control information. Investigators are employed to gather all pertinent information. Clients and other potential witnesses are instructed not to disclose any information. The bulk of the information control can usually occur before a search warrant is issued and an arrest is made. Furthermore, indictments can be "headed off" in exchange for a client's cooperation. If a plea is not arranged and a case goes to trial, defense lawyers typically have superior resources to challenge the case (Mann, 1988).

Given the lack of white-collar crime prosecutions, the overall prosecution strategy seems to be one of vigorously pursuing a high profile defendant in the hopes that harsh punishments will serve as an example and deter future offenders. The familiar "perp" walk of an arrested white-collar defendant is meant to deter others.

Deterrence

Deterrence is one of the most dominant concepts in criminal justice and while it makes intuitive sense, it has been difficult to prove empirically. As a derivative of utilitarianism, the classical school of criminology holds that if society makes a sanction severe enough, certain enough and swift enough, potential offenders will be deterred. Utilitarianism posits that we are rational individuals who seek to maximize pleasure and minimize pain. Accordingly, deterrence theory states that a "tough on crime" stance by society will inhibit offenders (Simpson, 2002).

While this is not the place to consider the other various theories on what motivates offenders, it is important to note that deterrence seeks to demotivate offenders. In contrast, the primary argument of this article is that we should instead put more efforts into reducing the opportunity for misconduct. This enables a proactive solution to white-collar crime as opposed to the current reactive solution that is applied.

The concept of deterrence raises important questions about our current strategies to reducing white-collar crime. Sally Simpson, Professor and Chair of Criminology and Criminal Justice of the University of Maryland, recently reviewed the deterrence literature and the available literature on corporate crime and concluded, "The evidence in favor of deterrence is equivocal (Simpson, 2002, p.42)." Simpson goes on to state that early deterrence studies used poor methodology to conclude that deterrence in fact did work. More recent studies that take advantage of sophisticated research designs have been unable to produce the same results.

Sentencing

A corollary to the "equivocal" literature on deterrence is the sentencing of white-collar offenders. With the enactment of the Sentencing Reform Act of 1984 and the consequent creation of the United States Sentencing Guidelines in 1987, federal sentences for white-collar offenders have become considerably more stringent. With every public financial crisis, the prison sentences are made longer and more certain. For example, former Tyco CEO Dennis Kozlowski will serve between 8½ and 25 years for his role in the theft of hundreds of millions of company dollars.

As a component of deterrence, it is assumed that the enhancement of sentences will reduce corporate misconduct. Please keep in mind that few cases are criminally pursued and even fewer are sentenced. Given there is such a minor chance of detection and an even smaller chance of prosecution and conviction, it is astonishing that more white-collar criminals do not gamble with the weak probability of a sentence.

The Regulatory Approach

Most of our efforts to control white-collar crime are based on the civil law regulatory system and the desire for potential offenders to comply with these regulations. The overwhelming number of actions taken against corporate America is with the civil approach of fines as sanctions. The regulatory agencies in turn refer a very limited number of offenders to the Justice Department for criminal charges (Leaf, 2002). Criminal referrals are statistical anomalies and are wishfully intended to "deter" wrongdoing by others.

Two aspects of the regulatory approach are important for this discussion. While regulatory agencies are obscure to most citizens and many policy makers, they carry enormous influence and the political battles that exist to determine who runs these agencies are critically important (Skrzycki, 2003). The successful efforts of the accounting industry to keep John Biggs of TIAA-CREFF from chairing the new securities oversight board underscores how industry strives to keep the rule-making process friendly to their interests.

The other important aspect of regulatory law for this discussion is the liberal belief that more rules might mitigate corporate misconduct. Consider how very difficult it is to actually convict someone of insider trading. Even a high-profile case such as Martha Stewart's ended with obstruction of justice charges rather than the more serious insider trading charges. Therefore, this illustrates that increased regulation on insider training will not necessarily decrease misconduct.

In fact, it has been argued by some that too many regulations might actually increase corporate misconduct. Diane Vaughn illustrated this point in her famous case study. Vaughn studied the successful multi-agency prosecution of the Revco drug firm in Ohio in the late 1970s. She found that regulations that are too numerous, too complex or too old could actually lead organizations to ignore them and intentionally break the law (Vaughn, 1983). One encouraging line of inquiry on regulations is the seminal work done by John Braithwaite of Australia. While it is not discussed here, his notion of "enforced self-regulation" fits in well with our central argument of reducing opportunity of misconduct in that ethical responsibility is placed with both the organization and the government (Braithwaite, 2000).

THE ORGANIZATION CONTRIBUTES TO DEVIANCE

When examining white-collar crime and its causes, it is important to realize that the organization as a whole can contribute to the deviant acts of individuals. Many approaches place

the blame directly on the individual who commits the crime, rather than delving into the organization that may have enabled or even encouraged such acts.

Research in this area has determined multiple ways in which the organization as a whole can facilitate white-collar crimes.

Structure versus Agency Logic

Organizational theory stresses two separate concepts when considering who is culpable for deviant acts. Some subscribe to the notion that an individual chooses to commit a crime in order to maximize some sort of satisfaction, perhaps power or profit. This choice is made with an eye on the exponential punishment that may come from getting caught in said crime. At the heart of this idea, labeled agency logic, is that an individual chooses their action rationally and with knowledge of the costs and benefits (Erman and Rabe, 1997).

Unfortunately, white-collar criminals may commit their crimes not as a rational decision to maximize their good, but because the organization allows for such deviant actions. As organizations become more complex and tasks are further compartmentalized, individual workers' goals drift from that of the whole overarching organization. This creates the opportunity for deviant acts to be more prevalent. An auditor may need to sign off on materially misstated financial statements in order to obtain a bonus that he/she desperately needs, in essence placing the goals of the company after their own individual needs. These choices are not the result of a long, drawn out study of which option will provide the most utility, but instead are the product of organizations that encourage or fail to discourage deviant acts.

The following sections will describe how an organization can facilitate white-collar crime in individuals. In an important study of organizations, Erman and Lundman found three main ways organizational processes can facilitate organizational deviance through: incomplete information, psychological influences, and normalization of extreme risk (Erman and Lundman, 1996).

Incomplete Information

In this situation, individuals in a large organization are not able to see the larger framework that their job contributes to. For example, accountants may work on a small part of a large audit, and therefore not realize that a small mistake, purposeful or not, can have major consequences on the larger project.

A famous example of incomplete information within the organization would be the individual decisions made in the design and sale of the Ford Pinto. No single engineer, safety expert, or executive set out to make an unsafe car, but each lacked knowledge of the whole overarching project. The cumulative effect of this led to egregious safety mistakes that could have been prevented if the individuals involved had complete information (Ermann and Lundman, 1996).

Psychological Influences

In organizational culture, certain psychological influences can cause individuals to act in ways that they might not believe possible.

The first type of influence is the idea that unethical behavior can be authorized by key players in an organization. Key employees with decision-making authority can either implicitly or inadvertently encourage deviant behavior from those ranked below them. If a senior partner in a law firm asks a recent hire to commit a deviant act, it may make the act seem legitimate because it has been vetted by a higher positioned individual of the organization.

The next psychological aspect present in organizations is the idea that jobs become so routine that after a while deviant behavior becomes embedded in that routine. Certain jobs may require cursory glances at complex reports so often that employees routinely take part in deviant acts without a second thought. In the case of the Ford Pinto, safety inspectors saw such an abundance of accidents everyday that the Pinto seemed like another run of the mill accident that did nothing to jolt them from their daily routine. And yet if one were to remove the safety inspectors from their everyday jobs and show those the horrifying pictures and descriptions of Pinto accidents, each one would most likely realize that the car was not suitable for the market. Unfortunately, organizational structures, such as these, do not allow workers to take an outsider's view, as one must be invested in their job in order to complete everyday tasks quickly and efficiently.

Finally, dehumanization takes place in organizations to the point that employees feel as if their deviant acts hurt no one. There is a distance that exists between white-collar criminals and how they rarely see the victims they are defrauding, cheating, or harming in some way. This is in contrast to street crime, where the victims are front and center of the crimes committed. Enron executives likely never considered the thousands of employees they were bankrupting. Since there was no human aspect to their crime, just financial statements and figures, it was easier for them to commit such deviant acts. These same executives would likely find the idea of mugging someone abhorrent, but in the end their crimes robbed workers of millions the same as a mugger would (Kelman and Hamilton, 1989).

Normalization of Extreme Risk

When all of these effects come together, organizations can become a locus for deviant acts. In a seminal study, Diane Vaughn examined the Challenge Disaster and NASA. Instead of finding a fault of leadership or amoral calculators, her study found an organizational culture that facilitated misconduct.

Vaughn found that NASA's organizational culture contributed to the disaster by which she termed the "normalization of risk". That is, previous decisions relative to the O rings in launches, though risky, became routine when the launches seemed successful.

Another aspect of the organization she found at fault was that of structural secrecy. Parts of NASA and their subcontractors were ignorant of activities in the larger enterprise that had real meaning for them. This secrecy "not only prevented the reversal of the scientific paradigm but it perpetuated the view that the faulty O rings were an acceptable risk (Vaughn, 1996)."

While organizational literature is rich with examples of how organizational processes can facilitate misconduct, there is little on how organizations can arrange themselves to prevent misconduct. One of the most promising ways is the adoption of the notion of situational prevention.

SITUATIONAL PREVENTION

Broadly speaking, one of the most important factors of social control theories of crime is the situation surrounding the offense. While there are variations such as the Routine Activity Approach (Felson, 1994), the most innovative work on controlling the situation is that of R.V. Clarke. With many correlative theories (Jacobs, 1961; Newman, 1996) Clarke's work can be summarized as situational crime prevention. In his work, he outlines sixteen opportunity-reducing techniques. Of these, the most celebrated technique is called "target hardening." In

this technique, offenders are discouraged by increasing their perceived effort to participate in misconduct.

Situational Prevention in Street Crime

After Clarke's groundbreaking work, practical experiments were conducted to gauge the effectiveness of situational prevention. Based largely in England and Western Europe, these experiments were a resounding success.

One example of situational prevention would be the installation of steering-wheel locks on cars in Britain and West Germany. Both countries not only required the use of anti-theft devices, the locks were colored bright red to make them extremely visible to potential thieves. The West German law, which required all cars to have locks, saw a significant decline in automobile thefts. The British law, which only required new cars to use the devices, saw a decrease in new car thefts but a steady increase in the rate of older cars being stolen. In this example, situational prevention worked, but the differing results demonstrates the complexity of the idea as a whole.

Another example of situational prevention in street crime is the decision by New York City authorities to eliminate graffiti on subway cars. Instead of attempting to catch individuals in the act of defacing the cars, they decided that any car that was painted would not run until it was completely cleaned. Since graffiti artists derived such satisfaction from seeing their artwork travel around the city, this policy took away any incentive the offenders might have to paint the cars. Authorities found the underlying rationale for the deviant acts and eliminated any reward the criminals might have received. Simply put, they did not focus on the offender but reduced the opportunity for misconduct.

Situational Prevention in White-Collar Crime

It is the argument of this treatise that we should institute organizational structures and processes that reduce the opportunity for crime in organizations and in regulations. It should be stressed that reducing opportunity in organizations is not conceptualized as increasing surveillance. It is neither "micro management" nor any of the well-known techniques of Theory X type of management (Heil, 2000). It is certainly not any of the intrusive management techniques such as worksite drug testing or honesty testing. While many managers are drawn to these techniques, there is little reliable literature to support their effectiveness (Murphy, 1993).

To illustrate reducing opportunity, the fraud at Enron might have been avoided had the Arthur Andersen consultants been separated from the Arthur Andersen auditors. Consider the pressures on a new audit associate if a senior partner from the consulting division assures him/her that it is acceptable to sign off on a fraudulent financial statement. Rather than wish for more virtuous leaders or different members in an organization, reducing the opportunity for misconduct is more effective in advancing ethical conduct. Take NASA for example, which has changed its leadership numerous times and still fosters an environment prone to the same type of disasters time and time again.

Before illustrating situational prevention within organizations, we will examine how regulations can utilize situational prevention.

Sarbanes-Oxley: Elements of Situational Prevention

The Sarbanes-Oxley Act (SOX) of 2002 contains several elements that clearly illustrate situational prevention in regulations. SOX was created in response to a number of major corporate and accounting scandals. The legislation establishes new and enhanced standards for

all U.S. publicly traded companies and public accounting firms. The Act establishes a new quasi-public agency, the Public Company Accounting Oversight Board (PCAOB), which is responsible for overseeing and regulating accounting firms in their roles as auditors of public companies.

One such element of SOX is that it requires the audit engagement partner to rotate from clients every five years. This rotation reduces the opportunity for ongoing misconduct and/or detection of illegal conduct.

Most relevant to this discussion is the element that certain non-audit services are prohibited from being performed by a client's audit firm, such as consulting services, further reducing the opportunity for undue pressure on the auditor.

Situational Prevention within Organizations

Finally, reducing opportunity within organizations is a matter of common sense more than strategy. For instance, in small organizations it is easy to achieve the separation of duties between the employees that authorize, record, and have custody over cash and its related transactions. In fact, many large organizations require employees to take vacations. The underlying assumption is, in part, that a temporary replacement should alert potential misconduct.

IN CONCLUSION

We do not assert in this article that situational prevention is a panacea. Rather, we view it as an important complimentary approach to the usual methods of relying on the government either to detect, prosecute and sanction white-collar offenders or to gain compliance to regulatory law. There is a growing appreciation of how reducing opportunity can decrease "street crime." It is our contention that a similar emphasis should be placed on reducing opportunity for white-collar crime.

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Rethinking Disability and Corporate Responsibility

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This article is intended to provide a framework for incorporating private enterprise into the design and implementation of all future disability policies and strategies. The article first describes the shift in thinking on disability issues that have occurred in the last twenty five years, resulting in a global commitment to increasing the social and economic access of people with disabilities. After arguing that the implementation of this commitment has been slowed by a lack of understanding of disability issues, including the relationships between disability communities and private enterprise, the article builds a framework for correcting this deficiency by productively incorporating private enterprise into the design and implementation of future disability policies and strategies.

THE POLICY CONTEXT

Societies have long failed to provide adequate access for people with disabilities to mainstream social and economic opportunities. As a result, people with disabilities remain one of the world's most socially and economically marginalized populations. Over the last quarter century, reducing this marginalization has become a global policy target, not only because it is a violation of the basic human rights of disabled people, but also because it is now understood to be a needless economic encumbrance that reduces the economic output of otherwise capable people with disabilities.

Worldwide concern over this issue increased dramatically with the 1982 passage of the United Nations World Program of Action Concerning Disabled Persons (United Nations, 1982) and the subsequent passage of the Standard Rules on the Equalization of Opportunities for Persons with Disabilities (United Nations, 1994). Global concern increased again with the 2006 adoption of the United Nations Convention on the Rights of People with Disabilities (United Nations, 2007). As a result, most nations have joined into what amounts to a global commitment to increasing social and economic access for people with disabilities.

Unfortunately, implementation of this commitment has been slow for a variety of reasons that all tend to stem from a long history of isolating people with disabilities from mainstream society, first within their families, then in segregated institutions, and, most recently, in segregated rehabilitation and educational systems. As a cumulative result of centuries of such institutionalized segregation of disabled people, the wide-ranging social and environmental

issues associated with the relatively recent policy goal of increasing the social and economic access of people with disabilities are still underappreciated and misunderstood (Metts, 2000, Sections II and III). The roots of the wide range of implementation problems, therefore, all tend to reside in a collective misunderstanding of disability issues.

One important area of such misunderstanding is the relationship between people with disabilities and private enterprise. Though private enterprise is arguably the world's most important economic institution, and though it strongly affects the economic and social circumstances of people with disabilities in a variety of ways, its importance to the disability community has tended to be narrowly misperceived as stemming almost entirely from its role as employer, and from its philanthropic activities. Consequently, many of the other important impacts of businesses on people with disabilities (e.g. as product designers and manufacturers, as distributors of goods and services and as shapers of the built environment, public opinion and public policy) have tended to be underappreciated.

Largely due to this collective misunderstanding of its importance to disabled people, the business community has tended to be left out of the discussions and processes associated with disability policy formation. As a result, disability communities tend to be denied the cooperation of an informed and involved business community, and policy makers tend to be denied access to the vast reservoirs of unique and relevant expertise and resources that reside in their business communities. Private enterprise suffers as well, as businesses are often hampered by costly and ineffective disability laws and regulations that have been designed without their input, and often find themselves pressured to employ and accommodate people with disabilities who are inadequately prepared for competitive employment.

This article is intended to address this lack of business community participation in disability policy formation by providing an appropriate and cost-effective operational framework for productively incorporating private enterprise into the design and implementation of future disability policies and strategies. The article begins with a discussion of the phases of physical and social integration through which a person with a disability must successfully pass in order to achieve social and economic access. This is followed by a description of the true nature of disability and an analysis of the types of barriers that people with disabilities must overcome in order to achieve significant social and economic access. The key elements of successful policies and strategies to remove or mitigate these barriers are then identified, and a framework is presented for productively incorporating private enterprise into the process.

ACHIEVING SOCIAL AND ECONOMIC ACCESS

To achieve the social and economic access necessary to make meaningful social and economic contributions, people who incur disabilities must pass through three distinct but interrelated stages of physical and social integration (Metts, 2000, pp. 36-39).

In the first stage, they are concerned with surviving the disability and beginning to recover. The barriers associated with this stage tend to reside within the person. The types of institutional support associated with this stage are, therefore, primarily rehabilitative in nature and include physical and mental restoration, physical therapy, assistive technology, prosthetic devices and appliances, personal assistance, information, advocacy and training in all of the activities associated with surviving and beginning to overcome a disabling condition.

In the second stage, a person with a disability must become as self-reliant as possible and gain social and economic access. The barriers associated with this stage tend to reside not only within the person, but within society and the built environment as well. The types of individual support

associated with this stage are, therefore, both rehabilitative and empowering in nature, and include mobility training, assistive technology and access to housing, transportation, education, and recreation. Facilitating the passage of people with disabilities through this stage also requires the removal and prevention of architectural and design barriers and the removal of the types of social barriers that restrict people with disabilities from fully participating in their families, communities, and societies.

