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Editorial Note

The November 2016 issue of the *Journal of International Business Disciplines (JIBD)* has been the result of a rigorous process in two stages:

- **Stage 1:** all papers that were submitted to the 2016 IABD conference went through blind reviews, and high quality papers were accepted for presentation at conference.
- **Stage 2:** approximately ten percent of the accepted articles and one invited manuscript were selected for possible publication in JIBD. The respective authors were contacted and asked to resubmit their papers for a second round of reviews. These manuscripts went through a blind review process by the editorial board members. In the end, five articles were recommended by the editorial board for publication in the November 2016 issue of JIBD.

*JIBD* is committed to maintaining high standards of quality in all of its publications.

Ahmad Tootoonchi, Chief Editor

*Journal of International Business Disciplines*
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EMPIRICAL INVESTIGATION OF THE RELATIONSHIP BETWEEN NAFTA AND KEY ECONOMIC VARIABLES IN MEXICO

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ABSTRACT

This study investigates the relationship between the North American Free Trade Agreement (NAFTA) and foreign direct investment (FDI), GDP growth rate, unemployment rate, total export, export to and from the US, total industry production, and total factor productivity in Mexico. Results from the statistical analysis, using intervention time series and auto-regression models, showed a positive relationship between NAFTA and total export from Mexico. On the other hand, NAFTA had no definitive relationship with foreign direct investment or any of the other economic variables.

INTRODUCTION

The North American Free Trade Agreement (NAFTA) was signed on December 17, 1992 by the United States, Canada, and Mexico. According to the Congressional Budget Office, it took effect on January 1, 1994. The purpose of the agreement was to phase out restrictions on trade and foreign investment among the three countries. Proponents of NAFTA argued for its positive impact on the economies of countries involved in terms of imports, exports, foreign direct investment, employment, and labor income. Of the three countries, there was general agreement that Mexico stood to benefit most because of its small economy relative to that of the United States and Canada (Kehoe & Kehoe 1994). Since NAFTA is a free trade agreement, it may benefit both import and export. Of interest, however, is how NAFTA would affect the economy in general such as the GDP, employment, foreign direct investment, industrial output and total factor productivity (TFP). TFP can be taken as a measure of an economy’s long-term technological change or dynamics. There have been many empirical studies in the literature on the effect of NAFTA on different aspects of the economy of Mexico. However, most of the data analyses used were descriptive in nature and limited in the number of economic variables investigated. In this study, a comprehensive quantitative analysis is performed to assess the impact of NAFTA on foreign direct investment and on the GDP, import from the US, total export, export to the US, unemployment, industrial output, and factor productivity.
REVIEW OF LITERATURE

The Congressional Budget Office (2003) over 8 years after NAFTA reported on its effects on the US-Mexican trade and GDP. The study concluded that the effect of NAFTA on Trade with Mexico was hard to determine since trade was growing between the two countries for many years before NAFTA and the assumption is that it would have continued to grow with or without NAFTA. The effect of NAFTA on the GDP in Mexico and the U.S. has been positive, but slight. By eliminating trade barriers and quotas, Mexico under NAFTA has become a more attractive place for foreign investment, particularly in plants for final assembly of products destined back to the U.S. However, the effect of NAFTA on foreign investment was difficult to determine since Mexico has had liberalization of trade and other economic policies prior to NAFTA.

Stracke (2003) analyzing the effect of NAFTA on Mexico reported that while there have been some benefits in terms of trade, economic growth has not improved. The average growth rate was 2.7% after NAFTA. However, this was the rate for a decade before NAFTA. In addition, the income of workers has fallen after NAFTA. Also, there was no evidence of increased labor productivity since NAFTA went into effect. The fact that Mexico’s economic benefit from NAFTA did not meet expectation was attributed to a number of factors, salient among them are: the brain drain of skilled workers to the United States, lack of adequate human capital, and structural problems.

Moreno-Brid et al. (2005) in a study on Mexico’s industrialization and economic growth concluded that the economy after NAFTA has been characterized, on one hand, by low inflation, low deficits, and an increase in export, but on the other hand, by less than expected growth in the economy and employment. Authors discuss the need for a new development plan if Mexico were to succeed in attaining high and sustainable economic growth.

Arguing in the defense of NAFTA, Maser (1991) presented four reasons why NAFTA is in the interest of US business. These are the large market value of Mexico and an opportunity for US business to expand. Further, joint production with Mexico is a good manufacturing strategy for competition in global markets, and a trade agreement with Mexico could be used as a model for future trade and investment agreements with Latin America and other regions.

Cypher (2011) in an article on Mexico since NAFTA pointed out the failure of NAFTA to remedy economic stagnation, falling wages, a growing “jobs deficit,” income disparity, poverty, and surging migration out of the country. It was pointed out that Mexico fell from the 12th largest exporter in 2000 to the fifteenth in 2010.

Ito (2010), using total factor productivity (TFP) as a measure of technology, reported that across industries there was an increase in gap in TFP level between Mexico and the US since NAFTA came into effect. This finding is in contradiction to previous reports in the literature of technology convergence between the two counties.

Esquivel (2011) examined income inequality in Mexico since the inception of NAFTA in 1994. Income inequality was measured by the GINI coefficient. The author reported that since 1994
there has been a reduction in income inequality. This reduction has been attributed to labor income in urban areas and to public transfer in rural areas. However, remittances contributed to reduction in income inequality at the national level since 1994.

Béjar (2014) examined energy in Mexico before and after NAFTA. His conclusion was that NAFTA had a negative effect on energy in Mexico in spite of its free trade with the US. The country, according to the study, has witnessed a setback for its energy companies (especially PEMEX), environmental problems, and the exhaustion of its non-renewable natural resources. Stevens (2001) reported on a shift after 1989 in an explanatory model that explained the data well for plant and equipment spending by US direct investment in Mexico through 1989. After 1989, the under prediction from the model was attributed to the relaxation of restrictions on direct investment as well as to the effect of NAFTA on increasing foreign direct investment.

According to Blecker (2014), NAFTA did not help Mexican per capita income converge to the U.S. Also, it did not help employment in the country or stem migration. In addition, labor wages have stagnated while productivity increased leading to profit in the hands of few, thus contributing to income inequality. On the positive side, export of manufactured goods has increased substantially after NAFTA.

Salvatore, D. (2007) in a study of the economic effects of NAFTA on Mexico reported that the increase in export and inflow of FDI after NAFTA was due to the liberalization of trade and investment in general and to NAFTA per se. Increase in export and FDI led to increased productivity and competition. However, it was noted that the increase in FDI inflows from the rest of the world was as large as or larger than that from the U.S. Further, more benefits were received in the years directly before NAFTA than directly after. This was attributed to the economic crises in 1994-1995 that affected Mexico, to the economic slowdown in the U.S., and to the Chinese competition. However, the most important reason sited was the failure of Mexico to restructure and liberalize its economy and improve the education and training of labor in the country.

Correa and Seccareccia (2009) considered the linkage between Mexico under NAFTA and the U.S. financial crisis. They were of the opinion that the structural make-up of the NAFTA agreement contributed to the unfolding of the recent financial crisis in the U.S. and its international transmission. The authors argued that the model of export-led economic growth under NAFTA is flawed since it did not consider effective demand. They argued for domestic policies that boost income growth and domestic demand.

Cole and Ensign (2005) examined the effect of NAFTA on US direct foreign investment into Mexico with regard to technology, skilled and unskilled labor, and environmental expenditures. Authors reported that there was no evidence that US industries were moving to Mexico because of lower environmental standards. The study could not confirm the argument that highly skilled jobs will move to Mexico to take advantage of lower wages, or the position that only low skilled jobs will move to Mexico. Also, it could not be determined whether movement to Mexico favored low or high technology workers. Results of the study showed that US FDI into Mexico is supporting lower polluting industries.
Kose et al. (2004) in a study examining the effect of NAFTA on the Mexican economy reported that most studies showed that NAFTA had a substantial effect on increasing trade and foreign direct investment in Mexico. FDI rose from $12 billion in 1991–93 to about $54 billion in 2000–02. Also, Mexico’s export in dollars to the US and Canada tripled between 1993 and 2002. In 2002, Mexico’s trade with the US and Canada accounted for 40% of the GDP. Mexico’s output and investment volatility decreased dramatically under NAFTA. However, in order to sustain the benefits under NAFTA there is a need for structural reform in education, labor, energy, judicial, security, and telecommunication.

Villarreal (2012) reported that Mexico under NAFTA is the US second most important trading partner. In terms of exports by the US, Mexico ranks second and is ranked third in US imports. Under NAFTA, the US is the most important Mexico’s trading partner. Also, the US is the major source of FDI in Mexico. The economic effect of the US trade with Mexico on the Mexican economy has been substantial. However, its effect on the US economy has been minimal mainly because bilateral trade with Mexico amounts to less than 3% of the US GDP. The economic ties between the US and Mexico have strengthened considerably under NAFTA.

Gamboa (2012) modeled the location pattern of FDI in Mexico utilizing spatial econometric techniques. His conclusion was that variables that were influential in attracting FDI were GDP per capita, proximity to the US and Mexico City, years of schooling, wages, infrastructure, FDI in neighboring regions, and delinquency rates. However, most important among these variables were years of schooling, low delinquency rates, and FDI in neighboring regions. Investment in infrastructure is essential for flow of foreign direct investment. However, FDI concentration is likely to remain in the northern states with proximity to the US.

Weisbrot et. al. (2014) compared the economy in Mexico with that of the rest of the region over the past 20 years under NAFTA. The authors concluded that (1) Mexico ranked 18 among the 20 Latin American countries in growth of real GDP per person; (2) Mexico’s real GDP per person grew by 98.7 percent from 1960-1980, but only by 18.6% (about half the rate for the other Latin American countries) in the last 20 years under NAFTA; (3) The poverty rate did not improve. The rate is almost the same for 1994 and 2014. The rest of Latin America showed a drop in poverty rate; (4) inflation adjusted wages were almost the same in 1994 as in 2012; (5) there was a significant deterioration in employment in general and agricultural employment in particular under NAFTA; (6) the poor economy in Mexico contributed significantly to the surge of emigration to the United States.

Peters (2008) in a study on the impact of FDI in Mexico reported that FDI has remained roughly constant for the period, 1994-2006. FDI in terms of new investments has diminished considerably. Manufacturing accounted for 49% of total FDI. Since 2000, there has been a significant increase of FDI in the financial sector. With regard to the 20 most important industries in terms of FDI, there was a lack of job creation, a growing gap between wages and productivity, and a lack of R&D expenditures. Also, FDI may have contributed to the worsening of the socio-economic and territorial polarization situations. The author advocates a long term national development strategy in order to exploit the potential benefits of FDI flow to Mexico under NAFTA. For instance, there should be a guided FDI in terms of location in Mexico in
order to diffuse polarization and a liberalization of FDI in the energy sector, namely petrochemicals and electricity.

Gould (1998) pointed out that NAFTA, being a free trade agreement, should be judged by whether it increases both imports and exports. By this criterion, NAFTA has been a success to both Mexico and the United States, but not to Canada. NAFTA had a positive effect on the flow of trade between the US and Mexico. However, it had no effect on trade between Mexico and Canada or the US and Canada. This was attributed to the fact that the US and Canada had a free trade agreement in place five years before NAFTA and that most of the free trade negotiated under NAFTA was between the United States and Mexico. NAFTA’s effect on jobs in Mexico and the United States was difficult to determine. This was because factors such as business cycles and economic shocks in a country and not trade have a dominant effect on employment.

METHODS

In order to determine if NAFTA had any effect on different factors of the economy, two analytical procedures (intervention time series analysis, and auto-regression analysis) were utilized using the SAS software.

Intervention Analysis

Intervention analysis (Box & Tiao, 1975) is used to study the effect of an intervention on a time series response variable when the time (T) of the intervention is known. The intervention in this case is NAFTA and is entered in the model as a step function (0 before 1994 and 1 at and after 1994). If the response due to the impact is felt b periods after the intervention at time T, the impact of the intervention on the response variable can be specified in general as

\[ wB^bS_t^T, \]  

(1)

where, B is the backshift operator and w is the impact coefficient and

\[ S_t^T = 0, \quad t < T \]

\[ 1, \quad t \geq T \]

However, if the response due to the impact is gradual, the impact can be specified as

\[ (wB^b/(1-\delta))S_t^T \]

(2)

where \( \delta \) is between 0 and 1 (Wei, 2006).

For the purpose of this analysis, both (1) and (2) were used. The intervention model can be written as
\( y_t = x_t + wB^bS_t^T \) or \( y_t = x_t + (wB^b/ (1-\delta))S_t^T \)  \hspace{1cm} (3) 

where \( y_t \) is the observed series and \( x_t \) is the series with no intervention.

**Auto-regression**

The auto-regression model employed takes the form

\[ y_t = a + bx_t + n_t \]  \hspace{1cm} (4) 

Where \( n_t \) is an auto-regressive process of the first order, \( n_t = \omega n_{t-1} + e_t (|\omega|<1) \) and \( e_t \) is random error. The order was determined using the Durbin-Watson statistic.

**DATA**

Data on GDP growth rate, unemployment rate, total export (as percent of the GDP), and total industry production (index, with 2010 = 1) were obtained from the online economic data of the Federal Reserve in Saint Louis (FRED). Foreign direct investment data (in US dollars) were obtained from the World Bank Data on line. Data for Export to the US (millions of dollars) and import from the US (millions of dollars) were obtained from the US. Bureau of Economic Analysis, US. Bureau of the Census. Total factor productivity (index USA = 1, source: Feenstra et al. 2013). A common source for most of these data is the Federal Reserve Economic Data in St. Louis (FRED). The time period for this analysis was 1980-2014. Plots of the time series data are presented in the Appendix.

**RESULTS**

For the time series analyses, we checked for stationarity using the autocorrelation and partial autocorrelation dampening pattern approach (Wei, 2006). Results indicated that all series, except for growth rate and unemployment rate, (foreign direct investment, import from the US, total export, export to the US, industrial output, and factor productivity) were not stationary. However, first differences were stationary. Stationary series were used in the analysis.

**Intervention analysis**

From this analysis, it was determined that NAFTA had a highly significant positive impact (according to equation (1)) on export and unemployment. Also, it had a positive effect on FDI that was only significant at the 0.08 level. NAFTA, on the other hand, had no significant effect
on the other economic variables (growth rate, total factor productivity, export to the US, import from the US, and total industry production).

For export, the model is

\[ \text{Export}_t = \text{Export}_{t-1} + 11.618 \text{NAFTA}_{t+1} + e_t \]  \hspace{1cm} (5)

where the coefficient 11.618 is significant with p < 0.0001

NAFTA had an effect (\( w = 8.05 \times 10^9 \), from equation (1) with no lag) on FDI which was significant only at the 0.08 level.

\( \text{NAFTA}_{t+1} \) had a positive impact on unemployment. The response due to the impact was felt one year after NAFTA went into effect in 1994. \( w \) from (1) was 2.52 with a p value < 0.0001.

