

PROCEEDINGS of 2007 SOBIE Annual Meetings



**April 15 – 18, 2007
Orange Beach, Alabama**

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Proceedings of the Society of Business, Industry and Economics (SOBIE) Annual Meetings

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Financial Determinants of Faculty Salaries at Private Master's Granting Institutions

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Abstract

This research examines the relationship between faculty salaries and the financial characteristics of the institutions that pay them. Faculty salaries of Assistant, Associate and Full Professors at Master's granting private institutions are modeled as a function of net revenue per student, endowment per students, enrollment and the existence of Division I athletics. The three revenue factors, enrollment, endowment per student and net revenue per student are positive and statistically significant for faculty of all three ranks. The average salary of faculty at the Full Professor rank is found to be statistically significant and positively related to the existence of Division I athletics at the institution. The model achieves R-squared values in the .5 - .6 range. Suggestions for further research involve including Bachelor and Doctoral Granting Institutions as well as expanding the model to include other cost measures.

Introduction

Not surprisingly, faculty compensation is a matter of great interest to researchers, and much attention has been given to matters of compensation within the academy. The labor market for faculty has been characterized as national or alternatively one given to market segmentation. Salary differentials across institutions are related to a variety of variables including public/private ownership, mission, research focus, and student faculty ratio. Indeed, much of the literature speaks to the willingness of institutions to compensate faculty for various characteristics and activities. Often lost in this analysis are salary differentials that arise in markets segmented by rank. If we accept that tenure imposes significant switching costs to senior faculty, then the market for Assistant Professors may differ in significant ways from the market for more senior faculty.

In this research we endeavor to examine the financial capacity of institutions to compensate their faculty. We examine the major elements of institutional revenue that provide means for faculty compensation. We also examine cross sectional differences by rank, with an eye toward identifying the effect of tenure on explicit compensation. Moreover we contribute to the on-going debate regarding increasing inequality in higher education labor markets. Finally, we consider the impact of the institutional commitment to NCAA Division I athletics on faculty salaries, in an effort to test the familiar hypothesis that institutional spending on athletics is a substitute for faculty compensation.

Literature

Increasing inequality in higher education has become a matter of concern to researchers and policy makers. The 2006-2007 AAUP Report on the Economic Status of the Profession: Financial Inequality in Higher Education identifies increasingly unequal

endowment values and waning public support for higher education as contributing to this increasing trend. Ehrenberg (2003) reports evidence consistent with these observations. Additional inequality is observed by Gardner (2007) who references the 2007 AAUP report in noting the disproportionate effect of this inequality on traditionally Hispanic institutions.

Earlier work by Monks (2003) again identifies increasing inequality among faculty salaries in the late 1980's to late 1990's period. He attributes some of this inequality to institutional earnings inequality, but argues that the majority of the inequality is attributable to increases in inequality in intra-institution earnings. He further notes that these intra-institution differentials may be the result of either changing opportunity costs found within the academy, or alternatively reflective of the "winner take all" phenomena discussed by Frank and Cook (1995).

Fairweather (1995) examines faculty pay as a reward for engaging in specific activities, i.e. teaching vs. research. This allows for evaluation of the market segmentation model of Garvin (1980) and Getz and Siegfried (1991), in which the most research oriented faculty are recruited by doctoral granting institutions and engaged in knowledge generation, while liberal arts colleges and comprehensive colleges employ faculty in the instruction of undergraduates and professionals respectively. This market segmentation model is in contrast to the "prestige" model in which all institutions value research most highly and compete for research oriented faculty. Abundant supply and tepid demand in the faculty market of some disciplines permit less prestigious institutions to recruit productive researchers (Fairweather (1995)).

The Market for Faculty at Private Institutions

Prior research has predominantly focused on either the attributes of faculty performance that influence compensation, or the classification of the institutions paying the salaries. We depart from this approach by instead examining the financial characteristics of the institutions paying the salaries. Our attempt is to measure the capacity of the private institutions to compensate their faculty. One could also imagine significant differences across faculty rank, as the declining risk of pay streams at the Associate Professor and Full Professor level, combined with significantly larger switching costs associated with abandonment of tenure leave senior faculty less inclined to avail themselves of the external market opportunities and their compensation more closely tied to the fortunes of their institution. Analogous to law firms, compensation at private colleges and universities is dichotomous. Analogous to law associates, Assistant Professors must be hired in what is effectively a national auction market, which results in a prevailing wage that must be paid to attract candidates. The implication of not meeting market price is to accept either a failed search or a sub-optimal substitute.

Continuing the law firm analogy, law firm partners can be thought of as similar to Full Professors in that their personal fortunes are more explicitly tied to the well being of their employer. Assistant Professors, like law firm associates, enjoy greater freedom to enter and leave a fluid labor market, while partners and Full Professors must endure very real costs to enforce external market outcomes on their firms.

A Model of Faculty Compensation at Private Institutions

If we accept the notion that faculty compensation at private institutions is a function not only of external markets, but also of institutional capacity, we may examine the elements of institutional financial performance that provide the basis for compensation. With one exception, we focus predominantly on the elements of institutional revenue. The three

principal determinants of institutional revenue are: enrollment, net revenue per student and endowment per student. We offer then as a general form:

$$S = \beta_0 + \beta_1 \text{Enroll} + \beta_2 \text{NetREVENUE} + \beta_3 \text{Endow} + e_i$$

Where

- S = average salary by rank
- Enroll = Enrollment
- Net REVENUE = Net Revenue per student (Advertised Tuition – average institutional financial aid award per student)
- Endow = Endowment per student
(End of Year Endowment value / Enrollment)

While our initial model examines only elements of institutional revenue, there is one element of cost that is often a matter of considerable interest to faculty and more recently policy makers. Institutional commitment to Division I athletics is often a source of faculty and political discussion. There exists widespread faculty suspicion that athletics expenditure usurps institutional funds that would be better put to support of the academic mission (including faculty compensation). Supporters of the significant financial commitment to Division I athletics, point out the marketing benefits of institutional recognition, improvements in alumni giving and enhancement of the student life experience associated with the expenditure. Alternatively, some faculty may choose to view the expenditure as the appropriation of resources better spent on academic pursuits, including faculty compensation.

To test this proposition, we add to equation 1, a dummy variable that takes on the value of one if the institution supports NCAA Division I athletics, and zero otherwise. The new formulation is:

$$S = \beta_0 + \beta_1 \text{Enroll} + \beta_2 \text{NetREVENUE} + \beta_3 \text{Endow} + \beta_4 \text{ATH} + e_i$$

Where all variables are defined as before and ATH is a dummy variable (1=Division 1, 0 otherwise).

Data

Salary data for Assistant, Associate and Full Professors are recovered from the 2003/2004 AAUP salary survey for 124 Masters granting institutions. Enrollment, Net revenue and endowment per student are gathered from the IPEDS data base. Net revenue per student is reported as advertised tuition less average institutional financial aid award. Division I athletics data is taken from the NCAA web site.

Results

Tables 1-3 reports results for regression equation 1. Note that for all three faculty ranks the three regressors are significant at the .01 level. R-squared values range from .497 for Assistant Professors to .606 for Full Professors. These results provide support for the hypothesis that senior faculty compensation is more dependent on institutional financial performance. Analysis of the regression coefficients provides additional insight into the relative importance of the factors. We note that the t-statistic for each factor increases as we move from Assistant to Associate and finally to Full Professor. This result is again consistent

with the notion that senior faculty compensation is more dependent on the financial characteristics of the employing institution.

Tables 4-6 describe regression equation 2 results for the three ranks. R-squared values rise slightly across all three ranks. We report a positive coefficient for all three ranks, however p-values for Assistant (.1567) and Associate (.0633), do not allow us to claim significance at the .05 level. However, the dummy for Division I athletics does report positive and significant for Full Professors with a p-value of .0424, and a coefficient of \$4877.44. This is an unexpected result, as the zero-sum game posited by some faculty and policy makers would predict a negative coefficient for the dummy variable. Our data does not permit a finding supportive of the notion that support of Division I athletics lowers faculty salaries at the Master's granting institutions in our sample. Indeed the evidence from the full Professor sample is directly contrary that implied by the hypothesis, and almost rejected at the Associate level as well.

What is one to make of this positive coefficient for Full Professors? The usual arguments in favor of athletics spending: increased alumni giving, improved student life, enhanced institutional profile should already be measured in the revenue variables. Our result indicates that at least in the case of Full Professors, there is a positive Division I athletics effect that is independent of the revenue variables examined.

Conclusion

Our results provide strong support for the notion that institutional financial capacity is principal determinant of faculty salaries. We also provide support for the related hypothesis that as seniority in rank increases, faculty salaries are more dependent on institutional financial performance. We do not support the "zero sum game" hypothesis anecdotally reported by some that suggest resources devoted to Division I athletics come at the expense of faculty salaries. Instead we observe a statistically significant positive "athletics effect" of \$4877.44 in the average salaries of Full Professors at Division I schools.

We believe there is fertile ground for additional inquiry in this area. Certainly, future researchers could expand the sample set to explore differences between baccalaureate, Masters and Doctoral granting institutions. Inclusion of additional cost variables may prove useful in explaining even more of the cross sectional differences in faculty salaries. While the use of total compensation, as opposed to simply salary, could provide additional insight into our results.

Finally, there is the nettlesome positive "athletics effect" found in the Full Professor data. Satisfactory explanation of that result might go a long way to resolving long running campus debates.

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Appendix

Table 1

Results – Assistant Professor

<i>Regression Statistics</i>			
Multiple R	0.705		
R Square	0.497	<i>F</i>	<i>Significance F</i>
Adjusted R Square	0.484	39.51029	7.84E-18
Standard Error	5869.453		
Observations	124		

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	28002.843	2573.579	10.881	1.33E-19
Enrollment	1.662	0.271	6.123	1.2E-08
Net Revenue	1.362	0.263	5.174	9.29E-07
Endowment per student	0.048	0.012	3.986	0.000116

Table 2

Results – Associate Professor

<i>Regression Statistics</i>			
Multiple R	0.716		
R Square	0.513	<i>F</i>	<i>Significance F</i>
Adjusted R Square	0.501		
Standard Error	7671.569	42.08676	1.17E-18
Observations	124		

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	30570.324	3363.753	9.088	2.5E-15
Enrollment	2.209	0.355	6.228	7.2E-09
Net Revenue	1.849	0.344	5.376	3.8E-07
Endowment per student	0.066	0.016	4.223	4.7E-05

Table 3

Results – Full Professor

<i>Regression Statistics</i>			
Multiple R	0.779	<i>F</i>	<i>Significance F</i>
R Square	0.606		
Adjusted R Square	0.596	61.56449097	3.6E-24
Standard Error	10734.463		
Observations	124		

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	31606.386	4706.739	6.715	6.628E-10
Enrollment	3.643	0.496	7.340	2.792E-11
Net Revenue	2.543	0.481	5.283	5.749E-07
Endowment per student	0.149	0.022	6.841	3.540E-10

Table 4

Results – Assistant with D1

<i>Regression Statistics</i>			
Multiple R	0.711	<i>F</i>	<i>Significance F</i>
R Square	0.505		
Adjusted R Square	0.489		
Standard Error	5844.388	30.39531554	2.01E-17
Observations	124		

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	28603.96	2597.062	11.014	7.04083E-20
Enrollment	1.524925	0.286854	5.316	5.03132E-07
Net Revenue	1.30155	0.265363	4.905	2.99488E-06
Endowment per student	0.045343	0.011971	3.788	0.000239743
Division I	1869.91	1311.931	1.425	0.156684726

Table 5

Results – Associate with D1

Multiple R	0.726			
R Square	0.527			
Adjusted R Square	0.511	<i>F</i>	<i>Significance F</i>	
Standard Error	7592.419	33.10538	1.52E-18	
Observations	124			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	31597.526	3373.832	9.365	5.96E-16
Enrollment	1.975	0.372651	5.300	5.4E-07
Net Revenue	1.746	0.344731	5.066	1.51E-06
Endowment per student	0.062	0.015551	3.993	0.000113
Division I	3195.332	1704.323	1.875	0.063266

Table 6

Results – Full with D1

Regression Statistics				
Multiple R	0.787			
R Square	0.620			
Adjusted R Square	0.607	F	Significance F	
Standard Error	10593.829	48.4592	4E-24	
Observations	124			

	Coefficients	Standard Error	t Stat	P-value
Intercept	33174.432	4707.564	7.047	1.28E-10
Enrollment	3.286	0.519966	6.319	4.74E-09
Net Revenue	2.386	0.481009	4.960	2.36E-06
Endowment per student	0.143	0.021699	6.612	1.13E-09
Division I	4877.741	2378.071	2.051	0.042449

Personal Annuity Buyouts: Service or Disservice?

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Abstract

Much current media advertising touts the validity of selling a monthly injury settlement for a total of "at once" cash, indicating that this would be a great assistance to the structured annuity holder. However, it is believed that this is a great opportunity for firm profit, due to deep discounting practices-leaving the annuity seller financially lost in a short time.

The paper will investigate this practice, and attempt to determine existing buyout procedures.

Historical usage will be explored. It will then examine these practices in an effort to determine the validity of the claims made by advertising, and their overall impact on individuals selling their annuities. An attempt will be made to locate and discuss actual sellers, to determine their "after sale" experiences.

In the Beginning

"It's just the 16th, and we're out of money", lamented Thomas to his wife, Sarah, while looking out the apartment window. "Since I've been injured and can't work for a year now, all we have beside my settlement payment and the Workmen's Comp money is your job at Wal-Mart-and that ain't much. Our five kids need school clothes, and the car's radiator is busted", Thomas continued. "That \$412 per month of settlement money don't go too far. I just don't know what we're gonna do; I'm only 41 and probably can't work ever again, with this pegleg they gave me after the accident."

Sarah replied, "Maybe I've got the answer, Thomas. An ad just ran on the television during Jerry Springer talking about a company that will get us our money right now-and not have to wait every month for it! I wrote the phone number down. The man said we can "get cash now!"¹ Maybe we ought to call them, eh?"

Upon calling the number on the television screen, Thomas learned that instead of waiting every month for the next twenty years to get his \$412 monthly payment, he could get a lump sum now of \$12,000 cash. All he had to do was sign a paper giving the Company the ownership of his settlement monies. It seemed too good to be true; they could get the \$12,000 cash-fix the radiator, get the kids school clothes and take that Caribbean Cruise they had always dreamed of. Thomas and Sarah decided to go for it. Six months later all the money was gone, and they were being thrown out of the apartment.

A pipe dream horror story, right? Unfortunately, no. This type of scenario occurs daily across America; a financial firm purchasing a settlement annuity for pennies on the dollar, with unsuspecting victims not realizing that once the lump sum is gone, the settlement is gone, too. It would seem that firms offering this type of payout may be preying on unsuspecting persons, unaware of the time value of money, or compound interest.

This paper will investigate the firms purchasing settlement annuities like this, reviewing the profit potentials for the firm, and attempting to see the actual results of families like Thomas and Sarah's. While a finance paper in its strictest sense (actually a present value

¹ <http://www.jgwentworth.com/Client/AnnuityPurchase/GetCashNow/Default.aspx>

computation document), the paper will look at the moral issues involved in settlement purchases of this nature, as well as take a look at legal barriers (or lack thereof) to the purchasing firm.

Structured settlements are often used in guardianship cases, workers compensation cases, wrongful death cases and severe injury cases, among others. Research has indicated that the more severe the injury, the more likely it will be that a structured settlement will be used.² This is usually due to the injured person's future earnings abilities are highly restricted, and the structured income stream settlement is the major source of future revenue for the injured party.

Truly, structured settlements have become a major part of personal injury and worker's compensation claims in the United States, according to the National Structured Settlements Trade Association (NSSTA).³ "Such a settlement can be very beneficial in cases where the settlement will help to take the place of income, as the settlement provides a regular payment, not unlike a paycheck, rather than one large windfall of cash which the recipient may use up before they are able to gain meaningful employment again."⁴ This underlies the basic assumption of a structured settlement income stream; the type of activity/injury incurred often severely limits future additional earnings on the part of the holder of the settlement, and the settlement itself serves as a "paycheck replacement".

Methodology

For this paper, we will be looking at present value of an annuity stream for periods in the future; a monthly stream for the future of a standard payment, with no ending "balloon" amount. We will be looking at structured settlement annuities only, although other types of annuities would be candidates, too.

While other methods, such as net present value, can be used, the authors decided to use present value, since the company purchasing the annuity will be interested in the cash flow received from the above stream versus its original payout. This is the logic the purchasing firm would use in determination of the profitability of buying (or not buying) the structured annuity.

We will use the basic, straightforward formula:

Where

C = is the Cash flow per period of the annuity

i = is the interest rate that the firm internally determines it needs for future profitability

n = the total number of payments in the annuity stream⁵

In our case, we are using 6% as the "profitability" interest rate; an arbitrary figure that should be sufficient to allow for acceptable profit to the purchasing firm. The table below indicates rates of varying natures-but still shows that a lesser rate will still yield effectively, since the profit comes in two forms: the initial profit from purchasing the heavily discounted

² <http://ezinearticles.com/?The-Advantages-and-Disadvantages-of-Structured-Settlements&id=206165>

³ http://www.nationalfundingresources.com/Note_Basics_101-_Selling_Your_Mortgage_Note.html

⁴ <http://www.lockergnome.com/nexus/net/2005/10/29/structured-settlements-explained/>

⁵ <http://www.investopedia.com/articles/03/101503.asp>

annuity as well as the interest profit. These amounts tend to take substantially less time than the length of the income stream, thereby yielding 100% profit after the payout amount is recovered via the monthly collection of the stream payment.

Why is there No Literature Review?

As one would suspect, there is little literature, particularly in an academic sense, for purchasers of structured settlement annuities. The firms involved in this business are purely for-profit, privately held firms with no reason to divulge profit margins, generally speaking with good marketing/advertising experience, such as:

*Our Mission: "Helping you get the money you need and deserve without the hassles or the wait;"*⁶

or

*"We will pay you a Large Lump Sum of CASH NOW, rather than receiving smaller monthly payments for the remainder of the contract. You may use the money for education, investments, to buy a new home, settle an estate or for ANY reason you desire."*⁷

There are millennia of this type of approach, and the firms utilize media outlets, such as television and radio, as well as print media to get their point across.

There are Federal Laws to control (to some degree) the annuity purchasers, like:

*"Over the years, many people have been compensated by corporations for injuries or damages sustained in an accident. Traditionally, payment for such injuries was made in the form of a one time, lump-sum amount. In 1982, Congress enacted a change in Federal law that made it easier for the paying party to offer restitution in the form of a structured settlement."*⁸

and

*"To ensure that you will not be taken advantage of in this delicate process, the government introduced a new federal law in 2002 that requires you to seek court approval when you sell your structured settlement. This law works in conjunction with state laws to direct how the transaction will be completed."*⁹

and

*"...recently enacted federal law imposes a heavy tax on anyone who buys a settlement payout without a court's advance approval."*¹⁰

This is because of H.R.2884, SEC. 5891:

⁶ <http://www.annuitypurchases.com/>

⁷ <http://www.afc-cashadvance.com/>

⁸ http://www.end-your-debt.com/structured_settlements.htm

⁹ <http://www.buzzle.com/editorials/2-5-2006-88178.asp>

¹⁰ <http://novationcap.com/learn-more-allqs.php>

“STRUCTURED SETTLEMENT FACTORING TRANSACTIONS.

(a) IMPOSITION OF TAX- There is hereby imposed on any person who acquires directly or indirectly structured settlement payment rights in a structured settlement factoring transaction a tax equal to 40 percent of the factoring discount as determined under subsection (c)(4) with respect to such factoring transaction.”¹¹

However, this is a toothless law, since it merely requires court approval of the purchase:

(1) IN GENERAL- The tax under subsection (a) shall not apply in the case of a structured settlement factoring transaction in which the transfer of structured settlement payment rights is approved in advance in a qualified order.

(2) QUALIFIED ORDER- For purposes of this section, the term ‘qualified order’ means a final order, judgment, or decree which--

(A) finds that the transfer described in paragraph (1)--

(i) does not contravene any Federal or State statute or the order of any court or responsible administrative authority, and

(ii) is in the best interest of the payee, taking into account the welfare and support of the payee's dependents, and

(B) is issued--¹²

What we see, generally, is Federal law descriptions and a mass of advertisements. As noted, these are privately held firms, with no reason for divulging specific income data derived from the purchase of these annuities from individuals. The advertising mix aims to the holder of the structured annuity, with graphic representations of vacations, new cars and homes and the “good life”.

An Example of Profit Taking in Annuity Settlement Purchases

Given the example of Tom and Sarah beginning this paper, let’s see the potential profit from a purchase of his structured annuity. Originally \$412 per month for twenty years, this is a total payout of \$98,880 over the entire stream. Using the above Present value formula, we can see the present value(s) given varied discount rates:

Discount rate	Present value
.010	\$89,558.80
.035	\$71,039.42
.045	\$65,122.96
.060	\$55,259.50

¹¹ <http://www.kgfunding.com/US.HR.2884.as.enacted.htm>

¹² *ibid.*

In this instance, Tom and Sarah sell the structured annuity for \$12,000 cash money now, leaving a net profit (given present values above) of anywhere from \$53 to \$77k for the annuity purchaser. This is truly a profitable undertaking, even given that the purchasing firm must wait for the income stream to come in monthly. Generally, less than three years stream will repay the firm's investment in full, leaving about seventeen years of pure profit cash flow.

Even if the purchasing firm avoids the federal Courts (as noted in the 2002 law above), the 40% penalty can still yield a substantial profit to the purchasing firm, given the deep discounting. This implies that the purchasing firm would be willing to avoid the Court, offer a heavily discounted payout, bite the 40% bullet to the Court and yield a handsome profit.

Why the Concern for Structured Buyouts?

Much has been said about the bulk of America being "two paychecks from bankruptcy",¹³ and with recent bankruptcy law changes (making it much harder to declare a Chapter Seven bankruptcy-as well as not being able to discharge credit card debt),¹⁴ the structured annuity holder has a higher degree of risk, if he/she sells the annuity and wastes the monies from the proceeds. Generally, it is not a good idea to sell a structured annuity settlement stream,¹⁵ due to these and other reasons, mostly related to the individual's ability to manage his/her future financial responsibilities.¹⁶ As an example, Legal Practitioners told Minnesota Lawyer that clients generally lose 30 percent to 40 percent of the value of their settlement when they sell off their structured payments.¹⁷

Although difficult to prove, it is believed that many structured annuity holders are of a lower median income nature, certainly not Finance Professors, and are more likely to fall victim to a heavily discounted "at once" payment-with the carrot before the horse of the immediate cash. Firms issuing structured annuity settlements of varying lengths, much prefer income stream payouts as opposed to lump sum payments,¹⁸ citing "By structuring the payments of an injury award over time, the insurance company is providing long-term support for the injured party, thereby keeping them off of welfare."¹⁹ It is further believed that this group will be more likely to inefficiently allocate the new cash resources, resulting in down the road financial hardships, given that the income stream is no longer existent.

This means a heavier burden on the bankruptcy courts, varied forms of welfare and indigent services. With the "greying of America" rapidly approaching, and with the varied services noted above under a greater strain (as well as Social Security itself), additional requesters for these services due to inefficient allocations of the cash settlement resources means a generally stronger overall request for government services for the indigent.

This says nothing of the moral dilemmas facing these folk who sell their structured annuity, and the (additional) financial hardships placed upon them. The above example of profit for the purchasing firm adds another view to the entire purchase process.

As noted above, a purchasing firm can totally avoid Federal Court review if it is willing to suffer the 40% penalty for not involving the Court. The way to do this is to discount the overall stream so greatly that the 40% penalty still yields a good profit for the

¹³ http://www.bankruptcyreader.com/2007/02/soaring_bankrup.html

¹⁴ <http://bankruptcy.findlaw.com/new-bankruptcy-law/>

¹⁵ http://www.structured-settlements-guide.com/2006/03/is_selling_a_st.html

¹⁶ *IBID.*

¹⁷ http://www.findarticles.com/p/articles/mi_qn4185/is_20060108/ai_n15990076/pg_2

¹⁸ <http://www.talewins.com/Life/annuit.htm>

¹⁹ *ibid.*

purchasing firm-and it has effectively avoided the bad graces of the Court by paying the penalty. While it is unknown what percentage of structured annuity purchases are of this nature, one can estimate that the practice does exist.

Summary Notes

The practice of purchasing structured annuity settlements can be financially rewarding to the purchasing firm, via deep discounting and sometimes avoiding the Federal Court. Even if the Courts are involved, good profits are available, albeit a bit slower to complete. Watchdog groups are aware of the practices of some firms involved in the deeper discounting: “While selling your structured settlement payment rights is permitted under Federal and state law (subject to certain rules), advocates for consumers and the disabled have publicly called attention to the practices of some firms (factoring companies) engaged in the purchase of structured settlement payment rights.”²⁰

Even with Federal legal enactments to protect the holder of the annuity from bad business practices and firms (and from themselves), the ability to sell the income stream is fairly simple and straightforward, with deep discounting leading to sizable profits for the purchasing firm-and a great chance of financial peril on the part of the seller of the structured annuity. As noted above, a large part of these types of settlements are from injury related cases or Worker’s Comp cases, where future earnings potentials on the part of the injured party are quite limited. Selling the structured annuity in this case for a lump sum payout will often lead the injured party to a financially bleak future.

While no one is sure of the entire scope of the sale process, and while we were unable to locate “live” individuals who have sold structured annuities, we know that they exist, and that this is a sizable market. Future research involves attempts at determining specific settlement payouts, and determination of the recipient’s usage of the funds, as well as their life a year or more after accepting the payout. Future research should attempt to secure specific financial data regarding the total activity of this type, as well as purchasing firm’s profit positions from deep discount purchases of the structured settlement annuity.

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Effect of Small Business Size on Preferences regarding ISP Features

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Abstract

Small businesses also need access to the internet in today's global economy. Their spending on internet usage and IT related activities has been on the rise and they have many internet service providers (ISPs) to choose from. These small and very small businesses will likely choose a provider whose service is designed to meet their needs. This research examined what internet service features and benefits are important to the small businesses when choosing their ISP and whether small business size affects the preferences. A questionnaire was designed to collect data. Analysis showed that "Business Size" affects the perceived importance of certain features of the Internet Service.

Introduction

There are many small Businesses in the U.S. and they represent an important part of the US economy. According to In-Stat/MDR ("Small Biz, Small Growth", 2002) the small business market grew from 2.2 million in 2001 to 2.3 million by the end of 2002, representing more than one-fifth of U.S. businesses. In-Stat forecasted a small but steady increase in the number of organizations with 5 to 99 employees for the next few years, growing as high as 2.7 million by 2006, and employing approximately 42 million workers—up from roughly 38 million in 2001.

According to research firm AMI Partners, businesses with fewer than 100 employees spend more than \$12 billion on network and telecom equipment in 2004. Furthermore, small businesses were expected to account for 24% of all IT hardware and software spending in 2005 (Hochmuth, 2005). CEO of "Vendio" Mr. Rodrigo Sales said, "We are entering a new era in e-commerce—one increasingly driven by smaller businesses and merchants." (Kooser, 2003). Indeed, the Web hosting industry is waking up to small business needs. Yet, to our surprise, there have not been many studies on ISPs and the needs of small businesses. Realizing this gap, this study attempts to explore what the small business market's needs are with regard to the services provided by ISPs. The paper focuses on what features of ISPs are important to small businesses and to ascertain whether these preferences are somehow dependent on certain characteristics of small businesses. Specifically, the paper looks for some insights to the two aspects of the issue: (1) Do different small businesses have different preferences for various features provided by ISPs? (2) Does the size of small business affect these preferences?

