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DOES INTERNAL CONTROL MATTER IN A SMALL BUSINESS? A STUDY FROM RURAL OKLAHOMA

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ABSTRACT

A research partnership with the Small Business Development Center examined controls utilized by small businesses. Questionnaire responses confirmed the idea that small business owners in rural areas of Oklahoma rely on a high-level of supervision rather than physical internal controls. Findings indicate that small businesses continue the practice of placing more emphasis on routine tasks such as opening mail and reconciling the bank statement than on more important tasks such as separation of duties or safeguarding assets. Further research might be concentrated on small family owned and operated businesses in use of accounting controls imbedded in computer hardware, and computer software.

INTRODUCTION

Large corporate forms of business receive more attention in press, business theory, business education, and public recognition, yet small businesses represent the majority of all businesses. According to the Small Business Association (SBA, 2009), a business is small if it fulfills certain criteria based on its industry. The most common size standards from the SBA Frequently Asked Questions: Size Standards (quoted directly) are as follow:

- 500 employees for most manufacturing and mining industries
- 100 employees for all wholesale trade industries
- \$6.5 million for most retail and service industries
- \$31 million for most general & heavy construct

Because small businesses represent such an important component of most industries, the knowledge of small business practices is important for educational and economic use. The purpose of this paper is to provide knowledge gained from a study of small business owners of those businesses.

PROBLEM

Fleming and Kim (1989) wrote of the problems occurring in small businesses when the businesses have ineffective or missing internal controls. The researchers said that small businesses are especially vulnerable to theft of cash. Later research (Lavery, Lindberg, and Razaki, 2000) indicates that small businesses tend to be more at risk for fraud than large businesses because of a lack of adequate internal control. The problems continue as statistics from the U.S. Chamber of Commerce document that on average, three out of every four employees in a small business steal from the business and half those employees steal more than once (Miracle, 2005). Other researchers have continued to cite problems with theft or fraud for small businesses.

Periodically, The Association of Certified Fraud Examiners (2008) issues a Report to the Nation: On Occupational Fraud and Abuse proving statistics on fraud and financial misdeeds. In its most recent report the organization continues to state that small businesses are at a greater risk and

suffer more losses than larger businesses. In fact, the executive summary of 2008 report listed the most likely amount for a single small business to lose as \$200,000 from worker-related related causes. Furthermore, the report indicated that more than a third of those responding (to the survey) listed lack of satisfactory internal controls as the reason for the loss. These problems occurs more often among small businesses than among large businesses because small business owners may not possess the knowledge, budget, personnel, funds or take the time to put an effective internal control system into place (Fleming & Kim, 1989).

Another frequently problem listed as the cause for employee theft and fraud relates to basic human nature. All too often, small business owners place trust rather than internal controls into effect as a way of operating much of the business. While noble in theory, such a practice is unwise in business. Several articles written on problems of small businesses include the problem of owners using trust in employees rather than establishing internal controls (Chanen, 1999; Dale 2007; Hall, 2007; Olsztynski, 2006; Parent, 1996; Powell, 1996; and Wilder, 2002). The old adage, "trust but verify" better serves any business' need and others emphasize the need for business owners to establish internal controls to protect against such theft or fraud (Biddick, 2004; Chan, 2006; Dodsworth, 2006; Lawson, 2006; Marden & Edwards, 2005; Rittenberg, and Martens & Landes, 2007).

METHOD

A partnership with the Oklahoma Small Business Development Center (OSBDC) provided the addresses necessary to send 611 questionnaires to individuals residing in the 12 counties. These individuals consulted with OSBDC as clients over a two-year period. The questionnaire addressed issues directly relating to internal control for small businesses. General questions inquired as to which OSBDC services the respondents received, the very nature of the business, and the continued existence of the business. If the business owner responded that the business no longer existed, then this served as a critical question. Only individuals with a current business completed the entire questionnaire, which greatly reduce the response rate.

