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EXPERIMENTS ON DESIGN MODELS SUPPLIED BY THEIR MANUFACTURER: AN EXAMPLE OF MANAGEMENT SCIENCE IN PRACTICE

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ABSTRACT

In-line poppet valves are used in fuel supply lines as on/off and metering valves. In certain instances, the fluid mechanic characteristics and dynamic behavior of such valves become extremely important. Such instances include the use of these valves in rocket engines' fuel lines, where it is critical that precise amounts of liquid oxygen and liquid hydrogen are introduced into the engine. To study the flow characteristics of these valves, various experiments were performed, and a summary of these tests and results are outlined in this paper.

INTRODUCTION

The experiments stated below are presented in the following sections throughout the paper.

(1) Determination of fluid flow pattern
(2) Tests on poppet valves
  A: Measurements of pressure drop across the base model design valve
  B: Measurements of force on the poppet cone of the base design valve
  C: Tests on modified design valves

GENERAL FLUID FLOW PATTERN

In many fluid flow problems, a physical insight of an overall flow behavior is essential to the analysis of flow field. Flow visualization techniques are used to obtain a qualitative understanding and knowledge about a desired flow field. This allows for observation of the behavior of the flow at different regions of interest in a flow field. Once the overall flow pattern is known, theoretical or experimental means are used to obtain more detailed information about the flow field.

The valve-housing cylinder and valve housing contours are made from clear plexiglass to allow visual observation of the flow field in the valve test section. There are three relatively large separation regions and two smaller separation regions. Flow separation causes significant losses in the kinetic energy of the moving fluid stream that translates into larger pressure loss in the flow field. To reduce the pressure losses associated with flow separations, some modifications were made to the valve poppet cone and upstream housing. The rationale for new designs and the effects of various modifications on the flow field over the poppet valve are presented. In the next section, tests designed to evaluate the performance characteristics of the poppet valve under investigation are presented.

TESTS ON POPPET VALVES

Various experiments were conducted to study the fluid flow properties over the poppet valve. To present the results obtained from these experiments, it is necessary to establish a systematic procedure of referring to different tests performed on different poppet valve configurations. Therefore, prior to presentation of the experimental results, it is appropriate to discuss the poppet valve assembly configuration along with the method of referencing the assembly to different valve configurations.

MEASUREMENTS OF PRESSURE DROP ACROSS THE VALVE (BASE MODEL DESIGN)

When a fluid flows through a valve, it passes through a number of constrictions. Since certain irreversibilities associated with each expansion or contraction exist, the total useful energy of the moving fluid is reduced. This reduction of useful energy translates into loss of pressure across the valve. The pressure losses are minimal when the valve is in the fully open position. However, these losses become significantly higher when the valve is operating in a partially open or nearly closed position, and at the same time the internal flow fields become more complex. These conditions add considerably to the complexity of the theoretical modeling of such flow cases. Therefore, experiments are necessary to predict the performance characteristics and pressure loss coefficient of the flow over a valve.

The pressure loss coefficient, ζ, is related to the pressure drop across the valve, ΔP, average velocity of the fluid in the approach piping to the valve, $\overline{V}$, and the density of the flowing medium, *p*, by:

(1) $$\zeta = \frac{\Delta P}{\frac{1}{2}\rho \overline{V}^2}$$

To calculate ζ, the pressure drop across the valve and the average upstream velocity of the approaching flow are required. These quantities were measured experimentally for different poppet valve configurations. The tests on poppet cone #1, H1 (the base model poppet valve design configuration) are considered first. This model was tested at the fully open position and at partially open/closed positions.

MEASUREMENTS OF FORCE ON THE POPPET CONE AT VARIOUS OPENING POSITIONS

In the above discussion, it was shown that as the poppet cone was moved downstream from its fully open position, the pressure drop across the valve section increased significantly. Since larger pressure differences across the valve produce larger forces on the poppet cone of the valve, it was necessary to study the forces exerted on the valve during opening/closing positions. Therefore, the poppet cone was moved downstream from its fully open position to a nearly closed position at intervals of 5 mm. For each position of the poppet cone, the drag force, the dynamic pressure upstream, and the temperature of the water were measured at different flow rates. The drag force was then plotted vs. average velocity for the different valve opening/closing positions. All the curves have parabolic shapes indicating that if the average velocity is increased by a factor of two, then the drag force is increased by a factor of four.

TESTS ON MODIFIED DESIGN VALVES

Minimizing pressure losses improves the performance of the valve. To achieve this goal, in addition to the components of the base model design valve, four other upstream housing contours and two other poppet valve cones were designed. The downstream housing contour design was not changed for sealing purposes. The static pressure loss across the test section and the dynamic pressure upstream of the test section were measured for different poppet valve cones with combinations of various upstream housing contours at different upstream velocities. The average velocity was calculated by using an equation that is valid for fully developed turbulent pipe flow (Fox & McDonald, 1985).

CONCLUSION

Table 1, on the following page, provides a summary matrix of the test results.

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TABLE 1: SUMMARY MATRIX OF TEST RESULTS

	Poppet Cone and Position	Upstream Valve Housing Contour	$\zeta = \frac{\Delta P}{\frac{1}{2}\rho \overline{V}^2}$ $C_D = \frac{F_D}{\frac{1}{2}\rho \overline{V}^2 A_{popp.}}$	Velocity (m/s)	Reynolds No.
A	Poppet Cone #1 Fully Open	Contour #1	$\zeta=0.82$ $C_D=0.89$	$\overline{V}=2.98$	$Re=2.63\cdot10^5$
B	Poppet Cone #1 -5 mm	Contour #1	$\zeta=0.93$ $C_D=1.34$	$\overline{V}=2.66$	$Re=2.35\cdot10^5$
C	Poppet Cone #1 -10 mm	Contour #1	$\zeta=1.26$ $C_D=2.42$	$\overline{V}=2.66$	$Re=2.35\cdot10^5$
D	Poppet Cone #1 -15 mm	Contour #1	$\zeta=3.08$ $C_D=4.09$	$\overline{V}=2.65$	$Re=2.34\cdot10^5$
E	Poppet Cone #1 -20 mm	Contour #1	$\zeta=7.68$ $C_D=10.75$	$\overline{V}=1.49$	$Re=1.32\cdot10^5$
F	Poppet Cone #1 -25 mm	Contour #1	$\zeta=29.39$ $C_D=26.42$	$\overline{V}=1.14$	$Re=1.00\cdot10^5$
G	Poppet Cone #1 -30 mm	Contour #1	$\zeta=60.53$ $C_D=55.04$	$\overline{V}=0.78$	$Re=6.89\cdot10^4$
H	Poppet Cone #1 Fully Open	Contour #1 with Flow Deflectors A, B, C	$\zeta=1.36$	$\overline{V}=2.94$	$Re=2.56\cdot10^5$
I	Poppet Cone #1 Fully Open	Contour #1 with Flow Deflectors A & C	$\zeta=1.11$	$\overline{V}=2.80$	$Re=2.44\cdot10^5$
J	Poppet Cone #1 Fully Open	Contour #1 with Flow Deflectors B & C	$\zeta=1.14$	$\overline{V}=2.83$	$Re=2.46\cdot10^5$
K	Poppet Cone #1 Fully Open	Contour #2	$\zeta=0.69$	$\overline{V}=2.66$	$Re=2.43\cdot10^5$
L	Poppet Cone #1 Fully Open	Contour #3	$\zeta=0.77$	$\overline{V}=2.49$	$Re=2.28\cdot10^5$
M	Poppet Cone #1 Fully Open	Contour #4	$\zeta=0.81$	$\overline{V}=2.86$	$Re=2.53\cdot10^5$
N	Poppet Cone #3 Fully Open	Contour #1	$\zeta=0.71$ $C_D=0.37$	$\overline{V}=3.01$	$Re=2.45\cdot10^5$
O	Poppet Cone #3 -10 mm	Contour #1	$\zeta=0.99$ $C_D=0.98$	$\overline{V}=2.81$	$Re=2.28\cdot10^5$
P	Poppet Cone #3 -20 mm	Contour #1	$\zeta=5.58$ $C_D=3.36$	$\overline{V}=2.30$	$Re=1.87\cdot10^5$
Q	Poppet Cone #3 -30 mm	Contour #1	$\zeta=92.68$ $C_D=58.15$	$\overline{V}=0.63$	$Re=5.12\cdot10^4$
R	Poppet Cone #3 Fully Open	Contour #3	$\zeta=0.80$	$\overline{V}=3.27$	$Re=2.54\cdot10^5$
S	Poppet Cone #3 +8.4 mm	Contour #3	$\zeta=0.56$	$\overline{V}=3.20$	$Re=2.66\cdot10^5$
T	Poppet Cone #3 +16.5 mm	Contour #3	$\zeta=0.58$	$\overline{V}=3.20$	$Re=2.66\cdot10^5$
U	Poppet Cone #3 Fully Open	Contour #4	$\zeta=0.83$	$\overline{V}=3.18$	$Re=2.24\cdot10^5$
V	Poppet Cone #3 +8.4 mm	Contour #4	$\zeta=0.79$	$\overline{V}=3.16$	$Re=2.29\cdot10^5$
W	Poppet Cone #3 +16.5 mm	Contour #4	$\zeta=0.80$	$\overline{V}=3.14$	$Re=2.28\cdot10^5$
X	Poppet Cone #3 Fully Open	Contour #5	$\zeta=0.75$	$\overline{V}=3.26$	$Re=2.60\cdot10^5$
Y	Poppet Cone #3 +5 mm	Contour #5	$\zeta=0.49$	$\overline{V}=3.26$	$Re=2.53\cdot10^5$
Z	Poppet Cone #3 +8.4 mm	Contour #5	$\zeta=0.47$	$\overline{V}=3.25$	$Re=2.36\cdot10^5$
AA	Poppet Cone #3 +10.5 mm	Contour #5	$\zeta=0.47$	$\overline{V}=3.26$	$Re=2.53\cdot10^5$
AB	Poppet Cone #3 +12 mm	Contour #5	$\zeta=0.48$	$\overline{V}=3.24$	$Re=2.51\cdot10^5$
AC	Poppet Cone #3 +14.2 mm	Contour #5	$\zeta=0.48$	$\overline{V}=3.25$	$Re=2.36\cdot10^5$
AD	Poppet Cone #3 +10.5 mm	Contour #5 moved +10 mm	$\zeta=0.42$	$\overline{V}=3.24$	$Re=2.35\cdot10^5$
AE	Poppet Cone #3 +10.5 mm	Contour #5 moved +10 mm**	$\zeta=0.37$	$\overline{V}=3.30$	$Re=2.65\cdot10^5$

** A single leg support is used to hold the valve in the test section

SOCIALISM'S DECLINE AND THE DEMISE OF THE USSR: THE BEGINNING OF THE END

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ABSTRACT

Mikhail Gorbachev became Secretary General of the Communist Party of the USSR in 1985 with ideas of radical reform. These reforms were designed to accelerate the lagging economy, bring speed to the sluggish hierarchy of power in the Soviet government, and end tension between the USSR and its western neighbors, which included the U.S. However, granting freedoms and implementing drastic changes brought about a latent fervor in the Soviet people. This yearning for a better homeland brought about new ideas and expectations from their government. By 1992, the Communist Party had lost much of its former power and influence in the Soviet government and its bordering union-states. This paper will outline the decline of Communism and discuss the changes that were implemented in order to create a more efficient and democratic country.

INTRODUCTION

The USSR practiced Communism as a form of government since 1917 and withstood revolution as well as two world wars, remaining a world power towards the end of the 20th century. Through the years, the USSR's governmental powers shifted from the Secretary General and the legislators to those who truly communicated the laws to the citizenry. The altering of laws to more fully control the citizenry was not uncommon. The processes by which government operated were changed to please those in charge. Gorbachev wanted to change these methods through radical reforms that would permanently alter the Soviet government for the rest of its existence.

The first reform, known as glasnost, allowed the citizenry to acquire more knowledge of public policy. The second, known as perestroika, was a series of changes made in the economic structure of the USSR. While these changes brought the USSR's economy to a more modern standard, they still relied heavily on the infallibility of the USSR's and the Communist Party's structure to give perestroika a political backing.

As Gorbachev created more democratic elements to the economy and government, Soviet citizenry realized the possibilities of this type of government and demanded far-reaching changes in the Communist system. These demands led to an uprising that ended Gorbachev's tenure as Secretary General of the Communist Party. Soon, several new countries were created from the nationalities that made up the USSR and the outlook for the new nation was reborn. All activities by the Communist Party were suspended and a new flag was flown outside the Kremlin.

The first Federation established had insurmountable faults, which can be expected from a government that was created in haste. The second Federation established more lasting policies and guidelines for governing a body of citizenry who were searching for stability and opportunity in their new country.

GORBACHEV AND PERESTROIKA

Perestroika means restructuring or rebuilding. Many citizens were proponents of such policies because of the link to prosperity and wealth in the future. The problem was in the reforms and the nation being reformed. Gorbachev was constantly being pulled in more than one direction. For example, Gorbachev's lieutenants opposed his reforms because of the potential to lower the central power of government. The intellectual and popular forces were in favor of a more liberalizing direction in Soviet policy (Suny (1993) p.128).

At the center of Gorbachev's plan, each side was against one another by nature. Gorbachev's associates were ambivalent; on the one hand they increasingly well understood the seriousness of the problems faced by society and therefore the inevitability of change, but on the other, they continued to have faith in the superiority of their political and social system (Kenez (1999) p.257-258). Gorbachev wanted to democratize several aspects of the Communist nation, which was undemocratic by nature. Movies that spoke out against the USSR were released into theaters, banned books were uncensored, and theatrical plays were allowed that depicted such events as the Cuban missile crisis and the collectivization of the citizenry. Liberal editors were also put in place at major national periodicals (Suny (1998) p.454). This openness, ideally, was designed to create an intellectually free USSR. The citizenry, hopefully, would embrace their new freedom and honor Gorbachev for being a liberator. "To liberate the media... to begin scientific debate and critical analysis of daily life, of social and political structures, will shake up the whole of society" (Fagan (1989) p.68).

Glasnost allowed journals and periodicals to display unknown facets of Soviet society, like unclear events in Soviet history and unearned perks of the Communist officials. An article on these unearned perks, published in a prominent newspaper, was a guidepost by which the other newspaper editors could see what the Communist party had in mind for such new freedoms (Urban, Igrunov & Mitrokhin (1997) p.78). These guidelines were loosely followed with some divergence from the original ideals.

Economists contested Soviet economic statistics and revealed that Soviet productivity was among the lowest in the industrialized world (Suny (1998) p.456). On a social level, editors endured severe admonition from high officials because of published stories about massacres, polls about elected officials, and criticism by construction workers about luxury residences for officials (Urban, Igrunov & Mitrokhin (1997) p.78).

Millions of people were receptive to the USSR's various forms of mass media. Gorbachev still had the option of ending this period of glasnost, whether by decree or by force, but he never did so. It may have had to do with his ideals concerning socialism (Kenez (1999) p.255). Additionally, the unclear events of the USSR's history that were uncovered seemed unending. Stalin's crimes were thought to be the focal point of reporters' research, but they went back to the time of Lenin to uncover the unknown (Urban, Igruriov & Mitrokhin (1997) p.83). After glasnost was implemented, Gorbachev began his economic reforms.

In mid-1987, Gorbachev published the Law of the State Enterprises and Basic Provisions for Fundamental Perestroika of Economic Management. The Supreme Soviet adopted these laws, and their complements--ten decrees on major functions in the economic system. These decrees were on topics of reform and on execution of the reforms: planning, management of scientific-technical progress, material supplies, financial mechanism, price formation, banking, statistics, branch ministries, republican organs, and social policy (Aslund (1989) p.111).

The first set of reforms created a renewal in the USSR. "Reversing Brezhnev's policy of 'stability in cadres,' the Gorbachev leadership began with renewal, launching the largest purge of officials in the USSR since the 1930's" (Urban, Igrunov & Mitrokhin (1997) p.60). A table published in 1987--two years after Gorbachev became First Secretary--shows that he replaced five of 12 Politburo members, 10 of 24 department heads in the Central Committee, 30 of 80 ministers in the Council of State, 4 of 15 Republican Party Secretaries, 50 of 150 regional first secretaries of the Communist party, and 138 of 320 members of the Central Committee Party itself (Fagan (1989) p.73).

Following his renewal of the staff, Gorbachev announced to the Central Committee his requirements for the economy and stressed the urgency of the reforms. This renewal of growth came with a rationalization of investment (Fagan (1989) p.57). He attempted to tackle the renewal of the economy that in 1982 registered zero total growth for the first time since the Second World War (Urban, Igrunov & Mitrokhin (1997) p.63). This was not an easy task for the Soviets considering the two major factors that affected the USSR's economic state. First, oil prices around the world collapsed, which sharply decreased the revenue of the USSR, the leading producer of oil worldwide. The second factor was the nuclear disaster at Chernobyl. Gorbachev's government was reluctant to release specific information regarding the accident, which led to the exaggeration of its effects. This cleanup, plus the falling oil revenues, forced the USSR to borrow money to operate in its current economic state (Suny (1998) p.453).

Part of the problem with the economy was the lack of productivity. To improve the industrial productivity of Soviet factories, the State Acceptance Committee (SAC) was created. The SAC sent inspectors into factories to inspect goods and determine what could be done to improve productivity. After they inspected the facilities and recorded their results, the factories simply shifted the blame and only brought about worker discontent (Keep (1995) p.338).

Productivity was also an issue in the agricultural sector. The U.S. produced more grain than the USSR despite the Soviets using four times as many tractors. Also, there were 9 times as many people working in Soviet agriculture as there were in the U.S. Therefore, Soviet productivity of labor was 10 percent of the level of U.S. productivity (Fagan (1989) p.58).

It was apparent to Gorbachev that democratization of the political structure was necessary to implement his economic reforms. The reforms would come first within the country itself before Soviet products hit the free market without state intervention. Gorbachev proposed making every enterprise self-financing. Instead of being governed by a command economy planned from the top, enterprises would be allowed to conclude contracts with the state and with each other. Eventually a real price system would be introduced, along with systems of finance and credit from which enterprises could borrow for investment (Suny (1998) p.456). This is where perestroika gears itself toward transformation, not just renewal.

DEMOCRATS AND DEMOCRATIZATION

These reforms, like any reforms in such a backward society, were met with strong opposition. Some of the strongest opposition came about when drastic change was required. When Gorbachev announced in 1988 that a Congress of People's Deputies would become a new legislative body--and be elected by the citizenry--the country was exposed to political freedom. These elections were never intended to weaken the Communist Party's established bureaucracy, but were simply ways to make current officials more responsible in their behavior and improve their performance. "If there were a case where a new official was elected, then it is the government's way of opening up to fresh talent" (Keep (1995) p.355).

This Congress was to be the country's supreme body of power that worked alongside the current government in decision-making. This resolution was a political revolution for the Soviet Union (Suny (1998) p.461).

The Congress had 2,250 members, which was large for any assembly. This assembly elected 542 members to the Supreme Soviet, which held more frequent and businesslike meetings (Kenez (1999) p.260). This election was the first competitive and open election in the history of the Soviet Union, despite the fact that it was held under "rules and conditions that strongly favored candidates loyal to the Communist Party regime" (Pish (1997) p.35). Glasnost exposed these political proceedings to the public through their televisions, starting with inter-party discussions. "Revelations about the depth of the social and economic crises were interspersed with debates that showed real divisions in the party. Speaker after speaker exposed the grinding poverty of the countryside, the inadequacy of school buildings, the deterioration in health and healthcare, and the persistent lying about achievements" (Suny (1998) p.461). The added freedom of letting the republics choose different constitutional forms allowed them to more easily break away from the USSR and begin as their own ethnic nation.

Nationalist sentiments were increasing, but the centralized state was eroding (Kenez (1999) p.261). Another round of free elections in 1989 let a Democratic pseudo-party, Solidarity, sweep the election and turn the Communist Party into an unpopular minority party. The Communists had to give up their power to the Solidarity or use the military against them. Gorbachev chose not to use force after the 1990 elections and the constitutional ban on political parties was lifted (Suny (1998) p.471-472).

Numerous interest groups and legislative coalitions of the past election soon became political parties. However, they still seemed diminutive when compared to the millions on the roster of the Communist Party (Urban, Igrunov & Mitrokhin (1997) p.201). The Solidarity had thousands behind them in support of their cause, but few had actually joined a party other than the Communist Party. Some did not even formally leave the Communist Party (Fish (1997) p.44).

Some of these new parties had more than 10,000 members, but there were only a few. Some of the Democratic parties were poised to align for one main cause--to get Boris Ye1tsin elected President. This strength was enough to bring the Democratic Party of Russia (DPR) into the movement called DemRossiya (Urban, Igrunov & Mitrokhin (1997) p.227). "As Democracy took hold in the Soviet Union, the Communist leaders of the past amassed the weaponry for a coup d'etat in Moscow. Ministers, the vice president, and the head of the KGB assembled with tanks and troops around Moscow to 'save the country' while Gorbachev was ill and incapacitated" (Suny (1998) p.481).

From August 19-21, 1990, the coup was in effect, despite the lack of progress made by its existence. Yeltsin was able to slip away, the coup leaders did not attack the crowds, and Gorbachev refused to sanction the coup. This coup, which interrupted Gorbachev's signing of a treaty with nine of the 20 republics, was the death knell for the USSR (Kenez (1999) p.275).

The Communist Party showed its last sources of power and its negativity. "Their ability to prevent, obstruct, and coerce had overtaken their former abilities to initiate, create, and convince" (Fish (1997) p.51). When Gorbachev returned to Moscow, Yeltsin forced him to read the minutes of the August 19th Cabinet. These minutes showed that Gorbachev's appointees were responsible and that "Boris Yeltsin, President of Russia... was at the centre of resistance to the plot" (Keep (1995) p.404). The Soviet Union was gone, and Yeltsin remained as the leader of a new Federation.

CONCLUSION

The new Russia can be classified as neither a democracy nor a dictatorship. The Russian legislature is appointed largely by the President, pledging their loyalty to the Office of the President (Urban, Igrunov & Mitrokhin (1997) p.291). Most decisions are made by the legislature, which is elected by the people. The political transition, no matter the outcome, is not assured success by any economic reforms (Fish (1995) p.235).

Gorbachev and Yeltsin attempted to achieve stability in their presidency through a successful transformation into a market economy. What must first be in place to facilitate a successful change in economy is a strong and authoritative state government (Suny (1998) p.504-505). A decisive authority over economic change will ensure a greater chance of success.

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NEUTRALITY OF TEXT MAKES TAX CODE PROVISION MUZZLING CHURCHES' FIRST AMENDMENT RIGHTS ACCEPTABLE IN VIEW OF FEDERAL COURTS

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ABSTRACT

In Branch Ministries, Inc. v. Charles O. Rossotti, the U.S. Court of Appeals D.C. Circuit upheld a portion of Section 501(c)(3) denying tax-exempt status to churches and other organizations, otherwise exempt under Section 501(c)(3), which "intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office." In so holding, the Court held that such prohibition did not infringe upon churches' First Amendment rights because it was "viewpoint neutral," thus justifying, in the Court's view, what otherwise would be a violation of such organizations' right to exercise free political speech under the First Amendment without restriction by any law of Congress. In 1798, Congress passed the Alien and Sedition Act which similarly prohibited political speech that criticized the federal government. Although its text was "viewpoint neutral," in practice the Federalist Party used it as a political weapon to jail government officials, journalists, and others criticizing Federalist policies. The viewpoint neutrality of the Sedition Act was of insufficient comfort to James Madison and Thomas Jefferson who drafted Resolutions adopted by the Virginia and Kentucky legislatures, respectively, declaring the Sedition Act a clear violation of the First Amendment and thereby void and of no force or effect in those states. The suppression of free political speech contained in this Tax Code provision, along with the impossibility of enforcing it in a viewpoint neutral manner make it closely analogous with the Sedition Act, strongly suggesting that the Father of our Constitution and author of our Declaration of Independence would have resisted it just as they did the Sedition Act in their time.

REVERSE AGE DISCRIMINATION: A NEW TWIST TO AN AGE-OLD PROBLEM

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ABSTRACT

In General Dynamics Land Systems v. Cline the Supreme Court held that it was legal under the ADEA to preference older workers over younger workers with respect to some benefit plans, even though both sets of employees are protected under the Age Discrimination in Employment Act. This paper will examine that case, along with the decisions of the lower courts concerning reverse discrimination under the ADEA.

THE ADEA AND REVERSE DISCRIMINATION

The Civil Rights Act of 1964 was enacted "to achieve equality of employment opportunities and remove barriers which operated in the past to favor an identifiable group of white employers over other employees." (Griggs v. Duke Power Company, 1971, p. 431). Specifically, Title VII provides that "[I]t shall be an unlawful employment practice for an employer-- (1) to fail or refuse to hire or to discharge any individual, or otherwise to discriminate against any individual with respect to his compensation, terms, conditions, or privileges of employment, because of such individual's race, color, religion, sex, or national origin . . ." (42 U.S.C. § 2000e-2(a)(1)(2003)). Age was not included among the forbidden criteria under Title VII. Subsequently, the Secretary of Labor investigated the issue of age discrimination, and concluded that it was common for employees to be discriminated against in the workplace because of their age, and inaccurate stereotypes about the abilities of older workers (Recent Case, 2003). The stated purpose of the ADEA is "to promote employment of older persons based on their ability rather than age; to prohibit arbitrary age discrimination in employment; and to help employers and workers find ways of meeting problems arising from the impact of age on employment" (29 U.S.C § 621(b)(2003)).

The ADEA prohibits discrimination against individuals over the age of forty because of their age, and also prohibits covered entities from depriving individuals of employment opportunities or taking any other adverse action against such individuals because of their age. Specifically, the ADEA makes it unlawful for a covered employer "(1) to fail or refuse to hire or to discharge any individual or otherwise discriminate against any individual with respect to his compensation, terms, conditions, or privileges of employment, because of such individual's age; (2) to limit, segregate, or classify his employees in any way which would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his status as an employee, because of such individual's age; or (3) to reduce the wage rate of any employee in order to comply with this chapter" (29 U.S.C. § 623 (a)(1)-(3) (2003)).

The Civil Rights Act of 1964 was designed to eliminate rampant discrimination against racial minorities and the resulting disadvantages suffered as a result of such practices. Sex, as an illegal criteria for employment decisions, was later included in an attempt to defeat the legislation in Congress. (Price Waterhouse v. Hopkins, 1989). Specifically, Title VII makes it illegal for employers "to fail or refuse to hire or to discharge any individual, or otherwise to discriminate against any individual with respect to his compensation, terms, conditions, or privileges of employment, because of such individual's race, color, religion, sex, or national origin; or (2) to limit, segregate, or classify his employees or applicants for employment in any way which would adversely affect his status as an employee, because of such individual's race, color, religion, sex, or national origin." (42 U.S.C. § 2000e-2(a)(1)(2003)). That phrase, "because of" has been interpreted by courts as prohibiting all discriminatory practices based upon the forbidden criteria, and as not being limited to discriminatory practices aimed only at those persons for whom the legislation was enacted to protect. As a result, the Supreme Court has held that Title VII protects whites from being discriminated against in favor of racial minorities (McDonald v. Santa Fe Trail Transp. Co., 1976). Similarly, men are protected from discrimination based upon sex, even by members of their same sex. (Oncale v. Sundowner Offshore Services, Inc., 1998).

Does that same phrase, which makes it unlawful to discriminate "because of" age under the ADEA, protect younger workers from reverse discrimination in favor of older workers within the same protected class? In other words, is age (within the protected class) an illegal consideration, as are sex and race under Title VII? The Supreme Court has held that a covered employee can still establish a violation of the ADEA, even though an employee over forty years, who is in the same protected class, replaced the older worker (O'Connor v. Consolidated Coin Caterers Corp., 1996). However, in that case an older worker was discriminated in favor of a younger worker, which seems to be of the same genre of practices made illegal by Congress in passing the legislation, notwithstanding that both parties were over forty years of age. On the other hand, reverse discrimination, by definition, reverses that result within the protected class.

CLINE V. GENERAL DYNAMICS LAND SYSTEMS, INC.

In 1997, Michigan-based General Dynamics Land Systems changed its retiree health benefits policy to one that provides full retiree health benefits to workers who were at least fifty years of age on July 1, 1997. This change was made as a result of a modification in the union contract. The previous labor contract between General Dynamics and the UAW stipulated that the company provided full retiree health benefits to workers, who accumulate thirty years of seniority. But under the new agreement, the company only had to provide such benefits to workers who had thirty years of seniority and who were fifty or older as of the effective date of the agreement. Immediately thereafter, workers between forty and forty-nine years of age sued, claiming that their employer violated the ADEA because they were promised benefits when they began working that were later taken away, and denied benefits to which relatively older workers were entitled. As pointed out previously, the ADEA makes it illegal to discriminate because of age against any worker forty or older. But the wording of the statute leaves open to dispute exactly what kind of discrimination lawmakers sought to bar. Does it protect older workers, or does it also cover workers older than forty but younger than others receiving favored treatment because of age?

The district court characterized the sole issue before it as being whether or not an employer may legally provide a benefit to workers over the age of fifty, while denying that same benefit to workers below the age of fifty. To that query the court answered in the affirmative. The court determined that the purpose of Congress in enacting the ADEA was to address the problems faced by older workers, not workers who suffer discrimination because they are too young. As a result, the court granted the defendant's motion to dismiss for failure to state a cause of action (Cline v. General Dynamics Land Systems, Inc., 2000).

On appeal, the Sixth Circuit reversed, concluding instead that the ADEA provides a cause of action for employees within the protected class who claim that their employer discriminated against them on the basis of age because of the employer's more favorable treatment of older employees within the same protected class (Cline v. General Dynamics Land Systems, Inc., 2002). The appeals court determined that the language of the statute "clearly and unambiguously forbids employers from defining the terms and benefits of 'any individual's' employment based solely on his or her age." (Cline v. General Dynamics Land Systems, Inc., 2002, p. 469) The court asserted that the term individual was not limited in meaning to older workers. Further, the court opined that "[t]o hold as the ADEA requires us to hold, that employment age discrimination against *any* worker at least 40 years of age is prohibited, does nothing to defeat the congressional intent to protect 'older workers' and 'older persons'" (Cline v. General Dynamics Land Systems, Inc., 2002, p.470). The Court distanced itself from the characterization of the case as one of reverse discrimination, insisting that the expression had no ascertainable meaning in law, since an action either is, or is not discriminatory. Finally, the court deferred to the EEOC's interpretation of the statute, being persuaded that it was a true rendering of the language. The dissenting judge argued that whether or not the case was characterized as reverse discrimination, the ADEA was passed to alleviate problems faced by older workers, not younger workers. The dissent also asserted that, as a matter of common sense, the ADEA was not intended to interfere with collective bargaining agreements.

The Supreme Court reversed the decision of the Sixth Circuit by a 6-3 vote. Justice Souter, writing for the majority, stated that the ADEA forbids discriminatory preference for the young over the old, and characterized the issue before the Court as "whether it also prohibits favoring the old over the young. We hold that it does not." (General Dynamics Land Systems, Inc., v. Cline, 2004, p. *8). The Court evaluated the circumstances surrounding the passage of the ADEA, including then-common policies of age ceilings on hiring. It also discussed hearings on the Act in Congress that examined unjustified assumptions about the effect of age on the ability to work and negative attitudes about employers concerning older workers, including economic concerns about higher pension and benefit costs. In sum, the Court concluded that the "prefatory provisions and their legislative history make a case that we think is beyond reasonable doubt, that the ADEA was concerned to protect a relatively old worker from discrimination that works to the advantage of the relatively young," asserting that the "enemy of 40 is 30, not 50" (General Dynamics Land Systems, Inc., v. Cline, 2004, p. *18-*21).

The court rejected the notion that the statute's plain meaning dictated a different result. Justice Souter concluded that the term "age" employed by the ADEA was not comparable to the terms "race" or "sex" as employed by Title VII because the latter two terms are general ones, which require modifiers to indicate a relatively narrow application, like "black" or "female." In contrast, "the prohibition of age discrimination is readily read more narrowly than analogous provisions dealing with race and sex. That narrower reading is the more natural one in the textual setting, and it make perfect sense because of Congress's demonstrated concern with distinctions that hurt older people." (General Dynamics Land Systems, Inc., v. Cline, 2004, p. *32) The court also dismissed a single remark of one of the sponsoring Senators, which suggested that the law prohibited age from being a factor in an employer's decision either way, as being against the greater weight of evidence favoring a different interpretation. Finally, the Court justified its departure from the EEOC's reading of the statute, because the agency, when it adopted its interpretation, gave no reasons for its view, aside from noting that the provision was carried forward from an earlier regulation, which also provided no explanation. Justice Souter further iterated that an agency was only entitled to deference in its statutory interpretation in situations in which "the devices of judicial construction have been tried and found to yield no clear sense of congressional intent. Here, regular interpretive method leaves no serious question, not even about purely textual ambiguity in the ADEA." (General Dynamics Land Systems, Inc., v. Cline, 2004, p. *36).

Writing for the three dissenting justices, Justice Thomas characterized the appeal as what should have been "an easy case," in sum, because the plain language of the statute "mandates a particular outcome: that the respondents are able to sue for discrimination against them in favor of older workers. The agency charged with enforcing the statute has adopted a regulation and issued an opinion…both of which adopt this natural interpretation of the provision. And the only portion of legislative history relevant to the question before us is consistent with this outcome" (General Dynamics Land Systems, Inc., v. Cline, 2004, p. *39). Justice Thomas characterized the plain reading of the statute, one supported by the EEOC and seemingly a sponsoring Senator, as unambiguously prohibiting all discrimination based upon age within the protected class. In particular he justified this result by comparing the ADEA to reverse discrimination suits brought under Title VII, and a clear absence of Congressional concern, at the time the Civil Rights Act was passed, about any problems involving discrimination against whites, or any evidence that white workers were suffering at the expense of racial minorities. Commensurately, male on male sexual harassment was never cited as a social problem to be remedied by Title VII. Nevertheless, Supreme Court precedent permits the recognition of both types of discrimination suits under Title VII "because of" race or sex. The dissent, therefore concluded, that "the ADEA prohibits discrimination because of an individual's age, whether the individual is too old or too young…" (General Dynamics Land Systems, Inc., v. Cline, 2004, p. *59).

In sum, the Supreme Court in *Cline* interpreted the text and legislative history of the ADEA as allowing an employer to set minimum age requirements for some employee benefits, and to treat older members of a protected class more favorably with respect to the provision of certain benefits. In other words, employers to a certain extent may take into account age with the respect to the provision of benefits without violating federal law. From a legal perspective, it is thus clear that reverse discrimination claims are not cognizable under the ADEA, as they are under Title VII of the Civil Rights Act of 1964.

With respect to the human resource policy ramifications, the Supreme Court's decision seems favorable. In contrast, the impact of upholding the Sixth Circuit's decision could have resulted in significant negative implications for retirement benefit programs and early retirement plans, a possibility that sparked several public interest groups to voice concerns after that decision. The National Education Association asserted that, rather than stemming from age-based animus or stereotypes, such differential allocation of benefits, in the areas of pensions, health care, severance pay, and the like, reflects an attempt to target scarce resources to those employees who need them most (Richey, 2003). If employers had to extend retirement health benefits to everyone aged forty or older, it is reasonably predictable that they may decide to extend such benefits to no one (McTague, 2003). Finally, a decision by the Supreme Court, which upheld the Sixth Circuit's position, could have infused rigidity into employment decisions, and removed the freedom of employers to accommodate any special needs of older workers, particularly because the ADEA applies to all aspects of the employment relationship.

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THE EVOLUTION OF COMPUTER SOFTWARE ON BUSINESS PRACTICES AND STANDARDS

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ABSTRACT

As technology changes and evolves, other areas of culture and society are affected, and these areas must change and adapt to the new environment. The impact of software on accounting is an example of how existing standards have been forced to evolve to reflect the new environment. This paper will provide an overview of the evolution of software accounting standards and the groups that shape these decisions.

INTRODUCTION

From the costs associated with the first data processing department, through the impact of the introduction of commercial personal computer software and up to today's network-centric business environment, accounting standards are constantly being redefined in order to keep up with new issues. Over the years, various approaches have been adopted by businesses in order to handle software costs, including treating development costs as either a research and development expense or as a capitalizable cost.

"The primary effect of spreadsheets on accounting has been to expand the ability to do sensitivity analysis--model what-if scenarios. Accounting analysis involves a large amount of financial information that must be summarized and analyzed in a variety of ways. Using spreadsheet technology, individuals are able to perform sophisticated analyses of complex business problems such as justifying the purchase of a large piece of capital equipment, determining the cost of a product, or negotiating the terms of a loan" (Cherrington, Denna & Hollander, 1996).

HISTORY

"Since the 1950s, computer software has matured through several generations of languages. The first generation, called machine languages, consisted of simple strings of binary digits. The second generation, assembly language, originated in the 1950s and consisted of symbolic codes translated by assemblers into machine-readable form. Developed in the 1960s, third-generation procedural languages were designed to meet application requirements in specific professions--for example, FORTRAN in the sciences and COBOL in business. Fourth-generation languages focus not on how a task ought to be performed, but on what is to be done. Developed more recently, a fifth generation of computer languages draws from stored knowledge bases and accomplishes intelligent tasks" (Ricchiute, 2001).

The role of software in the corporation has changed significantly in the last thirty years. Early software development was seen as either an academic or operations effort, hidden in the back office data processing center; however, software development today is seen as a major investment in a strategic asset, integral to the success or failure of the company.

"Technological change has also dramatically changed the manufacturing environment for many companies, causing changes in how information is used. Manufacturing processes are increasingly automated. Automated manufacturing processes make extensive use of robots and other computer-controlled equipment and less use of human labor for direct production activities. Many early accounting systems were designed primarily to measure and report the cost of labor. This is because human labor was the largest cost in the production of many products and services. Clearly, such systems are not appropriate in automated environments. Accountants in such settings have had to change their systems to produce information for decisions about how to acquire and use materials and automated equipment efficiently" (Horngren, Stratton & Sundem, 1996).

OVERVIEW OF ISSUES AND PROBLEMS

Because of this change in software's role, the accounting standards and practices associated with software development have changed dramatically as well. Because no standards were in place during the early years before the term software was coined, companies took different approaches in handling costs associated with software. The different methods of treating software were:

1. Expense all costs associated with software.
2. Capitalize all costs, including overhead. Capitalize purchased software, but expense internal software.
3. Capitalize operating systems, but expense applications (Munter, 1999).

This confusion and inconsistency was the precipitant for the wide variety of statements and positions that have been published by various accounting standards boards over the past 30 years.

"The value of computer software lies in its ability to help the organization do something better, such as improve the decisions of management, provide goods and services to customers more efficiently, or improve controls over business and information processes. Merely having more information does management little good if it does not improve their decisions. As with other economic decisions, additional computing capacity and storage should be added as long as the marginal benefit exceeds the marginal cost" (Cherrington, Denna & Hollander, 1996).

ORGANIZATIONS AND COMMITTEES

There are several different boards and associations that have an interest in standardizing software accounting practices. The most well-known is the Financial Accounting Standards Board (FASB). The FASB's goal of creation and implementation of new accounting standards is accomplished through the issuance of statements of financial accounting standards (SFAS) by the board's Emerging Issues Task Force (EITF). The second body is the American Institute of Certified Public Accountants (AICPA) professional association. The AICPA's Accounting Standards

Executive Committee (AcSEC) issues Statements of Position (SOP) similar to the EITF's statements. Third, the Securities and Exchange Commission (SEC) has an interest in the development of accounting standards and periodically issues guidelines reflecting their position.

INTERNAL DEVELOPMENT

Software usage and development in the early 1970s was much different than today's approach. Since most businesses had proprietary needs, software development for the company's mainframe was done internally by the data processing department. Because of this development model, most software was developed in-house for usage in-house with infrequent external purchase or sale of software.

Besides internal development, software can be rented or purchased from a supplier. "Within the organization, either the systems development staff or the end user can develop the software. The systems development staff usually writes programs that are large and complex and involve a number of organizational units. Software development by the user (end-user computing) normally is appropriate when the program will be used by a small group or an individual, and must be tailored to that limited use" (Gelinas & Sutton, 2002).

Under this development model, software was viewed as an operations expense, or as a research and development cost. In 1974, FASB issued the SFAS No. 2, "Accounting for Research and Development Costs," which classified expenses from internal use software development as research and development and required companies to expense these costs as they are incurred. This statement unfortunately does not fully address external software development costs and leaves much ambiguity in how costs associated with software for external use should be treated:

"…in each case the nature of the activity for which the software is being developed should be considered in relation to the guidelines…to determine whether software costs should be included or excluded [as R&D costs]" (Munter, 1997).

This ambiguity was quickly cleared up by FASB with its Interpretation No. 6 of SFAS No. 2, which classed software into three categories:

1. Software purchased or leased.
2. Software developed internally.
3. Software used in selling and administrative activities (Munter, 1997).

Even though this did not entirely address all types of external use software, the interpretation was useful in separating software that is research and development from software that is not. In effect, the interpretation stated that purchased software is not research and development, but development costs are research and development and should therefore be expensed.

EXTERNAL USE SOFTWARE

By the early 1980s, the software industry had changed dramatically. With the introduction of the personal computer in 1981, the in-house software development model was replaced by the purchasing of canned commercial software developed by a vendor. In 1985, SFAS 86 was issued to specifically address the costs incurred by a vendor in the development of commercial software. The statement, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," only regards software intended to be marketed and not internally developed or used (Finance and accounting policy). This statement fills in the holes that SFAS No. 2 did not address. SFAS 86 also stated that all costs up to the point where the software is technologically feasible are research and development costs and thus expensed. But production costs--from the point of technological feasibility onward--should be capitalized. This clarification was very important to developers. Finally, SFAS 86 stated that "accounting for costs of software used internally is not currently a significant problem" (Finance and accounting policy). Thus, with the previous SFAS No. 2 and the change in the software industry, the focus was shifted to external-use software.

A CASE STUDY: THE ORACLE COMPANY

With the explosion of the PC platform, many developers such as Oracle were faced with new accounting issues as their businesses grew rapidly. Oracle, a developer of database software, grew from a small government contractor to one of the largest software development companies in existence, with a large staff of programmers, consultants, and sales representatives. In the late 1980s, the company was known for manipulating sales and revenue information and drew the attention of the SEC. Oracle developed a reputation for questionable accounting practices:

1. Keeping the company's books and records open for additional business days after the close of the month.
2. Back-dating licensing.
3. Postponing recognition of revenue and income from one period to another.
4. Recognizing revenue upon acceptance of sales contracts when a product was not yet in production.
5. Failing to deduct product returns from revenues (Lowell, 1999).

Oracle was not alone in these practices, and the AcSEC issued their own guidelines on how these practices should be abandoned in SOP 91-1. In part, the statement advocated that "revenue can be recognized only after the delivery of software to a customer" and "the collectibility of the amount due to the software developer is taken into account when the revenue is recognized" (Lowell, 1999). This statement impacted several of the sales and accounting procedures Oracle and other developers were practicing and totally revised the way they did business.

LATE 1990s STATEMENTS

The SOP that is briefly discussed in this paper is the AcSEC's SOP 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This is the most comprehensive statement regarding software accounting to date and is consistent with and elaborates upon SFAS No. 2r SFAS 86r and SOP 91-1.

This position is important because it acknowledges that software is a strategic asset for the corporation; thus, companies should capitalize costs associated with developing or obtaining software for internal use. Though it does not address software that is developed internally but sold externally at a later date, the SOP does break down the development costs into several stages, each with different accounting procedures. First, costs from the preliminary project stage, which consists of evaluating alternatives and assessing proposals, are expensed as incurred. Second, costs during the application development stage are capitalized and amortized over the period of expected benefit. Lastly, costs incurred during the operations stage, which begins as the software is placed in service, are capitalized and depreciated in the same manner as costs in the application development stage. Again, this SOP only concerns internal-use software developed in-house.

CONCLUSION

Whether software is for internal or external use, whether it is marketed or not, and at what point in the development life cycle costs are incurred all affect how these costs are treated. In summary, costs from internal-use software are expensed during early stages and capitalized during development; costs from external-use software that is for sale are capitalized. Because technology is ever-changing, the standards and practices that are associated with it must adapt and evolve as well. FASB, the AICPA, and the SEC have all issued guidelines on software expenses, but there are still issues that need to be addressed. The current practices and standards on how software costs are treated in accounting have changed much in the last three decades, and will continue to change, as new issues emerge and are addressed.

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A STRATEGIC AND HISTORICAL REVIEW OF VISA AND THE SMART CARD

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ABSTRACT

VISA is one of the most recognized brands in the world today. The company has changed the way consumers do business globally. This paper comments upon and reviews the brand's history and marketing procedures.

INTRODUCTION

Credit cards are used by consumers around the world and are key to everyday life. VISA is one of the most trusted brands in credit cards. This company entices new customers and nurtures its valued customers. One of VISA's most versatile brands is its smart card. The smart card can be used wherever credit cards are accepted and is considered to be more effective than the regular credit card. This will be reviewed in a later section.

CORPORATE HISTORY

Many consumers wrongly assume that credit cards have been in use for many decades. Before credit cards, consumers had few options to use when paying for goods and services. Compared to other corporations of similar stature, VISA's history is brief. Outlined below is a review of VISA's corporate history.

