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God Is At Work— One Degree At A Time

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Introduction

Bruce K. Bell, Ph.D.
Dean, School of Business

Welcome to the latest edition of the *Liberty Business Review*, an online journal of Liberty University's School of Business. This journal is designed to present academically mature articles by students and faculty in Business at Liberty University and other institutions of higher learning. The purpose of the *Liberty Business Review* is to examine issues of Business and Economics from a Christian perspective and with a commitment to scholarly excellence.

This online journal is designed to be offered without charge, and articles are selected for superior academic quality and integration of the biblical worldview into the academic discipline. Additionally, articles may analyze best practices in the teaching of Business within the Christian setting, contributing to the theory and practice of principled business in this country and around the globe.

Ed Moore, a professor of Liberty University's School of Business and a candidate for the Ph.D. at Capella University, examines the contention that there is a growing emergence of unethical or dark leaders in the business environment. The examination begins with a brief review of compliance programs and integrity programs, followed by an evaluation of the theoretical basis for integrity programs and their ability to provide early identification and prediction of corporate ethics problems resulting from dark leadership. Following this evaluation, the author examines how organizations can use relevant theory to create a comprehensive integrity program that can identify dark leaders as well as mitigate environmental conditions that might lead to their emergence.

A recent graduate from Liberty University with a Business Finance degree, **David Phillips** explores the concept of Economic Value Added (EVA) as a revolutionary way to measure the value of a business. In its simplest form, EVA is a system that determines companies' worth and performance based on their economic reality, not numbers produced according to traditional accounting rules. EVA sets high standards for measuring performance and is essential for all companies wishing to create value for their shareholders.

A number of business students have conducted research studies in the area of international business. **David Curry, David, Drakos, Duane Danielson, Kelly Gordon,** and **Richard Durand** examined how culture impacts the business environment in China. Specifically they looked at certain items such as guanxi and the important role it plays in business relations; the impact of education and other factors inherent in Chinese culture on the workforce; the impact of government involvement; and the role of personality traits and cultural ethics on business. The article further compared business in China with business in the United States and examined the major differences and implications that Chinese culture has for U.S. companies conducting business with China. The paper concludes with an integration of faith and learning, specifically implications for the Christian conducting business in China.

School of Business undergraduates **Sarah Linden** and **Alexandra Rose** provide an extended specific example for the use of the Global Industry Analysis (GIA) model. The global cocoa industry is quite similar when it comes to structure, characteristics, and issues, but depending on the region or nation, there may be minor variances in these factors. In general, the structure of the cocoa industry can be divided into the following aspects: growing, harvesting, and processing. Most of the world's cocoa is grown in a narrow belt that is 10 degrees on either side of the Equator, and in these areas farmers face various issues, including plant diseases, a lack of relevant education, as well as unfair prices for their cocoa crop. In addition, the cocoa industry faces wage and labor issues, both of which could be settled if biblical guidelines were followed

Business major **David Curry** also prepared a study of inflation and its effect on healthcare construction. Inflation is a currently a key driver of construction costs, although many factors influence the overall inflation of the healthcare construction market. The consumer price index is one key indicator of overall inflation in the U.S. economy. However, healthcare construction inflation does not always follow this indicator. Understanding some of the drivers of healthcare construction inflation can help to predict the continued trend of these increases. The Holt-Winters time-series project was used in the forecast.

Another student paper was written by **Amanda Poore** that looked at Integrated Marketing Communications (IMC). The IMC mix is one way advertisers and marketers are looking to solve the problem of reaching the audience, with promotional elements including advertising, public relations, personal selling, and sales promotions. The IMC mix allows advertisers to promote their products using a promotional campaign that gives a unified message. Many marketers are starting to include viral marketing as a vital component of the IMC mix, recognizing that viral marketing has the ability to directly reach target markets to increase brand awareness.

The aspect of speech anxiety or communication apprehension (CA) was explored by several Liberty University MBA students, to include **Andrew Fenwick, Melinda Myers,** and **Erik Donavan Henkel.** These three students explored various aspects of the issue, concluding that anxiety about delivering speeches is not uncommon and yet can be overcome, each sharing ways to overcome CA and then providing biblical support for his or her conclusion..

The faculty of the Liberty University School of Business is pleased to offer this current volume of the *Liberty Business Review*, and we are eager to hear your comments on these articles.

Dark Leadership: A Dangerous Trend in Emerging Leaders?

by

Edward Moore, Ph.D. Candidate

In this discussion, the author examines the contention that there is a growing emergence of unethical or dark leaders in the business environment. The examination begins with a brief review of compliance programs and integrity programs, followed by an evaluation of the theoretical basis for integrity programs and their ability to provide early identification and prediction of corporate ethics problems resulting from dark leadership. Following this evaluation, the author examines how organizations can use relevant theory to create a comprehensive integrity program that can identify dark leaders as well as mitigate environmental conditions that might lead to their emergence.

Introduction

In this discussion, the author examines the contention that there is a growing emergence of unethical or dark leaders and particularly narcissistic leaders, in the business environment (Maccoby, 2000). The discussion begins with a brief review of the two major corporate ethics strategies of compliance programs and integrity programs, followed by an evaluation of the theoretical basis for integrity programs and their ability to provide early identification and prediction of corporate ethics problems resulting from dark leadership. Next, the discussion turns to an evaluation of how organizations can use the theory examined to create a comprehensive integrity program that can identify dark leaders as well as mitigate environmental conditions that might lead to their emergence. Finally, the discussion concludes with a summary of relevant findings and conclusions regarding the identification and emergence of dark leadership.

Leadership Ethics Theories

No study of organizational leadership is complete without exploring dark leadership and its impact on the organization and the business environment, including the understanding that all leaders will have a dark side based upon their background and personality (McIntosh & Rima, 1997). This speaks directly to the fallen nature of man as John (1 John 1:8, NKJV) explains, "If we say that we have no sin, we deceive ourselves, and the truth is not in us". Further, organizations must realize that the moral impact of leaders and their actions is rarely neutral (Thomas, Schermerhorn, & Dienhart, 2004). In this sense, organizations as well as the leaders themselves are only in jeopardy when the leader's dark side becomes dominant, and organizations will need to ensure that their leaders possess the insight and ability to keep their dark side in check.

Currently, the two broad theories for ensuring leadership and organizational ethics are presented by compliance programs and integrity programs (Thomas et al., 2004). Compliance programs seek to manage ethics by mandating conformity with an externally imposed standard which is typically lawyer driven, and with the objective of preventing criminal misconduct (Paine, 1994). Paine explains that this type of program is consistent with the view that the organization bears no responsibility for the unethical behavior of individual leaders. Unethical individual behavior however, is generally provided tacit approval and even aided by the organization as a result of the organization's behavior, attitudes, and value and belief system as evidenced by the organizational culture (Paine).

In sharp contrast, integrity programs seek to manage ethics through self-governance in accordance with internally developed standards that are management driven, and with the objective of enabling responsible conduct (Paine, 1994). While compliance programs can be thought of as establishing the minimum acceptable ethical and legal standard for individuals, integrity programs can be thought of as establishing an organizational ethical value system that exceeds the legal minimum ethical standard (Thomas et al., 2004). This is an important distinction because it acknowledges the impact the organization and business environment can have on the ethical behavior of individuals. Paine however clarifies that acknowledging the role of the organization and environment on individual behavior does not release the individual from responsibility for their unethical actions. Due to this broader understanding of individual ethical behavior in the context of the environment, integrity programs should provide more utility to organizations in maintaining ethical standards. Also, integrity programs will be better able to identify and predict the potential for corporate problems posed by dark leaders.

Dark Leadership and Ethics, an Integrity Program Perspective

The growing concern in the business community surrounding leadership integrity as highlighted by Kanungo and Medonca (1996) supports the need for self-directed integrity programs rather than a continued reliance on compliance programs. Encarta Dictionary (2006) defines integrity as a quality of individuals who always follow high moral principles or professional standards and defines ethics as the study of the effect of moral standards on conduct. In this sense, leadership integrity will be demonstrated by ethical leadership behavior resulting in increased follower commitment, development of trust, and reciprocal respect (Parry & Proctor-Thompson, 2002). Minkes, Small, and Chatterjee (1999) provide an insightful summary in stating that ethical behavior is based on the notion of should versus should not rather than must versus must not, clearly highlighting the difference between self-direction and compliance. Nowhere is this notion of the internalization of ethical control more clear than when Jesus explains "A good man out of the good treasure of his heart brings forth the good. And an evil man out of the evil treasure of his heart brings forth the evil. For out of the abundance of the heart his mouth speaks" (Luke 6:45, NKJV)

In order to better understand the theoretical basis for integrity programs and evaluate their effectiveness, it is necessary to understand the nature of how individual, organizational, and environmental factors impact individual leadership ethics and facilitate the emergence of dark leadership. In order to frame the discussion, the emergence of dark leadership will be examined through the lenses of leadership characteristics and behavior, narcissism, charisma and follower development, culture, as well as government and organization. By examining the emergence of dark leadership the need for a comprehensive integrity program will become clear.

Leadership Characteristics and Behavior.

(Thomas et al., 2004) explains that a critical component of effective executive leadership is the ability to initiate change to create a viable future, and that the long-term future of the organization is tied to ethical leadership behavior. The challenge in this context is to differentiate effective positive leadership from effective dark leadership. Critical guidance is provided by recent work in this area which points to the importance of an emotional connection with others and a transformational leadership style in establishing positive and effective leadership (Clements & Washbush, 1999). Goleman (1998) supports the importance of emotional intelligence by explaining that it is even more critical to leadership success than basic skills such as intelligence and technical ability, and that emotional intelligence in this context is comprised of self-awareness, self-regulation, self-motivation, empathy, as well as social skill.

Bass and Steidlmeier (1999) provide insight into differentiating positive leadership provided by authentic transformational leadership (ATL) from dark leadership provided by pseudo transformational leadership (PTL). Leaders with ATL have a solid moral character, are concerned for others as well as themselves, base their vision, actions, and messages on ethical values, and have a style that is characterized by individualized consideration, idealized influence, inspirational motivation, and intellectual stimulation (Bass & Steidlmeier). In contrast, leaders with PTL will use their influence to achieve their individual goals, pursue individual power despite the consequences to the organization, and have a style that is charismatic with the ability intellectually stimulate, influence, and motivate (Bass & Steidlmeier).

In this context, it is the presence of emotional intelligence and leadership motivation that differentiates positive leaders from dark leaders. Emotional intelligence provides the leader with characteristics and skills including social skill, empathy for others, and critical internal controls including self-awareness, self-regulation, self-motivation (Goleman, 1998). Motivation on the other hand facilitates behavior, and while the positive leader will apply socially derived power for collective benefit, the dark leader will apply individually derived power for individual benefit (Clements & Washbush, 1999).

Narcissism. A leader's dark side is typically exposed through antisocial patterns including narcissism and paranoia, as well as compulsive, codependent, and passive-aggressive behaviors (McIntosh & Rima, 1997). Maccoby (2000) further clarifies this by highlighting narcissism as a critical factor in the recent increased emergence of dark leaders. This should not however indicate that the presence of narcissism guarantees dark leadership rather, dark leadership is only present when the narcissistic leader looses their sense of boundaries, treats individuals as objects, becomes overly self-centered, or believes that rules are not meant for them (Dearlove, 2003). In fact, Kets de Vries posits that all leaders must be somewhat narcissistic in order to be effective (Dearlove). In this context, what differentiates the positive leader with productive narcissism from dark leader with non-productive narcissism is their ability self regulate the impact of their narcissism (Maccoby). With narcissism emerging as a core component in the study of dark leadership and its development it is helpful to explore how narcissism itself develops.

Narcissism is found in a family of personality disorders commonly known as antisocial behavior disorders (Jang, Vernon, & Livesley, 2000). Researchers believe that biology is the source of these types of disorders and commonly use a research method involving twins that grew up in different environments in order to separate the effects of biology and environment (Jang et al.; Sinha, 2004). Researchers in several such studies discovered that biology created a predisposition for the antisocial disorder, leader one researcher to describe the predisposition as a switch that is waiting for environmental conditions to turn activate (Sinha).

McIntosh and Rima (1997) agree with this view and state that such traumatic events in early life can cause individuals to develop either positive or negative narcissist behavior. Kets de Vries clarifies this position indicating that narcissists can emerge as either constructive or well adjusted individuals or as reactive or maladjusted individuals, and that the reactive or maladjusted narcissists will react by either working to help others or by working to get back at others (Dearlove, 2003). In this sense, it can be difficult to differentiate positive and dark narcissistic leaders without careful examination because they both share the ability to articulate a compelling vision and attract followers to that vision (Maccoby, 2000).

Charisma and Follower Development

Charismatic leaders can be very effective because of their skill in inspiring their followers to outperform others while at the same time creating and sustaining belief, trust, and faith on the part of their followers (Howell & Avolio, 1992). However, given that the term charismatic leader has been used to describe leaders as different as Benito Mussolini and Mahatma Gandhi, it is evident that they can vary in their ethical standards. In this sense, charisma itself is value neutral and the risk of charismatic leadership is found in the intentions and ethics of the leader (Howell & Avolio).

Ethical charismatic leaders are characterized by high moral standards, a willingness to share information and recognize participation, and a willingness to take both positive and negative feedback (Howell & Avolio, 1992). Howell and Avolio add that they encourage their followers to engage in critical and creative thinking and provide opportunities for their development. Unethical charismatic leaders on the other hand are characterized by self promoting moral standards, a predisposition to put their concerns before the concerns of the organization, and a desire to control and manipulate their followers (Howell & Avolio). As a result of these differences, Howell and Avolio explain that the organization faces the risk of developing compliant, dependent, and obedient followers that derive their self-worth from the leader, and that these followers are unlikely to object and are even able to rationalize when the leader engages in dark behavior.