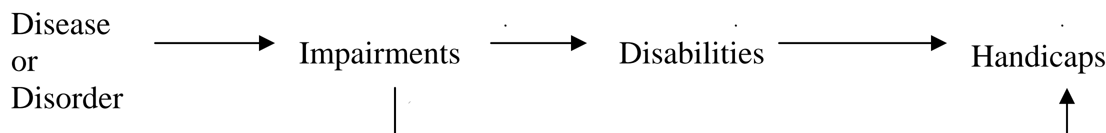
In the third and most advanced stage, people with disabilities must gain access to the types of activities that give life meaning and purpose. For most people, this translates into some combination of productive employment, contribution to family and community, and active participation in society as a whole. This requires access to education, training and recreation, and support for employment and social participation. It also requires social policies and strategies to reduce the types of discrimination against people with disabilities that restrict their access to all types of social opportunities including education, training and gainful employment.

THE TRUE NATURE OF DISABILITY

The International Classification of Impairments, Disabilities and Handicaps (ICIDH), published by the World Health Organization (WHO) in 1980, was the first formal conceptualization of the disability experience to embody the broad range of personal, social and environmental elements that affect the ability of people with disabilities to successfully pass through the three stages of physical and social integration (World Health Organization, 1980).

As depicted in Figure 1, within the ICIDH framework, disabling conditions are comprised of three elements; impairments, disabilities and handicaps. A disability is a restriction or lack of ability to perform an activity in a manner or within a range considered normal for a human being. Such restrictions are caused by impairments, which are losses or abnormalities of psychological, physiological or anatomical structure or function. Handicaps, in turn, are disadvantages caused by impairments and disabilities that limit or prevent the fulfillment of a role that is considered to be normal depending on age, sex and social and cultural factors.

FIGURE 1
THE DISABLEMENT PHENOMENA AS CONCEPTUALIZED IN THE ICIDH



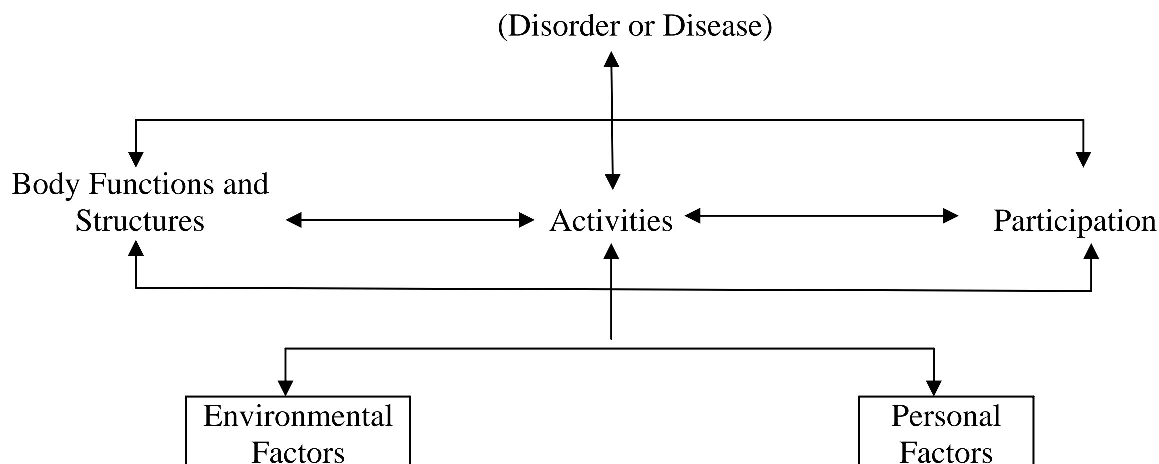
Source: World Health Organization, 1980, p. 11.

In order to incorporate subsequent advances in the understanding of the interactions between the personal, social and environmental elements of disability, the WHO subsequently engaged in a follow-up process that led to the replacement of the ICIDH with the International Classification of Functioning, Disability and Health (ICF).

As depicted in Figure 2, within the ICF framework health conditions are defined as disorders or diseases, body structures are defined as anatomical parts of the body, and body functions as the physiological functions of body systems. An activity is defined as the execution of a task or

action by an individual, and participation is defined as involvement in a life situation. Environmental factors comprise the physical, social and attitudinal environments in which people live and conduct their lives, and personal factors include gender, race, age, fitness, lifestyle, habits, upbringing, coping styles, social background, education, profession and a variety of other possible characteristics of individuals (World Health Organization, 2001).

FIGURE 2
INTERACTIONS BETWEEN THE COMPONENTS OF THE ICF HEALTH CONDITION



Source: World Health Organization, 2001, p. 18.

A person's functioning at the level of the body, therefore, and his or her ability to execute tasks (activities) and/or participate in life situations, are all understood to be functions of complex relationships between health conditions and personal and environmental factors.

Therefore, people may:

- Have impairments without capacity limitations (e.g. a disfigurement in leprosy may have no effect on a person's capacity);
- Have performance problems and capacity limitations without evident impairments (e.g. reduced performance in daily activities associated with many diseases);
- Have performance problems without impairments or capacity limitations (e.g. an HIV-positive individual, or an ex-patient recovered from mental illness, facing stigmatization or discrimination in interpersonal relations or work);
- Have capacity limitations without assistance, and no performance problems in the current environment (e.g. an individual with mobility limitations may be provided by society with assistive technology to move around);
- Experience a degree of influence in a reverse direction (e.g. lack of use of limbs can cause muscle atrophy; institutionalization may result in loss of social skills) (World Health Organization, 2001, p. 19).

The ICIDH and ICF frameworks both embody the modern understanding that impairments and disabilities are limitations imposed upon individuals by their own bodies, while handicaps are additional disadvantages imposed on people with impairments and disabilities by their environments, cultures and institutions.

This understanding is important from a policy perspective because it leads inevitably to the conclusion that policies and strategies to increase the social and economic access of people with disabilities must extend beyond the traditional medical and rehabilitative approaches to disability aimed at increasing the functional capabilities of disabled people themselves, to include the wide-ranging issues associated with preventing, removing or mitigating the broad range of additional environmental, cultural and institutional barriers that also limit social and economic access for people with disabilities.

KEY ELEMENTS OF A SUCCESSFUL APPROACH TO DISABILITY

The preceding analyses strongly suggest that; 1) the economic output of people with disabilities can only be maximized by successful policies and strategies designed to facilitate the passage of people with disabilities through the three stages of physical and social integration, and; 2) that successful efforts to facilitate this passage will require comprehensive systems and strategies that simultaneously address all of the personal, social and environmental issues associated with the entire range of existing disabling conditions.

Success, therefore, will require replacing today's disjointed and piecemeal systems of disability interventions with coordinated and integrated combinations of *health care and rehabilitation strategies* designed to reduce the disabling consequences of impairments, and *inclusion and empowerment strategies* designed to reduce the social and environmental barriers that turn impairments into handicaps.

Such coordination and integration is required because the benefits of any given activity cannot be fully realized unless it is part of a broader system of policies, strategies and interventions designed to ensure that the beneficiaries of that activity are further empowered and supported in ways that allow them to pass through all three of the stages of physical and social integration. Disabled people, for example, cannot maximize the benefits of physical rehabilitation if they are prevented by unavailable or inadequate personal assistance and/or assistive technology from passing through stage one (i.e. adapting to their underlying disabling conditions and maximizing their functional capacities). And the benefits of successfully passing through stage one cannot be fully realized if social barriers, environmental barriers or discrimination in education, employment or some other aspect of societal participation prevent people with disabilities from passing through stages two and/or three (gaining access to their communities and societies, and engaging in activities that give life meaning and purpose).

In addition to explaining why the traditional piecemeal approaches to disability have been ineffective, these facts strongly suggest the need for two categories of interrelated strategies; broad social and environmental strategies aimed at making societies and built environments more accommodative to the needs of disabled people as a group, and strategies for efficiently and cost-effectively providing specific necessary disability related goods and services to disabled individuals.

Establishing such a large and complex society-wide approach to disability will involve, at the very least, achieving the following five objectives:

1. Identifying and estimating the sizes and characteristics of existing disability populations.
2. Developing cost-effective disability policies and strategies capable of bringing disability populations into the social and economic mainstream.

3. Establishing production and distribution systems for disability related goods and services that reduce their production costs and maximize their availability and utility to people with disabilities.
4. Rationalizing the distribution of the economic costs of the resulting disability policies and strategies between the public and private sectors.
5. Restructuring philanthropic strategies to foster increased access for these disability populations to social and economic opportunities.

For a strategy with such a society-wide focus to be successful, its design process must logically include representatives of all aspects of civil society, including medical and rehabilitation professionals, policy makers at all levels, scholars in a variety of fields, organizations of disabled persons, experts in architecture and design, representatives of all aspects of the media and representatives of all elements of private enterprise.

THE ROLE OF PRIVATE ENTERPRISE

All of the above objectives are linked to the interests, resources and expertise of private enterprise. Therefore, a reasonable starting point for the proposed effort to incorporate private enterprise into the greater effort to bring people with disabilities into the social and economic mainstream is to identify and develop mechanisms by which private enterprise can contribute to the achievement of each objective. The possible contributions are many, including the following:

Identifying and Estimating the Sizes and Characteristics of Existing Disability Populations

Inadequate disability information has long been a key impediment to the implementation of the global commitment to increasing social and economic access for people with disabilities. The primary problem has been the misguided focus of the United Nations, the World Bank and many other national and international organizations on developing national and global disability population estimates, which has resulted in a virtually meaningless collection of unreliable, disparate and incomparable estimates.

For example, the average of the United Nations Development Program disability population estimates for low, medium and high income countries is 4.24% (United Nations Development Program, 1997, pp. 176-77, 207), while the WHO estimate, which is currently the most widely used in the United Nations system, is 10%. Meanwhile, Coleridge (1993, pp. 103-109) suggests a range of 3% to 10%, and Bengt Lindqvist, the former United Nations Special Rapporteur on Disability agrees with the WHO estimate of 10% (B. Lindqvist, statement at World Bank Seminar on Disability, March 5, 1998, Washington D.C.).

This failure to achieve accurate large scale disability population estimates is unavoidable because attempting to do so is, in fact, an impossible mission. The first obstacle to be overcome is arriving at an agreed upon definition of a disabled person, which has never been accomplished on a global scale. As a result, large scale disability population estimates, including the estimates presented in the previous paragraph, tend to be little more than educated guesses made without an underlying definition of disability.

Even when more reasonable attempts are made to estimate the sizes and characteristics of the component parts of disability communities (e.g. people with physical, visual, hearing, psychological and intellectual impairments), national, regional and global estimation processes are greatly hampered by a tendency in many areas to hide people with disabilities, and by a wide variety of other reporting problems related to differing survey techniques and the existence of negative cultural attitudes toward people with disabilities (Metts, 2000, Annex C, pp.54-56).

The futility of such efforts should not be the issue, however, because global estimations of disability populations are not actually required for strategies to increase the social and economic access of people with disabilities. In fact, postponing the process of developing new disability policies and strategies until such accurate large-scale estimations of disability populations are available is arguably unconscionable because doing so needlessly prolongs the period in which tens of millions, if not hundreds of millions, of people with disabilities face preventable hardships that ruin their lives and waste their potential.

Importantly for the discussion at hand, the solution to this problem may very well reside in the collective marketing and distribution expertise of private enterprise. Over many years, and in a variety of cultural and environmental circumstances, businesses have developed strategies to market and distribute goods and services in environments characterized by imperfect information. This type of market analysis, which is a fundamental aspect of business, simply does not exist in the governmental, medical, legal and charitable institutional systems that now dominate the world's disability systems. Furthermore, unlike large international agencies, government departments and charitable organizations, businesses tend to stake their own resources and the resources of their shareholders on the outcomes of the strategies they choose. Consequently, unsuccessful approaches to problems tend to be replaced by successful approaches in iterative sequences that tend to result in consistently improving strategies.

There are, therefore, many potential benefits to be derived from incorporating these core business practices into disability information gathering. Rather than inaccurately estimating disability populations and basing the design of future disability systems on the virtually meaningless data they provide, policy makers and disability practitioners could instead employ sound business principles in their information gathering by initiating long term iterative processes of identifying existing groups of people with disabilities, analyzing their known needs, and developing strategies to meet those needs. The initial phase of such processes could be to conceptually cluster the known disability populations according to their shared personal, social and environmental needs, and estimate their sizes and locations to determine the scopes, scales and geographic distributions of the activities necessary to meet those needs. Whatever the details of the marketing and distribution techniques that are ultimately selected, however, the transference of this vital area of business expertise to the process of gathering and analyzing disability data represents a logical and productive point of entry for private enterprise into the process of disability policy formulation.

Developing Cost-Effective Disability Policies and Strategies Capable of Bringing People with Disabilities into the Social and Economic Mainstream

This is the largest component of the proposed disability strategy, and it is the area in which the exclusion of private enterprise has had the most negative impact. The large-scale inclusion and empowerment of people with disabilities will require coordinated activities to address the personal, social and environmental access barriers that people with disabilities face in ways that facilitate the passage of as many disabled people as possible through all three stages of physical and social integration. This will require healthcare, rehabilitation, personal assistance and assistive technology strategies and interventions to increase the functional capabilities of people with disabilities. It will also require social and environmental policies and strategies to foster the access of people with disabilities to their built environments and mainstream societies and economies.

Private enterprise must be included in all aspects of the design and implementation of these strategies and systems because it is the leading repository of information and expertise regarding

the production and distribution of goods and services, it engages in a wide variety of activities that directly impact the social and economic access of people with disabilities, it possesses vital expertise in the area of employment, and it is a major source of philanthropy.

Establishing Production and Distribution Systems for Disability Related Goods and Services that Reduce their Production Costs and Maximize their Availability and Utility to People with Disabilities

Many if not most of the current institutions, systems and approaches for providing goods and services related to the medical, personal and rehabilitative needs of disabled people are extremely inefficient, resulting in undue expense and inadequate provision. The two most important underlying reasons for these inefficiencies are that most disability related goods and services are provided in medically based institutional systems, which are notoriously expensive; and that most are funded through public and private social welfare and charity budgets, which are notoriously politicized and under funded.

These problems are avoidable because the bulk of such goods and services (e.g. personal assistance services, assistive technology, and many of the goods and services related to rehabilitation) are not necessarily medical in nature. Therefore, it would be potentially more cost-effective to provide them in mainstream commercial systems. Replacing the current medically based, highly bureaucratized and inefficient production and distribution systems with more market based solutions solidly grounded in the principles of economics and business will almost certainly result in tremendous efficiencies. This extremely important component of the overall effort to foster the social and economic inclusion of people with disabilities, therefore, provides another very important point of entry for private enterprise.

Rationalizing the Distribution of the Economic Costs of the Resulting Disability Policies and Strategies between the Public and Private Sectors

Society's failure to account for the multifaceted nature of the disability experience, its longstanding tendency to underestimate the capabilities of people with disabilities, and its tendency to over bureaucratize and under fund the provision of disability related goods and services have resulted in a failure to remove or mitigate many of the unnecessary social and environmental barriers that prevent disabled people from becoming viable members of the workforce. This ignorance, in combination with the failure to include the business community in the processes of designing and implementing disability policy, has resulted in a long history of failed employment policies and strategies for people with disabilities.

Despite the multifaceted nature of the problem, and, therefore, of the solution to the problem, the Americans with Disabilities Act of 1990 and its most important predecessors, including Section 504 of the Rehabilitation Act of 1973, have misguidedly attempted to solve the problem by simplistically requiring businesses to employ "qualified" disabled people, and provide them with the "reasonable accommodations" they need to overcome any of their work related limitations.

The benefits of this institutional structure tend to accrue to disabled people, who become employed, and to society as a whole, which experiences a decrease in resource expenditures to care for otherwise capable people with disabilities. Though these benefits are potentially great and, therefore, well worth capturing, no benefits at all necessarily accrue to private enterprise. From an institutional economic perspective, therefore, this system is unfair and unsustainable because it assigns the lion's share of the costs to an entity that shares virtually none of the benefits.

It is appropriate and necessary, therefore, for private enterprise to engage in a collaborative effort with the disability community to shift the costs of providing employment accommodations away from disabled people, who cannot afford them, and away from private enterprise, which does not deserve to incur them, to governments, which can afford them, and which, as society's representatives, stand to receive substantial benefits from the resulting employment of people with disabilities.

Restructuring Philanthropic Strategies to Foster Increased Access for People with Disabilities to Social and Economic Opportunities

Disability related philanthropy has typically been comprised of random, piecemeal charitable activities. To effectively foster the large scale social and economic inclusion of people with disabilities, these philanthropic efforts must now be transformed into targeted empowering interventions that are integrated components of the wider efforts outlined in this article to facilitate the passage of disabled people through all three stages of physical and social integration. In addition to restructuring their own philanthropic activities to embody these characteristics, private enterprise could also be productively employed transferring the types of technical expertise already mentioned to those involved in the greater effort to restructure disability philanthropy to more effectively empower disability communities.

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Equity-Based Executive Compensation

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Equity-based executive compensation has received a lot of attention both in the press and the academic literature. The empirical evidence has questioned the efficacy of such compensation to align top management and shareholder wants. The literature has focused both on agency and behavioral motivation principals. While we briefly discuss behavioral views on equity-based executive compensation schemes, or focus is on the more traditional agency theory view. In this paper we focus on incentive structures and the consequent modes that are most likely to be effective in motivating managers to maximize shareholder wants. We investigate the traditional, relative, and absolute modeling principals for both option and restricted stock grants. Example models are constructed and the strengths and weaknesses of each model are analyzed. Overall we conclude that the absolute model, employing restricted stock as the awarded asset, is most likely to lead to the maximizing outcome for which equity-based executive compensation strategy is intended.

INTRODUCTION

Curious things are happening in the world of executive compensation. Changes in financial statement reporting requirements and scandals; including the backdating of option grants and huge option payouts, have raised eyebrows and have stoked activist shareholder groups and policy-makers into greater vigilance.

It is one of the more interesting conundrums in financial theory to observe the reaction of executive compensation committees to recent events. Most academics believe that option grants create an expense to current shareholders and should be valued as such in financial statements. Still most academics see this as a housekeeping problem since University educated and CFA branded security analysts and portfolio managers are expected to fully account for Executive Stock Option (ESO) grants in their company valuations even if firms do not include them in the body of their financial statements. Alternatively, the professional community seems to feel that going from disclosure in footnotes to incorporating the expense into the financial statements has the potential to create harm to company valuations. Their view is either that issuing executive

stock options, which have value only because executives expect to be able to purchase company stock at a discount in the future, does not create an expense for shareholders or creates such an unclear expense as to not deserve "in-statement" consideration. The academic community, then, expected that the result of reporting option expense would have no impact on firm value, unless, of course, analysts were not very good at their jobs, and apparently many professionals expected a stock value disaster, especially with respect to start-up companies who are particularly keen on executive stock option compensation.