1958--Bank of America, based in San Francisco, California, issues BankAmericard. With the state of California as its market, the card is an early success, and it is the first revolving credit card with universal merchant acceptance, allowing cardholders the option of paying their account balance in installments with a monthly finance charge applied to the remaining balance.

1966--Bank of America expands its bank card program by forming the BankAmericard Service Corporation, licensing banks outside of California to issue cards to Bank of America's customers. Because the cost of bank card programs is shared among Bank of America's member financial institutions, even small banks across the country are able to join. The Interbank Card Association, which later becomes Master Charge, is formed.

1969--Most regional banks convert their independent programs to either BankAmericard or Master Charge.

1970--BankAmericard transfers control and ownership of the BankAmericard program to the banks that issue the cards, forming National BankAmericard Inc. (NBI). At this time, more than 1,400 banks offer either BankAmericard or Master Charge credit cards.

1973--NBI pioneers E-commerce and introduces the world's first global electronic card authorization system, BASE I, reducing the time consumers need to wait to have their transactions authorized from more than five minutes to less than one minute. Authorization is now available 24 hours a day.

1974--International Bankcard Company (IBANCO) is formed to administer the BankAmericard program internationally. The card encounters some resistance because its name is identified too closely with the U.S. and the Bank of America. The same year, Base II is introduced, the first electronic clearing and settlement system, making it possible for merchants to transmit authorized transactions electronically, greatly reducing paperwork and significantly speeding up the transaction process.

1975--NBI introduces the first national deposit access card, enabling cardholders to debit charges from their deposit account rather than having the charge posted to a line of credit.

1976--BankAmericard changes its name to VISA, a simple, memorable name with a worldwide appeal that is pronounced the same way in almost every language. NBI is renamed VISA U.S.A. and IBANCO is changed to VISA International.

1979--VISA introduces the first electronic dial terminal at the point of sale that allows for much speedier purchase transactions. This leads the way to electronic data capture (EDC) point-of-sale terminals virtually eliminating the time-consuming process of paper deposits.

1982--VISA issues the first premium card--VISA Premier--to provide new services for upscale customers.

1983--Building on its anytime, anywhere promise, VISA launches the world's first global ATM network, providing 24-hour cash access to cardholders around the world and contributing to the convenience of modern business and leisure travel.

1984--The rapid growth of the payment card industry in the mid-1980s leads to a rise in credit card fraud and counterfeiting. VISA establishes the VISA Risk Identification Service, the first computer-based system to pinpoint suspicious card transactions at merchant locations.

1985-1988--VISA sales volume doubles.

1986--Globally, VISA becomes the first payment card system to offer multiple-currency clearing and settlement, providing financial institutions with faster methods of restitution and increasing the efficiency of international transactions. Today's VISA network is capable of processing payment transactions in 160 different currencies.

1987--VISA establishes the first computerized card transaction processing network in China.

1988--VISA Member issues the first bank card in Russia.

1993--VISA is the first to apply state-of-the-art neural network technologies to payments, thus reducing the incidence of card fraud by giving VISA member banks smarter and timelier data about suspicious transactions. By analyzing typical card usage patterns, the neural network-based risk management tool invented by VISA immediately notifies banks so they can inform their customers if a card appears to have been used by someone other than the legitimate cardholder. VISA offers the first international prepaid card, VISA Travel Money. This allows travelers to put a set amount of money on their card in one currency and access that account while traveling in other countries, enhancing the safety and convenience of international travel and currency exchanges. VISA issues the first smart card that allows cardholders to accumulate merchant loyalty points by making purchases on their payment cards. VISA becomes the first to offer a suite of corporate, business, and purchasing cards to accommodate the needs of businesses of all sizes.

1995--VISA co-develops industry-wide chip card specifications, Europay/VISA/MasterCard (EVM), to ensure that all chip cards will operate with all chip-reading terminals, regardless of location, financial institution, or manufacturer. As a result, smart credit cards and debit cards are now standardized to the point where cardholders can confidently use their chip cards to access their accounts from any EMV terminal worldwide.

1997--The first SET 1.0 (Secure Electronic Transaction) purchase using a smart card is completed. This technology, co-developed by VISA, provides a high level of privacy, security, and authentication for payment card transactions made over the Internet. VISA announces the prototype for the first contactless commuter-cash smart card. Contactless terminals do not need a card to be physically inserted into the terminal and offer greater convenience and flexibility to cardholders.

1998--VISA, together with Standard Chartered Bank, introduces the first multi-application smart card based on open standards-based technology. As a result, it becomes more cost-effective for banks to offer multi-application cards that enable consumers to access multiple financial accounts and other types of services--all on a single card. For example, debit accounts, lines of credit, and prepaid accounts, as well as secure Internet shopping or merchant loyalty programs, can now all be stored on one card.

1999--Globally, VISA becomes the first to process 25 billion consumer payment transactions per year. VISA is the first payment association to promote a global infrastructure for smart cards across multiple industries as a founding member of GlobalPlatform, Inc. VISA conducts the world's first Euro transaction using a payment card in the European Union. VISA joins the Wireless Application Protocol (WAP) Forum to develop standards for wireless delivery. VISA completes the first download of electronic cash via mobile phones that are powered by the GSM (Global Systems and Mobile Phone) network in Leeds, UK. VISA announces a pilot program with Nokia and Merita Nordbanken of Finland enabling cardless payments via mobile phones at both physical merchants and on the Internet. VISA, together with Citibank and the General Services Administration, introduces the world's most sophisticated, multi-application smart card. It is the first smart card to combine credit, employee identification, access control, and biometric verification.

2000--VISA reaches a milestone with one billion cards in use. VISA announces an enhanced Consumer Zero Liability Policy, which was originally launched in 1997. The new rule virtually eliminates consumer liability in cases of VISA card fraud over the VISA system, including Internet transactions. Under the previous policy, cardholders could be held liable for up to $50 if their credit or debit cards were fraudulently used on the VISA system and they failed to report theft or unauthorized use within two business days. The new policy does not cover commercial card transactions. On April 3, 2000, VISA International moves its systems and processing services division into a wholly owned subsidiary company, named Inovant (www.inovant.com). Inovant provides global transaction processing for VISA (smart card). VISA, a multi-function chip product, is launched in the U.S. VISA Buxx is launched to open an underserved market of teenaged consumers and offer parents a tool to teach their teenagers about responsible money management.

VISA U.S.A. announces Direct Exchange, which paves the way for a new generation of payment capabilities. Holiday spending volume on VISA credit and check cards reaches $101 billion between November 24 and December 29, 2000. Online spending more than doubles over the previous year. VISA U.S.A. launches its national consumer education program, Practical Money Skills for Life, which is aimed at helping high school students learn better money management skills.

2001--VISA completes the world's first secure payment transaction using a Palm™ handheld computer. Palm and VISA have worked with terminal manufacturers Ingenico and VeriFone to enable the secure transfer of payment information from a Palm handheld to a VeriFone or Ingenico point of sale payment terminal using infrared technology. Smart VISA Business cards, chip-enabled payment products tailored to the small business market, are launched in the U.S. (http://www.usa.visa.com/personal/about_visa/who_we_are_history.html).

CORPORATE PROFILE

The company is located in San Francisco. VISA is the world's leading payment brand and the largest payment system. More than 1,100 employees in five regions work on branding, development, sales, and operations. The brand enjoys worldwide awareness and unsurpassed acceptance.

The VISA network processes over 3,700 transactions every second during peak times. The company's primary slogan is VISA--everywhere you want to be.

VISA CREDIT CARDS AVAILABLE

1. VISA Classic
2. VISA Secured
3. VISA Gold
4. VISA Platinum
5. VISA Signature
6. VISA Rewards Cards
7. VISA Smart Card

THE VISA SMART CARD

The VISA smart card is the future of the credit card industry. It has a computer card imbedded within its plastic. This allows the card to store more than 100 times the information that on a regular credit card can store. This card allows information and plans to be combined into one safe place. Thus, it is a smart way to buy goods and services and is very secure. The smart card records consumers' transactions, reward programs, discounts, and special offers. The card's intelligence chip helps consumers better organize their financial information.

ADVERTISING AND SUCCESS

VISA is marketing the advantages of owning a smart card. The company is leading the market in credit card holdings. VISA is a supporter at events such as the Olympic games, Broadway, NFL, NASCAR, and the VISA Triple Crown (VISA.com). VISA has also partnered with Disney in an advertising campaign. Thus, the brand has been established as the leader in the industry. Also, market shares and profits lead the industry.

THREATS AND COMPETITION

The two primary competitors of VISA are MasterCard and American Express. However, other threats linger in the marketplace for VISA as well. Market conditions play a role in determining how much money consumers are willing to spend. If the economy is in a downturn, consumers are inclined to save rather than to use credit cards. If the economy is not a threat, then VISA's primary competitors try to market their own smart cards.

WHAT IS INTERLINK?

Interlink is America's leading online point-of-sale network. With merchant locations in every state, Interlink is a quick way to make everyday purchases and get cash back. At over 1.2 million locations in large cities and small towns, Interlink enables an ATM card to work at the point of sale--withdrawing the necessary funds directly from consumers' checking account--all with the security of using a private PIN code (www.usa.visa.com/personal/cards/interlink_overview.html).

WHY SHOULD INTERLINK BE USED?

Interlink is a good solution when time is a factor. By speeding cardholders through checkout lines, Interlink ensures that cardholders do not waste time counting cash or waiting on check approvals.

Interlink is on most ATM cards. Because Interlink is the premier national online point-of-sale network, most ATM cards work at over a million merchants throughout the U.S.

CONCLUSION

The history and a brief strategic analysis of VISA and its smart card were presented. VISA uses many different techniques and strategies in order to remain successful in a very competitive industry. Based upon market share and the company's financial record, VISA should remain a leader in the industry for many years to come.

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THE FUTURE OF DEMOCRACY THROUGH CAMPAIGN FINANCE REFORM

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ABSTRACT

In light of the 2004 Presidential Elections, campaign finance has been pushed into the reform spotlight. In efforts to decrease political corruption, the Bipartisan Campaign Reform Act of 2002 (BCRA) has been upheld by the United States Supreme Court. The Bipartisan Campaign Reform Act of 2002 (BCRA), more commonly known as the McCain-Feingold Act after the senators who devised the new law, is the most monumental campaign reform act since the Watergate scandals of the 1970s. Since 1976, there have been no regulations for financing political campaigns. Consequently, a primary form for political funding has shifted to soft money donations. Soft money is political donations made in such a way as to avoid federal regulations or limits, as by donating to a party organization rather than to a particular candidate or campaign. In contrast, hard money is money that is raised and spent according to federal election law. The core feature of the new law looks to diminish the flow of soft money in federal elections. The McCain-Feingold law has raised many questions in political communities. Many find the law to be a violation of the First Amendment, which entitles all to free speech. Others find the laws necessary in order to elect the most suitable candidate for each position, and lessen the escalating degree of corruption permeating political elections. Either way, campaign finance reform is necessary in order to retain the American form of democracy.

THE VISA FINANCIAL BRAND: A STRATEGIC ANALYSIS

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ABSTRACT

This paper discusses how the VISA financial brand was established and how it has remained a worldwide brand. A brief history of the charge/credit card industry and the history of the VISA brand are discussed. How VISA became established as an important brand is covered in order to convey the importance of leadership and brand establishment in the turn-around of the once struggling credit card industry.

INTRODUCTION

The credit industry began with a plastic card. Behind the plastic and later the magnetic strips was one of the most revolutionary financial ideas of the 20th century: having a cashless payment system (VISA corporate report, 2004). Credit cards became the consumer's way to pay--and also the way to more debt. Plastic allows consumers to pay for goods and/or services without having cash on hand. The only time one must pay is when the once-a-month bill is due. Even when it is due, the credit card company only requires a minimum payment. Because full payment is not required, consumers and even businesses can get into financial trouble because the interest rates can increase the bill. Credit card companies like VISA depend on the fact that people will not always pay their full bill, thus earning profits for VISA from the high rates attached to the debt.

HISTORY OF THE BRAND

The original VISA card was called the BankAmerica card. VISA was established in 1958 with Joseph Williams's BankAmerica card in the blue, white, and gold colors. The bank founder, A.P. Giannini, saw the importance of making his bank the one for the "little fellow," and his philosophy continued with his support of the credit card (Chutkow, 2001).

The most extraordinary episode in credit card history was the great Fresno Drop of 1958 (Booker, 2004). The drop was a mass mailing of 60,000 BankAmerica cards to Fresno, California residents. Williams's idea was to give the middle-class cash users charge cards previously unavailable to them. Credit became instantly available to Fresno residents, and now handing over cash/checks to pay for goods and/or services and bargaining with the bank was unnecessary in order to get the goods and services one wanted. "Thousands of ordinary people suddenly found that thousands of dollars in credit had literally dropped into their laps" (Booker, 2004, p. 10). One year after the Fresno Drop, consumers had put $59 million worth of purchases on their credit cards. Taking into account inflation, $59 million is equivalent to $350 million today (Booker, 2004). This was for just one year and one middle-class populated city.

ESTABLISHING THE VISA BRAND

Establishing the company began with the Fresno Drop. Mass mailing of credit cards was the marketing tool of choice in the beginning with the BankAmerica cards. Consumers received these cards for no stated reason and became dependent upon paying with plastic. As time went on and the success of the BankAmerica cards became apparent, it was time to form relationships with banks in order to help with the growing credit providing services that seemed to be used by everyone in the U.S. The cards were obviously being used because they made purchasing goods and services so easy.

The group of financial institutions (NBI) wanted a new name. Hock was influential in the decision-making of the company. While he was still working with the NBI name, he was given the task of finding a name for the new jointly owned card company. Originally the VISA name was proposed and rejected, but somehow it resurfaced. No financial business had ever used the name. The appeal of the name was that it was "short, graphic, and easily recognizable, and it did convey the required traits: mobility, acceptance, and travel" (Chutkow, 2001, p. 2). VISA became the official brand name and would become a marketing success story (Chutkow, 2001).

A name should not be the deciding factor in a company's success, but choosing the right name can give a company an advantage over competitors in the industry. Credit card companies provide businesses and consumers with a service. Businesses falling into a service industry should choose a good name because the name is the brand. Berry, Lefkowith and Clark (1988) developed a four-tiered test for brand names for services companies. The four categories tested were distinctiveness, relevance, memorability, and flexibility. VISA passed the test in all categories.

VISA is distinctive name--MasterCard and American Express are ordinary sounding. A visa is an authorization that allows one to cross borders. VISA is therefore a relevant name for a credit card. VISA is understood and accepted around the world. VISA built up a better image by using the name as an essential part of their marketing strategy.

MEASURING SUCCESS

Credit cards, just like many innovative products and services, experienced poor performance at the time of their original inception. Performance was measured by profits. Charge cards--not just VISA--were also plagued with problems. Fraud, mass mailing, and delinquency of payments reduced profits substantially. Profit was and still seems to be the performance measurement of choice for VISA. Research shows this to be true. In the year of the Fresno Drop, the Bank of America experienced $20 million in losses. After 15 years had passed, over $288 million was lost on credit cards by all banks that had them at the time. They were not profitable until Hock changed the way the BankAmerica card worked. The bank needed other institutions to help support and distribute cards. These institutions formed the relationships, computer networks, and financial resources that Hock believed necessary to turn a profit in the credit card industry. It took the right leadership with the motivation and a vision necessary to revive a once struggling industry into a profitable industry (Booker, 2004).

Present day interests in performance are centered upon market share and sales volume. VISA's 2003 market share was 57 percent globally (VISA corporate report, 2004). This percentage of market share is significant. Such domination in an industry is difficult to overcome. To overcome such domination, VISA would have to experience some kind of credit card scandal equivalent to an Enron-type of situation. A scandal might be the only opportunity the other major card companies would have in defeating VISA. VISA dominates market share, but also has tremendous power with its sales volume figures. VISA cards bought $2.7 trillion in goods and services in 2003 (Merchants & Vendors, 2004). As a comparison, U.S. GDP in 2002 was approximately $10.5 trillion, and VISA cards are purchasing goods in amounts more than most small countries' GDP figures. VISA is a successful brand no matter how one wants to measure it (VISA corporate report, 2004).

THREATS TO VISA

The threats to VISA come with the existence of other established credit card companies. Credit card companies such as MasterCard, Discover, and American Express have the resources available to them to make a run at VISA's sales volume and market share. Being established credit card companies, these competitors want to take a cut into VISA's impressive numbers. The major impediment for the competition is VISA's quality, service, and partnerships with 21,000 financial institutions worldwide. VISA's strengths are not something easily overcome. If VISA continues with new ideas for security and ease of transaction, it should keep the competition at a distance.

Even though VISA dominates the industry with its market share, MasterCard still has more partnerships. They have 25,000 relationships worldwide compared to VISA's 21,000. MasterCards are accepted at an estimated 30 million locations. MasterCard has the potential to overtake VISA. MasterCard not only holds the MasterCard name, but it also has the Maestro brand name and the Cirrus ATM network. It also has the added advantage of being a publicly traded company, which affords them the opportunity to raise money through the issuance of securities. MasterCard brand of cards recorded $1.14 trillion in sales volume in 2002, while VISA reached the two trillion dollar mark. The Maestro cards generated $500,000,000 in 2002. Their partners have only issued 590.1 million cards compared to VISA's issuance of one billion cards. This is another shortcoming that could be remedied due to the fact that MasterCard has more partnerships than VISA and should experience no problem issuing more cards.

Profits in 2002 for MasterCard were cut because of an increase in marketing and advertising. The company increased spending in these areas to counteract the slippage of the brand from consumers' attention. Building brand recognition and acceptance were the focus points behind the extra money allocated. By trying to be more customer focused and spending additional money and effort on marketing, MasterCard could be the company to challenge VISA (MasterCard incorporated annual report, 2002).

Discover Card poses a much smaller threat to VISA than does MasterCard. It is a smaller credit card company and participates in the credit card market of financial services. Discover Financial Services is a business unit of Morgan Stanley that operates the Discover Card.

Approximately 50 million Discover cardholders exist, which is insignificant compared to VISA and MasterCard, but because of the small size, the company is able to provide added benefits to customers such as CDs, money market accounts, insurance, and home loans. It received awards for generating customer loyalty, which is another benefit of having a small customer base.

One of the latest innovations coming from Discover is the Go card, which is a small pocketknife type credit card for a key chain that can be flipped out as needed. The Go card and the customer loyalty awards enable Discover to distinguish its company from the larger corporations. Even though acceptance and extent of credit card service is lower, the Discover card continues to be profitable for Morgan Stanley. It is satisfied in being a small company with loyal customers, ready to offer consumers other services such as portfolio management, CDs, insurance, loans, etc. Morgan Stanley not only provides payment solutions with its credit cards, but also provides its customers with many other financial services. Providing these other services is a considerable strength. It is, however, not enough to seriously challenge VISA or MasterCard in the industry. Discover Card has its niche market and it is reaping good benefits from its small, customer-focused market (Discover corporate overview, 2004).

There are other competitors to VISA's empire. American Express is a threat. This company has operated in the industry just as long as the original VISA card, the BankAmerica card. American Express is a small company similar to the Discover Financial Services. It has roughly 60 million cardholders and is attempting to grow by providing other services to its customers. Like Discover, American Express is working to develop its own identity and provide its customers with the best financial services possible. Not only does American Express provide charge cards, but the company also provides tax preparation, insurance, financial advising, and travel services. American Express and Discover are closer competitors with each other than with VISA (American Express, 2004).

CONCLUSION

VISA is a name recognizable the world over. In the highly competitive world of consumer financial services, a recognizable brand name is extremely important. A brand is defined as "the 'emotional association that customers/employees form with a product, service, or company'" (Armstrong & Graziano, (2001), p. 1). The VISA name continues to personify this definition. Consumers hear the name and immediately know what it means. Consumers may experience fear because of high credit card bills, or they may experience happiness because their credit card company allows them to schedule payment for goods and services over a period of time.

By providing customers and partners with excellent credit options, VISA has become one of the top payment solutions companies in the world. Acceptance has reached an all time high, and with the fairly recent E-commerce advancements, it is difficult for consumers to function economically without a credit card. VISA wants a plastic paying world, and it does not want consumers or businesses to be able to function without a credit card. With new technology, time of payment is no longer a factor. Home shopping television and Internet sales for many companies have generated exceptional sales figures. Thus, the world pays faster and easier than ever because of credit cards.

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THE MARKETING OF A DEFENSE PROGRAM

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ABSTRACT

The purpose of this study was to determine which aspects of the Naval Reserve experience produced satisfaction and which aspects were deemed important. The results of this study will identify any satisfaction or dissatisfaction trends as well as the importance levels of both the satisfiers and the dissatisfiers. Through modeling, it is hoped that areas of concentration will be identified and activities can be directed toward these perceived areas to enhance the Naval Reserve's retention efforts. Based upon these findings, conclusions have been drawn which, if acted upon, could possibly lead to greater retention of officers and enlisted personnel. Retention could ultimately increase both officer and enlisted personnel's economic standing and raise the public's perception of the Naval Reserve.

INTRODUCTION

In 1980 and 1985, the Officer Counseling Board for the Navy and Marine Corps Training Center, Roanoke, Virginia, conducted an internal survey of officer personnel attached to the various units located at the Roanoke Center. Volunteer Training Unit (VTU) personnel were responsible for administering the survey and compiling the data in order to provide guidance in counseling officers regarding their Naval careers and ultimately their retention in the Naval Reserve.

The survey administered was a refined version of a longer, more formal survey called the Naval Reserve Satisfaction Scale (NRSS), previously administered to over 3,000 officers and enlisted personnel in the Los Angeles and San Francisco areas in 1974 (hereafter called the CAL Study). The trends depicted in the informal surveys were so striking (in their overall satisfaction improvement) that a more formal approach was decided upon to verify the trend.

This study has been modified to include data collected during a 1986 study initiated in Roanoke, Virginia (hereafter called the ROE Study), thus increasing the baseline population and the level of importance as perceived by the individual. This has been added in order to produce a matrix to determine which areas a command should focus upon to ensure greater retention.

PROCEDURE

A 77 item structured self reporting questionnaire including biographical/demographical inquiries and an amended scale, the Naval Reserve Satisfaction Scale (NRSS), was used in conducting the survey. The level of importance scaling utilized the same questionnaire format with little or seemingly non significant question changes. The items on the survey were altered from the original in order to update the questions (i.e., Week End Training (WET) changed to Individual Duty Training (IDTT)), or to fit the scope of the current study. It is felt that the alterations or omissions should not have affected the item comparisons or the results of the study.

FINDINGS

The data presented will reflect characteristics and satisfactions of the drilling reservists. Further, it will identify those areas "perceived" by the individual reservist as being important. In that there is a significant psychological and economical environmental difference between the officer and enlisted community, each were examined separately. Demographic and biographical characteristics were closely examined.

The Memphis modal rank for officer reservists was Lieutenant (O 3). A surprising second was Commander (O 5) with some 25 percent of the officer population representing this rank. It is interesting to note that this occurrence may be based upon the unit mix in Memphis. The Memphis modal rank for enlisted personnel was Petty Officer Third Class (E 4). It should be noted that there was a significant distribution of E 3 personnel (Fireman and Seaman) that ranked very close to the enlisted modal ranking (29 percent E-4, 23 percent E-3). The Sea and Air Mariner (SAM) program probably accounts for the large percentage of non-rated personnel, although there was not a determinant on the survey to conclude this. In the ROE Study the modal ranking for officers was Lieutenant (O-3), whereas in the CAL Study, the modal ranking was Lieutenant Commander (O 4). The modal ranking for both the CAL and ROE Studies was Petty Officer Second Class (E 5). The findings represent a decrease in modal ranking for Memphis enlisted members, while matching the CAL Study and showing an increase over the ROE Study. The distribution of non-rated personnel in Memphis will account for many varied responses to the survey instrument when considering the demographics, i.e., the age group, and the socioeconomic conditions.

Females made up 10.2 percent of the officer rankings while 23.4 percent of the enlisted rankings were female. This compares to 16.1 percent female officers and 25.5 percent enlisted females in the ROE Study. Considering the unique population distribution of the southern states, 45 percent of the Memphis drill population is Black and 52 percent consider themselves to be Caucasian, while only 2 percent of the population responded as other. There is a drastic difference between the enlisted population and the officer population. A full 54.4 percent of the enlisted Memphis population responded as Black, whereas, only 8.2 percent of the officers indicated Black heritage. The ROE Study indicated that 95.6 percent of the officers were Caucasians while 73.7 percent of the enlisted were classified as Caucasians. Another interesting difference between the ROE Study and the MPH Study is that there were only seven Black officers in the ROE Study and yet, in the MPH Study, only two Black officers responded. Considering the aforementioned population base, one would conclude that there should have been more Black officers if this study were a microcosmic representation. As a result of only two Black officers responding to the survey, conclusions should be drawn with caution because of lack of data.

As with the ROE and CAL Studies, the officer ranks surveyed are well educated. The only significant difference discovered was that 23.6 percent of the Memphis officers reported attainment of a bachelor degree as opposed to the 42 percent reported in the ROE Study. The attainment of higher level degrees in the ROE, CAL and MPH Studies were distributed almost equally (Masters

ROE [37 percent], MPH [38.8 percent]; Ph.D. or equivalent ROE [20 percent], MPH [24.5 percent]). Enlisted personnel likewise reflected high levels of educational attainment, a full 46.1 percent of the enlisted had some level of college education, but no degree earned. The ROE Study reported 47 percent in this category. Some 16.2 percent of the enlisted personnel had attained a college degree and another 1.5 percent had obtained masters level degrees. The ROE Study reflects equivalent attainment levels. Less than 1 percent of the Memphis population responded as having less than a high school education. The Memphis officers by and large (51 percent) were employed by private businesses or were professionally self employed (20.4 percent) in that order. The next largest employer in the ROE, CAL and MPH Studies was in the government area (state, federal [14.3 percent, MPH only], or municipal). This same pattern was reflected among the enlisted personnel; however, a significant number of enlisted personnel, almost 18 percent (16 percent in the ROE Study), classified themselves as students or part time students and workers. 83.6 percent in the ROE Study and 81.6 percent in the MPH Study of officer personnel were married as opposed to 52.9 percent (MPH) and 63.9 percent (ROE) of the enlisted personnel. The average Memphis officer had three dependents, whereas enlisted personnel reported only two dependents. The ROE Study does not indicate how personnel reported dependents. These differences are reflective of the rank distribution and socioeconomic group comprising the drill population.

In all three studies (CAL, ROE, and MPH), a higher percent of the enlisted (96.6 percent MPH and 98 percent ROE) than the officer reservists (83.7 percent MPH and 90.9 percent ROE) were being paid for drill participation. This reflects an almost identical situation with the enlisted reservists in the 1974 CAL Study.

Although it is not known what the unit mix was for both the CAL and ROE Studies, making the billet (job/pay) structure undeterminable, it is fair to say that officer pay billets are still considered hard to obtain. It is almost common knowledge that there are not enough higher-ranking officer pay billets, even with the creation of pay billets for administration purposes. Most officers consider it ironic that although they are dedicated and hard working, they often are "rewarded" by promotions that in many cases will move them out of a pay billet. This situation is compounded because it is commonly held that holding a pay billet impresses promotion boards more than being in a non-pay billet. Additionally, officers in non-pay billets must rely on Special Active Duty funding (SpeAct) for their active duty for training (AcDuTra), which is extremely limited and usually available after the mid year review. Limited SpeAct funding is available for exercises, but billets funded during these exercises are at lower grade levels. It is speculated that funding available for personnel assigned in Voluntary Training Units (VTUs), which drill in a non-pay status, is available to the individual once every five years. As a result, there is no question that the non-pay billet issue is one which affects officer retention, especially at the higher grade levels.

One of the most important questions in the survey administered dealt with officer and enlisted personnel's intentions to renew their reserve affiliation. Both the CAL and ROE Studies indicated exactly the same percentage of officers (79 percent) would renew (or continue) their affiliation. The MPH Study indicates an increase of 8.5 percent (87.5 percent), a healthy trend. Only 11.4 percent indicated that they were undecided as opposed to the 14.9 percent reported in the ROE Study. The earlier 1974 CAL Study disclosed 75 percent of the enlisted reservists either intended to quit or were undecided. The ROE Study revealed that only 39 percent of the enlisted fell into this category. Although the MPH Study indicated a substantial decrease from the CAL

Study, more than half (50.2 percent) of the enlisted personnel were undecided or had decided to quit. This one indicator alone is both disturbing and indicative of a growing dissatisfaction with the Naval Reserve program at the Naval Reserve Center, Memphis. As postulated in the ROE Study, the response from the enlisted personnel brings into question the overall validity of the drop in the level of satisfaction as reflected by the mean satisfaction scores. The inverse is true in the MPH Study. Even if the actual satisfaction had dropped as indicated by the mean scores, logic indicates that larger numbers of both officers and enlisted personnel would elect not to continue their relationship with the Naval Reserve.

This not being the case, it must be assumed that by and large the officer community is satisfied with and will continue serving in the Naval Reserve. Additionally, enlisted personnel are remaining with the reserve program as opposed to leaving, thus indicating a greater satisfaction rather than less. Spousal support varied from strong to general approval in both the officer and enlisted ranks. An interesting fact is that some 43.8 percent of the enlisted personnel reported this as not applicable to them and a full 10.2 percent of the officers perceived their spouse as disapproving.

The hours that reservists spent traveling to and from drill in an average month were about the same for both officer and enlisted personnel. Approximately 40 percent of the enlisted personnel in both the MPH and ROE Studies could reach the drill sites in less than an hour travel time while only 18 percent of the Roanoke and 22.4 percent of the Memphis officer personnel could. The ROE and MPH Studies indicated that an extremely large number of officers (65 percent in both cases) had to travel between two and five hours per month to reach the drill site. A larger number of enlisted personnel (76.9 percent) reported spending one to three hours preparing for the drill than officer personnel (59.2 percent). In that officers normally carry the administrative workload, this finding was considered very unusual. The assumption made in the ROE Study suggests that officers often utilize civilian clerical personnel in their civilian capacity and the use of non-pay drills to perform these tasks are frequently depended upon, especially in cases where the officer is in a command billet. The need for adequate clerical support by both the CAL and ROE Studies varies from drill site to drill site.

In all cases (CAL, ROE and MPH), the majority of the officer and enlisted personnel preferred to drill one weekend per month and want it to stay that way. The MPH Study indicated that 77.3 percent of the officers and 84.3 percent of the enlisted personnel were highly satisfied with the weekend drill concept. Yet, the remainder elected a variation of the drill period, enough that thought should be given to the merits of this idea. As experienced at the Naval Reserve Center, Memphis, the option to makeup a drill must be flexible due to work schedules and travel time, yet rigid enough to not be man-hour intensive for staff personnel. There is often a sharp division between the two; however, the active duty staff must remember that the reservists must coordinate their military commitment with other aspects of their lives. As important as reserve participation is, the civilian role in the reservist's life is the prime role.

SATISFACTION INDICES

The Naval Reserve Satisfaction Scale (NRSS) is a 22 item questionnaire (in the MPH Study and the ROE Study it is expanded to 29 items), the purpose of which is to access the satisfaction of men and women participating in the Naval Reserve. The scale generates an overall satisfaction score with reserve participation and individual item scores, tapping specific areas of greater or lesser satisfaction. The overall satisfaction scores as well as the individual item scores for enlisted and officer personnel are compared to the CAL and ROE Study results; however, caution is advised when viewing the source data since inversion of the data would be required for actual data comparison. Comparisons are accomplished through relational inferences and modeling techniques. Table 1 contains the Mean Scores for the NRSS.

The maximum overall NRSS score possible is 110, although with the addition of the seven items mentioned earlier, the maximum score is now 145. This study will reflect these new items only for relational comparisons between the ROE and MPH Studies in their position ranking on the satisfaction scale. They will be excluded in comparison to the CAL Study. For the purposes of the survey the minimum overall NRSS possible is 29.

NRSS Mean Total Scores		
Study	Officers	Enlisted
1974 (CAL)	78.483	68.646
1986 (ROE)	61.814	52.970
1988 (MPH)	49.057*	62.921*

In Herzberg's (1966) study, he refers to satisfiers as self-actualizers. Those items ranked highest do not seem to fit into this category; in fact, they fall into what he termed hygienic factors. Hygienic factors are not an intrinsic part of the job. They are associated with the environment in which the job is done. Additionally, Herzberg (1966) theorized that hygienic factors must be minimally satisfied if the person is to continue working. Although these factors may be considered satisfiers, he concludes that they do not provide the kind of personal growth that brings about long-term satisfaction and will ultimately limit the opportunities for the individual to increase productivity. Herzberg (1966) believed that motivating factors, those that allow the individual to achieve self-actualization, are an intrinsic part of the job and the resultant, satisfaction, is necessary to promote long term growth; i.e., feelings of achievement, feelings of accomplishment, challenging goals, skill development, and desire for increased responsibility. As reflected in all studies, it appears that current reserve programs are failing to provide the SelRes with motivating satisfiers. What it is providing is a high level of hygienic satisfiers.

Study after study conducted has revealed that the most satisfied workers rank the aforementioned items (Accomplishment, Recognition, Use of Talents and Abilities) as most satisfying. In both the enlisted and officer ranks, the same patterns are demonstrated. The Naval Reserve is apparently meeting the short-term needs of the individual.

CONCLUSION

Changes are needed at all levels within the Naval Reserves. To keep quality personnel, the Naval Reserves must develop quality training. As perceived benefits continue to erode, as funding of programs and training resources continue to fall short of the "paper requirement" and if compensation continues to increase in both satisfaction and importance, proven motivational methods will become less acceptable to the individual. The Naval Reserves will attract a lesser caliber person than it is accustomed to. It is imperative that the leadership in the Naval Reserves recognize this and implement incentive programs, restore perceived lost benefits, update training facilities and equipment at a faster pace, and above all, instill a sense of accomplishment in the individual. It is through this last method that personal worth is recognized, which ultimately leads to retention of the most valuable asset, that of quality personnel.

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IDENTITY THEFT

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ABSTRACT

This paper discusses the incidence and types of identity theft committed by individuals against other individuals. Corporate involvement, whether as victim or perpetrator is not expressly covered. This paper provides an in-depth look at how personal information is stolen, how often it is stolen, as well as possible prevention techniques. The legal ramifications of identity theft are also explored.

INTRODUCTION

Theft of individual identity (ID theft) occurs when someone unlawfully pretends to be someone else by using the person's name, address, social security number, birth certificate, driver's license number, credit card or any other personal identification.

ID theft has been around for years; however, with the explosion of computers in business and the wide use of the internet in e-commerce, ID theft has risen to previously unimaginable levels. Hemphill (2001) explains that the use of computers and the internet allows ID thieves quick access to a wide range of personal information and allows them to replicate counterfeit driver's licenses, birth certificates, and social security cards to use in fraudulent financial activities. In addition, he claims that the expanding use of e-commerce has facilitated impersonal business transactions, which encourage ID theft due to the inability to verify a customer's identity.

Victims of ID theft may spend months, possibly years, to clear tarnished reputations and credit reports left behind by ID thieves (Wells, 2002). Victims also incur substantial losses, which may include their jobs, access to loans, or being arrested for criminal activities conducted by someone else using their identity (FTC, 2003).

Often, victims of ID theft are left with huge debts from spending sprees (where the thief opened new credit cards, used fraudulent checks, or used existing accounts), from automobile leases or loans, from apartment leases or home mortgages, or from utility or wireless services. The grand finale is filing bankruptcy in the victim's name (FTC 2003).

INCIDENCE OF ID THEFT

Ahern (2003) explains that ID theft "has been the number one national crime for three years running and continues to be the fastest growing crime in the US" (p. 54). According to the Tower Group, creditors lose an estimated $ 1 billion annually from fraud related to ID theft. Bauer (2002) also confirms this view by stating, "ID theft is the fastest growing financial crime" and that "The FTC found that ID theft was involved in more than 40% of all the consumer complaints it received in 2001 (p. 1).

The FTC (January 2003), in its release of the top ten consumer complaint categories, claims that ID theft topped the list in 2001, accounting for 43% of complaints. Further, ID theft fraud escalated from 220,000 incidents in 2001 to 380,000 in 2002, which represents a loss to consumers of approximately $160 million and $343 million respectively.

FTC (2002) reports indicate that the District of Columbia has the highest incidence of ID theft over the period 2000 to 2002. In 2002, the states with the highest rate of ID theft were the District of Columbia, California, Arizona, Nevada, Texas, Florida, New York, Washington, Maryland, and Oregon. The cities with the highest to rates of ID theft are New York City, Chicago, Los Angeles, Houston, and Miami.

HOW INFORMATION IS STOLEN

Identity thieves use several methods to access information, ranging from low tech to sophisticated. The FTC (2003) lists the following means of access:

(1) Steal records from employers
(2) Bribe an employee who has access
(3) Con information out of employees
(4) Hack into organizations' computer networks
(5) Request credit reports by posing as an employer, landlord, or someone with a legitimate reason to request information
(6) Pick wallets and purses containing identification and other cards
(7) Practice skimming, a process of stealing credit and debit card information in an information storage device while they are being processed
(8) Steal mail, which may include bank or credit card statements, pre-approved credit card offers, new checks or tax information
(9) Break into homes to steal personal information
(10) Pose as legitimate businesses or government offices to request personal information, and
(11) Complete a "change of address form" to have mail sent to an address other than the victim's location (Laribee & Hogan, 2001).

Groves (2002) indicates that employees often have access to information that should be kept secure, such as other employees' social security numbers, addresses, and phone numbers. He also claims that some organizations collect too much information on their employees and customers, much of which may be unnecessary. Such practices put customers and employees at risk of ID theft.

In the late 1990s, employers were responsible for most ID theft by not securing employee personal files (Wells, 2002). Wells claims that "the bait drawing such crime to the workplace includes personal files, benefits data, payroll and tax records … which can be a goldmine for ID thieves" (p. 30). Groves (2002) also cites the workplace for the most common occurrences of ID theft. He claims that organizations possess a wealth of personal information on its employees, which attracts ID thieves.

Groves (2002) reports credit card fraud as the predominant forms of ID theft occurring in the workplace. Groves (2002) gives the example of Mari J. Frank, an attorney from California who claims that in excess of $50,000 worth of credit card debt was applied to her name. Apparently, one of the temporary employees at her legal practice stole her credit report. When the perpetrator was apprehended, business cards, checks, and credit cards were in her possession, all bearing the identity of Mari J. Frank. This suggests that Frank's professional ID may have been stolen as well. Frank was concerned that the perpetrator may have been accepting clients or giving legal advice, or conducting business meetings in her name. If this were the case, it could have led to Frank's disbarment.

MOST COMMON FORMS OF ID THEFT

The FTC clearinghouse provides data reflecting the categories in which ID thieves have used victims' identity information (FTC, 2003). In 2002, the FTC found that credit card fraud, telecommunication or utility fraud, bank fraud, employment applications, fraudulent loans, and government documents or benefits, were the most common.

- Credit card fraud – the report indicated that 42% of the entries in the clearinghouse were victims of credit card fraud. This comprised 24% of new cards issued and 12% charges on existing cards.
- Telecommunication or utility fraud – this category was the second highest, resulting in 22% of the entries in the clearinghouse. The victims indicated that information was used to obtain new wireless telecommunication equipment and services (11%), new landline telephone & equipment (5%), utility services such as cable (3%), and charges to current telecommunication or utility account (1%).
- Bank fraud – this represented 17% of clearinghouse entries. Fraudulent checks were written on victims' existing accounts (8%), new accounts opened in their name (4%), and electronic withdrawals from existing accounts (3%).
- Employment seeking – nine percent of the entries indicated that their identity was used in securing employment.
- Fraudulent loans – six percent indicated that loans were acquired in their names: student loans, business, or personal loans (3%), auto loans or leases (2%), and real estate loans (1%).
- Government documents or benefits - eight percent indicated that their identity was used to obtain: drivers' licenses (3%), social security cards (2%), tax returns (2%), and other benefits (1%).

Other types of ID theft include, but are not limited to, using ID theft to evade legal sanctions or criminal records, obtain medical services, open internet accounts, declare bankruptcy, and trade securities or investments (FTC 2003).

ID THEFT PREVENTION

Individuals must use preventative measures to reduce the likelihood of falling victim to ID theft. FTC (January 2003) offers the following guidelines:

- Do not rely on oral promises – it is advisable to get all communications in writing to be reviewed before committing payments or a signature.
- Do not pay up-front for loans or credit – legitimate creditors seldom guarantee a line of credit before a consumer accepts. Any such offer should be treated with caution.
- Consumers should ask about information security at work and other places that hold their personal information, such as financial institutions, doctors' offices and accountants or tax preparers.
- Ensure that all accounts have passwords.
- When ordering new check books, pick them up from the bank, do not have them delivered to an unsecured mailbox.

The FTC (2003) advises judicious monitoring of financial accounts to ensure that there are no unexpected charges or withdrawals. Bauer (2002) suggests monitoring mail as well. He claims that if the mail stops coming, it may be that an ID thief has requested a change of address. Any such occurrences should be investigated.

Bauer (2002) suggests that if anything looks suspicious, the consumer should order a credit report from one of the credit bureaus. When it arrives, he recommends a thorough study to uncover any fraudulent activity being conducted by third parties. If the consumer finds anything out of the ordinary, Wells (2002) claims the next step is to contact the fraud department of any bureau to place a "fraud alert". The alert allows creditors to contact the potential victim before any new account is opened. An alert also allows information to be shared with other credit bureaus. Wells (2002) suggests that victims should close all accounts that have been fraudulently accessed. She suggests filling out the ID theft affidavit provided by the FTC, which is then dispatched to all relevant parties. Finally, she recommends that the incident should be reported to the police and a police report filed.

Frederick & Hollander (2003) highlight the need for security escalation in this technological age of business transactions. They claim that "business practices are dominated by digital entries, storage, and access to information" (p. 54). In particular, they cite ID theft resulting from misuse of financial and health related information.

LEGAL ASPECTS OF ID THEFT

The Federal Trade Commission (FTC) is the federal clearinghouse for ID theft complaints. It provides victims' information to other state and law enforcement agencies that investigate ID theft (FTC, 2003). It also provides information to three credit bureaus (Equifax, Experian, and Trans Union) and other relevant parties. The FTC also provides consultation to consumers on ways to safeguard their personal information, provides information materials to businesses on best practices for addressing ID theft, and provides law enforcement training to federal, state, and local enforcement agencies.

In October 1998, the "Identity Theft and Assumption Deterrence Act" became law (Hemphill, 2001). This act carries a maximum penalty of fifteen years imprisonment and makes it a federal crime for anyone to use another person's identity to commit or aid or abet a crime. According to Hemphill (2001), this act allows the US Secret Service, the FBI, the US Postal Inspection Service, and the US Social Security Administration's Office of the Inspector General to investigate ID theft, while allowing the US Department of Justice to prosecute ID thieves. Further, this act gives the FTC primary responsibility for responding to consumer complaints and educating victims.

In March 2000, the "Identity Theft Prevention Act of 2000" was introduced. Hemphill (2001) reports that this act focuses on credit transactions and credit reports and includes instructions for:

- Credit issuers to notify consumers of change of address requests or additional cards
- The FTC to notify credit report users of potential fraud
- Penalties for social security ID theft
- The FTC to develop a model for consumers to notify creditors and reporting agencies of ID theft, and
- Credit agencies to provide a free annual report to consumers upon request.

CONCLUSION

ID theft is an escalating menace to society with the potential to destroy lives. It costs its victims and business organizations millions of dollars every year and is likely to grow as society continues to be more technologically driven. Though many legislative acts have been enacted to protect consumers, the key elements to reducing ID theft are for individuals to exercise vigilance with their credit reports and exercise caution in managing their personal identification information.

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THE UNIFORM COMMERCIAL CODE AND THE ORDINARY CONSUMER: ENFORCEABLE LEGAL ISSUES UNDERLYING THE RETURN OF MERCHANDISE

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ABSTRACT

Contrary to popular belief among consumers, the right to return purchased goods to the seller is not an automatic. Although the seller's return policy plays a major role in determining whether the items purchased can be returned and/or exchanged, the underlying legalities of the transaction may ultimately decide the matter.

This paper examines the legal issues inherent in a sale of goods type transaction and the buyer's rights and limitations with regard to the return of goods as regulated by the Uniform Commercial Code Sales provisions.

CULTURAL AND GENDER DIFFERENCES IN THE ETHICAL BELIEFS OF ACCOUNTANTS

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ABSTRACT

This study examines differences in the ethical responses of accountants in an international environment. The link between culture and the gender of the subjects are the variables of interest. Accountants (n=326) from eight countries, representative of Hofstede's (1991) high and low individualism dimension values, were chosen for the study. The respondents were requested to give their agreement level associated with five questionable behaviors associated with the work environment. Each item incorporated an individualism cultural element for the accountants to consider when responding to the survey.

*The results of the analysis by culture and gender indicated mixed results. The cultural variable was significant ($\alpha \leq .05$) on three of the five items; gender, on two; and the culture*gender interaction term, on two. The results partially support the expected cultural link, and the results of the gender variable analysis lend limited support to the expected gender differences. Whenever a difference is indicated, the females supplied the more ethical responses.*

THE SEC'S DISCLOSURE LAW AND CEO COMPENSATION

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ABSTRACT

The determinants of CEO compensation have changed due to the passage of disclosure laws by the Securities and Exchange Commission. Previously environmental factors, such as peer groups within or outside of the industry, had a major effect on CEO compensation. Boards of directors are currently forced to look at the accounting measures of the corporation more carefully. Correlating CEO compensation and a corporation's performance even more closely, boards are encouraged to communicate incentives to CEOs concerning performance. Whether through bonus payments in corporate stock or dramatic changes in the CEO's compensation, boards have the attention of their CEOs as profits and shareholders' returns thrive in response.