Followers also have the ability to impact the organization and leadership as a result of their development and the nature of their interaction with the leader (Clements & Washbush, 1999). Kelly (1992) illustrates this notion in his follower behavior taxonomy that differentiates five follower types including exemplary, conformist, passive, alienated, and pragmatist. In applying this taxonomy, Kelly found that organizational performance suffers when followers engage in behaviors including high levels of uncritical thinking, dependent, and passive behaviors.

The commonality between the problem behaviors found by Kelly and the problem behaviors created by unethical leadership found by Howell and Avolio (1992) is interesting. The behaviors found by Kelly including uncritical thinking, dependent behavior, and passive behavior align very well with the behaviors found by Howell and Avolio including compliant behavior, dependent behavior, and obedient behavior. In this sense, poor follower development could allow dark leadership to emerge even in the absence of charismatic leadership traits.

Culture. Ayman, Kreicker, and Masztal (1994) found that the most significant challenges faced by executives operating globally derive from cultural differences between them and their followers. Illustrating this concept, Hofstede (1980) identified the cultural differences that can impact leadership, motivation and organization including power distance which refers to the unequal distribution of power, and uncertainty avoidance refers to the tolerance for risk and the mitigation of risk through formalization. Additionally, Hofstede identified individualism-collectivism which refers to the social spectrum of loosely coupled individuals versus tightly coupled groups and masculinity-femininity which refers to the emphasis on performance, achievement, and interpersonal relations. Critically, it is the unique combination of these dimensions that forms the expectations for leadership, motivation, and organization.

In this sense, because ethical behavior involves what a person should or should not do described by Minkes et al. (1999), the way leadership ethics are viewed in a cross cultural organization will be impacted by the dimensions identified by Hofstede (1983) because they establish behavioral expectations. As an example, leadership theories in the United States typically do not address the concept of duty which is highly valued in collective cultures (Hofstede), and this inability to address or meet this unspoken behavioral expectation could be perceived as a lack of ethics. Also, as discussed, cultures with high uncertainty avoidance have a strong motivation for security and therefore a lower tolerance for risk, a stronger need for truthfulness, a higher level of anxiety, and a stronger need for formalization (Hofstede) In this context, the uncertainly avoidance is setting the level of expectation for truthfulness which is a central theme in ethics. Given these critical relationships between cultural dimensions and behavioral expectations, leaders operating in a cross cultural business environment need to be particularly sensitive to divergent expectations in to avoid the perception of unethical behavior.

Government and Organization. Globalization is forcing many companies to face new ethical challenges associated with operating in the rapidly changing business environment found in foreign countries (Yager, 2005). As an example, multinational organizations must contend with new and unknown environmental protection and public health issues that arise as a result of their expansion into the underdeveloped countries where they conduct production operations (Yager). Publicly known examples of issues between United States multinationals and foreign governments include the release of toxic waste products causing illnesses among local populations as well as the use of overseas sweatshops for production (Yager). As Yager explains, organizations attempting to remain cost competitive engaged either directly or were party to these practices through their supplier base while doing business in countries where the regulatory, legal, and ethical environment is not the same as it is in the United States. Importantly, these examples make it clear that some companies will choose questionable business practices over sound ethics when faced with a lower minimum standard for compliance.

Environmental abuses and human rights issues in foreign countries are not the only concern for today's global businesses. Extreme competitive pressure to achieve near term financial goals is providing a strong organizational motivation for questionable business practices and accounting fraud (Johnson & White, 2006). The high profile Enron collapse clearly illustrated how many loopholes there are in the compliance based safeguards designed to protect shareholders from illegal activity such as accounting fraud undertaken in the name of profit targets (Johnson & White). Enron however was not the only organization involved in these illegal activities, federal prosecutors also brought the law to bear on other corporate giants such as Tyco International Ltd., WorldCom Inc., and Adelphia, Communications Corp. for questionable accounting and reporting practices (Johnson & White).

In response to these and other high profile cases of corporate malfeasance, in July of 2002 the federal government passed the Sarbanes-Oxley Act which placed a higher level of responsibility for reporting and compliance on board members, auditors, as well as corporate executives (Thompson, Strickland, & Gamble, 2005). This new act joins the long list of federal and state regulations designed to deter a wide range of unethical and illegal behavior including stock manipulation, price fixing, restraint of free trade, and oversees product dumping just to name a few. It is the absence of internal controls that has forced the continued creation of regulations with broad power to prosecute, illustrating Paine's (1994) assertion that effective deterrents must include organizational as well as individual penalties for improper action. Despite the deterrents, it is clear that governments and organizations have the potential to create an atmosphere that overlooks or even promotes unethical behavior. Further, it is likely that some organizations will continue to break the law or violate ethical standards while operating right at the limit of legal boundaries (Thompson et al., 2005).

Summary. The broad range of factors impacting leadership ethics evaluated in the preceding discussions highlight the need for a comprehensive integrity program. Based upon this need, a model such as a cause and effect diagram can be synthesized with the intention of showing the emergence of dark leadership based upon the collective impact of individual forces, cultural forces, organizational forces, and governmental forces. A fishbone diagram as shown in figure 1 below provides an excellent mechanism for illustrating exactly this type of cause and effect relationship (i Six Sigma, 2006). The clarity provided this model can help organizations move from the concept of an integrity program to the realization of an integrity program through a deeper understanding of the forces present.

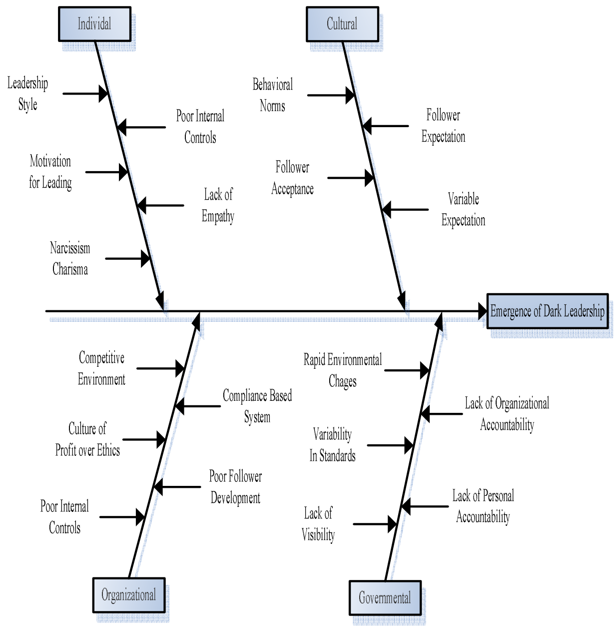

Figure 1. A model for the emergence of dark leadership.

This evaluation found many individual leadership forces leading to unethical behavior and dark leadership. Forces examined included the leader's style and an absence of an emotional connection with followers, a lack of emotional intelligence comprised of social skill, empathy for others, self-awareness, self-regulation, self-motivation, empathy, and social skill, and the leader's motivation for leading (Clements & Washbush, 1999; Goleman, 1998). Narcissism and charisma were also found to be individual forces, with narcissism including a loss of limits and boundaries, dehumanizing of others, becoming self-centered, and a feeling that rules do not apply (Howell & Avolio, 1992; Maccoby, 2000).

Cultural forces were also important to the evaluation in that culture can set the expectation for behavior and thereby help establish what behavior is considered ethical (Hofstede, 1980). In his study, Hofstede identified the critical facets of culture and how they impact leadership motivation and organizations. Differences in these cultural dimensions establish important forces in cross cultural environments such as behavioral norms, acceptance of leader behavior, expectations of leader behavior, and variable expectations of behavior based upon social standing (Hofstede).

Organizational forces must also be considered in the emergence of dark leaders. Johnson and White (2006) found extreme competitive pressure for performance and profit often resulted in poor ethical business choices, and Yager (2005) found similar pressure to reduce costs. Paine (1994) highlighted the lack of comprehensive internal controls, a lack of penalties for individuals as well as organizations, and a regulatory compliance system based upon punishment as key organizational drivers in unethical leadership choices.

Follower development within the organization was also found to be a force in enabling dark leadership. Howell and Avolio (1992) found that organizations with negative charismatic leaders can develop uncritical, compliant, and dependent followers that are unlikely to object to unethical leadership. From the other perspective, Kelly (1992) found that organizations with uncritical, compliant, and dependent followers can independently lead to the emergence of unethical leadership.

Finally, governmental forces were also found to lead to unethical or dark leadership. Yager (2005) showed that multinationals operating in foreign countries often experience rapid changes and variations in the business, regulatory, legal, and ethical environment as compared to the United States, opening the door for unethical behavior of leaders operating in those countries. Thompson et al. (2005) highlighted the ongoing battle to add regulation such as the Sarbanes-Oxley Act to allow for the broader punishment of illegal and unethical behavior. Interestingly, such regulation is necessary in order to gain visibility into the act and place broader responsibility for the illegal acts, addressing concerns such as lack of enforcement and variable enforcement. Paine (1994) supports this view in asserting that effective deterrents must include organizational as well as individual penalties for improper action, forcing organizations to take a more proactive position in creating effective internal controls. The comprehensive nature of the dark leadership model in figure 1 clearly illustrates the benefit of an integrity program over a compliance program in maintaining a high ethical standard within the organization. While a compliance program would focus only on ensuring that actions taken do not violate governmental regulations, an integrity program would be able to establish guidelines and expectations for behavior across all facets of the organization (Thomas et al., 2004).

In this sense, an integrity program would be able to provide organizational consistency in ethics even in the face of changes in the business, cultural, regulatory environment.

Thomas et al. (2004) point out several key results of effective integrity programs including reduced unethical and illegal behavior, greater awareness of legal and ethical issues, greater search for legal advice, greater self-reporting, embedded compliance with ethics in decision making, and greater commitment to the organization.

Importantly, the structure and expectations created by this type of integrity program will provide organizations with a much better opportunity to identify and predict advance signs of corporate ethics problems resulting from dark leadership.

Identifying Potential Dark Leaders

Even within the context of an effective integrity program there is still a need to evaluate leadership to identify dark leaders, and perhaps more importantly identify potential dark leaders. The evaluation of the theoretical background of integrity programs provided excellent insight into the individual forces contributing to unethical behavior and can provide a framework for identifying actual and potential dark leaders. Through identifying the characteristics of positive leadership which includes ethical behavior as well as the characteristics of dark or unethical leadership it is possible to detect potential dark leaders through their mix of characteristics.

In describing ethical and effective leadership, Clements and Washbush (1999) provided insight into the importance of an emotional connection and transformational leadership, while Goleman (1998) identified the importance of intelligence, technical ability, job knowledge, as well as emotional intelligence. Bass and Steidlmeier (1999) went further and clarified that emotional intelligence and motivation for leading are the differentiating factors between authentic transformational leadership and pseudo transformational leadership. These important characteristics can be organized into groups in order to develop leadership evaluation criteria.

The criteria includes inherent characteristics that the individual is born with such as intelligence as well as job skills that they develop during their career that relate to performance in the field such as technical ability and job knowledge. Additional criteria are internally focused characteristics that are directed at their own behavior such as self-awareness, self-regulation, motivation for leading, and ethical character as well as externally focused characteristics that are directed towards the behavior of the follower including empathy, social skill, influence, inspirational motivation, intellectual stimulation, individualized consideration, and charisma. Most importantly, the final criteria is leadership ethics which can help identify dark leaders and includes ethical behavior or behavioral integrity and leadership motivation for social good versus personal benefit.

Based upon these findings, an effective integrity program should include a leadership evaluation and training component to ensure the selection and promotion of positive and effective leaders while correcting or eliminating potential dark leaders. In this regard organizations should follow the example set by our Lord when He sent Amos out into the people of Israel to be their plumb line and set for them the straight path (Amos 7:7-9, NKJV). One such evaluation tool developed by Bass and Avolio (2006) is the multifactor leadership questionnaire which effectively identifies the presence of transformational leadership based upon responses provided by the leader, his peers, his subordinates, and his superiors. Another excellent evaluation tool is the 360 degree global executive leadership inventory developed by Kets de Vries, Vrignaud, and Florent-Treacy, (2004) which adds elements of cross cultural impact and emotional intelligence. Organizations can evaluate available leadership tools such as these two and select the one that best fits the overall strategy of their integrity program and incorporate it.

Conclusion

In this discussion, the author examined and supported Maccoby's (2000) contention that there is a growing emergence of unethical or "dark leaders" and particularly narcissistic leaders, in the business environment. The discussion began with a brief review of the two major corporate ethics strategies of compliance programs and integrity programs. Following the review, the author analyzed the theoretical basis for integrity programs and their ability to provide early identification and prediction of corporate ethics problems resulting from dark leadership. This discussion highlighted several key facts. First, all leaders have a potential dark side that they must keep in check, and second, that due to the complex nature of the forces acting on leaders legal compliance programs are not sufficient to ensure ethical behavior (McIntosh Rima, 1997; Paine 1994).