Market Background

Before we can explore the small business market, we need to assess a few important indicators of this market. Our focus will be on the following questions. Is there a need for

ISPs among small businesses? If so, what are some of the applications that small businesses are using? How much do these small businesses spend on IT?

Let us first examine briefly the computing and web access needs of small businesses. According to Dun & Bradstreet's 20th Annual Small Business Survey (2001) on computer and Internet usage, eighty percent of U.S. small businesses have at least one computer on site used for business purposes, and in some sectors computer usage has almost reached saturation. The survey, which measures attitudes, behaviors and trends in the U.S. small business market, also found out that two-thirds of all small businesses and approximately 85 percent of small business computer owners have Internet access, more than half of those have a Web site and the number is rising. However, only 27 percent of those with a Web site sell on the Internet and average less than three Web-based orders per month. This survey shows that the need for the internet access and web presence is strong regardless of the different characteristics among many disparate companies.

Regarding the type of transactions that small businesses do, a study conducted by Celent stated that small businesses infrequently use the Internet for basic transactions such as online banking. Only two percent of businesses indicated that they regularly paid bills online. Despite the fact that small businesses do not currently utilize the Internet for banking transactions, the study found that the majority of small businesses would like more services automated online, suggesting that the propensity of small businesses to use online services is high, but small businesses are either unaware of what is currently available online or frustrated by the lack of robust solutions. (Moore et al., 2001)

With respect to the amount of IT spending by small businesses, it is interesting to observe a gap between the commercial small businesses vs. the home office small businesses. The COMDEX Small Business Survey by Key3Media Group, Inc. found that home office small businesses have very different IT needs than commercial office small businesses in regards to IT investment priorities, IT budgets and preferred purchasing channels. Nineteen percent of home office businesses consider computer systems to be the most important technology investment, while 23 percent of commercial office businesses are most concerned with investing in Web products or services. This difference, as might be expected, is reflected in small business IT budgets. Commercial office small businesses have an average annual IT budget more than twice the size of home office small businesses - \$1.3 million vs. \$622,000 (Greenspan, 2002). Regardless, small-business spending on information technology and other such functional support areas is going to be significant according to an estimate from the Kelsey Group that the spending was expected to grow from just over \$300 billion to nearly a half-trillion dollar by 2005 according.

Like any other technology, the pace of changes is rapid. Any of the technological changes will likely impact small businesses and Internet service Providers. For instance, one such study by ISP-Market LLC ("Taking the Pulse", 2003) reported that wireless broadband and web hosting are two new fast growing business areas. The worldwide market for Web hosting services is expected to grow from some \$10.3 billion in 2001 to more than \$46.9 billion and more than 40 percent of small businesses are expected to subscribe to broadband in 2006 (Pastore, 2002).

Based on these observations of key indicators and trends, the small business market is potentially lucrative to ISPs. The key to successfully exploit this market will rest upon their ability to understand the market needs and to fulfill these needs effectively. The next section presents a detailed description of a survey study that focuses on determining what the needs of the small business market are.

Conceptual Context

When considering different features/benefits offered by various ISPs, the list can be difficult to determine. Almost two decades ago, simple capabilities such as file transfer, terminal emulation, speed of the dial up would be sufficient. Over the years, the choices have greatly expanded. They range from ease of installation to connection reliability and from quality of customer support to multiprotocol operability. Recently, security and privacy are also important factors to consider. We came up with a list of features and benefits that we believe to be relevant and important. Then, we refined this list through our consultation with a number of small business owners. The following list is in part based on their input. A brief description of each feature/capability is elaborated below:

- Multiple User Capability: Permits multiple users to connect to network and share information at the same time without breakdowns.
- Company's Name Recognition: Reputation and standing of Internet Service Provider.
- Speed of Connection: Speed with which Internet data is transmitted over telephone lines. Speed is dependent on the type of connection. Different connections work at different speed such as Dial up (56 Kbs), ISDN (64 Kbps-128 Kbps), DSL (128 Kbs - 768 Kbs), Satellite (400 Kbps) and Cable (200 Kbs - 2 Mbs).
- Remote Access Capability: Access through a terminal to a computer that is geographically removed from the terminal.
- Repair/Quality of service: Quality of after sale and repair services offered by an Internet Service Provider.
- Accessible Help Line: Telephone help line that can be easily/readily accessed 24 hours.
- Ease of Installation/Set-up: Ease with which configuration of hardware and connectivity to Internet is established.
- Small Business Incentives: Special incentives offered to small businesses.
- Cost per month of Service: Fee and other costs paid per month by user for Internet Service.
- Web Space: (also called Server space) is file storage space that is available to anyone on the World Wide Web through ISPs. Web space is typically used for storing personal Web pages. Web hosting is a typical service provided by many Internet Service Providers to design web sites for small businesses and help them maintain Internet presence on a

Hypothesis 3: Perceived importance of the feature “remote access capability” is independent of the size of business.

Hypothesis 4: Perceived importance of the feature “web space presence” is independent of the size of business.

Hypothesis 5: Perceived importance of the feature “repair/quality of service” is independent of the size of business.

Hypothesis 6: Perceived importance of the feature “accessible help line” is independent of the size of business.

Hypothesis 7: Perceived importance of the feature “ease of installation/setup” is independent of the size of business.

Hypothesis 8: Perceived importance of the feature “company’s name recognition” is independent of the size of business.

Hypothesis 9: Perceived importance of the feature “small business incentives” is independent of the size of business.

Hypothesis 10: Perceived importance of the feature “cost per month of service” is independent of the size of business.

Method

This study used the survey method to collect data. A questionnaire was designed to determine the small businesses’ preferences regarding the various features provided by internet service providers. The questionnaire consisted of three major segments. The first segment consisted of general questions regarding demographics such as type of industry, number of employees, years of existence, gender, etc. The selected ten features/benefits mentioned earlier included in this study along with the rating of each appeared in section 3.

The study applied only to small businesses situated in Southern Louisiana. The typical business type represented by the sample is services or retail businesses, which together comprises 75 percent of all industries, has fewer than 10 employees and average earnings of less than \$500,000. The questionnaire, along with a letter explaining the purpose of the study and instructions for completing the survey was sent to 500 small businesses. These small businesses were mainly from Southeastern Louisiana and were randomly selected from the compiled listing by Southeastern Louisiana University’s “Small Business Development Centre”. One hundred twenty of the 500 questionnaires were completed and returned. The rating for preferences was done using Likert rating scale of 1 to 5 where, 1 = Very Unimportant, 2 = Unimportant, 3 = Neutral, 4 = Important, and 5 = Very Important.

In this study, χ^2 test of Independence was employed to test the relationship between two categorical variables in each hypothesis. Contingency tables were used to examine the relationship between subjects' preference (importance) ratings for features offered by ISPs and company size for significance. Chi square method of analysis was chosen and applied in this study because the data obtained from the survey were measured at nominal or ordinal levels.

Following were the two assumptions for a test of Independence (Archambault, 2000):

1. None of the expected values may be less than 5
2. No more than 20 percent of the expected values may be less than 5

Results

The small businesses sampled in the survey though regional in scope seemed to represent a reasonable cross section of typical small business sector. The sample included those involved in construction, retail, real estate, manufacturing, healthcare, service, as well

as others. About 29 percent of the companies were from retailing, 27 percent from services, 6 percent from construction, 8 percent from real estate, 4 percent from manufacturing, 7 percent from housing and 19 percent were from other industries.

The sample showed that 68 percent of the companies in the sample had fewer than twenty five employees, 15 percent had a workforce between twenty-five and fifty, 8 percent between fifty-one and hundred, only 9 percent had more than hundred employees.

Hypothesis Testing Results

The results for the hypotheses testing are shown in summary form in Table 1. The table highlights the significant findings (hypotheses of independence rejected) along with the p-Value. It also shows hypotheses that were not rejected, labeled “not significant” and thus the p-value was not reported.

The research question addressed the potential of whether there is a relationship between the perceived level of importance regarding various features provided by internet service providers and the size of small business. Specifically, is the perceived importance of different features independent of the size of the business? The variable size was measured in terms of number of workers that a business employs. It had four levels: 1-25, 26-50, 51-100, and more than 100.

The finding for the research question was that the size as a variable was found to be significantly related to many features. More specifically, two of these features are multiple user capability ($p < 0.01$, hypothesis 1) and speed of connection ($p < 0.07$, hypothesis 2).

This is expected because more employees a small business has, more likely it has to rely on a multi-user environment to support its operation rather than a cluster of standalone systems. Network connection is a key to provide shared resources such as files, documents, printers, and database. With more users accessing the system via the network, the speed of connection can be critical. Hence, it is consistent that the result shows a relationship between both multiple user capability and speed of connection and the size of small businesses.

The relationship between the remote access (hypothesis 3) and web space capability (hypothesis 4) and the size of small businesses is found to be not statistically significant. This could be explained in terms of small businesses’ scope of operations. Many small businesses tend to cater their products and services to local needs. Hence, their scope is regional. As a result, their employees are not scattered at many different locations as in the case of large businesses. Furthermore, their reach is also limited to local rather than global community.

These are perhaps reasons why remote access and web space capability are perceived to be lower in the level importance than other capabilities.

The research question also focused on the relationship between the importance of technical support features and the size of the small business. Specifically, the question explored whether the perceived importance placed on features related to technical support is independent of the size of small business. Again, it was found that two technical support features: accessible help line ($p < 0.08$) and ease of installation/set up ($p < 0.07$) are significant related to importance placed with both hypotheses 6 and 7 rejected.

The increase in number of employees would seem to lead to an increase in the perceived preference for accessible help line and ease of installation/set up. These results are consistent with those in hypothesis 1. As the size of small businesses increases, so does the complexity especially with the reliance on a multi-user environment. Most of small businesses are generally not tech savvy. As a result, easy access to tech support and simple installation/set up are important. However, an expected finding is that the increase in the size of small businesses does not increase the preference for repair/quality of service (hypothesis 5). This may be explained in terms of service contract. To save costs, many small

businesses do not maintain a service contract with their ISPs as in the case of their counterpart large businesses. Subsequently, for them, the level of importance for repair/quality of service was perceived to be lower than those of others.

The research also addressed the relationship between the importance placed on business related non-technical features and the size of small business. This question was weakly supported because only company's name recognition was found statistically significant to the size of small businesses (with $P < 0.10$, hypothesis 8 rejected). As expected, the ISP's reputation is important in the selection of service by small businesses. This is perhaps related to the small businesses' lack of technical knowledge and limited exposure of various choices. They tend to pick services from those that they are familiar and recognized. What was interesting in the results was the small businesses' perceived low level of importance on both incentives and monthly service charge by ISPs. It is expected that most small businesses are generally cost conscious. For them, discount incentive and low service charge were thought to be highly important. Yet, they were not. One possible explanation is there are not enough incentives offered by ISPs to small businesses as well as various cost structures available for small business to pick from. The lack of those incentives and one set of charge for all cause small businesses to perceive their importance to be lower.

Discussion

Findings from our study show that the size of small businesses is a relevant variable in assessing what features in Internet services are perceived to be important by small businesses. Perhaps, this is why more and more ISPs have recently begun to woo "smaller" businesses with tailor-made online services. (Kooser, 2003)

There is an ever-increasing competition between Internet service providers, largely because there are no restrictions to market entries. The gap between a local and a national player is waning, as all ISPs compete on the same platform and try to lure as many customers as they possibly can.

While common sense suggests that service charge such as cost per month of service should be perceived to be important, the result for this study shows the contrary. What does this mean? This does not mean that small businesses do not prefer low cost. Rather, the result reveals the need for differentiated pricing structure. In increasingly significant segment of the Internet, market is moving away from simple cost-driven undifferentiated commodity market into a market where there is a serious attempt to provide differentiation based on a specific feature of the delivered services.

The result of low level of importance placed on non-technical feature "small business incentives" provides evidence for opportunity that ISPs could pursue. What this means is that ISPs should develop more differentiated incentives to attract their potential small business clients. Today's typical offering for businesses may include the followings: ADSL fast access, dedicated access, and web hosting solutions. Its package includes static IP, 20 Email addresses, backup dialup account, DNS hosting with customer's domain name, and 24 hour technical support.

Conclusion

ISPs serve as an electronic gateway to the outside world. It plays a critical role in the operation of many small businesses. One of the implications from this study is that small business is a potential lucrative market for ISPs. An increasing number of the small businesses are relying and using Internet technology for carrying operations and are

demanding services specifically designed to satisfy their business needs. More and more firms realize that the use of Internet-based applications and platforms such as electronic mail, instant messaging helps promote improved communications among employees, customers, and partners, while reducing associated costs and enables them to establish a national or even global presence without having to invest in physical infrastructure. What this means is a strong growing demand for good, reliable internet service by small business. In turn, this demand will continue to drive the growth of ISPs in the years to come.

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Taking the Pulse of the Internet Service Provider Industry: Evolutions and Revolutions
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Appendix

Table 1

Summary of all Hypothesis Testing

Hypotheses	Result	P-Value
Hypothesis 1: Perceived importance of the technical feature “multiple user capability” is independent of the size of business.	*Sig	0.01
Hypothesis 2: Perceived importance of the technical feature “speed of connection” is independent of the size of business.	*Sig	0.07
Hypothesis 3: Perceived importance of the technical feature “remote access capability” is independent of the size of business.	<u>Not Sig</u>	
Hypothesis 4: Perceived importance of the technical feature “web space presence” is independent of the size of business.	<u>Not Sig</u>	
Hypothesis 5: Perceived importance of the support feature “repair/quality of service” is independent of the size of business.	<u>Not Sig</u>	
Hypothesis 6: Perceived importance of the support feature “accessible help line” is independent of the size of business.	*Sig	0.08
Hypothesis 7: Perceived importance of the support feature “ease of installation/setup” is independent of the size of business.	*Sig	0.07
Hypothesis 8: Perceived importance of the non-technical factor “company’s name recognition” is independent of the size of business.	*Sig	0.10
Hypothesis 9: Perceived importance of the non-technical factor “small business incentives” is independent of the size of business.	<u>Not Sig</u>	
Hypothesis 10: Perceived importance of the non-technical factor “cost per month of service” is independent of the size of business.	<u>Not Sig</u>	

A Survey of the Recruiting Methods Used By SOBIE Participating Colleges of Business

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Abstract

In response to two financial issues impacting higher education, many colleges/schools within universities are discovering creative means of increasing the funding available to their programs. First, there is a scarcity of funding provided to higher education through conventional means. In Mississippi, for example, the Institute of Higher Learning appropriation per student has decreased from \$6,141 in FY2001 to \$5,121 in FY2006. Second, the leaders of many colleges and schools have come to realize that college students possess almost \$200 billion in spending power per year. This offers a unique opportunity for smart college marketing, which could lead to long-term ROI. As a result, countless college/school administrators have begun to focus on increasing the funds available to their programs by increasing enrollment through effective recruiting techniques.

This study was conducted to survey the recruiting methods utilized by Colleges of Business to attract students. Data was gathered through an on-line survey sent to the Deans of Colleges of Business at institutions of higher learning that were represented at the 2006 SOBIE conference. The results yield comparisons of the recruiting methods used by large vs. small Colleges of Business, based on the number of students enrolled as business majors.

Introduction

The number of students choosing to pursue post high school educational opportunities increases each year. However, the assumption that students rely primarily upon personal sources of information (such as relatives and friends) in the decision making process to choose a college, ignores the growing role of marketer-dominated sources (in this case, colleges and universities) in this important, consumer decision making process. Due to two significant financial issues, decreasing of state funding and the increasing spending power of college students, institutions of higher learning are increasing recruiting efforts and developing innovative, and in many cases, creative methods which are effective in attracting new students.

This study examines the recruitment practices employed by business schools in institutions of higher learning as a means to broaden their enrollment. Through these efforts to increase enrollment, colleges and universities seek to significantly increase operating budgets. Furthermore, recruitment assists in the development and sustainability of the local economy, including that of the university or college, based on the increased capital that accompanies students.

Through conducting a survey of business school administrators about recruiting methods, a better understanding of the various practices currently being employed by these institutions can be developed. To provide a comparable analysis, the collected data was divided into two groups: large schools, defined as an enrollment of more than 1,000 students

in the business school; and small schools, defined as an enrollment of 1,000 or less students in the business school. The two groups were cross-tabulated and tested for differences using Pearson Chi-Square and Fisher's Exact tests of significance. In addition to other revelations, the data analyses reveal a significant difference between the two groups' use of the Internet as a recruiting method. Analyses also indicate a significant relationship between having a budget line item for recruiting and the likelihood of advertising in national magazines and journals, regardless of school size.

While recruitment is not a new phenomenon, the vital role it plays in the financial stability, survival, and healthy longevity of colleges and universities should not be underestimated. Creativity and concerted measures to reach out to potential students impacts the annual enrollment of these schools, which affects the funding provided. Through understanding the importance of recruitment and the variety of methods used by business schools at various colleges and universities, recruiters are better equipped to develop a logical and effective plan of action to be proactive in efforts to ensure the future success of their institution of higher learning.

Literature Review

Recruitment is a necessary function of all institutions of higher learning. Through recruitment, universities and colleges increase their enrollment as a means of increasing funding for their operating budgets. Thus, this research surveys the promotional methods utilized by colleges and universities to recruit students. Literature providing insight into the "best practices" in college recruiting is scarce. However, in reviewing the available literature, some evidence of highly effective methods for recruiting college students was found. For example, Simmons College, a small private women's college in Boston, with limited recruiting funding, has increased enrollment from 271 first-year students in 1999 to 417 in 2004—a sixty-five percent jump—by using e-mails, phone calls, and post cards. Much of the success is attributed to strategic thinking and professors personally contacting prospective students. Students reported that the personal phone calls they received from professors made them feel special. The strategic thinking of the dean of admissions at Simmons College included building strong partnerships with other offices on campus such as financial aid and letting go of what is not working ("Simmons College," 2005).

The Chronicle of Higher Education ("Marketing Institutions," 2004) published a report discussing effective approaches to enrolling students. Six college and university administrators were identified. The article reported that the personal connections cultivated through e-mails, and recruiting parties/receptions produced positive results. Surprisingly, running ads in movie theaters prior to the feature film proved to be a successful recruiting practice, as well. This report posits that recruitment results certainly vary from school to school. However, according to Jim Black, Provost for Enrollment Services, University of North Carolina, Greensboro, five basic principles can be applied no matter the size of the institution: influencing students through building relationships; treating students as individuals by personalizing contacts; using multiple and creative channels to deliver communications; responding quickly to student's inquiries or "kiss them goodbye;" and involving a variety of campus constituents. Black maintains that each of these principles must be carefully orchestrated with the pivotal event being the campus visit.

In that same article, the other five interviewees reported what works best for their school:

- Dan Lundquist, Dean of Admissions at Union College in New York, said it is important for them to personally connect with applicants by listening, then identifying their interests. They encourage conversations.

- At Maricopa County Community College, Anna Solley, Vice Chancellor of Academic Affairs noted that because education is a life long process they focus on building community partners who establish pathways for students to pursue an education.
- Vice Chancellor for Student Affairs, Roland Gaines, North Carolina Central University, indicated it was important to tell the university's story in positive ways using a multifaceted marketing approach that includes mass local, regional, and national press releases. They have also increased the number of publications mailed to alumni, friends of the university, corporate leaders, legislators, and other governmental officials.
- Robin Brown, Vice President for Enrollment, Willamette University believes that the written word is still a powerful communication tool. This university focuses on seven messages that are communicated through brochures; messages that were derived from conversations with current students about what they value most about Willamette University. Focus groups of high school students are conducted to determine how to best deliver the messages. Brown also indicated timing was important in delivering the messages.
- The Dean of Admissions, Michael Thompson at University of Southern California uses collaborative efforts between admissions, financial aid, communication offices, enrollment services, and colleges across various campuses to assure personalized contact with applicants in various forms. Contacting students, prospective students, parents, and high school and community college counselors is emphasized. Events designed to provide students and parents access to campus, students, and campus life, are held both on and off campus and geared toward different groups.

The College Board of Educational Testing Services published an extensive report on Trends in College Admissions 2000 (Breland, Maxey, Gernand, Cumming, and Trapani, 2002). This report is a result of a national survey of undergraduate admissions policies, practices and procedures. This report verifies that the web is essential for recruiting, as is the telephone. The report also suggests that college recruiters continue to make frequent visits to high schools and community colleges, as well as actively recruiting outside of the traditional geographic boundaries that have been targeted in the past. Additionally, participation in college fairs has increased. Student and family visits to campus continue to be an important and heavily utilized recruiting tool. The most utilized recruitment tool since 2000 are the web-based sites and services.

Sevier and Kappler (n.d.) provide valuable insight into understanding how students choose a college. The findings are the results from two surveys completed by more than 3,000 college bound students. The studies focused on who helped the students decide on a college, the variables of interest to students when selecting a college, and the recruiting and marketing strategies the students found most interesting and effective. The results indicated that students preferred to be contacted by an admissions representative and they preferred a telephone call over a letter. Publications of most interest to prospective students were scholarship brochures, financial aid brochures, catalogs and academic viewbooks.

A study titled "Engaging the Social Networking Generation" ("Prospective College Students," 2006) reported that in the era of Facebook.com and instant messaging, college applicants are open to recruitment methods that incorporate social networking technology. The study found that 63 percent of respondents said they would read a blog authored by a faculty member to get more information about students and faculty at an institution they were interested in attending. The results of the study indicate that students are open to multiple communication channels. While communicating through the latest technological communication channels is important, 64 percent said they still like to receive information in the mail. So, paperless recruitment is not on the horizon.

Since teenagers and young adults spend considerable time surfing the Internet, colleges recognize that a well-organized, clear, concise website is essential to successful recruiting efforts. Research indicated that prospective students invest a tremendous amount of time visiting college websites as a part of their decision-making process. Thus, colleges must focus on the effective construction of websites that will be appealing to the target audience. Continually updating the content and design of websites also is critical in meeting the challenge of capturing, as well as maintaining, the attention of the young adults. Plus, meeting the information needs of prospective students is of vital concern. In fact, the University of the South (Stoner, 2004) reported 30 percent of respondents completing an admissions survey indicated they visited the school's website two or three times, while 42 percent made four to ten visits. The University of Dayton reported its most prominent links to its homepage are admissions-related. The goal is to get students motivated to complete and submit an online application for admission ("Colleges Find More Applicants," 2003).

A new trend in recruitment is to actively involve current college students in the recruiting process by encouraging them to provide text and photo blogs, with the goal of ultimately providing prospective students with authentic, firsthand accounts of student life. Santa Clara University ("Santa Clara," 2005) and Lewis and Clark College (Stoner, 2004) are two examples of colleges that have achieved positive recruitment results from student blogs. Blogs give applicants the authentic voice of students who can "describe the freshman experience firsthand," said Susan Shea, Director of Communication, Santa Clara University ("Santa Clara," 2005, 44). Five students were selected to receive cameras and training for blogs that are broadcast through RSS feeds and podcasts, which can be listened to via computer or MP3 players. Lewis and Clark College publishes sites of seven students chosen relative to diversity, hometown and ethnicity; the content is entirely student driven. Blogs are uncensored and unedited. Mike Sexton, at the time of his interview reported it is too early to analyze the effects of student blogs on recruiting. One important lesson here is to assure information is easy to find and relevant to applicants and other external audiences, not those already familiar with the institution.

The literature illustrates that as time advances, the importance of recruiting students intensifies, and the list of possible recruiting methods available to colleges and universities expands. This study seeks to determine the recruiting methods currently being used by SOBIE participating Colleges of Business and whether differences exist between the techniques being used by large Colleges of Business vs. small Colleges of Business.

Data Collection

Institutions of higher learning participating in the 2005 and the 2006 Society of Business Industry and Economics (SOBIE) conferences comprised the population used for this research. Given the small size of the population, a census was conducted. A total of 48 deans and administrators presiding over business schools were contacted for the purpose of data collection. Twenty-one responses were received and analyzed through this study. This provided a 43.75% response rate.

An online survey was the instrument of choice employed in this study. While some previous studies claim that Internet surveys have significantly lower response rates than comparable mail surveys (Cook, Heath, and Thompson, 2000; Couper, 2000), more recent studies indicate that for populations that regularly use email and the Internet, online surveying is a very effective and convenient method for the respondents, thus yielding good overall response rates (Couper, Traugott, and Lamias, 2001; Sills and Song, 2002).

The survey instrument was intentionally designed to be brief and concise, requiring only a few minutes of the respondents' time. The survey consisted of 12 closed and open-

ended questions available to participants through a website. Because research has shown that the use of personalized email requests and follow-up email reminders can have a profound impact on response rates for Internet surveys (Joinson, Woodley, and Reips, 2004; Heerwegh and Loosveldt, 2006), the participants were emailed the link to the website and two reminders were sent over a three week period. Respondents were assured of their anonymity and the confidentiality of their responses.

Analysis and Results

Testing the overall null hypothesis that there is no significant difference between the recruiting methods used by large vs. small Colleges of Business (COBs), we were able to reject the null and support alternative hypotheses regarding several of the recruiting methods.

SPSS was used to perform cross-tabulation chi-square tests of significance for COB size and the various recruiting techniques. In conjunction with Pearson Chi Square, Fisher's Exact Test was performed to compensate for some of the assumptions that were not met due to the small population size. This ensures that there is no discrepancy regarding the significant findings discussed below.

A comparison of the large and small COBs regarding the use of the Internet as a marketing tool, revealed that 90% of the large COBs utilize this technique, compared to only 30% of the small COBs. The differences between the groups (Table 1) was found to be statistically significant, yielding a chi-square value of 8.240 with 1 df, $p < .01$, suggesting that large COBs are significantly more likely to use the Internet to market their programs than small COBs (Table 2).

Only a small number of the respondents (23.8% combined) indicate having a budget line for recruiting and no statistical difference was found between large and small COBs. However, additional tests were performed to determine if a relationship exists between having a budget line item for recruiting and advertising in national magazines/journals. These variables were cross-tabulated for all COBs regardless of size (Table 3). A chi-squared value of 11.422, with 1 df, $p < .01$ (Table 4) implies that COBs with a budget line item for recruiting are significantly more likely to advertise in national magazines/journals as a means of recruiting students.

The survey questioned respondents about their use of several other recruiting techniques, including distributing pamphlets and newsletters; advertising in magazines/journals (local, regional, and national), newspapers (local, regional, and national), radio, and television; attending recruitment fairs at high schools, community colleges, statewide events, and regional events); contacting students from ACT/SAT prospect lists via snail mail, phone, and email); and encouraging referrals from alumni, students, faculty, and staff. While some differences existed between the two groups (large COBs vs. small COBs) for some of these techniques, the differences were not statistically significant. However, there were some additional, and perhaps useful, revelations that we feel are worth noting:

- All of the surveyed COBs utilize pamphlets as a recruiting tool.
- Approximately half of both groups use local newspapers to market their COBs.
- Advertising in national newspapers is the least popular marketing tool among the survey respondents. None of the small COBs and only one of the large COBs use national newspapers to market their programs.
- Usage of national magazines/journals was low (23.8%) for both large and small COBs (Table 3). Only 36% of the large and 10% of the small COBs use this method to recruit students.
- Approximately half of the respondents in each group use television advertising as a marketing tool for their COB.

- All of the respondents encourage website visitors to solicit additional information and encourage referrals from alumni, students, faculty, and staff.
- All of the COBs, except one, use university recruiters to represent the COB at recruitment fairs.
- All of the COBs that make use of ACT/SAT prospect lists use snail mail as at least one method of contact; 85% use both snail mail and phone calls; and 71% percent use snail mail, phone calls, and email.