What we have seen is that firms are turning away from ESO use, as professionals had forecast, however, it is not clear if that is because of accounting rule changes or the exposure of questionable practices such as backdating option awards. We have not, however, seen a massive decline in stock valuations.

Equity-based compensation is designed to replace cash wages, be an effective recruiting mechanism, be an effective retention tool, to better align management goals with that of shareholders, or some combination of the four objectives. It is not clear that traditional executive stock option and restricted stock grants have met any of these objectives satisfactorily.

Start-up companies often have cash flow issues that are more difficult than are those of mature companies. As a result executive stock option and restricted stock grants are sometimes viewed as substitutes for taking below market wages. Vanilla or Traditional option and/or restricted stock grants ***may*** be appropriate in such circumstances (i.e. it is arguable). However, it is important to shareholders that compensation leads to results consistent with their wants.

Most of the interest around equity-based compensation has centered on aligning management goals with those of shareholders. The majority of this paper focuses on that issue as well. Still it is important to keep in mind that the other three objectives can be quite important to firms.

We argue here that equity-based compensation awards, at least those dedicated to a purpose beyond wage substitution, need to be strengthened with a Relative, Absolute, or Combination granting methodology.

In what follows we categorize and evaluate Traditional, Relative, and Absolute compensation models with respect to both restricted stock and executive stock options. The favored methodology will depend on the talent being compensated, the general market conditions, and the risk/return preferences of shareholders.

Section I views the current literature on the executive compensation issue. Section II is a brief section defining terms. In section III we discuss the point of equity-based employee compensation. In section IV we analyze restricted stock grants. Section V analyzes executive stock option grants. Section VI summarizes the paper. Throughout the paper we include suggestions for implementing the strategies suggested.

LITERATURE REVIEW

The recent literature pertaining to Equity-Based executive compensation has focused on two issues; what has actually happened to executive compensation and are the equity-based compensation schemes efficient. The data indicates that executive compensation, including equity-based compensation, is not consistent with performance. Bebchuk and Grinstein investigated the growth of pay for the Standard and Poor's 1500 firms during the period running from 1993 to 2003.[1] Their analysis indicated that pay growth could not be explained by changes in firm size (growth), performance, or industry mix. They also found that while equity-based compensation grew substantially, lowering the cash to non-cash compensation ratio, cash

compensation also grew beyond what could be explained by changes in firm size, performance and industry mix. That is, the large increase in equity-based executive compensation did not appear to rely on a substitution of equity-based compensation for cash-based compensation. They did find that while the prevalence of equity-based compensation was much greater in 2003 then in 1993, its role was reduced substantially when the equity market performed poorly in the latter part of their study. Cash compensation did not experience the same fall off. The implication, not surprisingly, is that equity-based compensation is relatively (to cash) less attractive in down markets. Of course, other factors, such as compensation scandals could also be at play. In addition, A.J. Vogl reported on the Glass Lewis pay-for-performance model in which the relationship between performance and compensation appears to be quite poor.[2]

Two other recent papers focus on the appropriate modeling to better align management and shareholder interests. Abrams, Cohen, and Suzman argue, along traditional agency theory lines, that better alignment [between management and shareholder wants] is possible by restructuring awards along Relative or Absolute performance goals rather than through the traditional granting process. They point out that with respect to restricted stock awards; this implies changing the number of shares awarded based on some measure of performance. That in turn allows the firm to choose a relatively flat allocation (meaning that the number of shares increases (and decreases) by small amounts as performance changes), or a steep allocation. A flat allocation creates a "service-friendly" outcome, whereas the steep allocation creates more of an "option" type outcome.[3] Alternatively, Deya-Tortella et. al. employ a behavioral finance approach to analyze the benefit of executive stock options and find it wanting. They argue that due to loss aversion managers tend to become more, not less, conservative when holding executive stock options. They also analyze out-of-the-money executive option grants and index (relative) option grants and conclude that these too have particular problems. Finally, they find that the restricted stock alternative also has a significant ability to lead to conservative management behavior relative to shareholder wants. Unfortunately, they do not provide an alternative scheme.[4]

Overall the literature does provide the insight that traditional executive stock option grants have not been effective in aligning management and shareholder wants or at least have not been as effective as possible. While we will briefly address the behavioral school arguments, our emphasis is based on the agency theoretic model.[5,6]

TERMS

In this paper we will investigate both restricted stock and executive stock options. Both instruments are part of a class of equity-based compensation instruments. Restricted stock is stock that is not readily tradable. Typically, restricted stock cannot be traded for six-months after its issue. Of course, firms can set their own restrictions on management trading of gifted stock that is more restrictive. Once the restriction is lifted, the holder holds the publicly traded stock. There is large disagreement about valuing restricted stock, once vesting has taken place, since the stock can be collared to create a basically risk free return off of the publicly traded price (transactions costs aside). Executive stock options, alternatively, are an option to purchase the stock over a specified time at a specified price (called the exercise or striking price).

Since these are executive compensation awards, there are usually vesting issues at hand. Both assets lend themselves to a variety of configurations. However, these configurations differ by the nature of the asset type. We define three types of configurations: Traditional, Relative, and Absolute.

Traditional grants of restricted stock often appear to be somewhat haphazardly awarded. The general procedure is to have the Board of Directors decide, typically based on the Compensation Committee's recommendation, the quantity of restricted stock that should be granted. These grants are to be used either as a substitute for wages, an incentive to align shareholder and manager wants, as a tool to recruit or retain talent, or some combination of objectives. In the case of executive stock options, the Traditional model also suffers from the quantity issue. In the Traditional model, executive stock options are issued at-the-money. That means that when the options are issued the exercise price is set equal to the current stock price. It is, of course, possible to issue in-the-money or out-of-the-money stock options as well, but that, heretofore, has been atypical. A key point is the difficulty of issuing the ***right*** number of restricted shares or options. The issue is universal and the problem applies to the Relative and Absolute models as well. The theoretically correct number is the number of shares (and no more) that induces the executive to do exactly what the Board wishes them to do with respect to shareholder wants. If the number required exceeds the benefit, then the Board should not offer such compensation.

Relative grants mean that the grants depend on the performance of the firm's managers relative to the performance of some group. This group could be an industry index, or a broader index such as the Standard and Poor's 500. In the case of restricted stock, the number of shares granted would rise from a base amount if the firm outperformed its "relative" group and fall if it underperformed the relative group. In the case of executive stock options, however, one model would allow the exercise price to change with respect to the relative group performance. If the firm outperformed the relative group, executives would receive in-the-money options and if the firm underperformed the group, executives would receive out-of-the-money options. Of course, a similar model to restricted stock could be created. In that case executive stock options would still be issued at-the-money but a greater number of at-the-money options would be issued for relatively good performance and fewer or no at-the-money options would be issued for relatively poorer performance.

In the case of Absolute modeling, the number of restricted stock shares issued would be determined by the firm's performance relative to an absolute measure. For example, if the required rate of return on equity was 12 percent, performance below 12 percent would lead to fewer restricted shares being issued (compared to the Traditional case) and if the performance was above 12 percent would lead to more shares being issued. In the case of options one model would allow the exercise price to follow a known path as the required rate of return would be adjusted for the necessary capital growth. Alternatively, the number of options could increase with strong absolute performance or decrease with poor absolute performance.

WHAT ARE FIRMS TRYING TO ACCOMPLISH?

As noted earlier there are four basic reasons why firms have turned to equity-based compensation. The least controversial reason is to substitute equity-based compensation for wage-based compensation. While many firms might find this tool interesting or even seductive, start-up firms find it particularly appealing, since cash flow issues make it difficult to compete with more mature firms in the cash wage market. Unfortunately, although we are sure there are exceptions to the rule, the empirical data noted earlier does not appear to have found a link between either equity-based compensation and reduced cash-based compensation or between equity-based compensation and performance. Further, substituting equity-based instruments for

cash wages does not necessarily mean that such financing should follow a Traditional based methodology rather than a Relative or Absolute modeling methodology.

The agency theoretic model highlights the problem that is generated by having undiversified wage earners represent the bidding of well-diversified capitalists. Based on standard risk aversion principals, it is clear that undiversified managers have more at risk from poor firm performance than do the firm's well-diversified shareholders. The result that follows, according to traditional theory, is that managers will direct a firm along a less risky path than the path desired by shareholders. Equity-based compensation is a tool to align managers' well-being with that of capitalists. The notion is that by granting an equity stake in the company, managers will realign their views with those of shareholders and create policies more in line with the risk-reward wants of shareholders.

Behavioralists argue that equity-based plans simply do not work to align management and shareholder goals, in part because managers are likely to be loss averse rather than risk averse. Loss aversion means that managers are not reckoning their financial position on expected values alone, but account for their current position as well. For example, imagine that a manager has 10,000 executive stock options and that 5,000 have vested and are in-the-money. According to prospect theory, the manager may be "too" conservative in order to protect the earnings of her or his 5,000 vested options.

Another problem that exists is the relationship of the value of equity-based compensation relative to the value of money wages. For the incentive model to work, several variables are in play. First, the managers need to actually be capable of changing firm value in a significant way. Second, equity-based compensation would need to rival wage-based compensation in order to align the manager's wants with those of shareholders. Third aggregate movements of the market need to be small enough so that they do not swamp management performance (a problem the Relative model attempts to overcome).

Alternatively, little attention has been paid to the ethical make-up and the inherent nature of top managers. Management is hired to maximize shareholder value. The assumption of both agency and prospect theory is that maximizing shareholder value is a distant second goal, from the point of view of managers, compared to maximizing the manager's own financial position. Even if we grant that managers will not ethically do that for which they are being paid, there is the heroic assumption that maximizing shareholder value is contrary to maximizing their own position. For example, success in maximizing shareholder value may well lead to better and better management positions in their own firm or in other firms and consequently lead to greater wealth. Further, top flight managers may well have a tendency to insist on excellence both in themselves and those around them. It may well be that the best managers wish to ***win*** in the shareholder performance game. Of course, in either of these latter two cases, there may be little need to employ equity-based executive compensation to gain maximum shareholder results.

Clearly there is a lot of work still be done on the linkage between management performance and shareholder value. However, we recognize that generally speaking stock prices go up over time and that the Traditional model rewards managers for average or even below average performance. In this work, we continue to labor under the assumption that equity-based compensation can, in fact, lead to better outcomes for shareholders through an incentive structure that aligns manager and shareholder wants. While we accept that managers do not wish to lose the equity-based compensation in hand, we believe that the nature of top managers is to drive for high performance and that the desire to enhance their in-hand equity values and create additional value in upcoming equity-based awards is strong and valuable to passive shareholders.

The use of equity-based compensation to recruit and maintain high quality managers is in some sense seen as a subset of the agency argument. If the lure to move to a company is, in a significant way, their equity-based compensation component, then the only way the manager can gain from that agreement is to make shareholders better off. Similarly, if a quality manager remains with a company in order to gain their equity-based compensation, they again must work to the benefit of shareholders to make that happen. Although the agency theoretic model should work in analyzing the entry/exit issue, the basic argument remains that firms should offer no more than is necessary for recruitment and retention, and should shape their equity-based compensation package to maximize shareholder outcomes.

Finally note that while equity-based compensation packages can become more sophisticated, as we are arguing for here, unless the manager understands what she or he has agreed to, little benefit is likely to be gained. Any plan should be easily assessable by any executive covered by the plan.

In what follows below the focus is on equity-based compensation designed to align shareholder and executive wants.

RESTRICTED STOCK

As noted above, restricted stock is stock that is not readily tradable. The restriction period is typically six months; however, restricted stock awards are likely to have a vesting period underneath the restriction effectively lengthening the time period before the stock can be traded. In the case of equity-based compensation, restricted stock is granted by the Board of Directors to eligible executives based on whatever system the Board chooses. In the Traditional model there is not a specific attachment of award to outcome. This does not mean that the Board does not use performance as a tool to decide how much stock to award, but rather that there is not a formal system for doing so. This might be viewed as a service based system, where the quantity of the award is effectively dictated by job level and/or seniority, but not based on a specific performance system. As noted earlier, the quantity of shares gifted should reflect the benefit shareholders are likely to gain from the award. The Board then should consider:

1.) The extent to which the award replaces cash wages.
2.) The current cash wage level of the awardee.
3.) The extent to which the Board wants to link performance to the award.

An alternative to the Traditional model is to link the award systematically and quite publicly to a performance measure. In the case of Relative awards, the quantity of shares awarded would depend on the relative performance of the firm using a chosen metric, such as return on equity, in comparison to some group of firms. The most obvious choices of comparison are the firms in the same industry classification or firms in general. The thinking is that the awards should be based on comparative performance. It is well known that markets are driven by many factors and general market movements might swamp the specific performance of management. The Relative compensation model considers how the firm did in comparison to some relevant group of other firms. Generally, investors interested in the relative performance of managers are more likely to be interested in comparing management's performance to those of its competitors. The process is to form and ex ante award model in which the allocation of restricted shares is altered by the firm's relative performance. For example, a firm practicing equity-based compensation, employing restricted stock, would construct a base allocation. If the firm underperforms the

average return of the competitor composite, executives would receive fewer than the base number shares. If the firm performed to the competitor average, executives would receive the base allocation, and if they outperformed the competitor average they would receive additional shares.

Several tasks need to be accomplished. These include:

1.) Determining the key metric for the award. (We suggest Return on Market Value Equity or Free Cash Flow to Market Value Equity).
2.) Determining the comparison group. (In this context we suggest the firm's most important competitors or a broad index of firms within the same capitalization level (nano, small, medium, or large)).
3.) Determine the base award level.
4.) Determine the number of steps or deviations from average that will earn different award quantities
5.) Determine the deviation of award size.

Example: The K Financial Consulting Group Compensation Committee recommends to the Board of Directors the following equity based reward systems employing restricted stock. They wish to create a base reward of one million shares to executives predicated on the Group having a return on equity equal to that of a group of 10 competitors. The competitors are chosen based on both industry and capitalization characteristics.

The Compensation Committee presents the following four possible allocation systems to the Board.

1.) IF $ROE_K = ROE_C$ + 6% or more — Reward = 1,210,000 shares
IF $ROE_K = ROE_C$ + 2.1to +5.9% — Reward = 1,100,000 shares
IF $ROE_K = ROE_C$ -2% to +2% — Reward = 1,000,000 shares
IF $ROE_K = ROE_C$ -2.1 to -5.9% — Reward = 900,000 shares
IF $ROE_K = ROE_C$ - 6% or less — Reward = 800,000 shares

2.) IF $ROE_K = ROE_C$ + 6% or more — Reward = 2,250,000 shares
IF $ROE_K = ROE_C$ + 2.1to +5.9% — Reward = 1,500,000 shares
IF $ROE_K = ROE_C$ -2% to +2% — Reward = 1,000,000 shares
IF $ROE_K = ROE_C$ -2.1 to -5.9% — Reward = 500,000 shares
IF $ROE_K = ROE_C$ - 6% or less — Reward = 250,000 shares

3.) Reward = (Base Amount)$[1 + (ROE_K – ROE_C)]$
When $[1 + (ROE_K – ROE_C)] > 0$ and 0 otherwise

4.) Reward = (Base Amount)$[1 + 10(ROE_K – ROE_C)]$
When $[1 + 10(ROE_K – ROE_C)] > 0$ and 0 otherwise
Where ROE is expressed as a percentage (e.g. .15)

Where: ROE_K = The return on Equity to the K Financial Consulting Group
ROE_C= The average return on Equity to the competitor group
Base Amount = 1,000,000 shares

Note how the systems differ. Methodologies 1 and 2 have a minimal number of possible outcomes while methodologies 3 and 4 are open ended. That is, there is a potential for any

amount of shares to be awarded if the performance is superior enough. Methodologies 1 and 3 are commonly thought of as relatively service oriented. While the reward for above average performance is smaller compared to Methodologies 2 and 4 the penalty for poorer performance than the competitor group is also smaller. That is the risk of poor performance is lower. Methodologies 2 and 4 are more risky. They yield greater rewards for performance and greater penalties for poor performance. The latter type of reward scheme is often thought of as being similar to the executive stock option model. Note also that, in this example, the formulas employed for Models 1 and 2 result in some positive awarding of shares. Naturally, a model in which no rewards are granted for some level of poor performance can easily be constructed.

For example assume Firm K has a return 3% greater than that of the competitor group. Model 1 yields an allocation of 1,100,000 shares model 2 yields 1,500,000 shares, Model 3 yields 1,030,000 shares and model 4 yields 1,300,000 shares. If Firm K returns 3% less than its competitors then model 1 yields 900,000 shares, model 2 500,000 shares, model 3 970,000 shares and model 4 yields 700,000 shares.

In sum, the relative compensation model assumes that equity-based compensation should reflect comparative performance. It requires, however, a number of complicated decisions that should reflect the benefit shareholders seek from equity-based compensation awards.

The Absolute compensation model differs fundamentally from the Relative compensation model. Specifically, the Absolute compensation model focuses less on managements' performance and more on shareholder wants. The concept is that shareholders have a required rate of return and that failure to reach that rate of return should be reflected in less compensation irrespective of how the overall market has performed while generating returns above the required rate of return should be rewarded. Once again the Compensation Committee would create a model to generate restricted stock awards based on performance ***relative*** to what is required. In the case of restricted stock the metric should be the total return to equity or cash flow to equity not simply the movement of the stock price. The movement of the stock price only reflects the capital gain component of total return. The models built for the relative return examples can be applied to the absolute model as well except that the required return on equity replaces the actual return on equity of the competitor group.