Based upon these findings and the analysis of the theoretical basis behind the emergence of dark or unethical behavior, this author supports the development and utilization of comprehensive integrity programs in order to provide overall ethical guidance. While a compliance program would focus only on ensuring that actions taken do not violate governmental regulations, an integrity program would be able to establish guidelines and expectations for behavior across all facets of the organization (Thomas et al., 2004). In this sense, an integrity program can mitigate the negative impact of individual forces, cultural forces, organizational forces, and governmental forces, as well as provide organizational consistency in ethics even in the face of changes in the business, cultural, regulatory environment. Additionally, based upon the individual characteristics evaluated, this author supports the use of leadership evaluation tools as part of the integrity program in order to provide critical insight into leadership characteristics, allowing for early detection of potential dark leaders. Taken together, integrity programs and their supporting leadership evaluations provide businesses with the best opportunity to identify dark leaders and the conditions that contribute to their emergence.

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The Value of Economic Reality: Applying Economic Value Added

By

David Phillips

The concept of Economic Value Added (EVA) is a revolutionary way to measure the value of a business. In its simplest form, EVA is a system that determines companies' worth and performance based on their economic reality, not numbers produced according to traditional accounting rules. EVA sets high standards for measuring performance and is essential for all companies wishing to create value for their shareholders.

Introduction

For years, public companies have been measuring their performance according to the method of Generally Accepted Accounting Principles (GAAP) and indicators such as Earnings per Share (EPS). From their long continued use, GAAP indicators have become the trademark measurements in today's marketplace. On the surface, EPS looks like an accurate measure of performance; however, in reality the method used to calculate EPS ignores numerous important expenses that change performance results significantly. In light of this problem, two University of Chicago graduates pioneered a new method of measuring and creating value in a business. In 1982, Joel Stern and G. Bennett Stewart III founded Stern Stewart & Co. and formally launched their revolutionary concept of Economic Value Added (EVA). Since then the concept and application of EVA has grown rapidly, with hundreds of companies worldwide adopting all or parts of it. EVA has greatly impacted the financial world and changed the way many people perceive value. Investors now have a better way to measure the true performance of a company and managers have a better grasp on how to create value for their shareholders. Although no theory is without skeptics, evidence continues to mount that EVA is correct in its methodology and assumptions, and can live up to its claims of being an alternative to traditional accounting (Kudla, 2000; Stewart, 1999).

Although certain aspects of this economic theory are very complex, the beauty of EVA is its overall simplicity. This report seeks to provide a simple, but in-depth understanding of EVA concepts and their applications and assumes that the reader may have a limited knowledge of accounting and finance. As such, the following discussion focuses on the major principles of EVA without the extreme detail on the metrics of EVA. It is also presented with limited equations for even more simplicity. Topics to be discussed include the necessity of EVA, the four major applications of EVA—Measurement, Management System, Motivation, and Mindset—as identified by the Stern Stewart & Company (n.d.), and Market Value Added (MVA). Also included is a comparison study of companies that have adopted the EVA method. No matter how good EVA sounds in theory, it has no case for continued use without quantitative results. As will be shown, EVA companies average much better performance than their non-EVA competitors, and the foundational concepts in this report allow investors of all levels to better measure other companies' performance.

The Importance of EVA

While many businesses and organizations operate successfully without using EVA, none will likely reach their full potential until they apply the concepts set forth in EVA. Although companies do not have to follow the EVA format specifically, the underlying value concepts do need to be followed. They are not new concepts; however, it will benefit the reader to begin with a better understanding of what comprises EVA and the reasons to study it.

What is EVA? EVA is the idea that companies do not earn a true profit until all costs, including items such as opportunity costs and cost of capital, have been covered. In other words, showing a profit on the income statement is not enough. The amount of earnings must also cover opportunity costs—the benefit foregone by using resources in a particular manner. But more importantly earnings must cover cost of capital—the return demanded by shareholders and cost of debt. Only the earnings left, if any, after subtracting the firm's physical costs and intangible costs, can be considered profits. When a company earns more than its total costs, then it has made a true profit or "economic profit." The term "economic profit" was first developed by British Economist Alfred Marshall and includes the cost of capital as well as other adjustments. However, its basic theme is that firms must account for all costs, tangible or intangible, to earn a real profit. If an economic profit is not earned, then it does not matter what the income statement shows. In reality, the company is merely breaking-even or operating at a loss. Only economic profits measure true performance and create real value for a company and its shareholders (Rutledge, 1993).

Why Understand EVA? Because of EVA's practical and performance driving concepts, one would think EVA should be the dominant measurement system in corporate America. However, one only need to read a newspaper to see that most of the business world still revolves around the traditional accounting rules of Generally Accepted Accounting Principles (GAAP) and conventional measurements such as Earnings per Share (EPS). GAAP accounting, though, is inconsistent at best and described by G. B. Stewart as "a jumble of ad hoc rules established by the tugging and pulling of competing factions and diverse perspectives… [in which] the measurement of earnings that accounts for and guides the creation of shareholder value has been lost in the shuffle" (*WSJ*, June 2, 2003, p. 4). Because GAAP ignores many important factors that determine the value of a company, shareholders are often left in the dark on their company's actual performance. To correct this situation, shareholders need a basic understanding of EVA principles to better evaluate their investments. Likewise, executives and managers need to understand EVA in order to make better decisions for their shareholders. Furthermore, it is not always necessary to have an intimate knowledge of EVA or use all of its methods. Even a basic understanding can be applied effectively (Stewart, *WSJ*, 2003).

Analyzing EVA: The Four Ms

EVA has four primary applications and goals it seeks to accomplish. Though each is important individually, all four work together to bring maximum value to a firm. Developed by Stern Stewart & Company (SS&C), the applications are "Measurement", "Management System", "Motivation", and "Mindset", and are the foundation of the EVA concept (Stern Stewart & Company, n.d.).

Measurement. The first step in applying the EVA concept is measuring a firm's performance by EVA standards instead of traditional accounting methods. The reason is quite simple: GAAP accounting provides a distorted view of a company's performance and creates numerous "anomalies" that must be corrected in order to see the firm's true economic results (Stern Stewart & Company, n.d.). In all, over 160 different adjustments could be made to GAAP accounting procedures to measure earnings and value better. They cover all aspects of business to include inventory, restructuring, and depreciation. Though not all the adjustments can be implemented at once or in every company, the underlying principle is that managers should abandon traditional accounting techniques when measuring value (Stern Stewart & Company). Three of the most important changes are highlighted below.

Cost of Capital. The biggest adjustment EVA makes is the cost of equity capital. In simple terms, cost of equity is the required rate of return demanded by investors, or a return equal to the amount they could have received had they invested their money elsewhere. It is the opportunity cost of the investor that a firm must match or beat. If the return generated is less than the cost of equity, then the company's stock will sell below its true value and destroy its shareholder wealth: "Only by earning more than the cost of equity can a company create wealth. The cost of equity is a critical cutoff rate, an invisible but profound dividing line between superior and inferior corporate performance" (Stewart, *WSJ*,2003, June 2, p. 2).

In equation form, this concept is stated as:

$$EVA = NOPAT - [WACC \times C]$$

NOPAT = *Net Operating Profit After Tax,* WACC = *Weighted Average Cost of Capital*, and C = *Capital Invested* (Abate, Grant, & Stewart, 2004) (p. 2).

The calculation of WACC includes both equity and debt. A friendlier form of the equation, also known as "residual income", is

Economic Profit = Accounting Profit – The Cost of Equity

The Cost of Equity

In both equations, equity capital is clearly not free. In reality, it is more expensive than financing through a bank, because shareholders almost always have a higher expected return than lenders (Stewart, *Applied Corporate Finance,* June 2, 2003; Tully, 1994).

For example, investors can usually earn a 10% return on their investment, either in the stock market or elsewhere. Historically, the average return for the stock market since 1926 has been about 12.2% (Gitman & Joehnk, 2003), but for simplicity 10% will be used in this example. Therefore, the required rate of return for these investors is 10%. In 2002, the companies comprising the S&P 500 had approximately $3 trillion in equity capital outstanding, or $3 trillion of other people's wealth invested in the 500 companies. At 10%, the required rate of return for investors, the total net earnings for these companies should have been a minimum of $300 billion to return 10% in value. However, the total net income of all 500 companies for the same period was only $118 billion. Subtracting net income from the cost of capital, we see that the actual performance of the S&P 500 during 2002 was an economic value loss of $182 billion. In effect, investors in these companies lost $182 billion in value they could have received had they invested their money elsewhere in the market. However, under traditional accounting rules, the $300 billion charge is completely ignored and equity capital is presumed to be free. The $118 billion of net income appears to have created value for the investors (Stewart, *WSJ,* June 2, 2003).

Stock options. Another major correction EVA makes is in the area of stock options: "Every independent academic expert in America knows that stock option grants are an economic expense, and the market has already factored the cost of outstanding and future grants into current stock prices. Yet option cost are not now deducted" (Stewart, *WSJ*, June 2, 2003, p. 3). Stock option grants are not recognized as a legitimate expense by GAAP; therefore, they make great incentives and rewards that do not show up on the income statement. It is no surprise then that option grants are used extensively today and consequently, often abused. The downside to option grants, however, is that most companies eventually spend significant cash to buy back the stock from exercised options. While sometimes there are good reasons to buy back company stock, by doing so the company diverts cash that could be used for better purposes. Most of the time, the company could create more value by paying off debt or expanding the business. Therefore the extensive use of option grants decreases value but is ignored by GAAP rules (Stewart, *WSJ*, June 2, 2003).

Pension plans. A third adjustment to GAAP methods is accounting for pension plan expense. Current pension plan rules have loopholes that allow companies to increase earnings falsely. The process is not illegal, but it does present a distorted picture. Companies can deduct from their pension expense the *projected* spread between long-term asset returns and interest rate liabilities in their pension plans. If the company were to transfer the pension assets into stocks instead of keeping them in bonds, then the fund's return would appear to increase and consequently increase earnings as well. However, since equity is more risky than debt, all that has really occurred is the fund's assets have been exposed to greater risk. The risk-adjusted rate of return is the same and actual earnings have not changed. Still, the average shareholder is fooled into thinking the company has improved its performance, when in reality it might have decreased. EVA accounts for the increased risk, whereas GAAP accounting does not (Stewart, *WSJ,* June 2, 2003).

Management System. The second of the Four M's is the EVA Management System (Stern Stewart & Company, n.d., ¶4): "While simply measuring EVA can give companies a better focus on how they are performing, its true value comes in using it as the foundation for a comprehensive financial management system that encompasses all the policies, procedures, methods and measures that guide operations and strategy" (Stern Stewart & Company, n.d., ¶4). However, redirecting a manager's focus away from the bottom line is not an easy task. Wall Street rewards and punishes companies severely when they meet or do not meet their earnings as predicted. Likewise, upper managers punish lower managers and departments when they miss targets. Stern Stewart & Company (SS&C) describes the condition of traditional management systems as follows:

> In a very important sense, the process of becoming an EVA company is one of subtraction as well as addition. It involves the paring away of all other financial metrics, each of which can frequently mislead managers to the wrong decision. If the stated corporate goal is to maximize the rate of return on net assets, for example, highly profitable divisions will be reluctant to invest even in attractive projects for fear of eroding their returns. Underperformers, meanwhile, will be eager to invest in almost anything, even if the expected return is below the firm's cost of capital, in order to lift their average return and buy their way out of trouble. The uniform focus on continuously improving EVA, in contrast, provides the best insurance that all managers are making the right decisions for shareholders. (Stern Stewart & Company, n.d., ¶ 5)

The pressure of meeting earnings often encourages managers to make faulty business decisions for short-term profit at the expense of long-term results. Society is filled with examples of what happens when this occurs on a large scale (Stewart, June 2006). The most notable and still very recent example is Enron.

Enron. Despite the general opinion that "creative accounting" and executive greed were the sources of Enron's collapse, in reality it was neither of them. This is not to say bad leadership, intentional or unintentional, did not contribute and make the situation worse, but it was not the primary cause. Enron's collapse was due to long-running financial strategies at all levels that were detrimental to the company. "Creative bookkeeping" as it is, was a consequence rather than a cause. As G. Bennett Stewart notes, "Enron did not fail because of creative bookkeeping, for instance, but was creative in bookkeeping because it was failing" (June 2006, p. 2). Enron's managers made three critical mistakes. None of them would have been as bad individually, but combined they created an atmosphere that eventually destroyed the company (Stewart, June 2006).

Mark-to-market accounting (M2M). Enron recorded profits with a technique called mark-to-market (M2M) accounting. Essentially, M2M allows a company to record all profits from a contract up front, which would normally be spread out over the life of that contract. Enron used this method to record its earnings on interest spread over the life of contracts in the year the contract was signed. Obviously, this method will tremendously boosts earnings for the particular year a contract is signed. It should be said that M2M was and still is a legitimate form of accounting used successfully in other industries. Enron was not doing anything illegal by using M2M, but when combined with another Enron policy, it became a system that was easily abused and used in ways never intended (Stewart, June 2006).

Incentives and compensation policy. Enron's performance measures and compensation plans were directly linked to earnings. Managers maintained and increased their compensation by the profits they recorded. Therefore, M2M accounting was the ideal system for managers to increase earnings. The more deals signed, regardless of quality, the better earnings were. The net effect, however, was that M2M was radically abused and profits were recorded on obviously bad investments, projections, and even unproven business ventures that eventually failed. It did not matter whether the investment or project actually earned the money it was supposed to after it started. What mattered were future expected earnings, all of which were recorded at the beginning. As early as 1992, Enron's earnings began to explode while its capital position and return to shareholders were being destroyed. This culture eventually brought Enron to the point where it lost money on investments because these investments did not even return the cost of capital (Stewart, June 2006).

