JOURNAL OF
INTERNATIONAL
BUSINESS
DISCIPLINES

Volume 1, Number 1, November 2006

**Published By:**
International Academy of Business Disciplines and Frostburg State University

ISBN 1-889754-99-4

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# *JOURNAL OF INTERNATIONAL BUSINESS DISCIPLINES*

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*JOURNAL OF INTERNATIONAL BUSINESS DISCIPLINES*

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**Editorial Note**

It is with a great sense of pride for me to present the first issue of *International Journal of Business Disciplines featuring* a group of outstanding papers that were presented at the 2006 International Academy of Business Disciplines (IABD) conference. This issue has been prepared through a rigorous process in two stages. Stage I: all papers that were submitted to the 2006 IABD conference went through blind reviews, and high quality papers were recommended for publication in the 2006 IABD Business Research Yearbook. Stage II: approximately 10 percent of those articles were selected, and the respective authors were contacted and asked to resubmit their papers for a second round of reviews for possible publication in the *JIBD*. These manuscripts went through a rigorous review process by a team of outstanding editorial board members, guest editors, and external reviewers. In the end, fourteen of the selected articles were recommended by the editorial board for publication in the first and second issues of *JIBD.* The present collection includes six of those outstanding papers.

As Chief Editor, I consider this publication a big accomplishment that could have only been possible through collaborative efforts of a team of outstanding scholars from various business disciplines.

I would like to express my sincere appreciation to the IABD Board of Directors, especially Susan Aldridge, Abbas Ali, and Hooshang Beheshti, for giving me the opportunity to take on such an important and rewarding task. I also would like to thank Abbass Alkhafaji, Executive VP of IABD, and Danny Arnold, Dean of College of Business at Frostburg State University for their encouragement and unwavering support. Further, I want to thank our editor, Kathleen O’Connor, and my friends who served on the Editorial Board of this Journal for their time and efforts, and for standing by me throughout this difficult but rewarding journey.

Last but not least, I am deeply grateful to my friends, Robert Page, Reza Eftekharzadeh, Louis Falk, and Marjorie Adams, whose contribution towards completion of this task has been immeasurable. Robert served as Managing Editor. Reza is the IABD and JIBD treasurer, Lou is the Web manager for IABD and JIBD, and Marjorie is the Editor of the IABD Business Research Yearbook, but they kindly agreed to serve on the *JIBD* Editorial Board as well.

We are pleased to present this issue of *JIBD* to you, and hope it will contribute to a better understanding of business-related issues as well as continuous improvement of knowledge in business disciplines.

Ahmad Tootoonchi, Chief Editor
*Journal of International Business Disciplines*

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# REMOVING BARRIERS TO EXPANSION OF INTERNET RETAILING: PROMOTING E-COMMERCE FOLLOWING RECENT U. S. COURT DECISIONS

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## ABSTRACT

While e-commerce has thrived in some sectors of the U. S. economy, Internet-based commerce has not taken hold to the same extent in other sectors. One factor in explaining slow expansion of e-commerce in certain sectors of the economy has been the use of legal impediments to Internet commerce. Where competitors have had the most success in slowing e-commerce competition has been through state law barriers in such industries as wine, contact lenses, automobiles, caskets, online legal services, real estate, mortgages, and financial services. Recent court decisions, including the 2005 wine cases before the U. S. Supreme Court, demonstrate that courts are increasingly willing to strike down protectionist state and local laws that impede Internet commerce.

## INTRODUCTION

Although early overly optimistic predictions about explosive growth of e-commerce have not materialized, e-commerce has demonstrated that it is here to stay. After a shaking out period, Amazon, Dell Computer, eBay and numerous other Internet retailers have established themselves and flourished. "Bricks and mortar" retailers, including Wal-Mart, J. C. Penney and Kohl's, have also combined customer on-line shopping with their traditional functions to provide their customers with more convenience and cost savings. E-commerce sales in the first quarter of 2006 were $25.2 billion, or 2.6% of all U. S. retail sales in the same period, which represents an increase of 25.4% over the e-commerce retail sales in the first quarter of 2005 (U. S. Department of Commerce, 2006). In addition, business-to-business commerce has emerged on-line as a major channel for transactions between businesses, often for purchases by manufacturers from their suppliers, which are not reflected in the retail sales figures.

Certain areas of retail commerce have thrived, such as airline ticketing, hotels, books, music recordings, and computers. Airline ticketing in particular appears to be more efficient today due to the availability of flight information and purchasing functions directly to consumers. For computers, Dell has largely pulled its products from traditional retailers in favor of the lower cost of direct sales via its website.

For other areas of retail commerce, however, on-line retailing has not taken hold to the same extent. One factor, although certainly not the only factor, in explaining slow expansion of e-commerce in certain sectors of the economy has been efforts of non-Internet competitors to impede competition from on-line vendors (Smith, 2003). Besides the private efforts of entrenched competitors, state laws have been used, often at the urging of entrenched business interests, to effectively block entrepreneurs and consumers from developing competitive alternatives in e-commerce (Ribstein & Kobayashi, 2001).

The Federal Trade Commission in October of 2002 held hearings that addressed state-imposed impediments to e-commerce. The FTC hearings addressed ten areas where state laws are holding back the growth of e-commerce, including wine, contact lenses, automobiles, caskets, online legal services, health care (telemedicine and online pharmaceutical sales), real estate, mortgages, and financial services. Many participants in the FTC hearings testified that e-commerce sales in these areas are being held back for reasons that have little to do with the products being unsuitable for Internet shopping, but rather, due to either outdated or deliberately protectionist impediments that favor traditional retail distribution over Internet shopping (Smith, 2003).

Limitations on e-commerce retail sales generally come from three sources, which are each considered below (see, e.g., Atkinson & Wilhelm, 2001; Foer, 2001). The first is private efforts by potentially competing businesses to hinder competition from Internet retailers. These private efforts may be attempted unilaterally by firms with market power or collectively by similarly positioned firms, and are subject to the U. S. antitrust laws. The second is by governmental authorities to place regulatory restrictions on e-commerce, or alternatively to continue outdated regulatory restrictions that are more burdensome on e-commerce retailers than on more traditional types of retailers. If such restrictions are imposed by the federal or state government (or by a local government under proper authority from a state government), the restrictions are generally exempt from the antitrust laws, although recent court decisions have struck down some of these laws on other grounds. The third is a combination of the first two—actions by competitors to lobby governmental regulators to restrict competition from Internet retailers, which is also generally exempt from the U. S. antitrust laws. Of course, such limitations are not confined to U. S. regulations, and pose challenges in the global economy (Frynas, 2002).

## PRIVATE BUSINESS PRACTICES TO LIMIT INTERNET RETAILING

Bricks and mortar companies' efforts by businesses to limit Internet retailing take several forms. Manufacturers may try to prevent Internet retail sales of their products by distributors. Distributors may try to require that their suppliers refuse to deal with Internet retail competitors, as Chrysler dealers did in an early-commerce case (discussed below). Trade associations and other such groups may also be used as a mechanism for limiting competition from Internet retailers, as may have been the case with the U.S National Automobile Dealers Association. Each of these sources of restrictions on Internet sales in the United States is generally subject to the antitrust laws.

The relevant antitrust law is presented in a basic outline form here, and is analyzed in much greater depth by the Antitrust Law Section of the American Bar Association in its periodic *Antitrust Law Developments* series. Another important area of law for the analysis in this paper is state franchise and dealership law. This law varies from state to state, and is analyzed in detail in the ABA's Forum on Franchising's *Annual Franchise and Distribution Law Developments.* This type of law was the subject of a significant ruling by the Supreme Court in 2005 in the wine distribution cases. The most relevant areas of antitrust law for e-commerce competition are (1) the general law of agreements among competitors (e.g., price fixing, territorial allocations, group boycotts) and (2) the general law of vertical restraints (*e.g*., exclusive distribution arrangements, customer and territorial restraints, exclusive dealing).

As a preliminary matter, it is important to recognize that very little antitrust statutory or case law specifically addresses e-commerce competition. Rather, existing law is applied in accordance with the specific facts before a court and in light of the general objectives of the law. For antitrust law, the broad objective is to foster competition as the way to achieve the highest quality goods at the lowest possible prices for consumers (*Northern Pac. Ry v. United States,* (1958).

It is also worth noting, as an initial matter, that a good deal of antitrust law is in the form of administrative acts, a type of law not always recognized as such by those outside of the legal field. For example, the Antitrust Division of the Department of Justice and the Federal Trade Commission ("FTC") have great influence on antitrust law through their enforcement actions and statements of enforcement intentions, even where such actions and statements are not accompanied by judicial decisions. This is particularly true for e-commerce, where new legal issues are being encountered as on-line commerce emerges, but relatively few cases have been litigated to conclusion.

The U. S. antitrust laws generally focus on protecting competition and consumers' welfare, rather than on protecting firms from competition (see, e.g., *Arizona v. Maricopa County Med. Soc'y*., 1982). The antitrust laws contain provisions regarding individual actions by firms that possess market power, and other provisions regarding agreements, both horizontal (between competitors) and vertical (among companies at different levels of manufacturing or distribution).

Most business conduct is analyzed under the "rule of reason," which involves balancing the benefits and harms of particular conduct to the competitive process. A few types of business conduct, however, are deemed to have so few potential benefits to competition as to warrant automatic condemnation, and thus are analyzed under the "*per se*," or automatic condemnation, rule.

The Sherman Antitrust Act of 1890 is the most relevant law for evaluating e-commerce constraints. Section 1 of the Sherman Act (2005), is rather broad in its wording and makes illegal "every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce." Section 2 of the Sherman Act (2005), prohibits activities by "every person who shall monopolize, or attempt to monopolize…any part of trade or commerce."

Thus, the antitrust laws focus primarily on two ways in which business conduct can deviate from a competitive ideal: (1) agreements among businesses to prevent the efficient operation of the competitive market system (Section 1 of the Sherman Act), and (2) the use of monopoly power, or acquisition of monopoly power through certain types of mergers or other prohibited means, for the benefit of a single party at the expense of others in the market (Section 2 of the Sherman Act).

Section 1 of the Sherman Act is the most likely to be relevant for this analysis, since monopoly power is rare in retailing markets. Section 1 prohibits "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations." Despite this broad language, Section 1 of the Sherman Act has consistently been interpreted to prohibit only those restraints of trade that unreasonably restrict competition (see, e.g., *Arizona v. Maricopa County Med. Soc'y.* , 1982).

Whether or not the agreement to fix prices or otherwise constrain competition actually has an effect on market prices is not relevant to the analysis under the *per se* rule. This point was made in a key case before the Supreme Court regarding an engineering society's canon of ethics that prohibited professional engineers from discussing prices with potential customers until after negotiations resulted in the initial selection of an engineer. The Court held:

> While this is not price fixing as such, no elaborate industry analysis is required to demonstrate the anticompetitive character of such an agreement. It operates as an absolute ban on competitive bidding, applying with equal force to both complicated and simple projects and to both inexperienced and sophisticated customers. As the District Court found, the ban "impedes the ordinary give and take of the market place," and substantially deprives the customer of "the ability to utilize and compare prices in selecting engineering services." . . . On its face, this agreement restrains trade within the meaning of § 1 of the Sherman Act.

*National Society of Professional Engineers v. United States* (1978).

Factors unrelated to effects on competition are generally irrelevant to the legal analysis. For example, in *FTC v. Superior Court Trial Lawyers Ass'n.* (1990), the Supreme Court held that a group boycott by attorneys seeking higher fees was a *per se* illegal restraint on prices, even though the public defenders engaged in the boycott claimed that paying them more would result in better quality legal representation. Similarly, in *FTC v. Indiana Federation of Dentists*, 1986), a rule of reason case, the Supreme Court held that an association of dentists that required its members to withhold X-rays from dental insurers evaluating patient benefit claims violated Section 1 of the Sherman Act, even though there might be a non-economic justification for the practice.

So what are private parties allowed to do to restrict Internet commerce without violating the antitrust laws? The answer largely depends on whether the conduct in question is unilateral (or by one company without coordinating with competitors) or coordinated (i.e., non-unilateral).

## UNILATERAL ATTEMPTS TO LIMIT COMPETITION FROM INTERNET SALES

A manufacturer or distributor without monopoly power acting on its own has an unfettered right under the antitrust laws to select the buyers or suppliers with whom it will do business. Thus, for example, the manufacturer may unilaterally refuse to sell to anyone who intends to resell its products over the Internet, and a distributor may unilaterally refuse to do business with a manufacturer who also supplies Internet resellers. Whether such unilateral decisions make business sense is beside the point, as long as the manufacturer or distributor is acting alone in what it believes is its self-interest (*United States v. Colgate Co.*, 1919).

Similarly, the antitrust laws generally do not prevent manufacturers without monopoly power from imposing other reasonable *non-price* restrictions on the resale of its products, such as restrictions on sales into certain territories, requirements to qualify for cooperative advertising payments from a manufacturer, and mail order sales. These restrictions have been analyzed under the rule of reason and usually are upheld by U. S. courts. This analysis applies to non-price restrictions on Internet sales as well, including refusing to sell to Internet resellers, limiting Internet sales to certain resellers, restricting the number or types of products sold over the Internet, or restricting a distributor's Internet sales to specified territories. Moreover, as a matter of antitrust law, a manufacturer can generally reserve Internet sales for itself while limiting its distributors to non-Internet channels.

A wide range of non-price restrictions can be justified as increasing interbrand competition with products sold by competing manufacturers, thereby increasing consumer welfare. (see, e.g., *GTE Sylvania Inc. v. Continental TV, Inc.*, 1977). Thus, a manufacturer in most circumstances may refuse to supply distributors that make Internet sales on the grounds that point-of-sale or post-sale services are necessary to protect the brand and to prevent free-riding. Whether this is a good or bad business decision is not the issue. If restrictions are aimed at preventing free-riding or enabling a manufacturer to compete more effectively with its competitors, such restrictions usually will be found to be reasonable.

It should be noted that efficiency justifications from traditional distribution channels are not necessarily applicable to Internet distribution. For example, mail-order distributors in many cases have been able to free-ride on the in-store investments by traditional distributors, who see their potential customers learn about the products in stores, and then buy from a mail order supplier. The reverse may be true in e-commerce, because shoppers may now first visit Internet sites for product information, and then purchase the product from a local store. Thus, it is possible that traditional retailers who have long complained about free-riding by mail order distributors may themselves have become free-riders on Internet distributors' investments.

For a manufacturer or distributor with market power, even what might appear to be a unilateral refusal to do business is subject to more scrutiny under the antitrust laws. In particular, manufacturers or distributors with significant market power face significant legal issues if they condition sales or purchases on an assurance of not dealing with a competitor or class of competitors. In this connection, market power can be found, and liability triggered under § 2 of the Sherman Act, even under circumstances far short of traditional notions of monopoly power.

For example, a federal appeals court affirmed an FTC finding that Toys "R" Us had market power, even though its market share in the retail toy market was below 20%. The FTC nevertheless alleged that Toys "R" Us was an important channel of distribution for toy manufacturers and used its market power to pressure toy manufacturers into not making the toys offered by Toys "R" Us available to warehouse club stores. Toys "R" Us responded that it had a market share of less than 20%, which was not enough to establish market power, and thus Toys "R" Us should be allowed to choose whether to do business with suppliers as it chooses. The Court disagreed and held that evidence that suppliers were responding to the Toys "R" Us demands (that the suppliers not sell the same products to clubs) was sufficient to establish that Toys "R" Us had market power, based on the direct evidence that Toys "R" Us was able to obtain the anticompetitive result it wanted through the unilateral threat not to do business with the supplier (*Toys "R" Us v. FTC*, 221 F.3d 928, 7th Cit. 2000).

Pricing restrictions imposed by a manufacturer on its dealers are evaluated according to different standards. Attempts by a manufacturer to control *minimum* resale pricing or price terms are *per se* illegal under § 1 of the Sherman Act. Restrictions on the *maximum* price at which a dealer or distributor may resell a product may have procompetitive benefits, such as preventing distributors from exploiting market power in their territories, and thus will be reviewed under the rule of reason (*State Oil Company v. Khan*, 1997). Nonetheless, Court in *State Oil* cautioned that maximum resale price restrictions might still be deemed unreasonable if, for example, the maximum resale price is intended to function as the minimum price as well.

Even though early antitrust cases established that a manufacturer has an unfettered right to unilaterally refuse to deal with any distributor, that does not give the manufacturer the right to enter into an agreement with distributors on the prices to be charged over the Internet (*Business Electronics Corp. v. Sharp Electronics Corp.*, 1988). An agreement, express or implied, between a manufacturer and its distributors on the prices distributors may charge (other than maximum prices) is *per se* illegal.

## COORDINATED ATTEMPTS TO PREVENT INTERNET SALES

The rules change when the conduct is not unilateral. For example, if a manufacturer (regardless of market power) enters into an agreement with a competing manufacturer not to sell to Internet resellers, that agreement could be characterized as an unlawful agreement not to compete (or boycott) under § 1 of the Sherman Act. Moreover, a manufacturer who stops dealing with Internet resellers following non-Internet distributors' complaints must be careful to act alone and not form an agreement with the complainers. Such an agreement may not be inferred solely from distributor complaints to the manufacturer, and indeed, the manufacturer is entitled to derive market information from its distributors, even if that information is in the form of complaints about other dealer practices (*Monsanto Co. v. Spray-Rite Service Co.*, 1984).

If, however, the manufacturer terminates an Internet reseller following such complaints by other distributors, it risks being found to have entered into an illegal price fixing conspiracy with the complaining distributors, unless it can show that the termination was made independently by the manufacturer and is consistent with the manufacturer's independent self-interest. Thus, any terminations under such circumstances require careful consideration of the legal implications.

Similarly, distributors (regardless of market power) generally may not agree among themselves or with a supplier not to do business with a certain party or threaten retaliation against manufacturers doing business with Internet resellers. They must also be alert to antitrust implications when they engage in dual distribution by operating retail web sites in competition with the boycotting distributors).

In an early e-commerce antitrust case, 25 Chrysler dealers in the states around Idaho were charged by the FTC with entering into a *per se* illegal conspiracy when they used their association, Fair Allocation System, Inc, ("FAS") to demand that Chrysler allocate new vehicles on a different basis. FAS demanded that Chrysler change its allocation formula, to a formula that would disfavor an Idaho dealer with substantial Internet sales. FAS accompanied its demands with threats of a boycott of certain models and refused to provide certain warranty repairs by the 25 dealer-members of the association. The matter was resolved with a consent decree prohibiting FAS from threatening such a boycott (In re Fair Allocation System, Inc., 63 Fed. Reg. 43,183, August 12, 1998).

## REGULATORY RESTRICTIONS ON INTERNET COMMERCE

When federal, state, or local government regulations are in conflict with free and open competition, Congress and U. S. Courts have generally (but not always) resolved these conflicts in favor of the regulations over the antitrust laws. Federal courts have also identified categories of exempt or immune conduct, or developed related doctrines of deference to government decision making, generally in favor of federal, state, or local regulation over the antitrust laws. Important recent court decisions, however, suggest that courts are in the process of clarifying greater limitations on state's ability to interfere with e-commerce.

Under the "state action" doctrine, states have been allowed to impose regulatory requirements mandating conduct that would otherwise violate the antitrust laws. The state action doctrine is often called "*Parker immunity," after Parker v. Brown*, 1943). In the *Parker* case, the Supreme Court upheld a California program restricting the marketing of raisins, based on principles of federalism requiring that Congress not be too hasty in infringing on a state's right to regulate commerce within its own state.

To qualify for *Parker* immunity, the state must clearly articulate and affirmatively express the restraint as state policy, and (2) the policy must be actively supervised by the state itself (*California Retail Liquor Dealers Ass'n v. Midcal Aluminum, Inc*., 1980). It is interesting to note that there is no requirement that the state demonstrate it has an interest in the issue. To the extent that state laws meet this test, the courts will recognize the restraint as being within the legitimate regulatory power of the state.

The requirement that the challenged conduct be undertaken "pursuant to a 'clearly articulated and affirmatively expressed state policy' to replace competition with regulation" serves to ensure that the state has authorized departures from free market competition (*Hoover v. Ronwin*, 1984). The active supervision requirement is intended to ensure that state action immunity "will shelter only the particular anticompetitive acts of private parties that, in the judgment of the State, actually strengthen state regulatory policies" (*Patrick v. Burget*, 1988).

**STATE FRANCISE LAWS IN GENERAL**

Many of the state-level restrictions on e-commerce are in the form of state franchise laws. State franchise laws were originally adopted in response to concerns about the vulnerability of franchisees to fraudulent activities and abuses by franchisors. The first state franchise law, the California Franchise Registration and Disclosure Act, was passed in 1971. Currently, eighteen states, the District of Columbia, Puerto Rico and the Virgin Islands have statutes of general applicability prohibiting termination of a "franchise" or "dealer," as the terms are defined in the statutes, without good cause. In addition to franchise laws of general applicability, nearly every state has laws regulating the appointment and termination of automotive dealers. Many states also have comparable statutes applicable to the distribution of wine and alcoholic beverages, gasoline and related petroleum products and farm implements or construction or material handling equipment.