INTRODUCTION

The relationship between total compensation for CEOs and the success of their efforts inside the corporation has become more closely linked than in the past. Boards of directors have taken more responsibility in assuring that CEOs are paid in accordance with the corporation's performance (Lederer & Weinberg, 1995). This paper studies the periods before and after the passage of the 1993 change in the Securities and Exchange Commission's (SEC) reporting rules. These reporting rules require that corporate boards justify their reasons for the level of CEO compensation for the year (Porac, Wade & Pollock, 1999). Most boards of directors, inspired by this new approach, have increasingly put more pressure on CEOs to perform according to certain predetermined standards. In the past, boards of directors compensated their CEOs using comparisons of CEO compensation relative to other corporations in the same industry. In addition, other biased externalities that cannot be easily measured in a statistical sense have wrongfully influenced boards of directors to compensate their CEOs. Statistical analysis indicates a correlation of CEO compensation to a corporation's performance as long as certain factors are included and excluded in order to account for special situations. Examples of changing factors include industry specifications and different accounting practices. However, statistical analysis has become easier to interpret as more corporate boards correlate their own corporation's performance directly with a CEO's compensation. Since the enactment of these rules of disclosure, corporate boards have encouraged CEOs to maintain an increase in corporate productivity. CEOs are adjusting to the idea of the importance of the corporation's achievements relative to their compensation. CEOs are compelled to take higher risks for their corporations, whereas previously they were cushioned with corporate made performance and image.

CHANGES IN CEO COMPENSATION

Before the SEC passed new rules that affected a CEO's compensation and a corporation's performance, many boards of directors chose to remain indifferent concerning a CEO's efforts to keep their compensation high and the employment of a risk-neutral management style. "Exceptional compensation for mediocre performance" was accepted (Lederer & Weinberg, 1995). CEOs rarely invested money in their own corporations. Risky ventures were generally avoided with hopes of sustaining at least a small growth in the corporation. Salary and a minimum bonus were always at a high rate and guaranteed. Other variable factors such as at risk bonuses, long term performance plans, and stock options were rarely exercised, thus keeping CEOs sheltered from true incentives to promote excellent corporate performance (Lederer & Weinberg, 1995).

Compensation committees usually only discussed corporate compensation levels for the CEO relative to the compensation levels of other CEOs in corporations of the same category (Lederer & Weinberg, 1995). This proved to be a misrepresentation of the CEOs' compensation because compensation committees were not certain which corporations would be appropriate to compare their business strategies and economic conditions with (Porac, Wade & Pollock, 1999). Confusion and uncertainty was often problematic in the determination of a CEO's compensation. As a result, CEOs were compensated comparable to their peers, but with less corporate performance added to the bottom line. In response to shareholders' demands for a more concise explanation of a CEO's compensation, the SEC demanded justification for the compensation allocations made to CEOs, effective January 1993 (Porac, Wade & Pollock, 1999). Requirements of disclosure mandated that boards explain and justify the nature of the compensation for their CEOs. Boards must provide a standardized report, or a proxy statement, of how compensation was derived and a five year cumulative stock return graph using comparative figures against both a broad market index and a carefully selected peer group of comparable corporations. Boards have accepted the challenge of holding CEOs accountable for a corporation's performance. With enough precision in order not to cause blame or disapproval, board members carefully word their reasons and comparisons (Porac, Wade & Pollock, 1999).

ENVIRONMENTAL FACTORS

Environmental factors have an effect on the determination of a CEO's compensation. Evidence of these factors was prevalent before the enactment of the SEC laws. Buchholtz, Young, & Powell (1998) designed a survey studying corporate information from 1991 to 1992 in order to determine how closely environmental factors were linked to a CEO's compensation. The results of the analysis using environmental factors reported that the connection between compensation and a corporation's performance was stronger as CEOs mature in their role, as their tenures are longer, and as more compensation committee members have CEO experience (Buchholtz, Young & Powell, 1998). Depending on the characteristics of the CEO and the board, other possible reasons for the variation in a CEO's compensation become evident.

The CEO's age can understandably have a noticeable effect on his/her attitude towards conducting business. The Bucholtz survey found indications that boards were determined to set a stronger correlation between compensation and performance as a CEO matures. In theory, Buchholtz, Young & Powell (1998) concluded that as CEOs mature, their perspectives on job performance shrink. Mature CEOs, especially those close to retirement, are no longer thinking of the long run. Mature CEOs are likely to be more conservative in decision-making in contrast to younger CEOs with a broader view of corporate life expectancy. The average age of a CEO is approximately 58 years, whereas the average age of a board member is 62 years (Buchholtz, Young & Powell, 1998). As compensation committee members become more aware of these non precarious actions, they strengthen the relationship between compensation and performance in order to motivate their more mature CEOs to take risks in decision-making (Buchholtz, Young & Powell, 1998).

CEO tenure can also generate power of responsibility in all departments. The longer the tenure, the more respect and knowledge a CEO acquires. The average tenure for CEOs is seven years (Buchholtz, Young, & Powell, 1998). CEOs should be able to handle unexpected situations more readily, owing to the fact that they most likely have previous experience with similar types of situations. CEOs with longer tenures know their buyers, suppliers, and competitors. They are also more likely to know and have appointed a few members of the board of directors, hoping to gain a perspective on compensation and performance. The average tenure for a board member is 10 years. Similar to age in most cases, CEOs were found to be held more responsible for the corporation's performance the longer they occupied their positions (Buchholtz, Young & Powell, 1998).

Another environmental factor not often realized is the experience of a board member who previously served as a CEO. Experienced board members have proven to be valuable in comprehending all of the technical details in determining CEO compensation. One would think that board members with experience would be more understanding of the complications experienced in maintaining and nurturing corporate profits. Through having been a CEO at one time, a board member understands that a more positively correlated relationship between compensation and performance would be desired by the current CEO. Studies do show that the greater the number of experienced board members on the corporate team, the more positive the correlation between a corporation's performance and a CEO's compensation is (Buchholtz, Young & Powell, 1998).

The agency theory summarizes the conclusions of this analysis by stating that when principals have more information about what agents are doing, the agents are more likely to behave in the principals' best interests (Buchholtz, Young & Powell, 1998). Board members, both past and present, have always attempted to compensate fairly their CEOs and build incentives in order to improve their corporation's performance. Now that board members are required to produce efficient and detailed documentation concerning the level of CEO compensation (mainly based on accounting measures), direct incentives prevail by producing better statistics. However, other environmental factors are still used to create biased opinions in favor of CEOs and board members.

As the board of directors debates which corporations will be used in comparison with their corporation, they focus on the best method in presenting their compensation report to the shareholders. There are different strategies concerning how to present one corporation's performance versus another corporation's performance. When a corporation has a bad year, it is a widely accepted practice to compare themselves to other corporations (small or large) with lower revenues, thus avoiding conflict with stockholders.

CEO INCENTIVES

Direct variables that affect a CEO's compensation are generated by the success or failure of the corporation. These important variables include corporate profit and a shareholders' return. CEOs must make decisions that are beneficial to the corporation in the long run. To create incentives, corporations have established regulations that require a certain percentage of a CEO's bonus to be awarded in company stock (Lederer & Weinberg, 1995). This is a strong incentive for CEOs' to improve corporate profits. Stock options and corporate size have a direct effect on the amount of CEO compensation awarded for the corporation's performance (Hall & Liebman, 1998). This is even more valid in the present due to the decreased influence of environmental factors.

Changes in a CEO's total compensation can be augmented by the value of the corporation's stock (Hall & Liebman, 1998). Hall and Liebman (1998) conducted a study of corporate stock ownership data for a 15 year period between the years 1980 1994. CEOs were found to own more corporate stock now than in the past. Compensation for CEOs has increased over time in profitable corporations. These facts indicate a strong relationship between CEO performance and compensation. CEOs literally raise their compensation as shareholders' returns increase, thereby boosting their incentives to perform well (Hall & Liebman, 1998). The corporation's size is also a major factor used in determining the level of compensation for CEOs. Based on Schaefer's (1998) analysis, estimations of the degree of compensation sensitivity were inversely related to the size of the corporation. In accordance with the agency theory, risk is traded off against incentives at the margin (Schaefer, 1998). Larger corporations are forced to take risks in order to achieve more profit, but not to the extent of a smaller corporation. Smaller corporations must take higher risks before advancing to the level of more powerful corporations. Many smaller corporations do not have vast resources. This may suggest that many actions performed by a smaller corporation are riskier. In larger corporations, incentives are widely used encouraging CEOs to take risks in making profit. In contrast, what may appear to be a low risk plan to a larger corporation could be an extremely high-risk plan for a smaller corporation. Data from the Compustat ExecuComp database for the years 1991 1995 was used in the analysis.

COMPENSATION-PERFORMANCE ANALYSIS

Similar to Schaefer (1998), an analysis was attempted in order to determine the closeness of CEO compensation and firm performance. Using data from the PioneerPlanet's CEO Salary Survey (1999) of 92 companies' data from the year 1997 to 1998, three regression models were conducted in order to determine the degree of closeness of CEO compensation and firm performance. Studying corporation by corporation analyses, CEO compensation was chosen as the dependent variable for revenue and change in CEO compensation to the change in revenue and change in one year returns. When using regression models, the interrelationship between two or more variables may be studied; when analyzing regression models, certain outcomes from the models must be studied in order to determine the usefulness of the models (Black, 1997). The closeness of plotted points on a graph is a preliminary indication that the model is working. Outliers may likely occur; therefore these points must be deleted through select data removal. The r2, or the coefficient of determination, is another statistic which measures the closeness of the relationship between the x variable and the y variable (Black, 1997). Finally, the standard error of the estimate statistic measures the scattering of points relative to the sample regression line (Black, 1997).

CONCLUSION

Since the enactment of the disclosure ruling by the SEC, the way in which a CEO is compensated has changed accordingly. Boards are using more direct accounting measures in compensating a CEO. This in return motivates the CEO to perform more aggressively in producing the numbers desired by the shareholders. Each year a proxy statement must be given to shareholders explaining the reasoning behind the level of compensation for the CEO. This proxy statement also contains corporate performance data based on peers in or outside their primary industry.

Environmental elements can have an influence on CEO compensation as well as direct accounting measures. Environmental factor influences are small but significant enough to increase or decrease a CEO's compensation. Factors such as a CEO's age and tenure demand respect and attention as to understanding how and why the CEO made a certain decision. Also, environmental factors can help boards in deciding whether or not CEOs should have their compensation tightly linked to the corporation's performance.

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A BRIEF REVIEW OF THE RECESSION OF 1990-1991

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ABSTRACT

This is a brief essay concerning the 1990-1991 recession. The events that led to a slowdown in economic growth with the subsequent slip into recession will be reviewed. While recessions are a natural part of the business cycle, this paper includes a discussion of the differences between the 1990-1991 recession and previous declines, the people and firms who were hit the hardest, reasons for the snag in the recovery, as well as a presentation of some suggestions for recovery.

INTRODUCTION

A recession is defined as "a period during which real GNP, the value of GNP in constant prices, falls for two consecutive quarters. Its start is the peak of the preceding expansion, and it lasts until the economy reaches its trough, the lowest point reached by GNP in each business cycle" (Gordon, 1987, p. 600).

A recession is a natural part of the U.S. business cycle, which consists of peak, trough, recovery, and expansion. From the end of World War II through 1989, seven recessions occurred. The business cycle usually lasts three to four years with the expansion phase longer than the period of recession. On average, a recession lasts about a year. A recession is not an unexpected occurrence; it is a natural response to periods of expansion (Dunnan & Pack, 1991).

During expansion, consumers and corporations borrow money. During this period, the demand for credit causes interest rates to rise. Rising demand can lead to higher prices for goods and services. Real estate prices escalate, and inflation may result. All of this leads to too much debt--consumers no longer want to borrow. This causes a reduction in spending that leads to business cutbacks, and a reversal of the expansion begins. When both consumer and business spending and borrowing decline, production and income fall. If a contraction of the economy begins, the economy recedes (Dunnan & Pack, 1991). If the contraction lasts long enough (falling GNP for two consecutive quarters), it is labeled a recession.

The good news about recessions is that they eventually end. When consumer confidence returns, the economy begins the cycle all over again.

DESCRIPTION OF EVENTS LEADING TO THE 1990-1991 RECESSION

The 1990-1991 recession followed a particularly long period of recovery and expansion, from 1983 through 1988. According to some analysts, Iraq's invasion of Kuwait in August 1990 tipped the scales--the resulting jump in oil prices combined with the drop in consumer confidence forced the U.S. into a recession. Statistics show, however, that the economy had lacked vigor since the first quarter of 1989, when output measured 3.6 percent. From April 1989, GNP growth in any quarter was not higher than an annual rate of two percent. When compared to the four percent average annual rate from 1983 to 1988, it is obvious the economy had been slowing for a fairly long period (Thompson, 1992). There were two reasons for the growth of the 1980s and the later downturn--demographics and tax policy.

Beginning in the mid-1970s, there was a surge in population growth. This generation, known as the baby boomers (1946-1964), was the post-World War II generation; they comprised one-third of the population in the mid-1970s. In 1980, the oldest baby boomer was only 34, and this group matured over the decade. They helped drive forward the demand for housing and commercial construction. The recession of 1981-82 slowed construction long enough to cause pent-up demand to build. When this demand exploded, it provided a boost in housing and throughout the economy. Baby boomers bought not only houses, but also everything to furnish them. During this time, consumers more than doubled their debt, and the spending spree of the 1980s was great enough to revive the economy throughout the decade.

Federal tax policy also fueled this period. The 1981 Economic Recovery Tax Act cut federal taxes by 25 percent over three years. Personal income taxes were again cut by the Tax Reform Act of 1986 that mandated just two tax brackets, 15 and 25 percent.

A significant aspect of the 1990-1991 recession dealt with the housing sector. The housing boom reached its peak in the late 1980s. According to Thompson (1992), this peak was not reached due to high interest rates or a slowdown of the economy. The pent-up demand from the 1981-82 recession disguised the slowing growth in the population, down from approximately three million in 1980 to only 1.5 million per year in 1991 (Liscio, 1991). Demand was satisfied due to this slowing growth rate.

While the 1986 Tax Reform Act spurred consumer spending, it hurt business. This Act repealed the investment tax credit, cut the value of depreciation allowances, and began the treatment of capital gains as ordinary income. The resulting increase in business taxes curtailed investment and the creation of new jobs. Entin (1991) estimated a $300 billion loss in investment from 1986-1991. This translates to approximately a one-percentage point drop annually in GNP, resulting in a reduction in the growth of employment and wages. The 1986 Act also imposed passive loss rules, effectively limiting tax deductions on real estate. The resulting collapse in commercial real estate and home values triggered the savings-and-loan crisis and the dramatic tightening of bank lending. This breakdown in bank lending is probably what caused the change from feeble growth to recession (Entin, 1991).

The 1990-1991 recession was not a typical inventory recession. Hyman (1991) stated that the source of this recession was the amount of leverage in the system (Wait until next year, 1991). The 1980s was a decade of enormous speculative surge in the price of real estate and other assets. A large part of this was made possible by the tremendous growth in debt financed by the country's financial institutions. The decline in the value of commercial real estate has affected not only commercial construction--it has weakened financial institutions.

The hardest hit areas have been financial firms, banks, thrifts, and insurance companies (Liscio, 1991). This produced tight money without a tight monetary policy by the Federal Reserve. The top of the credit cycle was not that of a typical business cycle. The trigger for this recession was what may be called a "stand alone" risk crunch--reduced availability of credit without the classic Fed tightening (Liscio, 1991).

WHO WAS HIT THE HARDEST?

Who took the brunt of the 1990-1991 recession? The service sector--financial firms, banks, thrifts, and insurance companies, and the white-collar workers employed by these companies. The weakness in manufacturing was not as bad as the 1974 and 1982 recessions, while the weakness of the service sector was close to what it was at its worst point in the three recessions prior to 1990-1991 (Wait until next year, 1991). Restructuring of corporations caused the loss of an average of 2,200 white-collar jobs per day in the third quarter of 1991, followed by an average of 2,500 jobs per day in the fourth quarter (Thompson, 1992). Typically, this was the type of job that was well paying and guaranteed success for the American white-collar worker. This sector may have been harder hit for a longer period because this type of cut-back is atypical from that of inventory recessions, when production workers are the ones being laid off. When demand returns at even moderate levels, the production worker is rehired. This did not happen with white-collar workers (Wait until next year, 1991). Corporations eliminated anyone "... not involved in selling, marketing, or delivering to the core customer" (O'Reilly, 1992, p. 46).

WHAT SLOWED THE RECOVERY?

The 1990-1991 recession lasted the usual length, but there were two significant areas hobbling the start of a recovery. One area was the public's gloomy outlook. Many believed that there was no hope for a speedy recovery. A University of Michigan index indicated that consumer confidence fell 1.1 points in January of 1992 to 67.1 percent, continuing a four-month slide (Somerville, 1992). This reflected consumers' continued reluctance to spend. This mood cannot be pinpointed to one particular cause, but to a combination of factors. A Wall Street Journal/NBC News poll indicated that 53 percent of the people who responded felt that the U.S. was in a state of general decline. Other polls showed a lack of confidence by Americans that their children would live better than they did (Murray, 1991).

Part of the reason for this attitude can be traced to the drop in home values. Often this is the largest single asset for an individual, and serious declines in value cause a significant drop in net worth. While the perceived change in wealth may be greater than the actual drop, for a public accustomed over the past 10 to 20 years to ever-appreciating home values, any drop comes as a shock, and it has forced many to reconsider their financial planning. The cost of their children's college educations and their own retirement may not be coming from the equity in their home, and the only way to replace this lost equity is to reduce spending.

Consumers were also burdened with the heavy debt-load incurred from the 1980s spending spree. The combination of debt and the pessimistic outlook of most mean there is little incentive to borrow. Cornerstones of past recoveries were construction and auto sales, but new-home starts in the early 1990s were at their lowest level since 1946 and auto sales fell to the lowest level since 1982. The Fed's effective policy of lowering interest rates did not induce consumers to borrow and spend, which ordinarily would jump-start these cornerstones of past recoveries (Thompson, 1992).

A second area of prime concern was the level of capital spending. Higher profits made capital investment possible. This led to higher employment levels, reduced costs, and improved products--all of which boost economic growth. Following past recessions, corporate profits came back strongly, strengthening the recovery. However, most analysts did not notice this happening. With low inflation and moderate sales growth in the early 1990s, most predictions were for only modest profit increases in 1992 and 1993 (Clark, 1991). This limited the dollars that could have been invested in capital.

Borrowing to cover the costs of investment may not be an option for businesses. Banks, caught in a Recession described as financial rather than inventory, were slow to cut long-term rates, and they lent money to only the most credit worthy customers. Funds were not available to some businesses at any rate of interest (Clark, 1991).

The tax changes of 1986 could also be blamed. As discussed earlier, this change sharply curtailed the incentives for business to finance investment.

HOW TO END A RECESSION--A PRIMER

What can be done to stimulate an economy whose average GDP was estimated to rise only 1.6 percent in 1992 and whose estimates for corporate pre-tax profits were only eight percent for the year? (Meyers, 1992). When comparing these percentages to 4.8 percent and 23 percent, respectively, for the first full year [1992], it may seem an insurmountable task. However, solutions were proposed.

Entin (1991) proposed changes in tax and regulatory barriers. He stated that the increase in the minimum wage, the 1988 and 1990 payroll tax increases from 14.3 percent to 15.3 percent, the increase in the Social Security wage base, and the rise in the top income tax rate all resulted in an increase in the cost of labor. To absorb the costs, employment fell. Entin (1991) estimated that the payroll tax change caused the economy to lose 500,000 jobs.

One way to lower labor costs and raise work incentives is to reduce the marginal tax rate on labor. In the past, this was effectively accomplished with marginal tax cuts on individual income. Entin (1991) states, however, that a more potent change would be a reduction in payroll tax rates, which exceed the income tax rate for many Americans. This was also advocated by the U.S. Chamber of Commerce. Economists for the Chamber suggested cutting the Social Security tax by two percentage points, one each for the employer and the employee, from the 1991 rate of 15.3 percent (Thompson, 1991).

A second area of concern was the cost of capital. Entin (1991) estimated the damage caused by the 1986 Tax Reform Act to be $300 billion in investment from 1986-1991. Another cost was the collapse in real estate prices and the ensuing savings-and-loan crisis (Entin, 1991).

The most powerful method to cut the cost of capital was to lower the tax rate on capital gains and improve depreciation allowances. Entin (1991) and the U.S. Chamber of Commerce suggested a top capital gains rate of 15 percent for assets held one year or longer. Both recommended indexing capital gains in order to adjust for inflation. This protected gains caused by inflation from taxation.

Another recommendation was a modification of depreciation schedules. Investment decisions hinged on whether or not the present value of the returns on the investment exceeded the cost of the investment. Entin (1991) estimated a firm would be lucky if its write-offs for equipment spending averaged 85 percent of its costs--the end result being costs to business due to over-taxation. To eliminate this, he suggested increasing capital consumption allowances until their present value was equal to writing off (expensing) the entire investment in the first year. Entin (1991) placed the value on such a change as equivalent to a five percent investment tax credit. Entin (1991) estimated that enhanced depreciation schedules, distributed over the lifetime of the capital assets so as to cost nothing over the five-year federal budget period, could still boost incentive and add billions of dollars in investment.

CONCLUSION

While there were varying proposals to end the 1990-1991 recession, most pointed to a concern for the long run. Many of the proposals included incentives for growth in investment. Many people felt that the first step was to set a goal of four percent annual growth for the 1990s in contrast to the 2.5 percent forecasted. Any changes to the tax system should be permanent features and not instruments used to fine-tune an ailing economy.

Incentives boosting overall economic growth led to fewer lay-offs, new jobs, and increased income. This provided the public with encouragement that steps were taken in order to end the recession.

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THE DECLINING WEALTH EFFECT AND STOCK PRICE ANOMALIES

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ABSTRACT

The last decade exhibited growth in stock market valuations during the longest and deepest economic boom in U.S. history. Some economists argued that some of the activity was due to a wealth effect, but even if there is such an effect, it may be diminishing due to stock market wealth being held in retirement accounts. Many analysts state that market valuations exceeded rational levels, especially in the late 1990s. However, the benchmark frequently used as a base for such claims is the P/E ratio, which poorly reflects the factors determining cash flow values in a large portion of firms, especially those related to the Internet. This paper will offer evidence of a declining wealth effect and look for reasons that could explain apparent over-valuations in E commerce stock.

INTRODUCTION

Economists, government analysts, and consumers often complain and offer the excuse that one of the reasons for the stock market rally of the past decade was something called the wealth effect. The term refers to the belief that the increasing stock valuations of the 1990s were due to the increased marginal consumption that itself was the indirect result of the greater wealth created by soaring stock prices. This appears to be a circular effect, and that is exactly what it would be if it were true. However, many studies have produced observations indicating that only between 2-7 percent of unexpected wealth (including extraordinary stock market gains) is actually spent within one year. Ludvigson and Steindel (1999) examine the topic in their study, which is timely in view of the large gains made by individual investors in the 1990s, particularly the latter part of the decade. Ludvigson and Steindel (1999) state that total household equity grew 260 percent from 1991 until the middle of 1998; therefore, such a massive increase in household wealth would have impacted overall consumption. Ludvigson and Steindel (1999) state that it was between 1995 and the middle of 1997 that the greatest gain in the market occurred, when an actual doubling took place. Clearly, if a significant wealth effect exists, it would reveal itself in aggregate data over such a period.

In fact, Ludvigson and Steindel (1999) found that "the results… do not uncover a robust wealth effect on consumption and results using OLS estimation generally suggest that the wealth effect is small, not stable across sub-periods of the data, and declining in recent years." Ludvigson and Steindel (1999) state "this issue has become one of immediate concern due to the widespread belief that U.S. stock markets have recently surged to levels that may be inconsistent with market fundamentals." Two distinct issues raised in these statements warrant attention. First is the matter of the declining wealth effect in recent years. Does their data support that conclusion, and can other data be found to correspond to it that may also suggest causality? Second is the so called "widespread belief" that the stock markets, particularly the NASDAQ, are over valued. During strong markets, many Internet companies listed on the exchange traded at P/E ratio multiples that were many times higher than the historic benchmark of 20. But does that mean they are over-valued, or is there another explanation not accounted for by traditional measures?

THE STOCK MARKET EFFECT ON CONSUMPTION

Ludvigson and Steindel (1999) authored the work used as a basis for this paper. They attempt to quantify the marginal amount of unexpected wealth that a stock market investor will spend short term, based on U.S. consumption using aggregate time series data. They begin by debunking the traditional Modigliani (1971) equation:

$$Ct = a + bWt + cYPt$$

The relevant coefficient is b, which equates to the marginal propensity to consume out of wealth (Ludvigson & Steindel, 1999). One criticism of the equation is the inherent weakness of using time series data, since the real world is observed and consumers are known to adjust their behavior to new conditions. Indeed, the results of testing show the model to be unstable. Seeking a more current model, the authors present Gali's (1990) equation:

$$Ct = a + BWt + SYt + u,$$

where B is equal to the marginal propensity to consume out of financial wealth (Ludvigson & Steindel, 1999). Dickey Fuller tests for a unit root test on the variables indicate a 95 percent confidence level, and a Phillips Ouliaris cointegration test fails to establish evidence suggesting cointegration. Finally, a Johansen procedure fails to find evidence of a single cointegrating relationship among the variables (Ludvigson & Steindel, 1999). Ludvigson and Steindel (1999) conclude that there is no "robust wealth effect on consumption," and their results indicate a low propensity to consume out of wealth of .02 in 1987, a high of only .034 in the first part of the 1990s, and a return .02 in 1997. Ludvigson and Steindel (1999) admit the possible omission of major factors, most notably the effect on results caused by uncertainty regarding the (future) rate of return, which is no small factor. Finally, the researchers determine that there "is no stable relationship" between wealth and consumption, since their analysis returns the wrong null hypothesis. In conclusion, they question the wisdom of assessing consumer spending based on stock market movements (Ludvigson & Steindel, 1999).

Is there a declining wealth effect? The motivations for decision making concerning unexpected wealth are multitudinous, yet some observations are worth noting. For spending in general, expectations about the future are powerful forces that determine saving or spending. If consumers are fearful of losing a job, or facing some unforeseen financial catastrophe, consumption for some will be moderated. On the other hand, certainty about the security of the future (for example, retirement) will liberalize spending for some. One investment trend from the 1990s was the large number of consumers who invested in the stock market via retirement accounts. Starr McCluer's (1998) poll of households with stock ownership illustrated the patterns of ownership for

1989, 1992, and 1995. The survey of consumer finances yields results that illustrate a substantial shift in the format of investments as the freedom to invest in the markets through IRAs and 401(k)s took hold. Retirement assets imply a longer investment horizon and less willingness to consume from that wealth, if for no other reason than the penalties assessed due to early withdrawal. Starr-McCluer's (1998) study also questioned participants' own spending habits in relation to the high gains of the period. The answers were surprising. Fully 85 percent of respondents claimed that there was no change in saving and spending in the two or three years prior to the survey. While 3.4 percent did respond positively to the query, almost three times as many responded that their spending had been less and their saving more (Starr-McCluer, 1998). The inquiry continued by asking the reasons for not liquidating holdings or reducing savings for the preceding year. The most common response, at 45 percent, was that respondents were saving for retirement (Starr-McCluer, 1998). This level of motivation should not be surprising, considering reports that began to circulate decades ago that the Social Security Administration (SSA) would not be able to pay back retirement benefits that had been faithfully paid in by generations of Americans, thereby undermining faith in the system and bolstering support for legislation encouraging individuals to save on their own. The thinking is based on the quantity of Baby Boomers passing through the system. As the Boomers reach their earning peak, the substantial benefits paid in have not been invested for later use, but instead paid directly out in the form of benefits to current retirees. This strategy clearly will come back to haunt the government, since the Baby Boomers will represent a large number of retirees who expect the return of all the monies that they paid to the U.S. over their lives. This may create a major cash flow crisis for the SSA since the generation following the Boomers is smaller and accordingly unable to fund retirement for such a large group.

Poterba (2000) cites as one reason for an apparent reduction in the marginal propensity to consume the growing influence of assets held in retirement accounts. "At the beginning of the 1980s, a negligible fraction of outstanding corporate stock was held through plans of this type [IRAs and 401(k)s]. By 1998, the total value of assets in 401(k) plans and IRAs exceeded $4 trillion" (Poterba, 2000). Poterba (2000) cites the report of the Presidential Task Force on Market Mechanisms (1988), which states, "A more likely explanation [than the usual direct wealth effect] is that stock price declines affect consumer spending…by shaking people's confidence in the security of their jobs and the stability of their incomes."

Zandi (1998) studied the dismal rate of savings by U.S. consumers as they relate to the wealth effect and questioned whether savings will continue to fall or even become negative. Zandi's (1998) conclusion is that the market will rally in stages, and he predicts that savings will increase when the market cools. This suggests an inverse relationship between savings and the performance of the stock markets. However, BEA statistics for 2000 and early 2001 illustrate that personal savings decreased in 2000 and the first quarter of 2001, thus demonstrating a period of falling stock market values. Are consumers spending from bank savings as an alternative to spending from asset liquidation?

A common sense answer to the question of whether or not there is a declining wealth effect can be derived from at least two factors. First, there is overwhelming evidence of a rapidly growing percentage of stocks being held in retirement accounts as opposed to traditional investment accounts. Due to a longer investment horizon and early withdrawal penalties in these holdings, the likelihood of a consumption boost from gains in these portfolios is very weak. Second, share prices that generated wealth in the 1990s grew the most on the NASDAQ exchange, a market traditionally characterized by much higher volatility than the NYSE, undermining investor faith that gains would be permanent. Now that a correction has taken place on the NASDAQ, share prices are much lower and retirement holdings worth less than they were a year ago. But are the share prices of Internet related companies accurately valued now, or even one year ago? Is it time to re evaluate historical company evaluation methods?

Ludvigson and Steindel (1999) touch upon the widespread belief that U.S. stock markets achieved valuation levels beyond what market fundamentals called for. On the surface, in light of recent falling market valuations, this may appear to be true. But while the NASDAQ composite fell below 1700 in early April 2001 from a high of over 5000, the ensuing rebound has been rapid. The composite index was near 2200 during April 2001. Traditionally, P/E ratios have been a reliable measure of an individual stock's value. For an example, eBay traded at $51.19 during April 2001. Earnings per share were thirty cents. The calculated P/E ratio was therefore 170.633, making the stock appear grossly overvalued. Why would investors pay such a seemingly ridiculous price for a stock? Is there something missing from traditional analyses of values? Mauboussin (2000) is a leading proponent of re figuring an e company's worth; he states that "…the poorly crafted tools of yesterday do little to help us determine value today." Mauboussin (1999) states that "…some of the key value drivers in technology are not obvious and are, in some cases, counterintuitive." Ip (2000) believes in "...more esoteric measures like real options and return on invested capital." Mauboussin's (1999) argument makes several points. For one, he states that an Internet company's capital expenditures can be very low because intellectual capital, as opposed to intellectual capital, is the strength of competitive advantage. Because of this, return on actual capital expenditures has the potential to be very large, since the success of a company relies heavily on the financial abilities of key players inside the firm and the cost for such assets is minimal. Quantifying the worth of an asset like intellectual capital is difficult at best, but Mauboussin (1999) acknowledges that it is cash flow, both present and expected, that dictates market value. Yet another factor that is even harder to calculate is the network effect. Mauboussin (1999) defines the network effect as "…a network that becomes more valuable to each user as incremental users are added. More specifically, the value of the network grows exponentially as the number of members grows arithmetically."

Sveiby (1998) recognized the need for updated accounting approaches and illustrated that intellectual equity is overlooked on balance sheets. He also suggests methods to account for the invisible value:

1. The organization monitors and presents itself using a score card approach with indicators.
2. The intangible assets are categorized into three types:
   A. External to the organization
   B. Internal to the organization (but outside the individual employees)
   C. Individual (internal to the individual employee)
3. Indicators for financial or tangible assets are presented as a distinct category.
4. Indicators are a combination of financial and non financial.
5. The indicators are presented in a coherent fashion together in a separate section or part.
6. The traditional accounting system and the rest of the annual report remain unchanged.

CONCLUSION

This paper examines the possibility of a declining wealth effect and the need to properly account for intangible company assets. The research implies that because of the changed nature of a large percentage of stock holdings into retirement accounts and expected volatility on the NASDAQ exchange, data appears to argue for a smaller wealth effect than history would dictate, and the existing equations do not incorporate these variables. Investor makeup is not like it used to be now that many younger people have less faith in social security and the freedom to store money tax deferred in the stock markets.

Accounting standards are in dire need of renovation, based on continuing valuations that defy the logic of previous methods of analysis. Blaming high stock prices on "investor mania" is not feasible now that the NASDAQ has corrected and is once again increasing what were thought to be absurdly elevated P/E ratios. Investors have known for some time now that there is more to many companies than what has been recorded on their balance sheets. What remains is the perilous task of formulating new methods.

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THREE DECADES OF LABOR MARKET DISCRIMINATION THEORIES

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ABSTRACT

This paper examines various labor market discrimination theories and investigates discrimination across race as well as gender. Labor market discrimination fault is placed on the employer (demand side) as well as labor itself (supply side). The paper discusses the role of institutions in the market and accounts for an individual's social capital as a determinant. The paper illustrates examples of discrimination in the market and discusses some history of the early thought on this topic.

INTRODUCTION

Baldwin (1991) states that the difference between African American and Caucasian workers results from the expectations of each race's productivity, and not from other traditional theories. As an alternative to the asymmetric view of labor discrimination presented by Baldwin (1991), Goldberg (1976) cites the audit pair method. Goldberg (1976) provides support and serves to supplement Baldwin's theory. Loury (1998) presents an alternate view of discrimination by focusing on the supply side instead of the demand side. Davila and Pagan (1996) present another view on regional variability and its contribution to wage differentials. Dey (1997) studies market discrimination and its application in the arena of professional sports. Mason (1999) presents a differing view from that of Loury (1998), arguing that wage differentials are due to market discrimination and job segregation. Bunton (1998) gives a perspective on gender discrimination as it exists in today's society.

ASYMMETRIC INFORMATION THEORY

Baldwin (1991) states that employer hiring uncertainty results from the lack of predictability of worker productivity. Baldwin (1991) also states that predicting the productivity of minority workers is more difficult than predicting the productivity of majority workers, even though their average productivity is equal. Two propositions are added to this theory. The first proposition concerns facing a labor market consisting of two distinct groups of workers with equal average productivity, where the risk neutral firm offers lower wages to individuals from the group whose productivity is known with perfect information. This proposition results in discriminatory wage differentials; two groups with the same average productivity acquire unequal wages. The second proposition states that employers substitute from a group of workers whose ability is more certain despite the fact that the average worker in each group is equally productive. This uncertainty stems from the employer's inability to perfectly predict workers' productivity. Consequently they predict that the uncertainty will be greater for minority workers. Baldwin's model predicts that factors which reduce this uncertainty will lead to less discrimination. Employers with greater experience hiring minorities will discriminate less. On the contrary, if the cost of hiring minorities is greater, employers will hire fewer minorities. These costs are consequently transferred to the minority workers themselves.

SUPPORT FOR BALDWIN'S THEORY

Goldberg (1976) draws on the work of Arrow. Arrow describes discrimination as a rational reaction to uncertainty in labor markets. He blames discrimination on imperfect information, not other forms of prejudice. Goldberg (1976) also advocates government programs that would lower the cost of giving information to employers. When employers are considering various possible workers, each worker undergoes a screening/interview process to determine who is qualified and who is the most acceptable candidate. Normally, this screening information is not shared with other employers. When the prospective applicant pursues another job, the new company undergoes the same screening costs (Goldberg, 1976). Goldberg gives many statistical reasons why it would be economically efficient for the government to install programs to synchronize this screening process. The programs would also serve the same purpose as the many affirmative action initiatives that are in place today without creating a situation of reverse discrimination (Goldberg, 1976).

Chiplin (1976) further draws upon the work of Arrow. Chiplin (1976) concurs with Goldberg and Arrow that when companies seek to maximize their utility in marginal productivity terms, a natural segregation seems to occur. However, this segregation is only likely and never completely realized (Chiplin, 1976).

THE SUPPLY SIDE OF LABOR MARKET DISCRIMINATION

Loury (1998) states that the skill gap that exists between African-American and Caucasian workers is the major cause of discrimination in today's marketplace. He believes that this gap results from various social and cultural factors. This makes discrimination a supply-side problem instead of a demand problem. Loury (1998) does not advocate eliminating current anti discrimination policies because they help to eliminate many barriers to entry for minority workers. Loury (1998) draws upon a study done by National Assessment of Educational Progress in 1994. The study found that the average African-American at age seventeen performed only slightly better in math and reading than the average Caucasian thirteen year old (Loury, 1998). Loury (1998) makes a significant connection between these scores and wages/employment; higher scores lead to higher wages.

Loury (1998) is aware of the hazardous stereotypes that could result from this approach but believes that discrimination is much more dangerous. Classic economic analysis of the "economic man" is shallow in Loury's view. He does not feel that it captures an individual's true state because of the way resources are allocated to each person. Opportunities arise through a person's social networks. If parents or peer groups do not engage in beneficial activities for a young person early in life, that person may become socially handicapped. An individual who does not have friends or family who have awareness of, or access to, job opportunities is gravely Impaired should a job loss occur. Loury (1998) refers to his early work in order to stress the importance of family and community and how resources shape an individual's education, training, and ultimately employment outcomes. Loury (1998) indicates that often these resources are divided racially, geographically, and socially. He makes these assumptions to stress his view of the deficiency of current anti discrimination projects. While he does not believe in abolishing programs such as the Civil Rights Act and the EEOC, he sees them as mere indirect ways of resolving the problem, rather than direct remedies. He believes that the greatest problem across racial lines in the U.S. is the growing African-American underclass that exists in most major cities and in rural areas of the South. Loury (1998) states that the demand theory of market discrimination's greatest flaw is that it affects the skills of the later descendants of those discriminated against. The original discriminatory acts have a downward spiraling effect. Although the civil rights movement did much to curb current discrimination, it had little influence on the legacy of prior discriminatory practices. Loury (1998) states that the struggles that face poor African-Americans today are behavioral, but they are shaped by the various political, social, and economic institutions that encompass their lives. To quote the popular adage, "It is society's fault" (Loury, 1998).

JOB SEGREGATION

Mason (1999) states that racial job discrimination is one of the major factors in determining wage discrimination. Mason emphasizes the human capital approach to wage differentials. The human capital approach states that wage differentials are due to differences in human capital, such as ability and intelligence, and to job preferences (Mason, 1999). Mason (1999) states that these wage differentials may be due to the theory of comparative advantage. He makes reference to Loury's theory of social capital and applies both narrow and broad interpretations of the theory. His narrow interpretation speaks only of the values that individuals' family and social groups impart to them. A broad interpretation deals with individuals' connection to those with job contacts. Mason (1999) reemphasizes Loury's conclusion that race and class help to determine wage differentials.

Mason (1999) challenges the efficiency wage theory, which states that the harder a person works, the higher their wage will be. He buffers this by noting that the theory is only applicable in certain capital-intensive industries. He also introduces the factor of labor turnover and how it affects employers' perception of a certain group as a whole. Mason (1999) proceeds to correlate his premise of job segregation into the efficiency wage formula. Mason (1999) states that Caucasians and racial minorities separate into different pay related types of jobs because of certain unobserved and unmeasureable qualities. In making this assumption, he is citing the work of Hirsch and Macpherson (1995). They make the case that employment density and individual wage rates tend to be lower for African Americans because their labor is of lower value than Caucasians' on average. Mason (1999) disagrees with this on the basis that comparable African-Americans have a higher education level on average than their Caucasian counterparts. He also uses the example of savings, which he correlates with hard work, that on average African-Americans in the same income brackets have higher levels of savings than their Caucasian equivalents (Mason, 1999).

Mason (1999) states that there is often a positive relationship between job wage differentials and Caucasian employment density. His explanation for this is that race often serves to distribute jobs and wages in a hierarchical job market. Mason (1999) maintains that unions and other employee associations help the workers already a part of their organization, but limit the entry of new employees to the market. Mason (1999) argues that managers, on the demand side of the market, make hiring decisions based on the values, ideals, and norms of their peer and social groups. He then cites Loury's theory of social capital to employ the Caucasian (male) employment density theory. Mason (1999) states that the larger a firm is, the larger the wage differential will be and hence the greater the Caucasian (male) employment density. Mason (1999) argues that, as the average wage increases with Caucasian employment density, the individual wages in these areas increase for all races.

Mason (1999) concludes his argument by stating that persistent wage differentials challenge the mainstream belief of labor market discrimination. A variable appears to be missing in all the current literature on the subject, including Loury's social capital hypothesis. Wage differentials may arise from different preferences in non market activity or cultural attitudes toward work. They also stem from advantages in job attainment across racial lines. Mason (1999) refers to the narrow interpretation of Loury's social capital theory to explain job separation tendencies. He makes a reference to the job competition model, which stresses the importance of inter-group segregation and wage differentials as an antithesis to the orthodox views of discrimination. He emphasizes the broad view of social capital, which stresses that access to Caucasian dominated jobs increases the wage rate. He makes a case for the job competition model for discrimination as opposed to the missing variable theory, which he suggests has "become circuitous and beyond the reach of empirical refutation" (Mason, 1999).

GENDER DISCRIMINATION

Bunton (1998) has a broad interpretation of labor discrimination and defines gender discrimination as preferential behavior because of or based on one's gender. Changing economic conditions have not always led to a corresponding change in women's economic status. Bunton (1998) stresses that two major trends of the 20th century were a rise in the labor force participation rate for females and the subsequent wage gap between the genders. These trends were coupled with the persistent wage differentials within the same occupations as well as the tendency for women to congregate toward lower paying jobs as a whole (Bunton, 1999). These irregularities were obvious in the 19th century, but have gradually lessened during the course of time. Bunton (1998) credits the industrial revolution as a significant step in the improvement of women's status in the workforce. The next fifty years were marked by special regulations designed to protect women in the labor market. These regulations were important at the time, but had a long-run negative effect on women's equality. The equal opportunity legislation of the 1960s and 1970s began the negation process of this discrimination. This occupational segregation was due to previous regulation as well as long term societal pressure against women entering certain fields. Bunton (1998) also points to the exclusion of women from certain programs in higher education as a factor in the occupational separation. Colleges and universities often excluded women from teaching and administrative occupations, some as late as the 1980s. Even when women were allowed into certain occupations, they were limited to certain low pay level, low status positions.

Early explanations of discrimination often cite the physical differences between men and women as well as the conditioning of society to believe that a woman's place was in the home and not in the workforce (Bunton, 1998). An additional explanation was the high concentration of men in unions and the fact that women had to accept the lower wage caused by pressures of these unions. Explanations that began to appear in the 1960s denied the reality of discrimination. They stated that wages were based solely on productive characteristics across the board. When these ideas failed to take hold, theories arose that pointed to life determining choices by women as a reason for wage differentials, which gave rise to the human capital theory of discrimination (Bunton, 1998).

CONCLUSIONS

The competing explanations and examples of discrimination concerning gender and race in this paper give a broad scope of the theories of the past three decades. The paper serves as an assessment of the research and the impact of the underlying thought on labor market discrimination. The fundamental problem of discrimination remains consistent. Whether it is supply side or demand side, discrimination exists on a variety of levels. Labor market discrimination has been studied for decades and has ultimately prevented our society from living up to its true potential.

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THE CABLE INDUSTRY IN THE EARLY 1990s: A REVIEW OF DEREGULATION

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ABSTRACT

This paper highlights the purpose of deregulation in the cable industry during the early 1990s and discusses a comparison of prices from region to region. There were many states where the price of basic cable was as little as $6.50 a month. Consumers benefited in terms of prices and better services in cities that provided lower rates. Basic cable rates in non-competitive markets increased slightly in cities with the same population size. These select cities provided lower cable rates and quality services in the early 1990; ideally, all cities should have been able to provide customers with the same advantage as the cities outline in this paper.

INTRODUCTION

The purpose of the Cable Act of 1984 was to convert the mixture of local, state, and federal regulations into a more systematic national cable policy. The goals of this policy included the following: 1) creating procedures for use by localities when selecting a cable franchisee that would encourage cable industry growth and development, 2) using an orderly process for franchise renewal that would protect cable operators against unfair renewal denials, 3) encouraging a wide diversity of information sources and services for the public, and 4) promoting competition in cable communications (General Accounting Office, 1991).

The Act prohibited state and local governments from regulating basic cable rates in communities where the cable system was subjected to competition as defined by the Federal Communications Commission (FCC). The FCC decided that effective competition only existed in residential communities that received three or more television stations while using their own antennae.

The Act took effect in December 1986. It was supposed to stimulate the industry's growth with the help of deregulation. With the growth of the cable industry in the early 1990s came an increase in monthly subscription rates.