Finance profit center. Enron's third critical mistake was allowing the finance department to be turned into a profit center. The CFO, Andrew Fastow, wanted a place in the incentives program that deal-makers in the rest of the company received. As a result, the financial control center diverted its attention from managing and controlling the company's finances to "doing deals, financing growth, bullying naysayers, and papering over problems that stood in the way of earning massive incentive awards" (Stewart, June 2006, p. 4). Now Enron had no restraints to hold back its investment and earnings free-for-all. Eventually, accountants had to become creative to hide the problems this strategy was causing, but Enron's situation could only stay afloat for so long. Eventually there was no money left to invest and nothing was being returned because the investments were so bad. Investors learned what was happening and devalued the stock as Enron declared the largest bankruptcy in U.S. history (Stewart, June 2006).

Enron Conclusions

Unquestionably, the character of Enron's leadership played a role in its collapse. However, it was the entire management system, which focused the company so intently on earnings that provided the temptation and incentive to make bad decisions. Managers knowingly pushed bad investments for their own benefit because of the existing culture. To protect against a misguided system like Enron's, EVA teaches managers there are only three ways to create value. The first is to increase the return of the company's current assets by operating more efficiently without spending more capital. The use of more capital on existing ventures often negates any efficiency gained. The second way is investing new capital and growing the business, as long as returns are greater than the cost of capital. As Enron demonstrates, making low-return investments destroys a firm's capital position and future earnings. Finally, companies can increase value by freeing up capital by selling assets that are worth more to others than to themselves. There is no need for a company to hold assets that can be better utilized by someone else. By not doing so, assets are not used efficiently and companies often miss other opportunities to obtain better assets that bring higher returns. Management systems focused on areas other than these three will not create value for the firm and will hinder a company's long-term success (Stern Stewart & Company, n.d.).

Motivation

The third part of the EVA approach is Motivation (Stern Stewart & Company, n.d., ¶ 7). As shown in the Enron study, linking bonuses and reward systems to earnings is not a wise strategy. Most managers will never act illegally or intentionally do things to harm their company; nonetheless, such reward systems provide incentives to make decisions counter to the company's best interest. Even if approached with good intentions, managers still might sacrifice long-term results for short-term gains. Instead, compensation and incentive plans should be based on the value managers create for shareholders, and there should be no limit on how much can be earned. The more value managers create for the company, the bigger their reward should be. Shareholders will also be content, because they will know any increase in compensation has been more than offset by the value created: "In fact, under EVA, the greater the bonus for managers, the happier shareholders will be" (Stern Stewart & Company, n.d. ¶ 7). The Stern Stewart model for incentive plans makes two major changes to today's average corporate incentive plan.

No Negotiation. First, EVA changes the focus of reward systems from a negotiation act to a truly motivating system. Traditionally, managers receive a bonus for meeting a sales target or beating a budget. In either case, those targets are usually pre-defined at the beginning of the year, and a manager's biggest incentive is to negotiate targets he can easily meet. The goal is then met and the manager gets his bonus. In addition, if the bonus is the same each year or limited to a certain amount, then the manager has even more of an incentive to just barely beat his targets. If the manager beats the targets by a lot, then he or she risks having his expectations raised the following year, making the same bonus harder to achieve. EVA bonus systems, however, take negotiation out of the system and replace it with a strong incentive to perform better (Stern Stewart & Company, n.d.).

With EVA, bonus targets automatically reset according to the EVA formula:

$$\text{Bonus} = K_1\,[EVA_t - EVA_{t-1}] + K_2\,[EVA_t]$$

$$K_1, K_2 = \text{constant percentages and } K_1 >> K_2$$

According to the equation, managers receive a constant percentage (K) of the change in EVA ($EVA_t - EVA_{t-1}$) and also a percentage of total EVA ($K_2\,[EVA_t]$). The second part is only earned once EVA becomes positive, and in effect measures the sustainability of value created. Therefore, managers can still be rewarded for creating value, even if a company's overall EVA is not yet positive. However, once the total EVA does become positive, managers have even more incentive to perform. This part of the equation encourages managers to make decisions that are beneficial for the entire company, not just his or her department. The more positive overall EVA is and the bigger the change from year to year, the larger the bonus will be. Bonuses are determined entirely by how hard they work, and there is no limit as to how high the rewards can go. Thus, EVA managers are strongly motivated to create more and more value for the shareholder year after year. If accomplished, then the manager gets rewarded very well for his or her efforts but can still do better the next year (Kudla, 2000).

Negative Bonuses. Secondly, EVA changes the way bonuses are distributed. Instead of issuing the full amount at the end of the year, EVA encourages storing portions earned for several years to make sure that EVA improvements are sustainable. Therefore managers are not rewarded for short-term value created. Due to this feature, managers could potentially have negative bonus earnings in a year where EVA dropped significantly. Managers should have incentives to go for big projects, ones that will add long-term, sustainable value to the company. If rewards are given for short-term successes as in traditional systems, most managers will lose focus on creating lasting value: "The EVA result is annual budgets that are driven by aggressive strategy instead of strategy that is constrained by modest budgets" (Stern Stewart & Company, n.d. ¶ 8).

Mindset

The final component of the EVA framework is recreating the corporate mindset. However, truly changing the way managers think and operate is not an easy task. A lot of time and effort must be spent to ingrain the EVA systems into a company culture. While measurements, management systems, and motivation techniques are the tools EVA uses, the real goal is accomplished when people change their perspective and discover the need for what they are doing.

Implementing EVA. To fully ingrain EVA into a company's culture and maximize effectiveness, it must be the central focus of the business. To do that, a number of steps must be taken. First, upper managers must stand strongly behind the change. A solid commitment from senior management is vital for successful integration and implementation of EVA programs: "Without management buy-in, employees may view the program as just another temporary corporate trend" (Kudla, 2000, p. 2). Secondly, EVA must be the dominant measurement system and not just added to others: "Because EVA is a measure of total factor productivity, it can and should supersede other financial and operating measures, resulting in a hierarchical as opposed to a 'balanced' scorecard" (Stern Stewart & Company, n.d. ¶ 11). Thirdly, EVA must influence decision making. The mindset of increasing shareholder wealth with every decision will not take hold unless routinely practiced. Lastly, the implementation process must be given time. Depending on the size of the company, the full integration period may take several years, and the actual start of wealth creation may take even longer. The timing also depends on how wide the implementation process is. Some companies do not have the money or resources to implement EVA across the entire company. A company-wide plan also requires a significant amount of training throughout the organization:

> Even when finances are not at issue, educating and training employees on the concepts of EVA is a formidable task. Employees must understand how they influence EVA through their actions. Key value drivers need to be identified at all organizational levels…After the program is implemented, the company must commit to continuous training to ensure that employees stay up to speed. (Kudla, 2000, p. 3)

Implementing the EVA system is not an easy task; however, the results of doing so make it a worthwhile process.

Results. Once the EVA system has been successfully integrated, the culture of a company may be expected to change dramatically. All sections of the business will be united under a common goal, and departments that normally compete become much more cooperative because the system of competition is no longer in place. Strategic planning and budgeting become friendlier to the operating side of the business because EVA replaces the standard budget controlling environment. Decision making becomes decentralized, giving managers at all levels the responsibility for creating value: "The EVA framework is, in effect, a system of internal corporate governance that automatically guides all managers and employees and propels them to work for the best interest of the owners" (Stern Stewart & Company, n.d. ¶ 10). Employees are then poised to produce incredible results that bring great rewards to both them and the shareholders.

Market EVA

A thorough discussion has been presented on the structure and goals of EVA, but how does EVA translate into the real marketplace? How does the increased value that EVA produces for shareholders actually get to the shareholders? One method is by natural stock appreciation. If a company performs well by EVA standards, it will almost always translate into higher performance on the income statement. However, another method is through EVA's close relative, Market Value Added (MVA). EVA and MVA are inseparably linked, but they are two separate measurements.

EVA vs. MVA. In a basic sense, MVA shows how the marketplace thinks about EVA. Shawn Tully (1994) of *Fortune* magazine describes MVA as follows:

> Related to MVA, EVA measures the wealth a company creates each year. It is defined as net income from operations, less the cost of capital needed to produce that income. Think of MVA as the value the market places on the future stream of annual EVAs. Generating big, positive EVA year after year is the key to enriching investors. (¶ 10)

In another article, Tully (1998) says MVA is "the market's reward for strong growth…the premium the market awards a company over and above the money investors have put into it, based on the market's expectations of future EVAs" (¶ 12).

Although EVA in effect determines MVA, the two do not always seem in sync. A study conducted in 2000 of the 50 top wealth creators showed that most of the time there is a positive relationship between EVA and MVA. When the EVA-to-capital ratio is up, then the MVA-to-capital ratio is also up. If EVA is down, then MVA usually follows (Abate, Grant, & Stewart, 2004).

Nevertheless, this is not always the case. Sometimes one can be negative while the other is positive. One can be going up while the other is going down. The key phrase in Tully's definition above is *future EVAs,* and it also depends on the industry. In 1993, Exxon and Mobile had incredibly strong MVAs and yet severely negative EVAs. The reason was that both of them had huge gas reserves that took up massive amounts of capital. However, the markets fully expected the capital to appreciate and produce massive earnings in the future. Likewise, GE had an EVA of only 1% of its MVA, clearly indicating that the markets expected huge returns in the years to come. On the other hand, pharmaceutical companies showed the opposite in 1993. They posted huge EVA gains and yet their MVA fell. Although conditions were good currently, the market expected competition to increase and cut future EVAs (Tully, 1994).

Power of MVA. MVA is a powerful tool for comparing company performance and predicting what future performance will be. Coca-Cola and PepsiCo serve as good examples. In 1993 Pepsi looked very successful. The company had increased sales by 102% since 1988 and had annual revenues of $25 billion. Pepsi's earnings per share had jumped 73% in five years, which was more than Coke's. In contrast, Coke had increased its sales by only 73% and had annual revenues of $14 billion. The difference between the two was that Coke's MVA was $53 billion, more than double Pepsi's $22 billion. It took Pepsi $20 billion in capital to produce its gains; however, it took Coke only $7.9 billion to produce its gains. MVA shows that Coke used its assets much more efficiently than Pepsi and produced more wealth for shareholders. Therefore the market had faith in Coke to continue its outstanding performance, whereas the market did not expect much from Pepsi (Tully, 1994).

Measuring MVA. MVA is calculated by adding a company's debt and market value of stock, and then subtracting the amount of capital that was invested. The result shows how much wealth has been created or destroyed (Tully, 1994). Companies that consistently create wealth are usually rewarded by the market, even if their current EVA happens to be negative. However, companies that often destroy wealth will not be rewarded, even if they have a good EVA at times. Investors then have a good idea of where the stock price will go and make good investments (Abate, Grant, & Stewart, 2004).

EVA Results

No study of EVA would be complete without looking at the results of companies that have put EVA into practice. Without strong results, EVA is just another business theory. However, the power of EVA is not in its theory but in the results it produces. In addition to better market performance, almost all EVA companies receive some intangible benefits such as improved decision making, better communication from managers and improved strategic planning (Tejpavan, & Kulkarni, 2005).

EVA vs. Market. EVA's goal of maximizing shareholder wealth is directly shown by the stock returns that most EVA companies receive compared to competitors in their respective markets and the market in general. In an unpublished Stern Stewart study, 67 of their clients were compared to the general market. The companies selected had to have been in the EVA program at least 5 years, and were selected to include a wide range of industries. Each company was then compared to the top ten competitors in its respective industry that had the closest market capital. In the first 5 years of using EVA, Stern Stewart clients returned average annual gains of 21.8%, whereas the competitor group averaged annual returns of only 13% (Tully, March 1999). From March 24, 2000 to the mid point of 2002, Stern Stewart's EVA companies earned a total return of 36.5% while beating the S&P 500 by 69.8%. In firms that adopted the EVA system totally for decisions and performance measures the returns were even greater. These companies' stocks returned a total of 64.5% and beat the S&P 500 by 91.3% (Stewart, Ellis, & Budington, 2002). Though not all EVA companies experience such high returns, the above statistics show that on average they perform much better than the market.

No Boundaries. EVA is not limited to certain industries or areas of business. Companies of all models have adopted EVA and experienced exceptional performance. A major retailer, Best Buy adopted EVA in January of 1998. From 1998 through 2002 the company averaged an annualized return of 39.1%, whereas its competitors only returned an average of 10.4% to shareholders. In the pharmaceuticals industry, Bradley Pharmaceuticals returned annualized returns of 62.2% since adopting EVA in 1998. Its peers, however, on average lost value with a return of -0.2%. In the banking industry, Centura Banks started EVA in 1994 and through 2002 returned an average of 32.3% each year, whereas its peers averaged only 2.0%. In manufacturing, SPX Corporation adopted EVA in 1995. From then its stock returned an average of 14.2% each year through 2002 while its closest competitors only increased 2.1%. Finally, in the brewing industry, Molson returned an average of 39.3% each year from 1999 to 2002 (Stewart, Ellis, & Budington, 2002). EVA has also worked well in other countries and cultures. In Southeast Asia and India, EVA clients created approximately $11.6 billion more than their respective markets from 2001-2004. In the same period, Indian clients averaged around 72% each year while their market, the BSE 100 index, averaged 22%. The South East Asia clients also performed 12% better than their respective market (Tejpavan & Kulkarni, 2005).