**Auto-regression analysis**

The model in (4) was used with year and NAFTA in the model and with NAFTA alone in the model. Year can be viewed as a proxy for factor or factors that may have an effect on the response variable \( y \).

NAFTA at positive lag 1 had a positive and significant effect on export. This was in agreement with the analysis result from equation (1) above. The coefficient \( b \) in equation (4) was 10.19 (with year in the model) and \( b = 12.52 \) (with NAFTA alone in the model). Both \( b \) estimates were significant with p < 0.0001.

Also, NAFTA at positive lag 1 had a positive relationship with the unemployment rate. The \( b \) coefficient was 2.45, significant at the 0.0001 level. The effect was still significant when year entered the model

NAFTA alone in the model had a significant positive relationship with FDI (\( b = 1.75 \times 10^{10} \) with a p value <0.0001), but the effect was not significant when year entered the model.

NAFTA had no significant relationship with any of the other variables, namely growth rate, export to the US, import from the US, total factor productivity, and total industry production. Results from this analysis are in agreement with those of the intervention analysis above.

**DISCUSSION**

This study is a comprehensive quantitative analysis involving the effects of NAFTA on key macroeconomic variables in Mexico. It is of interest to find that NAFTA had no effect on a number of important economic variables
It seems that the one variable that was positively affected by NAFTA (as shown from the intervention and auto-regression analyses) was total export. This was perhaps to be expected since NAFTA is a free trade agreement. It is of interest, however, that export to and import from the US were not affected. Based on the auto-regression analysis results, NAFTA alone in the model had a significant positive effect on foreign direct investment, but the effect was not significant when year entered the model. One may conclude that NAFTA had no effect on FDI when one controls for the growth in FDI over years. Also, from the intervention analysis, one cannot make a strong case for an effect of NAFTA on FDI. It was of interest to find that NAFTA and unemployment were positively related. From Figure 2 in the Appendix, one finds that unemployment decreased for four years after NAFTA. However, it was on the increase after year 2000. This could be due to other factors, internal and external, which overcame any benefit NAFTA may have had on employment.

The results of this analysis are in agreement with most of the studies in the literature above. Stracke (2003) concluded that the fact that Mexico’s economic benefit from NAFTA did not meet expectation is attributed to a number of factors, salient among them are: the brain drain of skilled workers to the United States, lack of adequate human capital, and infra-structural problems. Also, as pointed out by Salvatore, D. (2007) Mexico has failed to restructure and liberalize its economy and improve the education and training of labor in the country. These may be reasons for the lack of a NAFTA effect. Under NAFTA, US multinational corporations (MNCs) have invested mainly in Mexico-US border states, but under the NAFTA accord, their supply chain was mainly in the US and not Mexico. This has not benefited the Mexican economy beyond the Border States, Villarreal (2012).

The budget office (2003) study concluded that the effect of NAFTA on Trade with Mexico was hard to determine since trade was growing between the two countries for many years before NAFTA and the assumption is that it would have continued to grow with or without NAFTA. Also, the effect of NAFTA on foreign investment was difficult to determine since Mexico has had liberalization of trade and other economic policies prior to NAFTA. These conclusions are supported by the statistical analysis in this paper.

CONCLUSION

In this quantitative study, the authors investigated the effect (relationship) of NAFTA on important economic variables in Mexico, namely GDP growth rate, foreign direct investment, total export, import from the US, export to the US, unemployment rate, total industry production, and total factor productivity.

Results from the statistical analysis, using time series intervention and auto-regression techniques, showed that NAFTA had a positive impact on total export, but no definitive impact on FDI or the rest of the economic variables above. Many of the economic variables that were not impacted by NAFTA could be characterized by positive drift terms which represent the slopes of their growth curves over years. This growth may be attributed to factors, other than NAFTA, not observed in this study.
REFERENCES


APPENDIX

FIGURE 1: PLOT OF GROWTH RATE (GR) OVER YEARS

FIGURE 2: PLOT OF UNEMPLOYMENT RATE (UR) OVER YEARS
**FIGURE 3:** PLOT OF TOTAL EXPORT OVER YEARS

**FIGURE 4:** PLOT OF EXPORT TO THE US (EXPUS) OVER YEARS
FIGURE 5: PLOT OF IMPORT FROM THE US (IMPUS) OVER YEARS

FIGURE 6: PLOT OF TOTAL INDUSTRY PRODUCTION (TIP) OVER YEARS
FIGURES 7: PLOT OF TOTAL FACTOR PRODUCTIVITY (TFP) OVER YEARS

FIGURE 8: PLOT OF FOREIGN DIRECT INVESTMENT (FDI) OVER YEAR
MINDFULNESS AND ITS PEDAGOGICAL APPLICATION IN BUSINESS EDUCATION

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ABSTRACT

Mindfulness has gained significant attention and momentum in business and popular culture in the US, Europe, and Australia. There is, however, a paucity of literature on how business students make sense of mindfulness and its practices. Based on our experiences of adopting mindfulness and mindfulness meditation in our teachings of management courses, we have explored how business students make sense of mindfulness and meditation. From a phenomenological perspective, we have examined our students’ meditation journals, essays, and their own research on the topic of mindfulness. Based on the findings of previous empirical studies on the positive effects of mindfulness practices and our reflections on the pedagogical potential of mindfulness meditation for business education, we have emphasized that the practice of presence through mindfulness tends to enhance the business students’ self-awareness and emotional skills. The implications of adopting mindfulness research and brief and deliberate practices into the business curriculum to develop embodied wisdom are also discussed.

INTRODUCTION

Historically, business education has put greater emphasis on the concepts of rationality and logical analysis, while other mental faculties such as intuition, emotions, and personal reflections have been largely ignored (Drucker, 2005; Jordan, Ashkanasy, & Härtel, 2003; Weick, 2007). A well-cultivated self-awareness through contemplative practices has only recently begun to attract serious attention as a core skill that should be developed in schools of business, even though mindfulness and contemplative practice are of utmost importance in business and leadership (Achor & Gielan, 2015; Hansen, 2012; Hougaard & Carter, 2016; Hunter, 2013; Hyland, 2015; Kelly, 2012; Meister, 2015; Pinkster, 2015; Schachtman, 2013; Seppala, 2015; Shumpeter, 2013; Smith, 2014; Tuleja, 2014; Vich, 2015).

We perceive that, in general, business education has been negligent in developing a well-balanced “whole person” by ignoring the cultivation of students’ inner qualities for self-awareness, empathy, and compassion toward others (Roeser & Peck, 2009). In fact, wisdom has just recently appeared in management and leadership literature (McKenna, Rooney, &
Kenworthy, 2013). Furthermore, the “doing” mentality has been overpowering in business education while the “being” mode of existence, which emphasizes contemplation and reflection in the “here and now,” has been under-researched. As a consequence, business students have been offered very few chances to develop their contemplative mindset and soft skills, which can be roughly translated into intrapersonal and interpersonal emotional, social, and communitive skills. In other words, business educators have been somewhat reluctant to offer opportunities for mindful learning, through which students reflect upon their inner experiences and integrate them into meaningful insights and personal knowledge about themselves to enhance sound decision making capabilities. Hence, apparently there exist gaps in the business curriculum in terms of promoting self-awareness, focus, and mindfulness in future business leaders. In leadership development, for instance, few researchers, except a minority group of scholars (e.g., Senge, Jaworski, Scharmer, & Flowers, 2005), have paid attention to the importance of presence through being aware of what is going on in the moment for effective leadership.

Paying attention to the present moment enables us to observe how our preconceptions and biases from our past experiences affect the way we make decisions in the present. This is also why managing one’s own mind or guarding one’s own consciousness is perceived to be a critically important skill for effective leadership (Drucker, 2005). Overemphasis on taking action and the lack of pedagogical emphasis on “presence” may be the possible reason why business students are not particularly well-trained for wisdom (Bennis & O’Toole, 2005; Kessler & Bailey, 2007). According to Siegel (2007), presence is defined as “the bare awareness of the receptive spaciousness of our mind” (p. 160). Hence, “presencing” as “the embodied habitualized practice” (Küpers & Pauleen, 2015, p. 496, italics in original) of presence can be cultivated through the conscientious practice of being still and becoming attentively aware of what is happening in the moment.

The primary goal of this paper is thus to explore how business students make sense of mindfulness and meditation and how they make meaning out of their own mindfulness practices by investigating the first person narrative accounts from the students’ meditation journals, essays, and their own research on mindfulness. Specifically, by analyzing the qualitative data from our students’, in the case of the first author – first person reports described in their meditation journals and reflective essays, and in the case of the second author – research on mindfulness and subsequent student papers on how mindfulness affects their lives and how human resource managers could effectively integrate mindfulness into an organization, we examine how mindfulness, as a foundational concept in contemplative epistemology, can play a pivotal role, not only having positive instrumental value (e.g., stress reduction), but also helping business educators reconsider and reshape the value of business education in a larger social context.

Contemplative epistemology is a way of “knowing from within” through engaging in self-reflection and meditation (Zajonc, 2009). Hence, the conventional business curriculum could be strengthened if it is complemented by more contemplative and mindful pedagogical methods. We have further explored how mindfulness meditation can enhance the embodied practical wisdom of business students. In this paper, we have defined practical wisdom as our embodied knowledge and habitualized practice of being present to (a) our body (i.e., bodily sensations), (b) our feelings, emotions and thoughts, and (c) our action, which can be learned through deliberate practice of mindfulness and/or mindful meditation. Therefore, it is our hope that this reflective
paper provides some insights for revising the current management curriculum in order to fill the aforementioned gaps, and thus contributes to the literature of Scholarship of Teaching and Learning (SoTL) in a small, but meaningful way.

We examined the students’ meditation journals, essays, and research papers from the theoretical perspective of interpretative phenomenological analysis (IPA) (Smith, Flowers, & Larkin, 2009). IPA is “a qualitative research approach committed to the examination of how people make sense of their major life experiences,” and is mostly “concerned with exploring experience in its own terms” (Smith et al., 2009, p. 1). Given that the purpose of this paper is to explore how business students make sense of mindfulness and their experiences of meditation, IPA is a very useful theoretical lens to analyze the intention (i.e., underlying motivations for engaging in meditation besides the completion of the course requirement), attitudes (i.e., emotional, cognitive, and behavioral evaluations of mindfulness and meditation), and meanings (i.e., perceived significance of mindfulness and meditation in one’s life) that the students often derive from their practice of mindfulness more deeply.

MINDFULNESS AND ITS APPLICATION IN THE BUSINESS CLASSROOM

The faculty of voluntarily bringing back a wandering attention,
over and over again, is the very root of judgment, character, and will.
No one is *compos sui* [master of one’s self] if he have it not.
An education which should improve this faculty would be the education *par excellence*.
(James, 1890/1950, p. 424, italics in original)

Mindfulness is an English translation of the Pali word, “sati,” which literally means “recollection, memory, recalling to mind” (Sangharakshita, 2003, p. 9). Mindfulness, as the keen attention to one’s present experience, sounds deceptively simple: essentially it refers to paying undivided attention to the present moment. It refers to a state of being that facilitates the moment-to-moment awareness of one’s bodily sensations, emotions, and thoughts in a constantly changing environment (Kabat-Zinn, 1990). Mindful meditation (hereafter meditation) is one of the practical methods of cultivating one’s awareness. Meditation is a disciplined mental practice that enables us to become more attentive to our bodily sensations and passing thoughts and emotions “from a center of awareness that is separate from them and therefore able to witness them as discrete events” (Flowers, 2011, p. 169).

When we experientially know that mindfulness and/or meditation works for us, we feel a sense of freedom, which enables us to act as more neutral observers, less disturbed by tumultuous and disruptive external events. Metaphorically speaking, mindfulness and meditation are like a mental retreat, which has no specific goal or expectation in mind, but simply allows one to be present in the here and now, while distancing oneself from disturbing emotional reactions. In this respect, mindfulness and meditation are not about controlling our emotions or thoughts, but more about observing them neutrally and more clearly in order to be familiar with the recurring inner phenomena. The beneficial effects of various mindfulness practices have been well documented (Good et al., 2016; Siegel, 2011; Höfzel, Lazar, Gard, Schuman-Olivier, Vago, & Ott, 2011).
Particularly, meditation (a) enhanced the sense of well-being (Brown & Ryan, 2003; Shapiro, Oman, Thoresen, Plante, & Flinders, 2008), (b) strengthened attention (Jha, Stanley, Kiyonaga, Wong, & Gelfand, 2010), and helped individuals be more emphatic in interpersonal relationships (Shapiro, Brown, & Astin, 2011). It has been also reported that mindfulness training reduces mind wandering (Mrazek, Franklin, Phillips, Baird, & Schooler, 2013), prevented mindless impulses (Papies, Barsalou, & Custers, 2012), and increased compassion, empathy, and a sense of community (Haynes, 2011).

In his teaching of a special topic undergraduate course, “Mindful Leadership,” the first author of this paper used multiple mindfulness practices, including sitting meditation, at the public university where he is currently teaching. Prior to his creation of the special topic course on mindful leadership, he has been actively using various mindfulness practices such as meditation, journaling, art and music appreciation in his teaching of Organizational Behavior/Human Resource Management for the past several years (Yang & Durnin, 2013). The purpose of the newly designed course was to cultivate business students’ self-awareness and to develop their soft skills (i.e., emotional, interpersonal, communication skills). The primary learning goal of this experiential class, the first one of its kind being offered at the institution, was to enhance business students’ emotional awareness, empathy/compassion and capabilities for paying undivided attention. The notion of presence, as defined above as practicing an open, receptive, and bare awareness, was particularly emphasized as the guiding principle of the in-class and at-home practice of meditation. The students were encouraged to observe, reflect upon, and describe their inner experiences of meditation and were required to submit their meditation journals at the end of the semester as a course assignment. Below is the instruction for the meditation journal:

Following a completion of each assigned practice of ten to fifteen-minute sitting meditation, take some time to jot down your reflections on your observation of your inner experience during the meditation session. Yet, do not actively think about your passing thoughts and emotions during your meditation, but rather, try to stay fully attentive to your breath. The key point to remember is not to try to inhibit any bodily sensations, sensory experiences, thoughts or feelings that may arise, but acknowledge these and each time gently return attention to your breath.

After completing the designated sitting meditation practice, write a brief report, describing your observation of recurring thoughts, emotions, or bodily reactions. You are expected to describe your reflections on at least ten episodes of your sitting meditation and your embodied understanding (i.e., knowing through your own bodily awareness in addition to your cognitive and emotional learning) of “being awake” or “being mindful.”