Conclusion

This brief study offers evidence that the size of a College of Business, defined by the number of students enrolled as business majors, may indeed have an influence on their use of the Internet as a marketing tool. However, as there is increased awareness of the recruiting power of the Internet, the number of colleges using this technique should continue to rise, as it is currently the most utilized recruitment tool among colleges and universities (Breland et al., 2002).

The findings of this study also indicate that advertising in national magazines/journals is significantly more likely for Colleges of Business that have a portion of their budget specifically earmarked for recruiting. A tentative reasoning for these results might be associated with the high costs of advertising in national media.

The majority of the respondents in this study are right on track with their continual use of snail mail and the telephone as methods of contacting potential students. These actions align with the findings of prior research that indicate that prospective students feel “special” when they receive phone calls from a college (“Simmons College,” 2005) and the 64% of students in a separate study who say they still like to receive college recruitment materials via snail mail, despite all the technological advances.

While we are confident in the findings revealed in this study, the greatest limitation is the limited generalizability. We chose to use a small population due to its convenience. While the use of very specific convenience sampling is common among marketing agencies, we recognize that due to its nonrepresentative, nonrandom nature, it is impossible to make inferences to all colleges and universities. Therefore, we place focus on the quality of the content in the responses observed and seek to expand the study in the future to a larger population and utilize a sampling method that will allow for generalization of the future research findings.

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Appendix

Table 1

Media-Internet * COB size Cross-tabulation

			COB size		Total
			1000 or less	more than 1000	
Media-Internet	Yes	Count	3	10	13
		Expected Count	6.2	6.8	13.0
		% of Total	14.3%	47.6%	61.9%
	No	Count	7	1	8
		Expected Count	3.8	2	8.0
		% of Total	33.3%	4.8%	38.1%
Total		Count	10	11	21
		Expected Count	10.0	11.0	21.0
		% of Total	47.6%	52.4%	100%

Table 2

Chi-Square results of significance between groups

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)
Pearson Chi-Square	8.240(a)	1	.004*	
Fisher's Exact Test				.008*
N of Valid Cases	21			

a 2 cells (50.0%) have expected count less than 5. The minimum expected count is 1.19.

*p<.01

Table 3

Budget line for recruiting * Media-National mag/journal Cross-tabulation

			Media-National mag/journal		Total
			yes	no	
Budget line for recruiting	Yes	Count Expected Count % of Total	4 1.2 19.0%	1 3.8 4.8%	5 5.0 23.8%
	No	Count Expected Count % of Total	1 3.8 4.8%	15 12.2 71.4%	16 16.0 76.2%
Total		Count Expected Count % of Total	5 5.0 23.8%	16 16.0 76.2%	21 21.0 100%

Table 4

Chi-Square results of significance between groups

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)
Pearson Chi-Square	11.422(a)	1	.001*	.004*
Fisher's Exact Test				
N of Valid Cases	21			

a 3 cells (75.0%) have expected count less than 5. The minimum expected count is 3.81.

*p<.0

An Early Multidivisional Organizational Architect: Andrew Brown and the Lumber Business in 19th-Century Mississippi

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Abstract

It is generally believed that the multidivisional-form organizational form for businesses first appeared in the late 19th or early 20th centuries with the rise of very large businesses (see Chandler's *Invisible Hand*). This historical analysis of the Andrew Brown Lumber Company in Natchez, once the largest lumber company in the old Southwest, uses the company's original account books to show that the founder succeeded by developing an early version of the multidivisional business before the American Civil War. This success was supported by extraordinarily careful bookkeeping. The company began in 1828 and was still a going concern in the same family in the 1950s, keeping ledgers for the lumber mill, the cypress brakes from which raw materials were shipped, logging operations, a steamboat, a brickyard, and a lumber yard and sash factory in New Orleans. Almost from its beginning, the company was complex and large enough to create extensive organizational problems. Brown created a particularly good early example of the efficiency of a well-operated multidivisional organizational structure.

Introduction

Sometime in the early 1820s, Andrew Brown, a young architect from Crail, Scotland, left home to seek his fortune in the New World.²¹ In the booming frontier state of Mississippi, he found that fortune – or rather, created it. He started a lumber business in Natchez, on the Mississippi River. So fabulously successful was the Andrew Brown Lumber Company that it became the largest such enterprise anywhere in the old Southwest²² by the eve of the Civil War, in the 1850s. The company survived not only that war but several subsequent ones, in addition to all the intervening depressions, staying in the same family until the 1950s (Moore, 1967, 164). At least in part, this success was due to the intense attention Brown himself paid to accounting and to organizational structure.

The records of the lumber company suggest that Brown created for his business an early example of the multidivisional organizational structure – a structure that is generally believed not to have existed until the late 19th century or early 20th century. The multidivisional-form business operates each division as a profit center and does not require that central management have detailed knowledge of its varied businesses. It was described by economic historian Alfred Chandler as having developed in response to the needs of early very large businesses. Businesses such as railroads had early adopted functional organizations, organized around different functions such as sales, accounting, production, and so forth. However, as the Industrial Age matured, this form proved inadequate for competition against smaller companies, and the large businesses pioneered the

²¹ John Hebron Moore, *Andrew Brown and Cypress Lumbering in the Old Southwest*, Louisiana State University Press, 1967, 3, 22.

²² *Ibid.*, xi. The “old Southwest” of the United States was the area now encompassing the states of Tennessee, Kentucky, Mississippi, and Alabama, as well as parts of Florida; sometimes Louisiana and Arkansas are included.

multidivisional form.²³ An aim of this paper is to show that Brown's lumber business was an early example of the form.

Brown was not only a careful and innovative organizational architect. He was also a very careful record keeper. The best evidence for this part of his success is the fact that almost all the 19th-century books still exist today. The Scotsman first bought his sawmill in 1828; he and his descendents both kept and preserved the books from 1829 on. Brown's company was still flourishing more than 100 years later when, in 1958, a historian showed up in the Natchez lumber yard to collect the old business books from Brown's descendents. Brown's great-great grandson persuaded his grandfather to relinquish the early records to the state university. Stacks and stacks of account books, memoranda, and letters, kept meticulously for generations by the Scotsman and his employees and successors, went to the University of Mississippi that day.²⁴ These books and related materials constitute nearly complete records of a type of business considered too unremarkable in the 19th century to attract any attention in the press, but one which was basic to the industrial infrastructure of the time. Under the right conditions, it could also become a large industrial business, as Brown demonstrated.

This paper uses the papers of the Brown lumber company and its successor, housed at the University of Mississippi library, as well as secondary sources, to provide a case study of the early development of the multidivisional business organization. It begins with the contributions to business success made by Brown's excellent bookkeeping habits and then recounts the gradual development of complex organization. The paper ends with a summary.

Accounting Records

In the 1820s, Natchez was a bustling and wealthy town connecting the New Orleans commercial center to a vast interior countryside that was experiencing explosive growth. But it was still a town on the frontier. And although bookkeeping texts of the time taught good double-entry techniques (see, for example, Colt, 1838), most businesses as far away from the New York-Philadelphia corridor as Natchez were more careless of their accounts than Brown was. While he did not go beyond the accounting techniques known to his time, he fully exploited the best practices then available.

The Brown collection includes order books, sales journals, cash journals, time and labor books, petty cash books, books of accounts payable and receivable, records of the cost of food and other purchases for employees, and numerous general account books and ledgers, in addition to extensive correspondence. Brown kept subsidiary ledgers for different business segments. There was an account for the Cassidy brake²⁵ (Brown, Box 1, 11/30/37), for instance, and labor payments were debited to, *inter alia*, raftsmen, timber cutters, and mill and yard hand accounts (Time Book 72).

Brown scrupulously distinguished his personal household transactions from his business, a practice often neglected by closely-held businesses even today. For instance, among the payments to workmen in 1840 is \$247 owed to T. F. Waymouth for "work done for girls" (A/R & A/P Book 20, 12/17/40), and \$1.25 spent on a gallon of oil in the same year is marked as a household expense (Petty Cash Book 105, 8/1/40).

In the early years, Brown kept many of these books personally. His labor accounts

²³ Brickley, Smith, & Zimmerman, 2003, p. 112; see also Chandler,

²⁴ Moore, viii-ix. The Andrew Brown Company records are now in the Lumber Archives, Special Collections, J. D. Williams Library, University of Mississippi, Oxford, MS.

²⁵ A "brake" was a stand of cypress in the swamps of the Mississippi delta area. These were valuable properties generally identified by the name of an owner.

are particularly detailed, including time worked and wages paid by day, worker, and account, as well as comments on the quality of work. Jacob Rasfa was “very well behaved & industrious” (Time Book 72, 1/38), while Thomas H. Jeter “does not deserve a dollar of” his pay (Book 20, 8/10/40). Beginning in the mid-1830s, Brown hired clerks to keep the books at the mill, but he kept a very close eye on them (Moore, 124-125).

Without such detailed accounts, Brown could certainly never have maintained a business as large and complex as his became. Not only did he integrate both forward into manufacturing and retailing and backward into cypress transport and logging, he also expanded the scope of his enterprises to include, for example, brick retailing (Andrew Brown, Jr., to father, 6 August 1846). Furthermore, as was usually true for businesses of the period, most of his transactions were on credit rather than in cash. He tracked a constant flow of thousands of dollars in payables and receivables, handled by numerous different banks and individuals at varying rates of interest.

Organizational and Transactional Forms

As necessary as a good accounting information system was to Brown’s success, it was not sufficient. From the time that the Scotsman bought his former employer’s small sawmill in 1828, until he died in 1871 (Moore 23, 164), he worked constantly to structure his organization efficiently. His organizational choices ran the gamut from spot market transactions through short and long-term contracts to ownership integration of functions. By the 1850s and 1860s, he had developed an early version of the modern multidivisional organizational form.

Brown struggled his entire career with the vagaries of the timber market. He very often chose vertical integration to solve supply problems. In fact, he bought the original sawmill in 1828 to ensure a steady supply of boards for his construction business. Though the mill only produced 3,000 linear feet a day at first, the combination of the mill plus his contracting business led him within a matter of months to need management help. His solution to this problem also established a life-long pattern: he took on a partner. Charles Dart became his equal partner, with the responsibility for handling the mill, while Brown handled the construction contracts (Moore, 23-24). In theory, this was a satisfactory way to avoid any agent-principal divergence of purpose in management. Since Dart would reap half the firm’s gains, Brown could reasonably hope Dart would do his utmost to increase profits.

With only one partner, it should have been easy for Brown to monitor Dart’s performance closely. Unfortunately, Dart was dishonest and Brown did not watch him closely enough. Just a year into the partnership, Dart collected almost all the company’s receivables and vanished. Never again did Brown take on a managing partner over whom he had no more than monetary incentive controls. In 1840, he hired his son to manage the marketing of the mill’s lumber in New Orleans. Andrew, Jr., was so hardworking and successful that he soon dismissed their marketing agents in New Orleans, who had worked on commission, and bought into his father’s business as a partner. The firm purchased land in New Orleans and opened a lumber yard there, thus integrating forward into the retail market (Moore, 23-25, 39-44).

Businesses of the 19th century faced another major hazard – disease. Andrew, Jr., died of yellow fever in 1848, so Brown turned to another relative, his nephew, William Key, who became his junior partner. Key acquired a quarter share in the Natchez manufacturing division and also a quarter share in the New Orleans retail business, in return for his services managing the New Orleans operation. Under Key, the firm took another step in downstream integration. In 1853, the New Orleans Sash Factory opened, a \$25,000 investment in manufacturing doors, windows, and other finished wood products. This endeavor was so

profitable that Brown and Key expanded its capacity substantially three years later. By 1860, the sash company was grossing half again the sales of the rest of the company. With the Civil War, however, the firm retrenched, abandoning the sash company and returning to its core sawmill business (Moore, chap. 6).

William Key, too, died before Brown, of tuberculosis in 1868. Brown then made Rufus Learned his new partner. Learned was as closely tied to Brown as Andrew, Jr. and Key had been; he was the son of Brown's second wife, and he had married Brown's daughter Elizabeth (Moore, 164, 125). It was Learned who carried the business on into the next century after Brown's death in 1871.

So after the first disastrous partnership, Brown hewed strictly to family for his senior management. However, for help of less importance, he often took on unrelated partners. The first was Stephen Duncan, one of the richest planters in the country.²⁶ Duncan, a friend of Brown's, rescued him financially by buying into the business after Dart robbed it to the point almost of bankruptcy. Duncan was a silent partner; he had no management powers for Brown to monitor and he was too wealthy to be interested in misappropriating the company's assets in any case (Moore, 24).

Brown also engaged in extensive backwards "vertical contracting" (Schmelzle and Flesher, 1991, 221). The lumber market in the old Southwest was a boom-and-bust business. For example, sales soared in 1832, and Brown expanded his plant's capacity to about 2 million linear feet per year. By 1836, his gross sales were up to \$56,000 and he was in constant need of more timber. But in 1840, when his son joined him, the country was in the midst of a depression and Andrew, Jr., had great difficulty in selling anything (see, e.g., his description of his difficulties in his letters of 21 December 1841 and 12 March 1842 to A. J. Postlethwaite). Then, just a few years later, he was writing his father a stream of letters demanding more lumber, as he could sell far more than he could acquire (e.g., letter of 17 February 1846).

More often than not, however, Brown and all others in the lumber business in the old Southwest faced very tight supplies of logs. When demand was high, customers would buy anything, even inferior green pine from as far away as Pensacola. Brown and his partners supplied such lumber to their customers when they had to, but their specialty was high-end cypress, the best wood available for the southern construction business. Cypress came from the swamps and bayous of the deep South. Loggers felled the trees and tied them into rafts called "tiers." When the river rose, the rafts were floated down the river to Natchez or New Orleans. But the Mississippi did not flood on a strict schedule, so delivery might be delayed a year or more from the time the cypress was cut. Then, too, maneuvering the rafts to their destination was a chancy art; often, the timber floated by its frustrated purchaser to some fortunate salvager downstream (Moore, chap. 4).

Given these problems with the supply of logs, Brown began in the 1830s integrating backwards into the logging industry. He employed transport crews who picked up the rafts from loggers; he bought a steamboat to help with transport; he owned cypress brakes in the bayous and entered into long-term contracts with logging crews to have them log his land and sell him all their product. He also frequently entered into partnerships with the loggers for one or more seasons. The logging partnership would then sell the cypress tiers to Brown's mill (Moore, chap. 4).

Because the New Orleans business bought lumber from whoever sold at the best price, rather than just from the Natchez mill, and because the logging partnerships were partly separate from the mill, Brown probably transferred goods among the various divisions of his company at prices that resulted in efficient resource allocation. Certainly, such efficiency

²⁶ Scarborough, 1992.

would be typical of Brown's operations.

By the 1850s, Brown was hardly involved in the daily operations of his business at all. The mill, the New Orleans lumberyard and sash factory, and the upriver logging operations were all under the management of junior partners or seasoned employee-managers. The old Scotsman spent most of his time working on the perennial problems of acquiring credit and an adequate supply of logs, as well as making strategic decisions about the overall direction of the firm (Moore 112).

In short, Andrew Brown's business grew to the point that, before the Civil War, he had developed something close to the modern unitary or functional form of organizational structure – a business with several divisions run by operating managers while headquarters (Brown himself) handled the overall allocation of resources and high-level decisions (Brickley, et al.). Brown also handled the most dangerous threats to the business. When the Union Army confiscated the mill in January of 1864, for instance, he used his influential Yankee contacts to good effect. They informed the military authorities that far from being disloyal, Brown had always been a Whig and pro-Union. He had his mill back within six months (Moore, 156-158).

Brown experimented several times with expanding the scope of his business. His son did a small coal business in New Orleans in the mid-1840s and also ran a sideline in bricks (Andrew, Jr., to father, August 6 and 8, 1846). Brown even operated small farms when his logging crews were working so far from civilization that it was worthwhile planting corn. Generally, however, he stayed in the wood business, from logging to the manufacturing and retailing of the finished product.

Summary

The Andrew Brown Lumber Company and its successors survived and prospered through more than a century of booms and depressions, floods and tornadoes, and wars and confiscations. Almost from its beginning, the company was complex enough and the mill produced a large enough output that Brown had to cope with extensive organizational problems. He handled them skillfully enough to keep his employees and partners focused primarily on building the firm's value by choosing his managers well and evaluating them and his other employees carefully. The resulting organizational structure and culture helped his company carry on long after his death. It is a particularly good early example of the efficiency of a well-operated multidivisional organizational structure. The only old-fashioned element Brown retained was the use of family ties to alleviate potential agency problems.

Current literature holds that this organizational form did not exist prior to the very late 19th century. But it appears that the Brown Lumber Company constituted an early step in the development of the form half a century earlier. Further research should be done to determine whether the beginnings of this organizational form existed in other businesses of the mid-19th century, as well.

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Are Small Firm Debt and Ownership Decisions Related to the Same Factors?

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Abstract

Agency theory suggests a relationship between the firm's ownership structure and the strategies the firm pursues. Management's goals and risk-taking propensity are linked to the capital structure decisions made by the firm. 567 small firms were analyzed using regressions. The equations examine the relationship of managerial ownership, and leverage to a common set of variables. Contrary to previous findings of large firms, this study found small firms do not experience all the same agency effects observed in large firms. Debt and ownership share only a single determinant, ROA.

Introduction

Is the ownership structure of the small firm related to the strategies chosen by the small firm? Agency theory suggests a relationship between the firm's ownership structure and the strategies the firm pursues. The capital structure of the firm provides a key element of the firm's strategy. Barton and Gordon (1987) argue management's goals and risk-taking propensity are linked to the capital structure decisions made by the firm (Cogent & Damanpour, 1991), issues agency theory addresses.

A stages of growth model (Hanks, 1990) and research on strategic planning by small firms (Robinson & Pearce, 1984; Shuman & Seeger, 1986) suggests small firms focus on capital planning rather than organizational structure and long term strategies. Corporate leverage and corporate dividend policy provide key elements of the capital structure of the firm. Previous studies of their relationship to ownership have focused on medium to large firms, providing support for agency theory (Crutchley & Hansen, 1989). Small firms are noticeably absent from the literature studying capital structure relationships.

The purpose of this paper is to test if firm specific characteristics that proxy for agency costs act to determine the optimal mix of management ownership, leverage, and corporate dividends for small firms, a population not previously considered in this context. Landstrom (1993) and Eisenhardt (1989) suggest that research in small firm agency theory can provide important insights on small firms and on agency theory in general. If small firms do not experience the same effects as large firms, this would indicate agency theory's strength in the study of large firms. This study did not consider corporate dividends since none of the firms reported dividends.

Agency Theory

Agency theory focuses on behavioral relationships that ensue following the implicit or explicit contractual arrangements between one or more persons (principal) who engage others (agent) to perform a task on the principal's behalf (Jensen & Meckling, 1976). Agency theory centers on the likelihood of conflict of interests between managers and shareholders, and shareholders and bondholders. For example, managers have incentives to adopt less risky projects, and shareholders, who can diversify away any company specific risks, prefer

riskier projects. In addition, management might pass up positive net present value projects when these benefits accrue primarily to bondholders (Myers, 1977). Other agency conflicts between bondholders and shareholders include asset substitution and claim dilution (Smith & Warner, 1979).

Financial contracting and corporate policy decisions offer inducements to the various claimants that minimize value-reducing behavior. In particular, the selection of management ownership, leverage, and dividends can mitigate agency costs arising from the firm's "nexus of contracts" (Crutchley & Hansen, 1989). For example, management can increase its share of ownership in the firm and align its interests with shareholders, resulting in a "convergence of interests" between shareholders and managers (Jensen & Meckling, 1976; Morck, Schleifer & Vishny, 1990). This "convergence of interests" between shareholders and management reduces the agency costs of outside equity because managers are motivated to follow value-maximizing behavior. However, by increasing their equity share in the firm, management reduces the diversification of their personal portfolio. The additional costs that management faces as a result of decreasing personal financial diversification are referred to as diversification costs in the finance literature (Crutchley & Hansen, 1989). These costs will be referred to as personal diversification costs in this study. Hence, management is reluctant to increase ownership in the firm when personal diversification costs are high. Personal diversification costs are higher for larger firms because of the personal wealth required in obtaining a larger equity percentage in the firm. Another factor reducing agency costs is the involvement of institutional investors due to increased monitoring (Amihud & Lev 1999).

An alternative policy reduces the agency costs associated with inside and outside shareholders by the firm increasing its reliance on debt financing. This lessens the need for equity financing, and therefore, avoids the associated agency costs. However, a corporation's ability to increasingly rely on debt financing is limited due to higher agency costs of debt. As the firm increases leverage, it increases the chance of the firm falling into financial distress. In addition to financial distress costs, claim dilution provides another agency cost of debt (Smith & Warner, 1979). New debt holders dilute the claim of existing shareholders, and therefore require higher rates of return that are reflected in the firm's higher cost of capital. Chung (1993) found that financial leverage was a function of agency variables using a sample of predominately large firms. He reported his results for 1980 to 1984 but stated the results were "quite robust to the selection of time period." Other sample periods with similar results were 1975 to 1979 and 1975 to 1984. In small firms, Ang, Cole, and Lin, 2000, argued that increased leverage, or debt financing, reduces agency costs due to monitoring by debt holders. Johnson (1997) argues that small firm reliance on bank debt results in increased monitoring by banks through loan covenants due to perceived higher risk.

Pettit and Singer (1985) suggest that small firms adjust leverage and dividends in the presence of agency costs. Pettit and Singer hypothesize that small firms with profitable investment opportunities are reluctant to issue outside equity and therefore rely on more debt financing--even in the presence of significant debt-related agency costs (Myers, 1977). Managers then adjust dividends accordingly to conserve cash in order to fund profitable investment opportunities. Schooley and Barney (1994) found that chief executive officer stock holdings and dividend policy were interrelated mechanisms to reduce agency costs in large firms. Their sample period was 1976 to 1980.

Crutchley and Hansen (1989) and Jensen, Solberg, and Zorn (1992) tested agency theory by incorporating several agency variables simultaneously. These authors studied the impacts of firm specific agency cost variables on managerial ownership, leverage, and dividends and supported agency theory relationships. Crutchley and Hansen's (1989) sample consisted of 603 medium and large industrial firms, and the sample period was 1981 to 1985. Jensen, et al, (1992) studied a database of 565 firms for 1982 and 632 firms for 1987. Size

was a controlling factor but data was not reported, however, from the listing of SIC codes it would appear the subject firms were also large firms across a cross section of industries.

Previous studies of dividend policy and leverage suggest the following firm specific characteristics. Greater earnings volatility raises expected bankruptcy costs, thus increasing debt agency costs and reducing leverage. Investment expense, as a proxy for advertising and research and development expenses, or as a proxy for discretionary investment opportunities, relate to debt agency costs. Thus greater discretionary investment levels lead to higher debt agency costs and less leverage. Because of agency theory concern with the personal diversification costs of managers, a proxy variable register managers' diversification losses that result from increasing their stock ownership in the firm. Firm size reflects the managers' liquidity cost of holding a particular percentage equity stake in the firm, thus the larger the firm, the greater the diversification cost of holding a particular ownership proportion of the firm (Crutchley & Hansen, 1989).

Previous small business research highlighting differences between large and small firms suggest several factors that could lead to different results when applied to small firm research. First, the restricted options of small firms due to size and resource constraints affect the strategies chosen by the small firm. Second, since small firms analyze and interact with their task environment differently than large firms (Shuman & Seeger, 1986), small firms recognize a different set of alternatives compared to large firms. Third, the extended interpersonal interaction found in small firms compared to large firms (Neilson, 1974) should lead to greater goal congruence among owners, managers, and employees of small firms. These issues suggest that the effects of agency theory on the small firm may be different than the effects found in studies of large firms.

Hypothesis

Crutchley and Hansen (1989) offer evidence supporting the hypothesis that when personal diversification costs are high, management has the incentive to rely on dividends and leverage to mitigate agency costs. They conclude that smaller firms rely on management ownership to control agency costs of equity because the personal diversification costs for smaller firms are relatively low.

However, we hypothesize that for a sample of small publicly held firms, cross-sectional variation in the agency cost characteristics exists; therefore significant relationships between the agency costs of small firms and management ownership and leverage exist. This is particularly true since we examine small publicly held firms, where outside and inside shareholders are present. If our financial policy variables are not strongly affected by the pre-defined agency cost characteristics, then perhaps there are distinct agency differences between small and large firms. More importantly, no relationship between our dependent and independent variables in small firms provides stronger support to existing agency research conducted on large firms, and the real effects of agency relationships on large firms.

Methodology

This study defined "small" as firms with less than 500 employees, total assets of less than \$150 million, and annual sales of less than \$20 million. These points provide the upper bounds of most definitions used in small business research (d'Amboise & Muldowney, 1988).

Sample

The sample consists of small firms listed on the Compact Disclosure and Compustat databases. Three years of data availability for each firm produces a sample of 567 firms. The sample firms are listed on the Compustat database for the calendar year 1995, a sample period of 1993 to 1995. Management ownership data, including all insiders, officers, and directors, are retrieved from Compact Disclosure. Financial data on the firms are retrieved from Compustat.

Measures

We test the impact that firm specific variables have on management ownership and leverage for small firms. The variables and definitions are as follows. All variables were averaged over the three-year period except the growth variables, which calculated as compound growth over the three-year period.

We use the investment expense item listed by Compustat to proxy for leverage related costs due to the mix of tangible and intangible assets or discretionary investment opportunities. We did not use advertising and research and development expenses as a proxy since most small firms do not report this data. Firm size or total assets is based on the average level of total assets and provides a measure of the agency costs of equity, the demand for risk sharing, and for personal diversification costs of managers risk sharing. The log transform of total assets was also used since the asset distribution is skewed. Employee count was also used as third measure of size.

Business risk of the firm and the agency costs associated with risk use the percent of institutional holdings as a proxy, as risk increases institutional holders will reduce their investment. As the growth rate of the firm increases they would be expected to hold a higher share of the firm. As the growth of the firm increases, debt would be expected to increase to fuel the growth and provide additional agency costs to monitor the growth. In addition as growth increases, insider ownership would tend to decline, as a result of bringing in additional non-owner managers to manage the growth. Two measures of growth are used, the growth of net sales and the growth of the number of employees. The profitability of the firm also would reduce debt as the firm has greater internal resources to fuel growth. Owners would prefer higher interests in the firm as profitability increases.

Two variables are used as controls. The particular industry a firm is in may have an impact on the growth of the firm and on the debt, and ownership of the firm. The single digit Standard Industrial Classification code (SIC1) is used to control for industry effects. Whether a firm is family owned or not will also affect ownership, greater share of the firm, and debt, greater ownership interest should reduce debt since banks would perceive a more risky venture.

The financial policy variables are defined as follows. Managerial common stock ownership is management's percentage of stock ownership measured as common stock held directly by officers and directors (insiders) divided by the total shares outstanding. Our definition is consistent with earlier studies and, since Demsetz and Lehn (8) indicated high correlation among the various definitions of stock ownership used in research, should be comparable to other studies using different measures of ownership. Corporate debt is the long-term debt to total assets ratio (6).

Regression analysis is used to test the effects of the variables on the capital decisions of the firm.

Results and Analysis

The present study is designed to test if small firm managerial ownership, and leverage are affected by agency costs and a similar set of determinants, and thus affect the capital structure strategic decisions made by the small firm. Given a sample of small firms in isolation, is there any relationship between the firm specific variables that proxy for agency costs and the dependent variables of leverage and managerial ownership? Previous evidence indicates that large firms do rely on managerial ownership, dividends, and leverage to control agency costs.