According to the General Accounting Office (GAO), the price for basic cable with no premium channels increased 29 percent over a two-year period. Some areas in West Tennessee, Hawaii, and Laredo, Texas experienced rate increases in excess of 40 percent (Merline, 1990).

MONOPOLISTIC COMPETITION

When there is a competition between suppliers, the prices are kept low and the level of services high. In the cable television industry, powerful economies of scales made the industry a natural monopoly (Barnes, 1989).

Unlike the telephone companies, where the equipment was already in place across the U.S., cable companies started from the bottom and worked up. Cable companies dug up city streets and made their way into consumers' homes--an intrusive and uneconomical enterprise, but eventually very lucrative and competitive (Merline, 1990).

While the focus was on price increases in the post-deregulation period, it appeared that local price caps did not shield consumers effectively from monopoly pricing. Subscriptions increased when the controls were lifted. Nominal prices increased, and more channels and better programs were added. As a result, more consumers purchased cable for their homes.

At the time, there was little competition in the cable industry. The reason for this was that city governments, cable companies, and cable programmers, each with a vested interest in the heavily regulated and non-competitive market, established barriers to entry into the cable marketplace. Some analysts argued that the industry was not necessarily a natural monopoly, but cable's monopoly status nationwide in reality was the result of deliberate policy.

Many cities did not want competition. The marketplace eventually prevailed, but in numerous cases where competitors tried to offer consumers a choice, cities presented barriers to entry into the market (Aufderheide, 1991).

A case in point involved Preferred Communications, Inc. The company sought to offer competitive cable rates in the economically oppressed Watts area of the Los Angeles, California. Los Angeles did not argue that cable was a natural monopoly, but that a second franchise would cause disruption and a safety hazard that might jeopardize cable services regardless of income.

In the early 1990s, there were many lawsuits against cities trying to keep competitors out. City governments vigorously litigated against competitors even when they attempted to provide cable by methods other than laying cable. The reluctance of many cities to allow competition probably stemmed from the fact that many cities derived a substantial profit from monopoly situations (The new world of T.V., 1991). In many areas, cable television enjoyed a local monopoly because it was prohibitively expensive for a rural company to wire an entire area.

In the early 1990s, cable companies moved towards a monopsony because cable systems increasingly insisted on owning part of any programming used on their system. Many cable companies kept rival programmers off of their systems and refused to sell their programming to rival delivery systems (Cable television, profiteers of diversity, 1990).

Only 50 of the 900 U.S. cable systems operated with head-to-head competition in the early 1990s. According to a 1990 study commissioned by the cable industry, these consumers in the non-competitive markets paid rates nearly 20 percent higher than rates elsewhere in the U.S. (Cable television, profiteers of diversity, 1990). A study conducted in 1991 contrasted cable rates in 19 competitive areas with monopoly rates in similar nearby communities. Where competition existed, cable was about $3.00 less per month.

The Consumer Federation of America (CFA) kept a watch on the cable industry and testified before Congress in favor of rate regulation. At the time, CFA stated that the cost of a monopoly would exceed one billion dollars a year (Aufderheide, 1991).

Since the 1980s, Congress has advocated two approaches concerning cable implementation. The first was straightforward intervention; both versions of the regulation bill would allow the FCC to step in and tell the cable operators what they could charge customers. The second approach was more constructive. It was designed to foster competition by prohibiting cable operators and cable networks from cutting deals that stopped emerging competitors from getting contracts with popular networks (Garrett, 1990).

By the early 1990s, there was a clear understanding of the FCC ruling for towns and cities. The FCC ruled that cities with fewer than six channels, either from broadcast stations or other types of delivery systems, would be able to regulate fees for the basic service.

PLEDGER VS. MEDLOCK

In the Supreme Court case of Pledger vs. Medlock, the issue was the constitutionality of an Arkansas sales tax imposed on cable television services. In 1987, Arkansas added cable television to the services subjected to the state sales tax. The tax was challenged by cable operators and subscribers based on the First Amendment. The Arkansas Supreme Court stated that the tax violated the First Amendment if it discriminated between mass communications media that delivers substantially the same services (Gerhon, 1992). Two years later, the law was amended to include "all other distributions of television, video, or radio services with or without the use of wires provided to subscribers or paying customers or users" (Gerhon, 1992).

According to the state's interpretation of the First Amendment, it was legal to impose a sales tax on cable viewers without taxing other types of media customers. Cable operators in Arkansas argued that cable television was not liable to any tax unless all other mass communications media were liable to the tax.

More than half of the state and hundreds of local governments imposed some type of tax on the provision of cable service. If the Supreme Court accepted the cable operators' arguments, the continued validity of the five percent franchise fee that could be collected by franchising authorities under the federal Cable Act of 1984.

Arkansas cable operators urged the Supreme Court to delineate in Pledger vs. Medlock. According to the Arkansas's Supreme Court interpretation of the First Amendment, rights and standards applied to cable television. When this ruling was printed in December 1990, the only action that had taken place that was the National Cable Television Association voted on behalf of the Arkansas cable operators.

SUCCESSFUL COMPETITION

Troy, Alabama offered a good example of successful competition. Troy Cablevision competed with Storer Cable for services. Storer improved its services from 21 to 36 channels, while maintaining the price of $13.93 a month. Troy Cablevision charged $14.00 for 43 channels and the price was not increased during a four-year period. "When you have competition, you don't need a regulatory agency. That's evident by what's going on in Troy" (Andrews, 1992).

Telesat, Inc. began competing in Orange County, Florida in 1987. Before entering the market, two companies served the county on a non-competitive basis and sold basic cable to subscribers for $12.85 and $10.35 a month. When Telesat entered the market, monthly rates for both systems dropped to $6.50 a month. In the early 1990s, Telesat sold 50 channels of basic cable for $11.50 a month.

In central Florida, basic cable sold for $8.95 in the late 1980s. A competitor offered basic services for $7.95. In surrounding areas where cable television did not compete, prices increased $3.00 to $4.00 per month.

Frankfort, Kentucky residents enjoyed the lowest cable rates in the U.S. Consolidated TV Cable and Community Cablevision competed against each other for 20 years. Each charged $7.00 a month for 30 channels of basic cable. Consolidated charged $11.50 in areas that were non-competitive. "Competition has everything to do with the price difference" (Andrews, 1992).

Cleveland, Ohio was one of the few large metropolitan areas that enjoyed multiple cable choices, with three companies actively competing for customers. MetroTen offered 25 channels for $13.95 a month, North Coast Cable offered 40 channels for $14.50, and TBA offered 37 channels for $14.50. The three companies competed based on the best service possible at the lowest rates.

MORE COMPETITION FOR THE CABLE INDUSTRY

In cities nationwide, cable television was essentially installed in the same format. Cable companies strung wires from telephone-like poles. In urban communities, city streets were dug up in order to install cable systems. Many city officials argued that there was no space or provision for underground wires.

There were at least five alternatives to hard-wired cable in cities across the U.S.: 1) private cable, 2) wireless cable, 3) direct broadcast satellite, 4) common carrier lines, and 5) local telephone companies.

Private cable used a satellite dish to pull in signals that were sent over wires. This system was used most often for residents of large apartment complexes. A cable company was then able to feed its signal to homes by using a microwave beam.

In using wireless cable, a customer would install an antenna cable on the roof that picked up signals from a transmitter. According to the Wireless Cable Association, there were a dozen wireless systems in operation in the early 1990s. One drawback to wireless cable was that the signal would degrade in areas with rough topography.

The third type of hard-wire cable was the direct broadcast satellite. Technology made it possible to send more than 100 channels from a satellite to a small dish mounted on the roof of a home. This system was used by consumers who did not have access to cable television in their homes.

Common carrier lines were the fourth type of hard-wire completion. With this system, several companies offered their services to consumers, each by using a single cable. Local television stations used the line to send signals from their studios to transmitters. This was done to deliver programming to local affiliates.

The fifth type of hard-wire cable was the local telephone company. Various telephone companies entered the market by using fiber-optic technology by delivering video signals and other informational services, along with citywide telephone services.

The problem with this type of cable line was that federal law prohibited the use of equipment for services other than services provided by the local telephone company. In 1988, the FCC issued the following statement: "The evidence before us suggests that the prohibition against telephone companies providing cable television service within their telephone service areas no longer serves the public's interest" (Andrews, 1992).

In the early 1990s, the Regional Bell Operating Companies (RBOCs) expanded their competitive position by entering into new lines of business. At the time, video communication was the most popular line of business.

Under the Modification of Final Judgment Guidelines, the RBOCs were prohibited from engaging in certain lines of business, including: 1) the provision of long-distance service, 2) telecommunications products manufacturing, and 3) the provision of information services (Andrews, 1992).

The FCC passed a law in 1970 prohibiting telephone companies from providing television cable service. This rule prevented local telephone companies from interfering with the development of cable television. In 1984, the Cable Communications Policy was passed on behalf of the cross ownership rule. Based on this rule, Section 613 was placed in the Communications Act of 1984.

LEGISLATION

Congress passed legislation re-regulating cable prices on July 23, 1992. This provision forced all cable television companies to make their programming available to competitors, such as those who offer satellite services. In 1987, prices for basic cable television increased more than 50 percent when deregulation was instituted.

The first Bush administration threatened to veto this bill, stating that the best way to address increasing rates was to allow telephone companies to own and transmit television programming.

"The cable industry's growth has been accompanied by skyrocketing cable rates, and some in the industry have abused consumers with price gouging and poor service practices" (Andrews, 1992).

CONCLUSION

The deregulation of the cable television industry was not a well-designed Act by government. Deregulation increased prices by as much as 50 percent since the Cable Act was placed in effect in December of 1986. The primary reason for increased prices was due to the naturally monopolistic tendencies of the industry.

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MEXICO'S ECONOMIC REFORM UNDER CARLOS SALINAS: A REVIEW

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ABSTRACT

This paper briefly reviews Carlos Salinas's economic policies. The most pressing issue for President Salinas at the time of his election in 1988 was an immediate reform of the Mexican economy. Supported by economically literate ministers, President Salinas immediately attacked both macroeconomic and microeconomic problems. Salinas's economic policies were designed to provide internal consistency through the consolidation of macroeconomic stability and efficient resource allocation through microeconomic policies that facilitated market guidance (Puche, 1992).

INTRODUCTION

In the 1940s, Latin American countries, including Mexico, structured their economies on policies that rejected the export of manufactured goods. For Mexico, this strategy was based in part on the problems that it experienced with the U.S. during the mid-1800s. Independence became synonymous with the decision to sever close economic ties to the rest of the world. During this period, Mexico used the exports of raw materials and agricultural goods to finance the importation of machinery and intermediate goods used in industry. With an expanding domestic market and a favorable balance of payments, the Mexican economy thrived, with an average growth rate of 6.5 percent for 35 years and inflation slightly under three percent on average (Rubio, 1992).

However, throughout the 1960s, as a result of population growth and the declining productivity of land caused by the continual shrinking of acreage available for distribution, agricultural exports declined while imports of industrial goods continued unabated. A crisis was avoided in the 1970s, caused by the 1973 Arab oil embargo, and the discovery of oil in Mexico. Mexico was able to continue the importation of industrial goods, yet avoid a looming balance of payments crisis using international debt and oil exports.

By 1982, when Mexico defaulted on its loans, the total debt had grown to $80 billion. With soaring inflation, an accumulated per capita negative growth rate of approximately 15 percent, and massive unemployment, Mexico experienced the worst depression in its history (Rubio, 1992). This economic crisis was created by a combination of faulty macroeconomic and microeconomic policies.

ECONOMIC POLICIES

Macroeconomic instability resulted from unwise policies that favored consumption over saving, external shocks such as increasing real interest rates, and the collapse of many commodity prices--the result being a cycle of high inflation and low output.

Microeconomic inefficiencies were also rampant. Expanding involvement of the public sector in the national economy led to state monopolies that had little incentive for innovation or efficient economic performance. Trade policies, which were protectionist in nature, delayed industrial modernization, while overburdensome regulatory requirements obstructed supplies and pushed production costs higher. This combination of inefficient practices precluded competitive business development.

Carlos Salinas was well qualified for not only the challenges which faced him at the time of his inauguration in 1988, but also dealing with the problems that needed to be surmounted in order to assure Mexicans and the world that the recovery would be long lasting.

CHANGES TO MACROECONOMIC POLICY

To achieve the macroeconomic goal of stability, inflation had to be controlled. Having reached a high of 159 percent, it was still near 100 percent at the time Salinas took office (Strother, 1992). A comprehensive anti-inflationary program, known as El Pacto, was instituted to combat this problem. The basis for El Pacto was a foundation of strict fiscal discipline. El Pacto was an agreement between the government and labor and management for control of prices and wages. Even though labor officials complained that workers were forced to bear an unfair share of the load, they agreed to a six-month extension of the agreement. The pact worked; inflation initially dropped to 20 percent, leveling out to approximately 10 percent by the end of 1992 (We don't tax capital gains, 1992). While an even lower rate of inflation was desirable, this improvement had a significant and favorable impact on the economy. For example, interest rates were forced to their lowest level since 1982.

The stringent control of prices and wages were combined with a strict policy of no deficit financing for government expenditures. To help achieve a balanced government budget, government spending was cut. One method utilized by Salinas to accomplish this was a reduction in the size of the government through privatization, the sale of state owned monopolies to private groups. Salinas estimated that privatization raised $33 billion in revenue, which was used to reduce the national debt.

One example of the privatization program is the sale of Aeromexico. In Mexico, where only four percent of the population has ever flown, this state owned airline was draining the system of $100 million a year (We don't tax capital gains, 1992). The staff and the planes were unchanged after the sale of the airline to a private group; Aeromexico was named in 1991 as the number one airline worldwide for being on time.

In 1992, the Mexican government was in the process of privatizing its banks, which were nationalized in the 1980s. In this case, the sale to private interests probably did not do much to change the status quo, since only 51 percent of each bank's equity was sold with full voting rights, and 30 percent of bank stocks were already controlled by private investors (Bussey, 1990). Also, many former owners of banks owned stockbrokerages that processed many of the financial transactions handled by the banks prior to their nationalization. However, the return of the banks to private ownership bolstered investor confidence. This action removed the symbol of Mexico's populist past and instigated the needed investment that spurred the Mexican economy above its projected three percent annual growth rate (Bussey, 1990).

Another strategy successfully implemented was the reformation of the tax system using supply-side economic principles. Supply-siders argue that reduced income taxes, for both individuals and corporations, can lead to increased revenues as the reduction in tax rates will be more than offset by the increased economic activity of the firms who would now have greater after-tax profits. In addition, individual taxpayers will work longer as they will be able to keep more of the increased income generated by the increased hours of work. In the early 1990s, the maximum tax rate for Mexicans was reduced from 60.5 percent to 35 percent, and for corporations it was lowered from 42 percent to 35 percent. Other modifications changed value-added taxes to a flat rate of 10 percent, and 13 federal taxes were eliminated. Based on the belief that government should not be involved in a corporation's decision as to whether or not to distribute dividends, Mexico in the early 1990s had zero tax on dividends. Finally, on publicly traded firms, there was no capital gains tax.

By the early 1990s, government revenues were up by 33 percent in real terms. While one-third of the increased revenue was due to the rise in GDP of 11 percent, 22 percent of the increase was attributed to the success of the supply-side theory of taxation (We don't tax capital gains, 1992).

MICROECONOMIC POLICIES

Salinas acted to transform Mexico's trade policies from a protectionist philosophy to one of open trade. The microeconomic focus of the Mexican reform was on trade policies that needed to be changed in order to foster open trade, foreign investment, deregulation, technological innovations, and export promotion.

The maximum import tariff was 20 percent in 1992. The weighted average tariff was 9.6 percent, down from an effective tariff of 200 percent on average (Rubio, 1992). These trade reforms forced Mexican companies to compete with relatively cheap imports, forcing some firms out of the market. However, the result was a reallocation of productive resources into sectors with higher returns. Mexican firms have access to inputs at international prices, and quality levels and production lines have been improved, all of which leads to greater efficiency. As the Mexican economy no longer biases economic decisions in favor of importable goods at the expense of the exportable goods sector, Mexico's non-oil exports have quadrupled since the early 1980s as a result of open trade policies (Puche, 1992).

In order to maximize the benefits of the liberalized trade policies, Mexico adopted a policy of deregulation. The goal of regulatory reform was to eliminate barriers to entry, reduce costs, and enhance efficiency. Many industries were included in the overhaul of the regulatory system, and the transportation industry provides an example of the savings that resulted. Estimates of the annual consumer loss due to licensing requirements in the transportation sector prior to deregulation amounted to approximately .5 percent of GDP. After deregulation, rates declined by up to 30 percent (Puche, 1992).

Technological weakness can be a fundamental reason for the loss of productivity. To be competitive, innovation is crucial. This does not mean that Mexico must be the technological leader in all sectors of the economy; for a labor-abundant country such as Mexico, this would be too costly. But it does necessitate the search for appropriate technologies. Expenditures on research and development should concentrate on those areas that have a comparative advantage. By focusing production on those goods that Mexico can produce at a lower resource input cost than its international competitors, maximum benefits should be derived from any expenditure for research and development.

Another microeconomic concern was the need for increased foreign investment, which could further internationalize the economy, provide a financial base for private sector projects, provide domestic jobs, and enhance the export capacity. Foreign investors not only sought markets that were adopting new technologies and innovative market strategies, but they also demanded a competitive tax system and favorable regulatory environment. It was the belief of Salinas that the tax changes already in place enabled Mexico to be competitive on the international level, leading to a successful bid for capital. Regulatory reform allowed for up to 100 percent foreign ownership in areas that amount to over two-thirds of Mexico's GDP. This combination of factors helped to push Mexico's 1991 foreign investment to a record level of $9 billion (Puche, 1992).

Given the increasingly competitive and interdependent nature of the world's economies, an open trade policy today requires more than exploitation of economies of scale and specialization. A country must also have ample and permanent access to external markets. Mexico has participated in multilateral and bilateral trade negotiations to guarantee this type of access.

The need for markets was a primary reason for the free-trade agreements signed with Chile and for the ongoing negotiations with Venezuela and Columbia. Entering into bilateral agreements ensured market niches in foreign markets that were based on Mexico's comparative advantages. Given Chile's successful economy and conversion back to democracy, Mexico became a natural trading partner. The negotiations with Venezuela and Columbia led to the creation of a broad market for Central American goods, leading to stabilization of those economies. It is in Mexico's national security interest to have stable borders and neighbors who are successful.

BARRIERS TO THE IRREVERSIBILITY OF SALINAS'S ECONOMIC CHANGES

While Salinas made significant inroads into the major problems confronting the Mexican economy, inflation and unemployment remained high. There were at least three other areas that raised legitimate questions as to whether or not the economic changes wrought by Salinas's government were permanent in nature. These included political considerations, the liquidity of capital investments, and the current account deficit.

It is not clear that the economic reforms enacted by Salinas will be irreversible so long as the political environment remains clouded. Salinas was a member of the Partido Revolucionario Institutional, Mexico's ruling political party since 1929. The PRI was accused of massive political fraud in the past. While Salinas called for clean elections in the 1991 mid-term elections, it was not certain that he was committed to the political freedom that must accompany any truly irreversible reforms. The gubernatorial elections in Guanajuato and San Luis Potosi are cases in point. The PRI candidate won both positions, and the winner of each was officially certified and installed to office. Salinas annulled both elections. It cannot be determined if this action was a commitment to clean government or an autocratic act by Salinas to appease opposition party members and thus avoid protests that might threaten NAFTA.

Another area of concern was the rapidly growing current account deficit. Economists in Mexico estimated that it would run at approximately four percent of GDP in 1991, or $11 billion, double the figure for 1990 (Free-market Mexico, 1991). This deficit was not the result of borrowing to finance government spending. Government figures indicated that imports of capital goods rose 39 percent in value in the first half of 1991, while consumer imports were up only 19 percent. During this same time, capital inflows amounted to $9 billion. The current account deficit was a private sector one and was financed by a private sector account surplus.

But it was the liquidity of the inflow of capital that raised another question concerning the ability of Mexico to continue its extraordinary recovery. Aside from the concern that a large portion is flight capital being repatriated to Mexico, it was estimated that 75 percent of the total capital inflow was invested in highly liquid portfolio investment rather than new factories. The liquid nature of this type of investment made it extremely vulnerable to any external shocks. Such shocks could cause the money to be withdrawn as quickly as it was invested, leading to the vicious circle of a run on reserves, devaluation, and rising inflation.

CONCLUSION

Salinas effectively corrected faulty macroeconomic and microeconomic policies that led Mexico to the brink of collapse. His leadership has also turned Mexico from an inward-looking, protectionist nation to one that embraced the opportunity for open trade. This change forced Mexico to develop its industrial manufacturing sector, for unless it can become a world-class competitor, Mexico will not be able to compete globally.

By developing competitively, Mexicans were afforded the job opportunities necessary to raise both wages and standards of living. When combined with Salinas's stated commitment to political as well as economic reforms, Mexicans moved into an era of both economic and political freedom.

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MOTIVATION TECHNIQUES FOR POSITIVE REINFORCEMENT: A REVIEW

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ABSTRACT

The consistent use of positive motivation techniques is critical for managers in today's constantly changing and evolving world of human needs and desires. How well managers use these techniques to motivate employees directly affects the use of human resources toward accomplishing organizational goals. This paper reviews managerial motivation techniques and methods of positive reinforcement.

INTRODUCTION

Fifty years ago, motivation techniques were much different from today. Many people question whether the motivation techniques of yesterday are still good today. With a stable economy, high standard of living, and a low unemployment rate, it may seem that not many things can motivate employees today. However, greediness is part of human nature. People always want more and never seem satisfied with what they have. Nelson (1996) states that most motivational techniques are essentially the same as in previous years. Perhaps, however, basic physical needs do not have as much impact in motivating employees today. Other factors that have a tremendous impact are recognition, respect, involvement, advancement, and interesting and meaningful work (Nelson, 1996).

MOTIVATION STRATEGIES

Consider the differences between motivational methods of managers in non-profit organizations or for-profit organizations. What if a manager did everything he or she could, from a careful selection process to extensive employee training, yet did not get the desired performance from his or her employees? What else could a manager do? Different methods of motivation may yield the answer. Many people believe that management cannot motivate employees. Robbins and Coulter (1996) state: "Many people incorrectly view motivation as a personal trait, which they cannot change. It means some employees have it and some do not. Some employees are motivated and some are not. Managers must create the environment for employees to exert their efforts. We as managers must be approachable by the employees in such a way that we can see and understand what our employees need and want."

If motivation is a personal trait, it is questionable whether one can change a trait. Motivation has been defined as the "willingness to exert effort to achieve the organization's goals, conditioned by this effort's ability to satisfy individual needs" (Robbins & Coulter, 1996). This leads to the beginning of motivation. Motivation varies between and within individuals at different times. The art of motivation is a process of changing one's willingness to exert effort.

Many early theories of motivation were formed in the 1950s. Three of these theories are the hierarchy of needs theory, theory X and Y, and the motivation-hygiene theory. Abraham Maslow's hierarchy of needs theory illustrates five human needs that motivate people. These needs are ranked in order of importance starting with physiological needs that are the basic needs for food, clothing, and shelter. Next are safety, social, esteem, and self-actualization needs. Theory X and Y are simpler than Maslow's hierarchy of needs theory. "Theory X assumes that employees dislike work, are lazy, seek to avoid responsibility, and must be coerced to perform. On the other band, theory Y assumes that employees are creative, seek responsibility, and exercise self- direction" (Robbins, 1996).

"According to the motivation-hygiene theory, different factors can cause employees satisfaction or dissatisfaction with their jobs. Factors such as recognition, achievement, advancement, and growth can trigger motivation. They call these factors motivators. Motivators, such as salary, working condition, status, and security are called hygiene factors, which tend to eliminate dissatisfaction" (Robbins, 1996).

McNerny (1996) states: "Motivating employees is a very challenging task because of the varying needs and desires that drive employees' behavior. No single theory can guide efforts to bolster employee motivation since they are not purely economic, social, political, or psychological beings." DeCenzo (1996) defines motivation as "the willingness to do something, conditioned by the action's ability to satisfy some need."

A want or desire is an individual need. Non-profit and for-profit companies still face the same basic challenges of motivation. An inherent key to being a good manager is spending time with employees, paying attention to their concerns, and trying to understand what they want and need in order to do a better job. After discovering what employees' needs are, human resource managers work to meet those needs while considering the goals of the organization.

MANAGING EMPLOYEE NEEDS

Deprivation is a state of having unfulfilled needs. Unfulfilled needs cause tension. If tension is left unchecked, it may become dysfunctional. DeCenzo (1996) states that: "Dysfunctional tension is [similar to] negative stress or apathy." An employee will try to fill the need for only so long, and if the need is not filled the situation may become hopeless. An employee may become so overwhelmed trying to fill the need that sense of not caring will manifest itself in the employee's day-to-day work activities. Employees may become disillusioned and just not care any more when they are made to feel insignificant. When management strives to make employees believe that they are a critical part of their work environment and are key to the organization's success, employees may become more productive.

Many managers believe that when an employee seeks a true reward (a need satisfied) and if he feels it is in proportion to his effort exerted, then management has motivated that employee. The employee then may lapse into a calm state. His need is satisfied and his tension is relieved. Spitzer (1990) offers several true human desires. Spitzer's list of human desires corresponds closely with Maslow's hierarchy of needs. The list shows the essence of everyday needs and wants: 1) The desire for activity reflects human orientation toward stimulation. People strive to be active and engaged, and to enjoy life. 2) People want ownership; they have a love of possessions. 3) People have the desire for power and want to make choices. They desperately want control over their own destinies. 4) People strive for affiliation because for many people work is the major source of social interaction. 5) The desire for competence is important because competence may be the most fundamental human desire because humans depend on it. 6) The desire for achievement; everybody thrives on some form of success. 7) People show a desire for recognition. Everybody wants to feel appreciated by others, to be positively recognized for his or her merits and contributions.

In a popular management book, Why This Horse Won't Drink: How to Win and Keep Employee Commitment, Ken Matejka (1990) wrote: "...the higher level needs involve the following: 1) Creating task challenges, 2) Creating opportunities for growth, 3) Sharing control through delegation, 4) Sharing ownership, 5) Building group and team identity, 6) Giving recognition, and 7) Building trust and respect." Matejka states that a true leader must find out what his people are pursuing. Leaders must understand how to help peers and subordinates meet their needs. Managers can then begin to help employees reach company goals.

Good managers empower employees by helping them to realize that after many years of getting each step approved and working within limited boundaries, employees are free to pursue their needs. A key to empowerment is to delegate responsibility and duty. If managers assign a task to an employee without assigning accountability along with it, they have not truly delegated. Employees must accept responsibility and decide for themselves a course of action. Many employees are not accustomed to a style of management that uses empowerment. Thus, employees are not given the opportunity make decisions. The text Managing Transitions by William Bridges offers insight for resolving empowerment barriers.

Two other types of positive motivational are intrinsic and extrinsic techniques. Intrinsic techniques tap the positive satisfaction an employee gets from the job itself. Extrinsic techniques are rewards an employee gets from the employer such as money, a promotion, or benefits.

Job enrichment is one form of an intrinsic motivational technique used in highly technical jobs such as medical research in non-profit organizations. Because of the nature of non-profit organizations, motivating employees can be difficult due to the lack of financial rewards. These organizations focus on intrinsic rewards as the main source of motivation because they cannot focus their reward system on financial bonuses. If the non-profit organization gave financial bonuses, explaining to customers and clients the reasons for the bonuses could be difficult. Customers might perceive the bonuses as extra money that could enhance the organization. Basic merit rewards, praise and verbal recognition, challenging work, and growth and development opportunities are what motivate a non-profit organization's employees.

Extrinsic rewards are motivational techniques that involve money, promotions, or benefits. An article in the May 1994 Personnel Journal, "Motivating Creative Employees Calls for New Strategies," states that traditional incentives for motivation are not always attractive to some individuals. Royalty compensation is a plan developed as an incentive by companies for key research and development personnel to participate in the commercial success of the products they create. Despite the enormous potential of royalty compensation, few companies offered such incentives in the late 1990s. Companies are more likely to recognize employees with financial bonuses based on a percentage of the company profits. Sometimes companies institute variable pay policies where they pay bonuses based on the department's financial performance. Though royalty compensation is not widely used, its proponents believe that the advantages of using this method of incentive outweigh the disadvantages.

Monetary rewards have some drawbacks. Employees are paid for the job that they are hired to do, which generally is the function of the compensation policy of a company. Drucker (1973) states: "Merit raises always are introduced as rewards for exceptional performance. In no time at all they become a right. To deny a merit raise or to grant only a small one becomes a punishment. The increasing demand for material rewards rapidly is destroying their usefulness as incentives and managerial tools. Cash awards in some instances have a de-motivating effect. It reduces teamwork as employees primarily concentrate on individual cash gains."

Nelson (1996) found that money was not a top motivator. In a research study of 1,500 employees in a variety of work settings, employees reported that personalized, instant recognition was one of the most powerful tools of motivation of the 65 potential incentives evaluated. Employees acknowledged that recognition as simple as taking the time personally to thank an employee for something that they did well was motivational. The act of delivering simple, direct praise for a job well done is easy to do, yet many managers do not do it. As a result, many managers deny the company and the employees of one of the most powerful forms by which to shape and reinforce desired performance.

People who are buying a house, or have children in college, or have heavy financial obligations to meet, are more aware of monetary rewards. However, if the employee is not financially burdened, recognition of quality work may have more significant value than monetary rewards. Recognition is not just for the employee who did well. It also sends a message to other employees about the type of performance noticed in a company.

Valuing the differences and needs of employees in the work environment is vital. When employees do not feel valued, their performance suffers. Different cultures place value on widely different things. There are many issues that managers face with a diverse work group. Despite the type and scope of some programs, work-life benefits are designed to support the needs of a diverse labor market and are good strategies for increasing company productivity and profits. Nelson (1996) notes ten things that managers need to do to motivate employees.

1. Personally thank employees for doing a good job. Thank them one-on-one, verbally, in writing, or both. Give praise often, sincerely, and in a timely manner.
2. Be willing to take the time to meet with and listen to employees as much as they need or want.
3. Provide specific feedback about performance of the person, the department, and the organization.
4. Strive to create a work environment that is open, trusting, and fun. Encourage new ideas and initiatives.
5. Provide information on how the company makes and loses money, upcoming products, and strategies for competing in the marketplace and how the person fits in the overall plan.
6. Involve employees in decisions, especially when those decisions affect them.
7. Provide employees a sense of ownership in their work and the work environment.

8. Recognize, reward, and promote people based on their performance. Deal with low and marginal performers so that they either improve or leave.
9. Give employees a chance to grow and learn new skills. Show them how management can help them meet their goals within the context of meeting the organization's goals. Create a partnership with each employee.
10. Celebrate successes of the company, the department, and of the individuals in it. Take time for team- and morale-building meetings and activities.

CONCLUSION

The use of positive motivational techniques must be consistent and timely in order to be effective. Proper use of positive motivation is critical for managers in today's constantly changing business environment. How well managers use these techniques to motivate employees directly affects the productivity and efficiency that employees need to compete in business today. Companies with effective motivational programs continue to have the extra edge needed to stay ahead of their competitors and lead in their respective industries.

NOTES: Consolidated guide for interviews and discussion

1. What is a good working definition of motivation?
2. What kinds of motivation techniques does your organization use most often?
3. What barriers do you encounter and how do you overcome them when carrying out the motivation process?
4. In what ways does the company use job enrichment to motivate? (Examples: Job rotation, work at home programs, flex hours)
5. What are some challenges in motivating a diversified work force?
6. What types of extrinsic rewards are found to motivate management and other employees? (Examples: Money, promotions, benefits)
7. What works best for management and other levels of employees?
8. How are rewards structured throughout the company?
9. To motivate an employee: identify his or her needs and carry out the steps required to satisfy those needs. For instance, the need for self-esteem can be met by special recognition for an employee, but how do you convey this to a manager who may not be schooled in motivational techniques?
10. Oftentimes the most motivating step a manager can take with an employee is empowerment. Managers assign projects and expect results without constant supervision. In addition, managers may give authority to do what it would take to get the job done.

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AN ECONOMIC REVIEW OF GERMANY'S UNIFICATION

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ABSTRACT

The world has seen many changes since the early 1990s. Several countries have voted out communist rule for a democratic form of government. With the dismissal of communism as a country's leading political party, the country's structure changes. This is not always easy; citizens want freedom, but they do not know how to be free. Part of this lack of knowledge is due to economics. This paper discusses some of the economic ramifications of Germany's reunification.

INTRODUCTION

Countries must learn to compete in a capitalistic system. One country that went through such a transition was East Germany. East Germany, however, had the advantage of merging with a very successful capital system. There is no doubt that the reunification of Germany will have a positive global effect. The unification will also have an effect on the old East German territory and on the implementation of the European Economic Community.

Although Germany's political unification progressed rapidly, economic unity and stability was difficult to accomplish. Merging two completely opposite economies proved to be a difficult task. The West German economy was characterized as a strong, highly efficient and well-capitalized industrial economy, while the East German economy was much weaker. East German firms had no base of equity and capital that were necessary for the reconstruction and upgrading of facilities needed to compete in a capitalistic economy. East Germany's per capita income was 70 percent below that of West Germany. The merger of these different economies proved to be a drain on West German businesses.

PROBLEMS WITH UNIFICATION

One problem was business taxes. German companies endured a higher tax rate than any other major Western country. Many West German companies could afford to bear this load because of years of operating in a capitalistic system. The firms became highly efficient and had a large capital base. East German firms had little if any capital, which was needed to build and modernize plants and facilities. The West German economics ministry understood that East German businesses could not bear this load of taxation. Therefore, the West German economics ministry proposed setting the tax rates lower for East Germany, but the finance ministry rejected the idea. The finance ministry feared lowering the tax rates for the East German firms would cause the West German firms to demand lower tax rates also.

This problem was accented by the fact that unemployment, something unheard of before unification, soared as East German firms folded under the competition from West German firms. It was hoped that Western investment would help to offset the struggle of the undercapitalized East German firms, but this did not happen. Two major reasons cited for the slow investment were a lack of firms that investors and businesses felt could be built into solid competitive firms and the problems involving ownership of property, as pre-war owners were allowed to claim property.

Another problem was the extent of heavy regulation of Germany on its industry. Regulation generally causes a loss of some kind, either a direct cost as through record keeping or owning special safety equipment, or indirect cost that prevents a firm from taking some action that could stimulate profits. An example of this indirect cost of regulation was found in the German trucking industry. Most truckers are forced to make return trips without carrying a load. This renders fees artificially high. These high fees did not encourage efficient transportation in East Germany. Another example of how regulation hampered East German economic growth was found in the retail industry. Regulation sets the shopping hours across the country. All shops must close on Saturday and Sundays at 1:00 p.m. and at 6:30 each weeknight except Thursday. These regulations hurt the East Germans' chances of building a strong retail industry that could compete with the West.

Another difficult area was with the labor cartels. West Germany had an elaborate licensing system that limited the access to most of the service sector professions. It was difficult to own an individual business like plumbing, banking, or auto repair, because a citizen must spend years as an apprentice and then pass a qualifying examination. This could take as long as eight years. East Germany, however, had an underdeveloped private sector, yet had an immediate need for self employed people in these professions. The West German government, under pressure from its citizens, had trouble relaxing these requirements. After relaxing some requirements, more than 60,000 small firms were founded that provided more goods at reasonable prices in East Germany. An example of how competition affected East German industry concerned the East German farmers. The East German farmers felt the crunch of Western competition. Former customers of the cooperative farms signed exclusive deals with Western producers, leaving the cooperatives unable to sell their produce. They were forced to destroy or recycle the produce as animal feed. Members of the cooperatives were forced to sell directly to the consumers on market day at a fraction of the cost just to get rid of the produce. Support from the government helped in the future, but East Germans were not eligible for aid in the early 1990s. The old government in East Berlin tried to help by buying up some of the produce, especially milk, in hopes of selling to trading partners, mostly the old Soviet Union. The West German agriculture minister insisted that the East German producers adapt to the capital market and that the market must prevail. The East Germans should not expect the state to bail them out. The farmers argued that they had no time to adjust to the new system and blamed the speed of the change. They felt the change was forced upon them too quickly.

The problems of the farmers were similar to many of the workers in East Germany. The workers had 40 years of hard work that was protected from competition. Though they had no experience in competing in a capitalist market, they were forced to do so and adapt. However, if the laws were changed to relieve East Germans of some of this pressure, the new German economy could be damaged even more and the length of time to bring East Germany up to speed could be increased. Any reduction of the regulation on East Germany would provide a cushion for East Germany. A small cushion might make it easier for capital to be built up for upgrading. But if the cushion is too large, East Germans might be slow to change their ways to build capital and the upgrade could take longer. A seemingly harsh introduction to a capitalistic system, though admittedly tough at first, allowed a stronger East German to merge with the West faster.

THE OVERALL COST

By the end of 1992, a single market European Community with a unified Germany was clearly a goal. However, the addition of East Germany brought about unforeseen problems in the European community. One question was the cost of admitting East Germany. Although estimates varied from $1.5 billion to over $2.5 billion, there was no disagreement that the cost of integrating East Germany would be a burden from 1991 to 1993. West Germany supported 80 percent of the cost. The remaining costs were shared by the 11 members of the Community, with an understanding that the poorest members, Greece, Portugal, Ireland, and Spain, should not be hurt. "Much of the money will go on handouts from the EC's regional and social funds, and on support from the East German farmers under the common agricultural policy" (Join now, pay later, 1990, p. 49). Pumping this money and surplus into the East German economy revived East German farm production and added to the EC surpluses, mostly in cereals and sugar. The East Germans now consumed other EC surplus products, such as fruit, vegetables, and wine. Another problem area concerning East Germany and the EC involved the fact that East Germany would not sign a treaty of accession with the EC, but would simply enter by becoming part of one Germany. The EC handled this issue by using a special package that could be used in the event a country signed a treaty of accession with the EC. Part of the problem was that this package was not complete. The European commission had reserved temporarily legislative powers, but applied the yet-to-be-approved laws to the East German territory. The objective of this was to exclude the East German territory from EC laws and policies that would be hard on the East German economy.

Eighty percent of the EC's single market rules applied in the German territory. These included financial services, mergers, and free movement of people and capital. However, rules involving state aids were not liberally applied. Aid was only given if it was temporary and brought about significant social or regional benefits. Many of the EC's rules were implemented in a transitional way, giving the East Germans time to adapt to the new rules. This transition period gave the East Germans until the end of 1992 to prepare themselves for the EC regulations. East Germans were subjected to some of the EC policies immediately. East German farmers were already subjected to EC food prices. Also, nuclear safety rules were immediately enforced that probably caused the closure of East Germany's nuclear plants. But other standards, such as standards for air and water pollution, were not enacted until 1996.

The EC showed some compassion for the East Germans by trying not to stifle their economy, giving East Germans two years to adjust to the EC's rules. The EC realized the poor condition of East German industry and was willing to give the industry time to upgrade their facilities and build capital before requiring strict pollution standards. The EC was willing to compromise on areas such as equal competition of trade or public safety. In regards to safety, although air and water pollution was considered a hazard, the enforcement of the nuclear safety rules was a direct example of how safety was important to the EC regardless of the economic impact.

Another area of difficulty between the new unified Germany and the EC was East Germany's relationship with other European countries. East Germany had trade arrangements with most European countries. For example, all of East Germany's buses were purchased from Hungary. Trade arrangements like this would be hard if not impossible for the EC alone to handle. The commission's policy was to allow the trade agreements to extend until the end of 1991. The imports, however, would have to remain in the territory that was formerly East Germany. Keeping these goods inside the old East Germany proved to be unenforceable. This meant that cheaper goods that were free from EC tariffs could leak outside the old territory and hurt the EC producers.

ADMITTANCE OF EAST GERMANY

"East Germany will need time to adapt to the new system. Though the transition may be short and sharp... several years may be needed for East Germany to adapt a VAT system of indirect taxation (a membership requirement) and a host of other EC regulators, ranging from the environment a public procurement to sexual equality and social security for immigrant workers" (Join now, pay later, 1990, p. 49). The admittance of East Germany to the EC was a give-and-take effort between West Germany and the EC. West Germany was satisfied that by not using a formal treaty of accession, East Germany would have a relatively simple and quick entry to the EC. The EC commission was satisfied that the German government would be supporting most of the cost subsidies of East German industry and agriculture.

The single Germany that evolved from the merger was expected by many to be a solid powerful nation. The combination of West Germany's capital and expertise mixed with East Germany's skill and inexpensive work force was predicted to be exceptionally successful. "Some Germans see a super-power of innovation ready to rise from the reunification" (Reichlin, 1990, p. 124). The estimates as to how long it would take to build this superforce varied. The chief economist for National Westminster Bank in London took a pessimistic view, who stated, "unification will turn out to be worthwhile in the long run, but it will take up to ten years and maybe longer before we see the gains" (Tully, 1990, p. 80).

The optimists, on the other hand, felt that heavy investment from the West and direct aid from the German government would strengthen the East German economy as early as 1991. The chief economist at West Germany's Deutsche Bank, felt that East Germany's GDP would increase at a rate of seven to eight percent annually from 1991 to 1995. This forecast was a drastic change from the late 1980s when East Germany's GDP had declined. The general opinion of most economists was that it would take three to five years for East Germany's economy to be reconstructed and to become soundly productive. German chancellor Kohl downplayed the idea of an economic superpower. West Germany ran economically just behind the U.S. in 1989, and a unified Germany would be even bigger, richer, and stronger. East Germany's GNP was 12 percent smaller than the GNP of the Netherlands. Even if the per capita GNP of the East Germans reached that of the West, "The economy of the united Germany would still be only 30% as large as that of the U.S." (Tully, 1990, p. 81).

How fast the German economy recovered from absorbing East Germany depended on the level of investment in East Germany. The optimists expected this investment to be great, because there was so much to invest in East Germany's industry since it was basically up for sale. Officials at the Deutsche Bank felt the average investment in the East German economy could be as much as $30 billion a year. This was an optimistic opinion, considering Spain was drawing more investment than any other European country at the time and only drew in $12 billion in 1990. The actual investment was lower than initially expected as legal barriers caused a hesitation of some firms and individuals to invest. Nevertheless, the higher expected growth from the West German companies generated extra revenue.

"The best strategy for most Western companies heading East is to buy a stake of an existing East German enterprise or form a joint venture" (Tully, 1990, p. 82). The East German manufacturing and service industries that were state owned split up into more than 8,000 Western style companies that were privatized. An estimated 2,000 companies failed because the plants were antiquated and so unprofitable the West would not invest in them. A few well- performing companies that were large exporters to the West did exist. These companies had the choice of becoming independent private companies or choosing a foreign partner. The majority of the remaining companies could not make it on their own, but had various factors of production that could appeal to potential Western partners. Many of these companies had usable excess production capacity, and most had a skilled labor force.

An example of an American company heading into East Germany was General Motors. General Motors gained additional production capacity by joining into a venture with an obsolete auto manufacturer, Wartburg. General Motors used the Wartburg facility to assemble 1,000 of its subcompact Opels and planned to expand the capacity by building a new plant that would be able to turn out 150,000 cars a year. All this was done inexpensively because land and labor in West Germany was relatively cheap.

CONCLUSION

A unified Germany helped add strength and stability in the European community and greatly impacted its world influence. The new system was introduced to the East with an unexpected harshness that would cut hard and fast to eliminate any firm that could not compete in the system. This harshness appeared to be the only way for unified Germany to bounce back quickly and become a much stronger nation. "When the storm settles on Germany's economic union, the territory that was once East Germany will be reborn as a beacon to the communist world and a strong partner to the West" (Tully, 1990, p. 83).

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AN ANALYSIS OF A REGIONAL LEADER IN THE DIY AUTO REPAIR MARKET

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ABSTRACT

As illustrated throughout this paper, AutoZone has performed an extraordinary job of utilizing its resources, capabilities, and core competencies in order to seek a competitive advantage in the automotive replacement parts specialty retail industry. The company's 20 year performance reflects its ability to make a profit. Without the superior customer service it offers, it would be just like any other retail store carrying the same products. AutoZone's ability to run an efficient operation has been instrumental in its success.

INTRODUCTION

AutoZone is a specialty retail business headquartered in Memphis, Tennessee with a focus on selling automotive and heavy duty truck parts and accessories to do it yourself customers and professional technicians. In April 1999, AutoZone was listed number 456 on the Fortune 500 List; in 1997 it was number 503 (Fortune, 1999). Its retail stores are company owned and operated. The fiscal year runs from September to August.

The idea behind AutoZone was straightforward. The company aimed to provide a wide selection of auto parts at a low price to "do it yourselfers," which came to be known as the DIY market. In addition to the do it yourselfers, the company identified a pool of potential buyers as "shade tree mechanics," people who worked on other people's cars in their spare time as a source of income, and "buy it yourselfers," customers who bought parts and then hired others to install them, lacking the expertise to do so themselves. The company's intended customer base was lower- or middle income men between the ages of 18 and 49.

AutoZone followed the business practices of other successful retailing establishments such as Wal Mart. By selling a large volume of goods in a high number of stores serviced by central distribution centers, AutoZone could keep its costs and prices low, providing the company with a competitive advantage over smaller operations.