In addition to their meditation journals, the students were expected to respond to a set of four open-ended questions during the fourth week and again at the end of the semester. The first four questions included: (a) to what extent were you familiar with the notion of mindfulness before taking this course? (b) what was your first impression of mindfulness? (c) what is your current understanding of mindfulness? and (d) what changes have you noticed in your life for the past four weeks? The second four questions were: (a) upon having almost completed a course on mindfulness, what is your most current understanding of mindfulness? (b) what has been the
most difficult aspect for you in understanding the concept of mindfulness? (c) what has been the most difficult aspect for you in practicing mindfulness meditation? and (d) what changes have you noticed in your life for the past fifteen weeks?

The second author of this paper introduced mindfulness to graduate students at a private university in her teaching of a seven-week online MBA special topic course entitled “Strategic Human Resource Management.” Students were to take one week to research mindfulness on their own by finding articles from various sources and/or videos on YouTube about mindfulness. The culmination of their research was to result in a paper which would describe how they would incorporate mindfulness into their own personal life and into their business life, or for full-time students, into their academic life. In addition, students needed to include in their paper how they would incorporate mindfulness into an organization’s employee development program as a human resource manager. Students were allowed to discuss the topic of mindfulness with their team members online, but it was not mandatory.

We read our students’ journals, essays, and research papers very carefully in order to understand the recurring themes. Some verbatim first person narratives from the data are presented below as they are the very clues for us to interpret how the students made sense of mindfulness and their practices of meditation. For the first author, students seemed to possess a relatively fixed notion of appropriate content materials that should be taught and practiced in the business classroom. In other words, they looked for a certain kind of “knowledge and practice” that just appeared to be relevant to their ideas of the real world of business. For a majority of students, at least in the beginning of the semester, mindfulness and meditation (i.e., “sitting still while doing nothing but inhaling and exhaling attentively”) were not something that they would eagerly accept and practice with enthusiasm. Hence, it is not surprising that, the two most frequently mentioned themes regarding their first impression of mindfulness, were (a) “something weird, foreign, and silly,” and (b) the irrelevancy of the practice. In the words of one student:

The mindfulness meditation piece is interesting but honestly still foreign to me. It’s still very difficult for me to engulf myself into the meditation and to focus. My first impression of mindfulness meditation was that it would be something that I would never do. The thought of doing yoga or even meditating seemed silly to me. I thought that if you wanted to reduce the stress in your life, you will have to make necessary changes and adjust to get in the right mindset. The whole concept was crazy and I honestly thought meditation was for females and a religious thing.

Upon closely analyzing the content of their meditation journals, it also became clear that at least initially, most of the students faced specific difficulties in making sense of mindfulness as a concept and meditation as a practice. One of the most challenging aspects of mindfulness concerned dealing with the two conflicting mindsets, the “doing versus being” modes (Williams & Penman, 2011). Given the greater emphasis put on the “driven and goal-oriented” mindset of a successful business leader – often tacit and widely cherished – at business schools, the students at first felt quite confused with the notion of “being mindfully present” and maintaining focused attention on their breathing and passing thoughts and emotions non-judgmentally.
Given the natural tendency of our untrained, “rehearsing and rehashing” minds, it is not difficult to sympathize with the struggling students. For instance, the students confessed that they had difficulty in dealing with intruding thoughts during sitting meditation practice, mainly because they knew that they couldn’t “control” the disturbing thoughts and emotions without feelings of inadequacy. One of the first author’s students shared her difficulty by saying that:

I still haven’t been able to make mindfulness a habit. I am a mother and the things I worry about run through my mind like trains through a tunnel. I find that it’s very difficult for me to remember to apply mindfulness during moments where I lose control of my worries and I find my mind on the future or the past instead of the present. It’s very difficult when you have a million things to do to slow down and stop thinking about them, because I feel that I may forget something if I just stop thinking about all the things I have to take care of in my life.

Contrary to the initial indifference and somewhat negative attitudes toward mindfulness, after a month of reading, watching training videos on mindfulness and meditation, and their actual practicing of meditation, the students showed great improvements in terms of their affective regulation, a reduced level of stress, and an increased awareness of their bodies. They also experienced enhanced focus and attention, empathy, and compassion (“I am a little more understanding of others,” “I do forgive those that have hurt me or may not have my best interests at heart”) and improved social relationships.

For the second author of this paper, the reactions of students were similar to the first author in that some students had not practiced mindfulness in the past, however, other student reactions were very different from the first author. Since many students in the MBA course are already practicing business people, after their initial research, they practiced mindfulness and reflected on their reactions in their paper. One student stated:

The very fundamental principle of practicing mindfulness and meditation is acknowledgement of and awareness of breathing. In the practice of cardiac surgery, we are using fine motor skills on very small and delicate tissue, often arteries only 1mm in diameter, and using special magnifying lenses to see well enough to sew accurately. It takes deep concentration at times to accomplish what we do. One particular surgeon with whom I work often takes deep audible breaths during an operation where the concentration and attention level is high. He states they are cleansing breaths [that] allow him to enter a level of deeper concentration. I do the same as well. In addition to utilizing cleansing and focusing breathes in my professional life, I do find myself, probably unconsciously taking deep breaths … to clear my thoughts and focus attention while at home.

Since some MBA students are five year students moving from their bachelor’s degree into the master’s program, they could identify the benefits of using mindfulness during their oftentimes extremely busy schedules. The most important aspect of mindfulness for them was silencing the inner chatter that goes on in their minds and concentrating on their breathing to relax. One student stated,
I can relate as a student to the stress of always being connected via technology, and how important mindfulness is to me personally. With constant access to email, Blackboard, and social media, school can be incredibly overwhelming…. I myself find the time before I fall asleep and when I first wake up in the morning to be the most stressful because in my mind I am running through all the things I need to do, what needs to be completed by when, and emails I need to send and respond to. This stress is no way to begin or end a day, and so to combat this at night I listen to guided sleep meditation so I can let go of the stress and focus solely on relaxation.

Overall, students found their research and incorporation of mindfulness into their daily lives to be beneficial and the majority of students could see the advantage of incorporating mindfulness into an organization. They believed that human resource managers would be the people most likely to present this incorporation of mindfulness to an organization’s leadership and advanced ways in which to make it happen.

REFLECTIONS ON THE APPLICATIONS OF MINDFULNESS AND MEDITATION IN OUR CLASSROOMS

It’s important to get away from frenzied goal-orientation. We should not only to do, but also simply to be.

(André, 2014, pp. 150-151, italics in original)

Our interpretative phenomenological exploration, which emphasizes the students’ “personally lived meanings and experiences” (Morley, 2012, p. 586), has also shown that the undergraduate students’ initial meaning-making out of mindfulness and meditation was mainly focused on their immediate negative emotional reactions and their difficulty controlling intruding thoughts. Later, they seemed to incorporate their reflections on their felt experiences into a more meaningful personal narrative. Hence, it is very likely that the actual process of making sense of mindful meditation was a two stage process: immediate, non-conceptual, and intuitive sensing of emotional and bodily sensations, followed by a series of reflections on the felt experiences.

We also noticed that, as students developed their attention and observation skills through mindfulness and maturity, it became clear that they acquired the attitude and the skill of disengagement: in other words, mindfulness helped them to maintain some psychological distance, which enabled them to be better attuned with their state of awareness more easily. They seemed to become more comfortable with the idea of “taking the time to … observe and feel” (André, 2014, p. 141). In this respect, it is very probable that mindfulness meditation tends to enhance practical wisdom of business students, as the practice of mindfulness allows them to experience the felt consequences of their own lives, as well as, unexamined predispositions and biases learned from their past experiences.

The embodied practical wisdom that students have gradually gained from mindfulness practices including meditation is not a reified body of knowledge that can simply be conceptually covered and mechanically delivered in the classroom. As we suggested at the beginning of this paper,
practical wisdom, as defined in this paper, consists of insights and the new understanding of our almost hardwired emotional, cognitive, and behavioral predispositions of our untrained mindset. Through deliberate practice of mindfulness and meditation, we believe that our students could gradually develop their own practical wisdom.

More specifically, mindfulness apparently has taught some students about “how to secure the feelingful experience that slowed perception makes possible” (Eisner, 2002, p. 24, italics added). The brief, but persistent practice of mindfulness enables students to learn “how to savor qualities by taking the time to really look so that they can see” (Eisner, 2002, p. 21). Mindfulness practices gently stimulated the students to make use of the practical wisdom of “slowing down” within our culture that praises efficiency and endorses the myth of multitasking. It should also be underscored that we try to allow practical wisdom “to emerge from our body, not as a result of control, but through abandonment and observation” (André, 2014, p. 154).

It also became clear to us that mentally slowing down and becoming still have helped students to be aware of inner wisdom. As students became more aware and perceptive to their own emotions and their interactions with others in a more compassionate manner, the quality of their relationships with others also improved. Furthermore, mindfulness encouraged students to be more open to diverse ideas and to be more willing to connect those ideas from different domains creatively. A student of the first author reflected upon his mindfulness practices as follows:

Learning that we aren’t our thoughts or even our body was a big eye-opener and has changed the way I see the outside world completely. It has also changed the way I see myself as well. Practicing mindfulness means to always be a witness to your actions, feelings, emotions, and thoughts. Being aware of your bodily sensations and not judging your thoughts or feelings, just simply being aware of them. In mindfulness meditations I am just being. Being is our true nature, not thinking, not forcing yourself not to think, but just letting go and being.

Although sitting meditation is like a lab which allows a special set of conditions to occur in which one’s inner experiences can be observed closely (Case, 2013), we don’t claim that meditation is the only way to cultivate mindfulness. One of the second author’s students shared her insight on incorporating mindfulness into an organization as follows:

Mindfulness represents an opportunity for employees to combat workplace-related stress (Vich, 2015) and increase individual and team productivity. Also, “mindfulness is complementary to moral development” (Vich, 2015, p. 38) and can help to heighten ethical decision-making. There is a belief that meditation is the only way to be mindful; this is not true. Human resource personnel should work with management to educate employees on how they can use mindful strategies. The overarching premise of mindfulness is a focus on the present. (italics added)
DISCUSSION & CONCLUSION

We began this paper by suggesting that current business education has lost the wisdom of “looking within” through quietude and stillness, and consequently has become deficient in terms of cultivating practical wisdom in future business leaders (Dyllick, 2015). Given the current state of business education, there is an apparent lack of reflective and contemplative components (Wilson & Thomas, 2012). We claim that there should be more attention paid to mindfulness and mindful teaching and learning in business education in order to reflect the current awareness of mindfulness in business and leadership practices. It would be a good practice for us to recall the dual goals of doing-well-by-doing good mindset proposed by Benjamin Franklin from time to time: “the making [of] money and the promotion of virtue” (Isaacson, 2003, p. 94). Incorporating mindfulness is more than just filling a gap in the business curriculum. It is about rethinking the raison d'être of business schools and the larger purpose of a business education (Thomas, Lee, & Wilson, 2014).

Given that this paper is based on our exploration on how business students make sense of mindfulness and meditation from our own teachings of management courses, more rigorous and systematic empirical studies on the students’ perception of mindfulness and meditation should follow in the future. However, based on our reflections of our own experiences of adopting mindfulness and meditation in our own teaching of management courses, we cautiously claim that mindfulness is an intellectually understandable way for cultivating phronēsis (Greek term for practical wisdom), through which students can gradually enhance their self-awareness and applied wisdom. In other words, mindfulness can help students “to become intimate with the vast wisdom of feelings” (Kozak, 2016, p. 6) and it helps them to transform maladaptive habits of their minds (Küpers & Pauleen, 2015; Yang, Colarelli, & Holston, 2011).

From a pedagogical perspective, we understand from our own personal experiences that mindfulness and meditation are effective tools that help practitioners maintain their ongoing personal renewal and sustain their psychological well-being under rapidly changing environmental pressures. In terms of filling the gaps in the business curriculum, we became convinced that, through becoming familiar with mindfulness and mindfulness practices, business students can learn to deal with increasing demands for a disciplined way of seeing reality and cultivating their capacity for sustaining attention and “focus” (Goleman, 2015). Through mindful teaching, business educators can also encourage and facilitate the student to learn some practical wisdom emerging from their own heart and minds through their own experiences.

We have also realized that mindful learning, which emphasizes “being in the present moment,” can enrich the current business curriculum. The practice of mindfulness is designed to encourage students to look within themselves and observe their minds more attentively and non-judgmentally. Students are expected to reflect upon their own inner experiences while they practice mindfulness. Hence, from our readings of the students’ journals, research, essays, and observations, we have concluded that (a) practical wisdom can gradually emerge from experiencing authentic presence, and (b) enhancing practical wisdom through developing business students’ contemplative capacity can also empower them (Thurman, 1998). Given the increasing demand by employers for business graduates with soft skills, and the deficiency in the
business curriculum in terms of enhancing them (Boone, 2013; Boyatzis, Stubbs, & Taylor, 2002; Navarro, 2008; Robles, 2012), the idea of educating “mindful practitioners” should be more seriously taken into account to fill the gap and to cultivate business students’ reflective mindset (Mintzberg, 2005).

As admitted earlier, the nature of this essay is based on our analysis and reflections on our own students’ artifacts. Hence, we acknowledge that there should be more rigorous and systematic studies on the applications of mindfulness in the business curriculum. However, practically speaking, we believe that pedagogical innovations can be initiated by taking some small steps to change the routine of a class session, such as having a three-minute breathing practice. Professors teaching various subject areas in business disciplines can actually adopt and adjust the S.T.O.P Principle (i.e., Stop – Take a deep breath – Observe your changing physiological and psychological responses – Proceed) to meet their unique learning goals and outcomes. Individual professors can improve their own pedagogical tools by incorporating contemplative and mindful components into their curricula (Barbezat & Bush, 2014).

It is our realistic expectation that the diffusion process of mindfulness practices in schools of business won’t be as straightforward as observing one’s breath. However, it is fortunate that contemplative learning and teaching in business education have recently received more attention in academia (Chaskalson, 2011; Davis, 2015; Holland, 2015; Hunter & Chaskalson, 2013; Hyland, 2015; Küpers & Pauleen, 2013; Marques, 2014, 2015; Saltzman, n.d.; Schaufenbuel, 2014). The mindful approach to the cultivation of practical wisdom of business students will make their learning more meaningful as well. As the notion of embodied practical wisdom should not be understood as merely a beautiful idea, we hope that there will be more constructive discussion on how embodied practical wisdom cultivated in business schools could be strategically transferred to 21st century organizations for the purpose of achieving more meaningful and abundant work experiences (e.g., Talbot-Zorn & Edgette, 2016).

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FINANCIAL AND SOCIAL SUSTAINABILITY: SOME DETERMINANTS AND THEIR IMPACTS ON PERFORMANCE

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ABSTRACT

The purpose of this paper is to investigate the determinants of financial and social performance that help firms to identify factors in their sustainable development. Data for this study were collected using a survey questionnaire mailed to 800 American and Canadian companies in November 2008. Useable responses were gathered from 64 manufacturing firms until February 2009. In a changing environment, strategy plays an important role in both financial and social performance, and firms need to adjust their strategies to consider changes in their environment. This research recommends that firms adopt flexible strategies that would allow for the continuous integration of changes in their external environment into their strategic objectives to achieve sustainable social, environmental, and financial performance. Though not significant, this research provides empirical evidence of which determinants have an impact on the performance of the company and also provides directions that would help improve performance—social, environmental and financial.