An interesting question is whether or not this pattern exists for smaller firms? Small firms apparently do not use dividends as an element of their financial strategy as none of the 567 firms in this sample reported any dividends.

Table 1 provides descriptive data of the sample firms. The mean number of employees per firm is 83, with a mean of \$13M in total assets. The mean insider ownership of the firms is 37%, with 107 family firms in the sample. The profitability of the firms as the mean return on assets is -18.6%, the mean of the growth of net sales is 24.9%, and the mean debt ratio is 25%. All industry groups are represented in the sample, with 217 manufacturing firms (SIC1=3).

Table 2 indicates the correlations of the variables. None of the variables are highly correlated, thus we would not expect multicollinearity problems. Table 3 shows the results of the regression analysis on the two financial variables, debt and ownership.

The regression on Debt is significant with an adjusted R Square of .156, thus explaining 15.6% of the variance in Debt. The profitability measures, ROA and ROE, are significantly related to Debt. ROA is negatively related in agreement with agency theory, the higher the cash generation the less debt is required. ROE is positively related to Debt, suggesting as equity decreases thus increasing the return, debt takes equity's place in the financial structure, a preference of non-owner managers. The log transform of Total Assets is negatively related to Debt as agency theory predicts, however, Total Assets, a skewed distribution, is positively related.

The regression on insider ownership is significant with an adjusted R Square of .059, thus explaining only 5.9% of the variability in ownership. ROA is significant but with only a small "B" of .0006 does not have a great effect on ownership, but it is positive as agency theory predicts, owners prefer profits to growth. Total Assets is significant at .1 level with a negative sign as predicted, as size increases, managers do not hold as great a percentage of ownership.

The concentration of ownership and management tends to be greater for smaller firms (20). Crutchley and Hansen (6) attribute this to the diversification losses associated with increasing managerial ownership of large firms. Higher personal diversification costs are imposed on management of larger firms because of the wealth requirements of increasing equity ownership in larger firms. Therefore, it is more difficult for management of larger firms to increase their ownership.

Even though Crutchley and Hansen (6) conclude that small firms rely on management ownership to control agency costs, we believe it is necessary to examine the relationship between ownership and personal diversification costs for small firms because of the implied relationship between personal diversification costs and managerial wealth. As the personal wealth of management varies cross-sectionally for the sample of small firms, management's perceived personal diversification costs also vary. Our measure of personal diversification costs does not consider management wealth, and management's perceived personal diversification costs are affected by their personal wealth. As the wealth of management's personal portfolio increases, lower costs are imposed on management for increasing their equity share in the firm.

Managers increase personal equity held in their firm when the firm's common stock imposes lower personal diversification costs. Because of the lower personal diversification costs, managers of small firms hold greater proportions of stock in their respective firms (6). Managers of small firms are typically the founders, and therefore they inherently own a sizeable percentage of their firm's stock, regardless of the diversification losses imposed on their personal portfolio. Therefore, as personal diversification costs vary across companies, only a small relationship with management ownership is detected. Even though small firms may rely on management ownership to control agency costs, there does not appear to be much cross-sectional variation within a sample of small firms.

Small firms can use debt financing to fund profitable investment opportunities and hence avoid the agency costs of equity and the dilutive effects of additional equity. Crutchley and Hansen (6) found that dividends and leverage were used to control agency costs between shareholders and bondholders for their sample of industrial firms. They found a significant relationship between firm-specific variables that proxy for agency costs, and dividends and leverage separately. Significant relationships between the firm-specific variables in our study and the leverage variable would suggest that leverage for small firms derives from agency costs, and are affected by a firm's agency cost characteristics.

Our findings indicate a relationship between the agency cost characteristics of firms and the leverage variable.

Conclusion

This paper analyzes the potential effects that agency costs have on financial policies for small firms. Specifically, we analyze the agency-based determinants of management ownership, and leverage financing for small firms. Overall, we find ROA, profitability, is the only strongly agency-related determinant of management ownership, and leverage for the sample of 567 small firms.

If small firm non-owner managers have greater emotional attachment to the firm, as Neilson (19) suggests, and if small firms do less planning, then managers would act in the same fashion as owners and not as large firm managers, contrary to agency theory, and a conclusion consistent with the results of this study.

The time periods studied provide a possible source for the contradictions found in this study. Prior studies used various three-, five-, ten-, or twenty-year periods from the 1950's through the middle 1980's over different economic cycles (14). Economic conditions have gone through several market cycles of recession and boom. The 1993 to 1995 period of this study is a period of steady growth. Most studies, including this one, have handled differences over various cycles by using an average over the total period. Thus, the variation in strategies over economic cycles could explain the differing results of this study. However, Chung (5) demonstrated robust results irrespective of time periods, time periods that include various market cycles.

The research underscores the notion that there are distinct differences between small and large firms. Based on the results of this study, there are differences that stem from agency theory, many agency cost factors, which are significant for large firms, are not significant for small firms.

As the behaviors of members and the intentions of organizations become the focus of study, then the process of decision-making enters as a factor for consideration. Perhaps Stewardship theory offers additional insights in to small firms. Extended studies should be made of how the behaviors, intentions, and processes affect the relationships between owners and managers as well as the decisions of the firm. Different time periods should be compared for both environmental effects and for changes in the organization life cycle. Different

groups of industries should be examined to determine if differing organizational fields (the institutionalization of organizations of the characteristics of the web of stakeholders about them) (9) affect organizational learning and the decision-making process.

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Appendix

Table 1
Descriptive Statistics

Variable	Mean	Std Dev.	Median
Ownership	37.00%	18.50%	34.40%
Debt/Total Assets	25.10%	39.60%	14.60%
Employees	83	111	56
Total Assets	\$13.0M	\$17.8M	\$7.7M
Growth Net Sales	24.90%	83.20%	9.05%
Growth Employees	10.60%	49.60%	2.10%
ROA	-18.60%	41.00%	-6.20%
ROE	-14.80%	83.50%	-2.20%
Institutional Holdings	6.10%	10.60%	1.00%
Investment Expense	\$1.3M	\$3.2M	\$523,000
n=567			

Table 2
Correlations

	Debt	Own- ership	Emp	Total Asset	Log TA	Grow Sales	Grow Empl	ROA	ROE	Invst	Insti- tutn	SIC1
Debt	1.000											
Own- ership	0.014	1.000										
Empl	-0.030	-0.028	1.000									
Tassts	-.1087*	-.186**	.283**	1.000								
LgTA	-.301**	-.158**	.402**	.755**	1.000							
Grow Sales	0.050	-0.068	-0.009	0.065	.130*	1.000						
Grow Empl	-0.055	-0.013	0.028	0.026	0.096	.414**	1.000					
ROA	-.182**	.152**	.117*	0.076	.150**	-.170**	0.057	1.000				
ROE	.135**	0.087	0.017	-0.035	-0.065	-0.018	0.059	.242**	1.000			
Invest	0.023	0.007	.402**	.258**	.246**	-0.043	-0.026	.104*	0.017	1.000		
Institn	-.152**	-.168**	.144**	.505**	.501**	.122*	-0.006	-0.024	-0.054	0.085	1.000	
SIC1	0.072	0.066	.1243*	-0.041	-0.046	-0.046	0.081	0.033	0.007	-.103*	-.111*	1.000
Family	-0.026	0.086	0.080	-0.025	0.010	-0.040	-0.032	.107*	0.025	0.038	-0.048	0.012

Table 3

Regression Results
Dependent Variables

Variables	Debt/Total Assets (t-statistic)	Ownership (t-statistic)
Debt/TA	---	-0.00003 (.87)
Ownership	-1.397 (.87)	---
ROA	-0.178 (.00)***	.0006 (.00)***
Log TA	-32.81 (.00)***	-0.021 (.43)
Investment Exp	0.331 (.55)	0.003 (.26)
Institutional Stock	-0.212 (.22)	-0.001 (.19)
Growth Sales	-0.0098 (.64)	-0.00002 (.87)
Growth Employee	-1.184 (.73)	-0.005 (.77)
Employees	15.431 (.33)	-0.027 (.73)
ROE	.074 (.00)***	0.00009 (.35)
TA	.578 (.00)***	-.001 (.06)*
SIC1	1.107 (.14)	0.005 (.20)
Family	-0.840 (.83)	0.029 (.14)
Constant	43.413 (.00)***	0.401 (.00)***
Adj R Square	0.156	0.058
F	9.66***	3.92***
***p<0.01	**p<0.05	*p<0.10

What Students Want in Their Online Course: Build It Right and They Will Come

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Abstract

Online courses have become increasingly popular at colleges and universities. 11% of all college and university students have taken at least one online course (Mallory 2006). Nationwide online enrollment is up nearly 20-40% in all universities. (Mallory 2006). Administrators see online classes as a way to increase enrollment and students like the convenience of not having to attend classes in person.

Previous studies have reported high levels of satisfaction with online courses with satisfaction rates being as high as 70% of students enrolled. (Beatty & Moter-Guiterrez 2000). However there is some worry that students may suffer from a lack of personal contact with a professor

In order to maximize the experience for the online student and to get repeat business it is important that an online course contain the proper features and components so that students will have a positive learning experience. For example, should the online course include a discussion board or a chat room? Would students use or download audio lectures in mp3 format and listen to them on their ipods? Would students utilize video lectures where they could watch a professor via streaming video?

This paper examines a study of 100 students who have taken online courses and reports what features and components in an online course are most desirable from a student's perspective. The business professor can then use this information in designing the most effective online course to ensure student satisfaction.

Introduction

Today, more and more college students are choosing cyber classrooms over lecture halls as the popularity of online courses continues to grow (Simonson 2003). College administrators view online classes as a way to reach a wider audience other than traditional college students such as working adults. (Eastman and Swift 2001). Today, 81% person of all higher education institutions offer at least one fully online or blended course. Complete online degree programs are offered by 34% of all institutions. 97% of public institutions offer at least one online course and 49% of public institutions offer a complete degree program. (Mallory 2006, CNN.com 2003) Distance learning courses are being added as a way to increase enrollments (Phipps & Merisotis 1999) as online enrollments are increasing at a rate of 20 to 40% a year. (Carlson 2004).

One does not have to look any further than the University of Phoenix with its online enrollment of 25,000 full time students to get an idea of how successful online courses are. (Olson 2002, Kruger 1998) Online course revenues are expected to double in the next several years from \$550 million currently to over in \$1.4 billion in 2-3 years (Urdan and Weggan 2000).

Online course offerings have grown significantly. The number of colleges and universities offering online courses from 93 in 1993 to 762 in 1997 (Hankin 1999). In 2000, U. S. universities offered over 54,000 courses online (Driver 2002). More recent figures indicate that closer to 3 million students took online courses in 2002 (Sauser 2003). The U. S. Department of Education noted that online enrollment for courses has doubled from 1.3 million to almost 3 million students from 1997-1998 to 2000-2001. Almost all colleges which offered online courses offer bachelors degrees online, and most offer master degrees. About 25% of schools offer online MBA's or Ph.ds (Larsen 1999). In Mississippi, online courses are particularly popular with junior college students. In a year's period online enrollment for courses has doubled (Kanengiser 2001). Jupiter communications, a market research firm, reports that 72% of all college- aged teenagers will be online by 2004 (Stanton 2003).

What Components should the Ideal Online Course Contain?

In order to maximize the experience for the online student and to get repeat business it is important that an online course contain the proper features and components so that students will have a positive learning experience. For example, should the online course include a discussion board or a chat room? Would students use or download audio lectures in mp3 format and listen to them on their ipods? Would students utilize video lectures where they could watch a professor via streaming video?

This study examines features and components that are present in many online courses today such as chat rooms, discussion boards, online tests and asks students what they like in an online course and what they don't like. This information will prove useful to instructors as they construct their online courses for future use.

Previous studies have shown that students access online review sheets for test, used an online course to access grades, used an online course for practice quizzes and made use of lecture outlines. 60-80% of students accessed these features on a frequent basis (Getty and Getty 2003). On the other hand, students did not tend to use such features as chat rooms. Less than 1% of the students in one study admitted to using chat rooms. (Getty and Getty 2003).

Students also felt that several online features were very helpful. 93% felt like review sheets were helpful, 94% felt like practice quizzes were helpful and 84% felt like lecture outlines were helpful. Other online features such as email and chat rooms were not deemed to be very helpful (6% and 13% respectively). (Getty and Getty 2003)

Online chat rooms

Previous research has identified that some students do not like have to meet online at a synchronized time in order to access an online chat room (Peek 2000). The chat room allows the entire class or simply one or two members, to meet online at the same time and have a spirited text generated conversation. It is perhaps this online environment that most simulates a real time classroom. Chat rooms are useful in brainstorming sessions, discussions of ideas, useful for group planning, and allow for question and answer periods that may prove useful in reviewing for tests. (McCampbell 2000). Chat rooms also allow professors to engage the greatest number of students in discussion at the same time (Berzenyi 2000). An additional feature of chat rooms is that sessions are automatically saved and archived for easy review.

Other research has noted other advantages of chat rooms. Wang and Newlin (2001) noted that there is no front or back row in a chat room. Participants have no discernable race, gender, ethnicity or physical disabilities. The online chat room is a place where students are identified by screen names and expressed ideas are judged solely on the basis of merit. It is

viewed as a non intimidating environment where there is a level playing field. Students can

opinions (McC Campbell 2000). Students typically are encouraged to participate in online discussions and to share the prior knowledge and experience they have accumulated. The advantage to online discussion boards is that there is no time limit, and students have ample opportunity to reflect on issues before they have to make a comment. (Bowman 2001, Khan 1999). Instructors typically provide guidelines and topics for discussion, and maintain responsibility for guiding these discussions and keeping them on track. Instructors often ask students to elaborate on points or to more fully explore a topic area. The instructor must also guard against situations in which discussion seems to go nowhere or the discussion becomes argumentative or harsh. Generally the best way to deal with this is to have an orientation session in which guidelines for acceptable discussion are set forth.

Bauer (2002) noted that online discussion boards have a number of positive features; they can make possible reflective follow-up to chat room conversations, postings can allow for attachments, there is no pressure of time limits, and professors can check bulletin boards or discussion boards as allowed. Posey (2002) noted that professors should post topics at least once or twice a week for discussion. Previous research has indicated that a majority of students feel more comfortable participating in an online discussion than in the classroom (Young and Norgard 2006). Barnett-Queen, Blair and Merrick (2005) noted that a large majority (77%) of all subjects agreed that online discussions seemed to promote better understanding of basic course concepts than traditional in class discussions. Koszalka and Ganesan (2004) found that discussion boards allowed students to pool their understandings together and to help develop a better definition of terminology and learning.

Online Tests and Quizzes

Students generally enjoy taking online exams. Norgard and Young (2006) found that 87% of students surveyed in their study agreed that online exams provided an accurate assessment of their knowledge. They certainly offer advantages to both students and faculty. One advantage to online tests is that they are automatically graded and provide immediate feedback to students. (Cooper 2000, Greenberg 1998). Another advantage is that instructor grading is eliminated.

However, cheating can be a problem. One issue with online tests is that the instructor can never be sure if the student enrolled in the class is the person who actually took the test. One way to minimize cheating is to use a software program that randomly generates a different test for each student from a pool of questions and then give students a short period of time in which to complete the test.

Video lectures

Video lectures could be the wave of the future but they have some drawbacks. For one thing, preparing and producing a video lecture can take as much as six times as much of a professor's time to prepare as a regular traditional lecture. (Kavanagh 2003). Another question is "does adding video to an audio lecture improve student's learning or satisfaction levels?" In one study, adding streaming video to an audio lecture did not lead to greater satisfaction or learning (Berner and Adams 2003). Thus, the addition of video to an audio lecture may not be worth the time and expense.

However both audio and video lectures have proved popular with students. At some universities, web based video lectures were twice as popular as regular lectures, especially for more difficult courses (Bassili 2006). At some universities students can attend class and then a day or two later the lectures are available online (Olsen 2003). Video lectures can also be

required viewing before attending class so that classroom time can be spent on discussion and real world applications of lecture material (Lindsey 2003).

Audio lectures

Audio lectures are popular too. In a study of the popularity of podcasts at Mississippi State University, as many as 50% of in class students listened to podcasts and 100% of online students have (Lake 2006.) They can be created in mp3 format and students can download them and listen to the lectures on their Ipods. Typically, streaming audio is used where media content can be heard instantaneously as soon as it is downloaded by the student. In one study students were significantly more satisfied when a powerpoint presentation online also contained the audio lecture (Spickard et al. 2004). Not only were they more satisfied but they retained higher levels of knowledge than did students who just had access to the power point but not the audio lectures.

Case Studies

Case studies allow students to apply theoretical concepts to the real world. The advantages of case studies include the ability to learn vicariously (Vinaja and Raisinghani 2001) students can transfer learning, and cases help promote critical learning skills (Capella and Robin 1986). However there can be some disadvantages to case studies online. Some students are inexperienced in doing case analysis while others may lack solid writing skills.

Method

One hundred and three students in three different classes were surveyed at a small southeastern university. The classes were all online courses. They included a marketing course, a management course and a computer information course. The classification by year is illustrated in Table I.

The majority of the sample was juniors. There were 51 males and 52 females. The ethnic background of the sample was as follows. Sixty two per cent of the sample was Caucasian, thirty nine percent were African American and one percent was Asian. 88% of the sample was American Students and 12 % of the sample was international students.

Scale reliability

A fifty three item scale was used to measure nineteen variables or components of what might be included in an online course. Scale reliability was .85 as measured by Cronbach's alpha. Several questions were negatively phrased and the answers to those questions were reverse coded. Generally between two and four questions were used to measure each variable to ensure consistency of response and reliability.

Interpretation of findings

Video lectures

50% of students felt like video lectures would be a good idea, 27% were undecided and 23% felt like video lectures were not a good idea. The mean response was 3.4 which indicated that the majority of students slightly agreed with the idea. 44% of students indicated they would view video lectures, 18% were undecided and 36% said they would not view

them. The mean response was 3.26 indicating that most students did not feel strongly about viewing video lectures. Given the time and cost of creating video lectures, it seems like perhaps this is an online element that might not be needed.

The assignment link

Most students found the assignment link to be helpful. 91% of students felt that this link on an online course was helpful. The mean response was 4.45 indicating most students thought it was very helpful. Most students (92%) admitted that they would use an assignment link in an online course. The mean for this response was 4.56 indicating they very strongly felt they would use this online feature. A majority (60%) of students indicated they had used the assignment link in the past. The mean for this response was 3.83.

Power point

Most students (82%) agreed that having power point in an online course was a good idea. The mean was 4.25 indicating that most students slightly agreed that having power point slides were a good idea. 84% of students surveyed said that they would use power point slides in an online course. The mean of 4.23 indicates that the majority of students slightly agreed that they would use power point. Only 45% of students agreed that power point slides in previous courses were helpful to them. The mean of 3.46 indicates that most students did not feel very strongly that power point was helpful in the past.

Email

83% of students felt that having email is a necessary option within an online course. The mean was 4.57 indicating that students strongly agreed that email was a necessary communication tool. 83% of students also agreed that they would use email in an online course. The mean of 4.27 indicates strong agreement within this group concerning the future use of email. 59% of students indicated they had used email in previous online courses. The mean for using email in the past was 4.29 indicating most students slightly agreed that they had used email in the past. 91% of students agreed that they checked their email in the past when taking online courses. The mean was 4.48 indicating strong agreement with the statement that the student tended to check email.

Discussion Board

Discussion boards or bulletin boards were not as popular with students. Only 55% of students felt that having a discussion board was a good idea in an online course. The mean was 3.47 suggesting that students were slightly in agreement that perhaps a discussion board was a good idea. Only 35% of students admitted to having used discussion boards in the past. The mean response was 3.1 meaning that most students had no opinion either way. However, 87% of students indicated that they would use a discussion board if a professor posted questions there. The mean response was 4.24 meaning that students were in slight agreement that they would use a discussion board in the future. It seems that most students have not used discussion boards much but feel like they could be a valuable resource.

Chat Rooms

Most students are not crazy about the idea of venturing into chat rooms. Only 40% of students felt like they were a gooc. Tut mean response was 3.7 1suggetnturto cnto c of

everyone has taken an online test. The mean response of 3.67 indicates students were less in agreement concerning this idea.

Online Cases

57% of students felt that putting cases online is a good idea. The mean of 3.79 indicates students don't have strong opinions with regard to this. 63% of students said they would access cases online if they were available. The mean of 3.88 indicates students slightly agree that they would access cases online. 73% of students felt like having a "sample case" online was a good idea. The mean of 4.15 indicates that students slightly agree, on the average, that this is a good idea. 81% of students said they would utilize and access a sample case online, if given the opportunity. The mean response was 4.15 indicating slight agreement with this idea. 86% of students liked the idea of having an online link called "how to prepare cases" with guidelines for case preparation. The mean of 4.5 indicates strong agreement with this statement. 83% indicated they would use a link called "how to prepare cases" if one were available. The mean of 4.36 indicates strong agreement with this premise.

The course calendar

94% of students said having a course calendar is a good idea. The mean of 4.70 indicates there is strong agreement that a course calendar is a needed online component. 89% of students indicated that they would use the course calendar if one were available. The mean of 4.54 indicates strong agreement here also.

Textbook Link

91% of students said having a textbook link, with information about the text and where it can be purchased, was a good idea. The mean response was 4.4 1547 7145 Tm sw5and6o187 5838 6928 T

that they would utilize an online search engine. The mean response of 3.94 indicates slight agreement with this idea.

Audio lectures

Only 50% of students said they felt audio lectures were a good idea. The mean of 3.49 indicates that this idea is mildly popular but not overwhelmingly so. 52% of students indicated they would download and listen to audio lectures in mp3 format. The mean of 3.49 only indicates slight agreement with this idea.

Satisfaction with online courses

88% of students indicate that they are satisfied with their online course experience. This is interesting considering some previous studies only reported satisfaction rates of 70%. With a mean of 4.41, there is strong agreement among students that the online experience is, indeed, very satisfying. 65% of students indicated that the reason they signed up for an online class was not just simply because it was not offered in a traditional classroom. The mean of 3.7 indicates students were in slight agreement with this statement.

T tests

Is there a significant difference in students' attitudes towards various components that were available to them in previous online courses and the attitude toward using that component in future online courses? In order to answer this question, student attitudes toward five components; the assignment link, power point slides, the discussion board, email, and chat rooms were compared. Whether or not a student thought this component was helpful to them in the past or whether they used it or not was compared to the likelihood that they would use this component in the future.

Roughly 60% of students thought that having an assignment link in the past was helpful to them and admitted they used it. The mean response was 3.84. However 93% indicated they would use assignment links in the future with the mean response being 4.56. A Paired sample t test reveals the difference between the two means as significant with a T value of 5.5 significant at less than .000. Thus, there is a significant difference in responses between these two variables.

Roughly 45% of students indicated that they had used power point slides in the past and thought they were helpful. The mean response was 3.46. But 84% of students indicated they would use power point slides in the future. The mean response was 4.235. A paired sample t test reveals the difference between the two means as significant with a T value of 7.117 significant at less than .000. Perhaps the power point slides in previous courses were not available or not particularly good but it seems that students want to use power point in their online courses.

Roughly 74% of students indicated they had used email to communicate with an instructor in the past and that it was helpful. The mean response was 4.27. However 94% of students indicated they planned to remain in contact with professors via email in the future. Here the mean response was 4.296. A paired sample t test between the two means revealed no significant difference with a t value of .224 not significant at alpha less than .05. It seems that most students have used email in the past and will continue to do so.

Roughly 36% of students indicated they had used a discussion board in previous online classes. The mean response was 3.1. However, 87% of students indicated they would make use of a discussion board in the future, particularly if questions were posted there. The

mean response was 4.25. A paired sample t test between the two means revealed a significant difference in the means with a t value of 8.525 significant at alpha less than .000.

Lastly, roughly 24.5% of students indicated they had used chat rooms in the past and found them to be helpful. The mean response was 2.51. 36% of students indicated they would use chat rooms in future online courses. The mean response was 3.041. A paired sample t test revealed that a significant difference in these two groups with a t value of 3.854 significant at alpha less than .000. Though there are significant differences in these two groups it is apparent that chat rooms are very unpopular with students. See Table II for a summary of t tests.

Discussion

Students strongly liked online course components such as access to grades, review sheets, the online syllabus, the course calendar, online tests, self tests, textbook links and how to do cases. (see Table III and Table IV).

Slightly less popular were email, power points, search engines and sample cases. Even less popular were online lectures, discussion boards, video lectures, audio lectures and chat rooms. What does this research suggest?

First, it may suggest that putting lectures online is simply a waste of time .About 58% of students said they would use online lectures. Given the amount of time it takes to type up lecture notes perhaps professors should think about whether they want to do this or not if students are simply going to read the book instead.

Secondly, it suggests that spending hours creating video or audio lectures may not be a wise use of a professor's time. Only 50% of students felt this was a good idea, and while 52% of students said they would probably listen to audio lectures only 44% of students had in interest in looking at video lectures. Given the amount of time and effort necessary to develop these components, it hardly seems worth the effort and expense.

Thirdly, it suggests that chat rooms probably do not have much place in the online course. The majority of students did not feel as though they were a good idea and a larger majority said they would not utilize them. A chat room with more than a couple of students becomes very difficult to manage.

On a positive note, such components as self tests and review sheets seemed very popular. It seems that anything that would help students review for tests is a popular online component. Other popular items were components that help students keep up with due dates such as a course calendar or course syllabus. Traditionally students who are not good self managers or do not have a good sense of self discipline do not do well in online courses. Items like a course calendar or course syllabus can help improve the likelihood that assignments will be turned in on time.

Results of the t tests indicate significant differences in student attitudes toward having used these components in the past and the likelihood of using these components in the future. The biggest difference was the attitude toward discussion boards. Many students admitted that they did not use these in the past, but would do so in the future if a professor posted questions there. This seems to indicate that discussion boards should be used more frequently in the development of online courses.

Conclusion

Creating the most effective online classroom is a daunting and time consuming task. The online instructor should be interested in creating the most efficient and effective online

course possible. Hopefully, the knowledge gained in this paper will be of help to college professors in designing the most effective online classrooms.

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Appendix

Table 1

Classification by Year

	Number	Per cent
Freshman	2	1.0
Sophomore	21	20.4
Junior	43	41.7
Senior	24	22.3
Graduate	13	12.6
Total	100	100

Table 2

Summary of T Tests

Online component	Means	T value	Significant
Assignment link	3.84 (past use) 4.56 (future use)	5.50	.000 yes
Power point	3.46 (past use) 4.24 (future use)	7.12	.000 yes
Email	4.27 (past use) 4.30 (future use)	.224	Not significant
Discussion Board	3.1 (past use) 4.25 (future use)	8.525	.000 yes
Chat rooms	2.51 (past use) 3.04 (future use)	3.854	.000 yes

Table 3

Are the Following online components a good idea?

Online component	% of students who thought this was a good idea
Access to grades	98%
Review sheets for tests	97%
Online syllabus	94%
Course calendar	94%
Online tests	92%
Assignment links	91%
Textbook link	91%
Self tests	87%
How to do cases	86%
Email	83%
Power Points	82%
Search engine	81%
Sample cases	73%
Online lectures	64%
Online cases	57%
Discussion boards	55%
Video lectures	50%
Audio lectures	50%
Chat Rooms	40%

Table 4

Which components are students the most likely to use?