AUTOMOTIVE REPLACEMENT PARTS

The do it yourself market is estimated to be worth $34 billion. AutoZone reported at the most recent investor relations forum that it has 8.5% of the market, which represents the largest percentage of market share. In 1997, the top 10 retailers made up just 24% of the total market for do it yourselfers. The remaining 76% is comprised of all other competitors in the market, which implies that none of the 76% have more than 0.8% of market share (Lofton, 1997). These statistics highlight the significance of the 8.5% market share that AutoZone had at the end of the 1990s.

The commercial market, which is made up of professional technicians, is estimated to be worth $44 billion. AutoZone entered this market in 1996, and data is not available that reflects its share of the market. The heavy duty truck parts market is estimated to be worth $10 billion. The market is fragmented and lacks a clear industry leader. This puts AutoZone in a similar position to where it was almost 20 years ago when the company was founded. It can enter the market and begin to lay the foundation for becoming the industry leader. While TruckPro was AutoZone's smallest acquisition in 1998, it was the biggest in terms of strategy (AutoZone Annual Report, 1998).

INTERNAL STRATEGIC SITUATION

AutoZone has a functional structure with departments for purchasing, advertising, distribution, customer satisfaction, store development, international, merchandising, systems technology and support, and accounting. The company does not have a multi divisional structure. There are no clear divisional lines between business segments.

AutoZone is focused on a low cost leadership strategy. Its products are relatively standardized and customers demand the lowest competitive price. AutoZone leverages its core competency, which is to provide superior customer service to target a broad range of customers who are cost conscious. Its core customers are the do it yourselfers, who are driven by a need for transportation and to save money. AutoZone also sells to professional technicians who work on consumers' vehicles, and are driven by a need to make a living. Both customer sets are interested in quality, service, and value. AutoZone's strategy is clearly stated, and the company does a good job of implementing its strategy. AutoZone's pledge to their customers is: "AutoZoners always put customers first. We know our parts and products. Our stores look great. And we have got the best merchandise at the right price" (AutoZone Annual Report, 1998).

AutoZone has implemented this strategy by focusing on ways to maintain customer service while providing products at the least possible cost. The company purchases products directly from manufacturers, utilizes regional distribution centers, constantly evaluates the size and design of the retail facilities to maximize efficiency, utilizes technology to improve the ordering of supplies and enhance daily operations, and carefully manages its overhead.

AutoZone's strategy has proven to be effective. The rapid growth and positive financial results of AutoZone indicate that the market was in need of a company such as AutoZone to meet the needs of the do it yourselfers and the professional technicians. AutoZone continues to expand its strategy to include targeting customers for heavy truck parts.

In 1998, AutoZone had a 20% increase in sales over 1997 and an increase of 17% in net income over 1997. AutoZone exhibited a positive 10 year trend in net sales (AutoZone Annual Report, 1998). AutoZone's five year sales compound growth rate is 21%. The industry's five year sales compound growth rate is 20.31%, and the five year sales compound growth rate for Discount Auto Parts, a direct competitor for AutoZone, is 20.41%. The comparison indicates a strong market growth trend and fierce rivalry among competitors for market share (www.marketguide.com). In addition, AutoZone exhibited a positive 10 year trend in net income. Its five year compound growth rate is 21% compared to its 10 year compound growth rate of 47% (AutoZone Annual Report, 1998). Financial ratio analysis compared AutoZone to the industry and to Discount Auto Parts. All three ratios reflect strong performance for 1998. The profit margin for the industry was 2.92%.

AutoZone operated at 6.28% as compared to 5.59% for Discount Auto Parts. The industry's return on equity (ROE), which addresses management effectiveness, is 16.64%. AutoZone's ROE is 18.47%, and Discount Auto Parts' ROE is 10.59%. Inventory turnover studies how efficiently a company manages its inventory. The industry standard is 10.93. AutoZone's inventory turnover is 2.43 and Discount Auto Parts' inventory turnover is 1.62. AutoZone's inventory turnover is comparable to its competitors, but is not in line with other companies in the specialty retail business such Circuit City, sporting goods stores, and clothing stores who turn their inventory much more quickly.

VALUE CHAIN

A value chain consists of the steps taken by a company to maximize profits. AutoZone's value chain consists of purchasing, customer service, sales, and marketing and service, which include warranties and service contracts. These activities are supported by the company's infrastructure, which is made up of people, facilities, financial resources, and technology.

AutoZone purchases products directly from manufacturers, which results in the ability to offer products to its customers at a lower cost. By utilizing technology, it installed a satellite based communication system in 1994 to control stores' inventories and signal suppliers when there is a need for replenishment of parts.

Customer service is AutoZone's core competency. Superior customer service is accomplished through hiring, training, and maintaining qualified personnel. Programs like Drop Stop 30 30, which requires clerks to stop what they are doing in order to greet customers before they are 30 seconds or 30 feet into the store, emphasizes the core culture of AutoZone. On the commercial side of the business, AutoZone offers charge accounts, the lowest possible prices, a 30 minute delivery guarantee, and a track record of being able to immediately fill 90% of all orders. AutoZone has made it much easier for professional technicians to do business with the company (Campbell, 1997).

AutoZone offers free testing for batteries, starters, alternators, and voltage regulators. Its Loan A Tool program, which lends specialty tools free, has been popular with customers. The program allows an individual or technician to work on a vehicle without incurring the cost of a tool which they will not use on a regular basis. Free used oil recycling for customers is another benefit because many customers change their own oil as part of routine maintenance.

The do it yourself market has been flat for several years, and the commercial market is growing moderately at a rate of 4 to 6% annually. Therefore, in order for AutoZone to remain competitive, it must grow by gaining more market share. The best way to gain market share is to develop a comprehensive marketing plan that will result in increased sales. Customer feedback is critical. Customers usually have very definite opinions about why they purchase a particular product. Marketing is an expensive endeavor, and it is important that AutoZone spend its money wisely. Advertising costs, net of vendor rebates, in 1998 were approximately $30,109,000 (AutoZone Annual Report, 1998).

AutoZone is highly visible in the community by being known as a corporate sponsor for many events as well as making substantial contributions. In addition, it sponsors racing events, increasing the awareness and the image of AutoZone to its target customers.

AutoZone stands behind the quality of many of its products even after they are sold. An example is its warranty for Duralast and Duralast Gold Batteries. AutoZone's Duralast batteries are backed by a seven year prorated warranty that includes a two-year free replacement period, and the Duralast Gold is backed by an eight year prorated warranty that includes a three year free replacement period. This increases customers' confidence in what they are buying (www.autozone.com/best_parts/hardparts/batteries/batteries.htm).

Through value chain management, profits are maximized. For example, controlling purchase component costs makes gross margins are greater. Providing superior customer service increases sales and customer satisfaction. Sales and marketing efforts must be effective to maximize the return on sales. Generating awareness and portraying a quality brand image are key. These elements are supported by AutoZone's commitment to stand behind the products it sells by offering guarantees that leave the customer with a positive feeling about their purchasing experience. Effectively managing the elements in the value chain is critical to a company's ability to maximize profits.

COMPETITIVE POSITION

The auto parts industry is comprised of hundreds of companies that sell the same products as AutoZone. AutoZone competes with well known companies such as Advance Auto Parts, NAPA Auto Parts, CARQUEST, and Pep Boys, as well as small "mom and pop" stores. Stores such as Wal Mart, Target, and Sears are also considered to be stiff competition. AutoZone considers any company selling products that can be utilized for the do it yourself segment of customers to be competitors. This includes independently owned garages and shops that repair automobiles.

To maintain a competitive advantage, AutoZone must continue to differentiate the service it offers from the service being provided by its competition. An edge that AutoZone has over some of its competitors, such as CARQUEST and Napa Auto Parts, is that all of its retail stores are company owned and operated. This provides for more consistency in the image being portrayed and the quality of the service being offered. Companies such as CARQUEST and NAPA Auto Parts are independently owned and operated.

AutoZone is "in tune" with what its roadmap reveals for the future. The do it yourself market has been flat for several years but a resurgence is expected by 2000 as the record number of cars sold between 1994 and 1996 reach the ages where parts are likely to need replacing. The commercial market is growing moderately at a rate of 4 to 6% (Lofton, 1998). To take advantage of this, AutoZone is making two strategic moves. First, since the market is not growing, it is capturing market share from its competitors by providing customers with the best service and product for the lowest possible cost. Second, it entered the heavy duty truck parts market, which presents opportunities for growth because it is a highly fragmented industry with no clear leader.

AutoZone constantly reviews its strategy for being the low cost provider, yet never forgets what differentiates it from its competitors--offering superior customer service. Any company can purchase and offer the same products. It is the customer service that allows AutoZone to have a competitive advantage.

CONCLUSION

AutoZone's core customers are the do it yourselfers who work on their own family cars. An upswing in the economy resulting in more discretionary income for individuals would be a serious threat for AutoZone. Customers would likely be less concerned about saving money and would be more likely to have their auto repair work done by someone else such as a professional technician, a maintenance shop, or an auto dealership. With an increase in discretionary income, customers have more options.

In 1997, AutoZone's founder resigned as Chairman of the Board. Today he remains as a member of the Board. The founder left behind a strong management team he felt could move the company forward. AutoZone is on track with its strategy implementation and its international expansion plans. The company's next challenge is to successfully enter the heavy duty truck market and service the needs of the associated customer. It is well positioned for success in the 21st century.

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THE DEREGULATION ACT OF 1984 AND ITS EFFECT ON THE MARKET

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ABSTRACT

Since the deregulation act of 1984, cable prices increased faster than the growth rate of inflation. Monopolies operated the cable system and government was negligent concerning price regulation. Franchise agreements, which were awarded by cities and counties, fostered unethical practices in the form of payments to local politicians. Because of the franchises, cities, cable companies, and cable programmers built barriers to competition. This paper discusses the cable industry up to the early 1990s.

INTRODUCTION

The cable industry was deregulated in 1984. Legislation was thought to be valid because Congress assumed that competition would come from other TV operations and satellites. According to the General Accounting Office, cable rates increased 61 percent from 1988 to 1991. This was three times the growth rate of inflation. Deregulation curtailed government's control of cable rates. Cable operators stated that government kept prices artificially low; therefore, cable companies were merely "catching up" (The new world of television, 1991, p. 583).

A further investigation of the cable industry suggested a different view of deregulation. Government could no longer regulate prices; however, cities had the power to allow only one cable company to serve an area. This was accomplished through the awarding of franchises. This gave rise to the argument of natural versus created monopoly. Cities compared cable service with other utilities, such as electricity and solid waste removal. Therefore, competition was deemed to be too expensive.

Another problem with cable was the increased power of cable operators over programming. Cable operators invested in cable channels, which gave them control over programming on local channels.

PROBLEMS AND SOLUTIONS

Each solution to cable problems created further burdens for consumers in the long run. One solution was the entry of the telephone company into the cable TV industry. At the time, some economists thought that this would create a larger monopoly. Another solution was to create opportunities to induce companies to compete with an existing cable operator. The problem was the expense involved in starting up a company capable of competing. The solution was thought to be re-regulation from Congress. However, government intervention was first responsible for this dilemma. Was more government regulation a viable solution?

FRANCHISES

Assuming that cable was a natural monopoly similar to public utilities, cities all across the U.S. accepted bids for cable television franchises (Barnes, 1989). The winning bidders provided cable service in markets that generated millions of dollars per year. In exchange, the cable operator paid a franchise fee of about five percent to the city or county that awarded the franchise. This was the beginning of the cable TV monopoly.

MONOPOLIES

Cable operators argued that they were a natural monopoly because cities required so many commitments that only one franchise could survive economically. This was not a valid argument. "Municipal franchising is designed not to regulate a monopoly but to create one. It is simply an excuse to keep competition out in exchange for the cable operator's catering to the pet projects and whims of local politicos" (Merline, 1990, p. 15).

LOCAL GOVERNMENT

After deregulation, local governments took over where the federal barriers once operated. The opportunity to regulate a public franchise was politically lucrative. This type of power leads to enrichments, such as campaign contributions or excessive profits. After deregulation, local politicians and governments could not regulate prices, thus presenting a dilemma. Cable operators began increasing prices immediately. The cable monopoly became very profitable.

BRIBES

The benefits of deregulation to politicians were extraordinary. Politicians pressured cable companies for significant campaign contributions. City budgets were replenished with franchise fees. Politicians used the cable channels for elaborate campaign ads. After the FBI began a preliminary investigation, the abuse of airtime for campaign ads subsided. However, some local District Attorneys uncovered corruption in the cable industry and initiated prosecution.

Cable operators in the early 1990s kept their monopolistic hold on the market, and consumers paid the price. At this time, 95 percent of U.S. households had access to cable. Sixty percent subscribed, but less than five percent had a choice among competitive companies. In addition, all of the incentive packages that franchisers offered to win the bid added about 20 to 30 percent to the average customer's bill. Thus, local politicians made it impossible for new cable operators to move into competition with existing companies.

BARRIERS TO COMPETITION

Because most local governments viewed cable as a natural monopoly and had financial incentives to treat it as such, they had no reason to encourage competitive bidders. Local governments argued that it was not economical to have two sets of wires strung across a community.

This would double the cost of providing cable while reducing potential revenue (Merline, 1990). Thus the question: Why was there so little competition? The succinct answer was that local governments, cable companies, and cable programmers produced countless barriers to entry into the cable marketplace.

From Cities

Even though cities claimed they wanted competition in this industry, their actions stated otherwise. There were numerous cases where competitors tried to offer consumers a choice, only to have cities block their entry into the market (Barnes, 1989). Many city governments vigorously banded against competitors that used installation methods other than stringing or laying cable. Cities blocked competition in order to ensure revenue from the franchise fees of the current cable companies.

From Cable Companies

Cable companies blocked competitors from entering the market by stating that it was unfair for cities to receive five percent from franchise fees and not block the competition. For this reason, monopolies filed lawsuits or lobbied Congress in order to keep competition out. Small cable companies feared lawsuits from the multiple system operators (MSOs), thus discouraging them from competing. MSOs ran TV ads stating that if other companies were allowed to compete, the environment would be damaged and rates would be higher.

From Cable Programmers

Virtually all of the major programmers discriminated against competitive operators by blocking access to their network. For example, TNT only sold to franchised cable systems. The influence that MSOs had with the major cable networks was sufficiently apparent to smaller competitors, and thus competing against these major programmers was futile. For these reasons a reversal of local government policies was a necessity for competition in the marketplace. In areas where cable companies competed the record was clear: consumers received a better product at lower prices.

Deregulation enabled cable systems to gather another type of power. The influence over programming was possible because of the mass revenue cable companies had received since 1984.

INVESTMENT IN CABLE CHANNELS

Cable operators invested heavily in the cable channels during the early 1990s. The largest cable companies owned wholly or in part seven of the 10 basic cable TV channels including CNN, TBS, Nichelodeon, and The Family Channel (The new world of television, 1991). Such ownership gave the cable operators incentive to only air certain channels--or never air a rival's channel. Time Inc. kept Showtime off of its cable systems in favor of its own pay-movie channel, HBO. CNBC had to promise the cable operators that it would never carry hard news. These cable operators owned equity in CNN and did not want a CNN clone.

MONOPSONY

Television reruns were not what was at stake. "At stake is something as crucial as freedom of speech in the electronic age. Cable is now an unregulated monopoly. It is also creeping steadily toward monopsony" (Auferdeide, 1991, p. 28). A single purchaser of programming could be an example of a monopsony. Cable moved toward a monopsony because cable systems gained ownership of the programming they allowed on their systems. This is an example of a situation that antitrust legislation was written to prevent--letting the common carrier have a hold on what is carried and for how much. However, the Justice Department believed that monopolies also had benefits.

THE TELEPHONE COMPANY

On October 7, 1991, the U.S. Court of Appeals cleared the way for the seven regional Bell operating services to enter the market. These operating services functioned as common carriers, transmitting information to households. However, they could not originate any of the material. This decision had a profound effect on cable TV.

BETTER TECHNOLOGY

Fiber optic cable became the technology of choice for phone companies. The use of fiber optics offered several economic advantages over traditional copper wires. A few advantages included greater bandwidth, expandable capacity, and lower costs (Gershon, 1992). However, the question facing the cable industry and consumers was whether the public interest is better served by allowing telephone companies into the cable industry.

TELEPHONE GROWTH

The primary reason that the telephone companies desired to break into the cable TV market was growth. Telephone service accounted for nearly 90 percent of total revenues to the telephone companies. The growth of telephone service was tied directly with population growth. Cable TV offered the telephone companies the best way to enter into an unregulated business. The problem for the consumer was who paid for deploying the fiber optics. The telephone ratepayers were responsible for the bill.

Cable companies argued that the U.S. telephone industry was already a government-protected monopoly. The RBOC's interest was not only to be a common carrier, but to ultimately be a television programmer as well. Given its economic strength, there was a natural incentive to show its own programs and then price discriminate against competing program services. Also, telephone communications in the U.S. had a history of government antitrust suits and predatory pricing practices. This translated into increased costs for consumers.

NEW TECHNOLOGIES

The Sacramento experience was well known by consumers nationwide. There were too many restrictions and, more importantly, too many costs involved in duplicating an existing cable company. Competition from the telephone companies was unavoidable. However, another source came from new technologies.

One of these new technologies was wireless cable, also known as multi-point multi-channel distribution service (MMDS) (The new world of television, 1991). This system used microwaves to transmit approximately 36 channels to a housetop mast antenna. The shortfall to this system was that it required a clear line of sight. This meant buildings, trees, or bad weather caused interference, thus causing the signal to disappear from time to time. Another problem was that the cable channels would not sell their programs to wireless systems that were competing with cable systems that carried those channels.

Another technology was direct broadcast satellites (DBS). This system sent more than 100 channels to a dish antenna no bigger than a dinner plate. It did this with higher and more powerful frequencies that transmitted to home-satellite dishes. The large cable operators used this system in the early 1990s. It became a means of delivering cable to remote areas that otherwise might never have been wired for cable.

These new technologies did not necessarily change competition in the cable industry. Some economists argued that the only way to foster competition in the industry was re-regulation imposed by Congress.

CONCLUSION

Local governments and the cable companies had agreements that made it virtually impossible for competition to exist. There were some solutions that offered a balance to this dilemma. First, the telephone companies should have offered immediate competition with better technology in the form of fiber optics. However, the telephone companies were only interested in the cable industry as a means of growth. The telephone users paid the cost of entering a new market. This would have created a larger and more powerful monopoly.

Another solution was to create competition through new technologies. Wireless cables (microwaves) were one such approach. Interference was a problem with this system. However, it could have been a solution. Direct broadcast satellites may have been another solution.

Whatever means of competition decided upon, government re-regulation of some kind was unavoidable. FCC price regulations or simply the breaking down of franchises were the two most popular options at the time.

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THE U.S. AND JAPAN: COMPARATIVE ADVANTAGE BETWEEN AUTOMOBILES AND AIRCRAFT

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ABSTRACT

By examining some of the real world components of comparative advantage and studying fluctuations in purchasing-power parity, we analyze two products' varying price levels, productivity, and labor costs for Japan and the U.S. The analysis concerns the comparative advantages that exist between Japan's production of automobiles and America's production of aircraft.

INTRODUCTION

Even before David Ricardo popularized the law of comparative advantage, the relationship was adequately illustrated through the farmers and manufacturers of primitive society. In order to enjoy the necessary commodities of the day, an individual could in fact produce many of the items desired. This self-sufficiency was, of course, the norm for many of those who were isolated from society due to geographic obstacles, but an alternative was available for those who lived within a more defined community--comparative advantage. According to Ricardo, the law of comparative advantage states that nations or individuals can mutually benefit from other nations specializing in the production of commodities. For example, by realizing lower unit costs and labor costs, Country A is able to produce goods at a lower total cost than Country B. On the other hand, Country B is able to produce certain goods more efficiently than Country A. By trading with each other, both countries are able to realize the other's lower costs, while specializing in the products of their individual expertise. For further illustration, if a country is better at making bicycles than radios, it makes sense to put more resources into bicycle manufacturing and to export bicycles in order to pay for the import of radios. "This is even true if it is the world's best producer of [good A], for it will still prosper by making [good B] instead--which, in turn, is why countries can trade successfully even if they are not best at anything" (Trade made the ship go, 1992). When applying comparative advantage to the international arena, one must also consider the vitally important purchasing power parities (PPP) among countries.

AUTOMOBILE INDUSTRY OVERVIEW

In 1994, automobile production was the world's largest manufacturing activity with total world revenues over $875 billion, accounting for two percent of the world's output (U.S. Department of Commerce, 1995a). Each year, over 150 automobile manufacturers produce 50 million passenger cars, trucks, vans, and commercial vehicles for the world market. Manufacturers range from Third World companies making less than 50,000 vehicles for their own market to major manufacturers such as Toyota, General Motors (GM), Ford, Nissan, Honda, and Volkswagen-Audi. These manufacturers produce millions of vehicles that span most of the world's geographic markets. In 1992, the top 30 manufacturers represented approximately 90 percent of the total global production, with Japan, the U.S., and Germany leading the way in the world's total unit production (Gamble & Thompson, 1995).

Japan is the largest single country producer of automobiles in the world, with its 1993 domestic total production accounting for an estimated 24 percent of the world production (U.S. Department of Commerce, 1995a). Top Japanese manufacturers for 1993 include Toyota with a 35 percent domestic market share, Nissan with 20 percent, and Honda with 10 percent. With annual sales of approximately seven million passenger cars, Japan is the world's second largest motor vehicle market, after the U.S. (U.S. Department of Commerce, 1995a).

The U.S. is the world's second largest producer of automobiles, with a 1993 domestic total production accounting for approximately 20 percent of the world output. This figure has substantially deteriorated since World War II, when the U.S. held an overwhelming 75 percent of the world's total motor vehicle production. In 1993, GM was America's largest producer with approximately 43 percent of the domestic market share, Ford was second with 26 percent, and Chrysler was third with 15 percent; these companies were known as the Big Three. The U.S. is the biggest market for motor vehicles from a country standpoint, with sales reaching over 15 million units annually.

JAPAN'S COMPARATIVE ADVANTAGE IN AUTOMOBILE PRODUCTION

Automobiles are the largest and most complex element of the U.S. trade relationship with Japan. The U.S. motor vehicle trade deficit reached $39.4 billion by the end of 1995. This represented over 60 percent of America's overall bilateral trade deficit with Japan. In 1995, the U.S. was the largest single export market for Japanese automobiles, accounting for 32 percent of annual exports (U.S. Department of Commerce, 1996).

From 1989 to 1995, Japanese automobiles accounted for an average of 27 percent of America's total machinery and transport equipment imports from Japan; this accounted for roughly 21 percent of the total Japanese imports. Japanese imports peaked in 1994 at $24 billion, after a slow climb through the early 1990s. However, this figure dropped in 1995 to $22 billion, primarily in response to U.S. automobile manufacturers' intense competition directed toward foreign activities (U.S. Department of Commerce, 1995b). Despite their efforts, Japan continues to have a commanding presence in the U.S. market.

Gamble and Thompson (1995) state: "Since World War II, Japanese companies have boosted annual production from 10,000 vehicles to 13.5 million vehicles at Japan-based plants and have worldwide capacity approaching 17 million." Over the past 44 years, Japan has experienced annual sales gains 39 times; in contrast, U.S. manufacturers have achieved annual sales gains only 24 times (Gamble & Thompson, 1995). In 1980, a new era began--Japan had surged to the top of the automobile industry. The U.S. no longer held a comparative advantage over Japan when it came to automobile production. Four distinct factors characterize Japan's newly acquired comparative advantage in automobile production: 1) new technological advancements, 2) a strong emphasis on exports, 3) an unyielding drive toward improvement, and 4) performance in head-to-head competition (Gamble & Thompson, 1995).

The first factor that led to Japan's comparative advantage in motor vehicle production consisted of importing the necessary technology for manufacturing, building labor and management skills, and developing a home market for Japanese vehicles. A compilation of elements, such as low-cost skilled labor and cheap raw materials, helped the Japanese modify their manufacturing processes. Domestic demand conditions, such as narrow streets and high gasoline prices, prompted companies to produce smaller cars, while the importance of quality helped the Japanese cater to their customers. The aggregate effect of these changes improved Japanese companies' ability to effectively market their products.

The second factor lies in Japan's emphasis on exporting automobiles to the rest of the world. Japan's success was directly related to the automobile manufacturers' ability to achieve gains in labor productivity through new manufacturing processes. In order to keep their employees' goals consistent with company productivity goals, Japanese manufacturers guaranteed lifetime employment. Offering annual bonuses and incentives to employees based on productivity gains and company profitability reinforced this strategy. Automobile manufacturers began benchmarking their products after manufacturers in other countries proved benchmarking to be successful. One such example is the Volkswagen Beetle, which was regarded as one of the world's best high-quality, smaller automobiles.

The third factor involved in Japan's comparative advantage in automobile production is the manufacturers' unyielding emphasis on improvement. During the 1980s, the value of the yen increased the price of cars; consequently, automobile manufacturers developed just-in-time supply solutions, utilized robots during production, and initiated other quality-based procedures. One of the biggest outcomes that stemmed from these processes was the overall improvement in total quality. Japan's intolerance for defective vehicles is well known. Next, the aircraft industry will be discussed.

AIRCRAFT INDUSTRY OVERVIEW

As of 1994, the U.S. was the world's leading producer of commercial and military aircraft. U.S. shipments dominated global trading within the industry, with approximately $42 billion in annual sales. With total world imports approximately $77 billion per year, the U.S. enjoys a 55 percent share of the total world aircraft market. The largest total markets include the U.K., Germany, and Japan, each having over $8.5 billion allocated to aircraft expenditures annually. The fastest growing markets include the Czech Republic, Saudi Arabia, South Korea, and Romania, each purchasing more military aircraft than general aviation equipment (U.S. Department of Commerce, 1995c).

While the U.S. has dominated the global production of aircraft since World War II, the country has faced stiff competition from European manufacturers over the past few years. Boeing is still the world's largest producer, but the European manufacturer Airbus Industries has moved into the number two position, overtaking McDonnell Douglas. This competition, fueled by declining defense budgets and a weak global economy, is causing the industry to shrink. U.S. aircraft revenues decreased by $11 billion in 1994 alone (U.S. Department of Commerce, 1996).

Japan is the largest importer of U.S. aircraft in the world. In 1993, approximately 90 percent of Japan's aircraft imports came from U.S. manufacturers; sales peaked that year with over $4.5

billion in revenues. "The position of the United States in worldwide aviation has allowed American products to dominate the limited Japanese general aviation market" (U.S. Department of Commerce, 1995b). As of 1995, there are no significant aircraft manufacturing companies in Japan. There have been several efforts by Japanese manufacturers to produce general aviation aircraft in the past, but the ventures were unsuccessful and thus abandoned.

COMPARATIVE ADVANTAGE IN AIRCRAFT PRODUCTION--U.S.

U.S. aircraft production has historically accounted for the largest importing sector in Japan. As of 1995, there is no evidence that the U.S. imports any Japanese aircraft. From 1989 to 1995, U.S. aircraft accounted for approximately 21 percent of the total machinery and transport equipment exports to Japan; this made up approximately seven percent of the total exports to Japan. Since 1995, U.S. aircraft exports to Japan have sharply declined. Consistent with the global industry, these declines are attributed to the shrinking of Japan's defense budget, with the breakup of the Soviet Union being an instrumental factor.

The U.S. comparative advantage in aircraft production is largely based on its geographic and demographic differences with Japan. These characteristics can be categorized into two encompassing factors--land area and population density.

The U.S. aircraft industry has enjoyed continued success due to the country's size in comparison to Japan's. One of the major transportation outlets in Japan is its nationwide mass transit system. However, such a system would not be practical in a country the size of the U.S. This system has been successful in Japan because the country's cities are much closer in proximity compared to cities in the U.S.--this is the primary reason why the utilization of aircraft is so important. Japan's geographic elevation is another obstacle that prevents the wide use of aircraft. Approximately 70 percent of the country is very mountainous, which makes aviation especially dangerous (U.S. Department of Commerce, 1995b). This aspect leads to the second factor that inhibits Japanese use of aircraft--population density.

The aeronautical contrast between the U.S. and Japan can be best illustrated by their total number of aircraft per person. In Japan, there are approximately 1,900 total aircraft, or one plane for every 64,000 people. In sharp contrast, the U.S. has approximately 180,000 aircraft, or one plane for every 1,400 people. Similarly, there only 100 airports in Japan, whereas the U.S. has about 17,800 (U.S. Department of Commerce, 1995b).

FACTORS OF COMPETITIVENESS

Through the examination of comparative advantage, three underlying measures of competitiveness surface that tend to support or discredit a country's operation in any particular sector of production. By analyzing relative price levels, productivity, and unit labor costs, one can grasp the foundations of a nation's comparative advantage. Throughout this paper, comparisons and contrasts have been drawn to illustrate Japan's production of automobiles and America's production of aircraft. In order to further support and understand each country's comparative advantage, these three factors of competitiveness will be evaluated for the machinery and transport equipment sector, which encompasses both the automobile and aircraft industry.

When examining relative price levels between countries with different currencies, one must utilize an effective means of measure that will serve as a translator of price. PPPs are the most frequently used measures for this task. For the purpose of this paper, the PPP will be relative to the U.S. dollar. For example, the U.S. variable will represent 100--any figure below or above 100 will indicate Japan's efficiency or inefficiency in the stated area relative to the U.S.

In the midst of increasing global price levels, Japan has been able to consistently maintain lower price levels than the U.S. In 1995, Japan kept its manufacturing PPP under the prevailing exchange rate, which consequently allowed Japan to operate at a distinct advantage compared to the U.S. This was especially true in the machinery and transport equipment sector, where price levels continued to be lower than America's well into the 1990s (Van Ark, 1995).

Productivity levels have also played a key role in the distinction of the two economies. "Productivity growth indicates how a company, an industry, or a country manages to raise outputs with a minimum increase in inputs" (Van Ark, 1995). Throughout the 1970s and into the 1980s, Japan narrowed the productivity gap within the machinery and transport equipment sector. Competition intensified in the mid-1980s, and Japan surpassed U.S. production levels in 1986. Both countries currently realize high productivity gains, but Japan continues to widen the gap.

CONCLUSION

Two countries are able to mutually benefit from each other's expertise in producing a certain good. This does not imply that any one nation cannot produce the desired good, but it supports the fact that both nations are able to produce certain goods more efficiently than the other. This efficiency is realized through the utilization of certain elements that are specific to that country. These elements can be in the form of monetary, human, or natural resources. Some of the most important of these resources can be analyzed in order to evaluate a country's competitiveness in a certain industry or sector. By utilizing the theory of PPP, these factors of competitiveness can be compared in relative terms, facilitating the evaluation of each country's currency and trade progress.

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A GROWTH INDUSTRY SINCE THE MID-1990s: MARKETING TO CHILDREN

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ABSTRACT

The first half of the 1990s witnessed a dramatic increase in the occurrence of marketing aimed specifically toward children. In areas ranging from the financial services industry to traditional children's products such as toys, marketers are giving more emphasis or creating a new twist to their child directed marketing efforts. Several market research firms targeted specifically at children's products have emerged or spun off of larger marketing or research firms in the past ten years. The national "All About Kids Show," a trade show dedicated solely to exhibiting children's products and services, celebrated its fifteenth anniversary in 2000. This paper discusses whether and why marketers should seek to market to children, why the children's market has seen such growth in recent years, how organizations can take advantage of the growth, and how other marketers have been successful in capturing a meaningful share of the children's market.

INTRODUCTION

One of the primary reasons that markets for children's products have seen such growth is that children are becoming increasingly independent as consumers. Statistics show that 25 percent of All-American children live with only one parent (Guber & Berry, 1993, 13). In combination with the fact that 70 percent of mothers in the U.S. work either full- or part time, this means that a significant percentage of children are latchkey kids. These children return to a parentless home after school, and must prepare snacks for themselves or even meals for their families (Guber & Berry, 1993, 14). Often they are responsible for chores such as house cleaning, laundry, or grocery shopping. It is estimated that nearly 50 percent of girls and 30 percent of boys grocery shop for their families every week (Raphel, 1993). All of these responsibilities require at least some contact with consumer products, and marketers are now well aware that children can either directly or indirectly influence purchases of a vast array of items. Unsupervised children may also watch a great deal of television, where exposure to advertisements for a wide range of products can have a great impact on their purchasing decisions.

SPENDING POWER

Along with their growing independence, children have shown a marked increase in spending power over the past few years. At nearly 20 percent per year, the rate of spending is growing more quickly among children than any other demographic segment (Boyd, 1994). The recent surge in the number of youth marketing research firms indicates that marketers are interested in finding out what children think about their products. In turn, firms are taking advantage of the now common knowledge that children have enormous spending power gained from the billions of dollars they receive each year in gifts, allowance, and payment for chores (Minderman, 1994). In 1992, children from the ages of 4 through 12 spent roughly $9 billion on consumer purchases (Raphel, 1993). By 1993, one estimate illustrated that school age children had $15 billion in spending power of their own and were responsible for influencing another $95 billion in purchases (Spethman, 1993). Another estimate suggested that in 1993, children aged 4 through 12 spent $11.2 billion of their own money and, through adults, influenced purchases of $154.4 billion (Boyd, 1994).

The rate of spending continues to grow, as shown by a 1995 study which determined that children's spending power was at $165 billion, and $400 billion worth of purchasing influence was attributed to children aged 5 to 18 years old (Anonymous, 1995, May). In numbers, the 5 to 18 year old age group was expected to grow to 41 million by the beginning of the 21st century, an increase from 37 million in 1995. This increase in young consumers will undoubtedly bring with it an even more rapid rate of spending in the children's sector. Currently, youth spending is concentrated most heavily in two areas, the food and beverage and the toy markets, but that will change as the technology market for children continues to grow. In light of these estimates, it is certain that children make up a significant and growing consumer segment, and that they have the financial means to be an important economic target for marketers.

PARENTS: MORE AFFLUENCE, EASY TO INFLUENCE

Another reason to gear marketing toward children is their parents. Today's parents are different from those of previous generations. There are more dual income families than in earlier decades, and this has resulted in an increase in the spending power of parents as well as children. Often these parents have the desire to satisfy their children's wants through purchases of material items. When the parents independently make decisions to purchase items for their children, it may be out of guilt for being home so infrequently, it may be to satisfy their own needs for social status or upward mobility, or it may be a way to show their love for the children (Guber & Berry, 1993, 12). Often, parents make purchase decisions based on the influence of their children, and those decisions may simply be a surrender to the cajoling or begging of the child. Because of the influence that children can exert over their parents' buying decisions, there is some disagreement among marketers about whether to target children directly or target their parents (Boyd, 1994).

There are product messages that speak directly to children, such as those for candy or toys. There are also messages that use the child as a conduit to the parent, including technology products or other more expensive items. Then there are marketers who purposely target the parents. Their approach is to appeal to the parents' feelings of guilt, or their need for status or safety, to sell products intended for children's use. It stands to reason that the decision of whom to target probably depends upon the nature of the product, its price, and the particular age group being targeted. In any case, children have the potential to exert a great deal of influence over their parents' decisions about everything from infant products to vacations. Interestingly enough, their affluent and child conscious parents are more likely than not to follow their recommendations as the children get older.

WHAT ARE CHILDREN THINKING?

One of the primary reasons for the increase in marketing to children is that researchers and marketers alike are beginning to get serious about listening to children. Adults have shown a steady decline in brand loyalty, so marketers are reaching out to their more brand loyal children for insights into increasing their products' brand awareness and sales (Segall & Paine, 1995). The growing emphasis on collecting and documenting the opinions of children also indicates the rising awareness of their ever increasing spending power. How should marketers gather research on the opinions of children? The conventional approaches used for adults include focus groups, surveys, questionnaires, and subject observation. These methods may not work as well on children as they do on adults, however.

Experts in children's market research agree that traditional research techniques that consistently work for adults are not necessarily effective for children (Levin, 1993). These experts in youth research offer numerous suggestions for collecting reliable information from children of all ages (Segall & Paine, 1995). For example, they recommend that marketers hire specialists in children's research. There are many firms that concentrate solely on youth marketing, and their researchers have both the experience and the techniques to help make children comfortable enough to express themselves openly. Another approach that can be used to help loosen up children in focus groups is to have a child rather than an adult lead discussions and ask questions. Children often relate better to their peers or slightly older children, whom they may see as role models, than they do to adults. Children also tend to be more forthcoming in settings that are familiar or comfortable to them. If it is not possible to gather children together in a school, home, or activity setting they are familiar with, the research location should be made as child friendly as possible. Younger children will respond to bright colors or playground like settings, and older children may prefer to sit on the floor or break into small discussion groups. In any situation, children often need assistance in clearly communicating their feelings or ideas. Adults can help them express themselves by speaking to them at their level, and using stories or examples that the children can relate to.

One resourceful publishing company, KidSoft Inc., created a special survey for its young readers/customers (Bianchi, 1994). The survey was designed to be fun for children to fill out, using games and a fill in the blank format to encourage responses. Parents and teachers liked the form as well, and the concept was taken online early in 1995. KidSoft expects the response rate to increase, but admits that the questionnaire does not always elicit the types of responses the researchers are looking for. Perhaps the children have so much fun "playing" with the survey that they miss the point of the questions. On the other hand, researchers should take into account everything that is said, since children often know themselves as well or better than adults do.

It is also beneficial to open up ongoing lines of communication with children to help keep information fresh and current. However, in these situations, where children become accustomed to the types of questions asked, researchers must ensure that they are not being second guessed or "humored." Experts also suggest that marketers learn about trends in the children's market through various research channels. Many different organizations offer trend information that is available for a nominal fee. It is also important to survey a diverse group of children, both in ethnicity and age, and to allow parents to participate when appropriate as well.

The children's market is fickle, and attitudes, interests, and opinions are constantly changing. With the ability to maintain contact with a wide range of children and their communications with other children, marketers can keep abreast of trends and fads that help them gain meaningful insight into the psyches of children. Responses in this medium offer marketers the added advantage of being able to make changes quickly or even proactively. Another advantage of online surveys is that they are especially comfortable for young participants because they offer the safety of anonymity. In traditional research settings, such as focus groups, peer pressure can prevent children from participating fully or honestly (Rickard, 1995).

HOW TO REACH CHILDREN: RESEARCH

In order to effectively target children, marketers need to keep abreast of or engage in new research, constantly reassessing their marketing tactics and strategies. Target marketing within the children's market itself is a strategy that has so far been largely overlooked by marketers. Children, just like adults, have a broad range of attitudes, opinions, behaviors, and interests (Stipp, 1993). Targeting children by age group is probably the most common way to segment the children's market, but not all children within the same age group will respond to the same products, advertisements, or incentives, nor will they have the same level of interest or cognitive awareness in relation to particular marketing approaches.

There is a limited amount of research about the development of decision-making skills in children throughout their various stages of childhood. A recent study examined the ability of children to adapt their particular level of decision making strategies to a variety of consumer decision environments (Gregan Paxton & Roedder, 1995). The study offered insights into children's thinking and reasoning processes. In their simplified worlds, very young children are often forced to decide between waiting for the most desirable option and getting a less desired option immediately. Other researchers have noted that children generally tend to be creatures of instant gratification (Boyd, 1994). The first study cited, however, found that even some four and five year olds have the ability to adapt their decision making processes when they know a product decision will be final. The same children did have difficulty in weighing multiple costs and benefits of the decision, however.

Even into elementary school, children can often attend to only one dimension of a problem or choice at a time (Gregan Paxton & Roedder, 1995). This is valuable information for marketers who target very young children, since it suggests that in targeting products to this group, very few product attributes should be communicated at one time. Other empirical research has attempted to determine how effectively advertisers present material to kids relative to their cognitive development. One study determined that advertisers have been presenting messages of different complexity to different age groups, but that on the whole, they try to present too much information to younger kids (Smith, 1995). This may be one of the pitfalls of television advertising in particular. With the ability to bombard viewers with sight and sound messages, and to have complete control over the speed and duration of the messages, marketers may sometimes feel that they must not leave out any dimension of the product pitch. When young children are the targeted audience, though, this approach may be too overwhelming.

Marketing to children is not as simple as increasing the complexity of the message as children grow older. Children must go through a learning process to become consumers. They must first develop a value system outside of the realm of marketing and advertising, and then they can apply their developing values to their purchase decisions. That entire process is an inherent part of cognitive development (Kennedy, 1995). Marketers must understand that to be effective, their messages must coincide with the values that permeate children's life stages and guide their growth..

CONCLUSION

Marketers must remember to make use of the available research on the cognitive abilities of different age groups and segment the youth market accordingly. When involving children in product research, researchers should help them express themselves both during the course of research and with respect to the resulting products. It is essential to listen to what children say and what they want, and to maintain contact with children's worlds. Campaigns must be approached with the awareness that fads and fashions are short lived in the fickle hearts of the young. Adults should never make assumptions about children's wants or desires. Most importantly, marketers must have respect for children. Children are intelligent consumers, and they deserve messages that are age appropriate without being condescending, and products and services that are tailored to their unique needs.

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ANGER, STRESS, AND VIOLENCE IN THE WORKPLACE: MANAGING EMPLOYEE INTERNAL THREATS

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ABSTRACT

Organizations face many threats that are both external and internal. External threats include competition, rising labor expenses, and global competition. Three significant internal threats include employee stress, anger, and violence. In many cases, anger and violence are rooted in workplace stress. Organizations can ignore or address these internal threats. Organizations that address internal threats in the workplace will probably achieve greater productivity and profitability. This paper discusses stress, anger, and violence that are related to the workplace. Personal problems may affect employees on the job; however, businesses only have limited capabilities to assist employees with problems that are not work-related.

INTRODUCTION

Managers and subordinates face stress every day on the job. Stress claims increased by nearly 90 percent among Australian government workers between 1990 and 1993 (Veninga, 1998). In France, a survey indicated that 64 percent of nurses and 61 percent of teachers were ill with stress related to their jobs. Stress-related diseases such as high blood pressure and heart attacks cost the U.S. economy $200 billion a year in lost productivity, compensation claims, and medical expenses (Veninga, 1998). Companies can ignore research that indicates that stress decreases employees' performance on the job, or they can address the issue. Many organizations are addressing the issue with employees today in order to retain good managers and their subordinates and improve workers' effectiveness.

Stress is a misused and misunderstood term. Harrison (1997) cites the Health and Safety Executive Institute's definition of stress: "excessive pressure that people are unable to cope with." This definition suggests that some people cannot reasonably fulfill the requirements of a job. In other words, it is not necessarily the manager's lack of ability or effort in managing employees in stressful situations. Harrison (1997) conducted research on a university campus and identified the primary causes of stress of campus personnel: excessive workload, lack of resources, too many minor tasks, job insecurity and ambiguity, concerns about communications and consultation, feeling undervalued, and excessive workloads.

Symptoms of job stress include irritability, decreased productivity, and difficulty concentrating and focusing on job assignments. Obviously, these are not the only symptoms, but they are solid indicators that employees may be responsible for more than is reasonable. How can managers better cope with job-related stress, and help their subordinates handle increasing demands? These items are addressed in the below sections.

CRITICAL AREAS OF JOB STRESS

Organizations must address at least three critical areas in order to create a healthy work environment that stimulates productivity. Companies must hire the right people, reduce excessive pressures, and help employees better cope with stress. When these three strategies are implemented, the organization will more likely experience long-term success.

Employers must carefully select candidates for all positions within the organization. Research indicates that individuals who have internal locus of control are less affected by stress on the job. However, workers that have external locus of control are more greatly affected by stress. Companies must closely evaluate job candidates regarding their personal abilities to handle pressure (Bernardi, 1997). Some researchers suggest that managers look for job candidates who previously held demanding positions.

Organizations that prevent excessive stress are taking measures to protect the business. Absenteeism, labor turnover, and productivity decreases are all symptoms of underlying problems. Organizations that refuse to admit that excessive pressure is harming the business tend to blame absenteeism, labor turnover, and productivity decreases on poor quality employees. Excessive pressure on the job is not the only cause of the symptoms; however, often it is the problem.

Companies should help their employees learn to deal with stress. Veninga (1998) notes that companies can take at least five steps to curb excessive pressure on the job. First, leaders must carefully examine whether restructuring is in the best interest of the business and its employees. Downsizing often leaves the remaining employees with too many tasks for one individual to accomplish. Second, businesses should reexamine employee workloads to determine if the organization has reasonable expectations for job positions in the firm. Third, companies must allow employees to be creative. Many employees feel that their talents are not being used to their full potential. Fourth, organizations must encourage employees to clarify their goals. Research indicates that employees who could not verbalize their goals are more affected by stress in the workplace. Finally, companies must encourage employees to keep learning. Learning stimulates the mind and keeps employees on a path for future contributions to the organization.

Managers and employees must recognize the source of stress before they can deal with it. Managers can train employees to manage stress as a process. Initially, employees must be aware of the causes of stress. Many employees cannot separate their personal lives from work. Financial pressures, marital problems, and other stressful events can compound excessive stress on the job. Employees should learn to adjust their attitudes. One person may be optimistic about a challenging assignment, while another employee may have a very negative response to the task. Why does one employee have a good attitude and another employee have a bad attitude? No employer can fully understand its employees, but the employer can convey to employees that they do have a choice about their attitude.

The last step of the process is to encourage employees to take action in the areas of physical activity and time management (Kelly, 1997). Physical activity and time management are key reducers of stress. An organization may choose to purchase a corporate fitness center membership for its employees. They may also invest in time management classes for their employees. A trend indicates that it is healthy for organizations to require their managers to attend stress management courses. Required courses could alleviate employees' fears of appearing ineffective or incapable of performing duties.