INTRODUCTION

Achieving a sustainable level of performance requires firms to seek long-term financial success on the basis of respecting their obligations towards society and the environment. Success is also affected by their strategies and operations in market and non-market environments (Barron, 2000). Recent global events provide evidence that powerful activist groups and media coverage in societies can make non-market strategies even more important (Orlitzky, Schmidt, & Rynes, 2003). Prior studies provide evidence, which is not conclusive, as to the relationship between a corporation’s social performance and its financial performance (Jones & Wicks, 1999; McWilliams & Siegel, 2001; Husted, 2000). Instrumental stakeholder theory (Clarkson 1995; Donaldson & Preston, 1995; Mitchell & Agle, 1997) suggests a positive relationship between corporate social performance and financial performance. By balancing the appeals of multiple stakeholders, managers can increase the efficiency of adaptation to external demands (Orlitzky, Schmidt, & Rynes, 2003), and this would, it is argued, lead to better financial performance.

The balanced scorecard (BSC) approach is designed to enable managers to measure, evaluate, and guide business activities as well as to enhance their problem-solving and decision-making capabilities by examining cross-functional relationships (Kaplan & Norton, 2001, 2004). The BSC approach further allows for the evaluation of managerial activities from the viewpoints of both tangible and intangible financial and non-financial aspects. The BSC, in its turn, allows for

The current study attempts to respond to questions by organizations and society on how financial and social sustainability are intertwined. In addition to addressing the current status on the above issue, in this study, the researchers attempt to shed some light on the situations prevailing in the surveyed companies in North America.

The remainder of the paper is organized as follows. The next section is devoted to literature review and hypotheses development, followed by method, results, conclusion, limitations, and future research.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

A business exists within an environment, namely, an environment (e.g., competitors, economic and social system, legal and political, environmental and others) consisting of the actions of other players who are external to the business. Competitors’ actions attempt to gain an advantage over others by differentiating their product and service. The sustainability of the company’s strengths and advantages depends on the relative advantage gained over competing companies. There are other environmental considerations, such as economic (the allocation of scarce resources), social (the fabric of ideas, attitudes, and behavior patterns that are involved in human relationships—in particular, businesses are influenced by consumer attitudes and behaviors), political/legal (the rules and frameworks within which a business operates), environmental (the natural system in which life takes place, and companies have become increasingly aware of the relationship between economic activities, i.e., offering goods and services, and the effects that this has on the environmental system), and others. In the interaction with their environments, companies try to maintain a sustainable performance level.

Sustainable competitive advantage is a business strategy that drives long-term corporate growth and profitability by mandating the inclusion of environmental and social issues in the business model. It enables the generation of a maximum increase in company, consumer, and employee value by embracing opportunities and managing risks derived from environmental and social developments. According to a recent study in the Ivey Business Journal, a business model must combine and continually maintain four elements to achieve a sustainable competitive advantage. In the context of long-term growth and development for organizations, the elements are critical. The four elements are sustainable competitive advantage development, corporate social responsibility (CSR), stakeholders, and corporate accountability, which combined together may ensure sustainable business practices and performance, including financial.

It has also been argued that multi-perspective performance measurement systems designed and adopted by corporations (for example, the balanced scorecard) that also include non-financial
measurements play a role in financial performance (Bedford, Brown, Malmi, & Sivabalan, 2008; Malmi, 2001; Ittner, Larcker, & Randall, 2003; Hoque & James, 2000).

It has been documented by Gadenne, Mia, Sands, Winata, and Hooi (2012) that sustainability takes the form of multi-faceted obligations of corporations that go beyond stockholders-management responsibility (Goodpaster, 2001) and that recognition of that responsibility will have an impact on overall corporate sustainability (Greenwood, 2001). Tsoutsoura (2004), Bakker et al. (2005), Fischer and Swaczyn (2013), Orlitzky et al. (2011) recently documented that there is a positive relationship and interaction between CSR and corporate financial performance. Elfenheim and McManus (2010) found that charity-linked products appear to sell at a premium, raising the sales revenue, helping to achieve economic objectives, and favouring potential sales growth. Similar results have been documented in studies by Orlitzsky, Schmidlt, and Rynes (2003) and Lev et al. (2010). Interestingly, Mia and Al-Mamun (2011) documented that corporate social disclosure is not significantly associated with leverage and profitability but associated with size. However, there is a dearth of research available that shows how stakeholders’ interests push corporate sustainability performance (Neely, Adams, & Kennerley, 2002). Organizations need to transform their objectives into practice in each area of performance and identify measurement indicators to achieve sustainability (Gadenne, Mia, Sands, Winata, & Hooi, 2012). Therefore, this study recognizes the results of previous studies on sustainability (for example, Ferreira, Keswani, Miguel & Ramos, 2012; Burritt, Hahn & Schaltegger, 2002) as well as balanced scorecard perspectives (Kaplan & Norton, 1992) that underscore the magnitude of corporate social responsibility.

Finding a balance between financial success and the firm’s environmental and social responsibilities is a difficult task in a market that is fixated on the firm’s reported earnings (Degeorge, Patel, & Zeckhauser, 1999; Wassmer et al. 2012). Epstein, Buhovac and Yuthas (2010) present a corporate sustainability model that integrates the firm’s inputs and processes, leading to the firm’s achieving its sustainable goals in terms of social, environmental, and financial performance. In this study, we examine a part of this model that draws the relation between the firm’s external environment, its strategy, and its outcomes in terms of achieving a sustainable level of performance. Epstein, Buhovac and Yuthas (2010) suggest that the external environment is a determinant of the firm’s strategy that embodies the external variables and guides the firm’s output towards a sustainable performance level. A business exists within an environment (e.g., competitors, economic and social system, legal and political, environmental, and others) consisting of the actions of players who are external to the business. Competitors’ actions attempt to gain an advantage over each other by differentiating their products and services. Therefore, developing a strategy that integrates the different parameters of the firm’s external environment and reflects the firm’s sustainability objectives is fundamental to achieving these objectives. Our research question examines how the firm’s strategy would embody the dynamic and continuously changing external environment in order to achieve the firm’s objectives of a sustainable performance. Our results show that firms in our sample use highly planned strategies in response to a changing environment. This strategy affects both financial and social performance negatively. Thus, we recommend using emergent strategy in their current environment, which is dynamic and evolving.
While operating in and around environments, companies respect environmental and social efficiency as well as the absolute level of environmental and social resource consumption that might measure the effectiveness of the company operations in this area. Therefore, a sustainable performance level, it may be argued, is a simultaneously attributable economic, environmental, and social aspect, where the companies through their operations boost financial and social performance in a sustainable way. Sustainable performance level depends on the value created (company creates extra value while ensuring that every environmental and social impact is constant in total) whenever benefits exceed costs. One approach to measuring corporate sustainable performance considers external costs caused by environmental and social damage or focuses on the ratio between value creation and resource consumption.

Tang, Hull and Rothenberg (2012) and Yang, Colvin and Wong, (2013) studies show that firm profits are shaped by how firms engage in CSR from a context-focused approach i.e., when the firms adopt a CSR engagement strategy. Another study (Cheng, Ioannou, & Serafeim (2014) shows that firms with CSR performs better in terms of lower capital constraints. It has also been documented that the CSR having been adopted as a strategy, CSR works as moderator for increasing the impact on performance (Kemper, Schilke, Reimann, Wang, & Brettel, 2013). Yang, Colvin and Wong (2013) study also shows that CSR components are not fixed rather it depends on institutional conditions, organization specific factors, different cultural values, national wealth, and importantly, public sensitivity towards social and environmental concern.

Strategy is a broad and sometimes opaque term; therefore, there are many definitions for a firm’s strategy. According to Miles, Snow and Meyer (1978) firms could be classified by their defender, prospector, or analyzer strategies. Meanwhile, Porter (1980) distinguishes between firms based on their cost leadership, differentiation, or focus strategies. Mintzberg (1978) develops a general framework that contains these definitions. He differentiates between a planned strategy, which is a premeditated and fixed strategy that goes from formulation to realization, and an emergent strategy, which is a flexible strategy that adapts to the day-to-day operational changes and ends up building the firm’s strategy. In this research study, we examine which type of strategy would better accommodate the continuous changes in the firm’s external environment so as to derive the firm’s sustainable performance. We hypothesize that an emergent strategy is more suitable for a firm that operates in a dynamic environment, since it will evolve according to the changes in the external environment and will enable the firm to achieve a more sustainable performance. Studies show that the BSC approach has emerged as a tool to evaluate company operations in a desired area. In this research, we apply the BSC approach to explore the financial and social sustainability of companies. The model is presented in Figure 1.
Based on this foundation, we hypothesize as follows:

**H1:** In a dynamic external environment, an emergent strategy is more suitable in helping a firm to achieve a more sustainable performance level.

Thus, we predict a negative relation between planned strategy and the instability of the environment. The more unstable the environment, the less use of planned strategy should be observed and vice versa. Then, we test the effect of strategy on firm financial and social performance. If the emergent strategy fits the firm’s unstable environment, we expect to see a negative relation between planned strategy and performance.

**H2:** There is a negative relation between planned strategy and financial performance in an unstable environment

**H3:** There is a negative relation between planned strategy and social performance in an unstable environment

**METHODOLOGY**

This study is based on the data from a survey developed by Islam and Tadros (2012). The survey questionnaire was sent to individuals in management teams in 800 American and Canadian companies by mail in November 2008, and it was followed up with phone calls two weeks after the mailing date. Finally, responses were gathered from 64 manufacturing firms who confirmed using the BSC (we received a total of 91 responses, giving us a response rate of 11.4%) in February 2009.
Table 1 shows the characteristics of the respondents in terms of their age and the size of the company. Sixty percent of the respondents are male, and forty percent are female. They have a mean age of 50, which lies between 31 and 60. Tables 2 and 3 show the distribution of our sample, based on size. Annual sales and number of employees are considered as measures of the size of the companies in our sample. The mean annual sales of respondent firms (for those who answered this part, 61 firms) are 4.3, which, based on the defined categories, corresponds to $100 million or more. The mean number of employees is 3.09, corresponding to 300 to 400 employees. Table 4 shows the positions of the respondents in the firms. Thirty-one are members of the top management team, six are from the accounting department, 23 are “others,” and four respondents did not indicate their positions.

### TABLE 1: RESPONDENT’S CHARACTERISTICS

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SALES</td>
<td>61</td>
<td>1</td>
<td>6</td>
<td>4.30</td>
<td>1.321</td>
</tr>
<tr>
<td>EMPLOYEE</td>
<td>55</td>
<td>1</td>
<td>6</td>
<td>3.09</td>
<td>1.482</td>
</tr>
<tr>
<td>AGE</td>
<td>38</td>
<td>31</td>
<td>60</td>
<td>50.32</td>
<td>8.457</td>
</tr>
</tbody>
</table>

Sample selection

### TABLE 2: SIZE (ANNUAL SALE)

<table>
<thead>
<tr>
<th>Sales</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100,000</td>
<td>3</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>$100,000 to $499,999</td>
<td>6</td>
<td>9.8</td>
<td>14.8</td>
</tr>
<tr>
<td>$500,000 to $999,999</td>
<td>3</td>
<td>4.9</td>
<td>19.7</td>
</tr>
<tr>
<td>$1 million or more</td>
<td>14</td>
<td>23.0</td>
<td>42.6</td>
</tr>
<tr>
<td>$100 million or more</td>
<td>28</td>
<td>45.9</td>
<td>88.5</td>
</tr>
<tr>
<td>$500 million or more</td>
<td>7</td>
<td>11.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>61</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### TABLE 3: SIZE (NUMBER OF EMPLOYEES)

<table>
<thead>
<tr>
<th>Less than 100 employees</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 to 200 employees</td>
<td>4</td>
<td>7.3</td>
<td>29.1</td>
</tr>
<tr>
<td>200 to 300 employees</td>
<td>18</td>
<td>32.7</td>
<td>61.8</td>
</tr>
<tr>
<td>300 to 400 employees</td>
<td>14</td>
<td>25.5</td>
<td>87.3</td>
</tr>
<tr>
<td>400 to 500 employees</td>
<td>2</td>
<td>3.6</td>
<td>90.9</td>
</tr>
<tr>
<td>500 employees or more</td>
<td>5</td>
<td>9.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
TABLE 4: RESPONDENTS’ POSITION

<table>
<thead>
<tr>
<th>position</th>
<th>Top Management Team</th>
<th>Accounting</th>
<th>Others</th>
<th>Blank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>31</td>
<td>6</td>
<td>23</td>
<td>4</td>
<td>64</td>
</tr>
</tbody>
</table>

**Definition of Variables**

Table 5 shows the measures that we use to proxy for different variables used in our study.

**TABLE 5: QUESTIONS**

**Strategy**

| 1. My Organization's strategic priorities is carefully planned and well understood before any significant competitive actions are taken. |
| Strongly Disagree | Strongly Agree |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| 2. Formal strategic plans serve as the basis for our competitive actions. |
| Strongly Disagree | Strongly Agree |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| 3. Competitive strategy for my Organization typically results from a formal business planning process (i.e., the formal plan precedes the action). |
| Strongly Disagree | Strongly Agree |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**Environment**

| 1. How intense is each of the following for your organization? |
| Raw materials and components purchase negotiations | Negligibly intense | Extremely intense |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| 2. During the past 5 years, the legal and/or political compliance requirements for product or service provision by your organization have: |
| Remained about the same | Have proliferated greatly |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| 3. How stable is the technological environment facing your organization? |
| (i) Product technology (made or used) | Very (changing slowly) | Very dynamic (changing rapidly) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| (ii) Manufacturing technology (to make products or to provide services) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| 4. During the past 5 years, the tastes and preferences of your customers have become: |
| Much easier to predict | Much harder to predict |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| 5. The expected life cycle of the products in your industry is: |
| Very stable | Very dynamic (changing rapidly) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
6. How stable is the social environment (such as conservation, green movement) facing your firm?

Very stable 1 2 3 4 5 6 7 Very dynamic (changing rapidly)

(changing slowly)

7. During the past 5 years, the financial constraints surrounding your organization have:

Remained about the same 1 2 3 4 5 6 7 Have proliferated greatly

8. How stable is your organization’s relationship with:

Highly stable 1 2 3 4 5 6 7 Highly unstable

(i) Regulatory bodies

(ii) Industry Associations

Organization’s Performance

With four (4) representing the industry average, please indicate your Organization’s overall performance over the past 3 years in the following areas by rating it on a scale below ranging from one (significantly below average) to seven (significantly above average). If any of the following performance indicators is NOT currently used in evaluating your Organization’s performance, please indicate by selecting zero (0) beside those specific performance indicators.