Online component	% of students who said they would use this component
In an online course	
Online syllabus	95%
Review sheets for tests	93%
Assignment links	92%
Course calendar	89%
Discussion boards	87%
Power Points	84%
Email	83%
How to do cases	83%
Sample cases	81%
Self tests	77%
Search engine	69%
Online cases	63%
Textbook link	60%
Online lectures	58%
Audio lectures	52%
Video lectures	44%
Chat Rooms	35%

E-learners: Should Class Standing Be a Determining Factor for Online Course Enrollment?

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Abstract

Education is evolving from the traditional “brick and mortar” classroom of learning to a computer-mediated instructional system which has no walls and is delivered by a system which is revolutionizing distance education, the Internet. The idea that anyone can learn anywhere/ anytime seems to be a logical assumption but there are several studies which question the validity of learning that actually takes place. Do those students who take online classes, E-learners, have a higher attrition rate than their traditional classroom counterparts? Should class standing be a determining factor for online course enrollment?

Introduction

Our examination of intelligence cannot take account of all [the] qualities, attention, will, regularity, continuity, docility, and courage which play so important a part in school work . . . for life is not so much a conflict of intelligence as a combat of character . . . Let us say that what . . . [pupils] should learn first is not the subjects ordinarily taught, however important they may be; they should be given lessons of will, of attention, of discipline. (Davies, 2003)

Education is evolving from the traditional “brick and mortar” classroom of learning to a computer-mediated instructional system which has no walls and is delivered by a system which is revolutionizing distance education, the Internet (Blocher, deMontes, Willis, & Tucker, 2002). And with the innovative advances in communication technology, it possible for those who are involved with distance education to access the Internet “anytime – anywhere” through their cell phones, personal data assistants (PDAs), and combination devices such as the Blackberry™ and pocket PCs. The proliferation of online courses provided by institutions of higher education is growing at an astounding rate. Many institutions feel that they must offer web-based courses in order to be competitive in today’s “information society.” The idea that anyone can learn anywhere/anytime seems to be a logical assumption but there are several studies which question the validity of learning that actually takes place (Blocher et al., 2002). Are there special skills that the online student, “E-learner,” needs in order to be successful? Is there a significant difference in the online student failure rate compared to its in-class counterpart? Should class standing be a determining factor for online course enrollment?

Critical Review

“When a student fails to achieve desired expectations, teachers often describe student performance in terms of ‘not working to potential’ or ‘capable of better work’” (Davies, 2003, p. 1). The Internet and the use of technology to enhance learning have brought about a number of new challenges and frustrations that many students cannot overcome. Research for this critical review began with a selection of published articles which discussed online courses and failure rates (attrition) during the last five years. The abstracts were scanned for

relevant data pertaining to the search as opposed to simply having the “key words” present in the title and/or body. In many instances, secondary literature (cited references) was also obtained in order to expand the primary database and clarify thoughts and opinions which were presented in the original study. Several of the studies found were searching for reasons why students failed which expanded the search even farther.

Definitions

For the purpose of this review, the following definitions and acronyms will be used:

Asynchronous learning: “Learning that is designed to occur when the instructor and the students are not in contact with each other in the same time frame” (McGee, 2003, p. 1).

Face-to-face (F2F): Student and instructor confront each other at some prescribed time such as in a classroom and/or by teleconference (Tsai & Machado, 2002).

E-learning: Asynchronous learning (student and instructor are not online at the same time and no F2F connection) with the associated learning content being readily accessible through a web-based media-- delivered by using a Web browser and the Internet (Tsai & Machado, 2002).

Synchronous learning: Learning takes place for the teacher and student at the same time, for example, in face-to-face classroom situations. This may also include synchronized chat rooms (virtual classrooms) or live videoconferencing.

Attrition

Many institutions of higher learning who have ventured into the online realm have discovered a disturbing fact about their online classes. Attrition of E-learners is often two or three times as high as their F2F counterpart (Carey, 2003; Henke & Russum, 2000; Lynch, 2001; Parker, 2003; Valasek, 2001). Nationally, the attrition rate was approximately 14% for traditional postsecondary degrees and this rate jumps from 35% to 50% depending upon the online program (Mertz, 2003). It should be noted that the higher than normal attrition rate (drop outs) could be a result of liberal withdrawal policies of many institutions. If a student perceives they may be failing, they often drop the online class rather than receive a failing grade (Carey, 2003). Several studies did not address this fact when presenting their attrition rates. Valasek (2001) pointed this out and restated his attrition rate (33% before to 40% after which was compared to 13% for the comparable F2F classes). Institutions with high attrition rates are reporting low enrollment rates which often prompt them to self-evaluate their online offerings and determine a course of action (or actions) which can correct the identified problems. Research points to several factors why E-learners drop out: learning styles, age, quality of instruction, technology, attitudes, intentions, and even gender (Carey, 2003; Diaz, 2002; Henke & Russum, 2000; Lynch, 2001; Murray, 2001; Parker, 2003; Valasek, 2001). Class Standing (Age and Gender)

According to a National Center for Educational Statistics (NCES) report, “*Distance Education at Degree-Granting Postsecondary Institutions: 2000-2001*,” 95% of the estimated 2,320 two- and four-year colleges and universities provide web sites for distance education (Tabs, 2003). The NCES also reports that the largest high school class in U.S. history will graduate in 2009 (Tabs, 2003). College enrollment is expected to grow 16% over the next ten years. With the steady increase in enrollment of college-age students and the need to provide “lifelong learning” for older adults, many institutions report that they will have more students than their facilities can accommodate (Howell, Lindsay, & Williams, 2003). E-learner enrollment demographics tend to vary from institution-to-institution and even study-to-study which makes it difficult to correlate data. For example, Ali & Elfessi (2004) reported 93% of

their E-learners were in the 21-29 age group, 4.3% were under 20, and 2.1% over 40. In another report, there were more females (80.9%) than males (19.1%) with the majority of students (89.3%) being undergraduates. And yet in another study which was examining successful E-learner student profiles, student enrollment figures were reported using only two age groups: 22-35 (63.4%) and 36-50 (26.6%) and a female/male ratio of slightly less at 64%/36% (Blocher et al., 2002).

One particular piece of data that is consistently showing up in each study is the median age of the typical college student, the mid-thirties (Whiteman, 2002). E-learners are becoming a new subpopulation where adults represent nearly 50%. This subpopulation is “generally older, have completed more college credit hours and more degree programs, and have a higher all-college GPA than their traditional counterparts” (Diaz, 2002, p. 1). Blocher, de Montes, Willis, & Tucker (2002) also reported that the percentage of female and minority enrollments are increasing. These factors, age and gender, are the subject of yet another problem which has been associated with the higher attrition rates: technology. “As technology continues to grow in use and importance, it has become evident that women are falling behind when it comes to technology” (Holcomb, King, & Brown, 2004, p. 5).
Technology

Technology frustrations have been a major contributing factor in the E-learner attrition rate (Burton & Goldsmith, 2002; Benson, 2002; ION, 2003). In one study, 33% of the E-learners dropped out of the class due to technology frustrations (Hara & Kling, 1999). The purpose of Hara & Kling’s study was to determine whether frustrations inhibit educational opportunities and used students enrolled in a graduate-level online course designed to give a broad overview of computer-enhanced language learning. The study group was extremely small (six students) which brings into question its validity when comparing it to much larger studies. Two types of technology frustrations were identified: computer skills and technical support. These were well documented as the cause of the high student attrition. Other areas of frustration included lack of timely feedback from the instructor and ambiguous instructions.

In Valasek’s (2001) online student survey, confidence level and computer frustrations were two questions which validated student persistence. There were students with problems and frustrations but they stated that these were not impediments to their progress. To support this research in an indirect manner, a study designed to provide insight into “best practices” for delivering online instruction noted that “seventy-six percent of online students reported minor to major problems with the online technology” (Sunal, Sunal, Odell, & Sundberg, 2003, p. 9). These same students were polled and 57% reported that they would rather change to a traditional F2F classroom setting.

Intentions, Attitudes, and Learning Styles

The Illinois Online Network (ION), which consists of forty-eight community colleges and the University of Illinois, asks the following question on their website: “*What makes a successful online student?*” and then provides 10 qualities (see WEB URL) that they believe an E-learner should possess to be a successful in their system (Illinois Online Network, 2006). ION concludes with stating that online learning is not for all students and to be successful, the E-learner must have commitment. ION also provides extensive resources not only to the student but to faculty and staff alike. Another quality was the subject of a research study by Randall Davies (2003), “*Learner Intent and Online Courses.*” Davies used a combination of e-mail questionnaires and interviews over an eight week period and studied twenty students. He concluded that an E-learner must have intent: “an internal representation of a person’s beliefs, values, aims, as well as the reason and purpose for participating in the

learning activity” (Davies, 2003, p. 3) Although not part of the research, Davies noted that many students approached their online classes much differently than their F2F counterpart. They did not feel that the online course was as important as the traditional classroom, using terms such as “not a priority” and “quite easy,” and needing some sort of a time management tool. ION points out that a successful E-learner must have self-motivation and self-discipline. Margaret Martinez (2003, p. 4) points out that “emotion and intention to learn are powerful forces—on these two depend how well individuals purposefully manage information, plan, and set and accomplish goals.”

Using an online focus group research technique, Burton and Goldsmith (Burton & Goldsmith, 2002) wanted to understand how E-learners approached web-based learning and how their approach changes with experience gained over a two semester period. Their research with 75 students from 11 public and private institutions provides additional insight into the challenges that E-learners encounter. Their research revealed three challenges that continually surface in other studies: technical, intellectual, and discipline. Although the participant list was extremely small, Angela Benson (2003) found that learners moving from F2F learning to online learning are confronted with the same challenges as those reported by Burton & Goldsmith with one addition, course design. Benson suggests that these challenges should be used to design better online courses. In an article published online by the American Society for Training and Development (ASTD), Daniel Birch (2002, p. 1) pointed out three factors which influence an E-learner’s success: “management of the learning environment (self-directive competencies), interaction with the learning content (metacognitive competencies), and interaction with virtual learning facilitators and classmates (collaboration competencies).” This article was not written with educators in mind but for training managers and online courseware designers of companies providing training to employees in an online environment. It does, however, provide an excellent overview of those behaviors necessary for a successful E-learner.

Self-directive competencies include self-advocacy and self-reliance. An E-learner must be able to determine what information is important to learn and manage their time and learning resources (Birch, 2002). Lucy and Paul Guglielmino (2003) point out that an E-learner must be a “self-directed learner:”

A highly self-directed learner is one who exhibits initiative, independence, and persistence in learning; one who accepts responsibility for his or her own learning and views problems as challenges, not obstacles; one who is capable of self-discipline and has a high degree of curiosity; one who has a strong desire to learn or change and is self-confident; one who is able to use basic study skills, organize his or her time, set an appropriate pace for learning, and develop a plan for completing work; one who enjoys learning and has a tendency to be goal-oriented. (Guglielmino & Guglielmino, 2003, p. 29)

Summary

Obviously, high attrition rates affect the institution and the student. There are real financial ramifications for both. There is a need to understand the background and experiences of our students in order to provide an insight into why some students succeed and others fail, especially the E-learners (Weissman, 2002). In an article in the *Chronicle of Higher Education* in 2000, Laura Brady pointed out (as cited in Howell, Williams, & Lindsay, 2003, p. 1) that “no national statistics exist yet about how many students complete distance programs or courses, but anecdotal evidence and studies by individual institutions suggest that course-completion and program-retention rates are generally lower in distance-education courses than in their face-to-face counterparts.” A national study, such as this, needs to be undertaken but due to the sheer number of variables involved, is too large of an

undertaking for any one individual. Obviously, this is also a question of policy which adds additional variables to an already burdened research topic. In this authors mind, there are only two losers in this situation, the E-learner and higher education.

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For the Love of the Game and Family: Attendance in the Pioneer Baseball League

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Abstract

An attendance model is specified for the 2006 Pioneer (short season) baseball league. The attendance model includes city demographic variables, team performance variables, and dummy variables for the days of the week, month of the year, and for various forms of promotions. Attendance in the league is primarily driven by the success of the team, measured by win percentage, the excitement of games, measured by runs scored, and by family-oriented promotions. Religious and family values appear to be of prime importance to fans of this league, as Sunday attendance at games is significantly lower than other days and promotions related to alcohol led to large decreases in attendance at Pioneer league games.

Introduction

When the typical fan thinks of minor league baseball, many images come to mind. Often these images focus on creative promotions, post-game concerts, merchandise giveaways, and larger-than-life mascots. The game itself sometimes gets to be forgotten in the analysis of what makes a minor league baseball team successful. This begs the question of whether the performance on the field matters at all to the paying customers. Does the win/loss record make a difference, is the quality and excitement of play something that peaks fans' interests, or is attendance solely driven by promotions and non-game related factors?

Another important question is that if promotions and giveaways are of prime importance, what is the target audience in these minor league games? Is the audience college students or single men who may be swayed to attend the game by cheap food and beer? Is it children, who may ask their parents to go to the game to get the bobble head doll, hat, or mini-bat? Or is it families, who would like a wholesome experience, where they hope that their small children may enjoy the game without vulgar audience members, drunken patrons, and other distractions?

Although there are likely significant differences across leagues and regional areas, it is useful to take single sports leagues and examine the factors that influence their attendance. This research focuses on the Pioneer League. The Pioneer league is a so-called "short-season" league, where teams play from June through late August. The eight teams in this league are affiliated with Major League Baseball teams and their players are stocked from players drafted or signed by the parent squad. Short-season league teams are typically very young players who are getting their first taste of professional baseball. These players are typically either right out of college (given the advantageous starting time of this league – after the college season concludes) or are ex-high school players who currently reside at the bottom of the baseball food chain and are fighting for a chance to move up the minor league ladder. Short-season teams reside below class A baseball and the A-leagues are typically where successful players in the short-season leagues will progress over time.

The Pioneer League consists of teams in the American northwest. Teams are located in Montana (Billings, Great Falls, Helena, Missoula), Idaho (Idaho Falls), Utah (Orem and Ogden), and Wyoming (Casper). These cities are all relatively small by American standards and none of them host major league sports in any capacity. The closest major league teams to these cities, Seattle and Colorado (Denver), are far enough away that attendance at those games are not likely a reasonable substitute for Pioneer games on a day-to-day basis.

This research attempts to determine what factors impact attendance at a low-level minor league for these relatively small cities. A regression model is specified using common factors found in attendance modeling. The data set is relatively rich, as it contains information on all promotions and events for each game for each of the eight teams. These promotions and events are translated into dummy variables to allow for an estimation of their impact on attendance. The results are examined and explained for some commonality that relates to who the typical fan of this league tends to be and their preferences for the performance of the team, the excitement of the games, and the promotions and events they enjoy.

Economists have studied fan (consumer) behavior in relation to baseball through a variety of models. Independent variables included in existing models of baseball attendance include population, income per capita, star players, and recent success (Noll, 1974), televised games, quality of the team, and availability of substitutes (Demmert, 1973), expected probabilities of winning a championship (Whitney, 1988), salary structure (Richards and Guell, 1998), turnover in team rosters (Kahane and Shmanske, 1997), and impacts of interleague play (Butler, 2002; Paul, Weinbach, Melvin, 2004).

Nearly all studies of baseball attendance have been conducted for teams at the Major League level. The few studies of minor league attendance include Siegfried and Eisenberg (1980); Branvold, Pan, and Gabert (1997); Bernthal and Graham (2003); and Lee, Ryder and Shin (2003). As compared to the above studies, this inquiry is most like that of Siegfried and Eisenberg (1980) with a focus on regression analysis of actual attendance data, rather than factor analysis of survey data (Lee, Ryder and Shin (2003); Bernthal and Graham (2003)). Both Siegfried and Eisenberg (1980) and Branvold, Pan, and Gabert (1997) study home *season* attendance data for a sample of minor league teams collectively ranging in quality from AAA to rookie leagues. Our analysis differs from these in that we focus on attendance data for *each home game* of the 2006 season for all teams for which data is available in the Pioneer League.

We further extend the analysis by focusing on the effects of promotions on game-by-game attendance in the Pioneer League. Promotions have been considered in the baseball attendance literature almost since the seminal work on the topic in the 1970s. Siegfried and Eisenberg (1980), Hill, Madura and Zuber (1982), and Marcum and Greenstein (1985) represent early examples of attendance research that includes a binary characterization of promotions to indicate the presence of game-day specific price or non-price promotions. MacDonald and Rascher (2000) extended the analysis of promotions from what generally had been a binary characterization along the lines of major/minor promotions to include a continuous variable measuring the value of the promotional item. A more recent contribution by Boyd and Krehbiel (2003) extends the characterization of the promotion variables to include special events that contribute to the entertainment value of the game without being price or merchandise concessions.

The paper proceeds as follows. Section II presents the regression model and the results. Section III comments on the likely role of family and values seen in the regression results and section IV concludes the paper.

A Regression Model of Attendance for the Pioneer Baseball League

The data for this study was primarily obtained through the Pioneer League website on www.minorleaguebaseball.com. The website has a link for each team with the season results that includes the date of the game, the game outcome, and the final score. Data on promotions were obtained from the team website, found as a link on the same page on the Minor League Baseball website, under their promotional schedule. Missing promotional dates were kindly provided upon e-mail request of the authors from the teams themselves. Data on other sources are noted in the variable descriptions below.

The regression model used in this research is a simple Ordinary Least Squares estimation with per game attendance as the dependent variable. Although the model is run in levels, the model was also specified in logs without a change in the significance levels of the independent variables. Therefore, for ease of discussion, the results are discussed in level form to explain the results in terms of the number of fans affected. Each game of the 2006 season for each team is included in the model. Very few of the games in the sample were sellouts, so therefore a restricted dependent variable model was not necessary as attendance did not suffer from capacity constraints.

The independent variables fall into different categories. One category is the demographic data of the city/town. These variables include population and income per capita. These data were found on www.city-data.com, which presents demographic data for cities and small towns across the United States. Population is expected to have a positive effect on attendance. Income per capita, on the other hand, has been shown to have different results across studies of baseball attendance. Negative and significant results of income were found for major league attendance in Noll (1974) and Bruggink and Eaton (1996). Negative, but insignificant results were found in Coffin (1996). Demmert (1973) obtains insignificant results for income and major league attendance, while Seigfried and Eisenberg (1980) obtain a similar result for minor league attendance.

The second category of independent variables is related to the performance of the team itself. Win Percentage is calculated by taking the wins of the team and dividing it by the number of games played. This variable is calculated on a running basis per game and the win percentage going into the current game is used as the relevant observation for each data point of attendance. If fans prefer to see winning teams, this variable should have a positive and significant effect on attendance. Teams with higher win percentages led to an increase in attendance for Major League Baseball (Hill, Madura and Zuber, 1982; Rascher, 1996; Bruggink and Eaton, 1996; MacDonald and Rascher, 2000; Coates and Harrison, 2005). Previous studies of minor league attendance find no relationship between team performance and attendance (Seigfried and Eisenberg, 1980; Branvold, Pan and Gabert, 1997; Bernthal and Graham, 2003).

Another aspect of the game that fans may prefer to see is higher scoring teams. Teams that score many runs, or are typically involved in high-scoring games, may be more entertaining for fans to watch. Therefore, runs scored per game are included in the model as a proxy for excitement of the games themselves. Runs scored per game are calculated as a running average dividing the total runs scored by the number of games played. It should be noted that to win games, teams obviously need to score runs. Therefore, the dissemination of results is somewhat complicated by the multicollinearity that is likely to exist between runs scored per game and winning percentage. To account for this, an alternative regression specification is used where total runs scored per game, adding the runs scored per game and the runs allowed per game for the home team, is included as a proxy for expected excitement of the baseball game.

A third category of independent variables is the timing of the game, specifically, the day of the week and the month of the year of the game. The opportunity cost of fans' time is

very important and may vary significantly throughout the week depending upon work and other factors. Weeknights are typically more difficult draws for sports teams as most fans need to wake up early for work the next morning. These results have been explored before in Hill, Madura and Zuber (1982), Rascher (1996), and Bruggink and Eaton (1996). The months of the year may matter in this sample, even though league games are played in the summer months, as August usually involves back-to-school activities that could keep fans away from the ballpark.

The last category of independent variables addressed in this study is promotions. Promotions vary across teams and are arranged in many different ways. In looking at the lists of promotions for all of the teams, some fell into very neat categories, while others were a bit more difficult to label. In the end, the authors settled on the following categories, for which dummy variables were created to be used in the regression model: Food, Beer, Merchandise giveaways, free or reduced-price tickets, fireworks, concerts, group and family nights, and other events. Food promotions include either free food or reduced prices on typical baseball stadium fare like hot dogs. Beer promotions include either free beer or reduced prices on beer at the game. Merchandise giveaways include any item that was given to fans for attending the game such as caps, t-shirts, towels, bobble heads, trading cards, etc. There are likely differences between the quality of promotions, but given the sample size of one-year worth of games and the lack of significant differences when attempting to specify high-value and low-value promotions into dummy variables, a single variable for promotions was settled upon. Free or reduced-price tickets are just as the name describes. Fireworks signify post-game shows, typically on holidays or on weekend nights. Concerts are pre- or post-game concerts that are included with the price of admission. Group and family nights are themed-nights or reduced-price night for specific local groups (boy scouts, workplace, and churches) or for families. The dummy variable events are included for all other activities that do not fit into one of the above categories, such as run-the-bases nights, special appearances, etc.

The regression results are shown below for both possible specifications of runs scored (the proxy for excitement of games). Initial regression results indicated problems with heteroskedasticity within the data, therefore, White's heteroskedasticity-constant standard errors and co-variance adjustment is used in reporting the results. Coefficient estimates and their t-statistics are noted. *-notation is used to identify statistical significance at the 10% (*), 5% (**), and 1% (***) levels.

In relation to the first group of variables, the demographic variables, both population and income per capita have the expected signs in that they are positive. Only the population variable, however, is statistically significant. Larger cities do draw larger crowds in the Pioneer League. Although income per capita is shown to have a positive effect, it is not significant as the relatively inexpensive tickets for these games are not a deterrent for most fans in their decision to attend a game.

The team performance variables reveal some interesting results about the Pioneer League. Both the win percentage variable and the proxy for exciting games, runs scored in either capacity, are shown to have a positive and significant effect on attendance. The more often a team wins games, the more fans are attracted to the stadium. For each 1% increase in win percentage of the team, the number of fans attending the games increases by 10. Therefore if a team went from being a 0.500 team to a 0.600 team, the number of fans would increase by 100 (5% increase in average attendance).

In addition, the more runs that a team scores, or, the generally higher-scoring games in which the team is involved, the more fans that attend the games. Each additional run scored, on the average, leads to an approximately 21 more fans (about a 1% increase in average attendance). It appears that fans of the Pioneer League teams do care about winning and care about seeing scoring in the games that they observe. This means that, although the

team itself has limited to no control over their roster (the parent team provides the players), coaches who can help the team win or strategies that encourage more scoring will benefit these teams in terms of higher revenues.

The timing of the game variables revealed some interesting results as well. First, the monthly dummy variables were not significant. Given that all of the games are played during the summer, there is not a significant difference in attendance between June, July, and August, although attendance in July is the largest on the average. The days of the week revealed some expected results, as Friday and Saturday attracted the largest crowds and the midweek days (Tuesday, Wednesday, and Thursday) attracted the fewest fans. The most interesting results, however, come from the Sunday dummy variable. Sunday, being a weekend day, would typically be expected to attract larger crowds, particularly if games are played in the afternoon. However, Sunday had the lowest attendance across the sample by a significant amount. A likely reason why this result is seen, given similar results of other variables, is discussed in the next section.

The dummies for the promotional variables show that the attendance in the Pioneer League is not driven by events, giveaways, or other marketing approaches. The only positive and significant effect seen on attendance is from the group and family nights. These group and family nights increased attendance by nearly 240 fans (nearly a 10% increase over average attendance) and was found to be significant at the 5% level. The dummy variables for fireworks and food (free or reduced price) also had positive coefficients, but were not found to be significant.

The other promotional variables were all found to have a negative effect on attendance. Fans stayed away in droves from Beer-related promotions (discussed more in the next section) and also did not appear to like the concerts that were offered as both had significant negative impacts on attendance. Merchandise giveaways did not appear to sway fans either, as it also had a negative effect on attendance. This could be due to promotions being aimed at otherwise unpopular nights of games and could reflect that notion instead of fans not liking to receive free things. Events and free tickets could fit into the same category as these promotions may have been aimed at expected low-attendance nights, which the promotions were not able to overcome. Both variables had negative and significant effects on attendance.

The Pioneer Baseball League – Religion, Family, and Values

In interpreting the findings, one key factor appears evident in driving these results: the importance of the Pioneer Baseball League as an entertainment option for families in these cities. The biggest results that were revealed by the regression model, Sundays having a big negative effect on attendance, the dislike of the beer-related promotions, and the positive impact of family and group nights, all point to attendance at Pioneer League games being driven by local families with strong religious beliefs and family values.

Although it is possible that there are other factors that lead to the Sunday results, it is most likely that Sunday is a day dedicated to church and relaxation at home with the family. If people in this area of the country value family and religion in their lives, then attendance at the local baseball game is not a viable option for Sunday. The states in which Pioneer League games are played have most of the largest Latter-Day Saints (Mormon) population states in the U.S. Utah has 71.76% of the population which is LDS (1st in the U.S.), Idaho has 26.63% (2nd in the U.S.), Wyoming has 10.10% (3rd in the U.S.) and Montana has 3.58% (6th in the U.S.). The fundamental beliefs and values of the LDS population is likely a major contributor to these results.

This notion is reinforced by the fact that people in these areas stayed away in great numbers from beer-related nights at the stadium and also did not like concerts, which may promote something other than the values they hold dear. Couple these ideas with the result that family and group nights were the only positive and significant promotional variable to have an impact on attendance and it can easily be seen that the role of the Pioneer League in the entertainment possibilities of people in Montana, Idaho, and Utah is a family-related experience that must fit in with the religious structure in their lives for the games to be a viable entertainment option.

Conclusions

A regression model for the Pioneer baseball league is specified and estimated using game-by-game attendance as the dependent variable. The independent variables consisted of local demographic data (population and income per capita), team performance data (win percentage and runs scored), timing of the game (days of the week and months of the year), and promotional dummy variables.

The results show that Pioneer League attendance is driven by offering a good product (team success and greater excitement proxied by runs scored) and by being family- and morally-friendly. Families and religious values appear tantamount to success at the gate for these minor-league baseball teams in Utah, Idaho, Montana, and Wyoming. These states have the highest, and amongst the highest, Latter-Day Saints population in the United States. Family and group nights were the only promotional category to have a positive and significant impact on attendance. Attendance on Sundays was the lowest in the league, by a significant margin. This is likely due to church and other family activities at home. In addition, promotional activities that might conflict with family and religious values, such as free or reduced-price beer and post-game concerts, deterred fans from attending these games at highly significant levels.

It appears that teams that are successful in attracting fans for Pioneer League baseball games are the ones that are successful on the field, offer an exciting product, and appeal to the local religious and family values. This implies that it is likely that minor-league baseball is not a one-strategy-fits-all for the many leagues across the country. The teams and the league must know the local preferences of fans in order to be successful.