Culture Change. EVA also claims to change a company's culture and business style when implemented completely. While it might not work for all businesses and certainly depends on the managers leading the company, the following example shows how EVA can shape company culture. In the late 1990s Rackspace was just one of many small internet hosting companies. After experiencing great success the first couple of years, the technology market crashed in 2000 and the company barely had enough money to survive. After dramatically cutting cost and developing a plan to expand the business very slowly, the managers kept the company alive and in 2002 implemented the EVA formula in all parts of the business. From then on the company as a whole was focused on making a true economic profit, not just expanding like many of the competitors were doing. In 2003 the company started a new program that soon began growing rapidly. It eventually earned $600,000 a month in new revenue and $150,000 in cash flow. However, in reality the program was returning only a minimal amount on its capital and the CEO decided to sell it. In 2005 Morgan Stanley approached Rackspace about a deal to host all of its data. The deal would have generated a guaranteed $20 million in revenues over two years and also established Rackspace as a major hosting service. However, Rackspace had set its cost of capital at 15% and decided not to invest in projects that returned less than that amount. Although the deal with Morgan Stanley looked very promising, after all costs were considered it was discovered that the deal would only return around 10% or less on its capital and thus Rackspace did not make the deal. For any company to make decisions such as these, great discipline is required. The message of EVA has penetrated the entire company, and everyone from the CEO to the front line focuses on earning a true profit. While not a public company, the discipline has paid off and Rackspace is returning tremendous value to its private investors. The company had revenues of $140 million in 2005 and is expected to break $200 million in 2006. It has major clients such as Motorola, Isuzu, and Hershey and is positioned to become the second largest U.S. hosting company in the next several years. Without the discipline and focus that EVA brought to the company culture, it is doubtful that Rackspace would be in its current position. When used correctly, EVA can be a powerful tool for changing a company's focus and producing tremendous financial results (Gray, 2006).

Conclusion

While first and foremost a measure of performance, EVA is much more. As Al Ehrbar (1998) states in his detailed book *EVA: The Real Key to Creating Wealth*:

> It is the framework for a complete financial management and incentive compensation system that can guide every decision a company makes, from the boardroom to the shop floor; that can transform a corporate culture; that can improve the working lives of everyone in an organization by making them more successful; and that can help them produce greater wealth for shareholders, customers, and themselves. (pp. 1-2)

Anyone can benefit from applying EVA. It helps business leaders focus on and prioritize what really needs to be done to create wealth and helps investors and stakeholders determine whether or not a company is following through with its mandate of creating shareholder value. Though the principles of EVA are not new nor are they always easy to follow, they are critical for any business that wants to achieve long-term success and maximize the amount of wealth created. EVA is a powerful business tool which, if used correctly, promises to improve company performance and produce greater returns to shareholders.

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Impact of Culture on Business Management: China

by

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This paper examines how culture impacts the business environment in China. Specifically it will examine certain items such as: guanxi and the important role it plays in business relations; the impact of education and other factors inherent in Chinese culture on the workforce; the impact of government involvement; and the role of personality traits and cultural ethics on business. It will further compare business in China with business in the United States, and examine the major differences and the implications that Chinese culture has for U.S. companies conducting business with China. The paper concludes with an integration of faith and learning, specifically implications for the Christian conducting business in China.

Introduction

This paper focuses on five elements that have been identified as being of singular importance in Chinese culture: Guanxi, the Chinese workforce, government involvement in business, personality traits, and ethical standards. The first section of this paper will seek to define these elements and tell of the importance of them in Chinese culture. The second section of this paper will focus on these elements as they are integrated into how business is conducted in China. The third section of this paper will compare and contrats these cultural elements with culture in the United States. The fourth section of this paper will discuss the impact these cultural elements may have upon U.S. businesses seeking to conduct business in or with China. The paper concludes with a section that integrates faith with learning.

Major Elements and Dimensions of Culture

Guanxi. In the People's Republic of China, the success of a business often depends on a concept known as guanxi. According to Dahles (2005), "Guanxi is a strategy to establish rapport with (potential) business partners…[and] is based in personal relationships that emphasize commonalities and similarities" (p. 56). These relationships may be the sharing of ethnicity or memberships in social organizations, living within close proximity of each other, attending the same university, etc. The concept of guanxi is often referred to simply as trust, but it is more than trust. It carries the idea of connectedness. Carlisle & Flynn (2005) stated that guanxi "can be measured by the accumulation of social capital… [and] the sum of this social capital accumulation results in, potentially, the achievement of legitimacy" (p.83). They further defined social capital as goodwill brought about by the social relationship that can then be used by the person with guanxi. For example, two people working together who discover they grew up in the same neighborhood connect with each other based on this geographic reality. Thus, guanxi exists. Now one of those two may ask the other for a favor based upon that social capital. The more guanxi they establish with each other, the more capital they accumulate, and the more may be asked of one by the other.

To the Chinese, "social relations are accorded great significance, and relationships are often seen as ends in themselves rather than means for realizing individual goals" (Farh, Tsui, Xin & Cheng, 1998, p. 473). Farh et al. further stated that the Chinese tend to categorize people and treat them accordingly, stemming from the culture of Confucianism, and this is why guanxi is so very important in Chinese society. In other words, one will likely be treated according to his guanxi! Later in this paper, the role guanxi plays in Chinese business culture will be discussed, along with how the accumulation of social capital leads to legitimacy or the acceptance of an organization by its environment.

The Workforce . The history of China's economic behavior has experienced a rapid growth of change for its social culture and has moved in a promising direction by improving its workforce. A substantial change has been established within the training and education systems of China. The educational systems in China have grown and provide many job opportunities for entry level and white-collar workers. China has struggled with being able to accommodate mid to senior level managers; however, the increase in advancement of blue-collar workers has had a positive impact. These issues are known within the workforce causing the Chinese to seek guidance to resolve any broken barriers. This will ensure organizations can expand opportunities for future employment in China.

The impact of these changes on Chinese culture has been positive for both men and women within China. Human rights advancements have begun to afford more opportunities for women in the workforce and equal opportunities for jobs traditionally held by men. In the past, discrimination practices have held back women in the workforce in China. Women's rights have begun to take hold in the corporate world, and Chinese women have proven they can work and support their families at the same time. " 'Whatever a man can do, a woman can do' has become a governing idea throughout the Cultural Revolution period" (Turner, 2006, p. 49).

Government Involvement. The third major element and dimension to culture in the People's Republic of China is governmental involvement in Chinese society. While much progress has been made in China during the past twenty years to move the economy towards a quasi free-market economy, the People's Republic of China is still a centrally planned communist government. The Chinese people have a very rich history and culture, but like in the Middle East, the United States, and most everywhere else in the world, cultural development and norms are impacted when outside influences or constraints are put on them. These global pressures will also have a significant impact in the People's Republic of China.

The communist government in the People's Republic of China is influential in several key areas related to culture in Chinese society. The Chinese government and communist party maintain control over media and the Internet in China. Recently the government has been encouraging renewed nationalism among the Chinese people in an effort to reinforce their existing position of control (Harding, 2007, p. 27, 30). There has been a continued blending of the media and the Internet. Many news media outlets have shifted much of their sources and content to an online format. This helps to compete with individuals who have become pseudo Internet journalists reporting the news of the world as they see it on web logs or blogs. The fact that the Chinese communist party controls these two major sources of cultural influence should suggest an obvious impact on culture in China. Both sources are primarily censored, filtered, or controlled to squelch information that does not meet the criteria of the communist party, especially anything critical of or against the party.

While nationalism is touched on elsewhere in this paper, nationalism is also related to government control and its impact on Chinese culture. Harding (2007) posited, "The Chinese Communist Party, whose ideological appeal began to erode in the 1980's, has been encouraging nationalism as a source of legitimacy" (p. 30). At the same time the Chinese communist party realizes that it needs to balance nationalism as a source of domestic and party legitimacy against the concern and mistrust that this type of nationalism causes abroad, especially with businesses considering investment or entry in to Chinese markets.

Personality traits. The fourth major element of Chinese culture to be discussed is personality traits. Personality traits differ between cultures. Many studies have been completed on these traits based on the country and background of individuals. The Chinese culture has strong traditions based in Confucianism and Taoism. Although there are many personality traits that affect the overall culture of China, this paper discusses face, group orientation, and indirectness as three major elements in the Chinese culture.

Saving face is the motivation that keeps Chinese from suffering public embarrassment (Trombly & Yu, 2006, p. 13). Affording individuals the opportunity to keep personal mistakes hidden is an important concept in the Chinese culture. Face goes beyond public embarrassment in this culture. Face relates to the social status of individuals (Cardon & Scott, 2003, p. 10). The ability to have an esteemed public image is important in the Chinese culture. This social status is a precious personal commodity that is highly valued and protected.

The Chinese culture is high on in-group collectivism (Javidan, Dorfman, De Luque & Housel, 2006, p. 83). This in-group collectivism has deep roots in the Confucius doctrine that has been taught in China (Graham & Lam, 2003, p. 84). This orientation is reflected in respect of family elders, government officials, and other high-ranking individuals. The Chinese do not view global outlooks or selfish views as desirable traits. Making decisions that affect the immediate group in a positive manner is very important.

Indirectness was taught in both Taoism and Confucianism. Lao Tsu, the founder of Taoism, taught that finding the way is more important the finding the truth (Graham & Lam, 2003, p. 84). Indirectness allows people to increase both guanxi and face. Indirect communication allows Chinese to save face and continue building relationships. Indirectness is incorporated into the culture using language and parables in the personal interactions of the Chinese.

Ethical standards. When understanding a country's culture, one must understand how that society views ethics. These ethical standards are a framework or boundaries of how life, business and relationships are conducted. What is deemed acceptable in one country might be considered questionable in another. China is no exception. Three areas where this is observed in China are in the areas of bribery, gift giving and nationalism.

Bribery in China is common practice both in government and in private industry. In China bribery is called "facilitation payments" (Pedersen, 2006, p. 32). Gift giving is the practice of a kickback or gift to get favor. One should not overlook the role of nationalism in Chinese culture. An American oil company deciding to conduct business within China will quickly find out that all documents are in Chinese, not English. Where countries like Singapore conduct business in English for a global market, in China it is Chinese, (Soon, 2003, p. 10).

Integration of Culture by Chinese into Business

As is true in all countries, the culture in China is integrated into every aspect of life, including business. Having now defined and discussed these five major elements of Chinese culture, the role these elements play in Chinese business will now be discussed. The cultural influences in China have a significant impact on the business relationships of the Chinese.

Guanxi

In China, guanxi runs deep in business affairs. According to Bell, "the mere existence of a business relationship does not insure the accumulation of social capital" (as quoted in Carlisle & Flynn, 2005, p. 87). This is where guanxi comes into play. Guanxi is used to "obtain resources, information and support in business situations" (Farh et al., 1998, p. 474). According to Graham and Lam (2003), "the Chinese trust in only two things: their families and their bank accounts" (p. 3). While this statement may be a bit exaggerated, it does drive home the point that trust is not easily given by the Chinese. It must be achieved through guanxi, whether that is through family or another venue of connectedness.

According to Tsang, "the guanxi possessed by members of an organization are part of the organization's human capital… and becomes a popular way to solicit favors from the authorities who have control over scarce resources" (as quoted in Carlisle & Flynn, 2005, p. 83). Given the significant impact of politics and government on business in China, guanxi is necessary for survival in China. Guanxi also influences management decisions inside an organization, not just in dealings with suppliers and other organizations. Positions may be filled based on the amount of guanxi people have instead of the qualifications the individuals may have.

Legitimacy is the acceptance of an organization by its environment and is necessary for survival (Carlisle & Flynn, 2005, p. 87). Legitimacy is achieved through guanxi. Since larger firms have more employees, inherently it has more collective guanxi. Smaller firms, due to fewer employees, must work significantly harder to achieve social capital and thus legitimacy, which increases the chance of survival of the organization.

The Workforce

encouraged the Chinese people to seek higher education and training to meet the demands of the consumers and of the United States. The Chinese enterprise has realized that developing advanced corporate culture within the organization will allow competition in the international market. To meet the requirements of the global economy and the domestic needs for qualified employees, the Chinese economy has given women the chance to prove their own individuality as business people and choose their own industry in which to work. "Resources can at best label a temporary competitive advantage, whereas an immobile resource may eventually help achieve sustainable competitive advantage" (He, 2004, p.158).

Government Involvement. The government has historically maintained a significant role in Chinese businesses. The foundation of China's governmental influence on business in China has been through state run enterprises that are an element of China's centrally planned communist government. Due to reforms introduced by Deng Xiaoping in 1978, which began making headway in the 1980's, China has seen a dramatic shift away from state owned enterprises to collectively owned or privately owned enterprises (Ding, Ge & Warner, 2004, p. 836). In 1978, the old Maoist regime still had a firm hold in the remaining command economy with 77 percent of China's gross industrial economic output coming from state owned enterprises. Since that time the pendulum has shifted with the state owned enterprises now comprising 20 percent of industrial economic output (Ding et al., 2004, p. 836). These non state enterprises have greatly out produced their state owned counterparts and have substantially contributed to the economy and emerging prosperity in China (Ding et al., 2004, p. 836). While the Chinese government still exerts its influence over Chinese culture and business through state run enterprises, the trend is shifting, and its lack of direct involvement in collectively owned or private enterprises seems to be a better influence on industrial economic output.

Personality traits. Personality traits of the Chinese also influence the business environment. One of these traits is saving face. This trait is integrated into Chinese business in many different ways. According to Cardon & Scott (2003), face can be lost by "directly addressing conflict, demonstrating public displays of anger, directly refusing requests, not meeting requests, behaving aggressively and arrogantly, making direct and public criticism of others, and not appropriately treating the status of others" (p. 14). Managers are judged on this trait and rewarded or punished based on their ability to allow other people to save face.