Social Performance

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th>Significantly average</th>
<th>below average</th>
<th>Significantly above average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Decrease in percentage of waste and rework (or error correction)</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Workplace relations</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Employee training and development</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Your company’s budget for waste management</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financial performance

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th>Significantly average</th>
<th>below average</th>
<th>Significantly above average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of successful new products introduced</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Time to market (make available to public) new products</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Percentage of sales from new products</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Profit (surplus) before tax from operations</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Development of markets for new or existing products</td>
<td>0 1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FIRM STRATEGY: Following Mintzberg (1978), we analyze whether a firm’s strategy is planned (deliberate) or emergent. The survey asks the respondents how the strategy has evolved—whether it is pre-planned or whether it has evolved over time.

ENVIRONMENT: We ask the respondents to answer a broad array of questions covering areas such as industry competitiveness, legal environment, technological dynamism, customer taste and preference, product dynamism, social and political environment, financial constraints, and relationship with stakeholders. We think that all these factors make up the environment that a firm has to interact with for business reasons. Our goal was to cover a broad array of internal and external environment factors to capture within this variable.

PERFORMANCE: We use a large number of indicators to proxy for firm performance. We use factor analysis to reduce some of the factors that could be linked together. We ask questions to extract information regarding financial as well as social performance measures within this variable.

For social performance, we ask respondents to answer questions regarding employee training, waste management budget, waste output situation, etc. On the other hand, for financial performance, we ask them questions regarding profit, sales arising from new products, number of successful new products launched, and market share, etc., comparing theirs with the industry average.

Model

We use the model in Figure 1 to test for the role of the firm’s strategy in bridging the gap between the firm’s inputs and outputs. We also control in our model for any direct effect of the environment on financial and social performance.

The survey questions used to measure each construct are presented in Table 5. We also use factor analysis to choose the factors that explain each variable better. Table 5 shows the questions that we use in our analysis, and Table 6 presents the results of the factor analysis and reliability for each measure.

The results of the factor analysis for strategy presented in Table 6, panel A, show that all three questions load on one factor. Cronbach’s Alpha for Strategy is 0.69, which is acceptable. Panel B indicates the factor analysis for the environment. There are three factors, which we keep, because they have eigenvalues greater than 1. The reliability measure is 0.76 for the environment. Panel C identifies results for financial performance with two factors, and the reliability measure equals 0.75. Finally, panel D shows the social performance with one factor, and Cronbach’s Alpha equals 0.78.

We proxy for future financial performance using non-financial indicators, since they are good indicators of future performance (Ittner & Larcker, 1998). After the factor analysis, we use the structural equation model to test our model:
Firm strategy = f (Environment),

Financial Performance = f (Firm strategy), and

Social Performance = f (Firm Strategy).

In summary, we consider a firm’s strategy to be a function of its surrounding environment (political, legal, social, financial, etc.) and we expect the social and financial performances in turn to be a function of firm’s strategy.

### TABLE 6: FACTOR ANALYSIS

#### Panel A: Strategy

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td>1.908</td>
<td>63.590</td>
</tr>
<tr>
<td>2</td>
<td>.741</td>
<td>24.684</td>
</tr>
<tr>
<td>3</td>
<td>.352</td>
<td>11.726</td>
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</tbody>
</table>

Extraction Method: Principal Component Analysis.

Component Matrix

<table>
<thead>
<tr>
<th>Component</th>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>K8</td>
<td>.713</td>
<td></td>
</tr>
<tr>
<td>K13</td>
<td>.608</td>
<td></td>
</tr>
<tr>
<td>K14</td>
<td>.842</td>
<td></td>
</tr>
<tr>
<td>K22</td>
<td>.865</td>
<td></td>
</tr>
<tr>
<td>K23</td>
<td>.735</td>
<td></td>
</tr>
</tbody>
</table>

Reliability Statistics
### Panel B: Environment

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of Total Variance</td>
<td>Cumulative % of Variance</td>
<td>% of Total Variance</td>
</tr>
<tr>
<td>1</td>
<td>3.692</td>
<td>36.917</td>
<td>36.917</td>
</tr>
<tr>
<td>2</td>
<td>1.897</td>
<td>18.966</td>
<td>55.884</td>
</tr>
<tr>
<td>5</td>
<td>.612</td>
<td>6.121</td>
<td>84.307</td>
</tr>
<tr>
<td>6</td>
<td>.559</td>
<td>5.589</td>
<td>89.896</td>
</tr>
<tr>
<td>8</td>
<td>.271</td>
<td>2.713</td>
<td>96.142</td>
</tr>
<tr>
<td>10</td>
<td>.154</td>
<td>1.537</td>
<td>100.000</td>
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</table>

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization
Rotation converged in 4 iterations.
Panel C: Financial Performance

Rotated Component Matrix

<table>
<thead>
<tr>
<th>Component</th>
<th>1</th>
<th>2</th>
<th>3</th>
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</thead>
<tbody>
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<td>J1</td>
<td>.611</td>
<td>.089</td>
<td>.209</td>
</tr>
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<td>J8</td>
<td>-.140</td>
<td>-.164</td>
<td>.860</td>
</tr>
<tr>
<td>J9</td>
<td>.874</td>
<td>.009</td>
<td>.107</td>
</tr>
<tr>
<td>J10</td>
<td>.879</td>
<td>.035</td>
<td>-1.06</td>
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<tr>
<td>J12</td>
<td>.578</td>
<td>.221</td>
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<tr>
<td>J13</td>
<td>.811</td>
<td>.159</td>
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<td>.479</td>
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<td>J15</td>
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Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Reliability Statistics

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
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</thead>
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<tr>
<td>.763</td>
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</table>

Total Variance Explained

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>-----------</td>
<td>-------</td>
<td>---------------</td>
</tr>
<tr>
<td>1</td>
<td>2.569</td>
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<td>2</td>
<td>1.020</td>
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<td>3</td>
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<td>4</td>
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<tr>
<td>5</td>
<td>.301</td>
<td>6.022</td>
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</table>

Extraction Method: Principal Component Analysis.
Panel D: Social Performance

Rotated Component Matrix\a

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
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<tr>
<td>K16</td>
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<td>.666</td>
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<tr>
<td>K17</td>
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<td>K19</td>
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<tr>
<td>K21</td>
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 Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.

Reliability Statistics

<table>
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Total Variance Explained

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</tr>
</thead>
<tbody>
<tr>
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<td>% of Variance</td>
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<td>6.167</td>
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Extraction Method: Principal Component Analysis.

Component Matrix\a

<table>
<thead>
<tr>
<th>Component</th>
<th>Component Matrix</th>
<th>Reliability Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Cronbach's Alpha</td>
</tr>
<tr>
<td>K8</td>
<td>.713</td>
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<td>.842</td>
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</tr>
<tr>
<td>K22</td>
<td>.865</td>
<td></td>
</tr>
<tr>
<td>K23</td>
<td>.735</td>
<td></td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis
a. 1 component extracted.
RESULTS

Descriptive statistics

Following Kwok and Sharp (1998), we test the reliability of the different measures using Cronbach Alpha and use the results of the factor analysis to assess the validity of our constructs. The results presented in Table 6 show that we have an acceptable level of internal consistency, with Cronbach Alpha values being between 0.69 and 0.8. The high factor loadings for different variable constructs ensure that the different measures are representing the constructs we want to measure.

The factor analysis for the elements of strategy results in two components: we retain the first component, which explains 63% of the variability in the data. This component loads positively on the elements of a “planned strategy” and negatively on the elements of an “emergent strategy.” Similarly, for environment, we pick the first component, which explains 37% of the variability; for the financial performance, component 1 explains 51%, and for social performance, the only component explains 57% of the variability.

Descriptive statistics for our four variables, presented in Table 7, show that firms in our sample operate in a highly unstable environment (mean=4.55). They mainly implement a planned strategy (mean=5.7). Their financial performance and social performance are around the average for their industries. This is in line with our second and third hypotheses. We expect that firms with a planned strategy will perform poorly both on the social and the financial performance fronts. We can observe from the descriptive statistics that the social and financial performance measures are below industry average. So, predominantly planned-strategy followers are on average performing worse than the industry average.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>4.55</td>
</tr>
<tr>
<td>Strategy</td>
<td>5.7</td>
</tr>
<tr>
<td>Financial performance</td>
<td>3.68</td>
</tr>
<tr>
<td>Social performance</td>
<td>3.58</td>
</tr>
</tbody>
</table>

Main Results

The results presented in Table 8, for our structural equation model, show that a dynamic and continuously changing external environment leads a firm to adopt a planned strategy, which emphasizes careful formulation of the firm’s strategic objectives before moving on to the implementation of these objectives. Table 8 also shows the effect of a firm’s measure of social and environmental sustainability on the firm’s strategy. The results show that a planned strategy is negatively associated with the firm’s achieving its social and sustainability objectives;
however, the results are not significant. Finally, a planned strategy is negatively associated with measures of future financial performance; however, the results are not significant as well.

Part two of Table 8 shows that 21% of changes in strategy can be explained by changes in the environment. Changes in strategy are linked to 8% and 2% of financial and social performance, respectively. These results also indicate the low level of the effect of planned strategy on sustainable development.

The final part of Table 8 shows the good fit of our model. The model fits the data well.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Description of path</th>
<th>Path coefficient</th>
<th>Z statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Environment → Strategy</td>
<td>0.48</td>
<td>2.66*</td>
</tr>
<tr>
<td>H2</td>
<td>Strategy → Financial Performance</td>
<td>-0.27</td>
<td>-1.56</td>
</tr>
<tr>
<td>H3</td>
<td>Strategy → Social Performance</td>
<td>-0.0057</td>
<td>-0.037</td>
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</table>

*Significant at 5%

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>R2</th>
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</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>0.21</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>0.083</td>
</tr>
<tr>
<td>Social Performance</td>
<td>0.024</td>
</tr>
</tbody>
</table>

Global Goodness of Fit Statistics, Missing Data Case
-2ln(L) for the saturated model = 3787.396
-2ln(L) for the fitted model = 4198.870
Degrees of Freedom = 225
Full Information ML Chi-Square = 411.47 (P = 0.00)
Root Mean Square Error of Approximation (RMSEA) = 0.12
90 Percent Confidence Interval for RMSEA = (0.10 ; 0.14)
P-Value for Test of Close Fit (RMSEA < 0.05) = 0.00

CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

Implications for Managers and Decision Makers-Even in changing times, a company will always have to operate in a way to satisfy its stakeholders. Financial performance is a critical component of the standing of a corporation, but corporate social performance is rapidly introducing itself as being an essential criterion on which a company is rated. Despite its spending nature, corporate social performance has been proven to not be inconsistent with stakeholders’ wealth maximization. It has been proposed that the relationship between corporate social and financial performances is bidirectional and spontaneous (Orlitzsky, Schmidt and Rynes, 2003). This implies that no company can do proper financial reporting without being compliant with social sustainability. Furthermore, as the relationship between corporate social and financial performances is bidirectional, achieving social sustainability can lead to greater financial performances as the social recognition of the company is enhanced. Managers and
decision makers can no longer deny the use of effective social strategy and should keep social sustainability in mind when planning for the future. For example, society now condemns the use of child labor more than ever; many brands who have been using the services of child workers are shunned. Decision makers can no longer choose strategies based on their future financial benefits only; they will have to take into account the social acceptance factors of the market. In order to operationalize and optimize a strategy, managers will have to make efforts to satisfy stakeholders and communities as well. Prime examples of social sustainability affecting company’s reputation are the Exxon Mobile oil spill of 2013 and Walmart and the controversy vis-à-vis the minimum wage of their value-adding employees. If operating mishaps such as those are left untended, brand reputation of any company will deteriorate and will cause a decrease in financial performance. Without undertaking socially sustainable efforts, a company now cannot be said to be respecting financial duties towards its stakeholders.

Our results show that adapting a planned strategy in the current unstable environment affects a firm’s financial and social performance negatively. We understand that, in response to high levels of instability in their external environment, firms attempt to adopt a planned strategy, which requires careful planning of strategic objectives. However, planned strategies, in contrast to emerging strategies, are rigid strategies that might not respond to changes in the variables constituting the firm’s external environment. Therefore, we find that adopting these planned strategies have no positive impact on firms’ long-term social, environmental, or financial performance. Therefore, we encourage firms to adopt emergent, flexible strategies that allow for the continuous integration of changes in their external environment into their strategic objectives in order for them to achieve their desirable outcomes of sustainable social, environmental, and financial performance.

One of the limitations is the sample size, which is relatively small; therefore, results cannot be generalized without further study. Data collection during the period 2008–2009 could have created some noise because of the economic depression at that time, and the responses, therefore, were smaller than expected. However, more research must be conducted to confirm the conclusion of the current research.

Future research should be directed towards using different constructs incorporating measures of items such as different performance benchmarking, technological environment, social environment, strategy, firm size, and others.

REFERENCES


AN EXPLORATORY INVESTIGATION OF EFFECTIVE ACCOUNTING ETHICS CPE

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ABSTRACT

This study investigated the predictor’s of the effectiveness of ethics continuing professional education (CPE) required by the Minnesota Board of Accountancy (MnBOA) for Certified Public Accountants (CPA) renewing an active license to practice. We developed and tested a model of effective accounting ethics CPE. CPAs licensed by the MnBOA were surveyed. Research questions include (1) if after ethics CPE CPAs report they are better prepared to address ethical issues and (2) if they report an increased awareness of ethical standards. Logistic regression was applied to the data to create a predictive model of possible outcomes. The predictive model for being better prepared found two statistically reliable predictors (1) whether CPAs experienced ethical situations encountered in CPE which were similar to situations encountered in practice and (2) CPAs licensed in the year 2000 or later. No predictors were found to have statistical significance for increased awareness of ethical standards.

INTRODUCTION

Turn of the century events at Enron, K-Mart, Adelphia, and Tyson have been well documented. Recent events at Olympus, Volkswagen, Autonomy Corporation, and other organizations would seem to suggest that managers, including accountants are still experiencing ethical lapses. These lapses are somewhat surprising and disappointing given the heightened focus on ethical considerations within business contexts during the past decade. Unethical behavior continues to plague our society, even in the CPA world. In response, the profession of Certified Public Accountants (CPAs) have increased their focus on ethical considerations. As of 2010, 38 state boards of accountancy (BOAs) required ethics CPE for license renewal (Rockness & Rockness, 2010). Ethics specific CPE required by individual BOAs varies. Minnesota requires the most ethics CPE of all 50 (Fisher, Swanson, & Schmidt, 2007). We beg the question, with the current emphasis in ethics CPE, why do we still see so many ethical lapses in the accounting profession?
Wessels (2005) stated there are reasons to believe that CPE programs might not be as effective as they could be due to a focus on licensure compliance rather than increasing competency. The focus of this study is to investigate the predictor’s of the effectiveness of mandatory ethics CPE required by the MnBOA for CPA’s renewing an active license to practice. This study examines if after completing ethics CPE, CPAs are better prepared to address ethical issues and if CPAs have an increased awareness of ethical issues in practice. We hope, therefore, to increase our understanding of the forces of ethics CPE that shape ethical perceptions to make CPAs better prepared to address ethical issues and increase their awareness in practice.