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Appendix

Table 1

Pioneer League Attendance Model – 2006 Season

Independent Variables	(1) Dependent Variable: Attendance	(2) Dependent Variable: Attendance
Constant	1117.5450*** (2.5763)	1119.8120*** (2.5641)
Population	0.0058* (1.8397)	0.0058* (1.8381)
Income Per Capita	0.0049 (0.4400)	0.0040 (0.3576)
Win Percentage	1009.778** (2.0541)	1113.6070** (2.2732)
Runs For Per Game	20.8288*** (3.1575)	
Total Runs Per Game		10.1632*** (2.8958)
Sunday	-752.9187*** (-3.7328)	-750.8327*** (-3.7111)
Monday	331.1042* (1.6898)	331.7690* (1.6885)
Tuesday	127.6996 (0.6345)	33.0701 (0.1659)
Thursday	127.6996 (0.6345)	128.3639 (0.6361)
Friday	380.5971* (1.8515)	381.2575* (1.8494)
Saturday	286.0486 (1.4036)	290.1537 (1.4191)
July	94.8641 (0.5800)	81.9093 (0.5003)
August	56.5546 (0.3443)	40.8719 (0.2487)
September	-211.5860 (-1.0112)	-229.9713 (-1.0985)
Food	63.0740 (0.3179)	63.6172 (0.3197)
Beer	-1047.166*** (-4.0664)	-1057.0230*** (-4.0952)
Merchandise	-375.8786*** (-2.5853)	-381.0933*** (-2.6145)
Free Tickets	-489.5455*** (-3.3359)	-492.2737*** (-3.3452)
Fireworks	226.1774 (0.8507)	225.2096 (0.8445)
Concert	-972.1349	-977.4655

	(-1.5291)	(-1.5333)
Event	-274.0559** (-2.0521)	-277.4162** (-2.0716)
Group/Family Nights	238.0805** (2.0781)	235.6535** (2.0514)
R-squared	0.3152	0.3116

Has the “Business Solution” Helped to Reduce Spiraling HealthCare Costs?

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Abstract

For nearly a hundred years scholars have advocated that the solution to rising healthcare costs lies in running healthcare as a business. In response to the call for a “business solution” several universities now offer MD/MBA programs. Business strategies that include joint ventures, hospital syndication, both horizontal and vertical integration and various competitive tactics are common in among today’s healthcare providers. Business savvy entrepreneurs are increasingly becoming rivals to established healthcare providers. Physician owned healthcare services and physician owned hospitals are steadily cao he

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Discussion

Free Market Assumption

Application of the open competitive market / free enterprise business paradigm supports the notion that healthcare is simply an extension of a free market economy. The healthcare industry is not structured to operate as a free market. There are four primary reasons that this is not the case which include unfunded charity care, price fixing, service providers who control demand for services, and lack of consumer information for informed decision making.

Historically, healthcare providers in the United States have primarily funded uncompensated and charity care through a process referred to as cost shifting. Under this system charges for medical services provided to insured and private pay patients are inflated to subsidize expenses associated with the delivery of uncompensated and under-compensated care.

As healthcare competition heats up along with escalating costs, hospitals, health systems, and physicians are under more pressure than ever to accept risk in the form of various capitation agreements from both private insurers and the government. Under these plans primary healthcare providers are paid a fixed fee based on the number of plan members under their care, or by diagnosis, rather than on the basis of services rendered.

One factor that differentiates healthcare from other businesses is that the primary provider (physician), rather than the consumer drives most of the demand for services. The physician controls demand for medical tests, surgery, prescription drugs, referrals, consults with medical specialists and course of treatment. In a traditional free market the consumer is armed with knowledge that is equal to that of the producer/seller of the product or services. Therefore, a consumer is able to make educated decisions regarding the services they are purchasing and is able to walk away and seek out a “better deal” or to “bargain” to keep the market honest. The problem in Healthcare is the lack of information that the consumer has in relation to the provider. Physicians who provide care are in position to have greater knowledge of the services that the patient does or does not truly need. Therefore, patients must rely on the knowledge of the service provider more than would be the case in a traditional free market where he or she could “bargain” for a service

Cost shifting, price fixing, suppliers controlling demand for their own services, and consumers who lack critical information for informed decision making are inconsistent with prevailing free market economic principles. Given these inconsistencies, should it come as a surprise that measures used to control costs based on free market solutions have largely been found ineffective?

Provider Income Pressures

Medical providers are experiencing downward pressures on profits resulting from increased expenses associated with medical practices, advances in technology resulting in the practice of “scientific medicine”, and pressures from third-party payers to reduce payments for medical services. The first consideration is increasing costs associated with practice operations.

Provider incomes are eroding today due to lower reimbursements, higher costs for malpractice insurance, administrative burdens, delayed payments for services and complex reimbursement procedures from insurers that require increased professional and clerical man hours, and frequently delay reimbursements (Kalogredis, 2004). One specific example of reimbursement pressure on physician incomes is an initial reimbursement reduction of 4.3%

for Medicare Part B charges in 2006, which will continue over a six year period, during which reimbursement reductions for Medicare Part B charges will total 26% (Sloan, 2005). Compounding the pressure of reduced reimbursement is the increasing number of people now receiving Medicaid. Employers are shifting medical care costs to providers and the public as is evidenced by the number of Medicaid recipients moving from 46 million to 52 million from 2001-2005. Reportedly half of the children of Wal-Mart employees rely on Medicaid programs intended for the unemployed and poor (Webster, 2006). Adding to income pressures from reduced reimbursements for physicians and hospitals are increases in medical practice costs are income reductions tied to a shift to more outpatient procedures and reduced length of stay for inpatient procedures. Much of this is a result of scientific and technological advances in medicine.

Scientific and technological advances in the practice of medicine have virtually eliminated the need for “exploratory surgery”. New medical diagnostic equipment, tests, and advances in medical and surgical equipment and processes have resulted in many procedures previously requiring lengthy hospital stays, being performed on an outpatient basis. Scientific and technological advances have also led to shorter lengths of stay for patients requiring inpatient hospital services. While scientific medicine has vastly improved the quality of care, it has also contributed to downward pressures on provider incomes. In addition to income pressures resulting from the increased utilization of science and technology in the practice of medicine, third party payers have also contributed to pressures on provider income levels (Broxterman, 2005).

Hospitals, health systems, and physicians are under more pressure than ever to accept risk in the form of various capitation agreements from both private insurers and the government. Under these plans primary healthcare providers are paid a fixed fee based on the number of plan members under their care, or by diagnosis, rather than on the basis of services rendered. According to Johnson and Egger (2000) the major failure of capitation programs to reduce the costs associated with healthcare delivery has been a failure to put physician specialists at risk in the same way that hospitals and primary care physicians are put at risk. New capitation agreements are designed to reimburse specialists based on the number or percentage of plan members under their care, or by diagnosis, rather than basing reimbursement on the number of procedures performed by the specialist as has been common practice with general practice physicians for quite some time. This system re-designed is intended to encourage specialists to practice less costly (less profitable) medicine. Given that practice costs are increasing, technology has reduced length of stay, and payers are adopting more comprehensive capitation systems – providers are seeking ways to protect their income levels.

In order to alleviate income pressures resulting from advances in the application of “scientific medicine” and pressures from third party payers the primary areas of private investment have been freestanding surgical centers, specialty hospitals and diagnostic centers. In response to this movement, many universities are now offering MD-MBA and MHA-MBA programs, preparing entrepreneurial physicians and medical administrators to seize new business opportunities. While this may create new opportunities for some, does it also contribute to escalating costs of healthcare delivery, as more physicians and hospitals are now involved in many new and evolving business opportunities?

Reactions to Income Pressures

Financial pressures resulting from attempts to reduce the costs of healthcare have resulted in providers showing greater concern for profit margins. There are many concerns regarding for profit investments in health care related services and facilities. A 1992 study in

Florida found that at least 40 percent of physicians in that state who were involved in direct patient care, had investments in a health care agency to which they might refer patients. (Mitchell & Scott, 1992). Areas of private investments include both diagnostic and therapeutic services often related to the primary practice of the participating physician or physicians. Specific diagnostic areas where physician investments are common include freestanding laboratories, diagnostic imaging centers (CT scanners, MRI units, ultrasound units and radiology centers) mobile heart catheterization laboratories, and endoscopy centers. Physicians also frequently invest in therapeutic services such as ambulatory surgery centers, minor emergency rooms, dialysis centers, alcohol and drug abuse treatment centers, physical therapy and rehabilitation services, prenatal nutritional centers and radiation therapy centers. Other investments which are common among physicians include home health agencies, durable medical equipment suppliers, outpatient infusion therapy services, and nursing homes (Anonymous, 2004). A study by the American Health Standards Group (Speak Out on Doctor Owned Services, 1995) determined that there was an increase in orders for services of over 40% when the physician investor held a financial stake in the service being administered and charges per patient more than doubled.

Some for profit hospital chains see hospital syndication with physicians as a strategy to reduce competition from physician owned facilities, and to improve utilization of facilities. Syndication of hospitals with involvement from hospital systems, physicians and community investors are growing in popularity. According to David Rankin MD, "Costs are going up and insurance payments are going down, so the squeeze is on physicians. Most physicians see this as a way to increase their income." (Galloro, 2006 p.10)

Concerns about kickback transactions have arisen when physicians have partnered with outside sources of capital (hospitals or organizations) to form hospital joint ventures in which others provide the majority of the financing, and physician partners who provide services at the facility receive an even split of profits. In these cases it seems as if there is an implicit or explicit agreement that physicians will do the majority of their referring within the organization in exchange for an even split of hospital profits. These alleged kickback cases are however difficult to prove beyond a "reasonable doubt." (Salcido, 1996)

One concern, especially tied to investments by physicians in freestanding outpatient surgical centers and specialty hospitals is the erosion of community based full service hospitals ability to provide charity care. The Texas Healthcare Association's "Report on Limited Service Providers" illustrates the disparity in services provided by full service community hospitals and limited service health care centers. This study found that limited service investor-owned businesses selectively admit healthier and better reimbursed patients – a process commonly referred to as "cherry picking". Patients who are less healthy and in addition to the primary diagnosis associated with admission present with co-morbidity factors such as coronary problems, morbid obesity, respiratory problems, and diabetes are more likely to be admitted to full-service community based facilities. Under the current system which often involves capitation, a single fixed rate is reimbursed by primary diagnosis, so it more profitable for healthcare facilities to avoid admitting patients who are "high risk". The primary care of these patients is more costly to deliver and the potential liability risk is greater for less healthy patients. Thus "cherry picking" by admitting physicians could increase profits for limited service facilities at the expense of full service hospitals supported by the community. In addition to shifting profits to investor owned specialty facilities by patient selection, the offering of limited or no emergency room services may increase the profitability of specialty facilities at the expense of full service community based hospitals..

Because the emergency room provides a gateway to health care for the indigent, much of the uncompensated in-patient care delivered by full service community hospitals is originated by emergency room admissions. A study conducted by the American Health

Standards Group found that limited service healthcare centers deliver significantly less emergency care and access to the emergency department by offering a limited range of emergency services, or in some cases no emergency department. Full-service hospitals within the American Health Standards Group study had an average of 14,760 emergency room visits per year or 40.4 visits per day, compared to an average 480 emergency room visits per year or 1.3 visits per day for physician-owned limited service hospitals that offer some level of emergency services (Speak Out on Doctor Owned Services, 1995).

While physician investments in freestanding surgical centers, specialty hospitals, diagnostic and therapeutic services are understandable attempts to protect and increase income levels among physicians, these practices also raise numbers of questions. The question here is whether tests are ordered more frequently by physicians with personal financial interest in the facility providing these services because of financial interests, or is a higher level of care being administered because tests in these facilities are more easily scheduled, feedback is received more rapidly, or because patient inconvenience is minimized? Regardless of the motivation of provider investor, the result is increased healthcare costs.

Discussion

There is little argument that the increasing cost of healthcare is a major national problem. Under existing payment structures, much of the costs associated with providing care for the uninsured and indigent are shifted to existing payers, taxpayers, and communities. As costs of care and the number of uninsured grow, health insurance costs rise. As health insurance costs rise, fewer businesses can afford to provide medical coverage to employees, fewer employees are able to afford their share of insurance premiums, and fewer of the self employed are able to afford health insurance coverage. The existing structure, which transfers costs for treating the indigent and uninsured to private payers, is no longer working. Cost shifting now acts to reduce the number of payers, provide financial incentives to care providers that target profitable patient populations, and increase the total number of uninsured. Rather than focusing on retaining a system that is failing, perhaps developing a new model is the answer.

It is clear that encouraging a “bottom line” focus is not the answer. It has been reported that reductions in Medicare payments have largely been offset by providers who increase the volume and intensity of claims in response to reduced payments (Kahn, 2006). Those facilities that focus on the “bottom line” can make tremendous profits. A report to Congress revealed for example that an advertisement to select physicians by a surgical hospital promised earnings of \$55 million on a \$4 million investment over a six year period (Kahn, 2006). These profits directly reduce funding for facilities that provide the bulk of uncompensated care in local communities. Competition of this nature drives up the general costs of healthcare because uncompensated care must still be delivered – but funded by other means.

Perhaps, rather than trying to control providers, through additional taxes, legislation to limit their growth, and building barriers to restrict their success, efforts should be made to partner with them for mutual benefit. Providing financial incentives to providers to enlist much needed intellectual capital in the quest to design a system that delivers high quality and affordable health care to the population of the United States may hold some promise. In developing solutions for a failing healthcare system much research will be required.

Areas for continuing research should include the examination of practice strategies employed by cost effective providers and provider organizations, and the assessment of opportunities to transfer these skills to other healthcare providers. Another area for future

research is the evaluation of current governmental regulations and controls, to determine which regulations and controls support and which hinder efforts to provide high quality / high value healthcare to our population. It is suggested that research and cooperative efforts are central to the development of a healthcare system capable of providing for the needs of all our citizens now and in the future. It appears that after more than one hundred years of attempting to apply principles from free market economics to escalating healthcare costs with little if any progress, perhaps the development of a new paradigm or frame for the problem is an appropriate place to start.

Conclusion

Reducing reimbursements, managed care concepts, new technological developments, and an increasingly competitive environment in healthcare have done little to slow the escalation of healthcare costs in the United States. Having pressured providers to reduce patient lengths of stay, integrate more technology in the practice of medicine, accept capitation of payments, while facing increasing costs associated with operating their organizations; should it be surprising when providers seek ways to protect and increase their incomes? The economy in the United States is based on the philosophy that open competition and free market forces result in the delivery of higher quality / higher value products and services to consumers. Unfortunately, open competition and free market forces cannot fully be applied in the healthcare industry.

New providers are challenging the established health care delivery system in this country. There are basically two alternatives available which are; enlist the aid of providers in designing a more effective and efficient health care system, or seek to protect the current system that is currently in crisis. Regardless of the alternative chosen, creating incentives to engage providers will pay a pivotal role in controlling costs and in shaping the health care delivery of the future in this country. The likelihood of significant improvement in the current health care delivery system may well depend on our ability to develop appropriate mental models for dealing with this industry, and in working jointly with providers toward high quality / cost effective solutions.

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Customer Relationship Management Strategies for African American Consumers

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Abstract

As a result of the widely publicized fact that the African American market has significant buying power, many businesses have begun to design strategies to capture some this buying power. Many of the businesses targeting African American consumers desire to develop and maintain long term relationships with them. This paper will address the applicability of some conventional customer relationship management strategies to African American consumers. Additionally, this paper attempts to provide an understanding of the buying behavior, media preferences, and consumption patterns of African American consumers.

Introduction

According to the Selig Center for Economic Growth of the University of Georgia, the African American consumer market is the largest minority market with buying power of \$799 billion in 2006. African American buying power is projected to increase to \$1.1 trillion in 2011, a 237 percent increase over the last 22 years. This increase outstrips the 175 percent increase in white buying power and the 190 percent increase in total buying power (Humphreys, 2006). To put the buying power of African Americans in perspective, African Americans are the 11th largest consumer group in the world (Liss, 2003). In addition to the enormous buying power, the prospects for growth appear almost unlimited. As African Americans continue to close the gap in education, there will be ongoing improvements in buying power. A record 8 in 10 African Americans age 25 or older have graduated from high school, and 17 percent have achieved at least a bachelor's degree (Ahmed, 2003).

For many years, the African American market was largely ignored in terms of special marketing initiatives or assumed to be homogenous to the majority market. As many market segments in America have become saturated, many enterprises have sought out new growth opportunities. Armed with meaningful conceptual and empirical research regarding the African American market, many enterprises have implemented strategic marketing initiatives to capitalize on opportunities with African American consumers.

A significant amount of credible research indicates that the buying behavior of African American consumers is quite different from other ethnic groups. Such differences are reflected in consumptions patterns, media behavior, and consumer values. Additionally, research shows that the African American market is far from homogenous. Within the African American consumer market, there are very large differences in the allocation of disposable income (Fan and Lewis, 1999).

The Fundamentals of Customer Relationship Management (CRM)

In its most generalized form CRM can be thought of as a set of business practices designed to put an enterprise into closer and closer touch with its customers in order to learn more about each one and to deliver greater value to each one, with the overall goal of making each one more valuable to the firm. It is an enterprise wide approach to understanding and influencing customer behavior through meaningful communications to improve customer acquisition, customer retention, and customer profitability (Peppers and Rogers).

“The critical business objective can no longer be limited to acquiring the most customers and gaining the greatest market share for a product or service. Instead, to be successful in the era of interactivity when it is possible to deal individually with separate customers, the business objective must include establishing meaningful and profitable relationships at least with the most valuable customers, and making the overall customer base more valuable.” (Peppers and Rogers)

Study after study has confirmed the correlation between enduring customer relationships and profitability. “Ford Motor Company estimates that for each percentage point increase in customer loyalty--defined as how many Ford owners purchase a Ford product the next time--creates at least \$100 million in additional profits annually. MBNA, a credit card issuer, determined that reducing customer defection rates by 5 percent increases the lifetime profitability of the average customer by 125 percent.” (Hitt, Ireland, and Hoskisson)

Consumption Patterns of African Americans

African American consumers represent significant sources of profits in a number of product categories. Included among the product categories in which African Americans consume a disproportionate share of all products are apparel, hair care and cosmetics, fast-foods, alcoholic beverages, tobacco products, fuel, utilities, and luxury automobiles.

“Blacks are the most fashion-conscious of all racial and ethnic groups. In fact, 34 percent of black consumers say they like to keep up with changes in trends and fashion, compared with 28 percent of Asians, 27 percent of Hispanics, and 25 percent of whites.” (Fetto and Gardyn, American Demographics, Feb 2003). African American households allocate a higher budget share to apparel products than all other ethnic groups. On average, the budget share difference is about 22 percent between African Americans and Asians, 6 percent between African Americans and Hispanic Americans, and 20 percent between African Americans and Caucasian Americans (Fan and Lewis).

African American households spend more on fuel and utilities, compared to Asian Americans, Hispanics, and Caucasian. On average, the budget share difference is about 30 percent between African Americans and Asian Americans, 23 percent between African Americans and Hispanics, and 19 percent between African Americans and Caucasians. Additionally, at higher levels of income, African Americans allocate more of their income to transportation (automobiles) than Asian Americans and Caucasians (Fan and Lewis).

African Americans have historically been heavy consumers of hair care and cosmetic products. Although African American consumers are 12 percent of the population, they spend more than \$1.7 billion on hair care product-- or 30 percent of all hair care products sold (Drug Store News, August 18, 2003).

Shopping Behavior of African Americans

In addition to the tremendous buying power of African Americans, organizations find their shopping behavior attractive. African American consumers appear to be shopping more and enjoying every minute of it. This shopping behavior is contrary to that of other ethnic

groups. African Americans are the most likely of all racial and ethnic groups to be willing to travel an hour or more to shop at their favorite store and almost twice as likely as the average consumer to go out of their way to find new stores, especially if a bargain is to be had. A Simmons study found that 34 percent of African American respondents will travel an hour or more to shop at a factory outlet store, compared to 27 percent of all consumers. African Americans simply enjoy shopping, even for something as mundane as groceries (Fetto and Gardyn, American Demographics, February 2003).

Where African Americans prefer to shop and their motivations for shopping seem to be somewhat different from that of other ethnic groups. Discount department stores are the most popular retail outlets for virtually all Americans, including African Americans. However, African Americans are a little less likely than their counterparts to admit that they shop at stores like Wal-Mart and Kmart at least once a month. Seven of ten Caucasians say they go to discount stores at least once a month, compared to six of ten African Americans (Fisher).

The difference in shopping behavior regarding discount stores can probably be attributed to the propensity to favor upscale department stores. African Americans are significantly more likely than Caucasians to say they shop at department and specialty stores once a month or more, at 41 percent and 30 percent respectively. In contrast, 32 percent of Caucasians say they frequent department stores, and 19 percent frequently shop in specialty stores (Fisher).

African Americans' decision regarding where to shop is affected by a number of factors such as price, location, and merchandise. However, a major study discovered that for African Americans, the second most important factor regarding where to shop is respect. Feeling respected as a customer is a key to African American shoppers. Many report being ignored, watched, and not feeling welcome in stores. They want more than low prices; they are looking for a pleasant shopping experience (Fisher).

Media Preferences of African Americans

Many African Americans do not rely on mainstream media as a primary source of information. "Many black readers do not trust mainstream dailies and feel that these newspapers have traditionally been less than fair in their reporting on the African American community. Amalgamated Publishers, Inc (API) released data from its study of black newspaper readers which show 87.6% of readers who read black newspapers regularly do not regularly read mainstream daily newspapers." According to Dorothy Leavell, chairman of API, "If you want to reach and motivate the black consumer, you must utilize black newspapers (Target Market News, July 28, 2004).

Another study done by African American Market Groups (AAMG) corroborates the position of Dorothy Leavell. According to the AAMG study, when it comes to trustworthiness in the media, African Americans tend to place the bulk of their faith in media sources owned and managed by African Americans. The publications with the highest rating for credibility were black magazines like Essence and Ebony. The second most reliable source for product information was Consumer Reports (Holden).

Study after study has shown that African Americans are avid watchers of television. African Americans watch about 20 hours more per week of television than non-African Americans. African American women watch even more, about 25 hours per week. Weekly ratings show that the television viewing behavior of African Americans is distinctly different from the general population. The top 20 TV shows for African American viewers are different from the top 20 shows for the general population. African Americans' affinity for TV is also manifested in how their entertainment dollars are allocated. They spend about \$3

billion a year on cable TV bills. In fact, the largest portion of the average African American's entertainment dollar goes toward their cable bills (Liss).

"Most research on the use of both black and white models in integrated ads for general coverage media advertising has shown that both races react favorably to such ads, although one recent study of print indicates that blacks considered "black only" ads to be more realistic, stimulating, and indicative of their social reality." (Loudon and Della Bitta). Blacks have distinctive ways of looking at ads. They tend to view advertising as doing two things—selling the product and contributing to the overall process of building the image of black people in general. The use of black celebrities is one way to develop effective promotion programs. A study found that 49% of blacks surveyed said they would more likely purchase a product featuring a black as representative (Loudon and Della Bitta).

Customer Retention Strategies

This section of the paper will examine conventional customer retention strategies and apply them to the African American consumer market.

An effective **Welcome Strategy** is critical to initiating a relationship with African American consumers. A welcome strategy acknowledges the organization's appreciation for the initiation of a relationship or for the exchange. As cited earlier, many African Americans have reported in focus groups and others studies that they have encountered indifference and disrespect from customer-contact employees in a wide range of enterprises. A study conducted by Aincough and Motley (2000) found anecdotal evidence of disparate treatment of customers in retail stores. Their study indicated that blacks wait longer for customer service than whites and that males wait longer than females. Additionally, the findings also suggested that African American customers are more likely than white consumers to believe that sales clerks exhibit in-group preferences. Any enterprise that hopes to get, keep, and grow African American consumers must create an environment that is welcoming.

A welcoming environment for African American consumers has to include a diverse workforce. Diversity among the customer-contact employees is vital. African Americans seem to find environments more inviting that have African American employees in meaningful positions. Mutual of New York (MONY) devised a strategy to build relationships with African American consumers. The company found that these consumers prefer approaching members of their own ethnic group with questions and concerns rather than others. As a result, MONY hired a significant number of African Americans for sales positions (Gray, Black Enterprise, July, 1997).

In addition to having a diverse workforce of customer contact-employees, all customer contact employees must receive proper training and compensation along with clear service quality specifications. According to Patrick Kiger, it is paramount that organizations ensure that their customer service employees are happy if they hope to keep customers satisfied. Service quality experts believe that customer service employees tend to model externally the treatment they receive from their organizations. Additionally, Kiger said organizations should focus on educating its customer service associates to use what he calls "elegant language", words and phrases intended to create a tone of courtesy, respect, and attentiveness to details (Kiger, Workforce, May, 2002).

A **Reliability Strategy** is designed to ensure that customers consistently receive quality products, along with frequent reminders of the fact that the products or stores have served them well over the years (Zikmund, Mcleod, and Gilbert). African American consumers are no different from others in that they want consistent quality in the products that they purchase. Consistent quality that meets the expectations of African American consumer is paramount to retaining them as consumers.

Promotions targeting African American consumers must meet certain criteria. The media chosen to reach these consumers should be seen as credible. African American consumers find media outlets owned and operated by members of their ethnic group to be more credible (Holden, American Demographics, October 1998).

Promotions used to remind African American consumers of how well a brand/enterprise has served them should include African American models in ads. Using black models is considered a sign that the advertiser has respect for, and is committed to the black consumer. The research shows that blacks will generally notice black models even in integrated ads, and their reactions are similar to ads with all black models. Consequently, all black ads and integrated ads are equally preferable (Harris, Marketing News, July 22, 2002).

According to a study done by Yankelovich Partners, 89% of African Americans said they were more likely to patronize a brand they believe was marketed directly to them and was giving something back to their community (Kinsman, Primedia Business Magazine and Media, February, 2002). Giving back to the community may include activities such as sponsoring cultural programs, supporting educational initiatives, and purchasing goods and services from minority suppliers.

A Responsiveness Strategy endeavors to convey to customers that the organization cares about their needs and feelings. Many marketers use internal marketing to achieve the objectives of their responsiveness strategy. Through internal marketing, organizations help employees appreciate their role in being responsive to the needs of customers

In order for a responsiveness strategy to enhance the retention of African American consumers, the customer-contact employees' training should include a segment covering cultural sensitivity. There is a long list of examples of faux pas committed by well-meaning customer-contact employees. Including sensitivity training in the training program should make customer contact employees aware of some of the nuances of African American consumers. Additionally, customer-contact employees should be made aware that some black consumers seem to feel that other ethnic groups receive better marketplace treatment. Notwithstanding how some blacks feel about marketplace treatment, enterprises can capitalize on the situation by creating "customer delight." Customer delight is created when enterprises provide benefits greater than what customers expect (Rademeyer, Finance Week, June, 2004).

All employees should be made aware of the importance of African American consumers to their enterprise. African American consumers are major purchasers of a wide range of goods and services, and as some studies have suggested, tend to exhibit high levels of brand and store loyalty. Additionally, the evaluation and compensation systems for customer contact-employees should include a customer service component.

L'Oreal is the leader in the African American hair care market. L'Oreal attained its leading position by acquiring two of the oldest and largest black owned companies, Soft Sheen and Carson Products. To solidify its leading position, L'Oreal opened the L'Oreal Institute for Ethnic Hair and Skin Research. This research institute is the first to focus on the skin and hair needs of African Americans. The establishment of a research institute demonstrates L'Oreal's care and concern for the needs of African American consumers.

A Personalization Strategy makes use of the organization's CRM system to tailor promotions and products to specific customer groups. Organizations should make use of CRM technology, marketing research and data mining to develop an understanding of African American consumers. With an understanding of their needs, organizations can provide the appropriate customer service, products, and promotional programs. As shown by the study done by Yankelovich Partners, African American consumers respond favorably to brands that are marketed directly to them (Kinsman).

AOL, the Internet service provider with the largest number of black customers, introduced its first service product specifically for its black consumers. AOL launched AOL Black Focus to address the unique online needs of black consumers. AOL Black Focus includes information on a wide range of topics of interest to black consumers.