Organizations can take other measures to reduce excessive pressures in the workplace. Hiring the right people is crucial. Reducing excessive stress and helping employees cope with increasing demands are important. Organizations that do not recognize excessive pressure on the job are more likely to have increased absenteeism, higher rates of turnover, and reduced productivity. Unfortunately, unmanaged stress in the workplace often turns into anger.

Messer (1996) defines anger as "an emotional response to a grievance." Anger is a social emotion involving complex feelings. A major problem facing all levels of management in corporations today is employee anger. It is made up of different reactions that occur when an employee's needs or desires are blocked. These reactions cause the employee to be irritated, annoyed, furious, frustrated, enraged, and even hurt.

This anger problem continues to exist because of the fact that individual anger is perceived by society as showing a lack of control. Because of this, the problem has not been adequately addressed and corrective action has not been initiated; anger has become the one of the greatest dichotomies in the business world from a productivity standpoint. It is also one of the many challenges facing future managers.

The first step in making these changes is identifying certain attitudes toward anger. Three unproductive attitudes surrounding anger are addressed in the next section.

UNPRODUCTIVE ATTITUDES

The first unproductive attitude is that "anger is painful, scary, and may go out of control" (Messer, 1996). Unfortunately, when this belief is instilled in a corporation's culture, other serious problems may occur. This may be observed in lower morale, increased absenteeism, and reduced productivity (Messer, 1996). Most of these problems could be eliminated if there was an acceptable method in place for employees to vent their daily frustrations before they escalate into violence. Management should clearly state that anger is a reaction that may result in corrective action.

The second unproductive attitude regarding anger is that "anger is a problem that might take time and attention" (Messer, 1996). If this becomes part of the corporation's culture, it could eventually lead to violent behavior. Although it may take a small investment initially in time and money, anger denial on the part of management can be more costly in the long run.

The third unproductive attitude concerning anger is that "anger isn't nice, and angry people aren't nice" (Messer, 1996). Management should not focus on the issue of anger as being of only one type. The objective is to eliminate the anger itself and continue to be productive. If this can be done effectively, the bottom line should increase and any potential violence may be minimized.

The ultimate objective is to disarm the anger by acknowledging its existence. Nelson (1994) states that management must teach the angry employee to "learn to express his anger in a productive way." It should be stated very clearly to all employees that anger is a normal reaction. If this can be done effectively across the board, there is a greater chance that anger will not lead to future violence.

There are a variety of actions and events that provoke anger. Misunderstandings between employees or an employee feeling as if an injustice has occurred are two examples. A lack of information or even misinformation, or possibly something as simple as a personality conflict, can provoke anger. Luhn (1992) cites a typical sequence of events when anger occurs: 1) Anger is triggered by an event. 2) Angry thoughts are developed. 3) The next behaviors are based on the angry thoughts. 4) Anger is fed and increases. 5) Angry feelings intensify and become more difficult to control with productive action. 6) Anger that is not managed triggers a long, drawn-out, painful, and destructive series of angry thoughts and actions. "In reality, it is our own thought process and actions that perpetuate anger and not the event or what someone else has said or done" (Luhn, 1992).

The first step in managing anger is to acknowledge that anger exists and then determine exactly what provoked that anger. The manager should define whether the anger is directed toward an employee or if there is still anger from an unresolved personal issue. "Cromey gives a procedure for expressing anger that he labels as the RDA Technique: R--I resent, D--I demand, and A--I appreciate. Expressing anger in this order leads to straight forward communication and forces managers to label and express the exact behavior that angers them" (Nelson, 1994).

When a potentially dangerous anger situation occurs between employees, the manager should separate them from other co-workers. Next, the manager should appear calm and neutral, yet interested. Communication is the most important factor in eliminating anger. Then, once the parties have completed their expression of anger, the manager should get clarification on the issue that provoked the anger. Finally, confront the problem and reach an understanding. "To reemphasize: anger results from frustration. An angry person needs to vent negative feelings. You must maintain control of your emotions to help an angry employee regain self-control" (Nelson, 1994).

"Weisinger contends that teaching managers simple anger management skills can turn anger in the workplace into a positive force, improving productivity and profits, building relationships and teamwork, and enhancing employee morale and customer service" (McShulskis, 1996). There are many anger issues in the work environment that can no longer be ignored by managers because they hurt productivity, hinder teamwork, and lead to explosions of violence.

According to many publications, violence in the workplace has increased since 1989. A survey by the Society for Human Resource Management (SHRM) found that acts of violence, such as fistfights, have become more prevalent at work. Smith (1994) notes that more than one-third of the 479 human resources professionals who responded to the SHRM survey said their organizations have experienced violent acts. Thirty-two percent said that one or more violent acts occurred since 1989, and more than 80 percent said those acts happened since 1991 (Smith, 1994). Among those reporting more than one dispute, 54 percent experienced between two and five violent workplace incidents during the past five years (Smith, 1994). Although violence can just mean a physical force between two or more employees, now the definition is broader in order to reflect any violence on the job, such as robberies and vandalism.

Human resources departments have worked with psychologists in order to identify many characteristics that help managers recognize potential troublemakers. The most important predictor of violent behavior is a history of past violence.

CONCLUSION

The lack of communication is a major reason why problems exist between managers and employees. When communication is not improved, it may cause stress and anger leading to violence. Good training is the most effective tool for learning how to cope with these problems. Good leaders identify and develop solutions to internal threats. Work related stress, anger, and violence are crucial issues that need attention in all organizations. Businesses must recognize that workplace anger and violence are often the result of excessive pressure in the workplace, which businesses have some control over. Organizations should have some measures in place in order to help employees. Internal assistance may be adequate if the business is large enough to support this type of endeavor. Referrals of problem employees for outside assistance may prove to be effective. Organizations that ignore work-related stress, anger, and violence might experience reductions in productivity and financial success.

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A DISCUSSION OF THREE WHITE-COLLAR UNIONS--the AMA, NEA, AND AFT

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ABSTRACT

This paper briefly discusses some of the changes in the participation rates among white-collar unions, the geographical distribution of these unions, the industrial distribution, and the reasons why workers join white-collar unions. Three specific white-collar unions are discussed: the American Medical Association, the National Education Association, and the American Federation of Teachers.

INTRODUCTION

Although an explanation of "why white-collar workers join unions" can be reduced to relatively simple statements, for a specific worker the motivations may be considerably more involved, even encompassing several levels of need satisfaction at one time. Affiliation with a union is at times derived from a variety of complex situations, which sometimes only an employee can explain as the motivation for joining a union.

The above often-asked question concerns the study of human behavior and does not readily provide a simple answer. Much research has been conducted into why workers join unions and how they behave toward the unions. A study by A.H. Maslow (1943) reveals several possible reasons why workers join unions. In his widely accepted theory of motivation, Maslow has laid the foundation for some helpful answers, although the theory itself relates to the whole population of human beings rather than merely to those who have deemed it necessary to seek out union membership.

WHITE-COLLAR UNIONS IN THE WORKPLACE

White-collar unions are becoming more apparent the work force. Since passage of the National Labor Relations Act of 1935, many state and federal laws have encouraged the growth of unions. In 1979, there were over 120 million people in the civilian labor force, almost 23 million or 22.5 percent of whom were unionized or belonged to employee associations. Also, 40 million people were white-collar workers. Out of these 40 million, 6.3 million or 15.6 percent were unionized. Of the 18.5 million clerical workers, 1.2 million or 6.5 percent were represented by unions. Okafor (1985) states that in 1984, the Bureau of Labor Statistics reported that 17 million managerial/professional workers (15.8 percent of total) were unionized and three million technical sales/administrative support workers were unionized (11.2 percent of total). In the service industry, only about 10 percent of office workers have been organized. This is due in part to many unions not concentrating on signing office workers up for membership. Service employees account for nearly

50 percent of the labor force, but only 25 percent of unionizing campaigns are aimed at this sector. Unions have had better success in white-collar union campaigns (about 52 percent) versus only 40 percent success in manufacturing campaigns. The National Labor Relations Board reported that between 1972 and 1981, the number of service workers organized rose 148 percent, while manufacturing recruitment fell by 62 percent (Arnold, 1984).

Since then, however, in some areas, white-collar union activity has decreased more than the general union population. This is possibly due to many employers' campaigns against unions in the late 1970s. The failure of the Labor Law Reform Act of 1978 may also have been a contributing cause. Some causes may be deeper and associated more with international competition and impending regulation (Kilgour, 1983).

Another reason for union decline is that many people perceive management as performing adequately; thus, there is no need for unionization. An employer can offer attractive wages and working conditions to potential employees with the implied contract of remaining nonunion. Other variables that can increase chances of remaining nonunion are intelligent location selection, sound supervisory training, and appropriate no-solicitation rules (Kilgour, 1983).

The geographic distribution of white-collar unions varies with location. Industry mix, employer attitudes, and economic and cultural differences play a part in making some cities, states, and regions more active than others. In absolute terms, Michigan was the most active white-collar union state in 1988, with 15 white-collar elections. Indiana and Wisconsin tied for second place. California and New York, the most populous states, each had nine white-collar unions. Fourteen states had white-collar union elections in 1988. In comparison, no white-collar union activity took place in 19 states in 1984. West Virginia was the most active overall union state in relative terms, with 6.5 elections per million employees. Wisconsin and Wyoming were second with 5.6 and 5.5 elections per million employees (Kilgour, 1990).

The industrial distribution of white-collar unions is also an important aspect. The insurance industry was the most active industry in 1980, with a total of 56 white-collar union elections. The most active industry in 1988 was health services, with 24 white-collar union elections. This was up from 16 in 1984. Union organization has been active in this industry and will continue in the years ahead. Kilgour (1990) states that the most active union seeking membership in the white-collar sector is the International Brotherhood of Teamsters. However, the overall "win" rate by the Teamsters declined from 52.6 percent in 1980 to 42.1 percent in 1988 (Kilgour, 1990).

One reason why professionals join white-collar unions is their desire for higher wages. Studies have shown that union members earn 22 percent more than non-unionized workers do (Okafor, 1985). White-collar workers want improved fringe benefits and have a need for job security. Most union agreements provide for fringe benefits and outline procedures to be followed when laying off employees. White-collar unions also offer workers a better position to negotiate and the opportunity to express their needs to management without jeopardizing their jobs. Unionization also improves the channels of communication and upward mobility. Unions give the opportunity to show skills in politics and human relations (Okafor, 1985).

There are also many reasons why professionals do not wish to unionize. One reason is the inadequate money allocated by unions for recruiting white-collar workers and the lack of leadership skills among some white-collar employees. Some workers might think that they are being disloyal to their company by joining a union. Many workers feel that if they join a union, they will have less freedom and "say-so" in the workplace. The high turnover rate among white-collar workers is also a problem in unionization. The average clerical worker is on the job less than three years. Other reasons include reduced opportunity for advancement, aversion to paying union dues, no time to attend meetings, and fear of losing pay during possible strikes (Okafor, 1985).

THE AMERICAN MEDICAL ASSOCIATION

The American Medical Association (AMA) is an organization of physicians whose objective is "to promote the science and art of medicine and the betterment of public health" (Ohsfeldt, 1988). The AMA was founded in Philadelphia in 1847. In the 1980s, about half of all practicing physicians (over 250,000) belonged to the AMA. Ohsfeldt (1988) states that physicians who are members have higher earnings than non-members. AMA members earn, on average, about 22 percent more than non-members. Even though AMA members tend to earn more, membership rates have declined steadily over the years. In 1940, 67 percent of physicians were members, and as noted earlier, membership has declined to approximately 50 percent. This is attributed in part to increased membership dues. The increase in dues helps the AMA maintain its group of high-powered lobbyists on Capitol Hill. The AMA is also powerfully backed by the nation's fourth-largest political action committee (Siler, 1989). The AMA processes health and scientific information for its members and carries out various health education programs. It keeps its members informed about health legislation in Congress and other governmental agencies.

The AMA assists in setting standards for internship programs and medical schools. AMA headquarters has various departments concerned with many different medical topics, including geriatrics, hospital facilities, drugs, health in rural areas, and medical publications. The work of the AMA is done under guidance of committees that collect and analyze data concerning new medical discoveries and therapies. Publications that the AMA distributes include the weeklies Journal of American Medical Association and American Medical News; nine journals are issued monthly. The effects of the AMA are possible only because of the desire of its members to follow the standards it sets.

THE NATIONAL EDUCATION ASSOCIATION

The National Education Association (NEA) is the oldest teachers' union. It was founded in 1857 as the National Teachers Association (Clapp, 1974). Ten state teachers' professional organizations joined together in an effort to establish a national organization for the betterment of the teaching profession. In 1870, the NTA and an organization of school administrators merged to form the NEA. A long-standing criticism of the NEA was that the administrative faction exerted too much authority within the organization. As the union grew over the years, this criticism was largely silenced due to the increased number of teachers relative to the number of administrators and the teachers' subsequent dominance.

During its growth, the NEA developed a minor interest in higher education. The outgrowth of this interest was a departmental organization of the NEA known as the American Association for Higher Education. This organization, like the NEA, welcomed both administrators and professors and aligned itself with the NEA with respect to its policies. It was interested in the betterment of the professions within the realm of higher education rather than with the concept of collective bargaining. It was felt that the AAHE's purpose was strictly as a professional guild. This caused division within the NEA, as it became a strong proponent of collective bargaining in all phases of the educational profession. In 1968, the discord was such that the AAHE dropped its departmental status to become an associated organization, the net effect of which was to make it an independent organization. By 1980, the AAHE was made up of professors and administrators with no evident interest in the collective bargaining process. Even with the loss of its collegiate arm, the NEA continued to grow and prosper in collective bargaining at the collegiate level. In 1980 it was the second largest union organization with respect to the number of institutions organized.

AMERICAN FEDERATION OF TEACHERS

The American Federation of Teachers (AFT) was founded in 1916. The very root of unionism for teachers is found in the history of the AFT (Nass, 1977). It was formed from the remnants of the Chicago Teachers Federation (CTF). The CTF was formed in 1897 by a small group of teachers in Chicago who attempted to expose political corruption and advised city officials of existing funds for school operations and improvement. The CTF affiliated with the American Federation of Labor (AFL) in 1902. These early attempts to unionize teachers were local and weak due to the autonomous nature of the organizations.

In 1916, representatives of three locals from Chicago and one local from Gary, Indiana met to form the first national teacher organization. Like its predecessor, the new American Federation of Teachers affiliated with the AFL. The AFT grew slowly at first, and membership actually declined in the 1920s. However, during the Great Depression, membership quintupled from its position during the 1920s. During the 1940s, there was a purging of Communists from the ranks of the union, including the expulsion of two New York City locals and a Philadelphia union.

After World War II, the union members became increasingly militant, and strikes were numerous. Though the AFT did not officially condone the strikes due to a no strike policy, there was no punishment of the offending locals. As the members and therefore the union became more militant, the no strike policy was revoked. In the early 1980s, locals could strike with the full support of the AFT and fear no retribution. The AFT had traditionally been the most militant and active of the three major unions organizing on the college campuses.

The AFT was the first union to approach colleges with the idea of organizing. The first collegiate locals were formed in the 1930s. They did not bargain collectively at first, but they were interested in the long-run benefits that might accrue. This initial involvement, plus the aforementioned militant activities, allowed the AFT to gain a foothold in higher education before either the NEA or the AAUP.

The AFT is a union associated with the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). The AFT is made up of various educational workers, including teachers, counselors, bus drivers, and custodians. In the early 1990s, the federation claimed over 2000 local unions and a membership of over 660,000 (Cole, 1991). The main objectives of the federation are to promote professionalism in teaching and to secure appropriate wages, better working conditions, and job security for its members. The union supports smaller class size, competency tests for new teachers, and better school construction. Its members believe that it can achieve its goal through democratic discussions between teachers' representatives and school administrators, and through collective bargaining. The federation also participates in studies in the educational field to better assist its members (Cole, 1991). Members receive benefits such as teachers' liability insurance, travel, drug prescription discounts, and access to discount legal help. In 1986, an associate member could sign up for $50 a year and full membership was $150 a year. The difference between the two is that the associates are not allowed to vote on union matters (Tasini, 1986).

CONCLUSION

White-collar unions are becoming an important and viable part of today's work force. White-collar unions have had better success in recruiting members than manufacturing unions, but more attention is needed in the area of the service industry. Today's managers must be aware of needs of their employees. Managers must take their employees' suggestions seriously if they plan to remain nonunion. Many unions such as the AMA, NEA, and AFT not only assist their membership, but also strive to educate the public concerning their respective union's role in society.

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EMPLOYEE MOTIVATION AS IT RELATES TO EFFECTIVENESS, EFFICIENCY, PRODUCTIVITY, AND PERFORMANCE

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ABSTRACT

Employees may be motivated on the job by many things, such as a sense of achievement, recognition, enjoyment of the job, promotion opportunities, responsibility, and the chance for personal growth. Employee motivation and performance are tied directly to the style of management that is applied and to principles of positive or negative reinforcement. This paper discusses motivation as it relates to effectiveness, efficiency, productivity, and performance.

INTRODUCTION

Motivation can be induced by the employer or reside within the employee. Employees have higher levels of motivation when they perceive that management cares about their welfare, when they are involved in the management process, and when the management-labor environment is positive. Control stifles motivation while involvement creates a more productive environment. If the workers feel they are being treated fairly and with respect, this attitude will develop and guide their behavior in a positive direction. To be motivated, they must be excited about and interested in their jobs. Activities that can gain interest on the part of workers include employee participation committees, task force efforts, training programs, opportunities for outside education, newsletters, contests, and congratulatory messages from management (Kennish, 1998).

EMPLOYEE/MANAGER RELATIONSHIP

The key to motivating employees is remembering that not all employees are the same. Something different makes each employee tick. In order to achieve motivation, managers must know each employee. Managers must have a wide range of motivational techniques available. Each employee has a different set of values and personal experiences that brought them to where they are today. Employees are motivated by learning and should likewise be motivated to learn. Workers should be offered regular opportunities to attend conferences in their field, seminars, or in-house training programs (Buhler, 1998).

A supervisor can provide the environment in which employees are willing to motivate themselves. The purpose of a motivating environment is to encourage every member of an organization to motivate himself to contribute his best effort to the job at all times. A motivating environment is not a permissive environment, but one where the expectations of each employee are for their best work within their capability. A motivating environment is not necessarily one in which all employees are happy all of the time. A motivating environment may produce satisfied employees, which in turn may make many employees happy. A motivating environment exists with conditions of high standards, clear objectives, adequate training, effective leadership, rewards that employees value, and adequate working conditions (Capozzoli, 1998).

The standards to which people are expected to produce should be high, but not so high that they can never reach them. People will produce to the level of expectation as long as it is not excessively high. When a manager delegates work to an employee, he or she should be sure the employee understands all of the standards of the assignment. Every employee wants and needs to know what is expected. This goes along with the standards that have been set. They must have adequate training to be able to do the tasks that they are assigned. Employees may get angry and frustrated if they do not know how to do the job. They want and need to be able to trust their leaders and know that what the leader tells them is true. It is important for supervisors to have integrity and to earn the trust of their employees. When an employee does a good job, the supervisor can reward that employee with something that is valuable to them. If it is expected for the employees to do a good job, then they must have adequate working conditions. Poor lighting, too much noise, or uncomfortable temperatures make it difficult for employees to produce both quality and quantity (Capozzoli, 1998).

TRUE MOTIVATORS

When considering motivators, longevity and effectiveness are important. Motivators such as fear or incentives have effects that can be counterproductive or short-lived. Thus, the use of internal motivational factors needs to be considered (Helminger, 1997). "Beecher once said, 'God made man to go by motives, and he will not go without them any more than a boat without steam, or a balloon without gas. Find out what motivates man, touch that button to turn the key that makes men achieve'" (Helminger, 1997).

This idea leads to the debate over where change should occur in terms of employee motivation. Simply changing the individual usually takes too much time and effort and does not reap the benefit of helping other employees as much as a company-wide change. However, managers are primarily interested in how to motivate individuals on the job. Their main focus should be designing jobs that meet the demands of the organization as well as the skills and abilities of their employees. Employees are empowered and motivated when they assume additional planning and evaluating responsibilities through job enrichment. In turn, this enrichment will benefit the company because they have employees who are better prepared to deal with everyday situations.

Managers can increase employee motivation by seeking employees' input on daily decisions. The ability to make good decisions should not be the sole responsibility of the managers, but a concerted effort by individuals with the best knowledge of the situation. When employees are encouraged to make their own decisions, managers should not micromanage, but allow employees to learn from their mistakes and learn to tolerate some learning errors. Other motivators that can be implemented by management include providing social interaction and teamwork, implementing goals and challenges, and instituting employee appreciation programs (Zimmer, 1998).

Some examples of motivators used by various organizations include educational assistance programs, stock options, and savings plan benefits. All of these represent long-term programs that are specifically designed to increase worker satisfaction and effectiveness. It is the policy of many organizations to encourage employees to take college-level courses to increase effectiveness in their present positions or prepare them for increased or new responsibilities. Many organizations will reimburse 100 percent of the cost of tuition, books, entrance exam fees, and lab fees for courses toward a job-related bachelor's degree and/or a master's degree. Many will also reimburse these costs for non-degree courses if the material covered is job-related. The corporate standard is that reimbursement is contingent upon the satisfactory completion of the course with a grade of "C" or better.

In terms of stock options and savings plans for employees, some organizations require that employees be 21 years of age or older and have at least 1,000 hours of service in order to be eligible. Once these requirements are met, the employee is eligible to participate in the employee retirement savings and stock plans. The savings plan allows employees to defer up to a certain percent of their annual salary, and the organization matches the first few percentage points of deferral and contributes 50 percent of the next one percent of deferral to each participant's account. Employees become 100 percent vested in the company-matching portion of their account after five years of service. In addition, the board of directors makes an annual contribution (based on the results of operations) in the form of company stock to the plan.

MOTIVATIONAL JOB DESIGN

In order to be effective, management should be concerned with motivating individuals on the job. Therefore, managers should seek different methods of designing motivating jobs. Job design should incorporate environmental dynamics, the organization's resources, and individual preference. Job enlargement, job enrichment, and the job characteristics model are three methods that can be used in the process of designing motivating jobs (Robbins & Coulter, 1996).

Job enlargement is a type of horizontal expansion designed to overcome the narrow focus of highly specialized jobs. It involves the concept of knowledge enlargement--enrichment of the individual through increased job knowledge/training. Some examples of the results of enrichment include increased worker satisfaction, enhanced customer service, and increased accuracy. In contrast, job enrichment is a vertical expansion that provides for increased worker responsibility (i.e., planning and evaluating duties). Greater responsibility increases job depth (worker control) and results in employee empowerment. This empowerment often leads to a higher quality of output and employee motivation since workers feel connected to their jobs. The job characteristics model is a method of job analysis and design which identifies five job characteristics: 1) skill variety (range of skill/talent), 2) task identity (worker-task connection), 3) task significance (degree of impact), 4) autonomy (worker freedom/independence), and 5) feedback (worker critique/performance evaluation).

The above characteristics measure the intrinsic rewards derived by workers via increased knowledge and performance review--such rewards have led to greater motivation, performance, and satisfaction while decreasing employee absenteeism and turnover rates. According to the job characteristics model, managers should: 1) combine tasks to increase skill and task identification,

2) create natural work units to encourage worker-task identification, 3) establish client relationships to increase variety, obtain valuable feedback, and increase worker autonomy, 4) expand jobs vertically via job enrichment, and 5) open feedback channels via employee performance reviews (Robbins & Coulter, 1996).

Employers and managers must also realize that sometimes it becomes necessary to take a break from the job. This helps to reduce stress that can build up in a person who is faced with a high degree of job enlargement. Friendships can also be made during these periods of relaxation. This is possible through company gatherings and/or parties. Many organizations sponsor company picnics at recreational facilities for employees and their families. These facilities are rented at the company's expense and lunch is often catered. Activities such as door prizes, bingo, face painting, etc. are offered (also at the company's expense). In addition, many organizations sponsor a Christmas party for employees and their spouses/dates. This event is also usually catered and entertainment is provided at the company's expense. Most organizations appreciate the work endeavors of their employees and wish to convey thanks via social gatherings such as these. Most organizations believe that it is important to promote healthy work relationships, and these events place employees face-to-face with individuals they might not encounter during a normal workday (i.e., executive management, manufacturing personnel, second/third shift employees).

MOTIVATIONAL THEORIES

Because each organization has a distinct personality, managers should try and remove barriers from their organization that cause job dissatisfaction and are a detriment to motivating employees. Factors such as company politics, unproductive meetings, withholding information, and unfairness lead to low morale and overall job dissatisfaction (Robbins & Coulter, 1996).

Another theory related to employee motivation is the equity theory. This theory suggests that individuals compare their performance and compensation against their co-workers' performance and compensation and act to correct any inequities. For example, two workers are paid an hourly rate for the same task; however, worker A is paid more per hour than worker B. Thus, worker B may act to correct this inequity or just continue to perform below his or her potential. Similarly, worker A will increase his work efforts given his or her elevated level of compensation (Robbins & Coulter, 1996).

Recent studies have expanded the concept of employee motivation beyond job design and identified issues such as motivating a diverse workforce, pay-for-performance programs, and employee stock ownership plans (ESOPs) (Robbins & Coulter, 1996). Researchers suggest that management exercise flexibility when confronting a diverse workforce. For example, different groups of workers have different needs. A single mother may need daycare or a second job and therefore require specific motivators. Research also suggests that tailoring rewards to the individual worker can be a highly motivational tool. A few such tailored rewards in use today include compressed workweeks (four 10-hour days), flextime (set number of hours, with flexible scheduling), job sharing, and telecommuting (Robbins & Coulter, 1996).

Pay-for-performance plans are designed to link specific performance goals with employee compensation. Since most individuals work to obtain the amount of money required to meet their needs and wants, these types of plans can be highly motivating since they positively relate the amount of pay with the amount of work effort. Pay-for-performance programs compensate employees based on some pre-determined performance measurement (objective). Examples include piece-rate pay plans, wage incentive plans, profit sharing, and bonus plans.

Performance measurements may include individual or team goals, departmental objectives, or overall organizational profit. The basis for such programs is that by making a portion of an employee's compensation contingent on some specific performance objective, he or she will be more focused and devote more effort toward attaining that objective (Robbins & Coulter, 1996).

Some organizations have management incentive programs under which managers and executive managers pledge to meet certain MBOs by year-end. At the end of the period, their performance is measured against these MBOs and compensation is granted according to the organization's results of operations for the year. These programs work well for management; however, as only a targeted group of employees are allowed to participate, the overall success is debatable.

Yet another type of specific reward program is The Idea Program (TIP). In this program, employees are encouraged to submit cost savings ideas, and an appointed TIP committee researches every idea to determine the cost savings, if any, that are applicable. The idea program awards are granted on a quarterly basis, and the amount (up to a certain dollar amount) is based on the projected cost savings. Employees should be recognized at the state-of-the-company meeting and in the company newsletter. They also might receive a plaque for their idea.

CONCLUSION

There are many factors that play into the concept of employee motivation. The first necessary step is to determine what motivational tools will actually be effective in each particular situation. Some tools may work for some companies, but not for others and vice versa. It is important to note that the decisions dealing with motivation are based upon several theories.

No single theory seems best suited for every situation; therefore, theories are often combined to provide the best possible combination to motivate employees. Although no single theory works all the time, there is an underlying theme to all of the theories that respect and participation are two key items that employees tend to appreciate. Oftentimes, the existence or nonexistence of these two factors can determine how productive an employee will or will not be. It is important to note that these two factors are almost always more important than monetary compensation. Of course, there are some individuals for whom this generalization will not apply. Also, many of the motivational theories that have been developed are used in industry today. However, they have been modified to meet specific needs of the particular company.

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AN OVERVIEW OF THE CRUISE INDUSTRY: AN ALTERNATIVE TO LAND-BASED VACATIONS

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ABSTRACT

The modern vacation cruise industry dates from about 1970 with the creation of the North American cruise industry. Since then, the industry has changed from a trans-ocean carrier service into a vacation alternative to land-based resorts or sightseeing destinations. According to the Cruise Lines International Association (CLJA), in 1970 500,000 passengers took cruises and by 2000, 6.6 million passengers took cruises per year. This paper reviews the cruise line industry.

INTRODUCTION

Cruise lines are differentiated according to the market niche that they fill. The cruise industry is divided into three parts: the luxury, premium, and contemporary segments. The luxury segment caters to the wealthy and is priced at more than $500 a day for each day of the cruise. The premium segment is designed for the businessperson who wants upscale quality for a lower price, ranging from $250-$299 a day. The contemporary segment is marketed toward families and couples, offering activities at an even lower cost of up to $249 a day. The lower berths, which are the number of passenger beds on a cruise ship calculated in accordance with the industry practice, are found by multiplying the number of passenger beds by two per cabin. Lower berth accommodations are increasing as the industry grows.

There are two different geographic segments of the cruise industry: the North American cruise industry and the European cruise industry. Although the European cruise industry is smaller (in operating cruise lines) than the North American industry, the number of cruise passengers has been growing faster in Europe than in North America.

NORTH AMERICAN CRUISE INDUSTRY

There are only a few large competitors in the North American cruise industry. One reason for so few competitors is the high barrier of entry and exit. The industry is global but holds only two percent of the market share in the vacation industry. There are few shipbuilders in this industry, thus making it difficult to bargain for the best prices. However, there is greater buying power from the suppliers of the equipment for the ships.

Changes in the industry could be attributed to government regulations, external or internal changes, or changes in customer preferences. The competitors must is to position their products through advertisements as being attractive to the consumer. Key competitors in this industry include Star Cruises, Disney, and Carnival.

STAR CRUISES

Star Cruises was originally incorporated in the Isle of Man in November 1993 as Galactica Limited. With the acquisition of the Norwegian Cruise Line (NCL), Star Cruises is the first global cruise line with a presence in the Asian-Pacific, North American, South American, and European markets. Star Cruises is the fourth largest cruise line in the world, operating a fleet of ships with over 21,000 lower berths. Star Cruises offers three different classes of fleets: 1. the Super Star Series, which is the premium segment, 2. the Star Series, which is the contemporary segment, and 3. the Mega Star Series, which is the segment designed to fit each consumer's taste and budget. The Super Star Series fleet includes the Super Star Leo, Super Star Virgo, Super Star Gemini, Super Star Aries, and the Super Star Taurus. The Star Series fleet includes the Star Pisces and the Norwegian Star. The Mega Star Series fleet includes the Mega Star Aries and the Mega Star Taurus. The total fleet consists of 19 cruise ships, of which 11 operate under the Star Cruises brand, six operate under the NCL brand, and two operate under the Orient Lines brand. There are three new ships on order--the Super Star Libra, Super Star Scorpio, and Norwegian Sun.

Star Cruises addressed the issue of safety and environmental concerns with the installation of hi-fog sprinklers in all ship cabins and engine rooms ahead of the requirements from the regulators. Star Cruises upgraded its fire detection systems to the highest standards along with installation of ARC-detection systems for the switchboard.

Concerning information technology (IT), a private communication satellite, MEASAT 1, was installed across Star Cruises' entire fleet. MEASAT 1 provides closed circuit television monitoring, voice, fax, and data communication from ship-to-shore and remote areas for future operations. Internet access is offered to all passengers on Star Cruises' ships.

The acquisition of NCL by Star Cruises occurred in March 2000. The acquisition began as a joint venture with Carnival Corporation, but ended in February 2000 due to differences concerning the direction of the company. Star Cruises owns one hundred percent of NCL, thus making it the first global cruise line. Star Cruises introduced "freestyle cruising" which gives the passengers a choice as to where and when they would like to dine. Star Cruises believes that this is a good method to continue a relationship with NCL's 30 million U.S. and European cruise passengers. Star Cruises' operating income was $106,857,000 for 2000.

THE WALT DISNEY CORPORATION

Walt Disney set out for Hollywood in 1923 and started his company with his brothers in 1928. Disneyland was opened in July 1955. The Disney Cruise Line's (DCL) first ship, Disney Magic, made its maiden voyage in July 1998. For over 30 years, parents and children have enjoyed an exciting land-based and fun-filled vacation, and it has now added cruise vacations to its list of offerings.

Catering to consumers' needs, DCL offers cruises suited for adults, children, and teenagers--all in one cruise. DCL's theme is magic, and it successfully displays the theme for each consumer age group. For adults, childcare is available if needed. Massage cabanas, comedy clubs, and dinner-dancing are popular with adult consumers. DCL offers adults a chance to rekindle the Disney magic. For teenagers, DCL offers Common Ground, a theme area for teenagers only which includes New York style coffeehouses, music, games, lounge areas, and a chance for teenagers to make their own films. For children, daily fun is offered through the Oceaneer Club or Oceaneer Labs. There is one-on-one attention for the children, giving them a chance to grow and explore while their families are having their own fun.

DCL is a small part of the Disney Corporation. DCL's operating income was $32,310,000 out of $2.9 billion for the entire corporation in 2000. DCL offers a variety of activities and services such as golf, wedding services, or even a working vacation with available office space and equipment. Thus DCL caters to all market niches.

CARNIVAL CORPORATION

Carnival Corporation was incorporated in Panama in 1974. Carnival is the world's largest multiple-night cruise company based on the number of passengers, revenue generated, and available capacity with 48,196 lower berths. It also holds equity in Airtours, an integrated leisure travel group targeted under the name of Sun Cruises. Carnival offers luxury, premium, and contemporary cruises. Ships of the luxury fleet include the Cunard, Seabourn, and the Windstar. The Holland America is offered in the premium fleet, and the Coasta and Carnival are offered in the contemporary fleet.

The cruise line operates over 35 cruise ships, of which 14 operate under the Carnival brand, nine operate under the Holland America brand, four operate under the Windstar brand, two operate under the Cunard brand, and four operate under the Seabourn brand. Carnival Corporation signed agreements with shipbuilders to build 16 new ships due to the age of the fleet.

INDUSTRY ANALYSIS

Some key features of the industry include its market share, scope of rivalry, market growth, size, and entry and exit barriers. A key feature of the industry is its market share.

The vacation industry is a very small part of the leisure/entertainment industry, and the cruise line segment is even smaller with only two percent of the market. The industry as a whole is not large in comparison with similar industries. For example, Carnival Corporation has the highest revenue ($3,497,470,000) and Star has the lowest ($391,685,000). The scope of rivalry is global; however, companies such as Disney travel to a limited number of locations, whereas most companies travel abroad. The cruise line industry is mature with potential growth due to the Internet. For example, Coasta Cruises, owned by Carnival, only accepts reservations via the Internet. The size of the market is relatively small due to only a few major competitors such as Star, Disney, and Carnival. This allows each company to watch the competition closely for potential threats. The size of the market is a key element to its high barriers of entry and exit. A luxury cruise ship costs approximately $300,000,000. This becomes a significant part of the high barrier to entry and exit because it is difficult to raise that amount of capital in order to buy a cruise ship. Competition in the market is very broad. For example, a consumer could choose Disney for a vacation over Carnival. The consumer could also choose to visit land-based sites such as the Grand Canyon or Yellowstone National Park, bypassing cruise ships altogether. This broad range of choices renders the cruise industry relatively small and alert concerning competition.

Risk factors encountered in the industry include environmental and health and safety legislation, increase in fuel prices, and consumer demand for cruises to potentially hostile countries. Environmental groups have fought for stringent regulations of cruise ships. The U.S. Environmental Protection Agency (EPA) is considering new laws and rules to abate cruise ship waste. This would increase operating costs and adversely affect the industry. The cost of fuel could adversely affect the industry's financial position because it may not be able to increase prices on its cruise vacations in order to cover the increased cost of fuel. A country's economic strength and level of disposable income may affect demand for cruises. This could have a negative impact on net revenue yields and thus on net income.

In the cruise industry, the entry of new competitors in the market is relatively difficult. There are three different segments in the industry: luxury, premium, and contemporary. For example, Radisson is the largest in luxury cruises, even though Carnival is the largest in the industry. Disney is a competitor in both land-based vacations and vacation cruises.

The bargaining power of the industry for the suppliers is both low and high. There are few ship- builders in the industry, and they must take the prices that are offered to them. However, there are many different suppliers of food and equipment in the industry, so companies can shop around for the best prices. Consumers have bargaining power as to where they spend their vacation dollars. Technology is one of many drivers of change in an industry that alters the way products are marketed to the consumer. Consumers surf different web sites and view vivid pictures of vacations before they make their choice. Travel agents also brought about change in the industry. Some companies such as Carnival still use travel agents to handle reservations. The Internet has posed a threat to travel agents' job security because the cruise line industry could have all of its business handled directly or through the Internet. Government regulations, such as environmental and safety regulations, can also affect the industry.

In this industry analysis, Carnival has the strongest position in brand image and size of the market, with six subsidiaries that fit into each market niche of the cruise line industry. Disney has a strong brand image but a low percentage of the cruise line market. Star Cruises does not have such a strong brand name or percentage of the market; this also applies to Star Cruises' acquisition of NCL.

There are many strategic moves that each company could attempt in order to reach their goals. Smaller companies can go after a market niche. For example, Radisson only has luxury cruises and is number one in this segment, although Carnival has three different luxury cruises. The companies could offer discounts and coupons along with an attractive itinerary. Radisson has a complete section on its web site just for discounts and coupons. Another strategic move could be to ascertain what the consumer wants. For example, Disney is family oriented and markets its vacations around family life. Carnival has the reputation of marketing to couples.

Studying competitors, staying on top of marketing and innovation, and upholding brand image are key factors for competitive success. Keeping a close watch on the competition is vital. If scrutiny of the competition is neglected, another company could take over a portion of business by attacking a niche of the market. Marketing and innovation are important. For example, Carnival has increased its advertisements yearly and is building new ships. Star Cruises also increased its fleet. Upholding brand image is also important in this competitive industry. For example, Carnival Corporation reportedly did not pay travel agents the standard ten percent commission rate for a period of time, which hurt Carnival Corporation's image. This also created personnel problems because the travel agents were bitter towards the company, and in all probability, bitter towards the consumer.

The potential growth is high in this industry among the companies that already exist. The competitors will probably become stronger through marketing and innovation. Brand image will become a vital issue as each competitor begins to offer the same services. Other substitutes in the vacation industry can make the cruise industry less attractive to the consumer. For example, the increase in theme parks and resorts makes it that much easier for the consumer to choose not to take a cruise.

CONCLUSION

The cruise line industry is continuously developing markets that rely on many factors to operate successfully. When these factors change, such as consumer desire or level of disposable income, threats are posed to the industry's revenue. If the top companies continue to build more diverse ships with activities for all types of consumers and increase their marketing efforts, they should best their competition.

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HEDONICS: A MODEL FOR CONSUMERS WRONGFULLY DENIED THE PURSUIT OF LIFE'S PLEASURES

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ABSTRACT

Hedonics is a branch of economics that attempts to estimate the monetary value of life's pleasures. Although the problem of determining an individual's pleasure content is largely a subjective measure, the concept of hedonism attempts to form a model to work within. The purpose of this paper is to examine the beginnings of hedonic thought, its evolutionary legal doctrine, and the determination of valuing life's pleasure. Furthermore, this paper will advocate the use of hedonic damages not as scientific fact, but as a model to aid in compensating people who have been wrongfully denied the pursuit of life's pleasures.

INTRODUCTION

According to Edwards (1979), hedonism is the pursuit of pleasure or happiness and the avoidance of pain or unhappiness as ideals of action to which there are viable alternatives rather than as necessities of human nature. Normative hedonism is the theory that: 1) pleasure, or happiness defined in terms of pleasure, is the only thing that is intrinsically good, and pain, or unhappiness defined in terms of pain, is the only thing that is intrinsically evil. 2) happiness, hedonistically defined, consists of a positive surplus of pleasure over pain through an extended period of time, and unhappiness consists of a surplus of pain over pleasure through an extended period of time, and 3) pleasure or happiness should be maximized and pain or unhappiness minimized.

The hedonist contends that only pleasure or happiness is intrinsically good. However, special care should be taken to distinguish hedonism from egoism. For example, consider the following two questions: What things are intrinsically good? How should one act to distribute intrinsic goods? At one extreme lies the egotist, whose happiness is self-centered. At the other extreme is the non-egotist, whose concern is the greatest happiness or welfare of the greatest possible number of persons.

To further appreciate hedonism it is important to recognize what is meant by pleasure and pain. "Pleasures and pains are not sense-objects in the external world, and the meaning of pleasure and pain cannot be communicated [easily]" (Edwards, 1979, p. 26). For example, these terms cannot be measured directly, like lost wages.

For the hedonist, pleasure and pain are inner qualities of feelings. Feelings of pleasure and pain are thought to be feelings of awareness or private feelings one attempts to facilitate or avoid. Therefore, when defining hedonism an attempt must be made to place a value on subjective matter.

However, there are many individual and cultural variations in our sources of enjoyment and frustration, but it is also true that a few sources of the same are almost universal to all humans.

WHERE DOES IT BEGIN?

Although the term hedonic damage is unique in U.S. jurisprudence, the concept of measuring life's pleasures can be observed throughout history. According to S.V. Smith, "the notion of measuring damages is hardly unique in the law" (Tapp, 1988, p. 14). Smith suggests that it "goes back to the Code of Hammurabi where there was compensation for loss of life" (Tapp, 1988, p. 14).

The concept of when and how to maximize pleasure was contemplated by the ancient Greek philosophers. For the Greeks, the problem evolved around short-run versus long-run pleasure maximization. Aristippus stated: "Act to maximize pleasure now and don't worry about the future." Epicurus stated: "Act to maximize pleasure over the entire span of your life" (Edwards, 1979, p. 24).

English courts for many years have awarded a distinct element of damages commonly known as loss of expectation of life damages. "Beginning with the decision of the House of Lords in Rose v. Ford, English courts interpreted Section 1 of the Law Reform (Miscellaneous Provisions) Act of 1934 as allowing loss of expectation of life as a separate damage award for a decedent's estate when a someone wrongfully curtailed a decedent's life. In subsequent decisions, English courts limited damage awards for loss of expectation of life to a nominal amount" (Williams, 1987a, p. 326-327). Although many societies have recognized the need to compensate for the loss of life's pleasures, the primary problem has been determining a value for these lost pleasures.

DETERMINING THE VALUE OF LIFE

Can a value be placed on a life? What is an individual's value to family, friends, and society? These are difficult questions to answer. Would a physician's life be more valuable than a factory worker's life? Although an income-based approach would assign a higher value to the physician's life, does this represent the intrinsic value of life?

Many attempts have been made to address the question of the value of the enjoyment of life. The first attempts by economists were based on the human capital approach, which considers the value of life to be a function of a person's lifetime earnings (Staller, 1986). This approach tends to discriminate against lower income groups who may not be able to afford higher education. Physicians and scientists are valuable members of society; however, the right to enjoy life is not restricted to economic boundaries of income. Furthermore, it is completely subjective inner feelings that give value to an individual's pleasures.

There are other problems associated with determining an individual's value by lifetime earnings. The problem arises from the calculation of the present value of future wages. Table 1 shows the effect of three methods of estimating the present value of future wages given a current $10,000 annual wage.

Method A shows what wages an economist might predict for any future year, assuming 7 percent inflation, 8 percent nominal short-term rates, and a one percent real wage growth rate.
Method B shows the effects not using inflation or real growth, but incorrectly using an 8 percent nominal interest rate that includes an inflation component. This was the method used in ANB v.

Thompson. Method C shows the effects of not using inflation or real growth, but correctly using a one percent real interest rate that has no inflation component. Method D (column C divided by column B) shows the strength of using real rates versus nominal rates. In the 39th year, real rates provide over 7 times the wage preservation. "In total over 30 years, using real rates provides 2.3 times as much wage value" (Smith, 1988a, p.16).

Table 1: Present Value of Future Wages

YRS	A	B	C	D=C/B
1	$10,006	$9,259	$9,901	107%
2	10,013	8,573	9,803	114
3	12,019	7,983	9,706	122
4	10,026	7,350	9,610	131
5	10,032	6,806	9,515	140
6	10,039	6,302	9,420	149
7	10,045	5,835	9,327	160
8	10,052	5,403	9,235	171
9	10,058	5,002	9,143	183
10	10,065	4,632	9,053	195
11	10,072	4,289	8,963	209
12	10,078	3,971	8,874	223
13	10,085	3,677	8,787	239
14	10,091	3,405	8,700	256
15	10,098	3,152	8,613	273
16	10,104	2,919	8,528	292
17	10,111	2,703	8,444	312
18	10,117	2,502	8,360	334
19	10,124	2,317	8,277	357
20	10,130	2,145	8,195	382
21	10,137	1,987	8,114	408
22	10,144	1,839	8,034	437
23	10,150	1,703	7,954	467
24	10,157	1,577	7,876	499
25	10,163	1,460	7,798	534
26	10,170	1,352	7,720	571
27	10,176	1,252	7,644	611

28	10,183	1,159	7,568	653
29	10,190	1,073	7,493	698
30	10,196	994	7,419	747
Source: Smith, S.V. (1988a, June 8). Economist proposes relief from ruling for plaintiffs, Chicago Daily Law Bulletin, 16.				

Another approach intended to place value on human life examines what people are willing to pay to reduce chances of suffering a fatal accident or disease. "These willingness-to-pay studies are typically intended to guide public policy makers faced with the task of performing cost-benefit analyses of public-safety programs" (Staller, 1986, p. 9). Examples of this type of analysis include what consumers are willing to pay for automobile side-impact airbags or how much extra consumers would pay to fly on safer airlines. From this information, the implicit value that the respondent places on his or her own life may be inferred.