LITERATURE REVIEW

Ethics

“Ethics codes are the most concrete cultural form in which professions acknowledge their social obligations” (Abbott, 1983, p. 856). Frankel (1989) observed that a formal code of conduct is common among professions and is perhaps the most visible and explicit enunciation of a profession’s norms. “All recognized professions have acknowledged the importance of ethical behavior and have developed codes of professional ethics” (Whittington & Pany, 2012, p. 66). The AICPA Code effectively serves as a basic handbook on ethics for any accountant (Duska & Duska, 2003). Given the Code’s significance in establishing norms and standards of conduct for the accounting profession, it is important that ethics instruction should emphasize the provisions of the Code (Sullivan, 2004).

There is evidence that CPAs misapply the Code. When surveyed, CPAs were found to resolve ethical issues in accordance to the Code; however, decisions were not always in accord with what they perceived to be proper ethical behavior (Adams, Malone, & James, 1995). Although some ethical standards based on sound foundations can easily be recognized in most accounting codes of conduct, in practice, the rules are often applied in a mechanical way. Codes of conduct have an appropriate role to play in ethics for professional accountants, although ethics in accounting cannot be reduced to merely what codes of conduct state (Melé, 2005). There appears to be a gap between effectively using a code of ethics to begin the evaluation of an ethical issue as opposed to using the code as a check box with no further consideration of issues beyond the code.

CPAs work in all segments of the economy. The work of CPAs impacts owners, employees, creditors, and the general public. There is evidence that CPAs don’t always effectively balance their responsibility to all stakeholders. Despite the accounting profession’s Code of Professional Conduct, which places the public’s interest ahead of the accountant’s interests, the resolution of conflicts between an accountant’s client, on the one hand, and the general public, on the other, is usually balanced in favor of the client. The legal system supports this outcome, at least for the time being (Epstein & Spalding, 1993, p. 271). “In today’s legalistic society, however, the question of ‘what is the right thing to do’, is often confused with ‘what is legal’” (Adams, Malone, & James, 1995, p. 1015).
Bernardi, Bean, and Williams (2012) found that only 2.7% of accounting faculty have an interest in ethics research and there are no doctoral programs in accounting that stand out in producing graduates with an ethics specific research agenda. Bernardi (2004) recognized that the legitimacy of accounting ethics research may be questioned by traditionally trained accounting academics, as ethics research often calls for different research methodology as compared to traditional empirical approaches. Bernardi argues that accounting ethics research has thus been undervalued and only recently seen as an appropriate topic for accounting researchers.

**Continuing Professional Education**

Continuing education is often used to regulate the practice of professionals (Cervero, 2000). The purpose of CPE is to improve the practice of professionals (Cervero, 2001; Houle, Cyphert, & Boggs, 1987). The driving force for CPE is society (ASHE Higher Education Report, 2006). Young (1998) credits social and political forces rather than academic rationales as responsible for an increase in mandatory CPE. Young (1998) argues that the increase is motivated by (1) widespread public concern about professional competence and performance; (2) failure of the professions and their employers to police their incompetent and impaired workers; (3) public perceptions of inflated costs for services rendered; and (4) unequal access to quality care and services. As litigation against the professions increased, regulatory bodies sought a mechanism for accountability and continuing education was often the method of choice (Cervero, 2001).

All states have adopted mandatory CPE for license renewal of accountants (Wessels, 2005; Wessels, 2007). Required CPE was sanctioned for AICPA members in 1971, but was not mandatory until 1990 when 120 hours every 3-year cycle was phased in (Coffee & Beegle, 1994). CPE courses are a means of protecting the public from incompetent practitioners by helping accountants maintain competency, update knowledge, improve professional practice, provide professional growth, and enhance the image of the profession (Wessels, 2009). Knowledge obsolescence is also a factor in requiring CPE (Paisey & Paisey, 1996; Eurich, 1990; Rahman & Velayutham, 1998). Young (1998, p. 133) found that practitioners support mandatory CPE.

Ethics specific CPE required by individual state BOAs varies. As of 2010, 38 state BOAs required ethics CPE for license renewal (Rockness & Rockness, 2010). We believe that mandatory ethics CPE was implemented to increase awareness of ethical standards, prepare CPAs to address ethical issues, and to reduce the number of ethical violations committed by licensed CPAs. Minnesota requires the most ethics CPE of all 50 states, requiring eight hours of ethics CPE each 3-year license renewal cycle (Fisher, Swanson, & Schmidt, 2007).

Little research has focused on CPE (Paisey & Paisey, 2004; Fisher, Swanson, & Schmidt, 2007; Paisey, Paisey, Tarbert, 2007). Wessels (2005) examined deterrents to CPE effectiveness for accountants. Deterrents included situational (work or family constraints), institutional (quality of course, location, scheduling, and relevance), dispositional (personal attitudes e.g. apathy or perception of lack of benefit from CPE), and informational (course ratings, content, focus).
When surveyed North Carolina CPAs stated mandatory CPE was effective, but many barriers exist that hinder effectiveness (Wessels, 2007).

Many CPAs find it problematic to identify relevant CPE programs and then fit them into their work schedule (Clay & Clay, 2000). Although CPAs are subject to mandatory CPE requirements the regulations refer mainly to attendance (Wessels, 2007). CPAs completing CPE may focus more on complying with CPE licensure requirements rather than becoming competent in the CPE course content (Wessels, 2005). “When CPAs view mandatory CPE hours as a burden, no learning takes place” (Clay & Clay, 2000, p. 36). Ross & Anderson (2013) found that in selecting CPE accountants ranked live seminars and live webinars highest and preferred synchronous over asynchronous course offerings, although the study focused on selection not effectiveness of CPE.

The ability to teach ethics has come into question in the past, so whether ethics can be learned becomes a factor when requiring ethics CPE. A quick affirmative answer to whether ethics can be learned comes if the task of ethics education is to master factual knowledge related to a code of ethics. The answer becomes controversial if the task is defined as an ability to make careful and well-considered ethical judgments (Geary & Sims, 1994). “Teaching of ethics is not an easy task for ethical behavior needs to be learned by example, precept, and exhortation. However, ethics can be taught” (Fatt, 1995, p. 1001). Kerr & Smith (1995) refer to Nazario who found there is evidence to suggest that teaching ethics in an academic setting can have a positive effect on behavior.

The focus of ethics CPE is often on the code of conduct established by individual state BOAs. Most state codes are based on the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct (Code). As the AICPA Code serves as the primary means of ethical guidance for accountants, as well as a basis for adjudicating disputes, the influence of the Code on behavior is an important factor.

Accounting professionals practicing public accounting have long been subject to a professional code of conduct. The first rules were issued by the American Institute of Accountants in 1917 (University of Mississippi, 2012). To the detriment of individual practitioners and to their accounting firms, rules are not always followed. As accounting professionals are licensed through state BOAs, accountants who violate the Code are subject to reprimand, censure, or loss of license to practice.

There is evidence that for accountants, codes have moved from a focus on moral responsibility for the public good to a technical specification for a product or service. When accounting replaced the “true and fair view” requirement with the “compliance with standards” requirement for financial reporting in effect the focus of the Code was moved from ethics to quality. “Code of Ethics” thus became a misnomer and “Code of Quality Assurance” would be more accurate. This change effectively eliminated the moral purpose underlying financial reporting (Velayutham, 2003).
RESEARCH DESIGN

Based on the current literature, discussed above, we created and tested an exploratory model of effective accounting ethics CPE. An equal chance random sample of active licensed CPAs licensed by the MnBOA was surveyed. CPA licensure through the MnBOA includes both active and inactive licenses. The ethics CPE requirement only affects CPAs who hold an active CPA license. A randomized list of 1,059 active licensees was purchased from Minnesota’s Bookstore. Minnesota’s Bookstore is the centralized publishing house for state agency products sold to the public. At the time the list was purchased the population of active licensed CPA’s according to Minnesota’s Bookstore was 9,252. The survey response rate, based on 124 responses, was 11.7%.

The online survey included statements regarding ethical training and statements regarding the ethics CPE completed for license renewal. Attitudes regarding ethics training, the ethics CPE completed by CPAs, and work related ethics issues were measured on an 11-point Likert scale of agreement.

The research questions (dependent variables) include the following: 1) if CPAs report being better prepared to address ethical issues after completing ethics CPE and 2) if CPAs report an increased awareness of ethical standards after completing ethics CPE.

The independent variables were inferred from the extant literature and include the following: (1) NeverExamples, (2) Licensed2000s, (3) AICPAyes, (4) Public Accounting, (5) ConfSeminar, (6) CaseReal, (7) Gender, (8) Age, and (9) Metro.

NeverExamples refers to the number of times CPAs reported that ethics CPE examples were encountered in practice. The link of CPE to practice has been determined to be an important component of effective CPE (Schostak et al, 2010; Kerka, 1994; Queeney & English, 1994; Coffee & Beegle, 1994).

Licensed 2000s refers to dividing survey respondents as licensed before or after the year 2000. This was used because the median year of licensure within the data population was 1999.

AICPAyes refers to whether or not CPAs took the AICPA ethics exam for licensure. This variable was used to determine if there was any difference in responses among CPAs who had passed the AICPA ethics exam compared to those who had not been required to take it. Romal & Hibschweiler (2004) found 17 states require the AICPE ethics exam be passed, in addition to the CPA exam. In Minnesota the AICPA ethics exam has not always been a requirement, so this variable separates the data population based on licensure requirements when CPAs were first licensed.

PublicAccounting refers to survey respondents employed in public accounting as opposed to CPAs not employed in public accounting (i.e. industry, government, or education).
ConfSeminar refers to the mode in which CPE was taken. It divides the population between respondents who took CPE in conference or seminar formats as opposed to in-house training, webinars, or online formats. Live seminars have been found to be a preferred option for CPE (Ross & Anderson, 2013).

CaseReal is defined as CPE involving cases based on real examples as opposed to conceptual or fictitious cases.

Metro refers to respondents that live in the seven county metropolitan area of Minnesota, which encompasses Minneapolis-St. Paul and surrounding areas. CPE deterrents have been found to include time away from work and distance to CPE offerings (Ross & Anderson, 2013; Schostak et al, 2010; Wessels, 2007).

Gender is commonly included as a research variable. Bailey (2015) pointed out that in ethics related studies gender is often found to be a significant factor. Age was also included as a common variable used in research.

RESULTS

Exhibit 1 provides a look at mean score responses to the primary survey questions. Responses were strongest regarding CPAs having an increased knowledge of ethical standards and having a framework for making ethical decisions. Responses were weakest regarding CPAs considering ethics in more decisions and making better ethical decisions. Exhibit 2 shows that CPAs are more positive that ethics CPE benefits the profession than if ethics CPE benefits them individually.
EXHIBIT 2: OVERALL, I FEEL THAT…

Table 1 shows the results of logistic regression analysis tied to the first research question, do CPAs report being better prepared to address ethical issues after completing ethics CPE. The higher Beta scores for NeverExamples and Licensed2000s show that these two variables have more predictive value in CPAs who report being better prepared. The p values for these two variables show that these two variables are statistically significant. The logistic regression model was found to correctly classify cases 66.7% of the time.

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>Wald</th>
<th>df</th>
<th>p</th>
<th>Odds Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>NeverExamples</td>
<td>1.537</td>
<td>9.422</td>
<td>1</td>
<td>.002</td>
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<td>Licensed2000s</td>
<td>1.499</td>
<td>5.586</td>
<td>1</td>
<td>.018</td>
<td>4.476</td>
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<tr>
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<td>.104</td>
<td>2.292</td>
</tr>
<tr>
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<td>.999</td>
<td>1</td>
<td>.318</td>
<td>1.847</td>
</tr>
<tr>
<td>Age</td>
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<td>.146</td>
<td>1</td>
<td>.703</td>
<td>.989</td>
</tr>
<tr>
<td>PublicAccounting</td>
<td>-.047</td>
<td>.009</td>
<td>1</td>
<td>.924</td>
<td>.954</td>
</tr>
<tr>
<td>AICPAyes</td>
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<td>.032</td>
<td>1</td>
<td>.859</td>
<td>.902</td>
</tr>
<tr>
<td>Gender</td>
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<td>1.492</td>
<td>1</td>
<td>.222</td>
<td>.536</td>
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<tr>
<td>Metro</td>
<td>-.723</td>
<td>2.229</td>
<td>1</td>
<td>.135</td>
<td>.485</td>
</tr>
</tbody>
</table>

Table 2 shows the results of logistic regression analysis tied to the second research question, if CPAs report an increased awareness of ethical standards after completing ethics CPE. The higher
Beta score for ConfSeminar shows that this variable has more predictive value, however, the p value does not show this variable has statistical significance. The logistic regression model was found to correctly classify cases 70.6% of the time.

FINDINGS

Based on the predictive model generated through linear regression CPAs will be better prepared to address ethical issues when ethics CPE addresses situations likely to be experienced in practice. In addition, CPAs who are in their first 12-15 years of practice are more likely to be better prepared after taking ethics CPE. The predictive model generated through linear regression regarding CPAs having an increased awareness of ethical standards after completing ethics CPE produced no variables with statistical significance.

<table>
<thead>
<tr>
<th>TABLE 2: REGRESSION COEFFICIENTS: INCREASED AWARENESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>ConfSeminar</td>
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<td>NeverExamples</td>
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<td>CaseReal</td>
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<td>Age</td>
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<tr>
<td>PublicAccounting</td>
</tr>
<tr>
<td>AICPAyes</td>
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<tr>
<td>Gender</td>
</tr>
</tbody>
</table>

The survey included several open ended questions. One open ended question asked CPAs to report the most valuable learning activities. Of CPAs who responded to this question 20 out of 84 mentioned case studies and 14 out of 84 mentioned real life examples. These responses support the model produced by linear regression as to being better prepared.

A second open ended question asked CPAs to report the least valuable learning activities. Of CPAs who responded to this question 16 of 79 mentioned CPE involving the AICPA code, state statutes, or regulations as being the least valuable. This response compliments the finding that CPE most applicable to practice is more beneficial as opposed to a review of the ethics rules.
DISCUSSION

CPE is common practice among the professions in order to increase professional competence and avoid knowledge obsolescence. Practitioners have been found to support mandatory CPE. Determining what CPE offerings are relevant is the task of individual practicing professionals. Providing a means to predict a positive outcome from time and dollars spent on CPE makes the task of selecting CPE more efficient. Effective CPE may address factors that cause CPAs to feel CPE is a burden or just hours required to maintain a license.