In addition to saving face, the Chinese have a high tendency toward in-group orientation. This orientation is shown in Chinese businesses through leaders that can develop relationships with subordinates. Managers need to build trust with direct reports by taking care of not only the employee, but also his or her families. The teachings of Confucianism highlight that the manager is viewed as a father figure rather than an employer. Chinese managers that can effectively handle this high in-group orientation trait will have dedicated employees that have strong relationships within the group (Javidan et al., 2006, pp. 82 -83).

In-group orientation and saving face help foster indirect communication. Indirectness is a requirement of business in China. Seldom will a person hear a direct rejection of a request, or a direct reprimand when someone does wrong (Cardon & Scott, 2003, p. 15). This high level of indirectness is effective in all aspects of business interactions because it can allow a person to give face and build guanxi with other individuals. Being direct is not an option for Chinese business people.

Ethical standards. Business cannot be conducted in a cultural vacuum. A country's culture can mold all various aspects of everyday life and institutions. The framework or ethics of a country create boundaries in which business can be transacted. In China, some of these boundaries can be stretched past what is considered by the U.S. and western countries as normal. Chinese culture cannot be pinpointed as the only reason for these ethical dilemmas in business. Singapore is similar in culture to China. While China is considered a very corrupt country, Singapore is considered one of the least corrupt nations in the world (Soon, 2003, p. 9). The concept of business ethics is new to China as it is a new economy that is judging people by how much money they have and not judging them on how they earn it (Hoenig, 2006, p. 18). Though bribery and gift giving are still continuing, there are signs that those doing business in cities like Shanghai and Bangkok are being pressured from outside influences to start moving towards more western ideals (Pedersen, 2006, p. 33).

Comparison of Chinese Culture to U.S. Culture. These five key cultural influences are keys to understanding the Chinese people. As business people have a tendency to adopt cultural norms and standards, these influences are integrating into the business practices in China. However, this culture differs immensely from culture in the United States. The foundational principles of the two countries have caused American businesses and Chinese businesses to have surprisingly different operational characteristics.

Guanxi. Guanxi is a component of the Chinese business environment that differs from the United States business environment.

> In the United States, we tend to trust others until or unless we're given reason not to. In China, suspicion and distrust characterize all meetings with strangers… [and] trust can't be earned because business relationships can't even be formed without it. Instead, trust must be transmitted via guanxi (Graham & Lam, 2003, p. 4).

This statement highlights the importance of guanxi in doing business in China; however, in the United States, trust is established based on "calculation of economic costs and benefits and on shared business strategies and management styles," (Dahles, 2005, p. 45) rather than through guanxi. Furthermore, such affection-based trust, or guanxi, is deemed quite unprofessional in America (Dahles, 2005, p. 45).

The Workforce. The United States has impacted Chinese society by improving the morale of the workforce and by improving

China's environmental conditions. The impact of U.S. companies setting up operations in China has been to bring a high standard of ethical practices, education and training to China's workforce while enhancing the social behaviors between the two countries. Social behavioral practices have shaped the way the U.S. and China will run community factories as enterprise companies and can be related to the employees. "Another reason for the greater number of permanent employees in the public sector is that accommodation is supplied to employees as part of the enterprise's welfare benefits" (Zhu, 2002, p. 591). Companies within the U.S. set a positive relationship that adhere to a company's overall mission for business and allow the increase of social norms within the Chinese society. Many of these practices have been documented and adopted by organizational enterprises within China.

American and Chinese companies have established international business relationships that are implemented and operated through trading agreements. American companies are pursuing Chinese companies in order to increase business between the two countries. Trading agreements will identify continued advancements in China regarding health, employee rights, and job advancements as business continues to increase between the U.S. and China. "Chinese business contacts are always keen to create relationships with people, not job titles" (Zhang, 2006, p. 48). The business relationship between the U.S. and China will not focus on corporation titles; the focus will gear more towards performance evaluations of employee's job duties.

Government Involvement. One of the main differences between the United States and China is government involvement. While it cannot be said that political influence and governmental control are non-existent in the United States, there are significant differences from China. In China, the government has direct control over the media and Internet. This is not the case in the United States where constitutional amendments protect the openness of these cultural influences. In China, the communist party has direct influence over business in terms of its state run enterprises and its uneven regulation of business in general. In the United States, the government exercises its indirect control over business through regulation that centers on overall economic stability. Examples include anti-trust regulations that attempt to ensure that no single business can unfairly corner the market in a given segment, and the Sarbanes-Oxley act that attempts to ensure that companies adhere to a whole host of standards involving corporate governance and accounting standards (Hoenig, 2006, p. 18).

A major difference between government involvement in China and the U.S. is China's communist centrally planned economy versus capitalism. As has been previously discussed, China has a long legacy of state run enterprises controlled and managed by China's government (Ding et al., 2004, p. 836). The United States is popularly known to have a capitalist, market-based economy that is run by non-state oriented enterprises, with relatively light regulation or direct involvement compared to China. While no economic system is perfect and free of negatives or downsides, the historical success of the U.S. economy, and the shift away from state run enterprises in China that was discussed earlier, seems to be indicative of the overall merits of the capitalist economic system versus communism.

Personality traits. Relating closely to guanxi, the ability to save face is one area in which the Chinese culture differs from U.S. culture. Displaying anger, not meeting requests, being aggressive, and open criticism will cause Chinese business people to lose face (Cardon & Scott, 2003, p.14). Handling confrontation aggressively can be considered a good trait in the American businesses. Sometimes anger is displayed in dealing with subordinates or business partners in the United States; however, these types of actions cause a person to lose face in the Chinese culture, which may take much effort to regain.

Another trait that differs between the Chinese and American business people is group orientation. American business people value individualism and self-directed behaviors. On the contrary, Chinese business people favor group harmony and group directed behaviors. This orientation tends to lead to a more hierarchical corporate structure with managers being more authoritative and employees being more obedient than their American counterparts (Javidan et al., 2006, pp. 82-83).

Because guanxi and saving face are not deemed important in the United States, American business people are valued for their ability to be direct. The acquired outcome is highly important in American businesses. Completing assignments and solving issues quickly and efficiently require directness. As mentioned earlier in this paper, the Chinese place more value on the process than on the goal. Being overly direct contradicts the fundamental teachings of Taoism and Confucianism, and contradicts both principles of guanxi and face in the Chinese culture.

Ethical standards. Since the reform and open door policies instituted by Deng Xiaoping in 1978, China has been on the fast track of economic growth (Renjun, 2005, p. 69). As economies become more integrated like the U.S. and China, ethical issues will arise. "Individuals in different cultural settings will exhibit different patterns of changes in ethical judgment in reaction to ethical dilemmas" (Soon, 2003, p. 8). Chinese ethical standards are at times at odds with the U.S. culture. Before comparing one must understand that the U.S. culture, like the Chinese culture, is fluid. It is changing. There is sometimes a big difference between the ideal and what is real when it comes to ethics in both countries. America's Judeo-Christian heritage has been the prevailing framework of ethics in America; although, it has been fading in influence. China doesn't have this Judeo-Christian framework. They have other ideals based on Confucianism and Taoism and a worldview void of the concept of God. This fundamental difference creates many differences in the societal ethics of these two countries.

Culture in the U.S. values the rule of law and sees bribery as illegal and gift giving as unethical. The U.S. has laws and regulations regarding such practices. Examples are the Foreign Corrupt Practices Act and the Sarbanes-Oxley Act. These acts put penalties in place for companies that violate ethical standards (Pederson, 2006, p. 34). China has also made regulations, but it has been harder to implement these new regulations, especially in areas removed from urban centers.

When it comes to ethics, China is at odds with U.S. cultural ideals, but in practice both countries have their struggles with implementation of needed reforms. Both countries are on an ethics journey. China has made progress over the past fifteen years (Pedersen, 2006, p. 34). Though the U.S. might be farther ahead on the road of progress, both countries are striving to improve ethical standards in business.

Implications for U.S. companies conducting business in China

The differences between U.S. and Chinese companies can cause many different problems. The cultures of the two countries are vastly different and consequently, business is conducted differently. Because of this, American business people should have an understanding of the cultural effects on business dealings in China. A United States businessperson dealing with the Chinese should keep these differences in mind. Understanding and accepting Chinese culture can have significant rewards for the U.S. businessperson.

Understand the importance of guanxi. While it may appear to the American businessperson that the relationship driven business culture of the Chinese is unfair based upon Western ideas of proper business conduct, guanxi must not be ignored. Instead, to be successful, Americans must learn to use guanxi to their advantage when conducting business with the Chinese. They should seek diligently to establish relationships based upon similar interests, hobbies, or other commonalities. However, only after a relationship has been established should business be addressed. Do not rush into business, as Americans tend to do, since this may cause distrust with the Chinese.

Understand the differences between the workforces. The National Foreign Trade Council (NFTC) is an organization that provides services to help guide countries that set up businesses to sell or trade products with other countries. This service requires a great deal of analyzing of the economic system. "The ideal expatriate should possess sound technical expertise, and have the right personality; they need to be flexible, persistent, optimistic and tolerant of living and working conditions in China" (Gamble, 2000, p. 899). Human Resources (HR) representatives for the NFTC assess each country's economic value to understand the needs that will be required for doing business with other countries.

The foreign trade organizations of China invest in hiring government employees that help establish critical decision that rely on how the NFTC conducts government business between the U.S. and China. The NFTC works with the HR representative to assist in setting forth policies and procedures that gain trust from employees in the China Union. The government agencies create guidelines that spell out the benefits that are similar to the U.S. standards under labor laws. Employee allowances, insurance, medical benefits, and retirement benefits are some of these benefits for the Chinese created by this interaction.

Similar employee benefits and privileges reduce employment risk and allow for more successful trading between the U.S. and China. Equal opportunity organizations increase the chance of maintaining a more effective working environment for conducting business trade for China and the United States.

Prepare for government involvement. American companies preparing to do business in China must prepare for Chinese government involvement. According to Betser and Fraser (2006), "China is a fast-moving economy but it is also highly regulated. New rules can be introduced within a short period of time. To keep up and be able to anticipate these changes is important" (p. 49). Regulatory risks are high in China and interpretation of the People's Republic of China's regulations can vary from place to place. This is an aspect of doing business in China that U.S. businesses must consider due to the increased risks and also the increased costs of having to consult with all relevant authorities on regulatory matters.

United States companies should also be familiar with Chinese government regulations related to intellectual property rights, contractual matters, banking regulations, and safety issues (Betser & Fraser, 2006, p. 49). Corruption is also an issue of consideration for U.S. businesses planning to do business in China. While not limited to government officials, corruption is widespread in China and cannot be entirely avoided. U.S. businesses need to be prepared to address corruption with internal controls and ethics policies (Hoenig, 2006, p. 20).

Do not expect Chinese citizens to behave with the same personality traits as Americans. United States companies should be mindful of the differences in personality traits between the U.S. and China. In the U.S., business is considered separate from personal. However, in China, business transactions are intertwined with personal issues. Violating any of these traditional values may have serious consequences. Being direct or causing someone to lose face in China may end the relationship with that person, regardless of the amount of time invested. Taking the time to understand the fundamental differences between these cultures may have great rewards for the U.S. businessperson conducting transactions with the Chinese. Building guanxi and giving face through patience and understanding will have long-term benefits that will aid a U.S. businessperson well in many of the dealings with Chinese companies.

Be careful to adhere to U.S. ethical standards while doing business in China. Entities in the U.S. desiring to conduct business in China must realize that they, by law, must adhere to U.S. ethical standards. These companies must adapt and be well informed about Chinese business practices and ethics without personally crossing the ethics line defined by U.S. regulations. Managers of U.S. firms need to realize that in order to adhere to the ethical standards of the U.S. there will be added expenses in getting things done when dealing with the business environment in China. Without bribery and gift giving, there may be more red tape.

This paper has discussed at length five elements of Chinese culture deemed to be of importance for American businesspeople desiring to conduct business with the Chinese. These five elements were identified as: guanxi, the Chinese workforce, government involvement, personality traits, and ethical standards. Clearly a giant cultural gap exists between the U.S. and China. However, in light of the ever-increasing number of business transactions between the two countries, it is obvious that this gap must be navigated carefully with wisdom, patience, and discretion, especially on the part of Americans. American businesspeople should take time to learn the intricacies of Chinese culture and use this knowledge to establish profitable relationships. To ignore this fact would be a grave mistake given the amount of capital invested by the U.S. in China. An American businessperson, armed with adequate knowledge of Chinese culture and the wisdom to use this knowledge accordingly, has the capacity to reap great rewards from a business partnership with the Chinese.

Integration of Faith and Learning: Implications for the Christian Business Manager

When working with the Chinese, the American Christian business manager should at the very minimum have an understanding of the most important elements of Chinese culture. Five of the most important elements of Chinese culture have been identified as: guanxi, the workforce, government involvement, personality traits and ethical standards.

It is likely that the American business manager will not have much in common with the Chinese, and thus guanxi will be very difficult to establish. However, guanxi is necessary in order to conduct business with the Chinese. Though it may be difficult, the American business manager must establish some type of relationship with the Chinese with which he is seeking to conduct business even if it is nothing more than expressing an interest in and desire to understand more about something of interest with the Chinese businessperson. For the Christian business manager, this need to establish guanxi is an excellent opportunity to discuss faith. He can express interest in the faith and religious beliefs of the Chinese with which he is conducting business, and then he will likely be given the opportunity to explain his own faith and the gospel of Jesus Christ.