State franchise laws may override the contractual provisions in agreements between a manufacturer and its dealer or distributor. Thus, state franchise laws may transform a contract that may be terminated by one or both parties, with no or specified notice, into a contract that may only be terminated for cause or upon a minimum statutory notice (e.g. 30 days).

For example, in *To-Am Equipment Co. v. Mitsubishi Caterpillar Forklift America, Inc.,* 1998), the Court found that even though the manufacturer strictly complied with the termination provisions of its contract with To-Am, its exclusive distributor in parts of Illinois (which the contract stated were to be subject to Texas law), the manufacturer was subject to the Illinois Franchise Disclosure Act, and thus the Court upheld an award of $1.5 million in damages, plus attorneys fees and court costs, for terminating the contract in a way that violated the distributor's rights under the Illinois state franchise law.

Many of the state franchise laws require notification before termination and prohibit termination except for "good cause." Often the state franchise statutes, to the extent they define good cause, do so in terms of dealer conduct (e.g., termination permitted in case of dealer bankruptcy, failure to comply with an essential and reasonable requirement in the dealership agreement, material misrepresentation, etc.).

Such definitions of good cause do not explicitly allow for economic circumstances, such as the manufacturer's dissatisfaction with a particular dealer or the manufacturer's interest in establishing a more efficient distribution system, to justify termination. Even so, the manufacturer is generally allowed to assert good cause for termination from the manufacturer's economic circumstances or by the product sold by the dealers being withdrawn from the market.

For example, in *Morley-Murphy Co. v. Zenith Electronics Corp.,* 1998), Zenith's decision to terminate certain dealers in order to convert to a more direct distribution system was challenged under the Wisconsin Fair Dealership Law. In that case, the Court held that, even though the language of the Wisconsin statute did not include the manufacturer's economic justification in its definition of good cause, Zenith could still assert a defense that "its own economic circumstances constituted good cause."

## STATE FRANCISE LAWS AND IMPLICATIONS FOR E-COMMERCE

A manufacturer's decision to terminate a dealer or distributor in order to sell directly to end-users over the Internet could be subject to state franchise law, exposing the manufacturer to a claim for damages, reasonable attorneys' fees and injunctive relief. In addition to prohibiting the termination of a supply agreement without good cause, some state statutes also prohibit a supplier from engaging in any conduct that would have the effect of changing the "competitive circumstances" of the relationship.

In such states, a unilateral attempt by a manufacturer to restrict a dealer's or distributor's pre-existing right to engage in Internet sales or advertising, or to eliminate its exclusive territory in order to allow the manufacturer to make direct Internet sales, could constitute a material change in the relationship subjecting a manufacturer to a claim for damages. Moreover, in certain circumstances, merely engaging in direct Internet sales could violate exclusive dealer rights protected by state statute.

An example of how state franchise laws could be applied to e-commerce involved infomercials for Murad skin products. A federal court found that infomercial broadcasts of Murad products by a New York television station carried in Puerto Rico, which led to direct sales to customers in Puerto Rico, could be found to impair the Irvine's contractual rights as the exclusive Murad distributor in Puerto Rico under the Puerto Rico Distributor Act (*Irvine v. Murad Skin Research Laboratories, Inc.,* 1999).

By the same reasoning, the availability of products for sale through Internet distribution into a state with a franchise law could be found to violate traditional distributors' rights. Indeed, the National Automotive Dealers Association ("NADA"), the largest trade association representing new car dealers, has taken the position that most state franchise laws effectively prohibit automobile manufacturers from engaging in any direct Internet sales (NADA, 2002).

For example, automobile dealer franchise laws in 45 states contain "relevant market area" provisions ("RMA" provisions) placing the burden on the automobile manufacturer to justify to a state agency any attempt to allow a new party, such as an Internet seller, to sell in an existing dealer's RMA. Such a provision in the California statute has been challenged, but both state and federal courts have upheld the constitutionality of the state franchise laws containing RMA clauses (*see, e.g., New Motor Vehicle Board v. Orrin W. Fox Co.*, 439 U.S. 96, 1978), upholding California's Automobile Franchising Act.

## THE WINE CASES AND OTHER RECENT COURT DECISIONS

Cases related to sales of wine and alcoholic beverages are particularly relevant. While some federal courts have recently struck down certain state laws and regulations impeding the growth of e-commerce as violations of the commerce clause of the U. S. Constitution, other federal courts have upheld such restrictions (*see, e.g., Bridenbaugh v. Freeman-Wilson,* 2000, upholding constitutionality of Indiana's alcoholic beverage statute; *Bolick v. Roberts*, 2002, holding Virginia's Alcohol Beverage Control Act unconstitutional; *Dickerson v. Bailey*, 2002, holding unconstitutional Texas's statutory ban on direct importation of wine by Texas residents.

A key case in this battle involves Michigan and New York restrictions on direct shipments of wine into the state, such as by Internet sales. Eleanor Heald, a wine collector, challenged the Michigan's Liquor Control Code as violating the Commerce Clause in Article I of the U. S. Constitution by prohibiting out-of-state wineries from shipping to ship wine directly to a Michigan resident. The Michigan law allowed in-state wineries to make such direct shipments. The same argument was made in a separate case in New York by Juanita Swedenburg, an owner of an out-of-state winery.

The Michigan law had been struck down by the Sixth Circuit Court of Appeals as discriminating against interstate commerce in violation of the Commerce Clause (*Heald v. Engler*, 2003). Similar reasoning was adopted by a federal district court in striking down the New York restrictions on wine sales (*Kelly v. Swedenberg*, 2002). However, the New York restrictions were re-instated by the Second Circuit Court of Appeals (*Swedenberg v. Kelly*, 358 F.3d 233, 2004). Thus, the Supreme Court took the Michigan and New York cases to resolve the inconsistency in these two appeals court rulings.

The Michigan law dates back to 1934, shortly after Prohibition was repealed, and prohibits sales of alcoholic beverages to consumers unless shipped through a state-licensed liquor authority. Defenders of the law claimed that the law helps discourage sales of alcohol to minors, who could then order alcohol with a credit card and no ID check over the Internet.

In a 5-4 decision, the Supreme Court decided the Michigan and New York laws were both unconstitutional (*Granholm v. Heald*, 2005). While states had the power to regulate alcohol however they wished, including banning alcoholic beverages entirely within the state if desired, the states did not have the power to violate the Commerce Clause by discriminating against out-of-state interests. The Supreme Court also concluded that justifications offered by the states were undermined by the unequal application, which allowed direct sales by in-state wineries, but did not allow direct sales by out-of-state wineries.

Court opposition to protectionist state laws has extended into other areas and other legal grounds. Perhaps the most significant is *Craigmiles v. Giles* (2002), in which the Sixth Circuit Court of Appeals struck down a Tennessee law requiring caskets be sold only by Tennessee-licensed funeral directors. The Court noted that funeral homes at the time typically marked up the cost of caskets by 250 to 300 percent, while the plaintiffs challenging the regulation typically sold caskets elsewhere for much lower prices.

In enjoining the enforcement of the casket sales restriction, the Court pointed to the Equal Protection and Due Process clauses of the Fourteen Amendment to the U. S. Constitution. Since this regulation did not infringe on any fundamental right (e.g., voting) or discriminate on one of the "suspect" classes (e.g., race, sex), the casket regulation was subject to "rational basis" review, requiring only that the regulation bear some rational relation to a legitimate state interest. The Court noted, "Even foolish and misdirected provisions are generally valid if subject only to rational basis review. As we have said, a statute is subject to a 'strong presumption of validity' under rational basis review, and we will uphold it 'if there is any reasonably conceivable state of facts that could provide a rational basis.'" The Court then proceeded to find no rational basis for the regulation that could not be achieved with a much less intrusive regulation, and noted the obvious protectionist basis toward protecting established funeral homes from competition.

While the casket sales restriction had the effect of increasing profits for funeral directors, that was found not to be a sufficient justification because "Courts have repeatedly recognized that protecting a discrete interest group from economic competition is not a legitimate governmental purpose" (see *City of Philadelphia v. New Jersey*, 1978). Note that the restrictions on casket sales applied to both in-state and out-of-state interests, so that the Sixth Circuit enjoined the enforcement of the Tennessee statute on a broader basis than the U. S. Supreme Court used in the wine cases.

Thus, courts have been willing to use at least two Constitutional bases for striking down state laws that restrict Internet commerce—the Commerce Clause in Article I of the U. S. Constitution (used in the wine cases) and the Due Process and Equal Protection clauses in the Fourteen Amendment (used in the Tennessee casket sales case).

## SOLICITATION OF GOVERNMENT ACTION

Competitors sometimes petition government entities to restrict the ability of their rivals to compete in the marketplace. When successful, these actions by government authorities can have significant anticompetitive effects, particularly when firms persuade government authorities to exclude competitors from commercial opportunities. Even though such petitioning can have anticompetitive results, courts have conferred "petitioning immunity" upon a wide range of activities designed to induce government bodies to restrain competition.

The foundation for antitrust immunity for efforts to solicit competition-restricting government action is the Supreme Court's decision in *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.,* (1961). The case involved railroads that had engaged in a publicity and lobbying agenda to induce the legislature to restrict competition from the trucking industry. The *Noerr* decision established the groundwork for judicial efforts to define the circumstances in which private efforts to elicit rivalry-suppressing government action are immune from antitrust challenge.

The Supreme Court in the *Noerr* case found that the railroads' objective in seeking this legislation was to restrict competition from truckers. However, so long as the railroads were making a genuine effort to influence legislation and law enforcement practices," the Court held that their conduct enjoyed absolute antitrust immunity, regardless of any anticompetitive motive that prompted the petitioning activities (see also, *United Mine Workers v. Pennington, 1965; City of Columbia v. Omni Outdoor Advert., Inc*., 1991).

Many of the wine shipment restrictions are the result of wineries lobbying state legislatures to allow the direct interstate shipment of wine to consumers, and liquor wholesaler lobbying groups pressured state legislatures to oppose such measures. Until the recent cases, the groups advocating restrictions on Internet sales of wine had generally been more successful in these lobbying efforts. Before the *Granholm v. Heald* decision was announced, five states made the direct shipment of wine to individuals a felony, and more than half of the states required wine to pass through a state mandated distribution system. Smith (2003)

Nonetheless, despite the antitrust immunity granted by the *Noerr* decision for political activity, antitrust enforcement agencies have not sat silently when such restrictions on competition are proposed. For example, the Antitrust Division and FTC jointly advised the Rhode Island legislature of its opposition to a proposed law that would restrict real estate closings from being preformed by non-attorneys, and has also opposed regulations proposed by federal agencies in areas such as federal milk and agriculture marketing orders where antitrust exemptions apply (United States Department of Justice, 2002).

Recently the FTC showed its willingness to advocate against further such regulatory attempts to restrain Internet commerce. For example, the FTC opposed regulations to restrict the online sale of replacement contact lenses. According to the FTC, requiring Internet-based sellers to obtain optical establishment licenses "would likely increase consumer costs while producing no offsetting health benefits." Rather than improve consumer optical health, increased licensing costs could lead to higher prices, which could lead consumers to replace their contact lenses less frequently (Federal Trade Commission, 2002).

## CONCLUSION

Attempts to erect barriers to e-commerce within the U. S., and therefore affecting overseas trade, often have an anticompetitive effect on the marketplace. While proponents of such statutes may claim to provide consumer protection through the restriction of e-commerce, the purpose of these statutes may actually be the protection of local interests, at the expense of out-of-state retailers.

The success of such attempts to limited Internet commerce depends largely upon which legal category applies to the restraint on competition. Private efforts by potentially competing businesses to hinder competition from Internet retailers are subject to the U. S. antitrust laws, which generally will be applied strictly to attempts to limit competition. When governments impose such restraints, however, the restrictions are generally exempt from the antitrust laws, although the wine cases and other recent court decisions have struck down some of these laws on other grounds. Attempts by competitors to lobby governmental regulators to restrict competition from Internet retailers are also generally exempt from the U. S. antitrust laws, but have nonetheless been resisted by antitrust regulators through their own lobbying and advocacy efforts.

Business managers seeking to limit Internet competition should be on notice that federal policies have shifted and are now less likely to allow such restraints. While protectionist policies pursued by states are still exempt from the antitrust laws under the State Action Doctrine, both the courts and the antitrust agencies have taken a strong interest in this type of legal protectionism. Based on the recent U. S. cases and the recent interest in government policymakers to favor competition from Interest retailers, it is likely that the growth of Internet commerce will accelerate and become an even more important sector of the economy.

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# STRATEGIC INTENTIONS FOR HANDLING CONFLICT: DOES PROACTIVE PERSONALITY OR SELF-MONITORING MATTER?

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## ABSTRACT

This study examines the relationship between the five modes of handling organizational conflict (as measured by the Thomas-Kilmann Conflict Mode Instrument) and the two personality factors of self-monitoring and proactivity. Participants in this study were a mix of 157 undergraduate and graduate students from a large public university located in the mid-Atlantic region of the United States. Results show that self-monitoring was not significantly correlated with any of the five conflict handling strategies. Proactivity did show a significant positive association with the competing and collaborating styles, and a significant negative correlation with avoiding and accommodating styles. Implications for future research are discussed.

## INTRODUCTION

An inescapable fact of life in organizations is that interpersonal conflict occurs on a routine basis (Amason, 1996; Amason, Thompson, Hochwarter, & Harrison, 1995; Jameson, 1999; Pondy, 1992; Wall & Callister, 1995). Further, the presence of this conflict can have positive benefits for an organization if it is managed properly (Jameson, 1999; Pelled, Eisenhardt, & Xin, 1999; Rahim, 2001, 2002; Rahim, Magner, & Shapiro, 2000; Wall & Callister, 1995). In its positive form, conflict can stimulate organizational members to action, can make individuals and organizations more creative and innovative, and can be a source of feedback regarding critical relationships, the distribution of power, and the problems that require management attention. Interpersonal conflict can also bring focus to problem areas within an organization, which can then lead to improvements within the organization (Amason, 1996; Pondy, 1992).

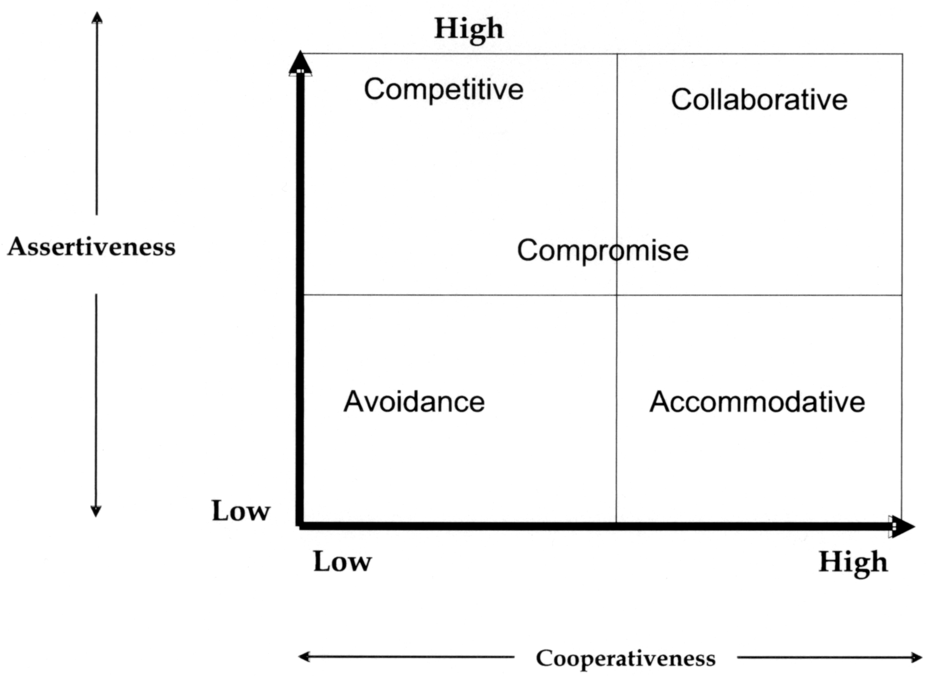
Given the linkage between appropriately handling interpersonal conflict and improvements in organizational performance (Amason et. al., 1995), it is not surprising to find that research over the past 30 years has paid substantial attention to the approaches individuals deploy in handling conflict and to the underlying factors, both person-based and situational, that influence the choice of approach (De Dru & Weingart, 2003; Jameson, 1999; Rahim, 2002). The present study adds to this growing body of knowledge on individual conflict handling by assessing two personality factors: self-monitoring and proactivity. These personality variables have received only limited attention for their relationship with conflict management. Specifically, the intent of this study is to examine the linkages between strategic conflict handling intentions and individual self-monitoring and proactive personality (proactivity). Both of these variables have received considerable research attention based on the belief that self-monitoring ability and proactivity are associated with, or influence, individual behaviors within the work setting. Further, it can be speculated that both of these personality factors could influence predispositions toward a particular conflict handling style.

## UNDERSTANDING INTENTIONS FOR HANDLING CONFLICT

Individual choices for responding to interpersonal conflict have generally been viewed as representing five fairly distinct categories. As originally developed by Blake and Mouton (1964), and later extended by other researchers (Rahim, 1983; Sorenson, Morse, & Savage, 1999; Thomas & Kilmann, 1974), five different orientations or styles are possible for handling conflict: competing (domination), collaborating (integration), sharing (compromise), avoiding (neglect), and accommodating (appeasement).

Thomas (1983) proposed dual dimensions that create a schematic that helps in understanding the differences among the five orientations (see Figure I). One dimension measures an individual's desire to satisfy his or her own needs, also referred to as the degree of assertiveness. The second dimension indicates a person's desire to satisfy the needs of the other party, also referred to as the degree of cooperativeness.

**FIGURE I. FIVE CONFLICT HANDLING ORIENTATIONS (FROM THOMAS – 1983)**




In essence, each of the five conflict orientations represents a unique combination of the dual dimensions: competing represents assertive and uncooperative, collaborating represents an abundance of both assertive and cooperative, avoidance is defined as unassertive and uncooperative, accommodation represents unassertive and cooperative, and sharing represents a moderate amount of both assertiveness and cooperation (Jameson, 1999; Rahim et al., 2000; Rahim, 2002). Prior research has supported the validity and the discreteness of the five styles as a function of the dual dimensions of concern for oneself and concern for others (Cosier & Ruble, 1981; Rahim & Magner, 1995; Ruble & Thomas, 1976; Van De Vliert & Kabanoff, 1990).

Assessment of an individual's dominant conflict handling style has typically been accomplished by using self-reported scores on such standardized instruments as the *Organizational Conflict Inventory* (Rahim, 1983) and the *Conflict Mode Instrument* (Thomas & Kilmann, 1974). The purpose of these instruments is to provide an index of one's self-perceived dominant orientation for handling conflict.

## PREVIOUS RESEARCH ON CONFLICT HANDLING INTENTIONS AND PERSONALITY CONSTRUCTS

The inevitability of interpersonal conflict and the potentially positive outcomes associated with it have prompted researchers to study the underlying factors that dictate how individuals respond to conflict when it arises. Over the past three decades, researchers have looked at the relationship between the five conflict handling intentions and a wide variety of personality-related variables.

For example, Kilmann and Thomas (1975) examined the relationship between Jungian personality dimensions and one's predominant form of conflict handling behavior, finding that individual differences in psychological tendencies toward conflict processes were likely to be influential in the conflict-handling mode that the individual chooses to use in a given situation. Similarly, other researchers suggest that basic psychological predispositions and differences in personality dimensions influence individual preferences for approaching and managing conflict (Antonioni, 1998; Graziano, Jensen-Campbell, & Hair, 1996; Moberg, 2001; Percival, Smitheram, & Kelly, 1992).

Table I summarizes the personality-related variables that have been studied for their linkage with conflict handling intentions. These constructs include the "big five" personality factors of extraversion, openness to experience, conscientiousness, agreeableness, and neuroticism (Antonioni, 1998; Chanin & Schneer 1984; Graziano, Jensen-Campbell, & Hair, 1996; Mills, Robey, & Smith 1985; Moberg, 2001; Percival, Smitheram, & Kelly 1992), as well as such constructs as machiavellianism (Jones & Melcher, 1982), dogmatism (Jones & Melcher, 1982), motivational needs (Bell & Blakeney, 1977; Jones & Melcher, 1982), emotional intelligence (Jordan & Troth, 2002), and several others (Jones & Melcher, 1982; Ohbuchi & Fukushima, 1997).