1.) IF $ROE_K = ROE_R$ + 6% or more — Reward = 1,210,000 shares
IF $ROE_K = ROE_R$ + 2.1to +5.9% — Reward = 1,100,000 shares
IF $ROE_K = ROE_R$ -2% to +2% — Reward = 1,000,000 shares
IF $ROE_K = ROE_R$ -2.1 to -5.9% — Reward = 900,000 shares
IF $ROE_K = ROE_R$ - 6% or less — Reward = 800,000 shares

2.) IF $ROE_K = ROE_R$ + 6% or more — Reward = 2,250,000 shares
IF $ROE_K = ROE_R$ + 2.1to +5.9% — Reward = 1,500,000 shares
IF $ROE_K = ROE_R$ -2% to +2% — Reward = 1,000,000 shares
IF $ROE_K = ROE_R$ -2.1 to -5.9% — Reward = 500,000 shares
IF $ROE_K = ROE_R$ - 6% or less — Reward = 250,000 shares

3.) Reward = (Base Amount)$[1 + (ROE_K – ROE_R)]$
When $[1 + (ROE_K – ROE_R)] > 0$ and 0 Otherwise

4.) Reward = (Base Amount)$[1 + 10(ROE_K – ROE_R)]$
When $[1 + 10(ROE_K – ROE_R)] > 0$ and 0 Otherwise

Where ROE_K = The return on Equity to the K Financial Consulting Group
ROE_R= The required rate of return on Equity by the firm's shareholders Base Amount = 1,000,000 shares

Note that the Compensation Committee is again faced with many of the same questions that they would need to answer in the Relative compensation model. The key difference is that the Relative compensation model strives to reward managers based on their performance relative to other managers in similar circumstances while the Absolute model rewards managers with respect to how they fulfill the requirements of their shareholders.

A combination of Relative and Absolute methodologies can also be constructed. The most intuitive concept is to set one methodology as a base and then consider what happens in the other arena as well. So for example, if the firm performed well compared to its competitors and also earned high absolute returns the reward to managers would be greater than if they performed comparatively well, but did not meet shareholder requirements.

For example, employing models 1 and 4 above; imagine that firm K earned a return on equity three percentage points greater than its competitors but also earned three percent less than the required rate of return. Model 1 yields an allocation of 1,100,000 shares based on the relative model but 900,000 shares based on the absolute model. Combining yields a result of 1,000,000 shares allocated. Model 4 yields a result of 1,300,000 shares based on relative modeling and 700,000 based on the absolute allocation also yielding a net value of 1,000,000 shares.

EXECUTIVE STOCK OPTIONS

In the Traditional executive stock option model the Board, in consultation with the Compensation Committee, will determine the number of option awards to offer. These options are typically offered at-the-money, have a vesting period, and expire in ten years. While start-up success is likely to be low, in the case of mature companies, the likelihood that the option will end up in the money over ten years is quite high. That is, there is virtually no risk that the option will expire worthless. Of course, how much in the money is subject to wide variation. However, due to issues of liquidity and diversification most executive stock options are exercised early. Note also that a key difference between restricted stock and options is that the latter capture only price growth not total return.

The fact that, at least for mature companies, the likelihood of options paying off some positive sum, coupled with the empirical evidence sited earlier that indicates that equity-based compensation does not appear to substitute for cash compensation, means that the power of the incentive to take more risk (and therefore, align management policies with the welfare of shareholders) is likely to be muted. As a result it is worthwhile analyzing other executive stock option models. One possibility is simply to offer out-of-the-money (the stock price is lower than the exercise price) options. Such options are more likely to align shareholder and management policy views because a greater degree of stock price growth is required for the options to come into the money. In addition, the optics are good from the point of view of potential investors and creditors since greater value growth is a prerequisite for managerial compensation success.

While the out-of-the-money model is an improvement, the view here is that even greater strides can be made by including Relative or Absolute modeling. In the case of Relative modeling, as noted earlier, the performance of the firm is compared to that of its competitors. New options are issued with respect to the average performance of the group. There are at least two interesting ways to account for relative performance in option granting. One model determines the ***number*** of at-the-money-options awarded based on relative performance. A base number of options are offered for average performance. If for example, the average price increase of competitors' stock is eight percent, but the focus firm price grows by only six percent, fewer options than the base amount are granted. When the focus firm price growth is the same as that of their competitors, then the base number of executive stock options are granted. The scheme continues in which, if the price growth is greater for the focus firm than that of the competitors, then more than the base number of at-the-money options are granted. Alternatively, a base number of options can be allocated, but the exercise price can be altered. For example, if the average price increase of competitors' stock is eight percent and the focus firm grew by only 6 percent, new options would be issued with an exercise price 8 percent greater than last period's options. That is they would be issued out-of-the-money. If alternatively, the average price increase of competitors was eight percent and the focus firm's price increased by ten percent, the new options would be issued in-the-money. In short new options are issued with exercise prices equal to the average price growth of competitors. The model could be adapted to the out-of-the-money ideology discussed earlier by adding some amount of increase to the average performance. Therefore:

Policy 1: New Executive Stock options are to be issued with an exercise price equal to one plus the average increase or decrease in percentage terms of the price movement of a cohort of competitors multiplied by the stock price of the focus company one period earlier.

$$X_0 = (1 + r_c)\, S_{t-1}$$

Where: X_0 = the new exercise value

r_c = the average rate of stock price increase of a competitor cohort

S_{t-1} = The firm's stock price one year earlier.

For example if firm K had a stock price one year ago of $50.00 and the average increase in competitor prices was 8 percent then new stock options would be issued at an exercise price of $54.00.

Policy 2: New Executive Stock options are to be issued with an exercise price equal to one plus (the average increase or decrease in percentage terms of the price movement of a cohort of competitors plus 2 percent (for example)) multiplied by the stock price of the focus company one period earlier.

$$X_0 = (1 + r_c + .02)\, S_{t-1}$$

Alternative structures might include longer periods of assessment (say every two years). If the firm performs poorly enough, option grants could be suspended altogether. Also additional bonuses of at-the-money options could be added if the firm performs extraordinarily well compared to its competitors.

The Absolute executive option pricing model has an equivalent set of alternatives. Assuming a firm has a required rate of return of 12 percent and has typically paid a 4 percent dividend, then the firm could base its executive stock option awards based on price growth of 8 percent. A base number of executive stock options is announced. If the firm's price grows by less than 8 percent fewer than the base number of at-the-money stock options are issued. If the firm stock price

grows by 8 percent than the base number of at-the-money options are issued, and if the stock price grows by more than 8 percent than more than the base number of at-the-money options are issued.

An alternative model allows the exercise price to grow at the required rate of growth that shareholders demand. If a firm is required by shareholder to return 12 percent a year and the firm typically pays a 4 percent dividend return then the required capital gain is 8 percent. One model would begin by issuing option out of the money.

$$X_0 = (1 + .08)\, S_0$$

$$X_1 = (1 + .08)^2 S_0$$

Or generally: $$X_T = (1 + .08)^{T+1} S_0$$

There are some interesting differences between the Relative and Absolute models. First, in the Relative model new options may be issued in, at, or out-of-the money depending on the firm's relative performance in the previous year to the date upon which the new options will be issued. Since that might lead to some unsavory choices, it might be good to implement the policy one year into the future. In the case of the Absolute model, the notion is that managers must grow the stock by eight percent each year (for example) just to meet their basic obligation. The model presented above means that managers will not make money on their options unless they can exceed the required amount of stock growth. Of course, in the case of the Absolute model, the original options could be issue at-the-money with new option grants issued at the required growth rate. That is, move the exercise price growth back one-period.

In that case: $$X_0 = S_0$$

$$X_1 = (1 + .08) S_0$$

Or generally: $$X_T = (1 + .08)^T S_0$$

Such a policy, of course, increases the likelihood of in the money performance and creates an initial allocation that does not require meeting the required outcome. In both the Relative and Absolute models real world problems exist. Like the Traditional model, these models do not help the Compensation Committee or the Board effectively determines the maximizing quantity of equity-based compensation assets that should be allocated to executives. The quantity is important since the rewards dilute cash flow and earnings per share. In addition to the quantity problem, as noted above, there are many models one can employ under each methodology. The goal is to maximize shareholder value so the model that gets closest to that goal should be chosen. However, many factors are at play including:

1.) Is one method better than the other at creating shareholder value buy-in? Should a combination of the two models or three models be employed?
2.) If the Relative model is employed, how is the best competitor grouping found?
3.) If the Absolute model is employed, what is the proper required rate of price growth?
4.) Given the choice of Relative or Absolute methodology, which sub-model works best?
5.) Is it best to use restricted stock, executive stock options, or a combination of the two?
6.) What is the proper balance between reward for service and reward for performance?

SUMMARY

The use of equity-based compensation continues to come under legal, empirical, and theoretical scrutiny. There is little proof that, heretofore, the agency problem has been alleviated by current compensation schemes. The failure to reach the objective likely means that either the basic principal of linking management behavior to shareholders' wants through equity-based compensation is flawed, or that current compensation models are inefficient. Both positions have their advocates.

In this paper we continue to explore equity-based compensation as a possible tool to align management and shareholder wants. Specifically, we develop and analyze both the Relative and Absolute models as alternatives to the Traditional model. We also consider these models in the context of restricted stock and executive stock option awards.

While we create taxonomy for modeling and thinking about the maximizing strategy, the importance of ***management art*** should not be underestimated. For example, there does not appear to be strong empirical evidence linking the quantity of awards to performance. That is, the amount of the base award is difficult to assess. In addition, the rate at which restricted stock awards should grow or decline is also difficult to determine. Nevertheless we do offer a conceptual lead to the problems. We note that the base award should be large enough to align manager maximization with shareholder maximization, but also not larger than is necessary. Similarly, the ***steepness*** at which a restricted stock award grows or declines should be dictated by the Board's desire to mix the reward for performance with a reward for service. That is, the steeper is the increase or the decrease in the number of restricted shares awarded based on performance, the more linked to performance and the less linked to service is the award.

Which model is best? The key difference between the Relative and Absolute models is that the former focuses on management performance relative to other firms' (management) performance, while the latter model focuses on the required rate of return of shareholders. One suspects that managers would prefer the Relative model, but there is much to be said for the Absolute model since it is shareholder value and utility which is the maximizing target. Overall, we would argue that it is the Absolute model that is more likely to meet shareholder wants, and, therefore, we suggest either employing the Absolute model or perhaps a combination of the Absolute and Relative strategies. We also note that the option model depends on price growth only, while the restricted stock model depends on total return. Shareholders are interested in their total real after-tax return. Therefore, employing restricted stock rather than options might be the more efficient methodology from the shareholder perspective. Finally, note that if the methodology chosen is too complicated, it is unlikely to have the desired effect on managers. If the methodology is hard to decipher, the manager may see equity-based compensation as little more than a potential bonus that they may or may not receive rather than a maximizing goal.

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Rudeness and Incivility in the Workplace

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Rudeness and incivility among employees are common throughout the business world. With the emphasis on profits and controlling labor costs, there are many issues evolving from the lack of civility within the workplace. This paper will provide examples of rudeness and incivility along with possible causes and performance problems. Significant attention will be given to the control and management of rudeness and incivility from both a personal and organizational point of view.

INTRODUCTION

Everyone would like to work in an environment where they are treated with respect and professionalism. However, there is considerable evidence to suggest that the "civil" work environment is the exception rather than the norm. What is "incivility?" The Oxford Dictionary defines incivility as "a rude or discourteous act; to act rudely is to be discourteous without regard for others in violation of norms for respect in social interactions." The workplace norms are the norms of the community consisting of basic moral standards that have developed over time and are usually prescribed through formal and informal organizational policies, rules, and procedures (Brooks, et al.).

Typical words used to describe rudeness and incivility include such terms as being crude, inelegant, uncouth, coarse, vulgar, discourteous, unlearned, uncivilized, ignorant, uneducated, and simple. Examples of uncivil and rude behavior in the workplace include a person who takes someone else's food from a shared refrigerator without permission; purposely does not greet or acknowledge someone at the office; starts an e-mail without a salutation; takes the last cup of coffee without making more; stands over a coworker who is on the phone or is typing; does not give credit publicly to a colleague; leaves the copier knowingly jammed and walks away; interrupts a person speaking to someone else; shouts at a coworker or superior; arrives late; or wears clothing that is inappropriate for the work environment.

INCREASING RUDENESS AND INCIVILITY

Most employees when surveyed suggest that workplace rudeness and incivility are not only current problems but are problems that are getting worse. For instance, a survey of 1,100 public sector employees was typical of the conclusions in the published literature on incivility and rudeness (Elias, 2001). Seventy-one percent of the respondents indicated that they had experienced workplace incivility within the previous five years. One-third of these incidents were caused by supervisors (Elias, 2001). In a similar study, 53 percent of employees lost work time worrying about the incident or future interactions, while 46 percent contemplated changing jobs and reduced their overall commitment to the organization (Azulay, 2007). Of particular interest to this discussion is that employees in surveys by Azulay (2007), Park (2002), Wickham (1999) indicated that their boss was the primary instigator of the rude behavior. Since most bosses tend to be males, it is not surprising that 70 percent of the reported instigators of incivility were males (Wickham, 1999). In fact, according to Wickham (1999), males were seven times more likely to instigate uncivil behavior toward lower status individuals. These conclusions regarding gender and incivility are consistent with those presented by Dainow (2001) who suggests that women are more likely to experience workplace incivility than men and the lower the status of the employee within the hierarchy, the more likely the person was to be a victim of rudeness. It has also been found that the negative effects of incivility (e.g., job dissatisfaction and job withdrawal) are equal for both men and women (Cortina, Magley, Williams & Langhout, 2001).

Rudeness and incivility have a negative effect on an organization's ability to provide services. Surveys such as one conducted by the University of Michigan suggest that customer satisfaction with American businesses is not very good (Trigaux, 2002). The University's study concluded that 75 percent of Americans have encountered rudeness in the workplace. However, companies have a tendency to ignore this problem (Waggoner, 1998). It is not surprising that victims of rudeness and incivility are more likely to retaliate against the employer rather than the tormenter (Waggoner, 1998). After all, the tormenter could be their boss. Considering the many forms of workplace abuse that exist, rudeness is at the low end of the workplace abuse ladder. This is because rudeness and incivility tend to fall short of forbidden behaviors such as discrimination and harassment. There is evidence, however, to suggest that this may change someday. Kranz (2007) reports that 64 percent of individuals surveyed believed that employees ought to be able to sue for rudeness and recover damages.

There is general agreement that there has been an increase in rudeness and incivility. However, there is less concurrence as to the reasons for the increase. Most experts suggest a combination of individual, family and organizational factors that contribute to this increase. For instance, it has been suggested that today's workers are simply stressed out (Associated Content, 2006). Employees are stressed because they are often asked to do more work and are usually provided with less assistance from management. The workplace has also become more diverse. Workers from various backgrounds may react differently to situations. Behaviors that one person may perceive as being "cold" or "rude" may be viewed differently by another individual. In other words, there is also an element of subjectivity to the perception of rudeness, just as beauty is in the eyes of the beholder.

The increase in rudeness and incivility may be traced to the family and the effect of technology, such as television and the Internet (RudeBusters, 2007). It has been suggested that in our technologically focused society, we are more competent when dealing with machines and

software but have lost ground when it comes to dealing with each other (Westaff, 2007). Rudeness may pay off since the rude individual at work is three times more likely to be in a higher position than the target of the rudeness (RudeBusters, 2007). After all, while many have indicated that it seems logical that rude behavior affects the bottom line (e.g., Schieber, 2002; Southam, 2007), it is difficult to specifically determine the extent. The success or failure of a company is much more likely to be controlled by a multitude of complex factors.

As previously mentioned, today's worker is stressed out and is being asked to do more but is given less job security and overall support. So why is there more rudeness? Research on employee job satisfaction seems to be inconsistent. For example, according to a 2007 Job Satisfaction Survey Report released by the Society for Human Resource Management, eight out of ten employees reported overall satisfaction with their current positions. However, other studies have concluded job satisfaction has declined in America among all ages and income levels. In a survey of 5,000 workers by TNS, a leading market information company, only 14 percent of workers indicated they were "very satisfied" with their jobs and approximately one-quarter of the American workforce seems to simply show up to collect a paycheck (The Conference Board, 2005). "Rapid technological changes, rising productivity demands and changing employee expectations have all contributed to the decline in job satisfaction," according to the Director of The Conference Board's Consumer Research Center (The Conference Board, 2005). The largest decline in overall job satisfaction during the past decade occurred among the 35-44 age group (a decline from 60.9 to 49.2 percent) and the second largest decline was among workers aged 45-54 (from 57.3 to 47.7 percent). Results from a supplemental TNS survey concluded that 40 percent of workers feel disconnected from their employers and two out of every three workers do not identify with or feel motivated to drive their employer's business goals (The Conference Board, 2005).

This decline is not unique to American workers. European workers have also reported declining levels of job satisfaction over the last three decades. For example, the number of British workers reporting they were completely satisfied with their jobs has decreased from 23 percent in 1992 to 14 percent in 2001. With the increased disconnect and demands placed on employees, it is no wonder that rudeness and incivility have also been increasing.

EFFECT ON PERFORMANCE

According to Johnson and Indvik (1994), workplace rudeness does not get the same amount of attention as workplace violence or harassment or even open conflict (i.e., fighting). However, rudeness on the job can cost a company millions of dollars annually. As reported by Fritscher-Porter (2003), rudeness can have a direct effect on employee productivity, morale, and absenteeism. There are four ways rudeness may affect employee productivity. Employees tend to:

1. Spend time worrying about the uncivil incident or future interactions with the instigator and waste time trying to avoid the instigator;
2. Deliberately become less committed;
3. Not involve themselves in tasks outside their job specifications and expend less effort to meet responsibilities; and
4. Be less willing to help others, and reduce their contribution to the organization (CIVIL, 2000).

As stated earlier, the boss may not always determine the success or failure of the organization. Workplace rudeness can result in added organizational costs through lawsuits and claims, employee retention problems, productivity problems, and maybe most importantly, workplace rudeness can result in customer service problems ("What's your," 2006). There is a tendency for individuals to treat others as they feel they are treated. The unhappy employee is less likely to provide professional, polite customer service. The bottom line is that it is in management's self-interest to manage and control rudeness in the workplace. Research suggests that the supervisor's role in resolving organizational problems, such as incivility and rudeness, is pivotal. The supervisor is not just the individual who is in charge. Employees tend to use the behavior of their bosses as a model for their own behavior. Therefore, no rudeness management program can minimize the importance of the supervisor. Whether the boss is the instigator or not, he or she is certainly in a position to respond to the situation. Therefore, the remaining sections of our paper will focus on the role of the supervisor and organizational policies in the management of uncivil and rude behavior.

THE ROLE OF THE SUPERVISOR

The supervisor has two roles to play when it comes to rudeness management. First, the supervisor must ensure that he or she is not the problem and, second, he or she has to manage in a way to minimize rudeness. We agree with the published literature that the process begins with self analysis. As discussed by a U.S. News & World Report poll, even though 89 percent of their respondents suggest that incivility and rudeness are serious problems in their workplace, 99 percent of the respondents indicate that their own behavior was acceptable (Hofmann, 2002). It seems when it comes to rudeness, we all may suffer from some insensitivity to our own behavior. Hornstein (2003) provides five suggestions that supervisors should follow to assist in this process. These are generally as follows:

1. During any and all encounters with employees, make every effort to establish an impersonal, professional, "it's all business" demeanor;
2. In order to praise desired work behaviors and punish less desired ones, develop means for monitoring employees' behavior as much as possible;
3. Be aware and have access to rules for establishing compliance and compensation;
4. Involve employees in the decision-making process; and
5. Ensure that current performance is analyzed and expectations for the future are clear.