Jesus told us in Matthew 5:13-15 that Believers are the salt of the earth and light of the world. Chinese culture is void of a concept of God, and God has given the Christian business manager a valuable opportunity to share the gospel to the Chinese. In 1 Corinthians 9:22, the Apostle Paul stated, "to the weak I became as weak, that I might win the weak. I have become all things to all men, that I might by all means save some" (NKJV). By stating that he became as weak to win the weak, Paul was emphasizing the need of connectedness. We humans are more likely to accept something someone tells us if the person speaking is like us. This is guanxi, and guanxi is a very important tool needed to win lost souls, especially among the Chinese. Paul also stated in 1 Corinthians 10:33 that he seeks to "please all men in all things, not seeking my own profit, but the profit of many, that they may be saved" (NKJV). Now guanxi is used to gain an advantage. Sometimes it may be used for good, like to spread the gospel of Christ, but sometimes it may be used for personal gain. The Christian business manager must keep a heavenly perspective when dealing with the Chinese, and must establish guanxi for the correct reasons - for the good of the business of course, but not ever forsaking the work of the Lord, winning souls for the Kingdom of God.

It is common practice for American businesses to send expatriates to China to manage Chinese business operations either on a permanent basis or until localization occurs. It is vitally important for the Christian business manager that is working as an expatriate in China to always reflect Christ. The workforce in China is not very advanced in comparison to the workforce in America, and frustration is likely to be a big problem for the Christian business manager; however, Colossians 3:23 should always be kept in mind: "And whatever you do, do it heartily, as to the Lord and not to men…" (NKJV). Another scripture that should be kept in mind is Colossians 4:1: "Masters, give your bondservants what is just and fair, knowing that you also have a Master in heaven" (NKJV). The Golden Rule would be particularly applicable given that the American Christian business manager would want to be treated with patience and respect if the tables were turned: "Therefore, whatever you want men to do to you, do also to them, for this is the Law and the Prophets" (Matthew 7:12, NKJV).

All governments are subject to corruption; however, corruption in the Chinese government is much more blatant than in many governments. With the Chinese government controlling many of the scarce resources in that country, bribery and gift giving are common business practices, but even a corrupt government must be respected for government was established by God. In Matthew 22:21, Jesus told us to "render therefore to Caesar the things that are Caesar's…" However, particular caution must be taken by the Christian business manager to respect the Chinese government while at the same time not being disobedient to the will of God. He should not become a participant in corrupt government practices. The Christian business manager should conduct business in such a way as to be "blameless and harmless, children of God without fault in the midst of a crooked and perverse generation among whom you shine as lights in the world…" (Philippians 2:15, NKJV).

In business, the Chinese in general conduct themselves quite differently than Americans do. In corporate America, boldness and directness are valued traits and are deemed to be effective business tools; however, the Chinese find boldness and directness quite offensive. It seems quite ironic that in America, which was founded upon Judeo-Christian principles, that American business culture embraces boldness and directness, and even aggression, while Chinese business culture embraces a softer approach. In 2 Timothy 2: 24-26, Paul stated "a servant of the Lord must not quarrel but be gentle to all, able to teach, patient, in humility correcting those who are in opposition…" (NKJV). The Christian business manager must fight his desire to be aggressive and bold and instead use a gentle and humble approach. Keeping the Golden Rule in mind will also aide in this struggle to be humble.

America was founded on Judeo-Christian principles, and these principles shaped America's ethical views. In contrast, China was not founded on Judeo-Christian principles, and as a result, the Chinese have fundamentally different ethical views than Americans. As already mentioned, corruption in China is widespread, and bribery is commonplace. It would be prudent for the Christian business manager to explain to his Chinese workforce that while such practices as bribery and gift giving are considered quite acceptable in China, in America such practices are deemed unethical. It would be prudent for the manager at this time to explain why Americans do not embrace these tactics, and this would be another excellent opportunity to expose the Chinese to the Word of God.

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An Application of the Global Industry Analysis Model: The Cocoa Industry

by
Sarah Linden and Alexandra Rose

The purpose of this paper is to provide an extended specific example for the use of the Global Industry Analysis (GIA) model. The global cocoa industry is quite similar when it comes to structure, characteristics, and issues, but depending on the region or nation, there may be minor variances in these factors. In general, the structure of the cocoa industry can be broken down into the following aspects: growing, harvesting, and processing. Most of the world's cocoa is grown in a narrow belt that is 10 degrees on either side of the Equator, and in these areas farmers face various issues, including plant diseases, a lack of relevant education, as well as unfair prices for their cocoa crop. In addition, the cocoa industry faces wage and labor issues, both of which could be settled if Biblical guidelines were followed.

Introduction

The Global Industry Analysis (GIA) model was developed by Brian Satterlee (2006) for students to use in the Liberty University undergraduate International Business specialization course entitled, "Global Industries and Operations." The two major learning outcomes for this course are: (1) gain competence in the fundamentals of global operations management, and (2) apply these fundamentals to the analysis of selected industries in terms of a bi-variate cross classification system (matrix). The following exhibit depicts the primary elements of the matrix.

Exhibit 1
The Global Industry Analysis (GIA) Model

	Global	Regional	National
Structure			
Characteristics			
Issues			

Any global industry can be described in terms of how it is structured, the unique characteristics, and the specific issues it is facing within its competitive environment. However, due to the complexities of conducting business in transnational settings and the differences in strategic intents across global regions, each of these elements must be addressed at the national, regional, and global levels of operation. The purpose of this paper is to provide an extended specific example for the use of the GIA model. The paper begins with a brief historical overview, and then proceeds to provide details for each aspect of the GIA model as it is applied in the investigation of the global Cocoa industry.

Brief Historical Background

Western history records numerous periods of trade growth, from the discovery of America by Spanish traders to the establishment of the Dutch East India Trading Company. One interesting example of global trade from that period of time involves the processing of cocoa into chocolate. Chocolate is processed from the seeds (or beans) of the Cacao tree, which grows South America and other in equatorial and tropical climate regions.

The Mayans, an indigenous people of Central America, introduced Spanish explorers of the early 16th century to Xocatl, a chocolate-type drink based on the cocoa bean. The Mayans enjoyed Xocatl for at least 2000 years before their encounter with Spanish explorers. Soon after the first taste of this delicious beverage, Spanish traders imported cocoa to various European ports, where sugar was eventually added to process hot chocolate. Originally, the Spanish processed the imported cocoa beans into various powder, butter, and liquor modalities. Later, the Netherlands became the prime processors of cocoa, with the rise and development of the West India Trading Company. Demand for the product grew in dramatic fashion, and investors expanded cacoa tree plantations into other tropical climate regions, such as Africa, the Caribbean, Hawaii, South America, and Southeast Asia. (Satterlee, 2006)

Many characteristics of the cocoa industry are similar across the globe. Cocoa is grown mostly in developing countries that lie within approximately 10 degrees on either side of the equator. In these regions, farmers begin by planting and nurturing their cacao trees with the hope of reaping a plentiful harvest. Afterwards, the harvested beans are either exported or domestically processed. Once the processing stage has converted the beans into its various forms, they are then used in a variety of products (International Cocoa Organization, 2007). Unfortunately, economic and political conditions in the majority of cocoa growing regions inhibit famers' profitability and success (Mars, 2006).

Global Structure

Growing. The structure of the global cocoa producing industry can be categorized into three stages: growing, harvesting, and processing. Most cocoa is grown in developing countries on smallholder or family farms located within approximately 10 degrees of the equator. The main cocoa growing regions are West Africa and South America (Cadbury, 2002). Several requirements must be met in order for a cacao tree to grow successfully in these areas. The trees need constant warmth and rainfall in order to thrive. Also, they must be shaded from the strong tropical sun and sheltered from the wind; this is the reason why the trees are typically planted intermittently among the forest understory. At about three to five years of age the trees begin producing their first fruits, with peak production occurring around ten years of age. Some trees up to 40 years old can be found yielding a high level of cocoa pods. These football-shaped pods are about eight to fourteen inches long, grow directly from the trunk and branches of the tree, and typically take five to six months before they are ripe and ready for harvesting (The Cocoa Tree, 2003).

Harvesting. Cocoa pods are harvested two times within a year, during the main crop and the mid-crop, whose times depend upon the region. This stage in the cocoa's journey requires an immense amount of physical labor. First, a sharp blade must be used to cleanly cut the ripe pods from the tree. Then the pods must be broken open to extract the wet beans, so that they can begin either box or heap fermentation. The box method uses strong wooden boxes with drainage holes in the base to allow the passage of air, and the removal of the liquid products of fermentation. This method takes about six to eight days, during which the beans are mixed twice. In the heap method, the wet cocoa beans are piled on and covered with banana or plantain leaves. This process takes approximately five to six days, in which the beans are turned to ensure even fermentation (Cadbury, 2002). After the beans have completed either fermentation stage they are dried in the sun or through special drying equipment, but despite the means, drying should be a carefully monitored process. If the beans are dried too quickly some of the chemical processes that began in the fermentation stage are not able to complete their work, meaning the beans are acidic with a bitter flavor. Cocoa beans that are dried too slowly can be ruined due to mold production (International Cocoa Organization, 2007). Following the drying stage, the beans are bagged and sent to a processing plant.

Processing. Due to the fact that the majority of cocoa is grown in developing countries, farmers typically export their crops for processing on a "just-in-time" basis (World Cocoa Foundation, 2007). Also, cocoa producing countries mainly export the beans, rather than manufactured cocoa, mostly due to tariff escalation (FAO, 2003). The main cocoa manufacturers and distributors are Archer Dales Midland, Cargill, and Barry-Callebaut, which all have geographically disbursed operations. According to the International Cocoa Organization, cocoa is processed in the following way. First, the cocoa is cleaned and any extraneous material is removed. Then, the beans are roasted in order to bring out the chocolate flavor; the temperature, time and degree of moisture involved in this stage depends upon the type of beans used, as well as the sort of chocolate or product being made. Afterwards, a winnowing machine is used to remove the shells from the beans, so that only the cocoa nibs remain. Next, the nibs undergo alkalization, usually with potassium carbonate, in order to further develop the flavor and color. Then, the nibs are milled to create cocoa liquor; the temperature and degree of milling varies according to the type of nib used, in addition to the product being made. Since most manufacturers use more than one type of bean, the next step is usually to blend the various beans together. After milling, and the usual blending, the cocoa liquor is pressed to extract cocoa butter, leaving a solid mass called cocoa cake; the manufacturer controls the amount of butter extracted from the liquor in order to produce cocoa cake with different fat proportions. It is at this next stage that the cocoa is sent in two different directions; the cocoa butter is used in the manufacturing of chocolate, and the cocoa cake is ultimately pulverized to produce cocoa powder. To produce chocolate, the cocoa liquor and butter, along with other ingredients, including sugar, milk, and emulsifiers are mixed together and kneaded; then the mixture passes through a heating, cooling, and reheating process, and ultimately may be put into molds, used for enrobing in chocolate filled goods, or stored in liquid form. Whether the cocoa has been converted into the various forms of chocolate, or into cocoa powder, it is eventually sent to the dairy, confectionary, and baking industries, or retail outlets (International Cocoa Organization, 2007). In addition, cocoa is used by the beauty and cosmetic industries in a variety of lotions, soaps and other products.

Global Characteristics

The cocoa tree is native to the Amazon basin, but it can also be found in areas of South and Central America, in addition to the Pacific Rim. As stated previously, most of the world's cocoa is grown in a narrow belt about 10 degrees on either side of the equator, since the trees flourish in humid, tropical climates, with regular rains and a brief dry season. In these areas, three varieties of cocoa are grown: the Criollo, Forastero, and Trinitario. According to the International Cocoa Organization, these varieties fall into two broad categories that the world market has established; the cocoa beans are either considered "fine" or "bulk". As a generalization, the Criollo and Trinitario varieties produce a "fine" or flavorful cocoa bean, while the Forastero tree produces the predominate "bulk" or ordinary cocoa bean, which has been the source of virtually all major cocoa activity for the past five decades (International Cocoa Organization, 2007).

The cocoa farming industry revolves around small farms, with more than 90% of cocoa production originating on them (International Cocoa Organization, 2007). The number of cocoa farmers worldwide is around five to six million, but the number of people who depend on the crop for their livelihood is far greater, at approximately 40 to 50 million. To maintain their source of income, farmers worldwide produce an overall yearly amount of about three million tons of cocoa. For the past 100 years, the increase in demand for cocoa continues to be approximately three percent per year (World Cocoa Foundation, 2007).

A more recent dimension that has been added to the cocoa industry's characteristics is the increased production of organic cocoa. The demand for organic cocoa is growing at strong pace, due the fact that consumers are increasingly concerned about the safety of their food and other environmental issues. Certified organic producers must comply with the legislation of importing countries on the production of organic products, and in return this compliance will allow them to command a higher price for their cocoa (International Cocoa Organization, 2007).