**TABLE I. STUDIES OF PERSONALITY-RELATED VARIABLES AND CONFLICT HANDLING INTENTIONS**

| Study | Personality Variable(s) Studied |
|---|---|
| Bell & Blakeney (1977) | Aggression, Dominance, Affiliation and Achievement |
| Jones & Melcher (1982) | Achievement, Dominance, Aggression, Affiliation, Deference, Succorance, Nurturance, Dogmatism and Machiavellianism |
| Chanin & Schneer (1984) | Jungian Personality Dimensions (MBTI) |
| Mills, Robey & Smith (1985) | MBTI |
| Percival, Smitheram & Kelly (1992) | MBTI |
| Ohbuchi & Fukushima (1997) | Aggressiveness and Self-Monitoring |
| Antonioni (1998) | Big Five Personality Factors |
| Jordan & Troth (2002) | Emotional Intelligence |

In general, these past research efforts on the linkages between personality dimensions and conflict handling intentions show how the contrasting dimensions of personality, such as the Jungian personality dimensions and the "Big Five" personality factors, might be linked with the five styles for handling conflict. In terms of overall findings, research has found the competing style to be positively associated with the Jungian function "thinking" (Chanin & Schneer, 1994; Mills, Robey, & Smith, 1985) and with extraversion (Antonioni, 1999), and negatively associated with need for affiliation (Jones & Melcher, 1982) and agreeableness (Antonioni, 1999). The collaborating style has been to found to be positively associated with extraversion, agreeableness, conscientiousness, and openness to experience (Antonioni, 1999), need for achievement (Bell & Blakeney, 1977), and high emotional intelligence (Jordan & Troth, 2002). The avoiding style has shown a positive association with agreeableness and neuroticism (Antonioni, 1999), and a negative association with extraversion, openness to experience, and conscientiousness (Antonioni, 1999). Finally, the accommodating style has shown a positive association with the Jungian function "feeling" (Chanin & Schneer, 1994; Mills, Robey, & Smith, 1985) and need for affiliation (Jones & Melcher, 1982) and a negative association with extraversion (Mills, Robey, & Smith, 1985).

These findings indicate that personality dimensions likely play a role in shaping underlying predispositions toward handling conflict. As would be expected, the competing and collaborating styles show an association with extraversion, the personality factor whereby the individual displays an energetic response to interpersonal events (John & Srivastava, 1999). In contrast, the avoiding, accommodating, and collaborating styles all showed an association with agreeableness, the personality factor where the individual shows a positive or prosocial orientation toward other members within a group (John & Srivastava, 1999).

## SELF-MONITORING, PROACTIVITY AND CONFLICT RESPONSES

With regard to self-monitoring capability, individuals vary in the extent to which they can "monitor" and adjust their behaviors and the public portrayal of themselves based on contextual cues and on perceived outcomes of the behavior (Day, Schleicher, Unckless, & Hiller, 2002; Snyder, 1987). In this sense, high self-monitors tend to monitor and control the images they present to better fit with their perception of the social climate, whereas low self-monitors tend to be true to themselves, exhibiting more consistent behavior across various social contexts (Day, Schleicher, Unckless & Hiller, 2002).

High self-monitors, with their chameleon-like response to social context, can vary their behavioral response depending on the situation and the potential outcomes. As such, high self-monitors are generally viewed as better able to appropriately respond in contemporary organizational settings where social contexts are less certain, primarily due to such factors as greater workplace diversity, globalization, and vertical and horizontal company integration. Accordingly, research has found that high self-monitors are more likely to emerge in leadership roles (Day et. al., 2002; Eby, Cader, & Noble, 2003), display organizational citizenship behaviors (Blakely, Andrews, & Fuller, 2003), and be promoted within the corporate hierarchy (Kilduff & Day, 1994). Even with these positive results, other researchers have suggested that high self-monitors might not represent the most appropriate leaders, given that high self-monitors might not display the full portfolio of needed leadership skills (Bedeian & Day, 2004) or might put their own career success and self-preservation above the interests of the organization (Callanan, 2003).

As indicated previously, there has been scant research examining the relationship between self-monitoring and conflict handling styles. In a study using sixty-six male students, Ohbuchi and Fukushima (1997) found no correlation between self-monitoring and the five conflict responses, but high self-monitors did show a greater willingness to use the collaborative response only when no strong time pressures existed in the conflict situation. By its very nature, self-monitoring indicates the degree to which an individual is able to adapt behavioral responses to meet situational demands. It is not surprising then that self-monitoring would show no distinct association with any one conflict handling style. In this sense, high self-monitors would adjust their conflict responses to match the situation and its potential consequences. Low self-monitors would likely respond to a conflict episode in line with their primary type given their proclivity to "reflect their own inner attitudes, emotions, and dispositions" (Premeaux & Bedeian, 2003, p. 1542). In both cases, there would not be a clear-cut linkage between self-monitoring and any one conflict handling strategy. Given this expectation, the first hypothesis to be tested is:

**H1**: Self-monitoring shows no overall association with any of the conflict handling styles.
Like self-monitoring, proactivity has received considerable research attention as a personality characteristic that can influence individual behaviors (Bateman & Crant, 1993; Crant, 2000; Kirby, Kirby & Lewis, 2002). Individuals who display a proactive personality tend to be unconstrained by situational forces, influence environmental change, identify opportunities and act upon them, and persevere until meaningful change takes place (Crant, 2000). People with a proactive personality display aggressive, action-oriented behaviors that allow them to be agents of change who can transform an organization (Callanan, 2003). Further, proactivity is a personality trait that is often valued by organizations since it implies that the individual possessing this trait will be a force of positive change within the organization. Given its desirability within various organizational contexts (Seibert, Kraimer, & Crant, 2001), it would be of interest to know the linkage, if any, between proactivity and the various strategic options for handling conflict.

While the relationship between proactive personality and conflict handling styles has not been assessed directly, there have been studies that examined constructs that could serve as proxies for proactivity. For example, Jones and Melcher (1982) looked at the linkage between such variables as dominance (need to control others), aggression (to attack contrary points of view), and Machiavellianism (active manipulation of others) and conflict handling styles. Although none of these constructs exactly mirrors the proactivity variable, they do all indicate a degree of aggressive behavior. As expected, Jones and Melcher (1982) found that all three showed a positive correlation with the "confronting" or competing style of dealing with conflict.

Given the nature of the competing and the collaborative styles (both manifest a high degree of assertiveness in conflict situations), it could be expected that proactivity would have a significant association with both competing and the collaborative styles. Given this expectation, the second hypothesis to be tested is:

**H2**: Proactivity shows a significant positive association with the competing and collaborating conflict handling styles, and a significant negative association with the avoiding and accommodating styles.

## METHODOLOGY

### Research Participants

Subjects for this study (*N*=157) were a mix of undergraduate and graduate business students from a large state university located in the mid-Atlantic region of the United States. Participation in the research was voluntary and was part of normal coursework and instruction in various management courses. Students were not coerced nor given incentives to participate and all responses were anonymous. Further, subjects had not been exposed to coursework in conflict management prior to participation in the research. Demographic information for the participants is included in Table II.

**TABLE II. PARTICIPANT CHARACTERISTICS AND TKI CONFLICT MANAGEMENT STYLES**

| | | |
|---|---|---|
| *N*=157: 137 undergraduate and 20 graduate students | | |
| Gender: 58% male and 42% female | | |
| Average Age: 24.4 years | | |
| Conflict Management Style (from the TKI) | | |
| | Number | Percentage |
| Competing | 36 | 22.9 |
| Collaborating | 16 | 10.2 |
| Compromising | 35 | 22.3 |
| Avoiding | 41 | 26.1 |
| Accommodating | 29 | 18.5 |
| Total | 157 | 100.0 |

### Assessment Materials

A survey was used to collect data for the study. Participants completed the survey on their own and at their own pace. Strategic intentions for handling conflict were measured using the Thomas-Kilmann Mode Instrument (the TKI). The TKI is based on Blake and Mouton's (1964) conceptual model and reports scores for each of the five modes or styles. The TKI is viewed as easy to administer and is relatively uncontaminated by social desirability effects (Womack, 1988). The TKI has been used extensively both in research and in training, and it is the most widely used instrument for determining conflict resolution style. In terms of content, the TKI is a forced-choice instrument that consists of thirty forced-choice paired statements, where the respondent is asked to choose a preference between the two statements. Example statements include: "I try to find a position that is intermediate between his/hers and mine." or "I assert my wishes." Scores are calculated for each of the five conflict modes or styles ranging from 0 to 12. Individuals were classified in terms of their dominant strategic intention for handling conflict based on their style with the highest score as given by the TKI. In the few cases where the TKI scores were tied for two particular styles, individuals were classified based on their most significant score in relation to the scores of the original norm group as given in the TKI manual

(Thomas & Kilmann, 1974). Table 2 shows the overall pattern for dominant conflict handling style as given by results from the TKI.

Although the TKI has been used widely, Cronbach alpha coefficients for the instrument have been found to be relatively modest (Volkema & Bergmann, 1995; Womack, 1988). Cronbach alpha coefficients for the TKI in the present research were consistent with the results cited in a number of research studies (Chanin & Schneer 1984; Womack, 1988).

For measurement of the proactive personality variable participants responded to a shortened (10 items) version of Bateman and Crant's (1993) original Proactive Personality Scale. Seibert, Crant and Kraimer (1999) designed this shortened version of the scale and reported a Cronbach alpha value of .86. For the present study the Cronbach alpha was .88. Self-Monitoring was measured by a revised 18-item true-false version of the original Self-Monitoring Scale (Snyder, 1974). Cronbach alpha for this scale has been reported at .75 (Kilduff and Day, 1994), and for the present study it was .70. The self-monitoring score represents the likelihood that the participant belongs to the high or the low self-monitoring category. Sample questions include: "I am not always the person I appear to be." and "I can only argue for ideas that I already believe."

## DATA ANALYSIS

Correlations were calculated based upon the total self-monitoring and proactivity scores for each participant along with scores in each of the five conflict handling styles. Table III shows the mean scores, standard deviations, and Pearson correlations for all of the main variables included in this research.

**TABLE III. DESCRIPTIVE STATISTICS AND INTERCORRELATIONS AMONG CONFLICT-HANDLING INTENTIONS AND PERSONALITY TYPES**

| Variable | *M* | *SD* | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|---|
| 1. COMPETING | 5.49 | 3.110 | | | | | |
| 2. COLLABORATING | 5.76 | 2.228 | .038 | | | | |
| 3. COMPROMISING | 6.87 | 2.021 | -.273** | -.131 | | | |
| 4. AVOIDING | 6.01 | 2.717 | -.500** | -.505** | -.137 | | |
| 5. ACCOMMODATING | 5.78 | 2.426 | -.546** | -.311** | -.166* | .115 | |
| 6. PROACTIVITY | 39.05 | 6.005 | .325** | .184* | .019 | -.287** | -.284** |
| 7. SELF-MONITORING | 25.96 | 3.442 | -.113 | .025 | -.023 | .099 | .017 |

*Note:* $N = 157$. ** $p < .01$ * $p < .05$

As stated previously, individuals were assigned their dominant conflict handling style based upon the TKI mode with the highest overall score. Table IV summarizes the information on the five styles and includes the average proactivity and self-monitoring scores for each of the dominant conflict handling modes.

**TABLE IV. MEAN PERSONALITY AND CONFLICT-HANDLING SCORES BY CONFLICT MANAGEMENT STYLE**

| | Designated Conflict Management Style | | | | |
|---|---|---|---|---|---|
| Category | Competing | Collaborating | Compromising | Avoiding | Accommodating |
| Competing | 9.55 (1.63) | 6.11 (1.74) | 6.11 (1.94) | 4.03 (2.13) | 4.06 (1.49) |
| Collaborating | 5.37 (1.93) | 9.19 (1.28) | 5.56 (2.03) | 4.63 (1.71) | 5.06 (2.08) |
| Compromising | 4.40 (1.94) | 6.06 (1.94) | 9.29 (0.99) | 5.11 (2.11) | 5.17 (1.95) |
| Avoiding | 3.98 (2.57) | 4.44 (1.72) | 6.34 (1.39) | 9.27 (1.34) | 5.93 (2.20) |
| Accommodating | 3.97 (2.46) | 4.97 (2.01) | 6.38 (1.50) | 5.72 (1.77) | 8.86 (1.25) |
| Proactivity | 41.61 (4.47) | 39.31 (8.90) | 39.76 (5.53) | 37.29 (6.13) | 37.28 (5.06) |
| Self-Monitoring | 25.61 (3.12) | 26.81 (3.62) | 25.88 (3.60) | 26.39 (3.73) | 25.52 (3.18) |
| *N* | 36 | 16 | 35 | 41 | 29 |

*Note*: Standard deviations are in parentheses.

The next step in the analysis was to determine whether the average scores for the self-monitoring and proactivity variables differed significantly among the five conflict handling styles. Each ANOVA procedure measures the effect of a specific personality variable on the choice of conflict handling style. The five styles are assumed to be different populations of personality scores; the personality scores are the independent or measurement variables. Since the proactivity and self-monitoring variables are constructed on different scales and interpreted differently, two one-way ANOVA tests were deployed.

Based upon Hypothesis 1, it would be expected that the ANOVA would detect no significant difference in self-monitoring scores across the five conflict handling styles. However, in line with Hypothesis 2, it would be expected that the ANOVA procedure would indicate a significant difference between mean proactivity scores over the five styles. More specifically, it is expected that a pair-wise comparison test (such as Scheffé) would indicate that average proactivity scores were higher with the competing and collaborating strategies and lower with the avoiding and accommodating styles. Scheffé's test was selected because it is more rigorous than other pair-wise comparison tests; that is, we are less likely to make a Type I error by rejecting the null hypothesis of equal means if that is true. It is less likely to allow us to assume that the means are different if they are not. In addition, there is no requirement that the samples be equal in size. Scheffé's test assumes that the ANOVA results indicate a difference in means.

## RESULTS

In line with Hypothesis 1, Table III shows that self-monitoring was not significantly correlated with any of the five conflict handling styles. In support of Hypothesis 2, Table III shows the proactivity variable with a significant positive correlation with the competing and collaborating styles, and a significant negative correlation with the avoiding and accommodating modes.

Results of the first ANOVA procedure, as shown in Table V, support Hypothesis 1; there is no evidence of a significant difference between mean self-monitoring scores among conflict handling styles. Scheffé's test is inappropriate here since it presumes that the ANOVA procedure found a difference in means.

**TABLE V. ANALYSIS OF VARIANCE RESULTS: MEAN PROACTIVITY SCORE BY CONFLICT-HANDLING STYLE**

| | Proactivity Score | |
|---|---|---|
| Conflict Handling Style | *M* | *SD* |
| Competing | 41.61 | 4.47 |
| Collaborating | 39.31 | 8.91 |
| Compromising | 39.83 | 5.53 |
| Avoiding | 37.29 | 6.13 |
| Accommodating | 37.28 | 5.06 |

*Note:* $n = 157$; $F(4,156) = 3.52$, $p < .01$. Using the Scheffe' test, only the mean proactivity scores for the competing and avoiding styles were significantly different, $p < .05$.

The second ANOVA procedure indicates a significant difference in the average proactivity scores between conflict handling styles. That is, at least one of the conflict handling modes has a mean proactivity score that is significantly higher or lower than others. Table VI summarizes the results.

**TABLE VI. ANALYSIS OF VARIANCE RESULTS: MEAN SELF_MONITORING SCORE BY CONFLICT-HANDLING STYLE**

| | Self-Monitoring Score | |
|---|---|---|
| Conflict Handling Style | *M* | *SD* |
| Competing | 25.61 | 3.12 |
| Collaborating | 26.81 | 3.62 |
| Compromising | 25.77 | 3.60 |
| Avoiding | 26.39 | 3.73 |
| Accomodating | 25.52 | 3.18 |

*Note:* $n = 157$; $F(4,156) = .64$. Results were not significantly different.

The Scheffé Test generally reinforces the results of the correlations. Specifically, there were no significant mean differences for self-monitoring between any of the five conflict styles. For proactivity, differences between the mean scores for the competing mode and the avoiding mode indicated that the mean for competing was significantly (at the .036 level) greater in that case. In contrast with the correlation analysis, no significant mean differences were found between the collaborating mode and those of avoiding and accommodating styles. The size of the collaborating group was smaller (16) and the standard deviation was high, which might explain the difference between these results and those of the correlations.

## DISCUSSION

In support of the first hypothesis, no significant correlation (positive or negative) was detected between any of the five conflict handling modes and the personality variable of self-monitoring. The results of this study are in line with results found by Ohbuchi and Fukushima (1997). By nature, high self-monitors adjust personal behavior to match situational demands and likely would not cling to any pre-wired conflict-handling mode. As stated previously, self-monitoring indicates the extent to which an individual can adjust behaviors in response to perceived situational demands and potential outcomes of a social situation. In fact, high self-monitors normally express their opinion in a public forum only when they perceive that doing so would enhance their public standing (Caligiuri & Day, 2000). In contrast, low self-monitors exhibit behaviors that would serve to display their true underlying values (Premeaux & Bedeian, 2003). Based on these findings, it is not surprising then that self-monitoring would show no distinct association with any one conflict handling style. High self-monitors would adjust their conflict responses to match the situation, while low self-monitors would likely respond to a conflict episode in line with their primary type.

Also, as hypothesized, significant correlations were demonstrated between proactiveness and four of the conflict handling styles. Specifically, proactiveness was positively correlated with the competing and collaborating modes and was negatively correlated with the avoiding and accommodating modes. In addition, significant mean differences for the proactiveness variable were detected for the competing style in contrast with the avoiding style. By definition, individuals with a proactive personality display assertive behaviors and tend not to be constrained by perceived limits/boundaries of given situations (Crant, 2000). Thus, it is not surprising that proactivity is positively correlated with the conflict handling strategies (competing and collaborating) where assertiveness is at the highest. In contrast, individuals with relatively lower proactivity would likely display lower assertiveness and the results of this study are supportive of that expectation.

## IMPLICATIONS FOR ORGANIZATIONS

This study adds to the growing body of literature on how the self-monitoring personality variable might influence individual behaviors in work settings. The present research indicates that self-monitoring is not associated with any one conflict handling style. Thus, it appears that self-monitoring might allow individuals to be unconstrained to any one style, but instead allows for choices in conflict style based on situational dictates.

In this sense, high self-monitors exhibit the appropriate blend of assertive and cooperative behavior, depending on the perceived outcome or outcomes of a particular conflict situation. This characteristic makes high self-monitors particularly suitable for today's business environment due to expanding social contexts, extensive business integration (vertical and horizontal), workplace diversity, and globalization. Since high self-monitors are sought after to perform an increasing number of "boundary-spanning" roles in business (i.e. bridging the gaps among disparate functional disciplines), they are more likely to be promoted within the corporate hierarchy into leadership positions (Day et al., 2002). Note, however, in an exchange of letters, Bedeian and Day attempt to reconcile the natural behavior of high self-monitors with the behavior required of leaders. In these letters, Bedeian expresses skepticism about the suitability of high self-monitors as leaders and ultimately concludes that additional research is required (Bedeian & Day, 2004). In this regard, research has found that high self-monitors can be so concerned with appearances that they are capable of deceit in order to enhance their status and image (Premeaux & Bedeian, 2003). In contrast, low self-monitors are more concerned with staying true to their underlying value system (Premeaux & Bedeian, 2003). This contrast is important to understand at a time when the corporate world remains shaken by public breaches of ethical conduct, where the mentality of business managers and executives to "go along to get along" enabled or exacerbated that conduct.

With regard to proactivity, the results of this study seem to present a dichotomy to organizational managers and leaders. More precisely, prior research has shown a strong positive link between proactive personality and a number of organizationally desired outcomes (Crant, 2000; Seibert et al., 1999; Seibert et al., 2001; Kirby et al., 2002), including improved job performance, increased job involvement, and a more active engagement and resolution of organizational problems. From an opposite perspective, the results of this study show that individuals with a high degree of proactiveness are potentially inclined to engage in assertive behaviors (competing or collaborating) when choosing a conflict handling strategy. Thus, while organizations might express a desire for employees with higher degrees of proactivity, and might even be able to train them to be more proactive (Kirby et al., 2002), they also might not want employees who are inclined to express proactivity and assertiveness in each and every conflict situation. Indeed there are situations when the conflict styles of accommodating or avoiding would be preferred. Business scenarios where such styles are appropriate are described in Callanan, Benzing, & Perri (2006).

In this regard, organizations might want to use caution in the degree to which they seek out individuals with proactive personalities in the selection of employees and in their promotion decisions. Further, training programs that seek to elicit greater proactivity behaviors from employees should also caution that modern business management techniques favor a more contingent style, where root personality dispositions might need to be tempered by the context of the conflict situation.