During the planning phase of this research, the director of the OSBDC remarked that several of the businesses began by the 611 individuals had probably failed. The director indicated that several of the potential survey respondents no longer contacted the OSBDC and he predicted a small response to the survey. Thus receiving a low number of responses was a likely outcome of the research.

The questionnaire took approximately 10 minutes for respondents to complete. Designed as a concise study of basic internal controls, questions asked about the operating practices of the business owner. The survey instrument consisted of objective questions requiring "yes" or "no" responses and it included a comment section to elicit detailed responses. The researchers sent the survey instrument twice, at the beginning of both November and December. The dual delivery of the questionnaire emphasized the importance of the survey and ensured sufficient opportunity for respondents to contribute to the research project.

RESULTS

Of the 76 questionnaires returned, 61 of the individuals indicated current business operations. Of the 61 responses over half operated as either a retail or service business. Analysis of results consisted of simple percentages and tabulation of comments if any. A majority of the businesses (98%) employed fewer than 50 individuals. In addition, owners rather than managers/ employees completed 90% of the responses.

Seventy-seven percent of the respondents believe they maintain a high level of supervision. A high percentage of respondents open mail, reconcile bank statements and review reports

concerning the business’s performance as they deemed these procedures as necessary in maintaining a high level of supervision. However, 34% of respondents did not use the basic control of a locked supply closet. The survey did not include other basic controls such as computer passwords or time clocks. Notably, 97% of the respondents kept current records of business transactions, however few utilize budgets (34%) or prepare purchase orders (31%). Approximately half of the businesses claimed to have written objectives, short-term goals and long-term goals.

Generally, accepted accounting practices require segregation of duties. Those who claimed a high-level of supervision tended to have a higher percentage of controls. The percentages for those claiming greater supervision include reviewing business’s performance (89%); using a locked supply closet (41%); utilizing purchase orders (36%); keeping current records of business transactions (100%); using separate personnel for accounts payable and accounts receivable (15%); and, using separate personnel for authorization and custody of assets (19%). However, business owners who did not indicate the high-level of supervision did indicate a higher percentage of use of other internal controls. The percentages and controls used included reconciling bank statements (92%); preparing a budget (38%); written objectives (54%); written short-term goals (69%); written long-term goals (54%); separate personnel for authorization and recording business activities (23%); and, separate personnel for custody of assets and recording business activities (23%).

CONCLUSIONS

Data indicates that for this survey, a large percentage of respondents claimed to use a high-level of owner supervision. Responses to related questions corroborated these claims. Data indicates less reliance or lack of use of basic physical internal controls such as locking the supply closet, separating basic accounting duties, and utilizing purchase orders. The majority of respondents employed fewer than 50 individuals, which could suggest that at least some of the respondents may run family-owned and family-operated business and thus owners might not consider physical controls necessary.

Future Studies

No questionnaire is perfect. In analyzing the responses, the question of family owned and operated businesses became a concern. In retrospect, the researchers believe that including the follow questions would better clarify the responses received. The survey should have included the following questions, the former two demographic and the latter procedural:

Is the business family-owned and/or family-operated?	yes/no
Has the owner of this business completed any classes in accounting or business?	yes/no
Do you use accounting software on the computer to track sales, inventory, and more?	yes/no

The researchers might have attempted to address the issue of trust too.

Implications of this Survey

A lack of knowledge or a lack of understanding of the importance of using basic internal control procedures by many small business owners position the businesses for potential theft, fraud, or even failure. Small business owners, such as the ones who responded to this study, need more information about the simple, routine internal control procedures that formed the basis of this survey and the reasons for using these procedures. While a single geographic region delineated the distribution of the survey, similar regions and equally knowledgeable small business owners exist

all over the world. The results provide direction for providing education on internal control practices for small business owners who seek advice or assistance from organizations like the OSBDC.