Tailoring promotions includes selecting the right media mix to reach the various groups of African American consumers. Many enterprises that target African American consumers partner with African American media organizations to ensure that they design the right messages and select the appropriate media. Included in the media mix should be black-owned TV stations and local black owned newspapers since these ranked the highest for information trustworthiness (Holden, 1998).

It is also important to have the right product endorsers in media promotions because the African American market is far from homogenous. Hip-hop artists are extremely effective endorsers of products marketed to younger African Americans. However, these artists do not command the same level of effectiveness with older African American consumers (MacArthur and Chura).

Sales of beverages, apparel, and movies have skyrocketed as a result of hip-hop artists touting them in their music and in ads. According to a recent study by Washington, D.C.-based New Media Strategies, 60% who consider themselves hip-hop fans said they are more likely to see films or buy products that feature or are endorsed by their favorite artists (Hein, Brandweek, September, 2003).

A **Recognition Strategy** refers to special attention or appreciation that identifies someone as having been known before. Recognition and appreciation help maintain and reinforce relationships. According to John Czepiel, a marketplace relationship is the “mutual recognition of some special status between exchange partners.” For a relationship to exist, the customer has to feel the existence of the “special status.” When customers are made to feel special, that special feeling derives from how well the customer is treated, what she goes through, and ultimately how she feels about dealing with an enterprise (Peppers and Rogers, 2004).

Organizations can ensure that African American consumers perceive a “special status” in a variety of ways. Organizations should utilize the technology component of CRM to recognize special occasions in the lives of African American consumers such as birthdays, marriages, and births. Although the research is mixed on the effectiveness of loyalty or rewards programs, organizations should find creative ways to use loyalty programs to make African American customers feel special and appreciated.

A marketplace environment that exudes warmth, friendliness, and fairness seems to be paramount to African American consumers. Organizations must ensure that African American consumers are treated well and feel appreciated if they hope to sustain a relationship with them.

Conclusion

The buying power and the buying behavior of African American consumers combine to make the African American market very attractive to enterprises that promote CRM. To get, keep, and increase the lifetime value of African American consumers, CRM strategies must be adapted to needs of these consumers. To make the appropriate adjustments, one has to have a profound understanding of African American consumers. Organizations can gain this understanding through ongoing research, adopting the interactive technology component of CRM, data mining, and partnering with African American owned enterprises. With this understanding, enterprises can design retention strategies that will enhance the lifetime value of African American consumers.

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Wal-Mart Cutting Edge Marketing Strategy: It Is Advertising Slogan of “We Sell For Less” Have Hidden Cost to Consumers

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Abstract

Wal-Mart is a publicly traded company but very private in its business dealings with suppliers, manufacturers and the public. That is why it is practically impossible to get empirical data that would allow marketing researchers and consumers to track the marketing influences of Wal-Mart. Worst still, neither Wal-Mart nor its vendors are interested in sharing information and details with the public and marketing researchers.

This study attempted to provide evidence of Wal-Mart's pricing compared to its competitors. We found Wal-Mart to be practicing product pricing cannibalization, if not a predatory pricing practices. Still, consumers do not realize that they have **hidden cost** in addition to the ticket price for regularly shopping at Wal-Mart. This includes all shopping items from clothing, shoes, groceries and electronics. Therefore, contrary to the popular consumers' opinions, Wal-Mart does not practice “**everyday low prices**” nor does the store “**sell for less**”. Simply stated, Wal-Mart stores are not the cheapest among similar retail stores. However, further empirical research on Wal-Mart competitive pricing and its influences on consumers are highly recommended.

Introduction

Wal-Mart, U.S. based corporation is the world's largest retailer. As a global corporation, Wal-Mart is bigger in assets and revenue than Exxon, Mobile, General Motors and General Electric. The scale and estimates is impossible to present in this paper accurately. However, Wal-Mart sold over \$244.5 billion worth of merchandise last year. In its assortments of general merchandise and recently in groceries, Wal-Mart is a “Category Killer” in retailing. As we speak, it does more business than Target, K-Mart, Ross, T.J. Maxx, Safeway and Kroger combined. Wal-Mart is powerful as a retailer and referred to in this paper as a “Category Killer” because of its marketing strategy focusing on advertising slogan i.e. “We sell for less” and “Always low Prices”. Despite its competitive advantage and sales edge over other retailers and grocers, the true story of Wal-Mart marketing practices and behavior (equity in pricing or sometimes more expensive in some consumers' goods) are never told to the consuming public.

In addition, Wal-Mart deception to suppliers of merchandise to its stores, by giving the impression to manufacturers that the discounts they get, are spillovers to consumers (customers) in their practices of “everyday low prices” or that they “sell for less”. That pressure of securing low cost of merchandise without actually extending the cost benefits to customers has made Wal-Mart unstoppable in their competitive advantage over other retailers. This market behavior and practices of Wal-Mart is what this author refers to as “Hidden Cost to Consumers”. Over the years, that has been a floating marketing strategy for Wal-Mart, and it has been so successful marketing practices.

Wal-Mart exercises its aggressive retail power over suppliers as stated earlier primary to bring the lowest possible prices to its customers. But at Wal-Mart, that marketing objective

is a myth. Yet, Wal-Mart has clear policy for suppliers and manufacturers. That is “the price Wal-Mart will pay to carry their products must reduce year after year (modified reorder pricing policy).” But, what no one outside Wal-Mart top management or establishment do not know, is the true cost to carry and supply those low prices of merchandise they stock in stores. This shows that Wal-Mart has the marketing power to squeeze profit killing concessions from suppliers and vendors alike.

The implications of such demands on manufacturers, suppliers and even in closing U.S. plants, in favor of outsourcing products from overseas (China, Mexico, S. Korea, etc) is beyond the scope of this paper. This work will empirically show that Wal-Mart’s marketing power (advertising) messages of “Always Low Prices” and “We Sell for Less” is not real or at best advertising myth.

Indirect Economic Losses to Consumers

Even though, U.S. companies have been moving jobs overseas long before the emergence of Wal-Mart as a “Category Killer”, Wal-Mart has surely accelerated the pace of American job loss to low wage countries such as China. Wal-Mart initial marketing penetration strategy was “Buy American” during late 80’s and early 90’s.

Now, Wal-Mart is the champion of importers among American Cooperation’s in the past five years buying some \$12 billion in merchandise in 2002 from China. That was nearly 10% of all Chinese exports to the United States (Fast Company, 2003). Wal-Mart has again dominated Chinese imports to the U.S., through its economic volume purchasing power. Wal-Mart is so big and so centralized that it can connect Chinese manufacturers and suppliers into its digital channel system. As a result, Wal-Mart supply chain is quicker than other retailer channel system, thereby making these retailers incapable to compete with Wal-Mart.

By continuous patronage and loyalty to Wal-Mart, “Americans are shopping themselves out of jobs or full employment.” But there is no question that doing business with Wal-Mart can give a supplier and manufacturer a fast increase in sales and market share. That is why McKinsey & Co. study concluded that about 12% of the U.S. economy’s productivity gains in the second half of the 1990’s could be traced to Wal-Mart alone.

Now in the year 2000 plus, it is an accepted economic fact that Wal-Mart makes the vendor companies it does business with more efficient, focused, leaner, faster and profitable. Despite the hidden cost associated with Wal-Mart merchandise and what customers pay at the check-out points, Wal-Mart is popular for continuous improvement in its ability to handle, move, and track merchandise for the ultimate satisfactions of the customers. Wal-Mart expects the same standards of its suppliers.

Above all, the public image Wal-Mart projects (“We Sell for Less”) may be accommodating and customer friendly, but there is nothing genial about the marketing concept and process by which Wal-Mart gets its suppliers to provide its assortments of merchandise (tooth pastes, deodorant, bicycles, tires etc) at everyday low prices. No matter the damaging concessions imposed on suppliers and manufactures by Wal-Mart, Wal-Mart in its defense called the practice “Relationship Marketing” ideas.

This section concludes by saying that studies have shown that most companies and their executives admit that supplying Wal-Mart with goods is difficult, and unpleasant, but there are positive business results at the end. In other words, Wal-Mart is a necessary evil channel member for supplier, manufacturers, and even consumers.

Research Design

This research is designed with the basic premise that Wal-Mart failed to contrasts low prices of merchandise supply with high cost sale to consumers. Therefore, we conducted a comparison shopping of selected merchandise items compared in prices qualities, values and name brands with other chain stores in Albany metropolitan area. Graduate students (MBA students) were instructed to conduct “window shopping” these stores with similar products, brands and quality for equity in pricing. But the primary factors of interest were differences in pricing of the items. Similarity of quality, end use and branding determines the commonality and competitiveness of pricing, when match with Wal-Mart prices. Reliability and credibility of the data collected are evaluated based on the above factors. It took a semester of 14weeks to complete the shopping simulations and coding the results. No survey was conducted. It was “real time” data collection approach, by real time window shoppers.

Procedures

The methodology of the study was based on data previously collected through literature, but analyzed in different setting, from the focus of this paper. Much of prior consulting with stores sales associates was done by the researchers as a foundation for the study. The students were instructed what to do in the field based on the variables shown in the research model (see figure 1, below). The responses were evaluated to determine the relevance of the factors and the dependent variables--competitive pricing. This study adopted descriptive statistics, paired t-test and correlation analysis as found appropriate in analyzing the data. Summary statistics are calculated for information sharing and in reaching conclusions of the study. Tables and charts are provided for illustrative purposes and documentations in absence of research hypothesis and questionnaires design for the study.

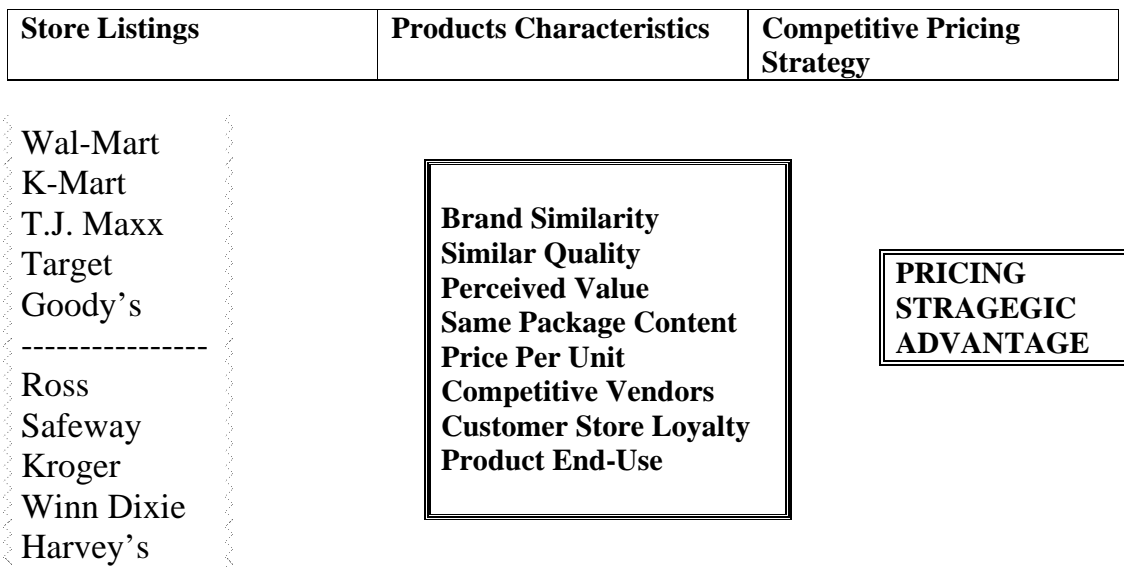
Respondents Profiles

A total of 35 graduate students and 25 undergraduate (marketing majors) were employed to conduct the “window shopping” exercises. All the respondents (60 students) provided usable data for analysis. They are registered students at Albany State University, College of Business. The students had no direct contacts with the managers and sales associates of the stores. This was to avoid undue influences and biases.

Research Model

It is the intent of the researcher to determine which store is actually cheaper for consumers to do their regular shopping. Consumers also wanted to know which stores are cheap and customer budget friendly, and still provide product quality for the money to consumers. Other similar store pricing comparison with Wal-Mart pricing is critical empirical factor in the study. Figure 1, below shows the research model. Stores studied and consumer products assortments are provided in the model as the significant variables for the study.

Figure 1: Factors that determines an edge among Stores Pricing Strategy



Results

The frequency distribution of the stores and list of independent variables and the dependent variables are provided under Table 1 as well as in figure 1 above. The frequency of number of students who participated in the study is also shown in Table 1 below as respondents.

The store listings are similar category with Wal-Mart. Most of the stores including Wal-Mart have formed “chain stores” and located throughout the fifty states of the U.S. The stores that do not belong to the main stores described above, is Safeway, Harvey's, Winn-Dixie, Dollar General and Kroger who are groceries chain stores. These are included in the study, because of the expanded mass merchandising status of Wal-Mart (super center). Also for the fact that Wal-Mart is doing very well in the groceries strategic business area of Wal-Mart Corporation.

The independent variables were predetermined by the researcher, in order to provide source of commonality among the stores i.e. to avoid comparing apples with oranges. It also gives us a true sense of the competitive pricing among the stores. This is to determine which store thus have “pricing strategic advantage” for the possible research conclusion.

Table 2 shows the comparative pricing among chain stores like Wal-Mart. In this table, Wal-Mart showed just 27% of the total product listing as the cheapest store. In fact Ross Store showed that its prices are far much cheaper than Wal-Mart and other competing stores (55% of the total product listing). Ladies hats showed extremely low price from K-Mart. This tells us the price listed is out of the total price range of the items.

In table 3, the same price comparison is made. This time among groceries stores. Wal-Mart is included because of it new business strategic area, known as “Super Center.” Even in the groceries business, Wal-Mart does not carry cheapest prices among the products items sampled in the study. Dollar General carries the average cheap prices, when compared with other groceries. Again, Wal-Mart prices were on the bottom list of the prices analyzed (see table 3 below). For easy comprehension, the stores were ranked on the basis of

cheapness in prices. But it is important to emphasize that Dollar General and Fred's stores are discount stores. Even among the non-discount stores, Winn-Dixie was found to be a cheaper grocery store than Wal-Mart Super Center grocery store. Harvey's was as expensive as Wal-Mart.

Finally, we ran a t-test statistics to attempt to show differential factors that might accounted for the price variance among stores.

According to paired t-test above, brand similarity with product quality was an important factor among the five paired factors. Also, perceived value of product items was matched with customer unit prices. But what was not a significant factor, is the package compared to value. The content was seen to be less in value than the actual value of the items.

End use of the product matched with brand similarity among stores was statistically significantly. End use was equal to brand similarity. The relationship with vendors and transferred unit prices were not statistically significant. The reasons for this item results is due to the lack of information on vendors-retailers relationship.

Conclusion

It's accepted fact among consuming public that Wal-Mart stores are the cheapest retail chain stores in the U.S. This is primarily because of its aggressive advertising message of "We Sell for Less" or better still "Every Day Low Prices" marketing slogan

Wal-Mart itself is known for carrying such impressive pricing strategic image and has therefore become a retail category killer. The Wal-Mart Corporation continue to improve on its ability to handle, move, track merchandise and makes customers satisfied.

But the public image Wal-Mart thus projects may not last too long if consumers become aware of their "Hidden Cost" for shopping and being loyal to Wal-Mart stores. This study shows that Wal-Mart does not spillover adequate prices of merchandise benefits it receives from suppliers and manufacturers to consumers.

Wal-Mart has been noted for forcing its supplier to tailor make the product (private label) cheap, so it can extend the cheap prices to customers. As a result Wal-Mart legendary dictate prices of merchandise to its suppliers and manufacturers.

As we found and concluded from this study, Wal-Mart as a publicly traded company and is intensely private. Consumers do not realize that they do pay more for assortments of products they buy than what the products are worth. This goes from clothing, shoes, groceries and even electronics products. Therefore, contrary to the present popular opinions, Wal-Mart does not practice "every day low prices," nor do the stores "sell for less." Wal-Mart pricing strategy and practices are embedded with hidden costs to consumers. We strongly recommended more empirical evidence to explore this topic.

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Appendix

Table 1:

STORES, FACTORS, FREQUENCIES DISTRIBUTION

Sampled Stores	Factors	Respondents	Research Location
Wal-Mart	✓ Branding Similarity	60	Albany, MSA
K-Mart	✓ Similar Quality	55	Albany, MSA
T.J. Maxx	✓ Perceived Value	60	Albany, MSA
Target	✓ Package & Content	60	Albany, MSA
Goody's	✓ Unit Price	60	Albany, MSA
Ross	✓ Competitive Vendors	55	Albany, MSA
Safeway	✓ Store Loyalty	55	Albany, MSA
Kroger	✓ Product End-Use	56	Albany, MSA
	❖ Pricing Strategic Advantage	60	Albany, MSA

Key:

- ✓ -Independent Variables
 - ❖ -Dependent Variables
- MSA – Metropolitan Statistical Area

Table 2:

COMPARITIVE PRICING- CHAIN STORES

Product Listing ↓	Stores →	Wal-Mart	K-Mart	T.J. Maxx	Target	Goodys	Ross	Fred's	Ranking Cheap
REAL MARKET PRICES									
Men's Levi Straus Jeans	\$	\$	\$	\$	\$	\$	\$	\$	
	18.83	17.99	19.99	12.48	26.99	✓	16.99	18.99	O
Female Dress Pants	17.84	16.99	16.99	19.99	40.00	✓	14.99	17.99	O
Men's Underwear	5.66	5.99	9.99	6.99	3.00	✓	1.99	5.66	O
Ladies Shoes	✓	12.74	12.99	34.00	19.99	15.99	12.99	15.66	X
Kids Shoes	16.88	✓	15.99	25.00	17.99	29.99	16.99	✓	O
Men's Tee Shirts	7.86	✓	5.99	7.99	7.49	7.99	✓	5.99	O
Ladies Costume Jewelry	✓	4.97	7.99	10.99	11.99	6.99	6.99	5.99	X
Ladies Belts	11.48	11.99	9.99	19.99	16.99	✓	8.99	9.99	O
Ladies Hats	8.88	II	✓	7.99	7.99	✓	9.99	8.99	O
Men's Shoe Socks (4pk)	✓	3.77	4.99	5.99	7.99	6.99	3.99	4.99	X
Women's 6pck Cotton Bikinis	12.96	5.99	3.99	5.74	5.99	✓	1.99	6.99	O

✓ - Cheapest

II – out of price range

X – Wal-Mart ranking cheap

Table 3:

COMPARITIVE PRICING – GROCERIES

Grocers Items	<u>Wal-Mart Super Center</u>	<u>Harvey's</u>	<u>Safeway</u>	<u>Kroger's</u>	<u>Winn Dixie</u>	<u>Fred's</u>	<u>Dollar General</u>
	\$	\$	\$	\$	\$	\$	\$
Colgate Toothpaste	2.37	2.27	2.99	2.19	2.45	1.99 ✓	2.00
Crest Toothpaste	3.47	3.29	3.99	3.99	3.49	4.29	2.99 ✓
Tide 80oz	7.44	7.89	7.59	7.44	7.59	6.49 ✓	6.50
Candles	6.34	6.99	7.59	6.34	6.99	7.29	5.99 ✓
Dawn	1.37	1.39	1.49	1.50	1.99	1.00	1.25 ✓
Pledge	3.88	3.82	3.69	3.99	3.65 ✓	3.75	3.75
Pine sol	2.25	1.99 ✓	2.19	2.09	2.35	2.00	2.00
Windex	2.78	2.87	2.89	2.99	2.88	2.75	2.75 ✓
Secret Deodorant	2.24 ✓	2.89	3.99	2.89	2.99	2.50	2.50
Band-Aid (40 pack)	1.88	1.97	2.19	1.88	1.50 ✓	1.79	1.79 ✓
Whole-Wheat Bread- Dutch Country-24oz	1.50	1.80	--	1.65	1.25	--	1.09
Ranking	1/11	1/11	O	O	2/11	2/11	5/11

Table 4:**PAIRED T-TEST- SUMMARIZED RESULTS**

<u>Pairs</u>	<u>N</u>	<u>t</u>	<u>df</u>	<u>Alpha</u>	<u>Results</u>	<u>Conclusion</u>
Similarity vs. Quality	60	-1.048	55	0.05	Accept	S=Q
Perceived Value vs. Unit Price	60	-1.43	55	0.05	Accept	V=P
Content vs. Value	60	-1.786	55	0.05	Reject	C<V
Vendors vs. Unit Price	60	-8.339	55	0.05	Reject	V<P
End-use vs. Brand Similarity	60	-0.33	56	0.05	Accept	E=S

Analysis of a Physician's Practice as a Queuing System (Why Do I Have To Wait So Long in My Doctor's Waiting Room?)

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Zhanna Georgievskya, Alcorn State University
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Abstract

A common complaint being heard more frequently as our population ages and more citizens seek medical consultation relates to the length of wait to actually see the health care provider, even when the patient has gone to the trouble of obtaining an appointment. There is widespread suspicion that physicians “overbook” appointments and that proper scheduling would result in drastically reduced waiting times for patients.

This study looks at actual data for a 10 week period at a medical practice, recording patient arrival times, movement to an examining room, and discharge times. It shows that analysis of the available data using a single channel, single server queuing model replicates the steady state behavior of the system very closely.

The key elements of the data and the analysis are presented, along with recommendations for improvement in the behavior of the system, in terms of reducing the waiting times of the patients.

Related Research

In an article in the Canadian Medical Association Journal, Kondro [1] discusses the 5 “Cinderella diseases” (cancer, cardiac, diagnostic imaging, joint replacement, and sight restoration) that are being given priority and increasing waiting times for patients with other ailments.

Murray [2] argues for “open access” in both a multi-physician clinical practice and a single practitioner setting. His proposals rest on matching supply and demand, and allow limited use of appointments, in addition to a general “walk in” scheduling regimen. He recommends an average of 27 patients per day per physician.

Vasilakis and Kuramoto [4] studied the waiting times of cardiac patients who were waiting for necessary, but non-emergency surgery, using a discrete event simulation model. They found that pooling all referrals on a common appointment list and scheduling surgeries for the first available, rather than the referred surgeon, shortened waiting time until appointment, but lengthened waiting time until surgery in noncritical patients.

Walley, Sylvester, & Steyn [5] examined the UK National Health Service, and made several recommendations for reducing waiting times for hospital patients, including matching availability of providers to the anticipated demand; converting multichannel queues into single channel, multiserver systems; and reducing sequential waiting lines into a single wait in the reception area for the assessment, treatment and discharge functions.

Setting for the Present Study

The focus of the present research is the practice of a family physician who works as part of a multi-physician group, but serves his own patients, independent of the other colleagues. Scheduling is done through a central office, and waiting takes place in a common waiting room, until an exam room is available. A further wait takes place in the exam room, and then the physician meets with the patient. Support services (blood work, X-ray, charting, billing) are done centrally for the entire group, but check-in (height, weight, & general nature of the complaint) is done by a nurse who works for just one physician.

Appointments are scheduled for approximately 20 minute intervals, with variability in arrival times due to random factors. Many of the patients in the practice are elderly, and have difficulty arranging transportation, so the general protocol is that patients are seen on a first come, first served basis, with any walk-ins or emergencies seen as they can be fitted in.

Data

Data were collected for 10 weeks during December 2006 through February, 2007. Data included Check In Time, Admission to Exam Room Time, and Departure Time. Patients were seen during normal office hours, which did not include time devoted to hospital rounds, surgery days, and special consultations. A total of 271 patients were included in the data. Waiting times in the general waiting area were computed, as were the total time spent in the facility by each patient. Average service time was computed from separate data.

Analysis

The data were divided into two groups -- those who were the first patient in the morning or the afternoon sessions, and those who were subsequent patients in the sessions. There were two reasons for this. The first patient has no interarrival time, and should experience no waiting. Subsequent patients have an interarrival measure and would be expected to have at least some waiting time.

From the data the mean time between arrivals ($n=217$) was computed to be 17.8 minutes, with a standard deviation of 16.0. From other data, the mean service time for this practice was 15.0 minutes. This is in the same range as the recommended value from the Murray [2] study (18 minutes).

A single channel single server queuing model was applied to the data using the QMS [3] software. The model yielded an 84% utilization factor for the physician, 95 minutes average time in the system, 80 minutes average total waiting time per patient, and 4.5 for the average number of patients waiting for service. These values are the steady state averages, after the system has reached equilibrium.

Using the total 271 patients in the current data, the actual mean time in the system was 88 minutes. For the 53 patients who were the first in their sessions, it was 83 minutes, and for the other 218 patients it was 90 minutes. So there was very little benefit in having an early appointment time.

The question arises as to why the steady state predictions are so close to the actual results, when the system is reset, with no one in the queue, every morning and again in the afternoon. The answer is simple. The appointments are scheduled beginning roughly an hour before the physician sees the first patient. Thus the system is essentially at steady state, in terms of the number in the queue, before the server begins service. This guarantees a high utilization factor (84%) for the physician's services, at the expense of the longer average waiting times for the patients. With a fairly constant mean service time, the coefficient of variation (CV) in total time in the system ($28/88 = .32$) was one-third the relative variation in

interarrival times ($16/18 = 16/18 = .89$). This means that this system imposes the waiting time rather uniformly across the patient group.

Results and Conclusions

The results of this study suggest good news and bad news. The good news is that you are experiencing the same length of wait as most of the other patients; the bad news is that it is, indeed, longer than it could be. While the physicians' time is a valuable commodity in a single practice, a group practice, or an HMO, a system that intentionally penalizes the patients (in terms of waiting time) in order to maximize the utilization factor of the practitioner is not a fair one. The waiting times for the early arrivals could be reduced by having several appointments for roughly the same time the server is expected to see the first patient.

Suggestions for Future Research

In a group practice setting, Vasilakis, and Kuramoto [4] found that scheduling patients for the first available practitioner (a single channel, multi server model) resulted in reduced waiting times. In a walk-in practice, triaging patients by expected length of consultation and employment of the industrial concept of "shortest jobs first" can result in lower average waiting times. More attention to the needs of the patients during scheduling could place the short-duration patients with early appointments, to process more of them before having to dedicate lengthy physician consults while several short-term patients accumulate waiting time. In short, focusing on the problem from the patients' point of view can permit development of strategies that allow full utilization of scarce resources (Practitioners' time) while also reducing the waste of another valuable resource (patients' waiting time).

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Encouraging E-Commerce Among Rural, Limited-Resource Populations: An Extension Worker Consultation Model Based on Expectancy Theory

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Abstract

The Internet and e-commerce has created opportunities of personal economic development through Internet auctions, e-commerce malls, and individual web pages. However, the digital divide, in terms of physical access to the Internet, has largely become overcome with regard to race and ethnic status but has not been overcome in regard to participation in the Internet economy through e-commerce by rural limited-resource populations. This paper, funded by the USDA/SRDC E-Commerce project, presents an expectancy theory based model to guide extension worker encouragement of e-commerce among rural, limited-resource populations. The model presents success stories with which the target population can identify, recognizes the market potential of rural life skills and products, introduces basic personal finance knowledge and skills that must be cultivated, and provides a step by step guide to entering the world of e-commerce through Internet auctions and e-mail participation.

Introduction

The premise of this educational curriculum is that rural, limited-resource populations are often unprepared psychologically, educationally, and in terms of personal resources to initiate business activities that would take advantage of e-commerce and the Internet. However, it is also the premise of this curriculum that e-commerce via the Internet is an important new opportunity for economic development through micro-enterprise for rural, limited-resource populations. The objective of this paper is offer a set of training modules designed as a group to provide guidance to extension agents and related economic development specialists who seek to encourage rural limited-resource populations to begin small-scale Internet-based, e-commerce activities. With SRDC / USDA funding, these modules have been developed into a training manual and two sets of PowerPoint workshop presentations, one directed to extension workers and one for extension workers to use in presentations to clients. Although only a brief overview can be presented here, these resources are available through the SRDC web site or by contacting the contact author for this paper.