## IMPLICATIONS FOR FUTURE RESEARCH AND RESEARCH LIMITATIONS

This section highlights several areas where additional research could prove insightful. First, future research should continue to examine extent to which personality influences not only the strategic dispositions for responding to conflict, but also whether personality influences or moderates the choice of conflict response when distinct contextual factors are apparent in the conflict episode. For example, one possible stream of research could test whether individuals who are relatively higher in self-monitoring, given their supposed ability to read social cues and adjust their behaviors, are better able to choose an appropriate response to a conflict episode regardless of their primary conflict handling strategy. In addition, future research could assess the degree to which proactivity influences an individual's ability or willingness to adjust the conflict handling approach given discernible contextual factors within a specific conflict episode.

Future research should determine how results might vary if participants were members of non-American cultures. As an example, using Hofstede's dimensions of culture (Individualism/Collectivism, Power Distance, Uncertainty Avoidance, Achievement/Nurturing, Future Orientation), subject populations from a variety of cultures could be compared and contrasted in their responses.

Finally, future research should assess whether the present findings would be different with an older, more experienced sample. The participants in this study were relatively young and with limited work experience, which might have an influence on the overall results. In addition, since the subjects in the present study were strictly business majors, it would be worthwhile for future research to assess whether the results of the present research can be generalized to individuals other than business majors.

There are a number of limitations with the present study. As stated above, the sample for this research was relatively young, had limited work experience, and was centered geographically in the mid-Atlantic region of the United States. As such, caution should be used in generalizing these findings to other populations or types of workers. Second, given that the research design was cross-sectional with the use a questionnaire as the basis for data collection, there is the threat of common method variance. In response, future research should attempt to validate these findings by using other design and data collection techniques such as direct observation of individual behaviors either in simulations or in real-life work situations.

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# PERFORMANCE IS A FUNCTION OF TEAM DESIGN: A FIELD STUDY

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## ABSTRACT

This paper reports on field research comparing initial and on-going designs of work groups in two different organizations. Four components including task structure, group boundaries, norms, and authority, were specifically compared. Teams designed within the context of these four components were much more effective than work groups designed without consideration of these components. This field study, therefore, supports earlier results that design activities have a positive impact on team performance and project outcome. In addition, appropriate design activities can result in stronger team self-management.

## INTRODUCTION

Literature on teams describes the positive impact that teams have on productivity, the conditions under which teams are successful, and the factors that lead to team success. Recent empirical studies suggest that well-designed teams tend to be more effective than work groups that do not account for critical design factors. This paper reports the findings of a field research that tested components of team design and their impact on team effectiveness in two distinct organizations. In particular, we used the framework established by Hughes, Ginnett and Curphy (2006) and the initial research by Hackman (1987) and Wageman (2001) that provided the basis for these four components.

## REVIEW OF THE LITERATURE: TEAMS AND TEAM EFFECTIVENESS

Much literature discusses teams and team effectiveness. Katzenbach and Smith (1993) establish a working definition: "A team is a small number of people with complementary skills who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable" (p.112). One common characteristic of teams is accountability. Team members hold themselves to be mutually accountable. Teams have a sense of shared purpose (Katzenbach & Smith, 1993) and the team's purpose is jointly determined and planned with management (Zenger & Associates, 1994). Teams have a leadership role shared by team members (Katzenbach & Smith, 1993). Katz (1997) describes a high performing team as one that is empowered, self-directed, and cross-functional to have complementary skills. In addition, team members are committed to working together and achieving their agreed upon, common goal. To accomplish this, they work collaboratively by respecting team members. This approach makes sense since they have a perspective of shared accountability where many tasks require collaboration and jointly produced outputs. Teams have collective work products requiring joint contributions of members (Katzenbach & Smith, 1993). Teams are also important and can perform at higher levels than typical work groups. This higher performance level is the result of a greater synergy resulting from collaboration and jointly produced outputs (Katz, 1997).

The team environment is similar to successful job enrichment. In the typical work environment a manager determines and plans the work of his/her subordinates and the jobs (tasks) are narrowly defined, whereas in the team environment the manager collaborates with subordinates as peers and jointly establishes and plans the work. Thus, the skill set required for working effectively in teams is much broader than in other forms of work groups, potentially providing for individual growth and development. This development is often accomplished within the context of cross training and working directly with other team members. Moreover, this learning process is continuous and is part of the culture of the unit. Because joint accountability exists, people work together, rather than working individually on specific tasks as happens more in more traditional work situations. In team environments, rewards are based on both individual performance and the individual's contribution to the team's overall performance while all members are directly involved in continuous improvement.

Another critical skill in determining success of teams is the set of political skills. Political skills are often more critical than the technical skills required to complete the task for which the teams were created. A new product development team, typically cross-functional in composition, is an example of where this is the case. These political skills include the ability to gain support from key areas outside of the team, to gain acceptance of the team's output, to gather required resources which allow the team to work towards its goal, and to protect the team against external threats and overcome obstacles in the team's path. Likewise, internal political skills are required of team members to confront and overcome conflict issues as they arise. An agreed upon conflict resolution process is necessary to provide opportunities for intra-team cooperation and high performance levels (Katz, 1997).

Interpersonal skills comprise the sports analogy of team chemistry and are the necessary component to allow for synergy. To gain the benefits of synergy, that is, where the whole is greater than the sum of the parts, requires people to willingly and openly share ideas, comments and criticism. This open communication, and concentration on and acknowledgement of the importance of informal communication networks, separates technically skilled from high-performing teams. Katz (1997) identifies effective communication as one of those characteristics usually associated with high performing teams while Katzenbach and Smith (1993) suggest teams encourage open-ended discussion and active problem solving.

Hackman's (1987) conceptual model for work-team effectiveness identifies four general conditions that are necessary to facilitate team effectiveness: (1) a real team, (2) clear direction, (3) an enabling team structure, and (4) a supportive organizational context. As suggested above, a real team must have a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable (Katzenbach & Smith, 1993). Wageman (2001) states that real teams are a bounded social system with clear membership that is reasonably stable over time. Teams in many organizations may not meet this condition. The extent to which a team's purpose is clearly stated rather than focused on achieving a short-term goal is important for team commitment and effectiveness (Wageman, 2001).

An enabling structure includes five basic design features: (a) appropriate size; (b) optimal skill diversity with sufficient, but not too many, differences to impact coordinating activities (Ancona & Caldwell, 1992; Ray, Zuckerman & McEvily, 2004; Thompson & Brajkovich, 2003); (c) task interdependence so members are dependent upon one another to accomplish the overall work product (Wageman, 1995); (d) challenging task goals with "stretch" performance targets (Katzenbach & Smith, 1993); and (e) articulated strategy norms (Hackman, 1990).

Finally, Hackman's (1987) fourth condition stated above is a supportive organizational environment where there is an incentive system that rewards team performance (Cohen & Bailey, 1996; Wageman, 1995); an information system that provides members with data required to competently perform their work; an educational system to provide training or technical consultation (Edmondson, 2003); and material resources necessary to complete the work product.

A normative approach to team effectiveness has been used by Hackman (1990) and Ginnett (1993), and cited in Hughes, Ginnett and Curphy (2006). This approach has also been used in a comprehensive research study by Wageman (2001). In this last study, team design was found to be associated with leader behavior, team self-management, and overall team performance.

Hughes, Ginnett and Curphy (2006) present a model of four components of team design that have a positive impact on team effectiveness. They include: (1) task structure (the task is known to the team and the team has sufficient autonomy to perform it; (2) group boundaries (team size, skill set and diversity are appropriate for the task); (3) norms (members share norms for team functioning); and (4) authority (an appropriate climate is established by the leader to fit situation demands). The present paper reports on the impact of team design on team effectiveness in an engineering firm and a computer software organization.

## FIELD RESEARCH

Information was gathered from two different organizations on the initial design of teams and modifications to these work groups over time. Interviews were conducted on two different levels: open ended questions providing initial data on background information of each of the two companies, general information on the cultures of both organizations, and the perceptions of performance and job satisfaction levels for work groups and teams in each company; and, people from each company who were in comparable positions responsible for creating cross-functional teams, assigning particular projects to each work group/team, providing resources needed to fulfill task assignments and evaluating work group performance were interviewed for more specific information related directly to the areas being researched and discussed in this paper. Performance measures were compared so conclusions could be drawn from the differences in team/group formation in the two organizations. While the two companies were non-competing, one in computer software design and development, and the other in engineering design and consultation, both companies required similar creative problem-solving approaches to fulfill client needs.

In the computer software company, teams were purposefully formed by first identifying technical skill sets and key roles, including political and interpersonal roles, necessary to create and develop software packages to be used by client companies. All four variables presented by Hughes, Ginnett and Curphy (2006) were apparently purposefully included in the team design phase. First, task structure was the basis for team composition and membership. Top management's leadership style was inclusive and managers were concerned with leadership development for all organizational members. An organizational culture was created and maintained that encouraged open questioning to ensure full understanding of organizational mission and task requirements. Tasks were ambiguous by nature, but unambiguous with respect to expectations and performance criteria. Members perceived a climate conducive to open interaction and commitment to both team and organizational members. Empowerment seemed to be an everyday occurrence. As a result, team members were readily delegated autonomy necessary to creatively solve problems that occurred, and team members accepted and sought leadership opportunities.

Second, group boundary issues were openly considered in team design. Skill set requirements became the basis for determining each team's membership. Experience taught the top managers that five specific and independent skill sets were required to complete clients' projects. Four of these skill sets were required throughout the problem solving process, while the fifth skill set became critical only during certain phases of the project. The COO, therefore, determined that team size should be five with membership including four permanent members and one rotating member who would actually be involved with more than one team. Thus, one person had multiple team memberships resulting from both skill requirements and amount of time that particular skill set was required for each team. Team size was carefully controlled on the basis of these skill set requirements to ensure both efficient and effective project completion. Recruitment, selection, and placement of personnel were determined by these skill requirements established for each of the project teams, and no team was fully developed until it had the full component of skill sets/members. Organizational culture encouraged creative problem solving, highly cohesive teams, open communication, and effective conflict resolution through strong interpersonal relations. Indeed, it appeared to us that an inordinate amount of time was spent on interpersonal skills to ensure member interaction would be both positive and effective. Thus, both technical and interpersonal skills were included in team design and people at all levels of the organization, from team members to top level managers, seemed to suggest that the efforts put into their team design had a positive impact on team output and performance.

Third, as Hughes, Ginnett and Curphy (2006) suggest, team norms came from all three of the possible sources. They indicate team norms can come from: "(a) They can be imported from the organization existing outside the team, (b) they can be instituted and reinforced by the leader or leaders of the team, or (c) they can be developed by the team itself as the situation demands." These teams existed in a strong organizational culture. Deal and Kennedy (1982) describe a strong organizational culture as one in which there is a consensus on the values and deeply held beliefs by organizational members. This definition was very evident in the teams and throughout the company. Importing norms from the larger organization was a natural outcome of the culture since team members were highly committed to both the team and the organization. While it is unclear whether a strong culture leads to improved organizational performance, it is clear that a consensus on the values and beliefs of a company lead to stronger identification with the organization and its members, and as a result a more readily accepted set of norms. Such was certainly the case with this computer software company.

Empowerment was an organizational norm, instilled by leaders whose leadership styles helped to infuse team members with performance norms and expectations. The COO's relationships with team members were based on mutual acceptance of skills and abilities. He created an open environment by creating self-managed teams and a creative, almost playful work atmosphere. From the time people came into work at the computer software company in the morning, when the COO posted "brain teasers" to start the day with a puzzle, to deciding on where and what to eat for dinner, since late hours was often a necessary (but always a desirable state of employment) team members were responsible for task completion and providing input into work issues. Team members wanted and expected not only to solve client problems, but also to work closely with customers to identify and define issues to be resolved. This ensured they had complete ownership of their daily tasks and overall client projects. They appeared to work as effective self-managed teams that had the emotional and resource support of their managers.

Finally, team members, as they were trained to do from the time of their initial hiring, readily created norms as required for task performance. All three of these sources, therefore, were very apparent in our interviews with organizational members. High cohesiveness levels, which were part of the environment established by top managers, further supported the purposeful design of team norms in this whole process of team development.

The last component of team design that was found to have a positive impact on team performance is authority. In the computer software company teams were empowered to create and make their own work rules with the authority necessary to collect information as needed and establish work processes as deemed appropriate to complete work projects. The nature of project assignments and client demands required flexibility on the part of team members and authority to respond immediately to changing situations. As discussed above, leadership styles empowered teams to be self-managed. Top management ensured that team members had leadership and interpersonal skills, which were both necessary and appropriate to the nature of the task. Authority did not appear to ever become an issue of concern to either team members or top management. All parties involved in or responsible for the projects responded to changing demands in a way that appeared to be very effective. Performance outcomes and measurements seem to support this conclusion.

By contrast, team/group development and design in the engineering company took on a very different perspective. For example, while the task structure was unambiguous, work groups had narrowly defined constraints within which they were required to complete these tasks. Because managers who created these workgroups determined both questions of what to do and how to do it, there was little if any autonomy in completing assigned projects. When client demands changed an element of a project, all changes had to be approved by upper management before work could continue. There was no assigned leader from among the group membership and, apparently, no in-group leader emerged in any of the work groups. According to group members, an external manager was the only recognized leader in these work groups. This top-down approach to management had a negative impact on the organization, clients, and employees. For example, the time required to respond and react to client issues was greatly extended. Rather than project groups responding to concerns while on site, these concerns had to be communicated to upper management, and they had to determine what, if any, changes were to be implemented. Moreover, they became the sole arbiter of what was a legitimate issue and then what was the appropriate solution. Once this solution was determined, it then had to be communicated back to the on site work group. This solution may or may not be acceptable to the client, who might then complain all over again. Occasionally, when the client went directly to a top manager, the on site group would be completely left out of the loop and be unaware of any concerns until after the manager would finally communicate agreed upon changes. This resulted in extra work for the project group and helped to increase work dissatisfaction. Professionalism still provided a basis for commitment to the projects, but not to the work group or the engineering company.

This organization reflected an example of a weak culture where there was very little agreement on values, and there did not seem to be any deeply held beliefs that permeated the engineering company. The COO seemed to purposefully create an environment where no strong culture evolved. He was more concerned about maintaining full control of work place activities than he was about employee satisfaction. He did not appear to trust his subordinates to make decisions on any level, and certainly did not create self-managed teams. His was a power trip.

With respect to group boundaries, managers outside of the work groups predetermined team membership and task requirements without involvement of subordinates. Managers constructed group membership and group size by deciding which members they wanted to work together or thought had the required technical skill sets as they envisioned the project would demand. Thus, work groups had variable sizes based on these perceptions of project requirements. Managers simply ignored issues of interpersonal skills that might be required to enhance group performance. The ranking manager responsible for most group formation processes indicated that this was a professional organization—even if someone did not like another individual, those two people could work well together, as they could with just about every other member of the organization. Political issues or concerns were exclusively within the purview of upper management and were not a relevant consideration in work group design. Instead, membership in these groups was dependent entirely upon the nature and duration of a particular task. That is, groups were formed exclusively to complete a particular project and were immediately disbanded upon completion. Group norms were discouraged. Rather, managers established company-wide norms and tried to gain commitment to these. As a result, group cohesiveness was low and group boundaries were ill defined. There seemed to be a purposeful intent to create identification with and commitment to the organization rather than any set of members. Interviews with management personnel support this intent. They perceived task performance to be more effective when group members did not gain an attachment to each other. Commitment to the organization was described as more critical to mission accomplishment.

In the computer software company, because the norms of the team were consistent with the culture of the organization, team members seemed to be loyal and committed to both their team members and the organization. Authority differences were virtually non-existent within the context of the workgroup. Leadership styles of management personnel naturally supported self-managed teams within the context of empowerment. These styles were readily emulated by team members and were particularly apparent when the leadership role rotated across team members.

The leadership style at the engineering design firm was more authoritarian and, as was true in the computer software company, this style permeated throughout the workgroups. This was most evident since a top manager typically directed each of the project groups that he created. Members did not feel they could question management decisions and eventually lost the willingness to do so. No empowerment took place here and group members had no real flexibility to modify task assignments, or how to do them. We looked within the project groups to determine whether they had the appropriate amount of authority necessary to respond to client needs, questions and modifications and, therefore, successfully complete assigned projects. What we found was a few groups that were working on projects with little or no changes in the initial task definition seemed to be able to complete tasks within the framework originally established by the manager responsible to that particular client. However, most of the projects required constant modifications to respond to the changing situations in which the clients found themselves. Since these groups did not have the authority to make their own decisions, they had to wait for an external manager, who was the de facto leader, to determine what changes would be made in the overall project. The suitable level of authority, therefore, was not apparent in these work groups, given the nature of the projects to which these groups were assigned.

Team effectiveness at the computer software company was rated high along a number of dimensions. Internally, for example, member satisfaction was very high. We would expect this given the high level of team cohesiveness and autonomy. In addition, client satisfaction was very high both with the specific team output and ability to interact with and modify task requirements during the course of a given project. They appreciated the flexibility of these teams and willingness of group members to undo, redo, or modify existing project modules. Moreover, company management was delighted with how performance goals and expectations were being fully met and often surpassed. Team members often used project successes as an outward confirmation of their own internal motivation on the job. This continued a spiral effect that led to greater commitment to team members and the organization. Since client and management feedback often was provided directly to team members, everybody had the opportunity to gain psychological rewards on the job. In part, this might explain why team members so willingly worked long hours, even after a particular project was completed. This added directly to team cohesiveness and organizational commitment.

Performance results at the engineering firm were dramatically different. In particular, member satisfaction was not very high. Group members repeatedly referred to their professional organization, as if that helped explained why interpersonal relations were neither emphasized nor needed at this company. Perhaps this explains why any commitment was to the company rather than the group. The lack of autonomy and empowerment almost numbed members with respect to intrinsic satisfaction of the task at hand. Most projects were viewed as tasks to simply complete rather than challenges to meet and overcome. Motivation seemed to be tied more to maintaining one's relationship with the organization rather than developing new skills required to complete a particular project. While group members were willing to work hard and long hours to complete a project, they did so within the context of job performance and monetary rewards to be gained (extrinsic motivation) rather than the satisfaction derived from intrinsic motivation of task accomplishment. Client responses seemed to suggest work performance was adequate and minimally met expectations. Likewise, management performance expectations were also met but rarely surpassed. Thus, while all goals and expectations were met, there seemed to be little desire to go beyond a minimally acceptable performance level. Faced with increasing competition, however, organizational prospects were actually decreasing without understanding or acknowledgement by upper management levels. In addition, since the only sources of ideas were the upper echelons of management, the company's ability to meet changing market demands and client requirements was limited. Adequacy of performance suggested significantly lower outcome results than the superior performance levels found in the more effectively designed teams of the computer software company.

Member behavior, while not an immediate concern of this investigation, showed dramatic differences in these two companies. At the engineering design firm, group members performed in an almost robot-like manner. This seems to be consistent with an organizational culture that did not support empowerment and a leadership style that did not empower group members or readily delegate authority to groups in completing assigned projects. This is in stark contrast to the culture created within the computer software company. Team members here were animated from the time they walked into work. They never used the clock to cut off creative interactions, had a friendlier, more open relationship with team members, and relished in the opportunities created by full empowerment and delegation of project-appropriate authority. We could not determine which was cause and which was effect from data collected in this research.

Performance differences found in these two companies cannot be explained by differences in corporate missions or industries. Missions of the two companies are essentially the same, and while the industries are different, they are both project-based and have the same expectations with respect to work group creativity and problem solving. Moreover, project group relationships with clients and the necessity to modify projects based on client demands in both industries make the work environment very similar. Therefore, any differences in performance cannot be tied to these factors. Thus, we are saying, it must be somehow tied to, at least on some level, the differences we noted in structurally creating teams. Management styles were very different in the two companies, which resulted in cultural and climate differences as well. In the computer software company, the top management levels created self-managed teams who interacted directly with clients and were responsible for adapting their project activities to fit changing demands. In the engineering company, however, top managers became part of the project work groups by maintaining control over all project decisions, including when and how to adapt to any change in client demands. Whether team/group effectiveness helps create leadership behavior and/or organizational culture or is instead created by behavior and culture is beyond the scope of this research. Other studies have found engineering design firms that were highly effective based on appropriate initial team designs (e.g., Whiteley, 1994).

## CONCLUSIONS

Results from this field study strongly support Wageman's (2001) conclusion that initial team design has a positive impact on team task performance. A lot of effort was put into team design in the computer software company. Moreover, the specific design was appropriate for self-managed teams and ultimately for team performance. All four of the design components described by Hughes, Ginnett and Curphy (2006) were indeed present in this firm. There was a conscious effort on the part of company managers to create teams only after integrating the considerations of task structure, team boundaries, norms and authority appropriate to the task at hand. We found support for all components being purposely included in team design. Indeed, there seemed to be a conscious effort to create an appropriate organizational culture to support team development and performance. This culture actually contained all four of these components, or at least supported each of them. In any case, team design was developed deliberately and appeared to lead to higher team performance and effectiveness in the computer software company.