The above may be the easy part, particularly if the supervisor is not part of the problem. However, if the supervisor is the problem—the tormenter—he or she may be unaware. The research suggests that this is more likely to be the typical situation. Therefore, the supervisor's self-analysis is crucial. Feedback from employees can be very helpful in this self-analysis process. Supervisors should ensure their employees are given the opportunity to address their concerns either in person one-on-one or anonymously through suggestion boxes. Most employees will welcome an opportunity to avoid problems and minimize misunderstandings. To this end, Fritscher-Porter (2003) provides excellent tips that supervisors could follow when having these "clear the air" discussions with employees. These recommendations include the following:

1. *Attack the problem, not the person.* It is one thing to say the individual was late but it is another thing to say he or she is lazy. Being told one is lazy personalizes the situation and makes focusing on the problem (e.g., being on time) more difficult.

2. *Look for the good in the person who is frustrating you.* No one is all bad; there is goodness in all of us. After all, you did hire the person so at one point in time there must have been a positive perspective toward the employee. This may be a good time to share it.
3. *Do not let the negative individuals get you down*. Unfortunately, there are people who are just never happy. Being unhappy is their "normal"; it is what their life is all about and you can't change that.
4. *Put yourself in the person's shoes*. Try to understand why the person is negative. It never hurts to talk about it; sometimes the problem the person is having is not even work related.
5. *Be as positive as possible.* However, the individual has to understand that the negative behavior will not be tolerated.

THE ROLE OF THE ORGANIZATION

The published research suggests that if organizations take a proactive role to eliminate incivility and rudeness, they can be successful (Azulay, 2007). The people who work in an organization are influenced by the organization's policies and procedures. As discussed by Hornstein (2003), rewards, respect and recognition are key components to any rudeness and incivility management program. The organization must develop a zero-tolerance policy toward incivility and rudeness by creating and maintaining a culture that emphasizes respect among employees. How employees are compensated or rewarded is critical. Favoritism and the lack of a relationship between rewards and performance create mistrust and communicate the absence of concern. Research suggests that an attitude of "you don't care and respect me" leads employees to respond accordingly.

Finally, there are several recommendations that organizations should follow in their efforts to develop and maintain a civil work environment. For instance, Wickham (1999) suggests the following:

- The organization should create a policy on workplace civility.
- Have someone on staff to train all employees on how to solve problems, manage stress, and find non-threatening ways to vent anger and resolve conflict.
- Have a formal mechanism through which employees can report aggressive behaviors and stress the importance of using it.

In addition, Brooks et al. suggest principles that all managers should follow. These are to be on time, discreet, courteous, and concerned about others not just yourself; to dress appropriately; and to use proper written and spoken language. However, in order to achieve the above, it is important that organizations set expectations for how the workplace will operate and what behaviors will be tolerated. These expectations must be defined and communicated and organizations need to make sure the employees have a shared concept of respect. It is also critical that employees are held accountable for any transgressions (CIVIL, 2000). Civility must be taught. The organization should teach civility through conflict resolution training, negotiation and training on dealing with different people, working in teams, stress management, active listening skills, and coaching. In other words, today's company should listen carefully to what is going on around them and when incivility occurs, respond to it. That seems to be the final challenge since many instigators of rudeness are individuals in positions of power.

Downsizing, outsourcing and labor cost control have been common topics in the business world. There seems to be a fundamental change going on in the relationship between the organization and its employees. No longer can the individual anticipate long-term career employment. Technology and international business have resulted in a great deal of job relocation. The typical organization trying to maximize profit and minimize labor costs may be facing an inherent contradiction. On the one hand, organizations want you, the employee, to feel that they want and value you but on the other hand will trade you for the lowest bidder. With job insecurity and technology, we seem to be better at using machines than talking to each other. Therefore, the organization is in trouble.

CONCLUSIONS

There are five basic conclusions from our review of the research concerning incivility and rudeness in the workplace. They are as follows.

1. Rudeness and incivility are problems that are on the increase within the work force.
2. The reasons for the increase vary but we are less friendly toward each other in our fast-paced, technologically-oriented society.
3. Rudeness and incivility have a negative effect on performance and profits.
4. The typical individual seems to have a greater awareness of the behavior of others than of his or her own behaviors.
5. Organizational strategies must focus on those individual and organizational issues in order to manage this problem.

Incivility and rudeness may not be the number one determinant of an organization's success or failure but a positive, friendly work environment is beneficial to everyone. As we become more of a service-focused economy, the ultimate question in the long run may be—*can we all get along*?

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Ethics, Religiosity, and Moral Development of Business Students

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This study examines the effects of ethics education and religiosity on moral reasoning of college students. Previous research on these two variables has provided mixed results. Accounting and business major seniors at three universities in the mid-south region of the United States were studied. Two universities were private and religiously affiliated and one was a public, secular university. The DIT-2 instrument measured cognitive moral reasoning, ethical education with number of completed ethics courses, and religiosity through university affiliation, individual affiliation, and commitment. Results indicated neither ethical education nor religiosity to have an impact on the cognitive moral reasoning of the accounting or other business students.

INTRODUCTION

The questionable choices made by business people in recent years have attracted the attention of the United States and the world. Examples of corporate unethical behavior have abounded with Enron, Arthur Anderson, WorldCom, ImClone, HealthSouth, and many others. Numerous high-ranking officials have been sentenced to prison for their unethical choices and behavior. Examples include Andrew Fastow of Enron, Sam Waksal of ImClone, Dennis Kozlowski of Tyco International, Bernie Ebbers of WorldCom, and Martha Stewart in an insider trading scandal. As a result, public confidence in the integrity of U.S. business leaders has taken a blow in the last several years and the general public has placed business ethics under the microscope. Institutions of higher education have responded to the ethics dilemma for accounting and business students by placing more emphasis on ethical intervention through individual ethics courses and/or integrated ethics approaches.

A business ethical dilemma occurs when people perceive their duties and responsibilities to be inconsistent between different groups of people (Finn et al., 1988). This study attempts to understand the predictors and drivers of moral development and predicted ethical behavior of senior accounting and business school students in one non-religious and two religious affiliated universities. The study examined the impact of the independent variables of ethical intervention

and religiosity on the dependent variable of moral development. The context of the study is accounting and business majors at the university setting. Although numerous researchers have studied religious affiliation, the results in the literature are mixed. Studies in the area of religious commitment have generated mixed results as well. No studies of accounting students have utilized the Allport ROS instrument. This study not only investigated the impact of an ethics course on moral development but compared a secular ethics course with a religious-based ethics course. Researchers have not yet examined this distinction in published empirical research in the accounting arena. Although several studies compare different universities, no published research has examined moral development and religiosity in a Church of Christ affiliated university. For comparison to other studies, this study measured the cognitive moral reasoning utilizing the DIT-2 instrument.

BACKGROUND

Ethical intervention refers to the training and/or education of students in the field of ethics. Based on this understanding, it appears logical to assume that ethical training would increase moral behavior. Several studies reported a positive correlation between ethics intervention and moral development of individuals (e.g., Rest, 1986; Hiltebeitel & Jones, 1991, 1992; Glenn, 1992; Armstrong, 1993; Green & Weber, 1997; Eynon, Hill, & Stevens, 1997; and Bonawitz, 2002). However, other studies found little or no correlation between ethics intervention and moral development of individuals (e.g., Fulmer and Cargile, 1987; St. Pierre, Nelson, and Gabbin, 1990; Shaub, 1994; Ponemon, 1993; McCarthy, 1997; Loescher, 2004; and Porco, 2003). Some studies examined the impact of a stand-alone course in ethics while other studies examined an integrated approach of ethics across the curriculum. Bonawitz (2002) and Porco (2003) studied the effects of individual ethics courses on the moral development of students. While Bonawitz found a positive correlation, Porco noted a negative correlation between the two factors. Although numerous studies have examined ethical intervention, the impact on moral development still appears to be under question. Thus, ethical intervention appears to be a pertinent variable for continued examination in this study.

In the area of religiosity, the relationship to moral development has drawn an interesting debate among theologians. While some view moral development and religiosity as related topics, others attempt to separate ethics from the concept of religiosity. Cotham (1998) defines "ethics" as the philosophical study of moral values. Specifically, he defined business ethics as "… the study of what constitutes right and wrong, or good and bad human conduct in a business context" (Cotham, 1998, p. 5). The English word "ethics" came from the Greek word "ethos." This Greek word can be interpreted as "custom or usage" and sometimes "custom or practice as prescribed by law" (Werhave & Freeman, 1997).

Although the word "ethos" did not originate from a religious background, the word appears numerous times in the context of religious teachings. For example, the author Paul in his letter to the Corinthians in the Bible states, "Bad company corrupts good character" (I Corinthians 15:33, NIV translation). The "good character" in this passage was actually the Greek word "ethos." This word appears several times in the New Testament referring to a manner of life in agreement with the professed Christian faith.

Studies of religiosity include two broad categories: religious affiliation and religious commitment. Religious affiliation studies refer to the person's membership or affiliation to a specific religious belief (group). Some studies measure affiliation at the individual level (church

preference) while others measure the religious affiliation of a group such as a university (i.e. Catholic, Baptist, Church of Christ, etc.). Religious commitment studies attempt to measure the level of individual commitment to a religious belief or lifestyle. Although these two categories of religiosity are similar, one needs to understand the distinction between the two terms. An individual could have a religious affiliation without religious commitment. However, an individual would less typically have a religious commitment without some type of religious affiliation. This study examined the variables of religious affiliation (individual), religious affiliation (group), and religious commitment (individual) in a university setting. Table 1 displays studies of religiosity and moral development and distinguishes the variables, instruments, sample, and results.

TABLE 1
RELIGIOSITY AND MORAL DEVELOPMENT STUDIES IN ACCOUNTING AND BUSINESS

Study	Religiosity Variables	Moral Development Instrument	Religiosity Instrument	Sample	Results between CMD and religiosity
Pascarella & Terenzini (1991)	Religious affiliation	DIT	University affiliation	Secondary analysis from Rests 1979 study of students	Significant correlation to affiliation
Wimalasiri, Pavri, & Jalil (1996)	Religious commitment	DIT	Single question on level of commitment	Senior business students and business managers in Singapore	Significant correlation for commitment
Koeplin (1998)	Religious affiliation	DIT, Ethical vignettes	University affiliation	Accounting students at two private liberal arts universities	No significant correlation
Kennedy & Lawton (1998)	Religious affiliation	Ethical vignettes	ROS	Business and non-business students at 4 universities (Evangelical, Catholic, and 2 non-religious)	Evangelical students less willing to engage in unethical behavior (no significant difference in others)

Foster & LaForce (1999)	Religious commitment	DIT	ROS	Students at one religiously affiliated liberal arts university	No significant correlation
Allmon, Page, & Roberts (2000)	Religious commitment	Ethical position questionnaire, ethical vignettes	Single question on commitment	Business students from United Stated and Australia	Significant positive correlation to commitment
Wimalasiri (2001)	Religious affiliation, Religious commitment	DIT	Individual affiliation, Single question on individual commitment	Business students and practitioners (Australia)	Significant positive correlation for commitment, Significant correlation for affiliation
Porco (2003)	Religious affiliation	DIT-2	University affiliation	Accounting students from 7 universities	Significant correlation to religious affiliation
Conroy & Emerson (2004)	Religious affiliation, Religious commitment	Ethical vignettes	University affiliation, Church attendance	Business students from two universities (one religious and one non-religious)	Significant correlation of religious commitment, no significant correlation to affiliation

Studies in religious affiliation to moral development report mixed results. For example, Pascarella and Terenzini (1991), Wimalasiri, Pavri, and Jalil (1996), and Porco (2003) all found a significant relationship between religious affiliation at the university level and moral development of the students. However, Kennedy and Lawton (1998), Koeplin (1998), and Conroy and Emerson (2004) did not find any significant relationship between moral development and religious affiliation of the university.

In the studies of individual religious commitment to moral development, many studies reported a positive relationship between the two variables. Researchers of Allmon, Page, and Roberts (2000), Wimalasiri (2001), and Conroy and Emerson (2004) all found a significant relationship in their studies. Foster and LaForce (1999) noted religious commitment to be insignificant in relation to moral development.

Not only are the findings mixed, but also the use of instruments and their study populations vary between studies. For example, of the nine studies previously mentioned, six utilized the DIT instrument for measuring moral reasoning (Pascarella & Terenzini, 1991; Wimalasiri, Pavri, &

Jalil, 1996; Koeplin, 1998; Foster and LaForce, 1999; Wimalasiri, 2001; and Porco, 2003). The other three studies utilized various ethical dilemmas to indicate the ethical attitudes of the students (Kennedy and Lawton, 1998; Allmon, Page, & Roberts, 2000; Conroy and Emerson, 2004). For religious commitment, only one of the four studies utilized the Allport ROS instrument, one of the most commonly used religiosity instruments (Foster and LaForce, 1999). The other studies used church attendance or a self-reported level of commitment. Finally, the student populations for these studies vary greatly. Pascarella & Terenzini, (1991); Wimalasiri, Pavri, & Jalil, (1996); Foster and LaForce, (1999), examined the general student population. Kennedy and Lawton, (1998); Allmon, Page, & Roberts, (2000); Wimalasiri, (2001); and Conroy and Emerson, (2004) examine business students, and even more specifically Koeplin, (1998) and Porco, 2003) examine accounting students.

As seen from previous research, the impact of religiosity on moral development is a pertinent variable for further examination. Although several studies have reported positive results between religious commitment and moral development, no researchers have focused on the context of business and accounting utilizing the ROS instrument.

Variables and Relationships

In the psychology literature, Lawrence Kohlberg (1969) developed the theory of moral development. Kohlberg's theory actually began with the seminal study performed previously by Jean Piaget (1932). Piaget examined the moral development of children and identified two separate moralities of constraint (heteronomy) and cooperation (autonomy). Piaget noted the morality of cooperation eventually replaced the morality of constraint in the studies of children. Kohlberg extended this study by performing a longitudinal study of boys resulting in his definition of three levels of moral development: pre-conventional, conventional, and post-conventional. Each level contains two stages of which individuals advance to the next level. The cognitive moral development (CMD) theory as developed by Kohlberg rests on the following components (Trevino, 1992):

1) moral judgment has a cognitive base,
2) stages represent qualitative differences in modes of thinking,
3) individuals develop through an invariant sequence of stages, and
4) individuals prefer problem solution at the highest stage available to them.

The CMD theory has become one of the most popular and tested theory of moral reasoning. This theory is among the most cited works in contemporary behavioral science (Trevino, 1992). Numerous researchers have focused on business in general as well as the accounting aspect of business since the 1970's. A basic assumption for the accounting profession is the public perception of the business ethics by members in the profession. Without this positive public perception, the accounting profession cannot serve the public effectively. Many believe educational ethical intervention can positively enhance moral development. Thus, the literature on ethics education as an antecedent of CMD growth has received tremendous attention since the early 1980's.

The dependant variable in this study is the cognitive moral development of undergraduate students in the southeast region of the United States. The instrument most commonly used to measure CMD is the Defining Issues Test (DIT) developed by Rest (1979). In the late 1990's, Rest modified the original DIT instrument resulting in the DIT-2. Many researchers have used this new instrument in recent years. These researchers include Loescher (2004) and Porco (2003) as referenced in the following chapter of this study. The Center for Ethical Studies at the

University of Minnesota maintains and supports this instrument. Their website lists numerous recent publications that utilized the DIT-2 instrument in their studies. As such, this study used the DIT-2 instrument to measure the CMD of the students.

The primary independent variables in this study include academic degree, ethical intervention, religious affiliation, and religious commitment. Academic degree is either accounting or other business degrees. This study measured religious affiliation at both the individual level and the institutional level (i.e. choice of university). The most commonly used measurement of religious commitment is the Allport ROS instrument (Barnett, Bass, et al, 1996). However, researchers have not utilized this instrument in published research studies examining moral development and religiosity of accounting students. Many studies measured religious commitment through a simple question asking the student to rank their level of commitment on a scale of high to low (Wimalasiri, Pavri, & Jalil, 1996; Allmon, Page, & Roberts, 2000; and Wimalasiri, 2001). Conroy and Emerson (2004) measured religious commitment through measures of church attendance, prayer/meditation frequency, as well as a self-reported degree of religiosity. They utilized church attendance as the best and most consistent measure of religiosity in their study.

The ROS instrument measures two basic qualities of religiosity labeled intrinsic and extrinsic. Intrinsic religious orientation refers to an internalization of religious beliefs in one's life. As the name implies, extrinsic religious orientation refers to an individual believing in religion for the purpose of what others think about him/her self. In other words, extrinsic religious orientation refers to an individual who "… endorses religious beliefs and attitudes or engages in religious acts only to the extent that they might aid in achieving mundane goals…" (Hill & Hood, 1999, p. 144). Allport and Ross (1967) summarized the distinctiveness of these two variables of extrinsic versus intrinsic with the simple differentiation of "using" versus "living" one's religion. This study used intrinsic quality to measure the strength of an individual's commitment to their particular religion. The 14-item version of the scale requires respondents to indicate the degree to which they agree or disagree with a series of statements. The sum of the intrinsic items ranges from 8 to 40. The sum of the extrinsic items ranges from 6 to 30. The ROS has a long history and extensive validity and reliability data (Donahue, 1985).

Ethical Intervention on Moral Development

Ethical intervention is the educational training of individuals in the field of ethics. Ethics intervention to improve student's ethical orientation has numerous critics. In a review of the literature regarding ethical intervention for accounting students in universities, Feldman and Thompson (1990) addressed many difficult issues. One of these issues deals with the amount of time spent on ethics by the professors. According to a survey of accounting faculty at various U.S. universities by McNair and Milam (1993), the majority of professors (77%) do include some component of ethics in their current courses. The average time spent covering ethical issues at the time of the survey was approximately three hours per course.