Overview of Modules

Adequate preparation of rural, limited-resource populations for entering into e-commerce activities involves first stimulating belief and confidence in the ability to use e-commerce to achieve personal goals. This curriculum addresses this need by explaining in

Module 1 three principles of expectancy theory as it may be applied to rural limited-resource populations. Consideration is given to implications of expectancy theory for micro-enterprise and e-commerce. Module 2 extends this discussion to provide examples of success stories in which rural populations have used basic e-commerce activities to sell home-produced products. Success stories are important but they require that the client be able to identify with the people in the story. When this occurs, success stories can be a powerful tool for encouraging clients to learn more about Internet opportunities. Module 3 applies the principles of expectancy theory to helping rural limited-resource clients recognize the value -

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Entrepreneurial Development in Kazakhstan

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Abstract

A part of the former Soviet Union, the Republic of Kazakhstan has been independent since 1991. During this time the economy has been transformed from a Soviet-command economy to an emerging and developing market-based economy. An important part of this transformation has been the establishment of laws and infrastructure to support the previously illegal activity of entrepreneurship and the operation of small businesses in Kazakhstan. In this paper we review major milestones, developments, and challenges that have been faced by entrepreneurs and prospective entrepreneurs in Kazakhstan, as well as those that may be expected as Kazakhstan continues in economic transformation.

Introduction

The Republic of Kazakhstan lies in the northern part of Central Asia and is bounded by Russia to the north, China to the east, Kyrgyzstan and Uzbekistan to the south, and Turkmenistan and the Caspian Sea to the west. Kazakhstan covers an area of 2,724,900 square kilometers and is about four times the size of the state of Texas in the U.S. The territory is mostly steppe land, extensive treeless plains, and is very rich in oil and mineral deposits.

The total population of Kazakhstan is about 15 million people, which, with the large size of the territory, results in a low population density of 5.5 people per square kilometer. However, approximately sixty percent of the people live in urban areas. The majority of the Kazakhstani people are ethnic Kazakh (57.7%) who speak both Kazakh and Russian. The “official” language is Russian, which is used routinely in business, and the “state” language is Kazakh. Other ethnic groups include Russian (26.8%), Ukrainian (3.1%), Uzbek (2.8%), Uigur (1.5 %), Tatar (1.5%), German (1.5%), Korean (0.7%), and Byelorussian (0.6%). People from over one hundred nations live in Kazakhstan and enjoy equal protection from the government and relative peace among ethnic groups. The middle socioeconomic group in Kazakhstan represents somewhere between 5 and 30% of the total population, whereas in Western Europe the middle class represents about 80% of the population and about 50% of the population in Eastern Europe. Kazakhstan has a literacy rate of 98.8% as a result of mandatory and universal education through the secondary level. The Baikonur Cosmodrome (spaceport) is located in the middle of Kazakhstan and has been rented by Russia for ninety-nine years. Rockets are launched from this area and two Kazakh people are cosmonauts. Although the impact of seventy-four years of official atheism has left many without religious beliefs, others are seeking meaning through religious activity. The primary faiths of the people are Muslim, Russian Orthodox, and Protestant.

The President of Kazakhstan is Nursultan Nazarbayev. He was first elected in 1991, which is referred to as the “independence year” by the Kazakhstani people, the year that the former Soviet Union was disbanded. All of the market reforms in Kazakhstan have been realized under President Nazarbayev’s direct management, and he was reelected for another seven year term in 2005. Since 1993 the national currency has been the tenge, which replaced the Russian ruble for the Kazakhstani people. One U.S. dollar is equal to one

hundred twenty five tenges. Forms of electronic money such as credit and debit cards are also quickly developing.

During the independence year Kazakhstan made significant reforms from a Soviet command-economy to a market system economy. As a result, over 40 billion dollars have been invested in Kazakhstan by governments and corporations, with approximately 20 billion dollars invested by U.S. interests. The majority of these investments have been directed to oil sector of the economy, as a result of the large oil deposits that are present in the Caspian Sea. By the year 2015, the oil fields of Kazakhstan will be capable of producing 3 million barrels of oil per day, which will rank it in the world's top ten oil-producing nations. American companies including Chevron, Texaco, Shell, ConocoPhillips, Occidental, and ExxonMobil are currently invested in the Kazakstani economy.

Kazakhstan is also a major producer of grain; with 18 million tons produced annually it places fifth in the world among exporters. However, the extreme weather conditions in Kazakhstan make grain production risky. In the 1960's the Soviet government made virgin land available for farming. As a result, many new towns in the northern part of the Republic have developed as people from all regions of the Soviet Union have come to work on these farms.

Significant economic progress has been made since independence, and Kazakhstan has surpassed many other former Soviet countries in macro-economic reform. With a per capita gross domestic product (GDP) of \$3,700.00 USD, Kazakhstan is the wealthiest of the Central Asian republics. The country has netted GDP growth in the range of 8% since 2000, in part due to its large oil, gas, and mineral resources. Although current economic growth has been primarily through oil, it is anticipated that profits from oil exports will create opportunities for a more diversified economy. As the economy opens to new investment, entrepreneurs and small businesses will also have opportunities to emerge and develop in the growing economy.

Entrepreneurship in the Emerging Market of Kazakhstan

Between the years 1986 to 1991 students in Kazakhstan began to discuss and loosely organize cooperative enterprises that were built around their educational technology centers. Entrepreneurial ideas and small businesses began to grow out of these technology centers, even though there were no official laws to support individual proprietorship in the country. However, as Kazakhstan gained independence, laws were passed which provided a beginning framework around which small businesses could be organized.

According to Kazakhstani law, private entrepreneurship is an individual initiative based on organizing one or more person's personal property in a private business for the purpose of receiving income in exchange for accepting risk associated with the use of the personal property²⁷. In the following table the evolution of the laws in Kazakhstan concerning entrepreneurship are briefly listed.

²⁷ Kazakhstan's Law about Private Entrepreneurship, 2006

Table 1. Evolution of Entrepreneurship Laws in Kazakhstan.

Years	Laws
1986-1991	Law “About individual labor activity of citizens” (1987) was enacted. “The law about cooperation” (1988) Laws about lease, joint venture, and bank activities were also enacted.
1992-1994	Kazakhstan Law “About pleading and supporting private entrepreneurship” (1992) Kazakhstan Law “About proprietors” (1993) Kazakhstan Law “About privatization” (1993)
1995-1997	Kazakhstan Law “About the government small business support” (1997)
1998-2002	Code PK “About taxes and other obligatory payments in the budget” (2001) Law PK “About complex enterprise license (franchising)” (2003)
2003-present	Law RK “About the micro credit organizations” (2003) Law RK “About private entrepreneurship” (2006)

Definitions of Small and Average Size Businesses Worldwide

The standards used to identify a small business vary from country to country, and include both quantitative and qualitative measures. Measures such as number of employees, annual income, and the active involvement of the owner in the business are commonly used. Table 2 provides a summary of some of the measures used throughout the world.

Table 2. Quantitative criteria of small business definition in the different countries²⁸

Country	Criteria
Kazakhstan	The number of employees is no more than 50 people; The amount of assets for one year should not exceed 60 thousand minimal accounting ratios (MRP) (MRP is equated 1035 tenges, that means \$8 x 60,000 = \$480, 000)
USA	The number of employees is from 1 to 500 people; The enterprise should belong to the independent owner
Great Britain	The small market of selling which is not allowing to influence on the prices and volumes of the sold goods; Presence of owner's personal management of the firm instead of hiring managers Presence of juridical independence
Russia	The number of employees is no more than 100 people
France	The handicraftsmen and small proprietors are receiving the basic income from direct production functions; The owner of the enterprise personally participates in the manufacture and he (she) has a high level of qualification; The small enterprises are maintaining a limited number of the hired workers, carrying out simple reproduction; The small enterprises is having extended reproduction; The number of the workers is from 10 up to 100 people
Japan	The legally independent companies with number employee up to 300 men or volume of a fixed capital is no more than 100 millions yens in manufacturing industry ranches, construction, transportation, communication, in a municipal services; The number of employee is up to 100 people or 30 millions yens of a fixed capital in wholesale trade; The number of employee is up to 50 men or up to 10 millions yens in retail trade and sphere of services; 7 groups of enterprises according with the number of employees: a). from 1 up to 4; b). from 5 up to 9; c). from 10 up to 29; d). from 30 up to 49; e). from 50 up to 99; f). from 100 up to 299; g). from 300 up to 499
Germany	The number of employee is from 20 up to 49 employees (annual turnover up to 500 thousands EU); The number of employee is from 50 up to 99 people; The number of employee is from 100 up to 199 people
ES	The number of employee is up to 50 men with an annual turnover up to 7 million and balance up to 5 million Euro; The number of employee is up to 10 men are considered as micro enterprise
Southern Korea	The number of employees is 20 and less which are working at the manufacturing and preprocessor transport and construction enterprises; The number of employees is 5 and less which are working in trade and sphere of rendering of services

²⁸ Report “SME and export-led growth”, ITC (UNCTAD/WTO), 1998

In the European Community the standard criteria for a small business is 50 employees with an annual turnover (sales) up to 7 million euros and the sum of balance (assets) up to 5 million euros. For an average size firm the number of employees is up to 250 with annual turnover up to 40 million euros and the sum of balance up to 27 million euros.

Definition of Small, Average, and Large Businesses in Kazakhstan

Small, average, and large businesses in Kazakhstan are defined in terms of number of employees and annual sales. Kazakhstani law defines a small business as one without the establishment of a legal entity (individual entrepreneurs) with no more than 50 employees and annual sales not to exceed 60 thousand minimal accounting ratios (MRP). An MRP is equal to 1035 tenge, which would be roughly equal to \$8 USD x 60,000, or \$480, 000 USD²⁹. An average sized business is also defined as one without a legal entity (individual entrepreneurs) with between 51 and 250 employees and annual sales not to exceed 325 thousand minimal accounting ratios (MRP). At \$8 USD this would be roughly equivalent to sales of \$2,600,000 USD. Large businesses are defined as separate legal entities carrying out entrepreneurial activity with more than 250 employees and annual sales greater than 325 thousand minimal accounting ratios (MRP), which is approximately \$2,600,000 USD.

Starting a Business in Kazakhstan

In less than fifteen years Kazakhstan has developed a business environment that, as compared to other emerging market economies, is relatively supportive of new businesses. According to research published by the World Bank, Kazakhstan ranks 63rd in terms of ease of doing business³⁰. The main factors that were considered in determining this ranking were Starting a Business, Dealing with Licenses, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business. Kazakhstan's rankings are shown in Table 4.

On the measure of simplicity of business dealings Kazakhstan concedes to New Zealand, Armenia, and Russia and ranks above China, Turkey, Azerbaijan, Georgia and Uzbekistan. In Kazakhstan, there are seven steps that an entrepreneur must complete before startup. These steps take an average of 20 days, and may take only 3-5 days for a small business. On this measure Kazakhstan concedes to Australia, Turkey, and Georgia and places ahead of Armenia, Russia, Uzbekistan, China, and Azerbaijan.

In Kazakhstan, the following documents must be submitted to register a new business:

- Letter of application for state registration in established format.
- Charter of legal entity, drafted in accordance with Kazakhstani law.
- Document confirming decision to create legal entity, decision of sole founder or foundation agreement.
- Copy from trade register confirming legal status of any foreign investor (i.e., certificate of incorporation).
- Letter/certificate from taxing authorities confirming founder has no outstanding debts due to the state.
- Copy of director's passport.
- Copy of a lease agreement or similar agreements to confirm address of new legal entity.

²⁹ Kazakhstan's Law about Private Entrepreneurship, 2006

³⁰ World Bank: <http://www.doingbusiness.org>

- Power of attorney issued by founding company authorizing a designated representative to register legal entity's behalf.
- Receipt for payment of registration fee.
- Documents presented to authorities in foreign language, issued abroad must be notarized, translated into Kazakh and Russian.

The cost of the registration procedure is approximately \$32 USD and takes about 20 days (3-5 days for small businesses). By comparison, ten years ago this process took about one month and fees of more than \$500.00 USD.

The main legal forms of businesses in Kazakhstan are the Full Partnership, Limited Liability Partnership, Joint Stock Company, Mixed Partnership, Additional Liability Partnership, and Representative and Branch Office. The most popular legal form of organization in Kazakhstan is the Limited Liability Partnership because the financial liability of participants is limited to the amount of invested capital.

Table 4. Kazakhstan's World Bank Ranking of Ease in Doing Business³¹

	2006 rank	2005 rank	Change in rank
Doing Business	63	82	+19
Starting a Business	40	37	-3
Dealing with Licenses	119	121	+2
Employing Workers	22	21	-1
Registering Property	76	81	+5
Getting Credit	48	117	+69
Protecting Investors	46	43	-3
Paying Taxes	66	63	-3
Trading Across Borders	172	171	-1
Enforcing Contracts	27	27	0
Closing a Business	100	102	+2

³¹ World Bank: <http://www.doingbusiness.org>

Business Taxes in Kazakhstan

Small business owners in Kazakhstan may be subject to eight different taxes which include the value added tax (VAT), corporate income tax, social tax, land tax, property tax, vehicle tax, advertising tax, and the environmental tax. To help small businesses owners with the tax burden certain preferential tax modes were developed, which are established on the basis of:

- the single coupon (1 dollar per day)
- the patent (3 % from annual revenue)
- a simplified declaration.

Small business owners may pay taxes on the basis of the single coupon as long as they are individual entrepreneurs and their business is of a periodic and changeable character and their business activity is carried out no more than 90 days in one year. These business owners are exempted from state registration and all other taxes. Businesses meeting these requirements include vendors of newspapers and magazines, or flowers and produce which have been raised at home or on small farms, or transportation services for passengers or cargo (not including licensed transportation), or the services of tractors owners in tilling the land.

Taxes based on patents are used for entrepreneurs who work alone without hired employees and have an income of no more than 2 million tenge (\$15,870.00 USD) per year. This form of taxation is popular for small startups producing with limited income.

Infrastructure in Kazakhstan to Support Small Business Development

A small business support infrastructure similar to that established in the U.S. under the auspices of the Small Business Administration has been an important part of the development of entrepreneurship in Kazakhstan. Set up within the Ministry of Industry and Trade, the Department of Entrepreneurship Development (DED) has offices in 16 regions throughout Kazakhstan with the main goal of supporting small business development. A Small Business Development Fund of approximately \$80,000,000 USD was created in 1997. These funds provide a source of credit that would otherwise be unavailable for small businesses in Kazakhstan.

Commercial banks, business incubators, technology parks, consulting firms, and educational centers are also part of the small business development infrastructure. In addition, several non-government business associations to protect the rights of entrepreneurs were also created. One of the largest of those associations, the Forum of Entrepreneurs, holds an annual meeting to discuss topics of interest to entrepreneurs. The Forum invites the President of Kazakhstan to speak to the entrepreneurs each year.

As in developed economies, business incubators in emerging markets help new businesses survive during the first two to three years as they accumulate knowledge and resources for growth. There are currently forty-four business incubators in Kazakhstan, where clients may share business services, obtain flexible and reasonably priced office space, and gain access to business counseling, training, and information programs. While the level and quality of services varies considerably across incubators, many of them work very efficiently. The Sodbi business incubator in Shimkent provides all the above mentioned services within a very professional and supportive environment. In return for the sponsorship of these incubators, the Kazakhstani government receives new business enterprises, new jobs for the people, and contributions toward a growing economy.

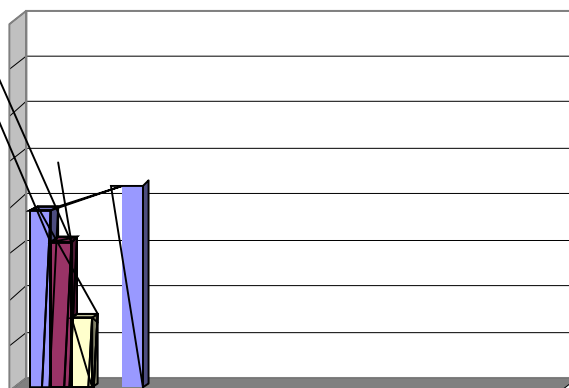
There are also several technology parks in Kazakhstan. The largest park, Alatau IT-City, is in the south of Kazakhstan near Almaty. Alatau IT-City was designed to be the centerpiece of the new high technology intellectual center in Central Asia. The world's top information technology and communications companies have cooperated in the development of Alatau IT-City including Microsoft, HP, Siemens, Cisco Systems, Tales, LG, Sun Microsystems, and Samsung, as well as other IT leaders.

Financial Support for Small Businesses in Kazakhstan

There are three basic levels of access to financial support for small businesses in Kazakhstan, which include second-tier banks, organizations which provide some type of banking service, and microcredit organizations. There are more than thirty-five commercial banks in Kazakhstan. There is a high level of competition in the banking industry, and as a result the interest rates have been lowered. An example of a major Kazakhstan bank's current lending policies and interest rates for small business loans are shown in the table below.

Table 6. Current Lending Policies and Interest Rates of Major Kazakhstan Bank

Interest rate	• For working capital – 10% annual
	• For fixed capital projects – 8% annual
Credit period	• No more than 2 years
Currency	• US dollars
Maximum loan amount	• For small and average business – \$100,000 USD
	• For large enterprises – 6,000,000 USD
Collateral	• Real estate



Small Business Growth in Kazakhstan

There are approximately 140,000 small businesses in Kazakhstan, and this has doubled over the last five years. While there are generally four routes to small business ownership including startup, buyout, franchising, and joining a family business, these routes are severely restricted in Kazakhstan. Very few businesses in Kazakhstan are available for sale, since a primary reason for selling a business is often the retirement of the founder and the average age of entrepreneurs in Kazakhstan is 40-45 years old. Franchising has developed in Kazakhstan very slowly, although it has been successful in Russia, particularly the McDonald's restaurants in Moscow. Although McDonald's is not in Kazakhstan, other franchised businesses have opened in Kazakhstan including Baskin-Robbins Ice Cream and Patio Pizza.

Although 90% of Kazakhstan businesses are family businesses, there are no special programs for family business and they are considered the same as all other small businesses. Therefore, since opportunities for buyouts and franchising are very limited in Kazakhstan, most entrepreneurs either start a business from scratch or join the family business.

The majority of the small businesses in Kazakhstan are located in Almaty and the surrounding region since Almaty is the large financial and industrial center of the Republic. The cities of Shymkent, Karaganda, and Astana have also seen strong development of small businesses. Approximately 50-60% of the small businesses in Kazakhstan are involved in some sort of trading activity. However, for the development of the new economy in Kazakhstan manufacturing activity is also needed. Trading activities are preferred by many entrepreneurs because trading is much easier than production, and the ratio of asset turnover in trade enterprises is much higher than in the manufacturing enterprises. In an attempt to alter the preferences of Kazakhstani entrepreneurs, tax privileges for industrial and innovative enterprises have been established and special innovative and investment funds to support industrial projects have been created.

SWOT Analysis

The current state of emerging entrepreneurial development in Kazakhstan may be summarized through a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis of small business ownership in Kazakhstan.

Strengths:

1. To quickly react to changes in market demand.
2. To meet the needs of small segments of the market which may not be attractive to larger enterprises.
3. To create new jobs and vary number of workers according to market demand.
4. To rapidly change strategies when needed.
5. To incur minimal initial expenses and registration requirements
6. To maintain flexibility in management with a minimum of administrative staff.
7. Simple and clear communication channels within the firm and to interested stakeholders.
8. Personal working relationships with employees and clients of the firm.

Weaknesses:

1. Absence of established company policies and training programs for employees.
2. Lack of access to financial support, particularly in the area of startup capital, and effective guarantee and loan insurance mechanisms.
3. Absence of the effective mechanisms to foster cooperation with large enterprises, and difficult conditions for the development of franchising opportunities.
4. Lack of knowledge among population about how to start a new businesses, market the business, and abide by the law.
5. Weakness and fragmentation of small business support.
6. The rigid tax and customs policies, especially for administrative questions
7. The difficulty in attracting highly skilled workers.
8. High risks, including an absence of economy on scale for manufacturing.

Opportunities:

1. Further development of small business support infrastructure.
2. Lower interest rates and more generous credit terms for small businesses.
3. Introduction of a guarantee credit system through a joint-stock company "Small Business Development Fund."
4. Setting moratoriums to limit new government controls on small businesses.
5. To create more business-incubators and technology parks to support small business innovation.
6. To improve the small business laws.
7. To decrease the tax burden on small business owners.

Threats:

1. Infringement on the entrepreneur's rights by government institutions and official staff.
2. Non-authorized control from the juridical structures.
3. Rigid tax pressure.
4. Extortion from the government and criminal enterprises.
5. Financial instability in region.
6. Unscrupulous business partners.

In fifteen short years, Kazakhstan has made phenomenal progress in the development of a market-based economy from a Soviet-command economy. Laws have been passed, regulatory procedures streamlined, and infrastructure such as business incubators and technology parks have been established to support the development of small businesses in Kazakhstan. The Republic of Kazakhstan holds tremendous potential as the natural and human resources of this great land continue to be enhanced through economic development.

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What Happens When Two Worlds Collide: A Review of The Business Contributions of Mother Teresa

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Abstract

To put the financial successes of Mother Teresa and the Missionaries of Charity, it is helpful to first look back in time to review similar contributions of another Catholic saint, Saint Vincent de Paul. Over three hundred years ago, Saint Vincent shared a passion (calling) to expend his time and energy to provide aid to the poorest of poor.

In 1633, St. Vincent organized the Sisters of Charity. Their role was quite similar to that of Mother Teresa and the Missionaries of Charity formed three hundred years later, to feed the poor and work hands on to aid the needs of those who society had thrown away. The formation of the order is in and of itself a testament to Mother Teresa's vision and leadership. She was the only woman to ever be granted permission of the Catholic Church to start a new Order (the first in 300 years).

Over the next half of a century, Mother Teresa and the Missionaries of Charity (primarily Mother Teresa) flourished. The estimated annual donations were more than \$100 million dollars.

The objective of the Missionaries of Charity was not only to provide food to the starving, access to very basic health care, housing when at all possible. The provision of these basic necessities for living (although quite primitive modern standards) was the reason for the existence of the order. The efforts were quite expansive: aids assistance, addicts, homelessness, to prostitutes, orphans. There is evidence that demonstrates the success of Mother Teresa in leading such an expansive organization. For example, the first aids clinic in the U.S. was opened by her organization.

Evidence of her acumen as a "business" are demonstrated by the fact that what began in 1950 as one facility and 12 members of the new Order, grew over the years to more than 4,000 nuns, 450 facilities aiding orphans, AIDS clinics world wide as well as other charity centers worldwide. By the time of her death in 1997, there were 610 foundations in 123 countries around the world.

Although a not for profit with no shareholders to hold management accountable for the operation, this by any measure is a very large and complex organization. No doubt Mother Teresa had many advisors and managers; however, she remained at the helm of the vast organization until the time of her death. She was 87 years old.

She was credited by some as being responsible for "waking up" the wealthy around the world to the plight of the poor..." then using the wealth amassed to make a difference in the lives of the poor around the world.

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Start-up 101: Entrepreneurial intentions and student attitudes

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Abstract

An economy requires continued growth in order to survive. One way to grow is to increase the number of entrepreneurs who add to the economy through the introduction of new businesses. Educational institutions are creating programs and centers for entrepreneurship in an attempt to assist in the process and educate potential new entrepreneurs. But can education actually change student's intent to become entrepreneurs?

Early research in entrepreneurial intent has focused on demographic characteristics (i.e., gender, age, and education level) and personality characteristics (i.e., need for achievement, locus of control, and propensity for risk taking). Recently though, attitudes, defined as "the predisposition to respond in a generally favorable or unfavorable manner with respect to the object of the attitude" (Ajzen 1982) have been suggested as a better measure to predict entrepreneurial intentions. Attitudes captures both individual difference and situational specificity, are less stable over time and situations, and have been found to be open to change through education and training. Fishbein and Ajzen's Theory of Reasoned Action (TRA) states that individual beliefs and attitudes affect behavioral intentions which then influence actual behavior, so individual difference factors which determine intentions can ultimately determine actual behaviors.

However, it is not enough to look at attitude in a general sense; research needs to look at a situationally specific attitude. The current research proposes that entrepreneurial attitudes, as measured by two different scales (Entrepreneurial Attitude Orientation (EAO) and Entrepreneurial Opportunity Recognition (EOR)), will determine entrepreneurial intentions to behave. Entrepreneurial intentions are a measure of the individual's intent to start a new business or enterprise. Specifically we propose that entrepreneurial attitudes are positively related to entrepreneurial intentions, such that individuals with strong attitudes will report stronger intentions than individuals with weaker attitudes.

In addition previous research has suggested that making information about an attitude object more personally relevant can increase the strength of an attitude towards said object. Thus this study also proposes that the creation of a business plan for a proposed venture that is personally relevant, as part of the entrepreneurial education process, will increase the strength of a student's attitude towards entrepreneurship, thereby creating stronger entrepreneurial intentions.

There is a gap in the research concerning entrepreneurial education. Our purpose is to show that entrepreneurial attitude is a better predictor of entrepreneurial intent and that specific educational activities can increase the entrepreneurial intentions of students. Education and training programs and centers thus can play an active part in the creation of future entrepreneurs.

Are January Effect and Monetary Policy Effect in Stock Returns Distinctive?

TeWhan Hahn, Auburn University – Montgomery

Abstract

The finance literature has documented strong January effect and monetary policy effect in stock returns. This study, using small vs. big and value vs. growth portfolios, examines whether these two strong effects are stemming from the same source or distinctive. We find that both effects are strongly present in stock returns but fail to find significant interaction effect. The results show that while January effect influences stock returns without changing market risk levels of a portfolio between Januarys and non-Januarys, monetary policy does so by changing market risk levels of a portfolio between expansive and restrictive monetary policy regimes.

Risk and Return in January vs. Non-January in Stock Returns: Evidence from a Macro-economic Factor Model

TeWhan Hahn, Auburn University Montgomery

Abstract

In this study, I re-examine long standing January effect in size sorted portfolio returns using data for extended time periods from 1951 to 2000. Surprisingly, January returns can be mostly explained by the macroeconomic risk factor model while returns in the rest of the year can not be explained. This indicates that the January effect is not as important as it used to be.

Perceptions of the Educational Requirements for Certified Public Accountants

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Abstract

The American Institute of Certified Public Accountants (AICPA) is the national professional organization for certified public accountants (CPAs). It would like for all states to require 150 hours of college credit in order to take the examination for certification. The topic has been highly debated. A college degree normally requires 120 hours of college credit. Certification then requires another full year of college in order to reach 150 hours. In the past students have had an unfavorable opinion of the educational requirement. It could even cause some students to select a different major or decide not to seek certification in accounting. A survey of perceptions of students and professionals about the 150 hour requirement will be conducted. The AICPA objectives in promoting additional education will be considered. Do professionals feel that these objectives are being met? Students and recent graduates will be asked about their views on this question as well as the costs and benefits of the additional education. Professionals may have views that differ from those of the students. Professionals are now working in their field and could better judge the value of the education they had received. This study will add to and extend previous research. The 150 hour requirement has been in place for a number of years in most states and it will be interesting to see if perceptions have changed and if the AICPA objectives are being met. To date, data has been collected from students only. Preliminary indications can be presented. Suggestions for change would be welcome before surveying perceptions of professionals.

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