Group design in the engineering company lacked elements of each of the four components tied to group effectiveness. For example, while the task structure included an unambiguous project assignment for group members, there was no sufficient autonomy to complete it. Likewise, technical skills were present in group members to initially complete assigned projects. Team size also seemed to be appropriate, though variable across projects. Interpersonal skills, however, were clearly lacking, perhaps purposefully so. Moreover, when task requirements changed as a result of client concerns, skill sets did not include abilities to respond to and solve these problems, as top managers were the sole decisions makers. In addition, any interpersonal issues were beyond the scope of members' interpersonal and political skills. As noted earlier group norms were purposefully discouraged in favor of broader corporate norms. Finally, with respect to authority, members perceived a climate and structure that prevented leadership within the group or appropriate authority to effectively handle any modification in the initial project definition.

It seems clear to us that the differences in characteristics of work teams in the computer software company and the workgroups of the engineering firm are quite significant. We suspect that team design has either a causal relationship to or, at the very least, a high positive correlation with effective project performance. This field research has both the benefits and shortcomings of any such research methodology. For example, shortcomings in this study are seen when the sample size is two smaller Midwest companies. The cause/effect relationship between leadership style and culture/climate could not be established, nor could any correlation coefficients. Design requirements and their relationship to outputs and project success, as reported in the literature and cited in this paper, are strongly replicated in this field research. The impact of work team/group design is further supported by this study.

We would like to see future research consider the differences between work teams and workgroups. The question of whether organizational culture and leadership behavior are causes of or are caused by work team/group effectiveness is also an important issue to study. Company characteristics such as size, industry, location, and mission/vision are also issues that need to be addressed. In addition, political issues and interpersonal relationships have to be studied to gain further insight into overall team/group effectiveness.

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# THE EFFECT OF SYSTEM INTEGRATION, OWNERSHIP CONTROL AND DIVESTITURE DECISIONS ON HOSPITAL FINANCIAL PERFORMANCE

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## ABSTRACT

Recent research has been devoted to examining the types of organizational change associated with hospital closures, conversions, mergers, and the introduction of new organizational forms. The increased acceptance of divestiture as a strategy may reflect recent patterns of consolidation in the health care field that require hospital systems to cut back certain subsidiaries by removing assets that do not contribute to the core business and organizational mission of the system. Hospital divestitures enhance a health system's performance by improving internal focus and integration among member hospitals. To gain an understanding of hospital system divestiture, factors that enhance a hospital's value to the system, and its likelihood of being retained, are identified. This study examines the association of hospital integration strategies and ownership control with divestiture decisions among health systems as well as to observe the effect of divestiture decisions on hospital financial performance.

## INTRODUCTION

The introduction of the Medicare prospective payment system (PPS), and the resulting increase in competition among health care providers during the early to mid 1990s, compelled United States hospitals to engage in more affiliation and consolidation behavior in healthcare organizations (Shortell, 1999). The emerging inter-organizational relationships that developed represented a strategic response to the rise of capitated or fixed-fee payments required under the PPS. Furthermore, there existed the perception that frequent consolidation and merger activities would improve efficiencies, reduce duplication of services, and increase survival chances in an environment of managed competition (Conklin, 1994).

With the rise in managed care, a number of major external conditions have impacted hospital systems, making the need for change important. Pressures from managed care organizations regarding the means to finance hospital systems with which they are affiliated, combined with concern over quality medical care delivery to the community, have left hospitals and physicians in a quandary over costs, compensation and the appropriate clinical procedures to use (Burns et al., 2000).

Partly to account for this concern about hospital performance has been the need for managers of hospital systems to satisfy their stakeholders. Much of the difficulty in structuring integration efforts originates from the inherent conflict between physicians' motivation to work in their own self-interest and any unselfish motivations to work in the hospital's interest (Ginn & Young, 1992). Thus, hospital managers have had a strong incentive to develop administrative mechanisms that improve the fit between the goals and actions of physicians and health care administrators.

Fundamentally, four options have existed for hospital systems to improve the fit between the goals and actions of physicians, hospitals, and administrators (Gaynor & Haas-Wilson, 1999; Rich, 2000). Although they are presented here as distinct choices, they may also be taken in combination in establishing a course to improve a hospital's financial performance and its contribution to the health care system. The choices are: (1) Improve and find processes for management to reduce costs, maximize revenue, and selectively consolidate hospitals and practices; (2) Transform or close hospitals with significant economic problems and then restructure the remaining hospitals within new entities which are strategically aligned with the health system; (3) Privatize or sell hospital assets and physician contracts to a commercial physician practice management company (PPM) which then establishes a strategic relationship with the parent hospital or health system; and (4) Divest or sell/transfer hospital assets to another hospital system.

Despite the theoretical appeal of divestiture as a strategy for effecting change in the operating practices of hospital systems, and the increasing frequency of divestiture among hospitals over the past decade, few studies have examined how divestitures affect health system financial performance (Lee & Alexander, 1999). The increased acceptance of divestiture as a strategy may reflect recent patterns of consolidation in the health care field that require health systems to cut back certain subsidiaries by removing assets that do not contribute to the core business and organizational mission of the system (Zuckerman, 2000).

## BACKGROUND AND IMPLICATIONS OF THE STUDY

Even though studies have shown that stakeholders gain from divestitures, and that the gains are consistent with increased efficiency in organizations, few studies have analyzed long-term operating performance following divestitures (John & Ofek, 1995). Mitchell and Mulherin (1996), in their study of declining organizations, demonstrated that financial performance might not necessarily improve following a period of divestiture, especially in organizations characterized by much diversification. Thus, divestitures in health systems are likely to impact a broad set of factors beyond the financial performance of member hospitals.

Focusing on divestiture alone as a factor affecting financial performance is challenging for two reasons. First, divestiture decisions among health systems can be volatile and influenced by the uncertainty of financial accounting under a complex third-party payment system (Kane, 1991). Second, an affiliated hospital's value to the system may be multidimensional; divestiture is but one aspect affecting value.

This study examines empirically the effects of hospital divestitures in health systems. It draws on two bodies of organizational literature-contingency theory and interorganizational relations theory-in identifying the specific effects of divestitures. These theories are considered important because of the complexity of hospital behavior compared with that of non-health care organizations (Shortell, 1999). To test our hypotheses, a national sample of community hospitals from health systems is compared in 1997 and 2003.

Several potential implications can be drawn from this analysis. Results of the study are expected to inform managers of health systems regarding the likely short-term effects of hospital divestiture efforts on financial performance, thus serving as a basis for an evaluation to reduce their own operations. Second, this analysis may alert managers of health systems to a wider range of factors that can be of relevance to their decisions to retain or divest a particular member hospital. Finally, the factors examined in this study may help system managers identify member hospitals at potential risk of divestiture.

## CONCEPTUAL FRAMEWORK AND HYPOTHESES

Divestiture occurs when a business unit loses its value to the parent firm (Kaplan & Weisbach, 1992). A decrease in financial performance is a strong indicator of a decline in the value of a business unit. In the hospital industry, factors other than divestiture may affect financial performance. To identify such factors, we draw from the literature on contingency theory and interorganizational relations theory. These theories provide balancing viewpoints on factors that may enhance a hospital's value to the system and thus its likelihood of being retained. Based on these theories, two factors-the hospital's capacity to adapt to its environment and its ability to integrate into the system-are examined to see if they affect the hospital unit's financial performance over and beyond the impact of the risk of divestiture.

### Impact of hospital ownership control on divestiture

Contingency theory illustrates that an affiliated hospital's value to its health system is determined by its ability to adapt to the uncertainty and instability of the environment. It is a systems model based upon a framework of factors that have a generally important influence on strategic choice and also have performance implications.

Contingency theory emphasizes the importance of ownership control in determining the fate of organizations (Ginsberg & Venkatraman, 1985). Hospitals possessing assets that are valuable and not easily accessible by other hospital organizations achieve advantages over others in the system. A major reason that hospitals join systems is to help secure needed resources and gain greater bargaining power with purchasers and health plans. Through these actions, an individual hospital's dependence on its environment is reduced, and thereby its prospects for survival and growth increase (Lin & Wan, 1999). Thus, the control of critical resources relative to nearby hospitals may support a system's competitive position and thus reduce an affiliated hospital's chance of divestiture.

From a structural perspective, organizations that are more centralized have an advantage in making decisions more quickly and with a more unified purpose. Centralized organizations also can leverage their size in negotiation with external parties by having a single corporate agent acting on behalf of the individual hospitals (Burns et al., 1997). Dranove, Durkac and Shanley (1996) found that centralization can result in greater concentration of productive assets and reductions in administrative overhead by generating economies of scale. Accordingly, one might expect that hospitals belonging to more centralized systems enjoy greater financial performance than those associated with less centralized health systems. On the basis of these assumptions, it is hypothesized as follows:

*Hypothesis 1*: System-affiliated hospitals that possess more ownership control over assets by their management are less likely to be divested by their parent health system.

## Impact of hospital integration on divestiture

Inter-organizational theory suggests that firms integrate to compensate for an incomplete market for resources, such as management expertise and referrals. In the case of hospital integration, both acquirers and targets may hold critical resources for which markets are incomplete. Through integration, the acquirer might gain access to the target's resource of a close attachment to local patients and physicians; the target might gain access to specialized technology, the quality reputation of the acquirer, and potentially valuable contracts with managed care payers (Reitan, 1998; Lee & Alexander, 1999).

Functional integration determines the long-term allocation of existing resources and the development of new ones essential to assure the success of health systems (Oliver, 1990). To guarantee the efficient use of resources in meeting their own objectives and to add value, health systems need to achieve functional integration (Shortell et al., 1996). Simply grouping a collection of hospitals under a corporate umbrella is unlikely to produce benefits in a volatile health care environment.

To the extent that integration is a valued objective in health systems, the degree to which a hospital is integrated into the system is likely to affect the risk of the hospital being divested. First, integration increases the interdependence between the system and the hospital. The operation and performance of the health system depends on the hospital as much as the hospital counts on the support of the health system for its continuous operation and survival. Second, integrated hospitals enhance the core business of the health system. They contribute to the exchange of services and resources and the reduction of service duplication. Thus, the following hypothesis is postulated:

*Hypothesis 2:* System-affiliated hospitals that are more integrated with their parent health system are less likely to be divested by their parent health system.

## Effects of hospital divestiture on financial performance

The literature on divestiture in non-health care industries has highlighted the importance of poor financial performance as a determinant of divestiture (Duhaime & Grant, 1984; Alexander & Scott, 1984). Health systems may consider divestiture of poor-performing hospitals as a way to avoid further financial losses. An alternative view suggests that health systems may consider divestiture when divestiture gains become so large as to provide an incentive to invest the proceeds in ways that can increase stakeholder value (Weston, 1989; Lang et al., 1995). A testable hypothesis can be stated as follows:

*Hypothesis 3:* Hospitals that are less likely to be divested by the system are more likely to enhance a health system's financial performance.

# METHODS

## Study design and data sources

This study utilized a correlation and longitudinal design using archival data sources (American Hospital Association, Health Care Financing Administration). The model used discrete-time probit regression, a method appropriate for analyzing longitudinal data with a continuous dependent variable but with both dichotomous and continuous independent variables.

The sample consisted of 402 community hospitals that were affiliated with a health system between 1997 and 2003 with the exception of sole community providers and contract-managed hospitals. The resulting number of hospital observations was 362. Sole providers, or the only hospitals operating in a county, were not included in the study since comparison with those hospitals with other hospitals in the same geographical area could not be made. Contract-managed hospitals, or hospitals managed by a health system through formal contracting, were eliminated because the managing health system had no legal ownership control over the hospitals' assets.

Three sources of 1997 and 2003 data were employed: (1) the American Hospital Association (AHA) Hospital Guide, Part B, (2) AHA Annual Surveys of Hospitals files, and (3) the Health Care Financing Administration (HCFA) data files which includes the Cost Reports. The AHA Hospital Guide, Part B and Annual Surveys of Hospitals files contain characteristics such as ownership, services, and bed size. HCFA cost reports include hospital financial records and case-mix data.

**Measurement of variables**

The variables in this study were divided into four categories. The first category has two exogenous constructs consisting of ownership control and integration strategies. The second category is the endogenous construct, divestiture. The third group of variables, also endogenous constructs, represents financial performance. The last group is a set of control variables representing the common but significant hospital characteristics of size and nonprofit ownership.

*Ownership control* was measured based on two independent variables: profit status and system type. Profit status includes two dummy variables used to differentiate for-profit and non-profit organization. System type consists of two dummy variables used to distinguish centralized and decentralized type of operations.

*Integration strategies* were determined by six independent variables representing three different dimensions of integration including (1) service type, (2) physician participation in the management of the hospital, and (3) managed care contracts. Integration based on service type was measured by the number of inpatient beds used, number of outpatient visits made, and the number of physicians associated with the hospital. Included with integration based on service type was the variable case-mix index. Case-mix index is an estimate of the average complexity of the medical and surgical treatments provided by a hospital to its inpatients. In its most simple form, the case mix index identifies and can group patients based on the various types of medical conditions on a very broad basis (such as medical, surgical, and obstetric patients). On a more detailed basis, case mix index can be measured by categorizing patients into various diagnosis related groups (DRG) and assigning a case weight based on the average resources among many hospitals required to treat patients in that DRG. Integration based on physician participation in the management of the hospital includes two dummy variables used to differentiate open physician hospital organization and closed physician hospital organization. Although other forms of physician participation in the management of the hospital are available, open and closed physician hospital arrangements represent the most direct means of physician integration in a hospital system and, thus, indicate the more significant choice used in the model (Goes & Zahn, 1995). Integration, based on managed care contracts, was represented by the number of managed care contracts provided in the system. Managed care contracts include health maintenance organizations and preferred provider organizations.

*Hospital Divestiture* is the dependent variable defined as the transfer or sale of the assets of an associated hospital from one system to another or as the termination of the hospital relationship with the system whereby the hospital is converted to independent (freestanding) status. In this study, a hospital was considered divested if the hospital name was removed from the member list of one health system and appeared on the list of another health system (AHA Hospital Guide). A hospital was also considered divested if the hospital assumed freestanding status. In the event where the hospital name was removed from the membership list, the health system must have remained on the annual directory to eliminate situations where an entire health system was closed.

*Financial Performance* was measured by cash flow from operations or the ratio of changes in working capital and depreciation to total assets. This measure is a more effective and timely indicator of both profits earned based on a hospital's cash-based activities than financial measures based on profits only (Kane, 1991). Profitability as financial indicator can be misleading because accounting rules might allow organizations to alter the state of the two measures of revenues and expenses so that reported profits might be subject to significant managerial discretion.

## RESULTS

Sixty-four system hospitals of the sample were divested during the study period. There were significant differences between the for-profit and non-profit groups across integration strategies and centralized ownership control. Non-profit hospitals were more likely to utilize system integration strategies and centralized control, but for-profit hospitals were more likely to divest, as indicated in Table I. As non-profit hospitals clearly behaved differently, the study analysis controls for the effects of non-profit ownership and hospital size.

**TABLE I.**
**HOSPITAL INTEGRATION STRATEGIES AND OWNERSHIP CONTROL BY PROFIT STATUS, 2003**

| Profit Status (*N*=362) | Non-profit (*N*=179) | | For-profit (*N*=183) | |
|---|---|---|---|---|
| | Frequency | % | Frequency | % |
| Physician management integration | 23 | 13% | 13 | 7% |
| Managed care integration | 122 | 68% | 87 | 48% |
| Centralized ownership control | 136 | 76% | 17 | 9% |
| Divestiture | 22 | 12% | 42 | 23% |
| Hospital staff physician integration | 105 | 59% | 90 | 49% |

Descriptive statistics and correlations for study variables are presented in Table II. None of the correlations between independent variables are over .50, suggesting that there is little potential concern of multicollinearity. Results indicate a high negative association between the hospital service integration variables (inpatient and outpatient services) and divestiture, and a high positive association between the hospital management integration variables (physician management and managed care) and divestiture. However, results indicate a high negative association between for-profit ownership control and divestiture, and a high positive association between centralized ownership control and divestiture.

**TABLE II**
**DESCRIPTIVE STATISTICS AND PEARSON CORRELATION MATRIX OF VARIABLES, 2003**

| Variables | Mean | S.D. | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Dependent Variable** | | | | | | | | | | |
| 1. Financial performance | 7611.99 | 2764.64 | 0.36 | 0.34 | 0.11 | 0.39 | 0.09 | 0.17 | -0.31 | 0.40 |
| **Predictor Variables** | | | | | | | | | | |
| 2. Inpatient beds used/day | 214.86 | 293.68 | - | | | | | | | |
| 3. Outpatient visits/day | 144.15 | 195.51 | 0.45 | - | | | | | | |
| 4. Physician mgmt. integration | 68.48 | 24.18 | 0.18 | 0.34 | - | | | | | |
| 5. Managed care integration | 9.93 | 12.38 | 0.20 | 0.01 | -0.03 | - | | | | |
| 6. For profit ownership | 0.23 | 0.26 | 0.01 | 0.07 | -0.02 | -0.01 | - | | | |
| 7. Centralized ownership | 0.48 | 0.14 | -0.10 | -0.26 | -0.10 | 0.03 | -0.06 | - | | |
| 8. Divestiture | 0.17 | 0.33 | -0.39 | -0.28 | 0.19 | 0.14 | -0.21 | 0.13 | - | |
| 9. Hospital staff MDs | 7.65 | 20.84 | -0.12 | -0.10 | -0.07 | -0.09 | 0.12 | -0.02 | -0.07 | - |
| **Control Variables** | | | | | | | | | | |
| 10. NFP ownership | 0.58 | 0.09 | 0.19 | 0.35 | 0.17 | -0.03 | 0.15 | -0.27 | -0.10 | 0.07 |
| 11. Hospital size | 342.17 | 0.03 | -0.07 | 0.26 | -0.13 | 0.16 | -0.18 | 0.07 | 0.16 | -0.17 |

Table III presents the results of the profit regression model used for testing the hypotheses.

The results of the study show a significantly negative relationship between divestiture and hospital financial performance. The three models (A, B and C) include control variables and determinants of divestiture and hospital financial performance. None of the control variables was significantly related to divestiture or to hospital financial performance. Thus, nonprofit ownership and hospital size were not significantly related to the risk of divestiture or to hospital financial performance.

*Hypothesis 1:* predicted that system-affiliated hospitals that possess more ownership control over assets by their management were less likely to be divested by their parent health system. This hypothesis was partially supported. For-profit health systems are less likely to divest hospitals from the system but only when they maintain less centralized control over their assets.

*Hypothesis 2:* predicted that system-affiliated hospitals that are more integrated with their parent health system were less likely to be divested by their parent health system. This hypothesis was partially supported. For-profit health systems are less likely to divest hospitals that provide more inpatient services, managed care products, physician participation in management and when they provide less complex (riskier) medical and surgical treatments. However, providing more outpatient services and maintaining more staff physician affiliation has had no effect on divestiture decisions that the hospital system has made.

**TABLE III.**
**RESULTS FROM PROBIT REGRESSION MODELING: ANALYSIS OF EFFECTS OF DIVESTITURE ON CHANGES IN HOSPITAL FINANCIAL PERFORMANCE 1997-2003**

| | Hospital Financial Performance | | | | | |
|---|---|---|---|---|---|---|
| | Model A | | Model B | | Model C | |
| | ß | **S.E.** | ß | **S.E.** | ß | **S.E** |
| **Hospital Ownership Control** | | | | | | |
| 1. For-profit ownership | .118 | 0.22 | .245 | 0.44 * | . 345 | 0.34 ** |
| 2. Centralized ownership | -.157 | 0.13 | -.142 | 0.18 | - .122 | 0.16 * |
| **Hospital System Integration** | | | | | | |
| 3. Inpatient services | | | .352 | 0.10 ** | .345 | 0.09 ** |
| 4. Outpatient services | | | .314 | 0.01 * | .116 | 0.01 |
| 5. Physician management | | | .149 | 0.08 * | -.146 | 0.07 * |
| 6. Managed care integration | | | .108 | 0.15 | .113 | 0.11 * |
| 7. Hospital MDs | | | -.011 | 0.09 | -.008 | 0.07 |
| 8. Casemix | | | -.032 | 0.11 | -.075 | 0.12 * |
| 9. Divestiture | | | | | .059 | 0.51 ** |
| **Control Variables** | | | | | | |
| 10. Nonprofit ownership | -.163 | 0.12 | -.427 | 0.55 | -.264 | 0.38 |
| 11. Hospital size | .260 | 0.53 | .355 | 0.77 | .273 | 0.71 |
| Model F | 1.734 | | 5.462 * | | 10.146 ** | |
| $R^2$ | 0.017 | | 0.285 | | 0.389 | |
| *N* | 362 | | 362 | | 362 | |

* $p < .10$
** $p < .05$

*Hypothesis 3:* predicted that hospitals that are less likely to be divested by the system are more likely to enhance a health system's financial performance. This hypothesis was supported.