Feldman and Thompson (1990) question how much accounting professors can actually do in the short time available to prepare accounting students for their ethical orientation in addition to the knowledge base of accounting. Lester Thurow (1987), former dean of MIT's School of Business, addressed the current ethical awareness of the students coming to the university. He questioned how much a university could accomplish at this stage in the student's life in regards to teaching them right and wrong. On the other hand, supporters of ethical intervention believe the universities have a calling to improve the ethical understanding and behavior of accounting students. This belief in the ethics development through education has existed for many years. For

example, Bok (1976) stated over a quarter century ago that business organizations, professional organizations, and universities should take a more active role in improving the ethical standards of the individuals. He further stated the decline in the importance of churches, families, and local communities resulted in lower moral standards to young people coming to college.

Several researchers have conducted empirical studies over the years in relation to ethical intervention and moral development of individuals. Table 2 displays previous significant ethical intervention studies. This study measured ethical intervention in a consistent pattern with previous research and compares the completion of an ethics course to the cognitive moral reasoning scores of students. In addition, this research separated the ethics courses into two categories: "religious-based" ethics courses and "secular-based" ethics courses based on university affiliation. Although some studies have combined the impact of religion courses and ethics courses on moral development, no studies have attempted to examine these two types of courses separately.

TABLE 2
ETHICAL INTERVENTION STUDIES PRIMARILY IN BUSINESS AND ACCOUNTING

Study	Population	Methodology	Instruments
POSITIVE CORRELATION STUDIES:			
Rest (1986)	Numerous schools and populations	Meta-analysis of 56 DIT studies with ethical intervention	DIT
Hiltebeitel & Jones (1991)	Public and Private University; Accounting students	Ethics integration	Ethical dilemmas
Glenn (1992)	One university; Undergrad and Grad business students	Ethics course	Baunhart/Glenn questionnaire
Armstrong (1993)	One university; Accounting students	Ethics integration	DIT
Green & Weber (1997)	One university; Accounting students	Audit course	Ethical dilemmas

Eynon, Hill & Stevens (1997)	Practicing CPAs	Ethics course in college	DIT
Bonawitz (2002)	One university; acct, business, and non-business students	Ethics course	DIT
NEGATIVE CORRELATION STUDIES:			
Fulmer & Cargile (1987)	One university; Senior accounting and business students	Auditing course	Ethical scenarios
St. Pierre et al. (1990)	One university; Accounting, business, and non-bus students	Ethics course	DIT
Ponemon (1993)	One university; Accounting students	Audit course	DIT and lab experiment
Shaub (1994)	One university; Accounting students and practicing auditors	Ethics course	DIT
McCarthy (1997)	Ten universities; Accounting students	Audit course	Index of ethical congruence
Loescher (2004)	2 universities (Catholic and other); accounting, business, and non-bus students	Ethics integration	DIT-2

Research Questions

This study specifically addresses the following six research questions:

1. Do accounting majors demonstrate a higher moral reasoning ability than do other business majors?

2. Do business students who have completed an ethics course demonstrate a higher level of moral reasoning ability than business students who have not completed an ethics course?

3. Do business students who have completed an ethics course at a religious affiliated university demonstrate a higher level of moral reasoning ability than business students who have completed an ethics course at a secular university?

4. Do accounting majors who have completed an ethics course demonstrate a higher level or moral reasoning ability than other business majors who have completed an ethics course?

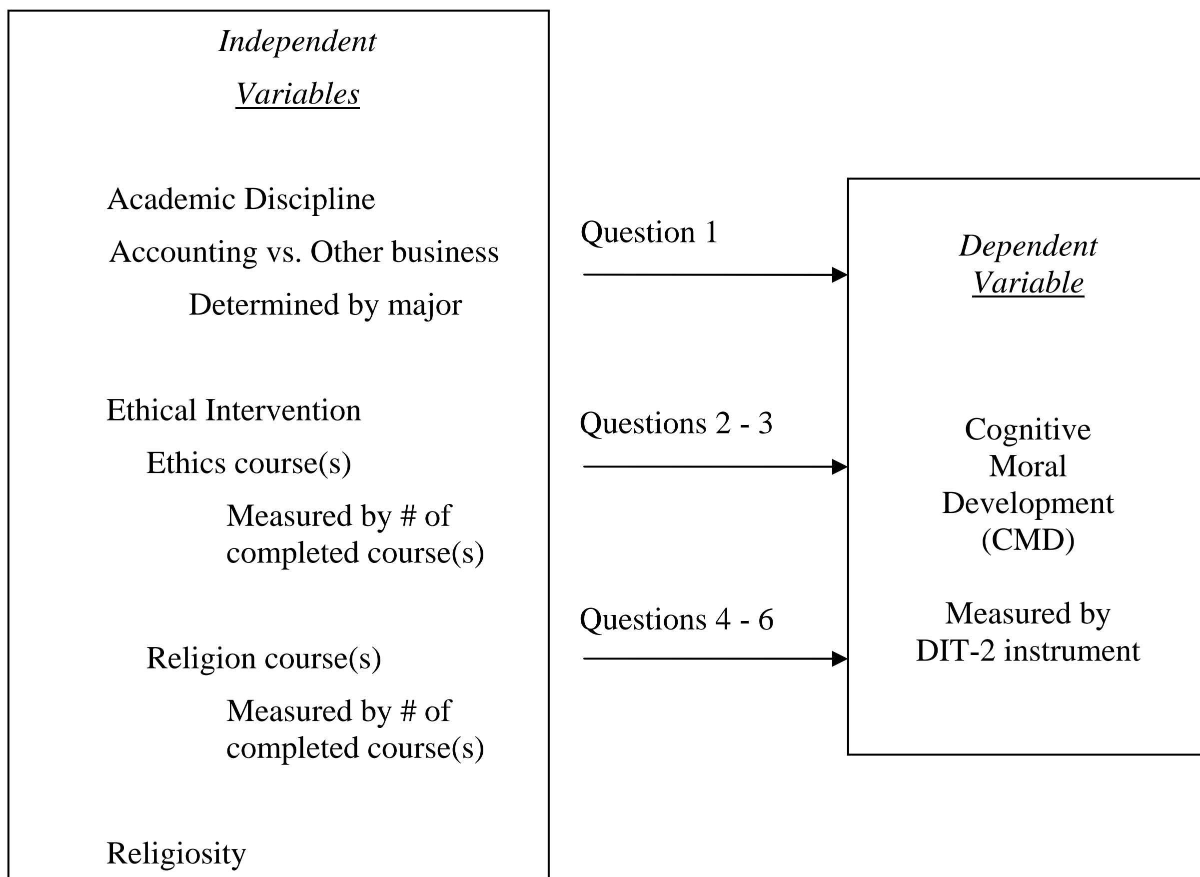
5. Do business students who have completed a religion course demonstrate a higher level of moral reasoning ability than business students who have not completed a religion course?

6. Do business students at the three different universities (two religious affiliated and one secular public) demonstrate different levels of moral reasoning ability?

Research Model

This study addresses the following six research questions developed from the following model.

FIGURE 1



METHODOLOGY

This study included students from three universities in the southern region of the United States. Two universities were religiously affiliated and one university was a public secular university. One of the religious universities was Church of Christ while the other was a Catholic University. All the universities have liberal arts programs as well as business programs including accounting. This sample is similar to the Kennedy and Lawton (1998) study that examined a Baptist affiliated university, a Catholic affiliated university, and two public universities. Although the sample populations are similar to the Kennedy and Lawton study, the variables and instruments vary.

Seniors at each of the universities completed the measurement instruments. These included the DIT-2, the ROS, and a demographic form including information on personal affiliation and completion of ethics and religion courses. Students completed these instruments during class time either in the business capstone courses or in other senior level courses. Student participation was voluntary, utilizing regularly scheduled class periods as much as possible to minimize non-response student bias. Honesty was encouraged by offering the students an opportunity to obtain their scores from the instruments along with a key for their scores. The students had the option of including their e-mail address for communicating their score information

Control variables for this study include class status, age, gender, and full-time academic status. The target class status is college students who have completed more than 90 academic credit hours (typically classified as seniors). Students with less than 90 hours were not included in the study. The target population is students between the ages of 20 and 30 years old. Students outside these parameters were not included in the study.

This study screened all of the responses to ensure they met the criteria for inclusion. These criteria included undergraduate status of a minimal of 90 credit hours and traditional students from ages 20 to 30 years old. This study also screened the data for missing or inconsistent data. The scoring protocols for the DIT-2 instrument control for bogus data. Several standard checks were conducted to address these concerns according to the study by Rest, Narvaez et al, (1999). This study eliminated any participants from the sample with more than eight inconsistencies on any one dilemma and discarded any participant who omitted an entire story.

Data Collection – Independent Variables

Academic Discipline: The student noted their academic discipline on the demographic instrument. The student chose from a list of options that included the option of "other".

Ethical Intervention: On the demographic survey, students noted if they had completed one or more ethics course(s) at the university. To address the research question of religious view of ethics, the participants also noted the number of religion courses taken during their college career.

Religious Affiliation: On the demographic survey, the participants listed the name of the university they currently attend and also they noted their personal religious affiliation from a list of options. The options of "other" with an open blank as well as "none" were included in this list.

Religious Commitment: The results from the ROS instrument noted the student's religious commitment. This instrument provides an "I" rating for intrinsic commitment and an "E" rating for extrinsic commitment. The intrinsic rating denotes an internal belief and represents a commitment score. This study utilizes the "I" score for individual religious commitment.

Data Collection – Dependent Variable

The Defining Issues Test (DIT-2) was used to measure the dependent variable of cognitive moral development (CMD). The Center of the Study of Ethical Development at the University of Minnesota calculated the N2 index score from the completed instruments. This index score represents the cognitive moral reasoning level of the student. According to the Center of Ethical Studies, they indicate the N2 index score is more representative of the moral behavior than the previous P score. The major criticism against the DIT instrument is the perceived preference for post-conventional stage reasoning over conventional and pre-conventional stage reasoning Fisher and Sweeney, 1998). Even with this criticism, the "P" score representing moral development has been the dependent variable in numerous studies of ethical development in accounting students and professionals. As such, this consistent measurement tool and resulting moral reasoning score allows for comparisons across studies and disciplines related to CMD.

While the P score utilized ranking data, the new N2 index takes into effect both ranking data and rating data. The N2 calculations contain more rigorous procedures for handling missing data than did the previous P score calculations (Rest, Narvaez et al, 1999). Rest et al. (1991) also noted the N2 scores report the same mean and standard deviation as the P score for comparison purposes to the previously reported P scores.

DATA ANALYSIS

Statistical Techniques

Tables 4 through 6 report the results of the one-tailed t-test of means for questions 1 through 3. Tables 7 and 7a report the result of the two-tailed t-test of means for questions 4. Table 8 reports the result of the ANOVA statistical technique for question 5. Table 9 reports the result of regression analysis between moral values and religious commitment for question 6.

TABLE 3
STATISTICAL ANALYSIS SUMMARY

	Differences in DIT Scores		Results
Q #1:	Accounting vs. Other Business	.010 (P-Value)	Significant difference found between majors
Q #2:	Ethics course	.073 (P-Value)	Persuasive evidence suggesting no difference among students taking an ethics course
Q #3:	Students who took religion courses	.010 (rounded) (P-Value)	Significant difference found in those students who took religion courses in college
Q #4:	Differences in university religious affiliation religious vs. non-religious (.050 significance)	.014 (P-Value)	Significant difference between religious and non-religious when combined

	Church of Christ vs. Catholic (.05 significance) Church of Christ vs. Secular (.05 significance) Catholic vs. Secular (.05 significance)	.037 (P-Value) .003 (P-Value) .625 (p-Value)	Significant difference between Church of Christ and Catholic Significant difference between Church of Christ and Secular No difference between Catholic and Secular
Q #5:	Difference in individual religious affiliation One Way Anova	.010	Significant differences found in individual religious affiliations
Q #6:	Levels of religious commitment	.000 (R Sq'd) and .877 sig.	No significant relationship found between levels of religious commitment and DIT scores

TABLE 4
QUESTION 1 DATA ANALYSIS

Accounting and Other Business Majors N2 Index Score Comparison					T-Test of N2 Index Scores between Accounting and Other Business Majors		
Groups	N	N2 Mean	Std Dev	Mean Std Err	t	Df	Significance (1-tail)
Accounting	63	33.56	13.29	1.67			
Other Business	116	28.25	15.01	1.39			
					2.354	177	.010

TABLE 5
QUESTION 2 DATA ANALYSIS

Ethics Course N2 Index Score Comparison					T-Test of N2 Index Score for Ethics Courses		
Ethics Course?	N	N2 Mean	Std Dev	Mean Std Err	t	Df	Significance (1-tail)
Yes	140	29.28	14.40	1.22			
No	39	33.14	15.15	2.43			
					-1.46	177	.073

TABLE 6
QUESTION 3 DATA ANALYSIS

Religion Course N2 Comparison Index					T-Test of N2 Index Score for Religious Courses		
Religion Course?	N	N2 Mean	Std Dev	Mean Std Err	t	Df	Significance (1-tail)
Yes	129	31.73	13.73	1.21			
No	50	25.95	16.08	2.27			
					2.409	177	.009

TABLE 7
QUESTION 4 DATA ANALYSIS

University Religious Affiliation N2 Index Scores					T-Test of N2 Index Score for University Affiliation		
University Affiliation ?	N	N2 Mean	Std Dev	Mean Std Err	t	Df	Significance (2-tail)
Non-religious	61	26.39	15.69	2.01			
Religious	118	32.05	13.70	1.26			
					-2.492	177	.014

TABLE 7A
QUESTION 4 DATA ANALYSIS

T-Test of N2 Index Scores between Universities (3 different t-tests)								
	N	N2 Mean	Catholic			Non-religious		
			T	Df	Sig.	t	Df	Sig.
Church of Christ	84	33.72	2.11	116	.037	2.97	143	.003
Catholic	34	27.92				-.491	93	.625
Non-religious	61	26.39						

T-test of means for the N2 index scores between each of the universities indicate a significant difference at the .05 significance level between the N2 index scores from Church of Christ (33.72) to Catholic University (27.92) with a significance of .037. There is also a difference

between Church of Christ (33.72) and non-religious (26.39) with a significance of .003. However, the difference between the N2 index scores is not significantly different between Catholic (27.92) and non-religious (26.39) with a significance of .625.

TABLE 8
QUESTION 5 DATA ANALYSIS

One-Way ANOVA on N2 Index Score for N2 Scores and Religious Affiliation					
	Sum of Squares	Df	Mean Squares	F	Significance
Corrected Model	2764.46	4	691.12	3.412	.010
Intercept	30891.12	1	30891.12	152.50	.000
University	2764.46	4	691.12	3.412	.010
Error	35245.51	174	202.56		
Total	38009.98	178			
Corrected Total	38009.98	178			

Table 8 reports the results of the one-way ANOVA for the N2 index score and individual religious affiliation. The analysis notes a significant difference in the N2 index scores for students with high religious affiliation regardless of university.

TABLE 9
QUESTION 6 DATA ANALYSIS

Regression Analysis between N2 Index Score and Intrinsic Religiosity						
Variable	B	Std Err	T	Sign	R squared	Std Error
Intrinsic	-2.963E-02	.192	-.155	.877	.000	14.65
Dependent Variable: DIT N2 Index						

The results of the regression analysis report a significance of .877 and a R^2 of .000, indicating no correlation between the level of religious commitment as measured by the ROS intrinsic score and the moral reasoning of the student.

Comparison to Results from Other Studies

This study noted accounting majors reported higher DIT scores than other business majors. This is similar to studies by St. Pierre et al (1990), Jeffrey (1993), and Cohen, Pant, and Sharp (1998). St. Pierre examined 10 different majors noting psychology with the highest DIT scores overall and accounting/finance as the highest business major scores. Jeffrey examined three categories of students: accounting, other business, and non-business majors. Accounting majors reported significantly higher DIT scores than the other categories. Cohen, Pant, and Sharp (1998) also analyzed three categories of students: accounting, other business, and non-business majors. Although they did not utilize the DIT instrument, they did note accounting majors were somewhat more concerned about ethical dilemmas than other business majors and non-business majors.

In referring to Table 1, numerous studies noted positive correlation while several other studies noted no or negative correlations between ethics courses and moral reasoning scores. This study adds to the body of knowledge demonstrating no correlation between ethics intervention and level of ethics in students. Four of the studies noted in Table 1 examined only one university in their samples (Fulmer and Cargile, 1987; St. Pierre et al, 1990; Ponemon, 1993; and Shaub, 1994). Of these studies, all but Fulmer and Cargile utilized the DIT instrument for measuring cognitive moral reasoning. The studies of McCarthy (1997) and Loescher (2004) examined students from multiple universities. McCarthy examined accounting students from ten universities but did not utilize the DIT instrument. Loescher (2004) examined students from two universities: Catholic and secular. Within these universities, she examined three groups of students: accounting, other business, and non-business students. She utilized the DIT instrument to measure moral reasoning levels. Again, none of these studies noted a correlation between ethics courses completed by the students and levels of cognitive moral reasoning scores of the students.

In terms of university affiliation, several studies generated similar results in terms of examining cognitive moral reasoning scores (Pascarella and Terenzini, 1991; Kennedy and Lawton, 1998; Koeplin, 1998, Porco, 2003; and Conroy and Emerson, 2004). Pascarella and Terenzini (1991) noted students from a Christian liberal arts college to report higher moral reasoning scores as measured by the DIT instrument than other universities. Kennedy and Lawton (1998) examined students at an Evangelical University (Baptist), a Catholic University, and two secular universities. They noted the Evangelical University reported higher DIT scores than all of the other three universities. They termed the support for religious affiliation as partial support as the Catholic University reported higher than one of the secular universities but similar in DIT scores for the other secular university. Koeplin (1998) examined students from a Catholic University and a secular university. He noted no significant difference in the DIT scores between the Catholic and the secular university. Porco (2003) examined students from seven universities across the United States. She noted students attended universities with religious affiliation reported a significantly higher DIT score (37.2) than students from non-religious universities (31.5). The religious universities in her study were all Catholic universities. Finally, Conroy and Emerson (2004) examined students from a Baptist University and a secular university noting no difference in ethical orientation of the students.

The results of this study in relation to university affiliation and moral reasoning scores are most similar with Kennedy and Lawton (1998). This study also supports the findings of Koeplin who noted no difference in students from Catholic to secular universities. However, this study is different from Conroy and Emerson (2004) who noted no significant difference in moral reasoning scores between a protestant religious university and a secular university. The Protestant University in their study was a Baptist affiliated university that would be similar to the Church of Christ University in the current study. This study noted the evangelical university reported higher DIT scores than either of the other two universities. However, the Catholic University reported slightly higher moral reasoning scores, but not significant, than the secular university.