The valuation of life under this concept can also be estimated from what the federal government spends on the prevention of loss of life. In deciding how much to spend on safety measures, some government agencies are guided by explicit standards on the value of life (Smith, 1988b).

A final set of data for the willingness-to-pay approach comes from the labor market. Economists measure just how much extra a worker must be paid to perform a job with measurable life risk (Smith, 1988). For example, consider the difference in pay between an ordinary welder and an underwater welder. The extra compensation received by the underwater welder is a measure of the value the individual places on his life.

Although the aforementioned methods help to determine one aspect of the value of an individual's life, another equally important aspect must be considered: the hedonic value, which is an economic concept that contends there is a loss of the pleasure of living damage component that must be considered in addition to the traditional loss of earnings calculation. According to Smith (1988a): "The hedonic value of life is measured independently of social rank, education, wealth, gender, or family position. Instead, hedonic attributes focus on the quality of life and may include air quality, proximity to major airports, quality of schools, or the amount of snow an area or city receives" (p. 16).

Separate valuations can be accorded both hedonic and financial attributes of life. Whereas financial attributes tend to be easily recognizable, including lost earnings, medical and funeral expenses, as well as other expenses directly related to the wrong-doer's actions, hedonic attributes include quality of life factors such as environmental standards, quality of education, weather, and the amounts of time spent pursuing vocations (Karns, 1990). Although Smith (1988b) equates the pursuit of happiness with the pursuit of pleasure, the former is a moral concept and the latter a psychological concept. According to Adler, the psychological happiness for each individual is determined by a mix of three factors: 1) degree of mortal value, 2) degree of good fortune with which the individual is blessed, and 3) whether a tragic choice is made based on circumstances beyond someone's control (Karns, 1990).

It is not adequate to place a value on life by measuring the future earnings and willingness-to-pay. When determining the value of an individual's life, it is important that the hedonic or intrinsic value of life has also been included in the valuation model.

THE LEGAL BASIS

The legal basis of hedonic damages is applicable under tort law. A tort is "a wrong; a private or civil wrong or injury resulting from a breach of a legal duty that exists by virtue of society's expectations regarding interpersonal conduct, rather than by contact or other private relationships. The essential elements of a tort are the existence of a legal duty owed by a defendant to a plaintiff, breach of that duty, and a casual relation between defendant's conduct and the resulting damage to plaintiff" (Gifis, 1984).

The concept of hedonic damages is brought forth in Section 1983 of Title 42 of the U.S. Code. "Every person who, under color of any statute, ordinance, regulation, custom, or usage of any State or territory or the District of Columbia, subjects or causes to be subjected, any citizen of the U.S. or other person within the jurisdiction thereof to the deprivation of any rights, privileges, or immunities secured by the Constitution and laws, shall be liable to the party injured in an action at law, suit in equity, or other proper proceedings for redress."

A plaintiff bringing Section 1983 action has the burden of proving that some person has violated a constitutional or statutory right. When hedonic damages are sought for wrongful death, the fourteenth amendment to the U.S. Constitution protects life. Therefore, unconstitutional deprivations of life by persons acting under color of state law are actionable under Section 1983 (Williamson, 1987b).

CONCLUSION

The concept of developing an economic model to determine the value of an individual's lost pleasures is difficult. In a supply and demand relationship, an individual is faced with an infinite supply of life's pleasures subject only to individual demand. The valuation of these intrinsic pleasures is almost purely of a subjective nature. However, the concept is in its infancy. Through experience, collecting data, evaluation, and observation, it is possible that some systematic means of compensating individuals and estates for the loss of the pleasures of life due to the wrongful acts of others may be established.

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DIRECT MARKETING AND ITS EFFECTS IN THE TWENTY-FIRST CENTURY

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ABSTRACT

Different types of advertising inundate consumers every day. Whether it is by television, newspaper, or billboards, advertising has reached consumers one way or another. Yet, a majority of the ads that consumers encounter are often meaningless and uninteresting, because they are meant to reach a certain target audience (Nash, 2000). This paper discusses a broad spectrum of direct-mail advertising.

INTRODUCTION

As consumers, our perception regarding advertising appears to change when we look inside our mailboxes, pick-up our telephone, or even check our e-mail. We often wonder how marketers know that we have a cat or dog, own a certain kind of computer, or even wear a certain style of clothing. Every time we purchase products such as electronics, computer software, or other products, direct-mail advertising is in the air (Nash, 2000). Every time we send warranties and registration forms back to the manufacturer we are often unaware that we are sending information about ourselves that will be used as statistical, personal, and informative data for future marketing purposes. Thus, marketers and advertisers know what kinds of products to target us with.

The areas discussed in this paper include: what direct-mail advertising is, the historical development of the medium, different methods and types of mail, the future of direct-mail advertising, and the Internet's use of the medium for visual communication.

DIRECT MAIL

Direct-mail advertising is a medium used by direct marketers and is the most personal and selective of all media (Geller, 1998). Direct-mail, or as we call it junk-mail, somehow finds its way to our homes and businesses. "Because we are often pressed for time, direct-mail advertising is a convenient way for us to shop without having to leave the house" (Katz, 1999, p. 32). This specialized mail can also be purchased, but it can be expensive (Geller, 1998). Printing and postage fees make the cost of direct-mail per person expensive compared to other forms of media. However, because direct-mail goes only to the consumer that the advertiser wishes to contact, there is no wasted coverage (Katz, 1998). However, reaching the prospective consumer does not ensure that the message will be received, because after all, direct mail is pure advertising (Shepherd, 1999). Therefore, a direct-mail ad must attract its own readers. This is critical when you consider that the "average American home receives more than 10 direct-mail pieces a week" (Katz, 1998, p. 12) and that "the recipient of such ads decide in an average of four seconds whether to discard or open it" (Geller, 1998, p. 5).

HISTORICAL DEVELOPMENT

During the 1950s and early 1960s, computers emerged as common business tools (Shepherd, 1999). Marketers were able to collect, store, and manipulate larger amounts of data to aid marketing decision-makers. Out of this capability developed the marketing information system (MIS)--an ongoing, organized procedure to generate, analyze, disseminate, store, and retrieve information for use in making marketing decisions (Shepherd, 1999).

Another useful tool developed for marketers is the decision support system (DSS). This particular system is a computerized procedure that enables the marketing manager to develop data and use various methods of analysis in order to incorporate, examine, and characterize information (Stone, 2001). This computer-based procedure adds acceleration and versatility to the MIS.

These useful computer-based systems are then organized, stored, and updated in another computer (database). This is perhaps the "nucleus" for all direct-marketers, because it has allowed them to narrow their specific target market by identifying the market's special interests, buying behavior, and purchasing power (Shepherd, 1999).

With the development of these three interrelated computer systems, direct-mail has emerged as one of the many tools that direct-marketers conveniently use to target their markets. However, with the introduction of desktop publishing in the l980s, direct-mail advertising quickly became an important medium for advertisers, as well as politicians seeking office (Shepherd, 1999).

GROWTH OF DIRECT-MAIL

Direct-mail is successful because it matches today's lifestyles. Today, families have less leisure time, and so shopping by mail is more convenient. It is the most effective way to generate immediate results since it is addressed directly to the prospect (More, 1999). Today's leading mail-order products include insurance and financial services and department store merchandise (Geller, 1998).

Another reason for the global success of direct-mail advertising is the fact that it can increase the effectiveness of ads in other media (Nash, 2000). For instance, instead of sending unsolicited mail, advertisers tend to use other direct response media to reach their target market, and then use direct-mail to respond to inquires. This makes direct-mail advertising the most effective method for closing a sale or generating attention for products, services, or ideas.

Direct-mail advertising was the fastest-growing medium in the late 20th century (Geller, 1998). Because many large companies have down-sized, many people are working longer hours. People also have busy schedules and are involved in many activities such as continuing education, personal fitness, and other professional or civic activities. Direct-mail advertising came into the mix by providing consumers with convenience of having the product, service, or idea come to them (Shepherd, 1999).

Throughout the history of advertising, newspapers and television have been the most widely used medium, based on total advertising dollars spent (Stone, 2001). However, their share has declined and as a result, the amount of dollars spent for direct-mail advertising has increased. The Direct Marketing Association estimates that national advertisers spent more than $27 billion on direct mail in 1994--that is nearly twenty percent of all the ad dollars spent in the U.S. This makes direct-mail advertising the third ranked advertising medium used today, surpassed only by television and newspapers (Stone, 2001).

TYPES OF DIRECT-MAIL ADVERTISING

Direct-mail advertising appears in various formats, from handwritten postcards to multi-dimensional mailings (Geller, 1998). The message can be one sentence or dozens of pages. Within each of the following formats, the creative marketing options are infinite. Some examples of direct marketing include:

1. Sales letters--These are the most common direct-mail format, and are often mailed with brochures, price lists, reply cards, and even envelopes.
2. Postcards--These are used to announce sales, offer discounts, or generate customer traffic.
3. Business reply mail--This enables the recipient to respond without paying postage. On receiving a response, the advertiser pays postage plus a handling fee of a few cents. Postage-freeincentive usually increases the response rates.
4. Folders and brochures--These are usually printed in multiple colors on quality paper stock that reproduces photos or other illustrations well.
5. Broadsides--These are larger than folders and are sometimes used as window displays or wall posters in stores. Broadsides may also fold in order to fit in a postal mailbag.
6. Self-mailers--These are any forms of direct-mail that can travel without an envelope. Self-mailers are usually folded and secured by a staple or seal, and they have special blank spaces for the prospects name and address.
7. Statement stuffers--These are direct-mail advertisements that are enclosed in monthly customer statements from department stores, banks, oil companies, etc.
8. House organs--These are publications developed by associations or business organizations such as stockholder reports, newsletters, and consumer magazines.
9. Catalogs--These are reference books that list, describe, and often picture the products sold by a manufacturer, wholesaler, or retailer.

In order to be successful, each direct-mail piece should contain the following principals that are interrelated with one another: company letterhead that is appropriately sized, visuals, benefits, the company logo, and information about how the consumer can purchase the product or service (Katz, 1999).

THE DEVELOPMENT OF DIRECT MAIL ON THE INTERNET

The future of direct-mail advertising has developed side-by-side with the technological development of the World Wide Web (Roberts, 2001). Through the Internet, the conventional way of direct-mail advertising is transformed in many ways through the advances of the developments of computer technology (Sterne, 2000). Direct-mail advertising now uses the World Wide Web extensively to target their specified markets (Roberts, 2001). One innovative use of direct-mail advertising through the Internet is the database. This form of technology is widely used by direct-marketers, who maintain lists of their specific consumers and web-surfers (Kinnard, 2000). Through the use of the database, marketers can maintain an informative list of their consumers. However, marketers are often reluctant to properly maintain their databases due to the complicated and time consuming updates required (Roberts, 2001).

INTERNET USE OF VISUAL COMMUNICATION

The Internet use of visual communication is a different case. Direct-mail experts do not appear to have confidence concerning the visual communication involved on their Web sites (Smith, 2000). Since online direct-mail is still in its developing stages, many Internet surfers simply ignore, block, or trash junk e-mail that is sent to them (Smith, 2001). Also, to get on the e-mailing list, a consumer must fill out an information form that is often ignored. In fact, many advertisers do not even maintain their databases; therefore, potential consumers are not sent vital information about them advertiser's products, sales, or current trends (Sterne, 2000).

Some companies use different visual communication devices in order to attract their possible target audience. For example, Web sites such as L.L. Bean, Victoria's Secret, and The Gap are involved in direct-mail advertising, as well as others in the clothing and apparel market.

Many company Web sites have a cell (place) to put an e-mail address so consumers can subscribe to the mailing list. The sites usually feature attractive models, which is appropriate if that is the market they are trying to reach. Models with other demographic profiles may reach a bigger market. Many sites have enticing visual communicative imagery and are easy to use, enhancing the consumer's shopping experience.

CONCLUSION

Direct marketing is a powerful tool for companies to use in the promotion of their products. As consumers' knowledge of the Internet increases and technology continues to improve, direct-marketing online will become more effective in the future. The more efficiently marketers can reach their markets, the more effective direct-mail advertising will be.

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SOME FACTORS CONTRIBUTING TO FLUCTUATION IN OIL PRICES: A REVIEW

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ABSTRACT

In the world oil market, just as in any other market, supply and demand play major roles in determining product price. However, determining the price of oil in the long run is not as simple as just forecasting supply and demand. Many other factors will affect the price of oil, and these factors may cause errors in the usual supply and demand models. This paper will review the fluctuation in oil prices. It will show how supply and other determining factors in the mid-1990s affected demand.

INTRODUCTION

Supply and demand determine future prices, but other factors will also affect prices indirectly through supply and demand. Energy consumed over the next several years will be weighted heavily in the equation to determine the long-run price of oil. Energy consumption is not as difficult to determine because energy consumption will continue to rise, and in the long run it will rise at a steady rate. The continual rise in consumption means that the demand for energy will also continue to rise. However, the rise in the demand for energy does not mean that the demand for oil will continue to rise. If the amount of oil that producers are able to make available goes down, it will cause the price of oil to increase and that would also cause the demand for oil to decrease. Because oil is an alternative energy product, other products may be substituted. Energy consumption will continue to rise steadily for the next several years, but the amount of energy supplied by oil may not be as stable (Malik, 1995).

This paper focuses on how supply and demand will affect oil prices; however, it also reviews other factors that have an influence on future prices. The increase in quantity supplied has a major impact on future oil prices. If quantity supplied increases at a faster rate than demand, prices will decrease. The quantity demanded over the next few years will affect price if it changes at a different rate than quantity supplied. Other factors that influence the future price of oil include production costs, interest rates, inflation rates, exchange rates, new technologies, and new explorations. All of the changes that these factors will influence over the next several years will determine the price of oil in the future.

THE INDUSTRY

The advancement of technology can have adverse effects on the price of its products in the oil industry. If the industry became more efficient through improved technology, this could cause the price of oil to decrease. If technology is not improved and the quantity demanded continues to rise, the lack of new technology and efficiency could cause the price of oil to rise (Oil producers need income to meet future capacity demand, 1995).

Technology as well as research and exploration are made possible by extra revenues received by oil companies. Since oil producers must charge optimum prices to further technology and exploration, lower prices in the short run could cause an increase in prices in the long run.

Some factors that affect prices in the oil market are relatively impossible to forecast. One factor that cannot be easily forecasted is the probability of oil producing or refining countries being involved in some type of military conflict. Many of the oil producing countries in the world oil market are in the Middle East, which is currently the most unstable region in the world. A war between countries in the Middle East will have an effect on the price of oil. In other regions such as Russia, Nigeria, and Algeria, political and economic problems could also have an effect on world oil prices. Political issues, taxes, and tariffs in oil producing countries could artificially increase prices that might otherwise be much lower.

Pollution controls and environmental concerns also affect oil prices. Countries could also impose new taxes and tariffs that could also change the price producers would have to charge the consumer (Malik, 1995).

INCREASING QUANTITY SUPPLIED

An important factor that will affect the price of oil over the next several years will be the amount of oil produced. The amount of oil produced refers to the quantity of oil that suppliers will make available. If the quantity that sellers are willing to make available is too high, prices could be forced down. Supply can also be affected in several ways. The main way that supply is affected in the oil industry is by competition. Increased competition in the oil industry from non-OPEC producers has caused the supply of oil to rise. This rise in the supply of oil has driven down the price and caused oil producers heavy losses in profit margins (Lukman urges all oil producers to practice self-restraint, 1995). Another reason that supply has grown and will continue to grow in the next several years is that many OPEC members have incurred large debts that they must keep under control. In order to keep the large debts under control that many of these countries have incurred, they must increase their revenues. Some countries are trying to increase their revenues by increasing their production of oil. This increase in production is also causing supply to swell and prices to fall.

OPEC regulates the amount of oil produced by placing quotas on its members. These quotas seem to be a logical way to fix prices at a certain level that would allow for high profit margins. However, OPEC cannot enforce quotas on countries that are not members, and these non-OPEC oil producing countries will not cooperate with OPEC's plans. The amount of oil produced by non-OPEC producers has grown rapidly and it is a real threat to OPEC's ability to control prices.

The amount of oil produced by the non-OPEC countries is expected to keep growing, and as long as it continues, we can expect prices to stay relatively low.

The industry requires large amounts of capital for research and exploration. The money needed for this exploration and research must come from the profits that are being made in the industry today. Higher prices on barrels of oil must be obtained if companies are going to be able to research and explore in the long run. Many non-OPEC producers are pricing their oil much lower than the OPEC price, and this is forcing all other oil producing countries to lower their prices in order to compete. At these lower prices, companies in the industry are still making profits, but they are not making profits that will be large enough to finance new research and exploration. If low oil prices continued into the long run, the lack of new resources found and explored would cause the price of oil to increase (Standard & Poor's, 1994). The price would increase because once the existing fields have been exhausted, there will not be enough capital available for new exploration without charging very high prices for oil. These high prices will cause the quantity of oil demanded to drop and the quantity demanded of other energy resources to increase.

In order to avoid the increase in oil prices in the long run, non-OPEC producers and OPEC producers must cooperate with each other to keep output at a reasonable level. Prices can be fixed at reasonable levels that will prove profitable in the long run by setting quotas for all oil producing countries. The optimum price in 1995 that OPEC suggested for the price of oil was around $21.00 a barrel (A shocking speculation about the price of oil, 1993). Using simple supply and demand models, oil producers must take the optimum price and find out what the quantity demanded would be at that level. Countries should cooperate to produce only the quantity demanded of oil that brings the optimum price level.

Prices in 1995 fell because of the increased supply of oil in the North Sea, which sold for $15.61 a barrel in September, down 14 cents from its previous close (Oil falls in Asia, crude declines in New York, 1995). The American benchmark crude, West Texas Intermediate, was down 29 cents a barrel to $16.77. The United Arab Emirates' Dubai Light crude was 15 cents lower at $14.75 a barrel. An average of seven crudes from OPEC producers had an average price of $15.34 a barrel in late 1995. These prices dropped even farther before they stabilized and started a slow upward climb to around $17.00 a barrel in late 1996.

OPEC is seeking the cooperation of oil producing countries that are driving prices downward. Because of the size and strength of the oil companies in OPEC, the producers have studied the idea of reducing their prices so low that newer companies could not compete. This would only be a temporary drop in prices designed to run some non-OPEC producers out of business. To reduce its quotas, OPEC would have to increase production, ignoring all its output ceilings. The idea is to turn up its oil taps and "teach non-OPEC a lesson" by wiping dollars off the value of a barrel of crude (Swindells, 1995).

To determine the price of oil in some future year, the percentage increase in production of oil for OPEC and non-OPEC must be known. OPEC must increase its production at a higher rate than non-OPEC in order to keep profit margins at a reasonable level. In 1995, OPEC members supplied the world with about 40 percent of oil for consumption. Taking averages of past history from OPEC data, it was found that OPEC would increase its production over the next several years by an average of 3.36 percent (Energy Information Administration, 1995). Using past increases and new discoveries by non-OPEC members, it was found that non-OPEC increased its production over the years at a level of about 1.26 percent. OPEC controls about 40 percent of the world's oil production, leaving 60 percent to non-OPEC. Between the OPEC and non-OPEC producers, oil production will have a net increase of 2.1 percent a year (Energy Information Administration, 1995). If consumption increased at 2.1 percent a year between now and five years hence, prices would remain constant. If consumption increased at a rate lower than 2.1 percent a year, prices of oil would decline, assuming all other variables are held constant. The 2.1 percent increase in quantity supplied by the world's oil producers has had a major effect on the future prices of oil.

ENERGY CONSUMPTION AND DEMAND

The demand for oil and energy consumption grows at rates that are much more stable than those of supply. Demand is expected to have little growth in the short run, but as the supply of oil increases it will most likely stimulate demand (Standard & Poor's, 1994). Low oil prices in the long run caused by a large quantity supplied will eventually cause actual demand to increase at a higher rate. This increased growth rate in demand will not last and it will eventually start to level off. The leveling off of demand will be caused by the rising demand for natural gas. Natural gas has been found to be favored for economic and environmental reasons (Standard & Poor's, 1994). However, our markets are currently geared for petroleum driven products, and it will take a few years before the markets slowly change gears.

Petroleum accounts for about 40 percent of the world's primary fuel consumption. In the next several years, demand for petroleum will increase at a steady rate. Since oil does account for such a large part of energy consumption in the world, oil prices are greatly affected by the demand for energy. The Energy Information Administration has projected that world oil consumption will grow at a rate of about 1.5 percent (Energy Information Administration, 1995). In 1995, the world's demand for oil was about 71.32 million barrels a day. This number will increase over the next several years at a steady rate of 1.5 percent. Since demand grew to approximately 77 million barrels of oil in 2000, the increase in demand was absorbed by either OPEC or non-OPEC members in increased production (Oil prices fall as OPEC blasts rising output, 1995).

PRICE LEVELS IN 21ST CENTURY

The price of oil in the near future should not be much different that the price of oil today. There are factors that could cause the price of oil to increase or decrease. Most of the factors that would cause the price of oil to decrease are going to make the price decrease in the short run, and then hold the percent increase in oil price to a minimum for the next several years.

Quantity supplied may be the most important factor when determining future oil prices. Quantity supplied is expected to increase over the next several years as a result of an increase in production from non-OPEC members as well as increased production from OPEC members. An increase in production is normal for every year as demand increases, but if quantity supplied increases at a higher rate than quantity demanded, prices will compensate for the difference by falling. To find the percentage that quantity supplied will increase, it must be known what percentage OPEC and non-OPEC members will increase their production. OPEC members will probably increase their production 3.36 percent a year for the next several years. Non-OPEC members are expected to increase their output by 1.26 percent a year over the next several years. OPEC produces about 40 percent of the oil in the world oil market and non-OPEC produces the remaining 60 percent. Including the increase by OPEC and non-OPEC members, quantity supplied for the next several years is expected to increase at a rate of at least 2.1 percent.

The next variable in the equation for future oil prices is consumption and demand. Consumption and demand historically tend to grow at a very steady rate. After taking averages of energy consumption and oil demand for the past 30 years, it has been found that the demand for oil is expected to increase 1.5 percent a year for the next several years.

Other factors that affect quantity demanded and quantity supplied include interest rates, exchange rates, and inflation rates. Interest rates can have an effect on the future oil prices in the long run because of the effect that they have on the loanable funds market; however, interest rates and exchange rates will not be used to calculate the price of oil in the year 2010 because they normally have their greatest effect in the short run. Inflation will have an effect on future oil prices because inflation affects the prices of all things in the future. Inflation varies from year to year, but for the purposes of this paper, an accurate forecast for inflation will be around 3.5 percent. The variables that mathematically affect the determination of future oil price are as follows: 1. Quantity supplied increase, 2. Quantity demanded increase, 3. Price inflation, 4. 1995 price of oil ($16.41 per barrel), and 5. Oil price elasticity.

CONCLUSION

In determining the future price of a commodity such as oil, there are many factors that can affect the final price. A lower price in barrels of oil does not mean that consumers will pay a lower price at the pump, because any drop in price is sure to be soaked up by refineries, manufacturers, and governments. A drop in the price of oil does mean that the oil markets are becoming more competitive. Competition is healthy for most markets because it causes increased efficiency as well as better products and services. Competition also drives incompetent firms out of the market, leaving more market share for fewer firms. Lower prices and increased competition may be good for the next five years, but in the longer run, prices may begin to once again outpace inflation.

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A REVIEW OF WILLIAM A. PATON'S CONTRIBUTIONS TO PROFESSIONAL SOCIETIES IN ACCOUNTING

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ABSTRACT

Although William A. Paton (1889-1991) devoted the major part of his energies to teaching accounting, he also actively participated in professional accounting societies. Early in his career Paton was affiliated with the then newly organized American Association of University Instructors in Accounting (now the American Accounting Association). He served this organization in various capacities for many years and later concentrated his efforts on the Committee on Accounting Procedures of the American Institute of Accountants. In addition, Paton served as a speaker for the National Association of Cost Accountants.

INTRODUCTION

On December 30, 1915, at the urging of John R. Wildman of New York University, a small group of accounting teachers met in Washington to discuss the organization of a society for accounting educators. A year later on December 28, 1916, a group of 20 to 25 persons attended an organizational meeting. Because of the war and bad weather, attendance at the second meeting was discouraging. Nevertheless, the young association continued to gain new members. By the third meeting, "The Association had 82 members, of whom more than 20 percent were at New York University, which had the largest staff in the country" (Zeff, 1965, p. 5).

THE AMERICAN ASSOCIATION OF UNIVERSITY INSTRUCTORS IN ACCOUNTING

Present at this third meeting was William A. Paton, already a promising young teacher of accounting with a book and several articles, including one in the *Journal of Accountancy*, to his credit. Hiram Scovill recalled that 12 members attended the meeting, among them such men as Henry Rand Hatfield, Fayette H. Elwell, George H. Newlove, and nine others including Paton and Scovill. After the meeting, the members dined together in the private dining room of Mrs. Murphy's cafe. Paton recalled that the friendships formed at that meeting helped to keep alive the Association's small spark of life. Scovill felt that had it not been for the dinner meeting, the young association might have died a natural death or at least remained in a coma for several years (Scovill, 1941).

At the fourth annual meeting, held in 1919, Hiram Scovill, who had served two years as secretary-treasurer of the Association, was elected president. Chosen for the position of secretary-treasurer was William A. Paton. The few records of those early years of the organization's history do not indicate the type of work done by Paton, but obviously he served satisfactorily, for a year later he was elected vice-president and the following year president of the Association.

THE AMERICAN ACCOUNTING ASSOCIATION

When the American Association of University Instructors in Accounting was "trying to change its image as a purely educational organization to that of a more viable, research-oriented association within the accounting community, many persons were of the opinion that the organization's name was both unwieldy and limiting. Paton, almost single-handedly, worked for a name change that would reflect the association's expanded functions and its broader base of membership" (Interview with William A. Paton, October 10, 1971). Nevertheless, in 1921 Paton's proposal to change the name to American Accounting Association was defeated.

Another attempt made in 1924 met with qualified success when the name was supposedly altered to create a short title. After 1924, publications no longer referred to the American Association of University Instructors in Accounting; rather, the form American Association of UNIVERSITY INSTRUCTORS IN ACCOUNTING was used, the portion in capital letters representing the "short title." By a mail ballot, the members voted two to one against a complete name change (Zeff, 1965, pp. 35-36).

THE ACCOUNTING REVIEW

In 1926 the American Association of University Instructors in Accounting launched *The Accounting Review*, a quarterly publication. Largely due to the efforts of Paton, who according to John Carey "almost single-handedly produced the early issues," (Letter from Howard C. Greer, December 4, 1971) it soon earned a firm place in the professional literature. Although the *Review* was concerned primarily with accounting theory, research, accounting curriculums, and other academic matters, it also published material relating to the problems of accounting practice.

The idea for a publication sponsored by the Association germinated at the annual meeting of the Association held in 1923, the year following Paton's tenure as president. Paton and James McKinsey, who was chairman of the newly formed committee on publications, worked throughout 1923 on plans for a quarterly magazine. A problem regarding who would publish the magazine, the Association itself or one of two outside publishers, delayed its appearance. Paton continued to agitate for an outlet for papers written by Association members. Acting on the authority granted it at the 1924 annual meeting, the 1925 committee on publications, headed by Paton, published the first and only supplement to the *Papers and Proceedings of the American Association of University Instructors in Accounting*

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Although most of Paton's early contributions to professional organizations were within the American Accounting Association, his more significant achievements, perhaps, came through his later work with the American Institute of Certified Public Accountants. Paton had joined the Institute very early in his accounting career. Since he was a C.P.A., he was not affected by early attempts of the Institute to exclude all persons who had not qualified as C.P.A.s. Paton's first important committee assignment occurred in 1934, when he chaired the Institute's committee on education.

The history of the committee on accounting procedure goes back at least to 1931, for in that year J.H. Stagg reported the conclusions reached at several meetings of the special committee on accounting procedure. In 1932, the *Yearbook of the American Institute of Accountants* contained a report of the committee and a few of its findings. At that time the committee was composed of J.H. Stagg, chairman, William H. Bell, P.W.R. Glover, Vivian Harcourt, and Walter A. Staub (American Institute of Accountants, 1932).

This committee was prone to make many recommendations with relatively little consideration of others' comments. For example, in a memorandum to the Council of the American Institute of Accountants dated October 14, 1932, the committee approached the problem of foreign exchange as it affected both the profit and loss statement and the balance sheet. Fixed assets, they stated, should be converted into dollars at the rates prevailing when such assets were acquired or constructed. Cash, accounts receivable, and other miscellaneous current assets, unless they were protected by forward exchange contracts, should be converted at the rate of exchange prevailing on the date of the balance sheet. Current liabilities payable in foreign currency should be converted into dollars at the rate of exchange in force on the date of the balance sheet, and long-term liabilities should not be converted at the closing rate, but at the rate of exchange prevailing when the liability was actually incurred. The committee then turned to the problems of foreign exchange as it affected the income statement (American Institute of Accountants, 1932). Although little controversy arose regarding the various pronouncements, some accountants resented the fact that they seemed to be issued as directives after relatively short consideration by only a few persons.

In the fall of 1938 the eight-man committee on accounting procedure, chaired by George O. May, recommended its size be increased and a research division with paid assistance be established. Because of the widespread demand for greater uniformity in accounting, the committee suggested:

> *The Institute should create, under the control of a somewhat enlarged committee on accounting procedure, a research department for the purpose of preparing studies on particular questions, distributing them in such a way as the committee might deem expedient, and ultimately formulating rules on specific points which would be binding on the members of the Institute unless and until adverse action upon them should be taken, either by the Council of the Institute or the membership at large (Carey, 1970, p. 13).*

Paton prepared articles on other subjects that the committee considered for publication. In 1942, for example, the committee was involved with the problems of accounting for income taxes and a possible change of the income statement form. The committee authorized Paton to prepare an article dealing with the general question of the form of income statement to be published in the

Journal of Accountancy. The committee wished to bring the suggested new single step form of the income statement to the attention of the profession as a whole before the committee on accounting procedure took any action (Committee on Accounting Procedure, 1942, December 4). The article entitled "Adaptation of the Income Statement to Present Conditions" appeared in the *Journal* for January 1943. According to Taggart (1964), the article depicted "Paton's concern with appropriate terminology and arrangement of data in published financial reports." The approach to the income statement revealed in this article represents a landmark in Patonian thinking. He urged, according to Taggart (1964), "adoption of what has been called (but not by Paton) the single-step income report, grouping all revenue items at the beginning and subtracting all revenue deductions, including income taxes... [from revenues] in one sum...." He abandoned all intermediate "profit" or "income" balances and arrived at a single figure of "net corporate income," from which he deducted only income distributions--income and dividends. "This form of statement represents a decided change from that depicted in his *Essentials of Accounting* (1939) and his *Advanced Accounting* (1941), both of which had shown as a major subhead 'net operating revenue (from principal activities)'... [with other] revenue and expense items tacked on later" (Taggart, 1964, p. 380).

THE NATIONAL ASSOCIATION OF ACCOUNTANTS

Paton probably presented more talks to the National Association of Accountants (formerly the National Association of Cost Accountants) than has any other accountant (Interview with Paul Garner, November 5, 1971). Unfortunately, however, all but one were extemporaneous and, therefore, lost except to the immediate audience. In 1934, at the height of the National Recovery Act and in the midst of the Depression, Paton gave a particularly significant address. Accountants and businessmen were questioning the soundness of past ideas concerning the relationships of cost, prices, and profits. Paton's paper dealt with the criteria of revenue recognition, the progression of costs through the enterprise, concepts of inventory valuation, and the flow of business income (Taggart, 1964, p. 306).

Paton's address was published in the *N.A.C.A. Bulletin* as "Costs and Profits in Present-Day Accounting" (Paton, 1934, pp. 123-139). He pointed out that modern accounting methods measure costs and revenues under a doctrine of periodic apportionment. Costs and assets are related, assets being either money or representatives of money, or a pool of cost factors. The accountant's task in dealing with this pool of cost factors is to assign an appropriate amount to a particular period. In attempting to accomplish this assignment, accountants place undue stress on the physical, technological side of the business as opposed to the economic side (Edwards & Salmonson, 1961, p. 195).

CONCLUSION

The records and minutes of the committee on accounting procedure and the early meetings of the Association seldom refer to specific individuals but merely state that someone made this or that suggestion. Therefore, one cannot fully evaluate Paton's participation in the work of this committee. Those who shared committee assignments with him or attended meetings attest to the fact that he was always aggressively pushing and pulling members, encouraging them to act, to think, to give reasons for their actions. Spacek (1971) commented that he "never heard him [Paton] speak to accounting societies when he did not urge them to do things. Then he told them how to do them and why." He gave professional society members "confidence in themselves" and inspired them "to do things, even though they might not have accomplished everything he wanted." He always encouraged changes he perceived to be best for the profession. He never hesitated to be among the leaders or in the forefront, even if he was alone. He took a positive position (Letter from Leonard Spacek, December 8, 1971).

A final point, and certainly an important one, is that Paton's services with the committee on accounting procedure were productive not only because he expressed his thoughts, but also because through his association with George O. May he helped to bring about a closer understanding and exchange of ideas between practicing accountants and teachers of accounting (Letter from Paul Grady, January 8, 1972).

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OUTSOURCINGS EVOLUTION AND EFFECT ON THE U.S. ECONOMY

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ABSTRACT

Outsourcing is a recent globalization trend. The etymology of the word has evolved as the purpose and drivers of outsourcing have fluctuated with the market. The effects of the trend are seen in the political and educational arenas, unemployment rates, and wage levels. Debate exists concerning the full impact of outsourcing in these areas. A hypothetical example of outsourcing in the technology industry draws a line between core and non-core competencies. Pros and cons of offshoring for each of the non-core competencies (development, testing, and support) illustrate the impact of offshoring decisions on the product/service benefits and risks.

INTRODUCTION

Outsourcing has evolved rapidly over the past few decades. A global environment brought together by technology, communication improvements, and market competition creates a unique workplace where companies are free to pick and choose where they locate and what nationalities to employ.

The evolution of outsourcing began in the manufacturing industry and expanded to include more highly skilled jobs, such as computer programming. Beginning as a cost savings measure, outsourcing evolved to include strategic moves as well as location variations. The etymology of the word outsourcing responds to the changes in the marketplace by morphing into variations on a theme in order to represent the nuances of the market.

THE POLITICAL EFFECT OF OUTSOURCING

Debate is always prevalent during an election year when the economy is not as strong as the public would like. Democrats argue "against the outsourcing of American jobs to cheaper, overseas labor" (Finer (2004) p.A13). The President's chairman of the council of economic advisors was criticized for stating that offshoring will benefit the U.S. in the long term (Phillips (2004) p.A4). Congress considered legislation that attempted to address the issues in the outsourcing debate. The legislation included measures to help displaced workers by limiting federal contracts available to companies that use offshore labor and investigating security issues with offshore outsourcing

(Phillips (2004) p.A4). Some of the suggested measures support protecting the U.S. from specific risks that may arise due to increased outsourcing, while other legislation attempts to implement measures to significantly hinder offshoring.

Although the offshoring debate may cause some concern, the stated issues in 2004 are not new. In 1996, Patrick Buchanan "focused attention on the plight of American working people and described NAFTA, GATT, and globalization in terms of a narrative of elite betrayal of ordinary people" (Rupert (1997) p.107). This sentiment appeals to workers, especially if they think that offshoring has a direct impact on personal finances or their employment situation. In spite of support for free trade, the U.S. has a history of instituting protectionist measures when a specific industry is at risk. Tariffs and quotas support the protection of U.S. workers and strategic industries, such as steel manufacturing (Moon & Goodrich (1996) p.19). Such tariffs are perceived as protecting Americans. For example, President Bush instituted steel tariffs to protect workers in certain states from European competition. Coincidentally, these are the same states that the President seeks support from in the 2004 elections. This is in contrast to the free market stance that Republicans and President Bush typically assume in globalization debates.

In a move to support the opening of global markets, the government uses the leverage from current outsourcing trends to force other countries to remove their tariffs. If the U.S. can benefit from the global trade transparency, then it is less likely to institute its own protectionist measures. Economists state their opinion on the trade barriers that could limit outsourcing and globalization. "We have discovered that attempting to preserve the comfortable features of the present, rather than reaching for the new levels of prosperity, is a sure path to stagnation" (Andrews (2004) p.C6). In a move to show support for globalization, Secretary of State Powell assured India that the U.S. would not limit outsourcing (Weisman (2004) p.A9). The point of view that supports globalization and related outsourcing is difficult to defend with the "wronged" worker, as it is difficult to quantify the benefit at the individual worker's level. The benefit is at the macro level, whereas job loss, especially to an individual worker, is at the micro level.

Even with the protectionist political bent, outsourcing has continued to expand. Legislation indicates that protectionist measures may not be successful in curtailing offshoring. While the political debate raises public awareness to the outsourcing issue and will probably impact election results, it does not outline the impact on U.S. workers, the unemployment rate, and the economy.

UNEMPLOYMENT EFFECT

Rarely when a change occurs in the economy is it a result of only one factor. Since 2001, the economy has absorbed the impact of terrorist attacks, significant corporate financial scandals, higher productivity, lower interest rates, modest consumer spending, a slower than expected job market recovery, and ongoing offshore outsourcing. A logical assumption, although not necessarily valid, is that offshore outsourcing is responsible for the state of the job market.

Forecasted numbers are noteworthy. The McKinsey Global Institute predicts that overseas outsourcing will increase by 30 to 40 percent a year for the next five years. Forrester Research estimates that 3.3 million jobs will be outsourced over the next 11 years and that 10 percent of all IT jobs will be outsourced by the end of 2004. Deloitte Research predicts that two million financial sector jobs will have a similar fate in the next five years (Drezner (2004) p.24). This is a significant increase in the rate of outsourcing that may contribute to the stable (but higher than desired) unemployment rate.

Other statistics offer contrary results. Outsourcing was expected to increase in 2003, but it did not (Drezner (2004) p.25). The economy has other indicators that point to the high productivity rates and weak manufacturing as being responsible for the lack of internal job growth. The Gross Domestic Product (GDP) "has expanded at an impressive rate of about 3.5 over the past two years, [and] healthy productivity gains meant that many companies saw little need to add to their workforces" (Reaser (2004) p.96). This indicates that, if productivity gains return to normal rates, then companies would continue to hire more workers.

Even if the unemployment rate does not improve, the outsourcing statistics can be misleading, indicating a much stronger correlation between unemployment and offshoring. Total employment in the U.S. is approximately 130 million, and an estimated 22 million new jobs are forecasted by 2010. Based on the expected forecasts, outsourcing would affect less than .2 percent of Americans annually (Drezner (2004) p.25). If operating under the free trade assumption that job loss generates innovation and creation of jobs in other areas, the unemployment rate scare may be unfounded. Additional analysis tracking the unemployment rate in combination with productivity rate changes and offshore outsourcing growth or decline would be useful in establishing a relationship between economic indicators and the movement of jobs overseas.

FOREIGN BRAND PERCEPTION

Another outsourcing consideration that is difficult to measure, but has significant sales and marketing impact, is brand perception. By outsourcing development, the construction of the software product is essentially conducted overseas. Although the ideas and innovative design are products of the American company, the actual coding occurs by a foreign supplier and the perceptions of the average consumer can have a significant marketing impact if the end product becomes known as a foreign software product. Marketing studies consistently report, "the country-of-origin effects…generate a significant level of bias in consumer product evaluations" (Chao (1989) p.75). Although the product is built on specifications that originate in the U.S., the product could be perceived as foreign because it is coded overseas. With an outsourcing contract, the impact should be transparent to the customer but the marketing team must be prepared to respond to concerns about the product origin given that consumers tend to show a preference for products created in their own countries. Possible strategies for addressing consumer concerns about the origin of the product would include distributing the product through well-known retailers and including a strong product warranty and return policy (Chao (1989) p.75).

An additional branding concern is the negative connotation associated with overseas working conditions. Americans demonstrate a willingness to pay more for goods made in decent conditions and a moral obligation to help improve conditions (O'Rourke (2003) p.3). Although the criteria for monitoring labor standards are in flux, some non-government organizations are developing and implementing voluntary compliance measures (O'Rourke (2003) p.1). One would think that the working environment for software developers would be decent given their high skill level and that sweat shop conditions would exist more in labor intensive industries, such as garment manufacturing. However, in the interest of protecting the software brand, research into the company providing the service should cease any doubts about the working conditions of the programmers.

OUTSOURCING SUPPORT--THE CALL CENTER

Once a product has been designed, developed, and tested, it is ready for implementation at the customer site. Installation and implementation needs are very specific to the software's complexity, configuration, and data needs and to the customer's technology savvy. Outsourcing of those activities is likely to be on a case-by-case basis. When dealing with potential mixes of internal and external suppliers, managers must integrate the solutions both inside and outside the company (Doig, Ritter, Speckhals & Woolson (2001) p.31). An implementation team may consist of customer resources, the software provider, and *insourced* third parties. For the purpose of this example and due to the lack of research addressing this area, installation and implementation falls into the category of core competencies, and is therefore not outsourced.

Repeatable, post-implementation support, however, can be outsourced. A call center is commonly the first line of technical support. With improvements in communication networks, the location of a call center is immaterial. Consider the following example. A bank outsources its call center operations overseas and realizes significant savings. Thus, the new call center reduces the branch's employees "from 10.5 to six and cuts operating costs by 40%" (Brewer & Lunsford (1995) p.74). Prior to the communication advances, this type of outsourcing was not possible. In addition to the cheaper labor costs and round-the-clock support benefits, the reduction of global communication costs is the driver in moving call center operations overseas. *The Wall Street Journal* reports that the capacity of fiber optic lines to India has increased sevenfold in one year, bringing lower prices and increased bandwidth (Drucker (2004) p.B1).

The considerations for moving call centers overseas should include comprehensive training so that workers can answer the questions that are posed to them. Language should also be a consideration as heavy accents can make communication difficult. If these risks are not managed properly, the first end user interaction with the company could be negative, causing product perception to suffer as a result. Some companies are addressing this issue in a unique manner by allowing the customer to choose where their support call will be routed. If the software company decides to outsource in this manner, it would contract with a call center in the U.S. and another one overseas. When the customer calls with an issue, he or she can choose either the local or foreign call center. An example is cited from the loan processing industry. E-loan began offering a similar option and has found that 86 percent of customers have chosen to be routed to India as the service was often up to two days faster (Drucker & Brown (2004) p.B1). In the software support example, it is unlikely that a company could allow a difference in support of multiple days, but the service levels could differ by hours if fewer workers could be supported at the local location. The assumption based on financial statistics is that users with support calls will choose resolution speed over location provided the issue resolution capability is comparable.

CONCLUSION

Although subjective opinions abound in the media, research and definitive studies on the topic of outsourcing are limited. Outsourcing has a history spanning only a few decades, and the rapid changes in technology combined with an ever-changing global climate have caused outsourcing to evolve quickly. The etymology of the word has changed to represent the variations of the practice.

The effects of the outsourcing evolution in the U.S. have sparked controversy. Increasing unemployment and lower wages for U.S. workers are two primary complaints against outsourcing. Defenders of globalization cite statistics refuting the idea that outsourcing is the problem. Political debate escalates around the subject, and outsourcing is wielded as a legislation tool in the national and international political arenas. Even higher education adjusts in order to accommodate changes related to outsourcing and student demand.

An example of outsourcing software development, testing, and call center support demonstrates many benefits and risks related to offshoring. The one constant is the need for cohesive logistics in order to realize the benefits of outsourcing and minimize the marketing risks. Outsourcing is expected to remain an ongoing presence in the international marketplace. As companies develop methods for measuring the quantitative benefits of outsourcing and additional research becomes available, the results may begin to better demonstrate outsourcing as positive or negative for the U.S. economy.

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THE LEGAL IMPLICATIONS OF OFFSHORE OUTSOURCING

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ABSTRACT

Offshore outsourcing is changing the international legal environment. As companies become more globalized and contracts become more complex, the roles of government, lawyers, and corporations are changing. The compliance with labor regulations is evolving towards non-government regulation. Corporations are managing outsourcing arrangements with considerations for consumer-driven labor requirements, Sarbanes-Oxley compliance, data security, and technology risks. The role of government in an outsourced world is unclear. Examples in the garment and finance industry are offered in order to illustrate the changes caused by offshore outsourcing.

INTRODUCTION

Offshore outsourcing is a movement directly impacting the globalization of labor. As companies continue to evolve in order to adjust to the change effected by outsourcing trends, the supporting infrastructures must also change. The legal environment and the role of government are transforming to manage the demands of the global marketplace.

As outsourcing agreements cross multiple areas of the supply chain, the corporate environment is expanding. The increased complexity of the contracts introduces new legal requirements. The legal community is expanding from a national community to an international one. The role of lawyers broadens as they interact in multiple legal systems.

As the legal system evolves, specific issues are at the forefront of outsourcing contract negotiation. Labor conditions in developing nations are a concern, especially the impact on women. Multinational corporations are developing voluntary compliance methods to meet the demands of consumers and supplement fragmented legal systems.