## DISCUSSION

According to the literature on divestitures in non-health care industries, a key predictor of increased financial performance is firm divestiture (Capron et al., 2001). Divestitures can resolve stakeholder problems by reducing overinvestment, but aggravate stakeholder problems by providing managers cash to pursue their own objectives, or even be unrelated to stakeholder problems if the sale or transfer of assets is in response to economic declines. This study investigated the financial performance of system hospitals that divested assets in order to produce gains. Results of this study can be used to determine whether ownership control and integration can explain some of these gains. Hospitals that sell or transfer assets that cause negative synergies should experience improved financial performance, but hospitals that divest assets to raise capital or in response to economic declines may not see improved financial gains. In this study, results supported the notion that hospital divestitures improve the health system's operations, perhaps by removing non-performing assets and improving services. Further analysis suggests that the poor performance preceding the divestiture is unrelated to managerial ownership, but that the post-divestiture performance is strongly related to the effectiveness of integration strategies employed by the hospital system. Overall, results lend support to the argument that divestitures eliminate negative synergies, that these negative synergies are not solely the consequence of stakeholder problems, and that managerial ownership provides strong incentives to improve operations following the divestiture.

However, making divestiture decisions to enhance a health system's value may be difficult given that divestiture decisions are but one aspect that influences hospital financial performance, and that financial performance may provide incomplete information about a hospital's value to the system. One can argue that a health system's measurement of a hospital's value may take into consideration other factors such as ownership control and integration. Results from this study support such expectations. While the findings confirm previous studies that divestiture decisions indeed influence financial performance, ownership control and integration factors also play a significant role in determining hospital financial performance, independent of divestiture decisions.

Several specific findings merit discussion. First, health systems are less likely to divest member hospitals that are more integrated with the system in terms of their inpatient services and managed care products. Health systems may prefer to retain such hospitals because of the value generated from coordination of managed care products and synergy of services, particularly if the hospital system intends to develop or maintain a dominant position in its geographic area. The number of less riskier services that an affiliated hospital accesses from the health system also may indicate the amount of investment that the health system has made in the referral and exchange relationships between the hospital and its member hospitals in the system. Other things being equal, these costs are likely to be a deterrent to divestiture.

Second, contrary to expectations, integration based on physician participation in system-based management is positively related to divestiture of the central hospital. One explanation is that health systems have generally experienced limited success in the integration of physician arrangements. Investments in this area have achieved few improvements in medical staff relationships or risk contracting ability and may even lead to considerable financial losses (Thrall, 2001). The integration of physician arrangements has, for the most part, failed to enhance a hospital systems' financial performance or value (Holm & Schroeder, 2000). Our finding may be an indication that health systems have begun to back away from the strategy of fully integrated physician management arrangements and view physician participation in management as too difficult or too expensive to realize. Alternatively, physician integration may be a fundamentally local phenomenon and attempts to create system-wide physician integration may violate this basic orientation toward the local provider organization.

Third, health systems are more likely to divest poor-performing member hospitals than high-performing hospitals. This is a source of concern given that health systems often acquire financially distressed hospitals, considered not performing up to their potential, in anticipation of “turning around” these poor performers (Coddington, Fischer, & Moore, 2000). Failure to turn the financial performance of these member hospitals around places such hospitals at risk for consecutive divestitures. To the extent this is true, health systems should be cautious about the acquisition of poor-performing hospitals and articulate clear expectations about performance improvement.

Finally, it is worth noting that the ownership of the system does not appear to play a major role in divestiture. However, for-profit systems are more likely than non-profit systems to divest their hospitals. In addition, a centralized ownership structure appears to affect the divestiture decisions of systems regardless of integration strategies employed. This suggests that despite the importance of financial viability and the priority placed on profit by some types of health systems, a decision as important as divestiture demands that systems consider the ownership structure and control of the hospital in its system. These factors collectively reflect the complex strategic, ownership, and community-based nature of health care delivery that must figure into the calculation of a system when it assigns value to a member hospital.

These research findings have several important implications for management. At the most basic level, managers of hospital systems and hospitals should recognize that divestiture has become increasingly common in the health care field. Such information should motivate managers of health systems and affiliated hospitals to develop practices designed to assist member hospitals manage the divestiture process or in some cases to prevent it.

## CONCLUSION

The research results suggest that in addition to improvement in financial performance, there are ways for hospitals to improve their ties with their hospital system and improve strategic focus and operational effectiveness. This might be accomplished through the reconfiguration of services and the decentralization of management based decisions. These findings also may make managers of hospital systems aware of criteria for potential acquisition targets to reduce future risk of divestiture of these acquisitions.

Two limitations of the study are worth mentioning. First, this study assumes independence among hospitals in similar health systems. While diagnostic tests indicated no problems with associated error terms based on system effects, additional adjustments for system properties (e.g., multiple regression modeling with additional system-level characteristics) may be needed to eliminate the possibility of bias due to system-level consolidation of variables. Second, research was limited to a comparison of two years over a 7-year period. Analyses comparing more than two years and covering a longer period of time may provide a more complete understanding of the underlying relationship between the factors associated with a hospital's divestiture decisions and its value to a system.

Results of this study raise two important issues worthy of future research: First, what is the fate of hospitals that are divested? Research is needed to examine whether divestiture represents an opportunity for a hospital to affiliate with a more compatible system or whether the disruptive effects associated with a divestiture will lead the divested hospital one step closer to closure or back to freestanding status. Second, what is the influence of divestitures on the global environment and on communities? Answers to these questions would provide information for system and hospital managers to make sound decisions regarding affiliation strategies and for policy-makers to monitor the impact of system and hospital relationships on communities.

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# AN EMPIRICAL EXAMINATION OF THE INFLUENCES OF GENDER AND NATIONALITY ON DECISIONS TO REPORT SEXUAL HARASSMENT BEHAVIORS

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## ABSTRACT

This paper seeks to examine the influence of nationality and gender on the effectiveness perception of sexual harassment reporting behaviors. Although gender did not impact whether the respondents viewed reporting harassment behaviors as effective, the influence of nationality was strongly supported. Specifically, we found that the U. S. respondents were more likely than Thai respondents to view decisions to report sexual harassment behaviors as more effective in stopping these unwanted advances. An unexpected, unhypothesized, interactive effect was also found, and its impact is illustrated and discussed. The practical implications and limitations of this study are also presented.

## INTRODUCTION

One of the more perplexing, unanswered questions in the sexual harassment literature is why more people are not reporting harassment incidences (Loy & Stewart, 1984; U. S. Merit Systems Protection Board, 1995). Sexual harassment is a serious and costly problem that occurs in many countries (Fitzgerald, et al. 1995; Maatman, 2000; Ismail & Chee, 2005). However, since there is little agreement as to what actions truly constitute sexual harassment behaviors (O'Connor et al., 2004), victims tend to respond to each harassment incident differently.

Victim responses are important in the sexual harassment process because they significantly alter the situation by either stopping or facilitating more harassment behaviors (Dan, et al., 1995). Failure to promptly respond to harassment usually causes the victim to lose credibility (Seagrave, 1994), as coworkers begin to doubt whether the harassment ever occurred at all. By ignoring the harasser, it may be interpreted as the victim accepting or even welcoming further harassment in the future (Perry et al., 2004). In addition, this inaction may complicate the legal process in establishing and negatively impacting the victim's case (Fitzgerald et al., 1995). Since "failure to report" is one of the most intriguing problems of the sexual harassment phenomena, the current authors chose to investigate this particular issue.

The purpose of this paper is to explore the demographic factors that influence an effectiveness perception of the decision to report sexual harassment behavior. Specifically, does a person's gender or nationality establish whether they consider reporting sexual harassment behaviors an effective response? The remainder of this paper will review sexual harassment responses and the determinants of those responses before developing and empirically testing hypotheses. The results of this investigation are examined and the practical implications and limitations of this study are discussed.

## CATEGORIES OF RESPONSES

The most common victim responses to sexual harassment are indirect (Seagrave, 1994). These responses usually consist of ignoring or avoiding the harasser (Loy & Stewart, 1984). Even though more direct approaches such as communicating with the harasser or making complaints are more effective at ending or minimizing harassment, they tend to be used much more infrequently (Benson & Thomson, 1982; Gruber, 1989; Gruber & Smith, 1995; Gutek & Koss, 1993). Dealing more assertively with sexual harassment (e.g., filing a lawsuit) will result in both positive and negative consequences. On the negative side, victims may have to cope with negative emotions, such as retraumatization and feelings of powerlessness (Fitzgerald, et al., 1995; Lenhart & Shrier, 1996; Stambaugh, 1997). On the positive side, victims may receive compensation, settlement, personal growth, confidence, and feelings of self-worth if they effectively confront the harassers (e.g., the victims win the lawsuit) (Stambaugh, 1997). As a result, victims should set realistic goals and carefully consider both the costs and benefits before they decide how to best respond to sexual harassment (Lenhart & Shrier, 1996).

Gruber (1989) reviewed 10 studies and identified four basic types of responses to sexual harassment that vary as a function of their assertiveness. These four types are (1) avoidance, (2) defusion, (3) negotiation, and (4) confrontation. Avoidance is the least assertive response, and occurs when the victim responds by doing nothing or trying to avoid facing the harasser. Defusion is more active and has the potential of resolving the situation. Victims may try to defuse the situation by pretending to go along with the harassment, stalling the behavior, or making jokes. Defusion also includes victim's effort to secure social support. Negotiation is a more assertive response than avoidance and defusion. In this case, the victim reacts to the harasser by asking him or her to stop. Finally, confrontation is the most assertive response; it occurs when the victim adopts a physical defense, gives an ultimatum, or complains through organization channels. Table I provides a summary of these categories.

Terpstra & Baker (1989) developed a taxonomy of responses to sexual harassment that were divided into 10 distinct and mutually exclusive types (Also see Table I). This classification scheme was tested to establish its reliability and validity. The response classifications consist of (1) leaving field, which includes transferring or quitting the job; (2) external reports which involves the reporting to an outside agency such as the local or state EEOC, or filing lawsuits; (3) internal reports, which involves reporting superiors, managers, or other officers in the company; (4) physical reactions, which involves slapping, hitting, shoving, removing hands, physically resisting or retaliating; (5) alteration, which involves changing one's own behaviors, clothing, or the environment; (6) negative verbal confrontation, which may include attacking or threatening verbally, ridiculing, cursing, or screaming; (7) positive verbal confrontation, which includes asking the harasser to stop, talking, discussing, and explaining why the behavior is bothersome; (8) avoidance, which includes avoiding the person or the areas they frequent; (9) ignoring the behaviors or doing nothing; and 10) other responses, which may include feeling flattered or complimented, getting help, telling others, using indirect actions, giving in, or employing an opportunistic view. Of all these responses, positive verbal confrontation, reporting internally, and ignoring or doing nothing were most frequently adopted by the participants in the study.

**TABLE I. SUMMARY OF RESPONSES TO SEXUAL HARRASSMENT CATEGORIES**

| Studies | Basis for Classification | Responses |
|---|---|---|
| Gruber (1989) | Assertiveness | 1. Avoidance (doing nothing, avoiding the harassers)<br>2. Defusion (masking by going along, making jokes, seeking social support)<br>3. Netotiation (requesting the harassers to stop)<br>4. Confrontation (using physical defense or organization channels) |
| Terpstra and Baker (1989) | | 1. Leave field (quitting, transferring)<br>2. External report (reporting to EEOC, filing lawsuit)<br>3. Internal report (report to supervisor or manager)<br>4. Physical reaction (slapping, kicking, physically resisting)<br>5. Alternation (changing one's behaviors or clothes)<br>6. Negative verbal confrontation (screaming, attacking or threatening verbally)<br>7. Positive verbal confrontation (asking to stop, taking or discussing)<br>8. Avoidance (avoiding the harassers or the area)<br>9. Ignore / do nothing (ignoring, doing nothing)<br>10. Other (feeling flattered, enlisting help, giving in) |

Knapp, Faley, Ekeberg, & Dubois (1997) suggested that the existing categories of responses are one-dimensional and may not be comprehensive. They suggested a set of two-dimensional response categories, based on the modes and focus of responses, as an alternative. The mode of responses varies in terms of the amount of support received from outside, ranging from self-response (no outside support), to a supported response (using other resources from other individuals, or organizations for support). Responses are categorized based on the extent to which they focus on the victims themselves (self-focus) or the harassers (initiator-focus).

Combining the two dimensions created four categories of responses (see Figure I) that are roughly arranged in order of their effectiveness (from least to most). These categories are (1) avoidance/denial (self-response / self-focus); (2) social coping (supported-response / self-focus); (3) confrontation/negotiation (self-response / initiator-focus); and (4) advocacy seeking (supported-response / initiator-focus).

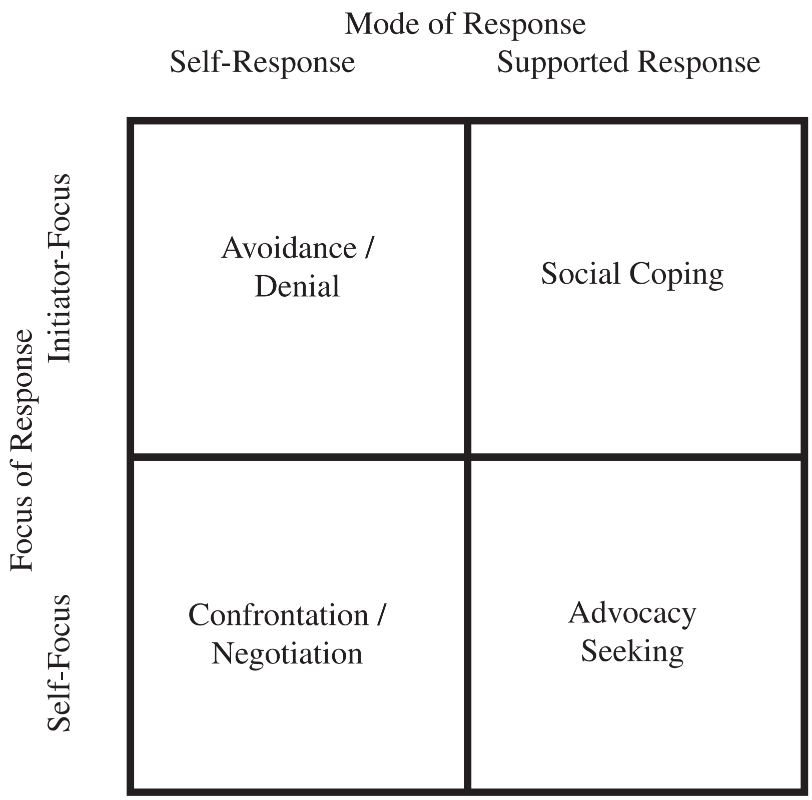



**FIGURE I. TYPOLOGY OF RESPONSE TO SEXUAL HARASSMENT**

*Note***:** From Determinants of target responses to sexual harassment: A conceptual framework, by D. E. Knapp, R. H. Faley, S. E. Ekeberg, & C. L. Z. DuBois, 1997, *Academy of Management Review 22*(3), pp. 687-729.

The avoidance/denial category response reflects the most commonly used but least effective response. Responses that fall in this category include quitting the job, ignoring the behaviors, or going along with the harassment. Some victims who employ this response also engage in self-blame. Victims who use social coping responses focus on themselves while enlisting the support of others. They may discuss the situation with friends, family, or coworkers, or seek counseling. Such responses, though not effective at stopping the sexual harassment behaviors, may help the victims to cope emotionally. Confrontation and negotiation responses focus on the harassers, without the help of others, and include behaviors such as asking or threatening the harasser to stop. Such responses should be more effective as victims confront harassers more directly. However, confrontation tends to be used relatively infrequently because victims tend to be afraid of retribution. The advocacy seeking category encompasses responses that focus on the harassers, but with the support of others or organizations. Such responses include reporting the behaviors to internal or external agencies, such as supervisors, the EEOC, and filing lawsuits.

In sum, most victims choose not to report the behaviors and tend to use responses that are informal and passive. Only a small number of victims take formal actions and actually report the harassing behaviors (Loy & Stewart, 1984; U. S. Merit Systems Protection Board, 1995). Victims may also use multiple response strategies or progress from one type of strategy to another. For example, victims who try to restore control over the situation by attempting to stop the harassment may fail. Subsequently, they simply accept the fact that they have no control over the matter and ignore the behaviors (Thacker, 1992). Whatever response the victim chooses to employ to combat the deleterious effects of sexual harassment, an underlying question still remains: “What factors determine the response category a victim will choose?”

## DETERMINANTS OF RESPONSES TO SEXUAL HARASSMENT

The victims’ decision of how to respond to sexual harassment depends on many factors. The person has to first determine that the behaviors constitute sexual harassment before making the decision on how to react. Sexual coercion or quid pro quo sexual harassment behaviors are more severe (U. S. Equal Employment Opportunity Commission, 1992; Paetzold & O'Leary-Kelly, 1996) and the more identifiable and agreed upon forms of sexual harassment (Sheffey & Tindale, 1992; Williams & Cyr, 1992; Gutek & O’Conner, 1995).

The severity of sexual harassment behaviors has been shown to be one of the strongest predictor of responses, with the more severe harassing behaviors leading to the more direct responses (Gutek & Koss, 1993; Gruber & Smith, 1995). Severe harassing behaviors are also much easier to identify as sexual harassment, than borderline, less severe behaviors. Some past studies report that females are more likely to report sexual harassment than males (Baker et al., 1990; Perry et al., 2004; Jackson & Newman, 2004), because male victims may perceive the behavior as flattering and respond by consciously denying that the behavior is sexual harassment (Thacker, 1996). Can these studies truly measure male responses to sexual harassment if the males in the studies do not identify the act as sexual harassment in the first place? The research strongly indicates that the more severe the behavior, the more likely both males and females will both believe the sexual harassment behavior in question, is truly sexual harassment. Therefore, in the current study, only the most severe cases of sexual harassment are examined.

National culture may also play a role in influencing the responses to sexual harassment behaviors. According to Hofstede (Hofstede, 1980; Hofstede, 1991), people from different cultures differ in dimensions such as individualism vs. collectivism, masculinity vs. femininity, power distance, uncertainty avoidance, and long-term vs. short-term orientation. Collectivistic cultures, for example, may feel that seeking support and not reporting the behavior are more effective responses, while individualistic cultures may prefer a more direct approach. Another example of this cultural impact may be found in the value dimension of power distance. High power distance cultures tend to respect and fear authority and thereby may not perceive reporting sexual harassment behaviors as an effective response. Low power, distance cultures promote equality, even in unequal authority relationships, and thereby may empower sexual harassment victims to perceive reporting harassment behaviors as an effective response.

Since Thailand was identified in Hofstede’s study as both collectivistic and possessing a high power distance, and the U. S. was found to be individualistic with a low power distance (Hofstede, 1980; Hofstede, 1991) they were utilized as the two major cultures of comparison in this study. Specifically, participants in this empirical investigation were from Thailand and the U. S.

## MODEL & HYPOTHESES

From the preceding literature review, the Sexual Harassment Reporting Decision Model was created (see Figure II). The model directly proposes that gender and nationality will be two demographic determinants that will influence the effectiveness perceptions of reporting sexually harassing behaviors. Subsequently, reporting sexual harassment behaviors will lead to certain consequences on both the victim and the harasser. Previous studies have focused on the "decision ‡ consequence" link of the delineated model (Fitzgerald et al., 1995; Reese and Lindenberg, 1997; Thacker, 1992). The current study will examine the impact of the demographic determinants on the decision to report.

Based on previous research, it is proposed that when sexual harassment behaviors are severe and easily identifiable, females are more likely than males to believe that a direct response such as reporting harassment behaviors is a more effective strategy. Also, individualistic and high power distance cultures are more likely to identify reporting harassment behaviors as a more effective strategy than collectivistic cultures possessing a low power distance. Thus, the two major hypotheses that form the framework of this study are as follows:

> **$H_1$**: When compared to men, women will rate reporting severe sexual harassment behaviors as more effective.

**$H_2$**: When compared to participants from Thailand, U. S. participants will rate reporting severe sexual harassment behaviors as more effective.