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CAREER CHOICE IN MANAGEMENT: GENDER DIFFERENCES IN PERCEPTIONS REGARDING A MANAGEMENT CAREER AND AN MBA

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ABSTRACT

This study examined Gender differences in the factors influencing MBA students' career choice in management, their expectations from the MBA, the meaning they extract from it and their perceptions of their future career. Using a self-reported measure, data were collected from 216 MBA students (106 men and 110 women). As expected, Gender differences were found in some of the factors influencing career choice. A significant difference was found between men and women in some of their expectations from the MBA program. Contrary to the third hypotheses, no gender differences were in the sense of meaning derived from an MBA/management career. Finally, Gender differences were found in the Protean view of a career; but contrary to the forth hypothesis, men were more protean career-oriented than women. The findings are discussed in relation to the theoretical framework supporting gender theories if career choice. Implications for gender-sensitive education are discussed.

Keywords: Career Choice, Gender, Factors, Expectations, Meaning, Protean Career

DISCRIMINATION, DIVERSITY AND AN HRM MODEL

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ABSTRACT

This paper will examine the relative impact of "bad" discrimination on different employment outcomes for differing groups in American enterprise. It will primarily focus on "African American" versus "American Caucasian" and male versus female groupings. And, since the normal response to discrimination is diversity, which results in diversity candidates, hires, training, functions, and executives and so on, the diversity response will be vetted.

Sadly, we continue to be fearful of discussing race or sex related employment issues in the American workplace specifically when the topics relate to discrimination and diversity. This paper is unorthodox in its approach when compared to many academic papers, but then perhaps that is a part of the problem: academic unwillingness to publish new and different approaches or politically difficult topics. This paper presents experience and opinions (ours and others) as well as meaningful data used to develop questions for future research. The intent is not to offend or even say this is 'the answer.' The intent is to address this research question: What is the current state of discrimination and diversity as it relates to all areas of employment outcomes among knowledge workers in mid to large size American firms? Specifically, what part of differing employment outcomes is due to sexism and racism?

Most in the American workforce in 2009 is fearful of expressing their real feelings on the topics of discrimination and diversity (Arnott, 2000; "Black America," 2008; Crowley and Elster, 2006; Hasl-Kelchner, 2006; Lencioni, 2002; Noonan, 2007; Obama, all dates; Pinker, 2002; Ridley, 2003; Service and Arnott, 2006; Service, 2007 from Topgrading; Service and Ledlow, 2007; Service and Lockamy, 2008; Sowell, 2008 and Sternberg, 1996; among many others). Moreover, though there is some level of "bad (to be discuss later in this paper)" discrimination, it is entirely possible that "bad discrimination" is not the primary reason for differences in employment situations; further, the area of diversity may be being abused by companies and their top managers for 'window dressing' and to appease governmental agencies ("Black America," 2008). The purpose here is to build a foundation for discussion and a solution-directed HRM model, not to address many possible points of view or research. In today's world of the internet, Facebook, blogs, Twitter and so on, effective teachers, facilitators and, indeed, bosses must understand that it is better to discuss a situation and not decide than it is to decide without discussing.

Yes, "It is possible to make progress on a seemingly impossible problem if one just ignores the skeptics and gets on with it (Smolin, 2001)."

TRAINING THE RIGHT LEADER FOR THE RIGHT ROLE

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ABSTRACT

Organizational success is directly tied to leadership effectiveness. A leadership development program, customized to the needs of the organization and the abilities of the individual leader, can play a key role in insuring that success. When leadership training is applied based upon a pre-determined match between individual characteristics and specific organizational roles, increased training effectiveness can be achieved.

Proper preparation of leaders is especially imperative in the not-for profit sector, where many leaders serve voluntarily and for limited terms. Often these volunteers fill a specific leadership role because they were asked to, not because they were necessarily qualified to. This presentation highlights findings in a study of volunteer leaders in the United Methodist Church and posits alternative approaches within that arena, as well as potential applications of similar concepts in the for-profit arena.