Additional risks impact offshore outsourcing. In the U.S., compliance with the 2002 Sarbanes-Oxley Act is a requirement for all publicly held companies. Outsourcing trends are impacted by the compliance needs. Security and technology risks, especially with the use of the internet to transfer critical business data, increase with some outsourcing agreements.

LABOR CONDITIONS

In outsourcing negotiation, an experienced lawyer would advise his or her client to understand the labor conditions that the company provides its workers. The proliferation of sweatshops and deplorable working conditions in some nations has caused consumers, unions, firms, and organizations to criticize current labor standards and enforcement processes (O'Rourke (2003) p.1). Global businesses are blamed for pitting developing countries against each other in order to generate lower bids without any obligation to the people or the state. By simply accepting the lowest competitive bid to make T-shirts, a company could find itself under intense scrutiny if the lower cost and additional increase in profit is due to the exploitation of workers.

In the apparel industry, manufacturers outsource much of the fabrication of garments. Mexican workers earn only 11 percent as much as their U.S. equivalent workers, whereas Indonesian workers earn less than two percent. The lower cost of labor means increased profits for the company. Many argue that the workers in the foreign garment industry do not have the negotiation strength of U.S. workers and therefore cannot change their working conditions.

With a staunch capitalist mentality, one may question why the conditions of the workers of a third party company are the responsibility of another company. As more organizations externalize areas of the business that are not *core competencies* via outsourcing arrangements, new organizational forms are established called *network organizations*. The personal qualities of the employee become important since the service being provided by the offshore entity represents the original company. The consumer perception of companies that take advantage of workers can be especially harmful to product sales. Even if the workers do not have the bargaining power to change their conditions, the consumers can use their market power to do so.

Yet another side to the exploitation of labor exists. What if the alternative to the garment worker's sweatshop fate is no work at all? One can argue that it is better to provide a means to feed one's family, even if the means are harsh, than to let them starve. By outsourcing to developing nations, many workers are being given jobs. By the mid-1990s, the clothing manufacturers in the U.S. employed, directly or via outsourcing agreements, 400,000 people overseas (Figueroa (1996) p.34). This number has likely grown exponentially in the past decade. The working conditions may not be what U.S. workers are used to and the wages may seem extremely low, but they are a vast improvement over lesser-publicized rural poverty.

The idea that being economically competitive can harm working conditions and cause a *race to the bottom* is not supported. Some evidence suggests that economic openness actually improves workers' standards. Sustained trade reforms are linked to improvements in core labor standards. A 1996 study by the Organization for Economic Cooperation and Development (OECD) found that multinational corporations pay higher than average wages to recruit better quality workers. A survey of Nike factory workers found that 72 percent are satisfied with their income levels. Vietnamese factory workers expressed a preference for factory work over lower paid agricultural jobs (Drezner (2000) p.65).

In the accounting industry, labor issues almost seem irrelevant. Sewing in a factory versus preparing taxes in an office are two different types of labor. The accountant is a different caliber of worker with a different educational background. The company considering outsourcing its back office may not think that labor issues are important to consider, but they are.

Some service industry workers in India are experiencing both psychological and health problems. Workers are not allowed to take breaks. Anxiety and depression are common. Much of the work is at night due to the time difference between customers in the U.S. and the Indian workers. Also, night work causes sleep disorders and health problems (Ninian (2003) p.195).

Many of the jobs in India require that employees speak English. For customer-facing jobs, some U.S. companies even demand that Indian workers speak with an American accent (Ninian (2003) p.193). This pretense creates a psychological burden for workers who have to pretend that they belong in a foreign culture, complete with appropriate etiquette and social conversation. Workers must ignore sexual innuendos and racist remarks.

However, the same argument that applies to the garment industry also applies to the back office workers in India. Jobs have been created that were non-existent before. In India, the jobs are considered a net gain as every job provides a salary for a worker and all cost disadvantages of location or technology transfer are the responsibility of the Western corporation. The British finance industry has been accused of exploiting third world workers, although this claim is hard to support when the Indian work force is pleased to get the work (Ninian (2003) p.195-197).

SARBANES-OXLEY COMPLIANCE

In addition to labor standards compliance, companies in the international arena need to consider the impact of outsourcing arrangements and Sarbanes-Oxley compliance. In 2002, Congress enacted Sarbanes-Oxley in order to improve the accountability of corporate leaders for their financial statements and audit rules. It also created the Public Company Accounting Oversight Board (PCAOB) to regulate accounting firms and audit practices.

As companies become Sarbanes-Oxley compliant and change their corporate structure to divide audit and financial reporting departments or contractual arrangements, the financial burden increases. Companies are forced to bring in additional resources to handle the workload (Harrington (2003) p.28). Although only public companies must comply with Sarbanes-Oxley, the social conscience might come into play and the scope of Sarbanes-Oxley compliance could expand into other areas. Individual states could require that companies, public or private, comply with Sarbanes-Oxley rules before conducting business in that state. Banks and insurance companies may require levels of compliance by private companies (Harrington (2003) p.28).

As companies struggle to control costs related to Sarbanes-Oxley, they might turn to back office outsourcing to solve multiple problems. By outsourcing accounting to a third party overseas, there is a clearly demonstrated division of audit and financial reporting functions. Also, by utilizing cheaper labor overseas, the increased compliance costs can be offset. In 1995, 26 percent of companies that outsourced moved part of their finance function overseas. Accountants in India are 25 percent of the cost of accountants in the U.S. (O'Meara (2003) p.33). With the additional cost and compliance incentives provided by the Sarbanes-Oxley Act, the majority of corporations could begin moving accounting functions offshore.

Although back office outsourcing may appear to be a quick win for companies struggling with cost issues, there are some questions that companies should consider. Since Sarbanes-Oxley demands solid financial reporting controls, how can the company trust that the overseas third party will follow these controls when preparing the data that drives financial reporting? If the third party does not comply with the outlined service level, which entity will the Sarbanes-Oxley Act hold responsible and which legal systems are involved?

SECURITY AND TECHNOLOGY

In addition to labor and government compliance, security is a concern in the fully networked global supply chain. Traditional outsourcing arrangements that involve moving labor-intensive production overseas have minor security threats. Other than the risk of violence that is typical in an unstable country, there are minimal operating risks. With the evolution of offshore contracts, the risks are increasing in complexity.

Technology enables outsourcing. Documents are sent to India three different ways. The documents can be e-mailed or copied to disks and couriered to India (Danzinger (2000) p.57). They are scanned and then transmitted on the Internet or via a File Transfer Protocol (FTP) site. The Internet, however, is not secure. Crime does not respect technology boundaries and the enforcement systems are a long way from apprehending the criminals. The military is concerned about an attack on U.S. communications networks and databases. Government, however, does not control commercial information system design, development, or implementation and has limited influence over corporations (Berkowitz (2000) p.37).

When outsourcing financial services, there is a risk that access to the systems could be violated. Although an attack could cause problems in both the U.S. and offshore entities, the risk of exposure should be minimized where possible. Ensuring the proper monitoring systems and firewalls are in place in offshore entities is as critical in third party entities as it is internally. In a virus attack on a bank, a rewrite of the firewall rules was necessary to prevent significant performance problems. Multinational corporations should question security levels across the entire supply chain.

In addition to the threat from an attacking virus, companies need to focus on access to data and the types of data sent overseas. When the data has critical financial information, disaster recovery processes should be clearly defined. When processing individuals' tax returns, social security numbers and personal information should either be excluded from the transmission or protected.

GOVERNMENT OFFSHORE OUTSOURCING

Government clearly plays a role in labor rights, compliance, and security. Government is also a commercial player in the outsourcing world. The U.S. government outsources many functions. Effective outsourcing arrangements must be well negotiated and monitored. Prager (1994, p.181) states that the public sector is less efficient than the private sector because the government does not have a profit motive. In such a situation, outsourcing contracts would be difficult to manage and the cost-savings non-existent.

Regardless of the management skills of government, trends indicate that outsourcing will continue to increase and impact the role of government. Additional research is needed to determine what percentage of the government's outsourcing agreements are offshore contracts versus the private sector.

As government defines its core competencies, outsourcing discussions begin to define what functions must be performed within governments. In England, all tax processing is performed by the private sector. With the changing times and the potential success of outsourcing, the IRS may eventually relocate to India.

CONCLUSION

Given that offshore outsourcing is in the process of evolving, limited evidence supports the effect of this economic trend. Clearly, outsourcing is increasing the globalization of the marketplace. Cultures and ethics are colliding and then evolving to form new systems of world governance. The legal system is a key part of the infrastructure. National law is creating an international legal system. Lawyers are responding to that change.

Multinational corporations and their labor policies are also responding to changes in the marketplace. The effect on workers, especially women, is unclear as the oldest governing policy is still under a decade old. Additional studies over the next few decades, combined with the evolution of international labor law, will provide evidence on the impact of both government and non-government regulation.

The additional risks that impact offshore outsourcing are non-quantifiable at present. Technology is advancing at such a rapid pace that security risks today will be something entirely different tomorrow. As Sarbanes-Oxley is implemented, the effects of the Act will become known.

One constant in the offshore outsourcing world is the need to effectively manage the contract. In order to be successful in the international marketplace, a company must work within the confines of cultural, legal, and technology realities, understanding the risks and mitigating them with available resources in order to achieve the intended benefit of the outsourcing strategy. The need to realize the benefit of outsourcing will continue to facilitate globalization and change the international legal environment.

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WHEN PRICES ARE HIGH AT THE GASOLINE PUMPS, WHO WINS?

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ABSTRACT

This paper investigates the oil and gas industry from a microeconomic level in order to help better understand the fluctuations in the price of oil. The elements of the law of supply and demand will be examined and the factors influencing each will be discussed. The key question is--Why are oil and gas prices so volatile?

INTRODUCTION

The seemingly exorbitant prices at the gas pumps (and the subsequent drops in prices) are enough to spur questions from anyone regarding the pricing schemes of oil and gas companies. Why are the prices so volatile? In an effort to make some sense of the oil and gas industry, the basic constructs of microeconomics seem to be a good starting point. One of the most recognizable precepts of economics, the supply and demand curve model, provides the basis. The intent is to use this model and divide the oil and gas industry into subcomponents of the supply and demand curve. The approach will be to examine the supply, demand, and pricing conditions as elements of the whole picture. The factors that influence each of these conditions will be explored.

The theory of supply and demand, in its most basic sense, holds that there is a perfect price at which the demand for a product will be matched exactly with the supply, thereby resulting in maximum profit. As the price of a commodity rises, demand decreases while supply increases. To avoid the costs of storage of excess supply, a supplier does not want to charge too high a price. On the other hand, a supplier does not want to undercharge for his item if there would still be a sufficient demand at a higher price. These factors are described graphically by the supply and demand curve.

Visualize a representation of the relationship between the price and quantity of a product relative to supply and demand. In this example, supply and demand intersect or are at equilibrium at X number of units of a given quantity and at a price of $Y. It is at this price that the quantity desired for purchase is equal to the quantity that suppliers are willing to manufacture or produce (Whalen, 2000). Does this apply to the oil industry and the price of fuel? No. Oil and gas are rarely in a state of equilibrium. The oil and gas industry is very complex.

THE SUPPLY OF OIL

How many times have the news agencies reported impending oil shortages? The most famous is the 1970s oil crisis. Was there any truth to that myth? How much oil is really out there? Is there enough to sustain the growing world consumption? Or is there too much oil? Where is the world's supply coming from? Since oil has finite quantities, how long will it last? Klebnikov (1998) argues that most of the world's oil has not necessarily been found. He also states that non-OPEC production has been underestimated.

Where does the oil come from? Ask people on the street and you would likely get a common response. OPEC, most would say. OPEC (Organization of Petroleum Exporting Countries) is an association of countries forming an oil cartel. A cartel is a structure "instituted to create and exercise substantial economic power over critical decision areas of participating firms" (Tool, 1993). In this case, it is oil firms the cartel attempts to exercise power over. The oil cartel has several sovereign governments whose primary locations lie within the Middle East and North Africa. There are other organizations that compete with OPEC. The most notable is OECD, the Organization for Economic Cooperation and Development. The OECD is comprised of North American countries plus several European nations. Lastly, there are several non-OECD countries, such as Russia and China, which are very productive. The non-OECD countries' aggregate production per day is roughly 30 percent of the total production in the world. Even so, many people believe that OPEC is the source of the world's oil. "Although (OPEC) controls 75 percent of all proven reserves… it supplies roughly 40 percent of the world's oil" (Bernasek, 2001). At 40 percent, OPEC is operating at full capacity (Bernasek, 2001).

Another issue is the increased availability of new, untouched sources. At the time of the 1970s oil crisis, technology was such that calculating the amount of oil remaining in the world was, at best, guesswork. Since that time, the world has learned that there are vast quantities in parts of the world yet untapped. The question now revolves around accessibility of these remote locations. Apparently there are large oil deposits at depths in the ocean thought to be unreachable in the 1970s. A Brazilian corporation, Petrobras, has undertaken a project to develop deepwater technology that is expected to reduce capital spending (Anonymous, 1996, July). Due to Petrobras' innovation, a giant discovery of oil accumulations has been found in the deep waters off of the coast of Brazil. These areas could provide for an enormous amount of heretofore unknown fuel resources.

Consumers quickly realized that the seventies brought the reality of dependence on oil imports, especially from OPEC. Since then, the U.S. has decreased reliance upon imports to the extent that the U.S. produces about 7.3 billion bbl per year, which is about one third of its annual usage (Evans, 2001). The economy is far better prepared to handle an oil shock at this time.

These developments can be attributed to the technological advancements over the past three decades. U.S. corporations are now able to discover fuel deposits in areas previously undetected. More importantly, these corporations are able to get to deposits that previously would have been unreachable. Substantial hydrocarbon accumulations exist in the 8000-10,000 foot water depth corridor (LeBlanc, 1996). Five years ago, drilling at that depth was not an option. The widely used rotary technique introduced more than eighty years ago is not capable of these depths (Streich, 2000). Such drilling is now not uncommon. In other words, there is more oil for usage, and a shortage in terms of potential supply may not actually exist at this time. A further look into the oil scares might reveal that since investment in storage and transportation of the oil has been scarce, a ready supply of oil may be available, but delivery problems result in an apparent shortage.

Technological advancements also allow for less use of oil products due to the development of viable power alternatives. In many cases, the conversion costs associated with alternative sources of power were unrealistic, but this too is changing. Renewable energy--solar, wind, geothermal, and hydroelectric energy are gathering momentum. Many people believe that the point is not too far in the future where the environmental damage compounded with exorbitant oil and gas prices will invite an alternative green source for fuel. For example, the U.S. has a grass-roots movement with a campaign to install solar panels in as many as one million homes by the year 2010. Even big oil corporations are thinking green. “Shell predicts that renewable energy will provide half of the world’s power by 2050” (Anonymous, 2000). Realistically, until gas and oil prices reach and sustain very high price levels and corresponding scarcity, the alternatives, or green-fuels, will be secondary in importance relative to oil and gas. At this point, it is too early to estimate accurately what kind of effect green power will have on the future.

How does all of this relate to the supply and demand curve? The total supply of oil for the world is placed on a graph in a positive sloping manner. As the world supply increases or decreases in output, the curve will move accordingly. In other words, as the supply of oil is altered, so is the price. If OPEC decides to cut production by a given quantity, then it is expected that prices will increase shortly thereafter. This scenario repeats itself time and time again. Oil prices tripled between January 1999 and September 2000 due to strong oil demand and OPEC oil production cutbacks (Anonymous, 2001).

THE DEMAND FOR OIL

Demand may be softening, but it is still on the rise. Bernasek (2001) states that consumer spending on energy has risen from $250 billion to $350 billion in just two years. Forecasts on world usage differ. What is the actual anticipated demand? Cohen (1999) states that the demand for oil in the industrialized nations is growing below a one percent annualized rate. Due to the slowing world economy, demand is unlikely to increase significantly for some time. The International Energy Agency (IEA) has reported that persistently low industrial output and faltering consumer demand are expected to limit demand growth to under 0.5 millions of barrels per day for 2001 for total demand of 76 millions of barrels per day (Anonymous, 2001, July). “A turnaround in the U.S. economy, now anticipated towards the end of this year, should cause demand growth to rebound to 0.8 millions of barrels per day next year” (Anonymous, 2001, July). There are many “ifs” in the IEA’s plan. Demand is highly dependent upon the world economy. In addition, fuel-switching (fuel alternatives) has reduced oil’s importance in recent years (Woodard, 1994). This leads to lower demand for oil, thus making the substitution effect more applicable than in the past.

How does the demand for oil factor into the supply and demand equation in the previous sections? If the predictions aforementioned are correct and the demand for oil is slowing or possibly decreasing relative to expected demand, what happens? In simple terms, the price decreases to rid potential surplus. The law of supply and demand indicate that the market will move towards equilibrium.

THE TRICKY PART--PRICING

What does the law of supply and demand say about pricing in oil? Prices are ratios of exchange specifying the terms on which goods and services are exchanged for money (Tool, 1993). Pricing is extremely hard to predict in the oil and gas industry since both the supply and the demand must be forecasted correctly to obtain an accurate price range. The best of the energy forecasters have trouble consistently predicting the price of oil. Klebnikov (1998) states: "predicting oil prices is almost as futile a game as predicting interest rates or the stock market." What, then, is behind the price movements?

The first concept to grasp is the price elasticity of demand. Nicholson (2000) defines the price elasticity of demand as the percent change in the quantity demanded of a good in response to a one percent change in its price. What does this have to do with the oil industry? In terms of the economy--if it is growing--it is easier to absorb energy hikes. As opposed to what the economy appears to be experiencing now--a downturn--the world flinches anytime the oil entities announce cutbacks in output. A drastic cutback could force a downturn in the economy. Taylor (2001) states: "eight of the nine post-World War II recessions have been preceded by a surge in oil prices (the exception was 1960)." OPEC's decision to double the price of oil in 1979-80 is a perfect example of the price elasticity of demand. OPEC quickly realized that the price elasticities of demand and non-OPEC supply were much higher than anticipated (Gately, 1995). OPEC's pricing strategies have come under much scrutiny over the years. More recently, OPEC appears to have adopted a more rational approach to pricing. Bernasek (2001) argues that OPEC is on the rise again. One reason is due to its "new formula… which has taken the politics out of OPEC and introduced an objective, scientific rule of thumb" (Bernasek, 2001). Thus, many OPEC supporters are convinced OPEC has finally turned itself into an effective management team.

What about the substitution effect? Usually when a good has a close substitute, high prices cause a large substitution effect. This is not the case with oil. Although this paper has discussed the possibilities of alternative sources for fuel, the current situation is such that there is no clear substitute for oil and gas. High oil and gas prices are tolerated in many cases because there is no substitute, thus producing a very small substitution effect. Herein enters the political game of who can barter, beg, and convince the oil producers to maintain reasonable prices for the world's consumers.

So what happens when OPEC decides to raise prices for a prolonged period of time? The logic applied is that corporate expenditures go to purchasing fuel and inevitably eat away at corporate profits. With the U.S. government informing its citizens and the world that the domestic economy is suffering, high oil and gas prices may have an unfortunate consequence.

What factors affect the price besides a whim on the part of the oil producers? Strained supplies could be one of the reasons. If the supply is decreased, the price goes up. Strained supplies could be a result of unpredictable weather patterns. California experienced several blackouts due to a lack of fuel to support the need. If oil and gas reserves cannot meet demand for higher usage periods, the scarcity of supply increases the price tag. Inevitably, oil is a non-renewable source and its finite resources will ultimately be exhausted. The fundamental issue is that finite quantities exist.

The long run and the short run of supply and demand play havoc with prices as well. As soon as one producer announces an increase in production, prices go down in the short run. Growing global demand in the long run changes the price scenario once again.

CONCLUSION

The oil industry is changing. In the short term, profits for oil-related industries might be able to sustain profitability, but in the long run new technology will be taking center stage. Out go the old rotary rigs with platforms that were created with technology more than eight decades old. The new industries are in the developmental stages. Even the big oil companies are diversifying. New materials and new equipment will be needed for the new power sources. The carbon and stainless fittings and flanges sitting on the warehouse floors may soon be obsolete.

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NEW REGULATIONS THAT IMPACT INFORMATION SYSTEMS EMPLOYEES

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ABSTRACT

The Sarbanes-Oxley Act of 2002 (SOA) is a law that will affect the lives of top level company officers along with finance and accounting professionals. Top level officers are responsible for the veracity of financial reporting under the SOA. Finance and accounting professionals have traditionally been the corporation's experts regarding financial and operational controls. However, in today's world, information technology (IT) professionals play a key role in designing and maintaining the systems that enforce those controls. This paper examines the challenges that IT professionals will face as they find themselves face-to-face with the provisions of the SOA, a law that could put executives in jail and cause middle managers to lose their jobs.

INTRODUCTION

The Sarbanes-Oxley Act of 2002 (SOA) was passed in the United States (U.S. Code, 2002) in response to a series of significant failures in corporate governance, including Enron (Schwartz, 2001) and the related failure of accounting firm Arthur Andersen (Eichenwald, 2002), HealthSouth (Day, 2003), Tyco (Sorkin, 2002), and WorldCom (Moules and Larsen, 2003). The SOA imposes a number of reporting and compliance requirements on companies, their managers, and their directors. It also imposes a number of requirements on the systems of internal control used in companies. In this paper, we examine how IT professionals will need to be involved with SOA complaince activities in companies that are subject to the law.

IT REPORTING LEVELS IN THE ORGANZIATION

In many organziations, IT professionals report to a Chief Information Officer (CIO) who reports, in turn, to a Vice President of Finance or Administration. This traditional reporting path places the top IT officer of many companies below the senior decision making level. Companies that do this see IT as a service function and not as a source of competitive advantage (Laudon and Laudon, 2004; Oz, 2004). The senior finance or administration officer often has an accounting background. In many cases, this means that the person to whom the CIO reports knows little about IT issues. An increasing number of companies, including Novell and FedEx, have taken a different tack. These companies have placed responsibility for IT investments and IT strategy in the hands of their boards of directors (Hoffman, 2004). These companies have realized that there is significant legal risk involved if IT projects are not managed properly because inadequate controls can result from IT project failures (Hardesty, 2004). An understanding of internal control demands an understanding of the underlying accounting and administrative systems of the company (Hall, 2004). As every business of any size has computerized its accounting and administrative systems, the people who know these systems well and who understand their design are increasingly members of the ranks of IT professionals. IT professionals, both inside the company and in consulting firms outside the company, can provide valuable services to the company as it attempts to comply with the internal control standards set by the SOA.

DOCUMENTATION OF CONTROLS

The Sarbanes-Oxley compliance deadlines that most large companies will face in 2004 and 2005 for the first time include a major challenge. Section 404 of the SOA requires that companies subject to the law document their internal controls, including internal IT controls. However the SOA is unclear about which controls need to be documented and how the documentation should be accomplished.

The control documentation must include a risk assessment process and must result in the documentation of controls. Company internal IT auditors have been doing this type of work, documenting and testing general and application controls over software, for years (Gelinas and Sutton, 2002; Hall, 2004).

SPECIFIC IT RISKS UNDER SOA

Although SOA is, at its base, legislation designed to control financial activities, the main way it accomplishes this goal is to require companies to produce better financial reports. Oversight of internal controls has long been seen as a good way to do this (Romney and Steinbart, 2002; Winters, 1994). SOA's focus on internal controls does appear, however, to go beyond the policy reviews, procedures and external financial audits that companies have relied on in the past. The SOA gives the Securities and Exchange Commission (SEC) the responsibility for defining exact complaince regulations for internal control sufficiency, but it is virtually certain that IT controls will be included in the list (Kubilus, 2003). To date, IT professionals have been standing by as CEOs, CFOs, lawyers and company auditors identify and deal with SOA compliance issues. CIOs will soon need to enter the fray and bring IT controls into the picture.

One classic risk area is in the failure to adequately segregate duties. In IT, separation of program development, testing, and implementation can be critical. Many IT organizations are unaware of the importance of segregation of duties as a control concept. Developing a process for identifying segregation of duties controls and evaluating them is something that IT professionals can do as well as internal audit staff. Many times, companies have systems that were constructed internally without adequate controls. When these systems are used for financial information processing, they become potential sources of SOA violations. Even companies that purchase packaged applications can be vulnerable. When the purchased sofware is modified, built-in controls can be neutralized or eliminated in the customization process. Very few organizations have procedures in place that provide for an automatic review of controls in modified systesm.

AN IT ACTION PLAN

IT industry analysts such as Johnson (2003) recommend a series of steps that IT professionals should include in an SOA compliance action plan. First, they recommend that IT professionals do some research. IT professionals are not accountants and they are not auditors. They do not know about basic control concepts such as segregation of duties. They seldom understand the significant differences between financial systems and other company IT systems.

The second step is to do some benchmarking. Find out what other IT professionals are doing to comply with SOA. In many companies, CIOs are sitting on the sidelines while the accountants and lawyers scramble to meet the challenges of the SOA (Hoffman, 2004b). IT is an intergral part of the control landscape in any company. The CIO and senior IT managers must be proactive in pushing the importance of IT processes and the risks inherent in ignoring IT controls.

Step three is to become familiar with software vendor and consultant offerings. Some software vendors are offering upgrades that include documented controls. Some of these products are even keyed to specific SOA elements.Vendors of software reporting tools, supply chain management tools, and document management systems are also working to offer systems that can help with internal control documentation.

Step four is analyze ongoing IT projects for control weaknesses and failure risks. If the software project has any financial implications, the risk of failure of the system implementation effort can be a control weakness in itself, under SOA.

CONCLUSION

IT professionals have been left out of the scramble to comply with SOA provisions. As the deadlines for compliance approach, more and more companies will find that they need to turn to their IT professionals to document controls, and to develop processes that will allow them to identify and evaluate controls. Proactive CIOs and senior IT managers can help their companies by taking the initiative and moving forward with an action plan that will help them be ready when the other members of the management team wake up and realize the important resource they have in the IT function.

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SCHEDULING DECISION RULES FOR AN INTEGRATED CARPET MANUFACTURER

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ABSTRACT

The factory selected for study is an integrated carpet manufacturer that processes wool or synthetic fibers through sequential production stages of blending, carding, spinning, twisting, dyeing, setting, weaving, and finishing. This paper describes the decision rules that were tested in the modeled representation of the system studied.

INTRODUCTION

Decision rules that will give insight to a specified objective or help clarify some aspect of the problem should be designed. The development and design of rules that optimize the objective criteria is, in itself, a difficult task and perhaps beyond the scope of this paper. Sisson (1961) points out: "that a 'near optimum' solution can be found by simulation has not been demonstrated."

The decision rules selected for experimentation are not exhaustive by any means, but they represent some of the more common rules that exist in theoretical studies and have been used in actual situations. Also, several decision rules were developed which are more closely associated with batch type processing, such as in the carpet textile industry. Rowe (1959) and others tested some of the rules mentioned here in job-shop situations. The decision rules tested are classified and described in the following order:

1. Random Order Alignment
2. First Come-First Serve
3. Smallest Orders First
4. Largest Orders First
5. Broadest Machine Coverage
6. Heuristic Sequencing Procedure

RANDOM ORDER ALIGNMENT

The first decision rule tested was one that randomly assigned or sequenced the orders to be processed. This randomly determined scheduling policy has only a general theoretic value. It was not expected to show good results when compared to an objective criterion, but to indicate how far such a rule departs from other scheduling policies. A truly random means of selection assigns to each potential event an equal chance of being chosen.

The sampling procedure used for selection was random sampling without replacement. For example, if there were *Dyehouse Orders* to be assigned to m machines in a given time period, one of those n orders was selected and the parts (colors) were assigned to their respective dye machines for processing. The *Dyehouse Order* selected was placed aside and the selection process was repeated, selecting randomly from (n-l), (n-2),…, n-(n-l), without replacement until the last order was assigned.

Assuming that many possible machine assignments were feasible and that some assignments were better than others in reaching some specified objective, the possibility of observing any single randomly selected schedule that satisfies the objective would be small.

If there are a certain number of orders to be processed within a given time period and part or all of these orders have similar due dates or priority ratings, it is at least tenable to assume that the measurable results of order completion rates or inventory levels associated with such a rule could serve as a criterion for judging or comparing other specified decision rules. The primary purpose, therefore, for the *Random Order Alignment* decision rule is to compare the results of this rule with the other rules tested.

FIRST COME-FIRST SERVE

The *First Come-First Serve* rule for batch type processing is one encountered in many types of processing systems. This method of machine assignment bases selection of the next order to process on the length of time that the order has been in the particular system, choosing that order with the earliest *Dyehouse Order* number. The *First Come-First Serve* priority rule for processing orders is essentially customer oriented, since the *next* item serviced is that item which entered the system at the earliest time and, thus, has the longest accumulated waiting time prior to processing. It is reasonable to assume that an effective and efficient schedule result, relative to minimum time span, will be that schedule which *fits*, or *sequences*, all colors through the production processes in close coordination with each other, i.e., colors on the same *Dyehouse Order*. There is no inherent implication that the *First Come-First Serve* priority rule will perform any better than the *Random Order Alignment* decision rule relative to the objective criterion of minimizing an aggregate total time span factor.

SMALLEST ORDERS FIRST

The *Smallest Orders First* rule [small or large order refers to the number of parts (colors) that comprise that order] is included because of the similarity between this rule and the optimizing procedure developed by Johnson (1954) for two- and three-stage production schedules. Although Johnson's problem was concerned with minimizing total processing time in contrast to minimizing total time span, the implications of processing smallest items first was worthy of investigation.

It has been indicated that, for *Single Stage Sequencing* problems in which a single machine is isolated and a set of tasks is performed within an interval of time, a *Shortest-Operation Rule* is optimum. That is, if:

S_i = the processing time for the i*th* job, applying the shortest-operation rule, the jobs are sequenced so that

$$S_1 \leq S_2 \leq S_3 \leq \ldots \leq S_n$$

(the jobs are renumbered if necessary).
The following are true:
1. The total completion time…is minimized.
2. The average completion time…is minimized.
3. The average number of jobs in process…is minimized.
4. The average waiting time…is minimized.
5. The average lateness…is minimized.

For this simple case, the shortest operation rule is an optimum rule with respect to these particular measures of performance (Conway & Maxwell, 1962).

For a single processor, the sequencing of orders may have no effect on the total processing time of all orders. However, multiple stations are working in tandem, and when there are several machines at each station, it has not been shown that the *Shortest Operation Rule* is optimum (Conway & Maxwell, 1962).

In a batch type processing system with the inherent probability of delay for each part, it can be assumed that orders comprised of a small number of parts may facilitate more accurate predictability and earlier completions of orders. This is due to the fact that there are fewer parts to be processed, and thus fewer exposures to delaying events, such as rejections and long waiting lines. The general notion, relative to this policy, i.e., *Smallest Orders First*, was that such a policy may yield better results than either the *Random Alignment* or the *First Come-First Serve* decision rules, but not as good as other rules that take into consideration additional order characteristics. The last rule in this section was designed to explicitly account for current and anticipated loads behind machinery.

LARGEST ORDERS FIRST

Generally speaking, a *Largest Orders First* policy has a delaying influence within a processing system. This is especially true in situations where there are a limited number of machines, such as a computer center with only one computer.

The policy of *Largest Orders First* was tested, essentially, for comparative purposes with the preceding *Smallest Orders First* criteria. The effects of this policy were more difficult to anticipate. Large orders, with many component parts (colors), should be subject to a greater degree of color variation, and thus order variation, than are smaller orders. Conceivably, a large order could distribute its color components in such a way as to have a machine balancing effect on the initial production process and the subsequent processes.

Assuming that a large order could have an incoming balancing effect, it was untenable to assert that the next largest order would distribute its component parts equally as well. Again, the investigation of this assignment policy was exploratory, with the results depending on machine loads at schedule time.

BROADEST MACHINE COVERAGE

The individual colors that comprise an order may distribute themselves in many ways when assigned to their respective machines, the primary machine assignment determinant being the weight of the color on order. The computer model characterizes the weight of a color by the variable name *TYPE*, where TYPE (1) ≤ 100 pounds, TYPE (2) ≤ 200 pounds, TYPE (3) ≤ 500, TYPE (4) ≤ 1000 pounds, and TYPE (5) > 1000 pounds. Assume, however, that a processing center, with several similar type processing machines, was in a semi-balanced state relative to the backlogs behind each machine in that processing center. If an incoming *Dyehouse Order* was comprised of a large number of colors which, when assigned to their respective machines for processing, tended to *cover* a large number of the available machines, the processing center might be left (after processing the given order) in a state of relative backlog balance.

As an illustration, consider the following two orders to be processed: O_1, with parts P_{11}, $P_{21}, \ldots, P_{i1}, \ldots, P_{n1}$; and O_2, with parts P_{12}, $P_{22}, \ldots, P_{i2}, \ldots, P_{n2}$. Table 1 indicates which machines each of the parts is assigned to.

TABLE 1
ASSIGNMENT OF PARTS ON ORDERS TO SPECIFIED MACHINES

Order Number 1		Order Number 2	
Part	Machine	Part	Machine
p(1,1)	1	p(1,2	1
p(2,1)	4	p(2,2)	5
p(3,1)	3	p(3,2)	2
p(4,1)	3	p(4,2)	4
p(5,1)	1	p(5,2)	2
p(6,1)	4	p(6,2)	3
p(7,1)	3	p(7,2)	1

HEURISTIC SEQUENCING PROCEDURE

A *heuristic* has been defined by Thompson (n.d.) to be "any rule for selecting an element from a set." A synonym for heuristic is *decision rule*, which is particularly applicable when a set of decisions is under consideration. The definition offered by Thompson encompasses a wide variety of decision rules, including *First Come-First Serve*, *Random Alignment*, or any other rule which specifies the selection of a course of action from many possible alternatives. By describing a heuristic as "the thinking process that an intelligent decision maker would use to resolve a specific type of problem" (Starr, 1964), some writers attribute more of a reasoning approach to the development of heuristics. The *Heuristic Sequencing Procedure* developed and tested for this study involves the utilization of an initial random sampling procedure similar to the procedure followed in the *Random Order Alignment* rule.

CONCLUSION

The *Heuristic Sequencing Procedure* described here combines a random sampling procedure with an iterative process (Story & Wagner, 1961). Beginning with a trial permutation of the orders, each order is systematically interchanged with each other order in the original alignment. During each iteration, the order alignment resulting in the shortest *Total Time Span* is reserved in computer memory (or printed out, if desired). If the iterative process is repeated enough times, there should be a tendency for the results, measured as a *Total Time Span* factor, to approach an optimum solution. It is also possible for an answer to be given to the question of how many samples are necessary for inferences to be made, relative to observed results, when compared to an optimum solution (Sisson, 1961).

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ETHICAL, LEGAL AND SOCIAL ISSUES OF GENOMIC RESEARCH: STRIKING A BALANCE BETWEEN SCIENCE AND LAW

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ABSTRACT

As the scale and complexity of genomic research have increased, consensus has been more difficult to achieve and the law has lagged behind, thus, providing no clear resolution to the inevitable disputes. This paper explores the legal, ethical, and social issues surrounding genomic research. The paper examines the conduct of researchers against the backdrop of history and law, and attempts to foster a greater awareness of the legal and ethical challenges facing genomic researchers. The paper is designed to educate and inform genomic researchers and scholars about the legal and ethical implications of the decisions they make.

A variety of legal, ethical, and social issues relate to privacy and confidentiality of genetic information – who owns and controls genetic information? Societal concerns arising from genetic research focus on fairness in the use of genetic information by insurers, employers, courts, schools, adoption agencies, and the military, among others. Who has access to personal genetic information, and how will it be used?

The science of genetic research also raises issues of equal protection and due process under the United States Constitution. To that end, the paper explores and discusses a wide range of legal, ethical, and social issues pertinent to the Human Genome Project that could be used to develop educational programs, policy recommendations, or possible legislative solutions.

THE EFFECTS OF PART-TIME INSTRUCTION ON FINAL GRADES IN THE BUSINESS WRITING COURSE

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ABSTRACT

This paper studies the effect that part-time instruction has on students' final grades in the Business Writing course at a private comprehensive IIA university in the Mid-South. We find part-time instructors assign grades 0.12 points higher than assigned by full-time instructors. Using a multiple linear regression, in which the response variable is students' grades, the explanatory variable instructor status--i.e., full-time or part-time--is statistically significant at less than a 0.01 level of confidence (p-value = 0.045). Additionally, the explanatory variable GPA is also significant at an alpha level less than 0.01 with a p-value approaching zero. The model yielded an adjusted R^2 value of 0.31, indicating that 31 percent of students' grades are accounted for by the explanatory variables included in the model.

INTRODUCTION

There is an increasing trend towards the use of part-time instructors at community colleges and four-year institutions (Leatherman, 1997; Leslie, 1998). Many four-year institutions price discriminate by employing part-time instructors in an effort to contain escalating operating costs. Leslie (1998) finds that hiring patterns have shifted to the point where more than 40 percent of college or university instructors are part-time. Clery (1998) finds that between 1976 and 1995, the number of part-time instructors increased by 91 percent compared with an increase of only 27 percent in the number of full-time instructors. According to The New Professoriate, a report released in October 2002 by the American Council on Education (ACE), non-traditional faculty "now make up the majority in academe" (Marklein, 2002). DeBarros (2003) states several reasons for the increasing utilization of part-time instructors, including the following: 1) the budgetary constraints facing numerous educational institutions, 2) the increasing number of academic program offerings, 3) the shortage of qualified full-time instructors, and 4) the manpower flexibility associated with the use of part-time instructors.

In an effort to attract more students, many colleges and universities have increased their course offerings and non-traditional scheduling times to include more Saturday and evening program courses. Additionally, the employment of satellite campuses, course offerings via the Internet, and other distance learning methods has increased. Since they participate in scholarly activity, committee responsibilities, student advising, community service, and other university requirements in addition to teaching, full-time instructors have little time to assume a heavier course load. Part-time instructors are filling many of these expanding course demands.

However, there are also drawbacks to the use of part-time instructors. Many, if not most, educational institutions have embarked on formal programs of self-study and continuous improvement. One of the requirements for continuous improvement is that the university strive for consistency in multi-section course content. However, measuring the quality of instruction is a difficult undertaking.

LITERATURE REVIEW

Research concerning the effects of part-time vs. full-time instruction on students' grades is highly varied. Researchers have analyzed student achievement and learning (Mellon, 2003; Winter, 1978). Other researchers have examined the importance of particular influences as they relate to student performance (Williams, Kugele & Kamery, 2003) and student withdrawal (Melnikova, Williams, Pitts & Kamery, 2003).

The purpose of the current study is to analyze the effect of instructor rank--as it pertains to full-time or part-time employment status--on student grades in the Business Writing course. Can a student taking a Business Writing course improve his or her grade by enrolling in a course taught by a part-time instructor? In addition, we examine several student characteristics in order to determine whether those variables interact with instructor status.

METHODOLOGY AND RESULTS

Data were collected from all sections of the Business Writing course taught at a private comprehensive IIA university in the Mid-South. Three full-time and three part-time instructors were employed to teach the course. Part-time instructors were classified as adjunct faculty. For the sample of 741 students, the following data, which we believe to include explanatory factors for student grades, were obtained:

1) The dependent variable, *grade* in the Business Writing course (A, B, C, D, F)
2) The independent variable*, status of the instructor* (full-time or part-time)
3) The independent variable, *status of the student* (day or evening student)
4) The independent variable, students' *major*
5) The independent variable, students' *gender*
6) The independent variable, students' *age*
7) The students' *class standing* (freshman, sophomore, junior, senior)
8) The independent variable, students' *GPA*

The dependent variable, *grade*, which is recorded on the students' record as an alpha character, was numerically represented in the model as: A = 4.0, B = 3.0, C = 2.0, D = 1.0, and F = 0.0. Although the dependent variable, *grade*, is ordinal data, since the interval between the grades can be estimated as being ten point intervals (except for the F category), the data is considered to closely approximate interval level data. The use of the values 4, 3, 2, 1, and 0 for the letter grades of *A, B, C, D,* and *F* is similar to using the midpoint of a class to estimate descriptive statistics for a frequency distribution. Students who withdrew from the course were deleted from the sample data. Since student withdrawal data was omitted, the results of the study are subjected to survival bias. The lack of control for such bias is recognized as a limitation of the study.

Table 1 examines and compares the sample variances of the grades given by part-time and full-time instructors. Since the F-test value of 2.077 is greater than the F-critical value of 1.203, it cannot be assumed that the population variances are equal. Thus a two-sample hypothesis test for the equality of population means would employ the t-test, assuming unequal population variances (Table 2).

Table 1
F-Test: Two-Sample for Variances

	Full-time	Part-time
Mean	2.94	3.06
Std. Deviation	.888	1.032
Observations	344	397
df	343	396
F	2.077	
P(F <= f) one-tail	~0	
F-Critical one-tail	1.203	

Table 2 analyzes the relationship between the status of the instructor, i.e., part-time or full-time, and the grade received in the Business Writing course. The hypothesis tested was one of no difference in the average grades awarded by part-time vs. full-time instructors (in the population). The p-value of .088 represents the probability that both populations, i.e., part-time instructors, and full-time instructors, award grades equally. This contention is rejected at any reasonable level of alpha.

Table 2
T-Test: Independent Sample Assuming Unequal Variances
H_0 : Grades awarded by full-time instructors are equal to grades awarded by part-time instructors
H_A : Grades awarded by full-time instructors are lower than grades awarded by part-time instructors

	Full-time	Part-time
Mean	2.94	3.06
Std. Deviation	.888	1.032
Observations	344	397
Hypothesized Mean Differences	-.121	
df	739	
t-Stat	-1.728	
t-critical one-tail	1.645	
$P(T \leq t)$ two-tail	.084	
t-critical two-tail	1.96	

Several studies have analyzed relationships between student grades and various student characteristics such as age, gender, class standing, attendance on a full-time or part-time basis, and academic major (Sen, Joyce, Farrell & Toutant, 1997). We decided to include these variables, along with our variable of main concern, i.e., whether the course was taught by a part-time or full-time instructor, and measure their relationships with a multiple linear regression model. In this way, we can analyze the relationship between student grades and the employment status of the instructor (part-time or full-time) while controlling for the various student demographic characteristics mentioned above.

Although an ordered probit analysis (Van Ness, Van Ness & Kamery, 1999) or a multinomial logit model (Glasure, 2002) may be more appropriate for analyzing the dependent variable, coded grades, and their relationship with the various student characteristics, only the multiple regression approach will be utilized here. Using the coding method of A = 4 (or 95), B = 3 (or 85), etc., is similar to estimating the mean or standard deviation of data that has been summarized into a frequency distribution. Table 3 presents the results of a multiple regression analysis.

Table 3
Regression Results

Multiple R	.561
R^2	.315
Adjusted R^2	.309
Standard Error	.806
Observations	741
Durbin-Watson	.930

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	219.020	7	31.289	48.184	.000(a)
Residual	475.979	733	.649		
Total	694.999	740			

					Correlations		
	Coefficients	Std. Error	t Stat	Sig.	Zero-order	Partial	Part
(Constant)	-.093	.257	-.362	.717			
Day or Evening	-.078	.108	-.727	.468	.016	-.027	-.022
Student							
Age	.000	.006	-.030	.976	.058	-.001	-.001
Gender	.134	.062	2.161	.031	.135	.080	.066
Major	.000	.004	.093	.926	-.087	.003	.003
Student Classification	.076	.044	1.749	.081	.083	.064	.053
Cumulative GPA	.848	.049	17.155	.000	.551	.535	.524
Instructor Status	.147	.073	2.006	.045	.063	.074	.061

Student major, class standing, whether day or evening student, and student gender were included as indicator variables. Cumulative GPA and gender were significantly related to the grade received. A graphical analysis of the residuals did not indicate serious violations of the model's assumptions. There are no extreme points (outliers); at each grade level, residual variance does not indicate the presence of homoscedasiticity; the residuals approximate a normal distribution. The adjusted coefficient of multiple determination shown in Table 3 is equal to 0.31, indicating that 31 percent of the change in the dependent variable, grade, is explained by the set of independent variables (which are student characteristics, except for the instructor status variable). The F-statistic's high value of 48.184 corroborates the existence of a significant relationship between student grades and the set of independent variables.

Independent variables that would be significant at a 0.01 level of confidence include the following:

1) Instructor status (full- or part-time) t-stat value = 2.006
2) Grade point average (GPA) t-stat value = 17.155
3) Gender t-start value = 2.161

None of the other independent variables showed a significant relationship to the course grade.

During the analysis, several issues of interest were identified for possible future research. There was insufficient information derived from this study to explore those issues here. Those issues include the following:

1) Do part-time and full-time instructors employ similar methods of teaching?

2) Do part-time and full-time instructors use similar methods of testing and grading?
3) Is there coverage by part-time and full-time instructors that is consistent with the prescribed courses of study?
4) Is the performance of students in upper division courses that have a writing component different for those students taught by part-time vs. full-time instructors?

CONCLUSION

The primary objective of this paper was to examine the relationship between student grades in the Business Writing course and the employment status of the instructor, i.e., whether part-time or full-time. A multiple regression model, which allowed for the inclusion of many student characteristics, did report a small but significant relationship between the two factors. We find that a student's cumulative GPA was the strongest predictor of success in the Business Writing course by a large factor. Next in importance was the gender and the employment status of the instructor, part-time or full-time. It is recognized that our sample may include selection bias since part-time instructors may teach predominantly at times and places where non-traditional students are enrolled. Our data was collected at a single university; thus, our results may lack universal application.

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