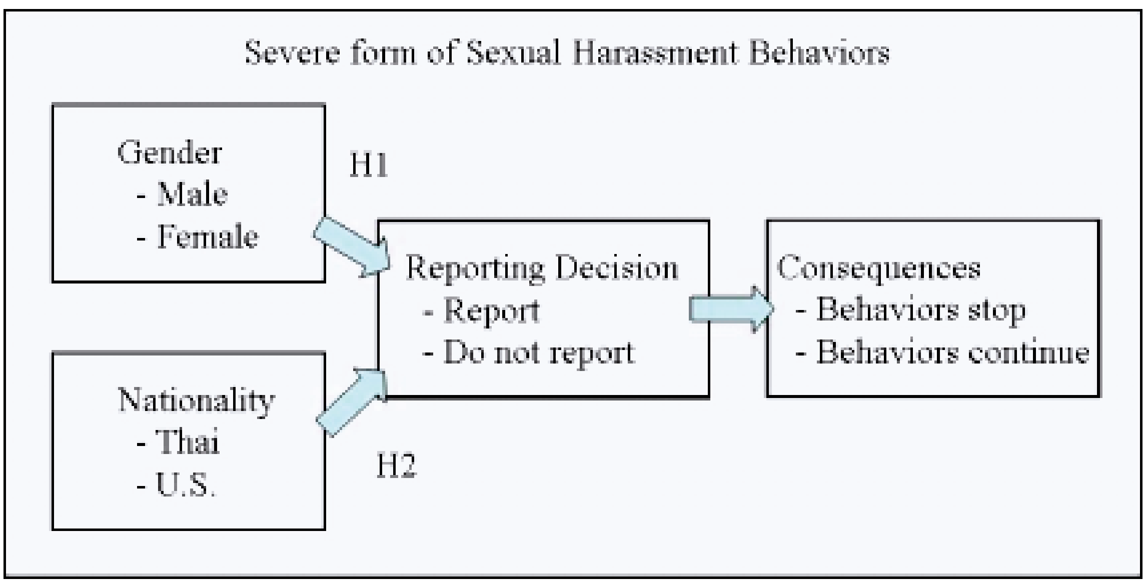



**FIGURE II. SEXUAL HARASSMENT REPORTING DECISION MODEL**

## METHODS

228 students in a southern university in the U. S. and 260 students from an English-speaking university in Bangkok, Thailand who enrolled in upper-level business classes completed questionnaires that included their perceptions of vignettes depicting sexual harassment behaviors

and rankings of effective responses to such behaviors. Of the Thais, 107 were male (41.2%) while 140 U. S. students (61.4%) were male. Over 95% of both groups were under 25 years old.

**TABLE II. DEMOGRAPHICS OF THAI AND US PARTICIPANTS**

| Demographic Variables | Thai | U. S. |
|---|---|---|
| Gender | | |
| Male | 107 (41.2%) | 140 (61.4%) |
| Female | 153 (58.8%) | 88 (38.6%) |
| Age | | |
| Under 20 years old | 7 (2.8%) | 2 (0.9%) |
| 20-25 years old | 244 (93.7%) | 217 (95.2%) |
| Over 25 years old | 9 (3.5%) | 9 (3.9%) |
| Academic Classification | | |
| Sophomore | 13 (5.1%) | 4 (1.8%) |
| Junior | 105 (41.0%) | 124 (54.4%) |
| Senior | 126 (49.2%) | 99 (43.4%) |
| Graduates | 12 (4.7%) | 1 (0.4%) |

A 2 x 2 ANOVA (nationality x gender) design was used to test the hypotheses proposed. Both independent variables, nationality and gender, were utilized as between subject factors. The analysis included only sexual coercion behaviors, the most severe form of sexual harassment where both male and female tend to perceive the behaviors easily and similarly. An example of this behavior is a manager threatening to cause trouble to a subordinate if the subordinate refuses the manager's sexual advances. The dependent variable, an effectiveness rank of reporting sexual harassment behaviors, ranged from 1 (most effective) to 10 (least effective).

## RESULTS

The first hypothesis contends that women rank reporting as a more effective way to respond to sexual harassment behaviors when compared to men. The results from ANOVA showed no significant differences between the ranking by female vs. male ($F_{(1,407)} = 1.273$, $p = .260$). As a result, hypothesis 1 is not supported.

The second hypothesis suggests that the U. S. respondents will rank reporting as more effective response to sexual harassment behavior when compared to Thai respondents. The result affirms that U. S. respondents significantly rank reporting as a more effective response (($F_{(1,407)} = 6.075$, $p = .014$). The estimated marginal means of each group are reported in Table III.

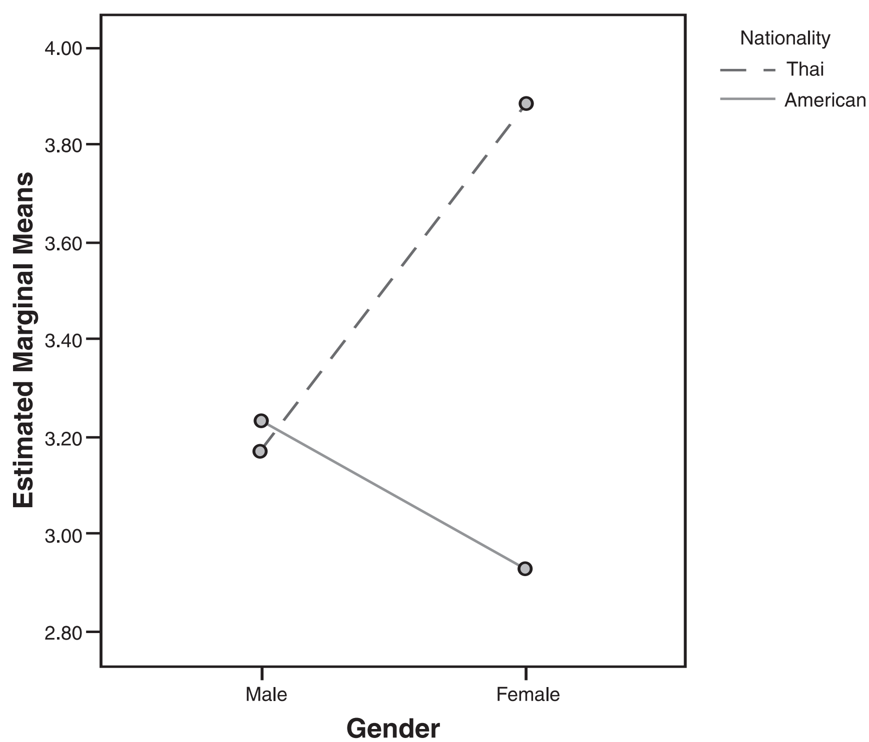
We also found a significant interaction effect between gender and nationality ($F_{(1,407)} = 7.978$ $p = .005$) which was not previously hypothesized. A plot of estimated marginal means between gender and nationality shows that the U. S. females ranked reporting as the most effective among all groups, followed by Thai and U. S. males who were almost in agreement. The Thai female sample ranked reporting as the least effective among all groups (see Figure III).

**TABLE III: SUMMARY OF STATISTICS**

| Variables | | Mean Effectiveness Ranking | Standard Error | F-Statistics |
|---|---|---|---|---|
| Male | | 3.206 | 0.127 | 1.273 |
| Female | | 3.409 | 0.129 | |
| Thai | | 3.530 | 0.134 | 6.075* |
| U. S. | | 3.085 | 0.121 | |
| Thai | | | | 7.978** |
| | Male | 3.173 | 0.203 | |
| | Female | 3.887 | 0.173 | |
| U. S. | | | | |
| | Male | 3.238 | 0.151 | |
| | Female | 2.932 | 0.190 | |

* Significant at *p < .05*
** Significant at *p < .005*

**FIGURE III. ESTIMATED MARGINAL MEANS OF REPORTING SEXUAL COERCION BY GENDER AND NATIONALI Y**




## PRACTICAL IMPLICATIONS

As indicated by the results discussed above, the current authors found that nationality makes a difference in whether a person thinks reporting sexual harassment behavior is effective. Males and females with different nationalities tend to have different opinions regarding the effectiveness of these harassment reports. In order for businesses to operate smoothly in today's global environment, sexual harassment must be prevented or resolved effectively. However, a universal sexual harassment policy thought to be useful in the U. S. may not work in other countries. Companies should be sensitive to the local culture and seek to incorporate the differences in their policies and training. It may also be beneficial to create multiple and friendly reporting channels suitable for both males and females, while encouraging the reporting of sexual harassment incidents.

## LIMITATIONS

This study has a few limitations, including using self-report and student participants from only two countries. These participants may not be representative of the population as a whole. Although they are still students, the majorities of both samples were juniors and seniors in colleges about to enter the workforce in a year or two. Even though they were not real victims of sexual harassment, the respondents should be able to make a judgment of the situations similar to a typical jury in the real sexual harassment cases.

In addition, the study employed the use of vignettes as the only method of collecting data. Although vignettes have been shown to eliminate the social desirability bias amongst the Eastern cultures, utilizing interviews in addition to the vignettes would have been preferred. This would have also provided a unique opportunity to compare the interview results with the responses on the individual vignettes.

## CONCLUSION

We hope that this study will serve as a basis for future investigation in work settings in many countries, and in conjunction with future empirical inquiries, contribute to a better understanding of the numerous adverse effects of sexual harassment. There are many aspects of the international sexual harassment subject area that are considered fertile ground for future studies. For example, are the results found in this study enduring over time, or can the subjects who rejected reporting sexual harassment behaviors as an effective coping method, be trained to report severe sexual harassment on a more frequent basis? These and other questions should be addressed in future studies of cross-cultural human resource management, as the authors view the current study as the starting point of a viable research stream.

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# WHO SAYS DECISION-MAKING IS RATIONAL: IMPLICATIONS FOR RESPONDING TO A FORESEEABLE DISASTER

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## ABSTRACT

This paper focuses on the concept of rational decision-making and how it collapses during an imminent natural disaster. The authors have devised a model that incorporates the main decision-making processes and illustrates how they become intertwined with a "black box" that suspends rational decision-making. Further, when rational processes are not utilized, arational decisions may result. Hurricane Katrina and the Federal, State, and Local government response exemplifies this process. Recommendations are offered to minimize the Black Box effect.

## INTRODUCTION

Decision-making is a process that is commonly defined as choosing among alternatives. Most decision making does not have the luxury of following the classic, rational model, because the assumptions behind such a process are too demanding: the problem is clear and unambiguous, a single well-defined goal is to be achieved, all alternatives and consequences are known, preferences are clear, preferences are constant and stable, no time or cost constraints exist, and the final choice will maximize economic payoff (Robbins & DeCenzo, 2005). Instead real world constraints intrude—a lack of time and resources, ability, imperfect information, as well as competing priorities, tend to undermine the scope of the search for alternatives, their evaluation and selection. This results in decision makers neglecting optimal decisions in favor of expediency. These "satisficing" decisions settle for sub-optimal, but "good enough" choices (Simon, 1957).

DeYoung (2002) postulated that managers who make consistent, value-maximizing choices are utilizing the rational model. Thus, a decision maker who was perfectly rational would be fully objective and logical. While the length of this process varies from minutes to years, it rationally proceeds along an eight-step process, although most decision makers routinely abbreviate or skip certain steps. These steps include: identifying the problem, identification of decision criteria, allocation of weights to criteria, development of alternatives, analysis of alternatives, selection of an alternative, implementation of the alternative, and evaluation of decision effectiveness (Miller & Star, 1967).

Conversely, a decision that is made arationally is based on beliefs, superstition, emotions, and ideology. The intentional actions are done because the agent has a certain desire or belief that corresponds to their perception of reality. Thus, their action is rationalized by their beliefs (Hursthouse, 1991).

Impending natural disasters, as their name implies, frustrate rational decision models because they are neither initiated by nor governed by man. Some disasters strike with minimal or no notice at all. They are categorized as unforeseeable, and regardless of the preparation, there is negligible protection against lighting, tornadoes, tsunami, and earthquakes. Conversely, other natural disasters, while equally destructive, have foreseeable windows for proactive decision making ranging from hours to weeks. These foreseeable natural disasters include hurricanes, flooding from heavy rains, forest fires, blizzards, ice storms, and volcanic eruptions. Given the importance of disasters, decision making processes escape many common constraints. Politicians recognize the public relations importance of successfully handling mass media exposure disasters, so their motivation to engage is high. The public is willing to invest enormous sums of public resources to allay their fears. Science provides proven contingency plans and interventions to meet the foreseeable threat. There is some evidence that, as predicted in the absence of common constraints, the experience of crisis gave rise to a more rational, planned approach to the strategy-making process (McCarthy, 2003). However, even in disaster contexts, “black box” processes replace rational decisions. The decision making during and after Hurricane Katrina is analyzed and recommendations for improvement are offered.

## DECISION MAKING UNDER CONDITIONS OF UNCERTAINTY

Organizational crisis are events characterized by high consequence, low probability, ambiguity and decision-making time pressure (Pearson & Clair, 1998; Rosenthall, 1998). In addition, despite the training, simulations, and foreseeability of an impending natural disaster, some people succumb to decidophobia, the fear of making decisions because deciding is the acceptance of responsibility (Kauffman, 1973; Quarantelli, 1988). Thus, decision-making paralysis can be costly in terms of life, property, and commerce.

To combat inaction, the World Health Organization (2002) recommended that any program of disaster prevention and preparedness should promote optimum coordination between the various governmental, nongovernmental, and private organizations involved. While planning is integral to preparedness, Rosenthal (1998) contends that industrial society is especially susceptible to natural disasters and has become acerbated by policy makers who have not prepared themselves or the public for appropriate responses once tragedy strikes. Risk, uncertainty, crisis, collective stress, and “normal accidents” now need to be incorporated into a broader understanding of how governments and decision- makers respond to crises and their concomitants: unpleasantness in unexpected circumstances, representing unscheduled events, unprecedented in their implications and, by normal routine standards, almost unmanageable.

Prior research by Quarantelli (1988) concluded that an honest assessment of the situation would mollify the populace. However, the public often endows the responders with a level of scientific credence for judgment that may be misconstrued as fact (Denis, 1995). In addition, the perceived need to make such preparations is mitigated by the natural settings, socio-economic, political and environment context (Luna, 2001). For example, a country such as the Philippines, which is extremely susceptible to natural disasters, has established a comprehensive institutional and legal framework for disaster management, including built-in mechanisms for participation of the people in decision–making and program implementation.

Denis (1995) highlights six major types of activities on which disaster managers should focus: (1) obtaining information about the situation; (2) getting advice on the best course of action; (3) choosing: the decision to do something; (4) authorizing the action; (5) having the action executed; and (6) explaining and communicating the action. These steps attempt to logically frame the action in the midst of a potentially emotional crisis. However, McCarthy (2003) found that the experience of crisis gave rise to a more rational, planned approach to the strategy-making process. In the aftermath of a crisis, entrepreneurs had to spend more time communicating with, explaining, and justifying their actions to key stakeholders.

Eisenhardt and Bourgeous (1989) identified five factors which impacted fast decision-making: Real-time information, multiple simultaneous alternatives, two-tiered advice processes, consensus with qualification, and decision integration. Often, critical actions occur in the time prior to the disaster. This is the incubation period or the prodromic stage (Turner, 1978).

Since people are not mindless automatons, the human behavior components must be included in the rational decision-making process**.** French (2005) argued that while emergency modeling incorporates technology, it does not accurately take into account the social aspects and behavior of people. Previously, Walls (2002) cited the methods of slowing down, listening, learning and feeling to augment rational decision-making.

Significant benefits can be achieved by establishing a team who will be empowered to make decisions during the crisis and will communicate these decisions throughout the supply chain (Hart, 2005). However, various stakeholders view the impeding crisis differently, which will consequently affect their decision making (Rutkowski, Van de Walle, Groenendaal, & Pol, 2005). Further, disasters pose unique challenges for which there are few precedents. Simon (1957) noted non-programmed decisions replace programmed decisions in ambiguous situations.

Decision makers themselves are hardly uniform, featuring a wide variety of decision making styles, propensities and skill levels. The decision-makers' tolerance for ambiguity coupled with their way of thinking yields four discrete decision-making styles: Analytical, Behavioral, Conceptual or Directive (Simon, 1957). Conventional wisdom holds that men are generally perceived to be "cool as a cucumber" in a crisis. However, Mano-Negrin & Sheaffer (2004) found in a study of 112 Israeli executives, that women were more likely to employ a holistic approach that facilitates crisis preparedness.

Further, Heracleous (1994) contends rationality becomes inapplicable when confronted with complex problems, fast moving markets, unpredictability and uncertainty as social, political, and cognitive forces influence the decision making process. Rosenthal and Kouzmin (1997) delineated a five step heuristic that incorporates some of these dynamics. They suggest decision makers explore: (1) The seriousness of the threat exist to the social-political system, (2) the necessity to respond to the threat, (3) the necessity for government decisions, (4) promptness of decisions, and (5) the government authorities involved in crisis decision making.

## DECISION MODELS AND ANALYSIS

Decisions are at the heart of leader accomplishment and their consequences span the gambit from trivial and incidental to life saving. Complex decisions, particularly when high degrees of uncertainty, conflict, or paradox are involved, become as much an art as a science (Quarantelli, 1988). To analyze the decision-making process in responding to an impending foreseeable disaster, the authors present the following conceptual decision-making model shown in Table I. This model is developed through an extensive literature review and models of other authors mentioned by Arsham, 2005, and use systems theories to frame the process:

**TABLE I. A COMPREHENSIVE CRISIS DECISION MAKING MODEL**

| | Inputs | Throughputs | Outputs |
|---|---|---|---|
| **Rational** | Information<br>Resources<br>Staff | Decision Premises<br>Collaboration<br>Problem-solving | Relief Efforts |
| **Arational** | History<br>Misinformation<br>Fear | Personal Opportunism<br>Political Agendas<br>Siege Silos | Reputation/ P.R. |

This model will be explored in the context of the Hurricane Katrina disaster. This is the 6-day timeframe of events:

- Tuesday, August 23, 2005 5:00 p.m. — Tropical Depression
- Wednesday, August 24, 2005 11:00 a.m. — Tropical Storm Katrina
- Thursday, August 25, 2005 5:00 p.m. — Hurricane Katrina
- Friday, August 26, 2005 11:30 a.m. — Upgraded to Category 2
- Friday, August 26, 2005 5:00 p.m. — Upgraded to Category 3
- Sunday, August 28, 2005 1:00 a.m. — Upgraded to Category 4
- Sunday, August 28, 2005 8:00 a.m. — Upgraded to Category 5
- Sunday, August 28, 2005 10:00 a.m. — Mayor orders mandatory evacuation
- Monday, August 29, 2005 6:10 a.m. — Category 3 landfall, 125 mph winds
- Monday, August 29, 2005 9:00 a.m. — Eye passes 40 miles east of New Orleans
- Monday, August 29, 2005 — Late Morning - levees breached

In terms of disaster decision making for such a catastrophe, Level II Activation occurs “if a storm continues on a track that threatens the state” and “normally occurs two to three days prior to predicted storm landfall” (Wolshon, Urbina, & Levitan, 2001). This limited timeframe is a critical decision constraint, shaping how events unfolded on several different levels. The Federal government sent the Department of Homeland Security (DHS). The DHS sent the Federal Emergency Management Agency (FEMA) to direct relief efforts, including those launched by the Navy and the Coast Guard. Louisiana and surrounding states contributed state agency personnel, and their National Guard troops. The City of New Orleans had emergency response units, law enforcement, and city workers. Unfortunately, the implementation did not go according to plan.

## INFORMATION

Forecasting the intensity of a natural disaster is a multivariate phenomenon. The intensity of a natural disaster can alter by the minute due to variations in ambient conditions. Therefore, the continuous search for new information relevant to further evaluation of the alternatives is critical. Information can be classified as explicit or tacit forms. The explicit information can be explained in structured form, while tacit information is inconsistent and fuzzy to explain (Harrison, 1999). The process becomes particularly difficult if information sources contradict (Quarantelli, 1988).

In Congressional testimony, FEMA officials blamed their inadequate response on flawed coordination due to poor communication, particularly conflicting reports concerning what was happening in the field, the extent of the disaster, and where aid was being rendered (Marek, 2006a; Singer, 2006). Communications equipment was obsolete, networks collapsed due to a chronic lack of redundant capacity, and backup contingency planning was either missing or ineffective. In some cases, communications were so delayed and flawed decision makers relied on media reports. For example, the convention center crisis surfaced through the media, because DHS leaders confused reports of the Superdome with the convention center until media documented the deplorable conditions there (Brinkley, 2006). Perhaps the nature of big government with its Byzantine bureaucratic structure did not allow prompt adjustments to the changing conditions and situations.