CONCLUSIONS

The researchers began with a few simple questions. Did business programs from religious universities produce students with higher ethical values than non-religious universities? Was there a difference in ethical values in accounting students versus other business majors? Was ethical behavior influenced by the amount of ethical intervention received by students in the form of ethics and religion classes? Did the amount of religious affiliation and commitment affect ethical values?

Our expectations were religious schools would produce students with higher ethical values. Data supported this belief only partially. The Church of Christ students had significantly higher DIT-2 scores than both Catholic and non-religious schools. The data suggested no difference in DIT-2 scores between the Catholic and non-religious schools.

We also examined the effects of students taking a religion course on DIT-2 scores. Students taking a religion course regardless of school had significantly higher DIT-2 scores than students not taking any religion course.

Ethical values of accounting students were significantly higher than other business majors regardless of the school. The result might be influenced by accounting students required to take an ethics course in their curriculum. We then examined the effects of students taking or not taking an ethics course and found persuasive evidence that no significant differences exist regardless of school. This result calls to question the effectiveness of an ethics course in influencing a senior students' behavior.

Ethical behavior is paramount to the accounting profession and most successful executives. The accounting firms have responded to the negative public perception with an increased focus on ethics. The AICPA (1999) required ethics as part of the 150-hour program recommendation in 1999. PricewaterhouseCoopers (PWC), (2003) recently published a document entitled "Stand and Be Counted" stating students must have "the educational balance, objective perspective and ethical backbone to enable them to recognize questionable situations and have the courage to make the right call even when it is the difficult call" (PWC, 2003. p. 15). The CPA exam now has an ethical component in the new computerized national examination (Porco, 2003).

The accounting profession is clearly on a path attempting to influence behavior of its members. But what steps are universities taking to influence the ethical behavior of Marketing, Finance, Management, and other business majors? The Association to Advance Collegiate Schools of Business (AACSB) includes ethics as a required learning experience but no specific course at the undergraduate level. Absent of a specific course, ethics content is interspersed through the program. Perhaps this indirect approach is warranted given sometimes contradictory

studies of ethical intervention. This study found persuasive evidence that no difference in ethical values resulted from students taking an ethics course.

Why is there a difference in the ethical values of accounting students versus other business majors? There are several possible explanations that require further study. Of all the undergraduate business majors, accounting has emerged as a bono fide profession, including professional licensing, various certifications, and practitioners subscribing to a professional code of conduct. Some of the previously mentioned business majors have parts of these professional attributes but not all. Certified Public Accountants pass a rigorous national exam and are subject to license suspension, revocation, and other civil and criminal penalties for unethical behavior. The penalty for unethical behavior is very high for accountants and arguably not as high for other business majors.

Ethical values of students were significantly different across various religious affiliations. Religion is a complicated subject and a personal matter. This study focused on religious affiliations in general rather than any specific religion. The results indicate religious affiliation appears to make a difference in a person's ethical values. Many aspects of religious affiliations are similar, including the acceptance of a higher calling in an individual's life. However, many differences exist regarding how to follow this higher calling. Some religions follow strict adherence to rules while others are more principles based. Do these differences affect the ethical values of the students? Does a better understanding of religious affiliations lead to a better understanding of a student's ethical values? Researchers may wish to further pursue this question.

Does commitment to one's religion make a difference in ethical values? The study found the level of commitment to have no correlation to ethical values. This implies the level of commitment to religious teachings is not as important as simply accepting a religion in one's life. Religious affiliation impacted ethical choices but commitment did not. Further study is needed to understand the complexity between these two seemingly related variables, and their impact on ethical decision making.

Can teaching ethics make a difference in the moral behavior of individuals? The accounting profession is demanding more attention to ethical training at the university level and in continuing education of the practitioners. Is this training making an impact of the profession, or is it good public relations for the profession? Based on the results of this study, the ethical intervention at these three universities did not report a difference in the student's moral reasoning skills.

Does commitment to one's religion make a person more ethical? This study did not find religious commitment to generate higher cognitive moral reasoning scores in students. The results of this aspect of study point to a need for more studies in this area.

The majority of studies dealt with university affiliation but only one examined individual religious affiliation with business students. Wimalasiri (2001) examined business students and practitioners in Australia, not specifically accounting students. More specifically, he noted Catholics to report slightly higher moral scores than Protestants and significantly higher than did Buddhists/Hindus. He noted students who reported "no affiliation" to score higher than any of the other religious groups. Similar to Wimalasiri's (2001) findings, this study also reported significantly differences in the cognitive moral reasoning for individual affiliations. However, the Protestant religion in this study reported a significantly higher moral score than any other religious affiliations. This study also reported students indicating Catholic affiliation to have higher moral scores than students with individual Baptist affiliation.

The final group of studies related to individual religious commitment. Numerous studies reported a significant correlation between religious commitment and moral development (Wimalasiri, Pavri, and Jalil, 1996; Allmon, Page, and Roberts, 2000; Wimalasiri, 2001; and Conroy and Emerson, 2004). However, this study did not support a significant relationship nor did any of the previously mentioned studies utilize the ROS instrument for measuring religious commitment. Three studies used a single question asking the student to report their level of religious commitment while one study utilized church attendance. Foster and LaForce (1999) was the only study noted in the literature review that utilized the ROS instrument. Their study noted no correlation between religious commitment utilizing the ROS intrinsic value and the DIT index scores of the students. This study also examined church attendance as in the Conroy and Emerson study noting similar results of no significant correlation. However, this study did note the students from University A to report significantly higher ROS intrinsic scores than either of the other two universities.

Study Limitations

This study is limited to three universities in the southeast region of the United States. The size and location of each of the universities is different as well. The Church of Christ University was located in a small town of approximately 20,000 people while the Catholic and secular Universities were both in larger metropolitan cities with over 100,000 each. The size of the universities was different with 4,000 undergraduate students at Church of Christ University, 2,000 at the Catholic University, and 11,000 at the secular University. The size of the business program also varied across the universities with the Church of Christ University reporting 800 business undergraduate students, the Catholic University with 500, and the secular University with 2,000. Finally, accreditation varied across the universities. Related to departmental accreditation, the Church of Christ University reported ACBSP accreditation, the Catholic University did not report a business accreditation, and the secular University reported AACSB accreditation. In addition, the Church of Christ University and secular University reported university accreditation by the regional accrediting body of North Central Association. The Catholic University reported university accreditation by the Southern Association of Colleges and Schools.

This study did not examine the self-selection of students to a university or an academic major. The Church of Christ University reported students from all 50 states and 40 foreign countries. The Catholic University reported over 20 states represented while the secular University attracted more local students. This study did not collect entry-level scores such as SAT, ACT, or high school GPAs. All schools state open enrollment policies for interested students and are not limited in who they accept to the university with the exception of lower entrance scores.

This study purged more students from the secular University due to age than either of the other universities. The secular University was located in the larger metropolitan city and reported older students who might be working full-time in addition to school.

This study collected sufficient data for statistical comparison across universities and between accounting and other business majors. However, after the purging of data for various reasons, this study did not collect data from enough students in certain subgroups for further statistical analysis. For example, although 34 students remained from the Catholic University, only 13 of these were accounting students and 21 were other business students. For the Catholic University, only 17 of the 61 students were accounting students. For individual religious affiliation, the

subsets of Baptist, non-denominational Christians, no-religious affiliation, Methodist, and Lutheran were too small for additional statistical analysis.

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Leadership in a Global Society

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The discipline of leadership in organizations has moved to the forefront in recent decades as an response to emerging issues in globalization. Many organizations have developed formal leadership programs in an effort to gain a competitive edge in a globalized world that requires more than technical and management skills. This article reviews several authors' theories on the qualities of leadership and how to successfully integrate leadership into today's workplace.

INTRODUCTION

What is leadership? Are leaders born or made? Are there innate qualities that predetermine if one will be a leader or a follower? Can one be trained to be a leader? There are no conclusive answers to these questions, at least none that can be proven without exceptions to the rule. A management position is not indicative of leadership qualities or abilities. Effective leadership cannot be characterized into specific criteria but manifests on many levels. Not every leader will embody all of the criteria but many will possess common criteria required for effective leadership. For example, many effective leaders are charismatic but charisma is not a tangible quality but it is 'something' that draws followers. A charismatic leader has the ability to influence others in powerful ways; however, the ability to influence may not always have positive results as evidenced in such tragedies as the Holocaust and 9/11. Leaders must appear credible to those that follow them, if they do not believe in what they are touting to others then they will not have the ability to influence others. Leaders must deal in truth and make hard decisions that may be unpopular but necessary and stand by their decisions. There may never be one, single definition that will capture all of the qualities of an effective leader but there is solid evidence to support common threads among all leaders.

LEADERSHIP DEVELOPMENT

Authors, Ilan Alon and James M. Higgins explore the critical issue of globalization and the interdependence of businesses without borders or constraints in their book "Global Leadership Success through Emotional and Cultural Intelligences". Leaders may be born or made or a combination of the two theories "… but leadership is the ability to turn vision into reality (Llan

and Higgins, 2005). Alon and Higgins also report that in order to be a successful leader in the global business world, several key points need to be acknowledged:

1. Leaders need to develop global competencies
2. There is a shortage of global leaders in the corporate world
3. Many companies do not know what it means to develop corporate leaders
4. Only 8% of Fortune 500 firms have comprehensive global leadership training programs
5. There is a need to better understand the link between managerial competencies and global leadership (Alon and Higgins, 2005)

Authors Davis Dyer and Charles Knight have compiled a list of the qualities that they believe effective leaders possess. This list was compiled based on years of experience and best practices that have worked in all levels of management throughout the world. Although, this list is not exhaustive, it is very comprehensive and an excellent baseline for developing an effective leadership program. As individual points, they may seem obvious but collectively and cumulatively … they help create the environment for exceptional organizational performance" (Knight and Davis, 2005). Knight and Dyer diverge with many theorists in their belief that leaders are made and not born. Knight and Dyer's list of Ten Traits of Effective Leaders is as follows:

1. Be Committed to Success
2. Set Proper Priorities
3. Set and Demand High Standard
4. Be Tough but Fair in Dealing with People
5. Concentrate on Positives and Possibilities
6. Develop and Maintain a Strong a Sense of Urgency
7. Pay Attention to Detail
8. Provide for Possibly of Failure
9. Be Personally Involved
10. Have Fun

Ultimately, possession of these traits does not ensure that one will be an effective leader. "There is a palpable feeling of excitement that arises when you work with smart and engaged people whose goals and commitment are the same as yours" (Knight and Dyer, 2005). Although these traits are common place among successful leaders, they do not fit into any particular mold. There is more than one way to lead and "there is no right way to lead" (Knight and Dyer, 2005). Leaders must lead by example and gain the respect of their staff. It is very difficult to effectively lead without the respect of the staff. Staff members need to see that the leader is fair across the board.

THE GLOBAL EXPERIENCE

As the world continues to evolve into a global society, cultural competency is as important as emotional intelligence to maintain healthy relationships with global partners. There are many programs and courses geared toward leadership development but as we study more about human nature and learning styles, it is clear that generic leadership training will not work in today's diverse organizations.

Research shows that integrating the multi-intelligences into teaching styles is also very effective in management styles. “Ultimately, the negative consequences of wrong leadership choices are both expensive and well-publicized… Although, some firms are endeavoring to enhance the emotional intelligence capabilities of their leaders, very few have moved to grow cultural intelligence…” (Llan and Higgins, 2005).

Humans are often driven by their emotions and make critical decisions based on emotions. “When a person receives a piece of information, it is automatically assessed from an emotional perspective… when a person receives information, the older part of the brain still considers the fight-or-flight response…” (Alon and Higgins, 2005). There is still debate on whether or women or men make better managers simply because of their emotional makeup. Women are often viewed as more intuitive, more caring and more sensitive to the needs of others while men may be seen as cold, decisive, and impersonal toward others. Is there a difference between women and men? A plethora of books and articles discuss the differences between women and men but the jury is still out on whether women and men make better managers or leaders. “One explanation is the different ways men and women have been socialised. Men are taught to be active and dominant risk-takers and showing emotion is inconsistent with this image. Women, on the other hand, are socialised to be nurturing. Gender may thus, facilitate the influence of training programmes on the leaders’ emotional intelligence” (Ogunyemi, 2007).

Knight and Davis examine pitfalls that plague many leaders such as planning or more importantly the lack of effective planning. “First it takes hard work and hard thinking to identify a limited number of actions and communicate them in a clear, logical sequence-to keep things simple. Second, leaders may pursue the wrong priorities, but they may just as likely-maybe more likely to be unsure of what the right priories should be, especially in a fast-changing world. They don’t take the time and do the work to get their priorities right. Third, leaders often experience difficulty in managing the tradeoffs among conflicting objectives…” (Knight and Davis, 2005).

Often, the very best and most effective leaders fail to plan for leadership development and train appropriate successors. Why? They are other pressing issues such as avoiding legal ramifications, environmental scandals, accounting problems, and political snafus. This is very logical and acceptable but at the same time dangerous to the company’s well-being. “Companies whose boards and senior executives fail to prioritize succession planning and leadership development end up either experiencing a steady attrition in talent or retaining people with outdated skills. Such firms become extremely vulnerable when they have to cope with inevitable organizational upheavals-integrating an acquired company with a different operating steely and culture…” (Cohen et al, 2005). This can be pulled straight from recent headlines as many prominent companies face scrutiny and its senior executives face prosecution and even imprisonment. If a company fails to employ an effective leadership development plan, then they plan to fail. However, it is clear that that senior executives cannot control every facet of the company but they must mentor and work closely with those persons and departments that do control these functions. It is no longer feasible to expect that people will stay in the same position for thirty or forty years and remain loyal to the same company. Employees are often not trained formally or informally to be ready to move at a moments notice into a new position or better opportunity. No one person should possess all the information in expertise in one area. Knowledge Management is a growing field that is critical in maintaining knowledge in accessible vehicles. In years past, one person could possess all the critical knowledge and when that person left, the knowledge left with them. As the world becomes more and more globalized, it is a reality that geographical and cultural boundaries will completely disappear. Lifetime job

security is no longer a ‘given’ in today’s world and alternatively employers must work hard to attract, train, and retain the best and the brightest. The most valuable asset in a business is human capital and organizational strategic plans should reflect this fact. “By engaging managers and the board… a company can align its leadership development processes with its strategic priorities. The company can also build a clear and attractive identity; its employees perceive that leadership development processes are what they are declared to be. Such coherence, identity, and authenticity, in turn, make it easier for the company to attract the future leaders it needs” (Cohen et al, 2005).

When one examines the fact that “only 8% of Fortune Five Hundred companies have comprehensive global leadership training programs”, then the question remains if these companies have an edge above the remaining 92% of Fortune 500 Companies. Also, if the other 92% of Fortune 500 Companies ARE Fortune 500 companies, then, comprehensive global leadership training may not be a prerequisite to succeed. Perhaps, the remaining 92% of companies have leaders that are already trained and prepared to lead and the other 8% needs to nurture the leaders that they currently have on board.

Tyson Foods is an example of a company that made billions of dollars each year but failed at effective leadership development. CEO John Tyson struggled with frustration as he tried to implement many different leadership programs at Tyson Foods to capitulate the company into another level of leadership and increased economic prosperity. Tyson did all the right things in the beginning, he had control over the key components of success for the business but he realized that the reason that they were not excelling more is that they did not have more developed leaders in place who were prepared to succeed those that left the company or were promoted. Tyson spearheaded a task force to assess the company’s needs and to formulate a plan for successful leadership development. No detail was overlooked and everything was scrutinized and the task force produced an integrated plan for effective leadership development. “Leaders at all levels were either in or out” … They couldn’t waffle about contributing their time and effort to the new talent development system; they couldn’t ‘protect’ talent, hoard resources, or declare themselves immune from succession planning..” (Cohen et al, 2005).

Tyson reviewed other companies’ leadership development plans and even visited other companies to observe their leadership development plans and returned to Tyson Foods to implement the programs but failed miserably. Why did John Tyson fail at numerous attempts to implement a comprehensive and effective leadership development program? Tyson is not alone in this thinking in the notion that ‘one size fits all’ for leadership development plans. He failed because he did not implement a company needs assessment and he was faulty in his assumption in that what worked for other companies would work for Tyson Foods.

Many leaders implement change but they are not all successful. What are the key elements in leading and implementing change? Author John P. Kotter maintains that, “leaders who successfully transform businesses do eight things right (and they do them in the right order)” (Kotter, 2007). Kotter observed several large companies trying to make effective changes in their organizations to address a new and modern environment. It is clear that change is not immediate or a “quick fix” but must be a plan that is well-thought out and executed. Kotter has presented eight critical steps that must be executed flawlessly in order to make the transformation successful. The first critical step is to establish a sense of urgency. Leaders must create an atmosphere of urgency that is clearly communicated to their employees. It must be implicitly stated this is an emergency state and they must respond accordingly. Kotter states that during this crucial phase, fifty percent of companies fail. This is the phase that requires a shift in

organizational thinking and identity. It is not important of the exact reason for initiating change but it is important to recognize that a change is needed within the organization. It can be tricky to convince others that it necessary to initiate wide scale changes throughout the organization but it can be done. Some executives have resorted to "manufacturing crises" to increase the sense of urgency.

The second step is to create a powerful guiding team. It is necessary to have a powerful team throughout the entire process especially during the initial years. The guiding team can begin with a small number and increase in span and effect of the change continues to reverberate throughout the organization. Organizations may fail during this phase for several reasons including "[not having a] history of teamwork at the top and therefore undervalue the importance of this type of coalition… No matter how capable or dedicated the staff head, groups without strong line leadership never achieve the power that is required" (Kotter, 2007).

The third phase includes creating and maintaining a vision for the future of the organization. A vision goes beyond the mission and requires intricate plan over a period of a minimum of five years. The coalition must hone this document until everyone buys and supports the final document that is a crystal clear outline of the future of the organization. However, this plan may be imaginative but the team must be honest and realistic in designing a plan. It must resist the temptation to fall back into the "old way of doing business". Kotter offers a rule of thumb concerning the vision – it should be able to be "communicated in five minutes or less" to others in the organizations.

The fourth phase includes under communicating the vision. If an organization has been able to make past the first three phases, they are well on their way to successfully implementing change but they must be sure to effectively communicate the vision at every turn. To take this step further, executives must live and breathe the vision and refuse to act in aversion to the vision even when it is most comfortable. "Communication comes in both words and deeds, and the latter are often the most powerful form. Nothing undermines behavior by important individuals than is inconsistent with their words" (Kotter, 2007).