Based on logistic regression CPAs are predicted to derive the most benefit from taking ethics CPE which involves ethical situations they are likely to encounter in practice. Likewise, CPE providers should include ethical situations common to practice and program descriptions that inform CPAs of the type of ethical situations discussed in the CPE offering. The comments of Wessels’ (2007) regarding CPE to meet the generic 120 hours every three years, 40 hours per year, are applicable to ethics specific CPE. “To assure that all 40 credit hours are well utilized, CPE providers should review carefully whether the timing, level, and variety of course offerings are relevant to all types of accountants including those in industry” (Wessels, 2007, p. 374). “The brilliant beginner, the seasoned specialist, and the dull plodder cannot all be expected to attend the same lecture series or routine workshop” (Houle, 1980, p. 12).

CPAs licensed in the year 2000 and later were found to report being better prepared after completing ethics CPE. Further research is needed to determine the factors involved in this group of CPAs responding more positively than CPAs in practice for longer periods of time.

Having found no predictive variables associated with CPAs being more aware of ethical standards, further research is required in order to determine what might be effective for practicing CPAs to consider ethical standards in the course of their work or to confirm that CPAs are adequately applying ethical standards on a regular basis.

LIMITATIONS

This research focused on CPAs licensed by the MnBOA. Minnesota requires the most ethics CPE of all 50 states (Fisher, Swanson, & Schmidt, 2007). In comparing requirements of ethics CPE credit requirements range from two to eight credits per licensure cycle. The most common configurations were four credits every two-year licensure cycle (12 of 39 states) and four credits every three-year licensure cycle (9 of 39 states) (VanZante & Fritzsch, 2006). Minnesota licensed CPAs are required to complete 8 hours of CPE every three-year license renewal cycle. As this study focused on CPAs licensed by the MnBOA the results may not be generalizable to states requiring fewer hours of ethics CPE for license renewal.

The survey used in this study did not address other factors which may have an impact on professional practice (e.g. increased public scrutiny, changes in other regulations). This study did
not address the variability between states regarding ethics education requirements to become a licensed CPA or whether a separate ethics exam is required for licensure.

REFERENCES


LEADERSHIP AT ALL LEVELS:  
DEVELOPING MANAGERS TO DEVELOP LEADERS

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ABSTRACT

Some management practices have evolved over time yet management employees often practice traditional employee management approaches that do little to support employee participation, collaboration, create trust, demonstrate leadership or encourage commitment and engagement in organizations. The current environment of hyper-competition and continuous change calls for leadership at all levels of the organization, not just from managers. To develop an environment that encourages leadership from everyone, management practices must demonstrate a more effective approach to develop employees. Expectancy theory and situated learning are proposed as a systematic approach to develop managers and change behaviors necessary to support the development of other employees. Strategic, operational, and tactical leadership behaviors and goals must be evident and in alignment with strategic goals.

INTRODUCTION

The practice of management has evolved over time; this is clearly evidenced by the changes promoted by Frederick Taylor (Grachev & Rakitsky, 2013; Wren, 2011) when his improvements to management emerged in the early 20th century and made a significant impact not only on management in the United States, but around the world. One of the problems found in management today is that even though the economy and the environment have evolved since Taylor presented his ideas, many of the basics of Taylor’s approach to management are still practiced. While Kira and Forslin (2007) emphasized that organizations have moved away from the traditional bureaucracies following the end of World War II, there are still bureaucracies that function in practice. The movement away from the bureaucratic organization and related practices has been supported by social, economic, and technological changes in the workplace and many organizations have made transitions toward a post-bureaucratic organizational form. The newer organizational forms focus on satisfying employee needs and developing individuals, far more than the basic safety and psychological needs supported by Maslow (Kira & Forslin, 2007).
Management, at various levels, is the critical link between organizational goals and employees, and responsible for creating the environment that supports and nurtures success. Unfortunately, traditional management practices do not fit the current environment and do not align with an environment defined by competition and continuous change. Managers expect to “give orders” and be obeyed; employees are often objectified as sources of skills and abilities that can be applied to organizational challenges. Some of the continued perpetuation of outdated management theory based on Taylor’s interpretation in the early 20th century could be attributed to the acknowledged gap between academia and practice, as well as, the inability by individuals in organizations to accept change and evolve into more current and effective management practices. Managers often practice management skills based on their personal experiences which often reflect heavily on Taylor’s approach to management, although there have been many calling for new approaches to management (e.g., Brightman, 2004; Nixon, 1992; Ray, 1991). This clash between realities is not new (Kira & Forslin, 2007). Another possibility could be that organizations fail in change efforts at least 70% of the time (Nohira & Beer, 2011), as inability to adapt is one of the reasons managers fail (Ray, 1991). Another possible cause could be that relatively few promoted into management are actually trained in management. In reality, promotion is frequently used as a reward for high performers in the organization and many have little to no experience managing people. Another possible cause could be that most organizations cannot agree on the meaning of basic concepts such as manager, management, and organization and as a result there are multiple and competing definitions which result in conflicting ideas of what constitutes reality (Brightman, 2004). Brightman (2004) provided the example of one definition of management that is similar to “getting people to do their jobs” and yet another will define this as “making progress”. Some managers consider the job of an employee as a “privilege” that can be taken away at any time, or an employee may define a job as a “right”. As a result, all of these situations and more can make effective working relationships difficult and inhibit organizational change.

For the purposes of this paper, management is very broadly defined as any position that holds supervisory responsibility over others. However, the intent of this paper is not to define management, but instead to redefine the role of a manager as one who must develop others to be leaders in an organizational context defined by hyper-competition, emergence of widespread innovation, and a reduction of organizational boundaries (Palmer & Dunford, 2002).

Stewart and Fondas (1992) identified these post-bureaucratic changes in management as requiring less decision-making and more coaching and mentoring that are a fundamental departure from traditional management. Some of the traditional management perspectives focus on a view of Taylorism that reflects a mechanistic and reductionist view of the world as discussed by Shelton and Darling (2001) and calls for a new paradigm that can help organizations become a more effective approach to managerial leadership. Further, Shelton and Darling (2001) emphasized that people want to be led, not managed; as a result, managers who wish to be successful must also develop leadership skills which reflect an understanding that organizations are not charts and processes, but instead are human-based systems connected by networks and relationships. Fleming (2008) suggested that a successful new manager must also seek to lead, as this will provide the ability to influence others’ behaviors based on the position power and leadership ability. Ray (1991) emphasized the need for managers to do more than look at the bottom line, as businesses need leadership to survive in a world that is increasingly
complex. Ray suggested that managers need more skills that relate to leadership, such as the need to be a motivator. Isaac, Zerbe, and Pitt (2001) concluded that leadership should be every employee’s job.

This paper is a response to the call for new practices, to develop management employees who can then develop their employees for greater participation in the organization, specifically related to management development and a departure from a traditional managerial approach (e.g., Ghoshal & Bartlett, 1996; Palmer & Dunford, 2002; Shelton & Darling, 2001). This discussion is framed around expectancy theory, situated learning, and creating expectations for managers to support more current management practices, as well as a realistic framework for working in organizations to foster employee engagement and participation. However, it is not clear how organizations can develop managers who can, in turn, develop subordinates in these areas, while mired in traditional organizational practices. This new approach to managing people focuses on creating high-performance systems, employee development, the development of trust and commitment and strong networks and relationships. A literature review provides background information on theory, issues and areas of development, and then focuses on a framework for management development. Discussion on implications and recommendations for future research is provided and followed by conclusions.

LITERATURE REVIEW

The existence of leadership capabilities in managers is an inherent assumption in organizations; this may be a carryover from traditional management practices when skills and capabilities were primary considerations. However, demands for managers now require far more than work assignments and focus on areas such as leading organizational change and developing relationships with other employees that encourage commitment, teamwork, and collaboration. Bryson and O’Neil (2009) confirmed research is mounting that demonstrates the link between positive human resource management (HRM) practices such as employee commitment, development, involvement, and high-performance work systems. These capabilities can be challenging to find in some organizations at any level. For example, although the need for organizational change and transformation may be recognized, one of the reasons change fails for some organizations is due to the existence of a bureaucratic mentality, which impedes progress toward more current and effective management approaches (Kira & Forslin, 2007; Palmer & Dunford, 2002). If organizations wish to succeed and strive to meet goals, organizational leadership must recognize that traditional management practices no longer align with or support workplace environments focused on collaborative decision-making, employee development and participation, commitment, and trust from all employees. The development of managers who, in turn, must develop and support employees calls for different approaches and different expectations.
Transforming Organizations

Goshall and Bartlett (1996) accounted for the success of some corporations as a result of the transformation process that focuses on sequential development of organizational capabilities and the realization that transformation is not limited to behavior change alone and must include a transformation of structures. Goshall and Bartlett (1996) referred to this process as simplification, integration, and regeneration. Strategies and systems introduced by top management fundamentally reshape an organization, followed by organizational regeneration. In particular, four elements within these common threads are identified to establish an environment to rejuvenate the employees; these four elements are discipline, support, trust, and stretch. As it relates to developing managers to focus on leadership capabilities, building discipline was a key element in the transformation of AT&T, which included unambiguous performance standards, a strong commitment to feedback, and clear and consistent rewards and sanctions (Goshall & Bartlett, 1996). Creating support means commitment to providing access to resources, commitment to legitimate empowerment for employees and focusing on coaching and guidance to develop a supportive environment. In creating stretch, Goshall and Bartlett (1996) identified two of the elements as establishing unifying values that align individual commitment to the organization and that provide employees links to their individual contributions to the larger organizational goals. This creates a sense of fulfillment. To develop trust, Goshall and Bartlett (1996) provided the example from Asea Brown Bovari (ABB), a Swedish-Swiss corporation that focuses on inclusion and participation beyond formal committees and boards. ABB’s senior management focus on daily employee involvement in decision-making related to objectives, options and priorities, concentrated on the perceptions of those closest to the customers. Employee relations were built on respect, openness, fairness, and required people to believe in the competencies of leadership and their colleagues.

The final aspect of structural transformation as discussed by Goshall and Bartlett (1996) is regeneration, which ensures continuous learning and will enable ongoing transformation processes. This is the self-renewal in which organizations can develop beyond the past and includes a review of embedded practices; essentially, this alters the way managers think and act. The ultimate goal is to develop all managers into leaders (Goshall & Bartlett, 1996).

Transforming Culture

Nixon (1992) recognized the need for new culture in organizations that includes employees in the decision-making process because it is unrealistic to expect that management can solve all problems. Due to increasing complexity and competition, organizations should determine how to tap the creative energies, initiative, and intelligence of people at every level. Palmer and Dunford (2002) noted the hyper-competitive conditions that have emerged contributed to the disintegration of bureaucracies and the related emergence of new organizational practices such as innovation, outsourcing, and delayering, which reduced organizational boundaries. Palmer and Dunford (2002) acknowledged that a transition from a traditional organization to a more effective form of management requires traditional practices as well as integration of new
practices. Their research provided an indication that, while new practices are the trend, there is a lack of evidence suggesting a systematic transformation for organizations, indicating the emergence of incompatibility. Further, management needs to determine which traditional practice should remain relevant and useful and under what conditions. Managers should not give in to pressure to adopt “fashionable management ideas” and instead should carefully assess which new management practices could provide the most effective combination for the current context, keeping in mind that continuous change is present.

Developing Transformative Capabilities

Changing the mindset, behaviors, and attitudes of leadership is necessary and this may be a significant cultural change for many. Shelton and Darling (2001) explained that managers must develop leadership skills that are aligned and congruent with human-based systems, which is a departure from the bureaucratic structures of the past.

Brightman proposed, “The environment necessary to develop managers should include opportunities to make mistakes or fail, and supports experimentation, curiosity and long-term learning; availability of expert models and peers; real life experience under changing conditions” (2004, p. 49). This suggests experiential learning (Frost & Wallingford, 2011), which is generally defined as on-the-job training (OJT) and situated learning (Lave & Wegner, 1991), which is loosely defined as legitimate participation in a context of work activities through which people develop understanding through growing involvement. The differences between OJT and situated learning with traditional training could be described as determining what needs to be learned in a work context and how to learn it instead of traditional ‘training’ which consists of telling individuals what somebody thinks they need to know.

Nixon (1992) proposed that expectations of top management who will solve all organizational problems is becoming inappropriate because of the need to engage the energy, initiative, and intelligence of employees at all levels for success, and calls for a new culture in organizations. Because leadership drives culture, and culture drives behavior, any change requires changes in leadership behavior. Nixon (1992) believed managers are the key drivers of culture in an organization and unless their management behaviors change, no progress is possible. Nixon’s alternatives include creating an environment of encouragement and support, developing relationships based on trust and honesty, and seeing oneself as a “leader of leaders” (Nixon, 1992, p. 36). This includes creating a culture where people take initiative instead of blaming and complaining, and seeing themselves as lifelong learners who welcome change.

To develop a new culture, Nixon (1992) recommended a vision not only for the organization but also for one’s position in the organization and for self: developing good relationships with managers and building one’s own network as well as being a model for others without pretense to help develop support. Maccoby (2003) proposed developing a learning culture that includes trust and honesty, but also describes the purpose of the work in progress with clear roles and responsibilities. This also calls for understanding people’s differences and how they work; facilitating communication, and evaluating based on honesty rather than bureaucratic processes.
Developing an Environment for Leadership

Isaac et al. (2001) suggested that we must view leadership as the role of everyone in the organization. This view is supported by Ray (1991) who suggested that businesses need to be guided by a special type of leader, as well as the need to abandon the old paradigm for managers. Shelton and Darling (2001) used quantum theory to demonstrate that the development of a new paradigm is necessary for effective managerial leadership, but this requires the end of the old management approach, which was deterministic, reductionist, and mechanistic. Wilson (1996) agreed that the traditional distinction between management and leadership is often not clear, as organizations need both; in reality, leadership and management share similar attributes and concerns.

Kira and Forslin (2007) analyzed case studies and proposed that post-bureaucratic work supports the opportunity for employees to become more engaged; that is, the work was more manageable, comprehensible and meaningful, and allowed interconnectivity. However, there is a need ongoing to understand this “regenerative” work because of the continual changes and emerging demands. This is similar to the regeneration as discussed by Goshall and Bartlett (1996). The opposite of regenerative work is that which depletes employee resources and degrades coping capabilities. Because of the continuing changes and demands, employees may receive mixed signals related to comprehensibility, manageability, what is important, and how the work should be accomplished. Such confusion, if unaddressed, has the potential of reducing the meaning and the purpose of the work itself.

Organizations that desire empowered employees and participative management need a culture in which openness and trust are required (Wilson, 1996), where learning and action are driven by leadership; the responsibility of leadership is to maintain the alignment of the task with the culture, strategy, mission, and vision. Wilson also pointed to the growing democratization of corporations in which stakeholders are being more involved in decisions, representing a cultural shift and more focus on empowerment. This type of action does not fit the traditional role of management or of “being managed” and instead requires the vision provided by leadership for a successful transition. Kira and Forslin (2007) explained how bureaucratic organizational forms are normally defined as “static”, whereas post-bureaucratic organizations are in a state of “becoming”. Management must be able to provide visions of the future and enable employees to internalize and influence the work by coordinating dialogues about these potential futures. The question that emerges is how can management lead organizations and transform employees into leaders if the only support is from traditional management practices.