**Proposition 1: As the amount of accurate information and adequate communication networks decrease, "black box" decision making increases, based on misinformation, suspicion, and supposition.**

## RESOURCES

While the resources available to address the disaster were enormous – significant assets from federal departments, the Coast Guard, the Navy, and a variety of state and local emergency capabilities—the process is only as effective as its weakest links (Quarantelli, 1988). As Congressional investigations unfolded, the chronic underfunding of both the protective levee system in New Orleans and of FEMA became woefully apparent.

Once FEMA became part of Homeland Security (DHS), funding had been siphoned towards anti-terrorism efforts and Iraq. Similarly, one fifth of its staff positions had been left vacant to conserve funds (Marek, 2006a; Singer, 2006). Communications equipment was obsolete, and regional stockpiles of emergency supplies were at an all time low (Brinkley, 2006). FEMA Director Brown also testified that FEMA focused preparations on routine, run-of-the-mill disasters, not catastrophic disasters such as a Category 5 hurricane. Requests for funding for preparation for catastrophes had been requested and turned down for years (Marek, 2006b; Singer, 2006). Understaffed and under-funded, FEMA was simply not up to the challenging task of coordinating relief efforts for a disaster of this magnitude.

Similarly, the levy system was poorly constructed, and was never designed to withstand anything more than a relatively weaker hurricane (Category 3 or less). The Army Corps of Engineers filed report after report documenting these problems and the threat they posed, but both Congress and numerous past administrations failed to allocate the funds necessary to address these problems (Brinkley, 2006; Gelbspan, 2005). Inadequate planning and coordination also compromised the levies and was epitomized in the Senate hearings when the Army Corps and the Orleans Levee District were not clear as to who was in charge of levee maintenance (Marek, 2006a).

**Proposition 2: As resource support and preparation diminishes, so do rational decision options, allowing "black box" decision making to thrive, as resource acquisition and dispersion becomes chaotic.**

## STAFF

Much of the decision process depends upon the quality of the decision maker. Expertise and experience allow for more objective assessments of your own and others' capability, evaluating alternatives, handling resource limitations, making wise decisions, and understanding how to effectively implement them. Likewise, the individual style the decision maker utilizes can profoundly affect the available alternatives available to them. The four decision making styles are analytic, conceptual, directive and behavior. These styles vary according to the individual's tolerance for ambiguity and if their way of thinking is rational or intuitive (Robins & DeCenzo, 1998). These skills are particularly important in crises and other high uncertainty decision making contexts.

Unfortunately, key decision makers were relatively unqualified and inexperienced. DHS was only recently created, and had never managed a major catastrophe before, putting its personnel at the bottom of the experience curve. FEMA had managed disasters in the past, but not with most of its current employees, since many of its experienced managers had left. When Katrina occurred, 8 of 10 regional directors were temporary placeholders (Marek, 2006a; Singer, 2006). FEMA Head Michael D. Brown was conspicuously unqualified for the job. Before joining the DHS/FEMA, Brown was the Judges and Stewards Commissioner for the International Arabian Horse Association, where he was forced to resign after expensive lawsuits were filed against the organization over his disciplinary actions (Stearns & Borenstein, 2005). FEMA was in way over its head and foundered in confusion.

**Proposition 3: As the experience and expertise of key decision makers decreases, so does the capacity of the system to handle uncertainty. "Black box" decision making will increase proportionally with the magnitude of the disaster, and the uncertainties it creates.**

## DECISION PREMISES

Simon (1957) noted that the foundation of decision making is decision premises—the paradigms and values used to sort through information, prioritize alternative courses of action, and ultimately select a response. In essence, decision premises serve as filters to handle otherwise overwhelming and often-contradictory information sources—some you pay attention to, some you neglect or ignore (Bazerman, 2006; Harrison, 1999; Weick, 1979). Multi-perspective analysis should be used to look at decisions from a number of important perspectives, to ensure that the interests and needs of important constituencies are both recognized and addressed. While there are infinite alternatives from which the decision maker can choose, only a limited range of alternatives address the needs and goals of all of the important organizations and constituencies involved. If a participating organization feels neglected or ignored, negative attributions can generate resistance and negatively, resulting in implementation problems, or in uncoordinated, rogue actions and relief efforts.

The power of decision premises was evident after Hurricane Katrina was identified as an imminent threat over a week before landfall. Some decision makers did not take this threat seriously. New Orleans Mayor, Ray Nagin's pre-landfall comments suggested a cowboy mentality of "whatever the storm, we can ride it out." Some residents minimized the potential impact of a storm to the point of having hurricane parties to welcome the hurricane ashore (Brinkley, 2006).

Decision premises are supposed to be laid out in organizational mission statements, and in contingency plans created to anticipate mission challenges and improve chances of success (Quarantelli, 1988). DHS had developed a "National Response Plan" outlining roles and expectations for different federal agencies in providing post-disaster relief. Unfortunately, Senate Hearings concluded that the wording of the plan was so obtuse, confusing, and complex, that many DHS decision makers did not understand it (Marek, 2006a). FEMA had specifically targeted Louisiana and New Orleans in a "Southern Louisiana Catastrophic Hurricane Plan," but its contingencies focused on routine disasters, and could not be easily ramped up to handle catastrophes. State and local plans existed, but they were not comprehensive. For example, the state plan had detailed contingencies for those who could evacuate in their vehicles, but not for those without vehicles, such as the poor and infirm, particularly those institutionalized for age, health, or mental problems (Marek 2006b). While the City of New Orleans did have a detailed disaster plan, the mayor's office had not widely shared it, so it did not matter (Brinkley, 2006).

**Proposition 4: The degree to which official decision premises are based on faulty assumptions, poorly communicated plans, unclear and overly complex policies, or incomplete contingencies, corresponds to the degree "black box" decision premises will be used instead.**

## COLLABORATION

Usually the scope of a disaster, much less a catastrophe such as Hurricane Katrina, creates destruction that dwarfs the resources and remediation capabilities of any one organization (Quarantelli, 1988; Rosenthal, 1998). Collaboration between organizations and government agencies is critical, and, in this case, FEMA was given the responsibility by DHS to coordinate all relief efforts. However, Congressional investigations concluded that while FEMA decision makers understood internal FEMA roles and responsibilities, they did not know how to effectively collaborate with other agencies, even when organizations were formally written into the plan (Brinkley, 2006). Consequently, alternatives involving other agencies and the military were neglected, and only gradually integrated. In the day before the storm, Amtrak reportedly offered free passage out of New Orleans, but its trains left nearly empty. The most notorious example of overlooked alternatives involved the Department of the Interior, who offered considerable resources when the disaster hit, including:

- Hundreds of its personnel, including hundreds of law enforcement officers
- More than 300 boats, 11 aircraft, 119 pieces of heavy equipment, 300 dump trucks and other vehicles for clearing debris
- Interior-owned campgrounds and other lands that could be used as staging areas or emergency shelters (Brinkley, 2006; Marek, 2006a)

These resources went largely unutilized. FEMA was geared towards alternatives involving FEMA personnel using FEMA vehicles following FEMA procedures, and had difficulty understanding how to effectively integrate alternatives outside of that scope of operations.

This meant that coordination of the efforts by the military, the Coast Guard, and other federal, state, and local agencies often broke down. Consequently, some areas received extensive search and rescue to the point of duplication, while others were neglected entirely. The Congressional report concludes that officials requested for troops via so many channels that neither the military nor the National Guard knew what each other were doing Marek (2006a). This makes for an inefficient, incoherent response. In summary, communication is essential for state, federal and local partnerships to occur. Unfortunately, elements of nonaligned goals and mistrust may inhibit cooperation (Kelly, 1995)

**Proposition 5: As formal coordination becomes inadequate and ineffective, coordination will be neglected in favor of independent "black box" efforts.**

## PROBLEM SOLVING

Given the complexities, uncertainties and difficulties presented by a disaster, effective response requires effective problem solving, both within organizations and between organizations. Unless the actors in this drama are willing to exercise flexibility, take initiative, and foster productivity, and get the mission accomplished, coordinated efforts can become bogged down in a quagmire of conflict and bureaucracy (Quarantelli, 1988).

For example, believing exaggerated media accounts of violence, looting, and destruction, FEMA decision makers began to fear for the safety of their rescuers and suspended rescue efforts until armed law enforcement officers provided protection. However, instead of jumping in with needed protection, the DHS and the Department of Justice began infighting over who was in charge of sending backup to the New Orleans Police Department since the federal plan gave both agencies authority. The dispute prevented the influx of large numbers of federal law enforcement officers for four days (Marek, 2006b).

**Proposition 6: As problem solving becomes slow and ineffective, independent "black box" decision making and deals will increase.**

## RELIEF OUTCOMES

In case of impending disaster, the most fundamental goal is to protect human life. The second goal is to protect public properties, including government infrastructure, hospitals, and schools. The third priority will be to safeguard business infrastructure and properties. The final objective is the protection of non-business property.

Homeland security and disaster management have become professions, with a variety of universities offering both masters and doctoral programs. Scientific analysis of previous disasters and disaster mitigation strategies has determined a repertoire of effective alternatives available to the knowledgeable disaster management professional. Handling disasters effectively, using the latest and greatest mitigation techniques, are either explicitly or implicitly included in the mission statements of emergency responders.

*For example: On March 1, 2003, the Federal Emergency Management Agency (FEMA) became part of the U.S. Department of Homeland Security (DHS). FEMA's continuing mission within the new department is to lead the effort to prepare the nation for all hazards and effectively manage federal response and recovery efforts following any national incident. FEMA also initiates proactive mitigation activities, trains first responders, and manages the National Flood Insurance Program. (Federal Emergency Management Agency, 2006)*

**MISINFORMATION**

Proposition 1 states that as the amount of accurate information and adequate communication networks decrease, "black box" decision making increases, based on misinformation, suspicion and supposition. Proposition 1 was supported by Hurricane Katrina. As obsolete communication networks and equipment collapsed under the strain of the disaster, so did the rational decision making processes of some key decision makers.

The media distortion had tragic consequences. The Senate Homeland Security and Governmental Affairs Committee condemned DHS reliance on media reports since reporters gravitated towards news of the spectacle. Ostensibly, to boost ratings, accounts of violence, looting, and other anarchy were often exaggerated. Without any further investigation or verification, FEMA suspended rescue efforts for days until they could find enough armed law enforcement agents to provide often unneeded protection (Brinkley, 2006; Marek 2006b).

**HISTORY**

Proposition 6 states that, as problem solving becomes slow and ineffective, independent "black box" decision making and deals will increase. Proposition 6 was supported by the aftermath of Hurricane Katrina. Homeland Security Secretary Chertoff began a series of miscommunications and delayed decisions that undermined any working relationship between DHS and FEMA (Marek, 2006a). This conflict culminated with Brown ignoring Chertoff and communicating directly with the White House for direction and decision approval instead (Singer, 2006).

There was also bad blood between Mayor Nagin and Governor Blanco. In this case, mistrust and miscommunication contributed to a slow and indecisive decision making process in the Governor's suite. Governor Blanco delayed sending the Louisiana National Guard to maintain order. Instead, she chose to spend the days after Hurricane Katrina engaged in partisan bickering and finger pointing (Brinkley, 2006).

**FEAR**

Proposition 4 states that the degree to which official decision premises are based on faulty assumptions, poorly communicated plans, unclear and overly complex policies, or incomplete contingencies corresponds to the degree "black box" decision premises will be used instead. Proposition 4 was supported by Hurricane Katrina, where contingency plans often were either useless or ignored, and decision makers improvised as the disaster unfolded (Brinkley, 2006).
The absence of adequate preparation before the disaster, and adequate relief after the disaster, was cited by some popular figures as evidence of hidden political agendas. Such accusations inflamed fears and attacked the professionalism of key decision makers.

Proposition 2 states that as resource support and preparation diminish so do rational decision options. In turn, this allows "black box" decision making to thrive, as resource acquisition and dispersion becomes chaotic. Proposition 2 was supported. In the Katrina disaster, there was a relatively dearth of resources before the disaster, when preparations would have saved both lives and billions of dollars in damages, followed by government officials falling over themselves to send resources immediately after the disaster, when they often were not used effectively (Brinkley, 2006).

Three areas of preparation would have opened many more effective decision options post-disaster: (1) a levy system designed to prevent flooding, (2) adequate FEMA equipment, supplies and resources stockpiled for relief efforts, and (3) quality disaster planning to coordinate relief efforts following the disaster. None of these were in place. The levee system was poorly constructed to withstand relatively weak hurricanes (category 3 or less), and requests for upgrades were never funded (Gelbspan, 2005). FEMA's sad performance is not surprising, given the chronic under-funding and understaffing of that agency by DHS (Marek, 2006a; Singer, 2006).

Since plans, equipment, communications networks, and stockpiles were in disarray; a coordination and logistical nightmare was virtually guaranteed. In chaos, arational decision criteria are all that is left and are open to abuse as the floodgates of resources opened. For example, FEMA used sweetheart deals with contractors to build and deliver more premium-priced temporary trailers and mobile homes than it could use and put many of them on flood plains that were uninhabitable and sinking into the mud (Marek, 2006b). The abuses of FEMA aid recipients were so legendary that the Department of Justice established a special taskforce to investigate and punish abusers:

> *Welcome to the Hurricane Katrina Fraud Task Force homepage. On September 8, 2005, Attorney General Alberto Gonzales established the Task Force to deter, detect, and prosecute instances of fraud related to the Hurricane Katrina disaster. The Task Force will combat all types of fraud relating to Hurricane Katrina and its aftermath, with an initial emphasis on charity fraud, identity theft, insurance fraud, and procurement and government-benefit fraud. (Department of Justice, 2006)*

## POLITICAL AGENDAS

Proposition 5 states that as formal coordination become inadequate and ineffective, coordination will be neglected in favor of independent "black box" efforts. Proposition 5 was supported by Hurricane Katrina. As the extent of the catastrophe became clear, so did the implications of the disaster. Some of the incredible damage and loss of life would not be attributed to the hurricane, but to the pitiful execution of the relief effort. Inadequate preparations would be exposed, ineffective relief efforts would be probed, decisions would be investigated, and officials would pay a political price for the poor performance.

Faced with such an eventuality, there are two logical options. The professional option is to make the best of a bad situation, to continue to fight the good fight, to do the best one can, and trust that, in the end, commitment, dedication and hard work will be recognized and rewarded. FEMA Director Brown states that he followed this philosophy, and ended up publicly crucified and dismissed from his position (Singer, 2006). In contrast, the political, black box option is to shift attention from effectively managing the disaster towards effectively managing personal image and diverting blame. DHS Secretary Chertoff seemed primarily concerned with media exposure for any relief effort successes. Governor Blanco's slow decision making stemmed, in part, from a flurry of activity attempting to divert blame for under-preparation and poor execution away from the state toward federal and local levels (Brinkley, 2006; Singer, 2006).

## SIEGE SILOS

Proposition 3 states that as the experience and expertise of key decision makers decreases, so does the capacity of the system to handle uncertainty. "Black box" decision making will increase proportionally with the magnitude of the disaster and the uncertainties it creates. Proposition 3 is supported by Hurricane Katrina. The Congressional report on the response to Hurricane Katrine is entitled "A Failure of Initiative"; it captures the key dynamic of under-prepared, largely untrained, inexperienced decision-makers handling a catastrophe way out of their league. Instead of rising to the occasion, they bunkered down, developed a silo and chimney mentality that undermined effective collaboration across agencies. FEMA followed the rules to the letter, seldom demonstrating flexibility and initiative. For example, despite a dearth of rescue boats, they rejected rubber rafts from the Department of the Interior because FEMA regulations required hard-bottomed rescue craft (Marek, 2006b).

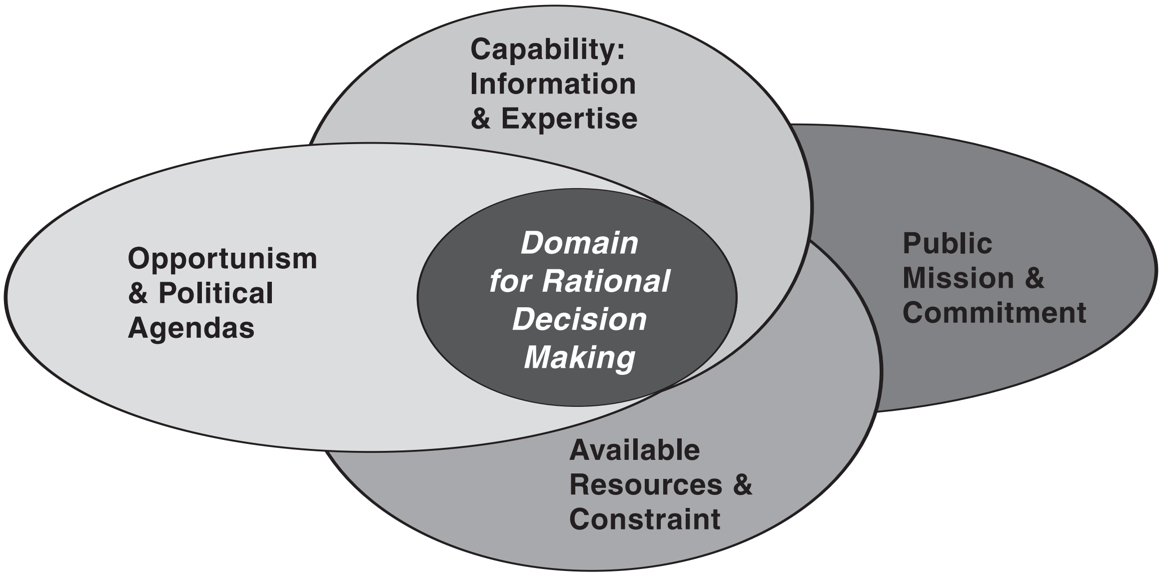
## REPUTATION AND PUBLIC RELATIONS

From a black box perspective, disaster management is not primarily about effective relief for victims; it is about public exposure and image management. Critics charge that overflow of resources from Members of Congress and the Administration did not reflect a rational analysis of needs, it was a political gesture to prove responsiveness and compassion (Brinkley, 2006). Furthermore, the black box works. Notice that the two primary actors who dedicated themselves to bolstering their public image or to self-protection—DHS Secretary Chertoff and Governor Blanco remained at their posts.

## INSIDE THE BLACK BOX

A rational black box decision making can be examined on two levels: decision makers within an organization, and the coordination and integration of decisions between organizations. Brown (2005) posits that there are three considerations that embody any decision: goals, options, and outcome. These cannot be assumed to remain uniform across organizations or their members especially when dealing with political appointees. First, the personal preferences of decision makers depend, in part, on their personal abilities and cognitive style and, in part, on their personal ambitions and the opportunities the decision creates. Second, different organizations have different missions and "decision premises" that shape both their decision making processes and their outcomes. These vary widely across organizations (Simon, 1957). Finally, organizational resources and capabilities are seldom uniform across organizations. The relationship between these factors is illustrated in Figure I:

**FIGURE I: THE DOMAIN OF RATIONAL DECISION MAKING.**




Rational decision making works best where available capability is empowered by adequate resources addressing decisions where opportunism and professionalism are complementary. Decisions that fall outside of this domain fall into the black box. The smaller the domain, the more noticeable the black box becomes.

## CONCLUSION AND RECOMMENDATIONS

Decision-making is an integral component of modern existence. People make literally thousands of decisions a day, and while most decisions are minor and have little effect on anyone but their makers, they must be cognizant that some decisions have life and death consequences. Some elected and appointed officials have the primary responsibility of safeguarding the public safety. Planning, simulations, contingency, and evacuation protocols are all worthwhile measures and we naively assume that government paternalism will protect us from any dangers. As a result, we place our trust in the government's competency, and we expect officials to make clear, rational decisions. Here are key recommendations to avoid falling into the black box:

- Decision makers must either have the expertise and experience to handle crises and ambiguity, or have easy access to experts and consultants who do. There is no substitute for wisdom and competence of key actors in a decision system operating under pressure.
- Contingency planning must be comprehensive and realistic, not superficial and ceremonial. Well-publicized plans bring consistency to decision making. Inadequate planning breeds creative, if not opportunistic, black box interpretations.
- As time pressures increase, so do the limitations on rational decision making, thus intensifying the pressure to make arational decisions. Therefore, it is essential to follow established protocols to counteract the time pressures.
- In the absence of reliable information, unreliable information will be gathered and used in the black box. Effective information systems with redundant channels can reduce uncertainty about the uncontrollable inputs. Thus, the gathering of reliable and timely information can greatly mitigate hysteria and rumor.

- Speed and flexibility will be injected into the system. If bureaucratic policies, procedures, approval processes, etc. are enabling, they will be utilized. If they are inertial and stifling, they will be ignored and subverted by black box standard operating procedure.

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*JOURNAL OF INTERNATIONAL BUSINESS DISCIPLINES*

Volume 1, Number 1, November 2006

**Published By:**
International Academy of Business Disciplines and Frostburg State University


ISBN 1-889754-99-4

Printed in the USA by Commercial Press Printing Company