The fifth phase requires that tangible and intangible obstacles are removed as not to impede the flow of the progress. Everyone needs to be empowered to make decisions and create innovative ideas and processes. Employees that are not embracing the new changes and processes need to be counseled or removed. Everyone should take ownership for the success or the failure of the organization; however, it should not become so personal that employees are emotionally paralyzed by their old habits and fears. Executives must possess the ability to identify the employees who are hindering the organization and take corrective action. Once an organization has successfully navigated the first four phases, it should be evident who is onboard and who is not onboard for the long term future of the organization.

The sixth phase is requires that the long term plan allows for systematic and short term wins. The coalition must actively plan for the short term goals and wins while working toward the long term plan. This is why it is important to communicate the vision early in the change process, failure to do so while have long term consequences. Employees will need to "see" progress toward the long term goals in order to justify short-term sacrifices and shifts in behaviors. It is critical that short-term wins are communicated and celebrated throughout the process to create a positive and progressive environment.

The seventh phase involves being patient and not declaring victory too soon. The change process is a long term project that will require enormous amounts of time and effort. The changes must be sustained before declaring victory. The basic principles of Total Quality

Management (TQM) maintain that once the initial work and shifts in processes are completed, the changes must be consistently maintained and re-evaluated. If executives declare victory too soon, they risk disastrous and possibly irreparable damage to organizational morale.

The final and eighth phase is anchoring changes in the corporation's culture. In short, after an organization has successfully completed the first seven phases, it is important that the changes become ingrained in the fabric of the organizational culture. The old, ineffective habits should be replaced by the new, innovative habits. The organizational vision and values must be continuously espoused and conveyed in words and actions especially by the executive leadership.

IMPLICATIONS OF FURTHER RESEARCH

The discipline of Leadership is a field that will continue to develop and evolve in the future. As we become more globalized and the science of leadership becomes more formalized, there will be an increased growth in leadership academic majors at universities and colleges. Many organizations will realize that they will need to differentiate between management and leadership and ensure that their key staff members posses the ability to lead and manage in today's workplace.

Effective management is needed throughout the world in all different types of organizations but in order for management to be effective, there must be effective leaders. What is an effective leader? Are they born or made? Is there one 'right' style of management or leadership? Effective management depends on many variables including but not limited to organizational personality and organizational culture.

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Computer Addiction and Cyber Crime

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This research explores the relationship between computer addiction and cyber crime. There is evidence of computer addiction in medical settings, scholarly journals and legal proceedings. Reviewing the history of computer addiction has shown that computer addiction can be related to cyber crime. This paper will define computer addiction, show how various cyber crimes, especially those against businesses and organizations, can be motivated by computer addiction and propose further research on how managers can deal with cyber crime in a business, by recognizing addictive behaviors and computer addiction in their employees.

HISTORY OF COMPUTER ADDICTION

Computer addiction is an idea that has been in existence for years. Since the 1970s, avid computer programmers and hackers have been called "addicts" by both psychologists and the general public (Reed, 2002, p. 135). In 1976, Weizenbaum wrote about computer programmers who could sit and work at their computer terminals for twenty or thirty hours at a time. This behavior however, was viewed at the time as useful to technology and society.

Computers, once seen as huge government machines that only very knowledgeable people could use, transformed into user-friendly tools that could be used by the everyday person. It became more common to see computers in homes and businesses during the 1980s. This change meant more people were using computers, and more people were becoming addicted to computer use. The idea of computer addiction became more pervasive in the 80's, and because of the social atmosphere of the time, there was widespread use of drug and addiction metaphors describing obsessive use of computers (Reed, 2002, p. 137). In fact, the PC is sometimes referred to as the "LSD of the 1980s" (Elmer-DeWitt, 1993, p. 63).

The Shotton studies on computer dependency in 1989 did nothing to discourage the idea of computer addiction. Shotton (1989) wrote that "in all instances where personal contact was made

with people who worked with computers and computer users, there was belief in the occurrence of this syndrome (computer dependency)" (p. 20). Shotton mentions that many people felt that this dependency could also lead to negative consequences, such as academic and professional problems and decreased social interactions (Shotton, 1989, p. 20). Shotton's analysis of computer dependent individuals found that they tend to be younger, unmarried men. Many were also first born children who had occupations within areas of science and technology (Shotton, 1989, p. 37). The result of these studies showed that computer dependency was a plausible syndrome and even began to show that profiling could be performed to show what kind of social and demographic influences nurture computer dependency.

During the 1990s, computer hacking became more widespread and resulted in the notion of hackers as "computer addicts." In US courts, convicted hackers labeled as "addicts" saw increased rehabilitative therapy, computer use supervision and jail time. Computer hacker Kevin Mitnick's history within the court system, shows how harsh punishments for computer crimes became during this time. In 1989, Mitnick was arrested for computer fraud and sentenced to one year in prison plus six months in an addiction rehabilitation program. At the time, this was the harshest sentence ever handed out by a court for this offence. Mitnick was released in 1990, only to be arrested again in 1995 for violating his probation by using computers. Mitnick was seen as an electronic terrorist and a dangerous individual, and he thus became the symbol of computer obsession gone wrong. For these reasons, it is not strange for Mitnick's defense to be addiction and for his sentence to be so harsh. The Mitnick case introduced and legitimized the notion of clinical computer addiction to the US legal system (Reed, 2002, pp. 138-142).

The term Internet Addiction Disorder (IAD) was first coined by Dr. Ivan Goldberg in the late 1990s. The term was used to describe pathological obsessive computer use. Dr. Goldberg also used the terms webaholic and pathological computer use disorder. IAD is not currently listed as an addiction by the American Psychiatric Association (APA), but it is described under the category of Impulse Control Disorder (ICD) in the American Psychiatric Association (APA) Diagnostic and Statistical Manual, IV (Wieland, 2005, p. 154).

Other terms such as Pathological Internet Use (PIU) and Pathological Computer Use (PCU) are also used to describe computer addiction. These terms are used interchangeably with each other and with IAD. Though some experts argue that these syndromes are not truly mental diseases, proponents of computer addiction, notably those who run or work in clinics where patients are treated for these afflictions, claim that they are real diseases.

Diagnosing Computer Addiction

There were an estimated 2.3 to 5.6 million addicted computer users in 1997 (Young, 1998, p. 27). In 2005, the estimate of addicted computer users increased from 11.3 to 18.9 (Kershaw, 2005). Fifteen signs of addiction, according to Internet/Computer Addiction Services in Redmond, Washington, are as follows:

1. Inability to predict the amount of time spent on the computer.
2. Failed attempts to control personal use for an extended period of time.
3. Having a sense of euphoria while on the computer.
4. Craving more computer time.
5. Neglecting family and friends.
6. Feeling restless, irritable and discontent when not on the computer.
7. Lying to employers and family about computer activity.
8. Problems with school or job performance, as a result of time spent on the computer.

9. Feeling of guilt, shame, anxiety or depression as a result of time spent on the computer.
10. Changes in sleep patterns.
11. Health problems such as carpal tunnel syndrome, eye strain, weight changes, backaches and chronic sleep deprivation.
12. Denying, rationalizing, and minimizing adverse consequences stemming from computer use.
13. Withdrawal from real-life hobbies and social interactions.
14. Obsessing about sexual acting out through the use of the Internet.
15. Creation of enhanced personae to find cyberlove or cybersex.

In addition to these symptoms, many experts also said that they see similar signs of withdrawal in computer addicts as in drug or alcohol addicts, symptoms such as profuse sweating, severe anxiety and paranoia (Kershaw, 2005). Furthermore, some patients are predisposed to becoming addicted to computers. Histories of psychological diseases or other types of addiction, such as gambling or drugs, make patients more susceptible to computer addiction (Wieland, 2005, p. 154). Computer addiction can also cause considerable development problems, including attention deficit disorder and other social issues, in young adults (Kershaw, 2005).

Computer addiction is a behavior-oriented addiction. "In behavior-oriented addiction, those who get hooked, are addicted to what they *do* and the *feelings* they experience when they are doing it" (Young, 1998, p. 17). Computers become a vehicle to compensate for other things lacking in a person's life such as relationships, solid marriages, strong and fulfilling careers or financial security. Computer addiction essentially becomes a catchall characterizing five main computer-related issues: cybersexual addiction, cyber relationship addiction, net compulsions (addiction to online gambling, stock trading, shopping, etc.), information overload (web surfing and database searching), and addiction to interactive computer games (Young, Pistner, O'Mara & Buchanan, 1999, p. 477, Wieland, 2005 p. 154).

The reasons men and women become addicted to the Internet are different. Men want to fulfill information glut, play explicit or aggressive games, and engage in cybersex. They seek control, power, influence and dominance. On the other hand, women look to the Internet as a source of friendship, romance and support (Wieland, 2005, p. 154). The types of experiences men gain from the Internet are more likely to become destructive, than the experiences women seek.

Denial is strong among sufferers of computer addiction. In 1998, Young noted the "one more minute syndrome." The name comes from the typical response given by computer addicts who are asked to get off the computer. These addicts become irritable when asked to get off because they lose their concentration and also the sense of euphoria they gain from their time online. Young noted that this rationalization of "one more minute," is very similar to an alcoholic who claims he or she will stop drinking after one drink.

Computer addicts can also create problems in a workplace environment. Employees who spend a lot of time on the computer can become easily irritable, causing increased arguments with coworkers and unfriendly work relationships. Increased time on the computer also results in decreased work activity and production (Beard, 2002, p. 6).

There is a growing number of treatment options for addicted computer users including behavioral therapy and inpatient rehabilitation centers. They use similar approaches in treating computer addiction as for other types of addiction, such as 12-step programs. Unfortunately,

since IAD is not a currently recognized syndrome by the APA, insurance companies do not reimburse patients for these types of services. Patients either pay expenses out of pocket or therapists and treatment centers will bill for other problems, including impulse control disorders (Kershaw, 2005).

Unlike treatment for other addictions (drug, alcohol, etc.) which call for total abstinence, treatment for computer addiction is all about moderate, manageable use. The goal for computer addicts is to be able to use computers without becoming or remaining dependent on it as an escape from reality (Kershaw, 2005).

CRIME ADDICTION

An increasing number of people are also starting to view crime as an addiction. There has been an upsurge in organizations modeled after Alcoholics Anonymous, which deal with criminal addiction. One group is Crime Addiction Anonymous out of Vancouver, Canada. It is "dedicated to the contentious premise that crime can be an illness as tenacious as dependency on alcohol or drugs" (MacQueen, 2004, p. 82). One of its members mentions his reasons for committing crimes as the power trip he receives and the fact that committing crimes is thrilling and fun.

Though some experts are reluctant to label this activity as "addiction," many concede that crime can be caused by psychological needs. Psychologists have labeled criminals as "compulsive" or as being attracted by "the rush" (MacQueen, 2004, p. 83). Criminal motivation can also be based on psychological desires. Criminals may be seeking power, reassurance, trying to assert their power or seeking retaliation for past harms. In these cases, criminals are hoping to fulfill a psychological motive or need (Turvey, 2002, p. 310).

Opportunistic crime also exists. Evidence shows that some people commit crimes simply because they had the opportunity laid in front of them and took it (Turvey, 2002, p. 206). This shows a lack of restraint by these individuals, which can lead to further criminal activity.

Clinical psychologists have even tried to classify motives for crime in order to develop effective treatment for criminals to overcome their behaviors and prevent future criminal activity (Turvey, 2002, p. 307). Though there is no clinical term for crime addiction, psychologists still seem to be aware of the psychological element of crime and have a desire to treat criminals in order to cure them of their aspiration to commit crimes.

Computers and the Internet: Tools for Criminals

In recent times, computers and the Internet have become very useful tools for criminals. All types of criminals, from hackers and spies to sexual predators and murderers, are able to use computers and the Internet to facilitate and ease the processes of their crimes. The Internet in particular is attractive to criminals for many reasons. 1) The Internet extends the reach of the criminal. Before the advent of the Internet, criminals were limited to committing crimes against people or businesses in their geographic locale. The Internet however, makes it possible for criminals to extend their reach all over the world. 2) The Internet helps criminals to more easily investigate potential victims. Criminals can alter their personality to obtain information directly from the potential victim, use the Internet to search for information on their potential victim, or even hack into the victim's computer through the use of Trojan Horses or other spyware or viruses. 3) Criminals on the Internet feel safer committing their criminal acts because of their ability to conceal or alter their identities. This false sense of security can be their downfall, but at

the same time it can be their vehicle to fuel fantasies, to fulfill information glut desires, or to feed a need for power (Turvey, 2002, pp. 549-550).

Internet criminals are motivated by a number of desires. Some are attracted to their crimes by the intellectual challenge, others are seeking power or attention and others, especially hackers, are motivated by a need to bolster their self-esteem. These motivations are rooted in psychological needs and can signify an obsessive or addictive personality (Turvey, 2002, pp. 552 & 555).

Computers and the Internet: Reason for Crime

There is a general consensus among psychologists that past addictions, such as substance abuse or addiction to gambling, can lead to future addictive behaviors. Many computer addicts have a history of addiction. Addictive behavior breeds addiction. For these reasons, it is safe to say that computers are not only vehicles to commit crime, but computer addiction can become the reason for crime in general.

It is easy to see how computer addiction can lead to different types of crime, especially opportunistic crime. Individuals who spend a significant amount of time on their computers or the Internet, computer addicts, have many opportunities to commit crimes. These people may have never known that these criminal prospects existed before, but, by spending increased amounts of time on the Internet, have come to see a whole variety of opportunities laid out in front of them.

As it was previously mentioned, computer addiction can also lead to serious crimes against businesses. Computer addiction can cause increased irritability in employees and tension amongst coworkers. This can lead to increased employee turnover and training and human resources costs. Computer addiction also causes decreased productivity among workers, which can lead to significant reductions in profits for a company.

Computer addiction can also lead to information glut. A person can become so engrossed in finding out information and searching Internet databases, that he or she will start to overstep boundaries. This information craving can lead to hacking into company databases and even espionage. These criminals can be motivated by their addictions and by other psychological demands.

Computer addiction can lead to a false perception of reality. People feel that the Internet offers an escape from real life and allows them to remain invisible behind a barrier of anonymity. These feelings also give a computer addict a false sense of security, since he or she feels that there are no rules, and therefore no punishment, on the Internet. This fictitious existence makes it easy for individuals to feel no remorse for their crimes, and to believe there will be no reprimand for committing them.

Addiction and Profiling a Cyber Criminal

There has been some research about how to profile cyber criminals. In 2005, Nykodym, Taylor and Vilela broke insider cyber crime down into four specific types and showed how the differences in the motives for the crimes, influence the kind of person who is willing and able to commit them. These categories of crime are espionage, sabotage, theft and personal abuse of an organizational network. These categories and the profiling of the criminals will be explored in the following paragraphs.

The first type of crime, espionage, is generally committed by a spy planted in a company by one of its competitors. Since these spies are after top secret information, they are generally

placed high in the hierarchy of the company so that they have more access to company records. Since managers are generally older individuals, spies will generally be at least thirty years and will be older if they assume positions of top management. Spies also want to blend in as much as possible in a company. For this reason, spies placed into organizations will reflect the race and culture structure of the particular company and will be very calm and reserved individuals. Spies also have a thorough understanding of computers and the IT area in a company in order to commit crimes and hide the evidence (Nykodym et al., 2005, p. 413).

Sabotage on the other hand, is generally caused by an individual for personal reasons. Saboteurs are similar to spies when it comes to knowledge of computers or IT, and are people who also have access to the company's network. Their motives however, are usually caused by a desire to get revenge on the company for a personal misfortune such as a missed promotion. These crimes can be committed while the criminal is still employed within the company or even after the criminal leaves or is fired by the company, as long as the criminal is still able to access or hack into the company network. Saboteurs are generally between the ages of twenty-five and forty, but have also been with the company long enough to have a complete knowledge of the company's network, especially its weaknesses (Nykodym et al., 2005, p. 413).

Thieves are also motivated by personal gain, but it is purely financial in nature. Thieves want to access valuable information from a company and use it for financial gain later. In 2005, Nykodym et al. showed that cyber crimes against a company valuing less than $100,000 were generally committed by a man or woman who is between the ages of twenty to twenty-five years old and who is still in the lower hierarchy of the company. On the other hand, crimes costing a company between $100,000 and $1,000,000 are generally committed by a man between the ages of twenty-five and thirty-five. Crimes causing over $1,000,000 of damage are caused by top management members, who are generally men over the age of thirty-five.

The last type of crime, abuse of a company's network, is the most common of the four categories. It can be caused by any individual in a company who uses the network for personal use such as reading the news, checking personal email, online gaming or gambling, etc. Though each case does not account for much loss, the sum of all loss of productivity within the company can be staggering. A person who commits this act against a company may "oppose supervisors, be non-conformant to rules and regularly break rules" (Nykodym et al., 2005, p. 414).

Managers at a company can fight insider cyber crime by setting up log-on accounts for employees, installing firewalls and limiting access to information based on job titles. Managers need to be observant of employee behavior and they also need to be forthright about the company's computer usage policies (Nykodym and Marsillac, 2007, pp. 8-9). In the future, managers may also be able to thwart cyber crime by recognizing addictive behaviors in an employee.

Though no research has been done to show how addictive personalities could be a determinate of cyber crime, it is easy to consider how addiction could cause cyber crime in an organization. It has already been shown how many people with computer addiction also have other addictions (e.g. gambling addiction), and how these addictions could easily lead to abuse of the company network. Addictive personalities could also lead to an increased desire to sabotage or steal for financial gain from a company. Further research needs to be done to show the extent of addiction as a reason for crime and to see if programs set up by companies to help employees with addictive behaviors, especially addiction to computers, could minimize instances of insider cyber crime.

CONCLUSION

Computer addiction, though not officially recognized by the APA as a disorder, nonetheless is commonly believed to be such a problem that treatment is needed to correct it. Symptoms are numerous, but one predisposing factor that can lead to computer addiction is a person with a history of other addictions. There is also growing support in favor of viewing crime as an addiction. A business setting can be a tempting atmosphere for an individual who has a problem with addictive behavior, since computer networks provide an easy vehicle through which cyber crime can be committed. Managers in businesses can fight back against cyber crime by learning to recognize addictive behavior and businesses in the future may be able to further thwart insider cyber crime by providing treatment programs for people suffering from computer addiction.

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