Current Management Issues

Basic assumptions about management often conclude that managers can learn a specific set of skills that are broken down into basic elements that anyone can master, and usually attain mastery within a matter of hours (Brightman, 2004). Beyond this, there is also an assumption that the best learning for these new managers occurs in a stable environment with expert models,
repetition, and advice. These lead to bullet lists of “to do” items and, as such, cannot provide much impact on the job in situations that arise on a daily basis. This is the basis of the disconnect that may occur between the status quo sought by trainers and developers in organizations and the reality that a uniform and standardized approach that cannot reflect organizational life because reality is inconsistent and somewhat chaotic. Brightman (2004) proposed that a failed management relationship is one of the key causes of poor performance, work dissatisfaction, as well as turnover and absenteeism.

Brightman (2004) explained that if good management could be learned from a “how to” list; there would be many good managers in organizations today. Instead, when good management is considered as a collection of knowledge, behaviors, and attitudes, organization will want to move toward a paradigm that focuses on learning and development of managerial talent over time. Fleming (2008) provided an example in a list of skills recommended for new managers. One of the problems when providing a list of necessary skills is that different organizations may define the necessary skills differently, making management highly sensitive to context and organizational culture.

Brightman (2004) noted another issue: Managers frequently lack a shared understanding with their direct reports; managers often believe that supervisor assumptions are understood and comprehended when these assumptions have never been explained or discussed. In one example, a manager was asked how many times he had told an employee to do A, B, and C; the manager replied that the employee should know it because it is obvious. This expectation for the employee is to have mind-reading talents, particularly as part of a communications issue.

The success of a manager depends on the consent and performance of the governed. When issuing ‘orders’ and dehumanizing approaches fail, management still considers the position to be about the importance of power rather than relationships with people (Brightman, 2004). As organizations frequently do not reward good management practices or consistently develop managers or support ineffective managerial paradigms, it is often difficult, if not impossible, to turn around a bad situation (Brightman, 2004). Ready and Conger (2003) confirmed that leadership typically approaches managing people based on control, ownership, and power orientation instead of focusing on the need to share accountability. Traditional leadership sees, for example, the need to separate the leader from the subordinates; to appear invulnerable; to be consistent to the point of rigidity; and pursue power rather than purpose (Nixon, 1992). In addition, basing a leadership program on the current best-selling book is not effective because not only is this not aligned with strategic goals; it is approached as a “rush” which is changed every few years. Leadership cannot be learned by simply attending training sessions if employees perceive it is a waste of time. If this happens, any development programs are perceived to have no value.

**Strategy and Management**

There are multiple levels of strategy that must be considered relative to management and leadership. Strategic management is perhaps the most well-known, focusing on the entire
organization. Two other areas that are necessary but acknowledged less frequently are organizational strategy, usually recognized in the business unit, and tactics that are usually considered at the lowest levels of supervision such as that found between a first-level supervisor and direct-report employees. Svensson, Wood, and Mathisen (2008) acknowledged that strategic management is the primary focus. They noted that the key assumption in management practice is the belief that a top-down approach of leadership performance is superior to the bottom-up approach. This assumes that strategic management is the prominent factor, but neglects employee experience, knowledge, awareness, and competency at the operational and tactical levels in business. This suggests not only a lack of leadership and the “know-how” at non-management levels; it also suggests that the knowledge necessary to develop these employees is absent. This exposes a lack of leadership development at organizational and tactical levels. Even if there is a strategic plan, this brings into question the existence of operational and tactical leadership by any level of management and the capabilities of the employees to demonstrate leadership. In addition, even if strategic goals are present, Ready and Conger (2003) pointed to leadership development efforts that are frequently not aligned with strategic goals.

While managers must consider the development of capabilities in themselves as well as their employees focused on strategic goals deployed at the operational and tactical levels, they also must consider the work itself. Stewart and Fondas (1992) stressed the need for managers to think strategically about their work. Traditional supervisors, who were trained to have control, make decisions, reward, and punish, are now required to coach and mentor and actually make fewer decisions because employees now contribute to decision-making. This approach requires managers to build trust in the workforce so people are more willing to change, manage expectations, and modify constraints for themselves and to some extent for their employees. Stewart and Fondas (1992) discussed the need for managers at all levels to look inside and outside the entire organization to see networks, contracts, relationships, and the dynamics that could influence work and jobs. To be prepared for change as it is necessary to develop good working relationships with people who can help meet organizational goals. This requires that managers focus beyond their work groups and work units and nurture relationships outside of work groups, divisions, and organizations. It is also necessary to think long-term even though a traditional manager often focuses on short-term goals. By thinking long-term, managers can be better prepared to predict and be proactive, rather than reacting primarily to short-term goals.

Ready and Peebles (2015), in their discussion on how to develop the next generation of enterprise leadership, have addressed the need to have an enterprise mindset. This could arguably be the responsibility of management at all levels which can prepare the organization to manage change more effectively and includes peer learning networks in which challenges can be discussed with others, the need to have timely feedback which can be highly motivating, and the need to build unit capabilities. Generally speaking, all managers, regardless of level, should be able to demonstrate a comprehensive understanding of the business.
Setting Manager Expectations

Isaac et al. (2001) linked expectancy theory and leadership concepts to show how to create motivating work environments. The authors propose that every organization should be comprised of leaders rather than employees who are capable of taking control of situations and influence others, as influence is necessary to instill the mission and the purpose in other employees. Each employee should be able to lead and follow depending on the situation as well as contribute to planning, organizing, and controlling activities that are typically associated with the traditional management role. In short, Isaac et al. (2001) proposed the need to eradicate the distinction between leaders and followers and between manager and leader because it takes the collective efforts of everyone to make it possible for a CEO to accomplish strategic goals. This requires a significant change in how managers are developed and how managers, in turn, develop employees.

The Role of Expectancy Theory

When applying expectancy theory, as proposed by Vroom in 1964 (as cited in Isaac et al., 2001), and also known as the valence, instrumentality, and expectancy model (VIE), the authors describe this process theory of motivation because of the emphasis on environment, subsequent interactions, and individual perceptions. This is why expectancy theory can provide an approach to help individuals accomplish their leadership goals because it can influence psychological processes in followers. Motivation is expected to occur when three conditions are perceived; these include expending personal effort that results in acceptable performance, specific outcomes which are expected when the performance level is achieved, and that the outcome is of value to the individual.

For example, expectancy theory links performance to outcomes. When setting goals, the work must be reasonably challenging, developed in consideration of the ability of the person who will do the work, and the understanding that people have different levels of self-confidence and self-esteem depending on the task. The leader and the follower must have a clear and exact understanding of what is acceptable from which is not, and the leader must understand that when the follower expends effort this leads to satisfaction (Isaac et al., 2001).

Isaac et al. (2001) proposed that leaders are successful when they can “pull” a follower through influence rather than through a command; when they get to know their followers and what motivates them as well as their personal stages of development by understanding needs, motives and goals, and understand that they cannot directly motivate followers. Other required leadership qualities include honesty, consistency of behavior, and perception of fairness.

Eden (1988) explained two different aspects of expectancy theory: Many see VIE as state expectancy, which is a perception about a particular situation, but this is seen as a state and does not adequately describe personal areas of expectancy. Trait expectancy is based on self-confidence perceptions, and both state expectancy and trait expectancy play roles in motivation.
If leaders are unwilling to spend the effort involved, they are denying the organization the benefits of the numerous possible contributions and even forgoing opportunities to grow “…by failing to create the future everyone seeks” (Eden, 1988, p. 224).

The Role of Situated Learning

Frost and Wallingford (2011) proposed a planned, supervised and organized approach to management development “in place” of on-the-job training (OJT) as an effective approach to developing managers through experiential learning. Experiential learning refers to learning from actual experience, and situated learning refers to the specific context; an example of both experiential learning and situated learning would be OJT. Although OJT is an effective way to support learning in the workplace for non-managerial employees, this is not widely used in management for several reasons. Poor implementation of training methods and the lack of a structured environment, as well as poorly defined competencies - or no competencies defined at all -(Bohlander & Snell, 2010) can make this challenging and provide little value. The authors argued that a well-organized, well-planned, and supervised training program for core management development is needed on the job, using a situated learning approach.

Brightman (2004) emphasized that there is a better way to teach necessary skills and have learning opportunities, mentors, and expert models available by training managers on the job. Indeed, mentoring and providing expert models are accepted practices as an effective way to develop new managers but organizations struggle with work demands, time constraints, and sometimes a lack of mentors and expert models due to workload and time demands.

Job rotation, cross training, and apprenticeships are not a good fit for managers; in addition, sending managers to workshops and seminars away from their current positions is expensive and often nonproductive as many of the skills learned may not be practiced upon returning to the workplace (Frost & Wallingford, 2011). Frost and Wallingford (2011) also proposed experiential learning as noted can increase organizational commitment in managers, contribute to personal career goals, serve as a positive impact on diversity, and generally become an effective action model for learning and development, as mentoring and providing expertise also support the development of coaching skills.

Minter and Thomas (2000) proposed employee development through coaching, mentoring, and counseling. Although this focuses primarily as a task for supervisors to work with employees, these should also be considerations for the development of management employees. Brocato (2003) discussed how organizations need to transition out of the old managerial paradigm of constancy and conformity and focus on the new reality of unpredictability and varying environments. Brocato (2003) reminded us that coaching is about very specific items, not generalities, and coaches must be specific in recognizing work well done. Saying “nice job” is not effective recognition. Brocato required specific behaviors, causes, and actions that are meaningful to employees. However, to be a good coach, leaders need to be self-aware and know themselves, their strengths, and their limitations - and be willing to develop as a coach. Some items in the coaching process include getting the team member involved instead of just talking...
“at” the person; focusing on attitude rather than behavior, be specific about what has to be done to improve performance, always follow-up to be sure action which has been agreed upon happens, and always acknowledge the improvement with positive feedback.

Mantz and Sims (1980), citing Bandura’s social learning theory, proposed leadership begins with self-management, which is a key element of social learning theory. Managers, who can develop self-management abilities in employees, are providing the introductory aspects of leadership in terms of participation, engagement, and commitment by setting specific, realistic goals and personal expectations. This includes role modeling, guided participation, and reinforcing behaviors that demonstrate effective self-management.

Using role modeling to develop managers (Warhurst, 2011) focuses on the process of “becoming”. Although there has been little research on role modeling in management, Warhurst’s (2011) empirical research provided key lessons learned from role models including values, attitudes, and ethical approaches. The research found openness to personal learning and development, yet the concept of role modeling for management development purposes may not be as widespread as assumed (Warhurst, 2011). One conclusion drawn from the research is that social learning through role modeling is a significant factor in management development for both positive and negative role models. Learning qualities such as acting ethically, articulating values, supporting and appreciating people were learned as part of the mentoring effort, suggesting that formal learning programs may need to be reevaluated and perhaps move toward less formal programs with more focus on experiential learning and situated learning.

Larsson, Sjöberg, Vrbanjac, and Björkman (2005) studied indirect leadership in a military context to obtain a better understanding of how those in leadership positions can influence employees who are not direct reports. They proposed a model through which indirect leadership was defined as two simultaneous processes, one of which is based on direct interaction with the group, usually a subordinate managerial group, and the other is an influence process related to image and being a role model. For this to be effective employees at the lower levels must be able to trust both processes which are necessary to develop commitment and encourage active participation. When there are problems these are often related to the lack of trust. The lack of trust encourages messages to be perceived and redefined in non-supportive ways.

Larsson et al. (2005) suggested indirect leadership through role modeling includes the multiple components through which behavior patterns are discerned. For example, some of these include consideration (care and respect; devoting time to self and others), basic attitude (integrity, reliability, trustworthiness, organizational responsibility, personal role in caring, respect for others) and, when consistently and reliably present, set the standard for behavior.

**Supporting Innovation**

Keathley, Merrill, Owens, Meggarrey, and Posey (2013) recognized the importance of developing a creative environment to enable creative people. This can include supporting people
through hard times and allowing time for creative development. This also includes respect for the creative genius who may not fit well or be perceived as “different” in the environment.

Cheverton (2001) proposed that managers have a duty to protect the “mavericks” in their organization, “the round peg in a square hole”, because mavericks, when nurtured, can do “out-of-the-box” thinking, suggest new ways of looking at old problems, and even renew entrepreneurial aspirations through which the organization may have developed in the first place. Protecting the maverick may be the most important job in the organization because the maverick is the only one who makes progress (Cheverton, 2001).

**IMPLICATIONS**

If traditional management practices are the norm in organizations, not much is going to change because of the misalignment between bureaucratic systems, as bureaucracies and related practices do best in static and unchanging conditions. If organizations are unwilling to assess the current practices of managers, look at behaviors, and look at expectations as they relate to organizational goals, little is going to change. Managers have significant influence over employees and can influence retention, turnover, job satisfaction, attitudes, and even goal attainment in organizations. Hewson (1997) predicted that companies that are currently in a comfort zone with old-style management would be unaware of the crisis. Such giants as IBM, General Motors, and General Electric were the first to experience disruptive change. Companies that are currently comfortable will experience the second wave of disruptive change and they are unable to see the need to change internally so change can be managed externally; if they are unable to change, they may find themselves in the middle of a crisis (Hewson, 1997).

**FUTURE RESEARCH**

As much of the management literature must be continually updated due to the changing environment, a significant number of opportunities exist to look at expectancy theory, situated learning, and experiential learning in organizations. Conducting research in organizations to determine alignment between existing management training and employee expectations can help identify gaps in experience and training. Reviewing organizations for traditional management practices to determine what types of practices can help identify areas of change that are needed to encourage more effective management behaviors and concepts. Exit interviews, retention, and turnover information may also help identify the existence of ineffective traditional management practices that can help organizations address better ways to develop managers who ultimately develop the next leaders.
CONCLUSIONS

The jobs of managers have changed radically since the days when bureaucracies flourished. Managers’ jobs require relationships that are more complex and a much broader scope of responsibilities; there is typically a heavier workload, a demand for faster and better results in ambiguity about the best options to meet organizational goals. Managers should not be left to their own assumptions on how to manage because of the tremendous influence they have on subordinates, peers, and other employees. Organizations must provide development opportunities to improve managerial skills based on strategic organizational goals as well as guidance for expectations on desired outcomes and behaviors that need to be demonstrated in the workplace as these managers represent the organization at all levels. Managers can coach and support; they have the opportunity to reduce potential for failure and can support sustained, successful performance. When organizational leadership can support managers, managers can learn from coaches and role models, creating cumulative effects of positive experiences; this raises expectations at all levels.

Organizations should also look at processes related to human systems and abandon the bureaucratic processes that worked years ago but no longer fit in an environment of continuous change. This requires changing expectations and aligning these expectations with the behaviors and attitudes of managers at all levels so these managers can develop leadership in employees throughout the organization strategically, operationally, and tactically.

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