INTRODUCTION AND LITERATURE REVIEW

Organizational principals, focused on success, recognize the importance of employing, developing, and retaining effective leaders. Kouzes and Posner (2002) noted the significant impact a highly skilled leader can have on the success of an organization. The necessity of properly preparing them can not be over-stated. Top management must recognize the importance of equipping leaders to lead effectively. Moore (2005) reviewed corporate university programs, finding that each was as unique as the organization it was created for. Hilton's was based on employee feedback, and utilized the Kirkpatrick method to measure results. Leaders at BAE Systems utilized the internet for an on-line knowledge base. Following eight years of design and preparation, CMI's program found success in linking training with business objectives. Finally, directors at GNER Corp. focused on behavioral competencies to link employee satisfaction, customer loyalty, and business profitability. D. B. Collins (2002) studied 103 organizational education programs directed at leadership development. The ones she found to be effective were "preceded by a needs assessment to ensure that the program objectives meet the specific needs of the organization and are linked to the organizational strategy" (p. 176). Similarly, Pangarkar and Kirkwood (2006) noted that leadership development programs must be aligned with organizational objectives if results are to be measureable. Any leadership training program, they said, should begin with a gap analysis to determine implementation needs based on the organizational plan or strategy. The results should be used to create development plans which are measurable and relevant to organizational plans.

Many community based leadership development programs attempt to achieve effectiveness through diversity in the selection of participant groups. Developers have designed their programs to be customizable for varying organizations. Joslyn (2002), writing for The Chronicle of Philanthropy, reviewed leadership development programs and determined several common characteristics. Participants learn leadership techniques, theory and practical applications from the text, course directors and fellow classmates. Program directors at the Oakland Metropolitan Chamber of Commerce, (2007), for example, offered programming that brings together representatives from various industries and businesses in their area for training and equally important networking opportunities.

THE STUDY

A study was conducted in the United Methodist Church, with the cooperation of the General Board of Discipleship, to examine potential approaches to the training of Lay Leaders in local congregations. Specific emphasis was placed on the pre-training identification of the leadership style and unique spiritual giftedness of the leaders participating in the study. Participants in the study were serving in committee leadership roles within their local congregations at the time of training. Many participants reported their current role was not closely aligned with their identified leadership style and spiritual giftedness. A smaller group did realize a good role/skill match. The latter group had stronger engagement with the training provided.

FUTURE RECOMMENDATIONS

Authors of most corporate training programs intend to provide instant and lasting results. Reality often interferes, though, and short circuits the benefits of training. Goleman, Boyatzis, and McKee (2002) offered: "when it comes to building leadership skills that last, motivation and how a person feels about learning matters immensely . . . that may be why one study found that the half-life of knowledge learned in an MBA course was about six weeks" (p. 99).

Future research within the United Methodist Church will be directed to potential new leaders. The identification tools will be administered before the neophytes are assigned to specific roles, and before leadership training occurs. Based upon the results, committee assignments will be made, and role specific leadership training will be provided. A comparison of role effectiveness and role satisfaction will be made between this group and a group of leaders serving in roles that are not closely aligned with their leadership style and/or identified spiritual giftedness.

A similar approach will also be sought in the for-profit arena. A survey of leadership style identification measures and job/skill match tools will be conducted, and a study will be designed to train leaders in an environment which maximizes their individual abilities. In contrast to the church environment, where leaders serve voluntarily, the corporate environment will involve individuals who are compensated financially for their efforts. For this reason, organizations will likely be resistant to the reassignment of individuals based upon the results of surveys used. Collaboration with an organization or group of organizations open to such flexibility will be essential.

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THE ROLE OF CONTEXTUAL CAPABILITY IN DEVELOPING A MARKET ORIENTATION: A CASE STUDY OF A NEWLY FORMED COMMUNITY BASED ORGANIZATION

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ABSTRACT

Privatization is a radical and complex change effort in which there are opportunities for newly formed organizations to develop more desirable business-like practices. Market orientation theory has been associated with several key internal factors; however, development of a market orientation may also involve contextual capabilities found in the external environment in addition to internal factors and antecedent conditions. Based on results of a case study, we suggest tenets from organizational development and change literatures would benefit the advancement of market orientation theory. We explore the development of market orientation in a community based privatization initiative where our case study results show a high level of market orientation and lead us to a set of propositions for contextual capability and its role in developing a market orientation.

Keywords: market orientation, privatization, organizational development and change