Global Issues

There are numerous issues that impact the worldwide cocoa industry. Every year cocoa farmers face the disappointment of loosing one-third or more of their crop due to a lack of relevant training, diseases, pests, or rudimentary farming practices. Poor soil conditions and other environmental difficulties can reduce a farmer's yield by 50%. These various problems can be quite detrimental, especially for rural communities whose economic livelihood depends on the cocoa crop. In addition, economic and political environments of cocoa producing countries are sometimes uncertain, providing farmers and their families with an unstable atmosphere (Mars, 2006). Another global issue that is important for farmers to consider is the need for sustainable cocoa farming. Agricultural scientists say that this method is a more natural way of growing cocoa, it lowers production costs for farmers, stabilizes or even increases farm profitability, reduces environmental impact, and it also helps to ensure a future supply of high quality cocoa beans. Farmers using this method grow their cocoa trees in a biologically diverse agricultural system, meaning that the cocoa trees are carefully planted under other commercially valuable trees, which gives farmers the ability to earn profits from a diverse tree crop. This biodiversity also gives farmers more timber for construction on their farms, in ad-rest, and substandard pay for the heavy work involved. Although the previous statement is true in some situations, it is pivotal to understand that within West Africa the use of children on farms can be a necessity, not an atrocity (World Cocoa Foundation, 2007). While many groups are working to educate the world on the unfair labor practices occurring in West Africa, it is interesting to note that the average child working on a cocoa farm works 6.5 hours a day, three times a week. The children who participate in labor average the age of 13, only one year younger than when the U.S. permits children to begin working. The factor that must be considered in forming an opinion on the use of child labor is not the hours, age, or days worked, but the risk West African children face in the cocoa farms. Children who are employed on cocoa farms are at risk for contracting skin diseases, snake bites, burns, and injuries while participating in activities such as planting cocoa, picking cocoa, weeding the cocoa fields, and transporting the wet cocoa beans to the village for drying. This type of work can be dangerous especially when younger children are concerned but it is considered a normality within Western Africa. Child labor becomes most serious when it comes in the form of child slavery, when this occurs children are forced to work on cocoa farms without any form of payment or option to stop work. This is a purely involuntary practice and children which are enslaved have no choice but to continue to work for their owners. Child slavery differs from child labor in that it is without option and is not done in exchange for payment. Child slavery is the real opponent that must be fought. Attempting to stop parents from enlisting their children in work on the field would be an arduous task to initiate, as child labor remains a customary practice in West Africa (Africa News, 2007).

National Structure

Brazil. Cocoa harvested in Brazil is mostly grown on plantation farms which are able to produce high yielding crops in the absence of pests and diseases. Unlike lesser developed countries, Brazil does process some of its cocoa and the farmers receive greater compensation for the cocoa they grow (The Cocoa Tree, 2003).

Ghana. Cocoa farms in Ghana are located on family owned plots of land. Farmers in Ghana rely heavily on the health and outcome of their cocoa plants to provide for their families. Because cocoa farming is done in such small areas, the potential for a bad crop which turns out few pods is high. If disease or pests attack a farmer's cocoa, his entire crop is at risk of affliction (Dovi, 2006). This can wipe out a whole crop, leaving the farmer and his family with no source of income and the financial burden of replacing the damaged crop with new seedlings. The family is then forced to wait for the young cocoa to mature in order for a harvest to occur. Cocoa farming in Ghana is a risky venture and provides little income to the families which compose much of the world's cocoa producers (Mars, 2007).

National Characteristics

Brazil. Brazil's farming of cocoa is far more advanced than the methods used by cocoa farmers in other countries. Plantation style farms are standard in Brazil, with few small family owned farms dispersed throughout the country (The Cocoa Tree, 2003). Brazilian cocoa farmers have hired workers who complete the various stages of the cocoa harvesting process (Cadbury, 2002). Cocoa farming in Brazil is an industry that receives little media attention and stays away from the use of child labor on its cocoa farms. Unlike its cocoa producing counterpart, Ghana, Brazil has managed to stay successful in the cocoa industry while staying away from negative media attention caused by the global realization of unfair labor practices.

Ghana. The farming of cocoa in Ghana is a process which is beginning to show signs of age. While other cocoa producing countries, such as Brazil, utilize plantation style farming and have begun to process some of their cocoa beans domestically, Ghana has maintained the farming of small plots of land by the owner and his family (Mars, 2007). Cocoa farmers in Ghana toil relentlessly in hope of harvesting enough cocoa beans to keep their families monetarily stable until the next season. Cocoa beans in Ghana are exported for processing, and Ghanaian farmers receive little money for the cocoa beans they do sell to the cocoa merchants. In Ghana, the cocoa merchant acts as the middle man between the farmer and the processing company. This allows the merchant to pocket a far greater sum of money then the farmer does, while keeping the cocoa farmers in the dark to the actual profit their cocoa crop demands in the market. Cocoa farming in Ghana is a difficult job that produces little for the farmers who choose this career route. Child labor is a significant problem and ranges from the common occurrence of children working in the fields to children who are enslaved on farms. This atrocity has brought a plethora of recent media attention, as well as demands for the discontinuation of the practice (Africa News, 2007).

National Issues

Brazil: Witches' Broom. In the early 1990's thousands of cocoa trees in Brazil were wiped out from the rampant spread of Witches' Broom Disease in Brazil. It is estimated that 75% of the cocoa crop was diminished in Brazil when the fungal plant disease spread throughout the country's cocoa crop. One attribute to Witches' Broom's damaging affect on Brazil's cocoa trees was the lack of knowledge on the disease. Farmers within Brazil were ill educated to deal and treat the disease which quickly killed a significant portion of their cocoa trees. Lack of knowledge went hand in hand with the poor disease resistance Brazil's cocoa trees showed. Once a cocoa tree contracted Witches' Broom, farmers were forced to remove the tree from their farm. When Witches' Broom hit Brazil, the country was forced to begin importing chocolate into the country in order to meet the needs of its own population as its cocoa production stagnated (Mars, 2007).

Ghana: Swollen Shoot Virus. Over the past 50 years an estimated 200 million cocoa trees have contracted the Swollen Shoot Virus within Ghana. Currently 5-10% of the country's cocoa trees have contracted the disease. In order to stop the spread of Swollen Shoot Virus, all afflicted trees and neighboring trees must be removed from the soil. This method of treatment devastates cocoa yields and has the potential to wipe out a significant portion of a farmer's cocoa trees. Although the virus presently exists rampantly within Ghana, trees which harbor the disease may soon amount to few, due to the creation of a hybrid cocoa breed which has exhibited resistance to the Swollen Shoot Virus.

Ghana's Cocoa Research Institute is responsible for the new, resilient cocoa tree which not only has been unsusceptible to the virus, but has also shown a significantly shorter maturation time, 2-5 years, and a higher yield than the current trees planted within Ghana (Dovi, 2006).

Biblical Recommendations

Child labor. Low cocoa prices and the desire to lower labor costs drive farmers to utilize child labor. In the cocoa industry children work long hours, travel great distances, use dangerous tools, and face frequent exposure to hazardous pesticides and grueling heat. Children who labor as slaves may also suffer frequent beatings and other cruel treatment. Not only do children face these appalling work conditions, but they are also losing the opportunity to get a basic education (International Labor Rights Fund, 2007). In looking at this issue, it is necessary to realize that cultural and economic differences come into play. In some areas, it is necessary for children to work in order to help increase their family's income. Whether this practice is unethical or not lies in the work the children perform, the conditions they face, and whether or not they are giving up their education. While examining the cocoa industry, it became obvious that children should especially not be used in the harvesting stage, due to the necessary usage of dangerous tools and exposure to falling debris. If it is absolutely vital that a child work in this industry to support their family's livelihood they should only be allowed to perform less hazardous jobs. Since parents have a God-given responsibility to take care of their children they should not allow them to be exposed to life-threatening conditions. Also, if employers showed the true love of Christ, then they would not continue treating their child laborers unjustly (1 Corinthians 3:16). Despite the need to lower costs, employers who avoid ungodly treatment of their workers will end up being more profitable, because the Lord will prosper those who do what is right (Proverbs 3:1-2). When it comes to abusive child slavery, it is safe to say that all people are precious in God's sight; therefore, no one should be degraded and/or unfairly treated. Adherence to biblical guidelines, in addition to strictly enforced governmental regulations, would help to prevent child slavery and to properly define and prevent abusive child labor practices in this industry.

Fair Wages. The current demand for cocoa and the speculated shortage of cocoa would lead one to believe that farmers who harvest cocoa beans are receiving an adequate profit on the cocoa they sell to processors, but this logical assumption is far from the truth that West African cocoa farmers face. Although the cocoa industry commands a high price for chocolate and there are those who are successful from the industry, few farmers in West Africa have made any money which could justly be called profit. In West Africa, the government regulates the cocoa industry, and one implication of this is that farmers are forced to sell their harvested cocoa to merchants who then sell to processing companies. These merchants become the liaison between the processing companies and the farmers, pocketing the cocoa profit the farmers should be receiving. Since West African farmers have no choice but to comply with the governmental regulations, they are unable to combat the unfair compensation they receive. Those placed in positions of authority in the West African government are responsible for watching out for the interests of the citizens. The cocoa industry in countries such as Ghana has contributed greatly to the economy. Farmers who tend to their small cocoa crops are the major contributors to the success of the cocoa industry. By ignoring the poverty and economic hardships farmers in West Africa face, the government is directly disobeying God and His intention for the compensation and treatment of workers (Jeremiah 22:13). Furthermore, God is aware of the unjust treatment of his children and will judge those who cause them suffering (James 5:4). Although the government is able to acquire much money through the regulation of the cocoa industry in West Africa, its greater concern should be the financial stability of the people which comprise the nation. It is doubtful that the cocoa industry will ever be deregulated entirely, but it is possible for the government to realize the needs of its people and respond to them by increasing the amount of profit farmers receive. In doing so, farmers would be equipped with greater financial backing to expand their farms and grow more cocoa trees. This would not only make the lives of the farmers better, but would also bring more money into the government as more cocoa is sold. Understandably, dramatic changes in the cocoa industry would take time to accomplish, but meeting the monetary needs of workers would produce a better future output of West African cocoa.

Conclusion

The farming of cocoa throughout the world is a prosperous industry which has recently seen an increase in demand. As attention has turned to cocoa, the industry has come under scrutiny for its participation in child labor and unfair wage practices. While some cocoa producing nations, namely Brazil, have cultivated an industry that has seen little criticism and is continually changing with growing demands, nations such as Ghana remain trapped in an industry which barely provides for the most rudimentary needs of its workers. Hopefully, the awareness spawned by recent media attention will showcase the undue treatment and compensation of cocoa workers, but only when action is taken to veer currently acceptable practices to ones which are ethically correct will the cocoa industry truly flourish.

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Inflation Outlook and the Effects on the Healthcare Construction Industry

by

David Curry

Inflation is a currently a key driver of construction costs. Many factors influence the overall inflation of the healthcare construction market. The consumer price index is a key indicator of overall inflation in the U.S. economy. However, healthcare construction inflation does not always follow this indicator. Understanding some of the drivers of healthcare construction inflation can help to predict the continued trend of these increases. The Holt-Winters time-series project was used in the forecast. The value of the TCCO Index was calculated to be $1,461 in 2017 based on n=38, and R-Squared = 99.68%.

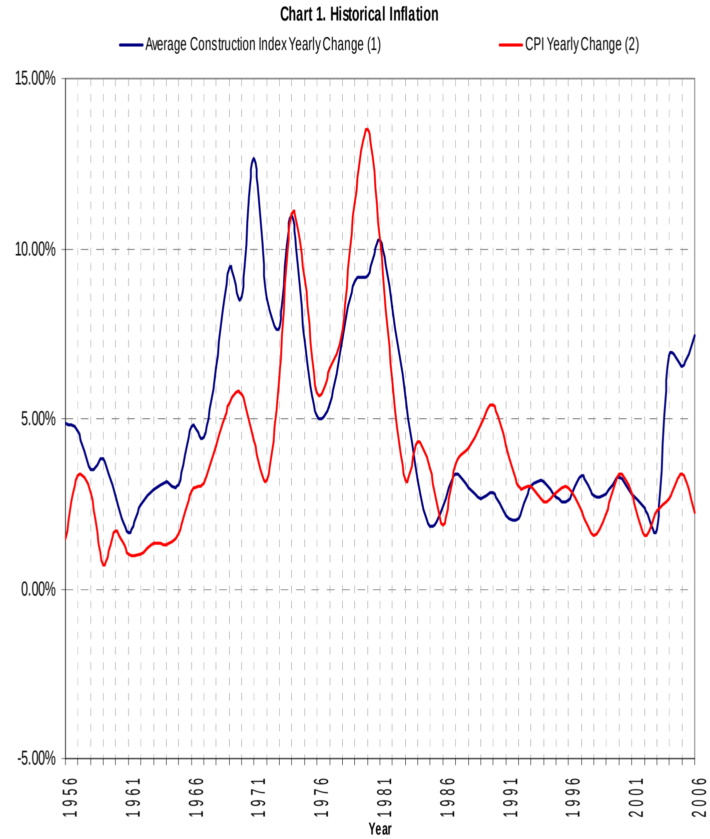
Introduction

Many factors influence cost increases. From global demand issues to local labor issues, forecasting the impact on projects remains difficult. Ask six different people, you will get six different answers on the future of the markets. Historically, 3% per year was close enough when forecasting inflation on any project. With the increase in global demand for construction products and the unavailability of skilled labor, new challenges are presented for forecasting total cost of work.

Material and labor costs have seen large increases over the past several years. This has been caused by global supply and demand, and cost of raw materials. However, many construction forecasters are predicting that the large increases are behind, and more stable increases and some decreases of construction costs will happen in the near future. However, with the amount of work projected in some markets and the lack of skilled labor for some trades, total costs of the work is projected to continue to increase at a sizeable pace. Some markets that have limited construction activity may experience this to a lesser extent.

Using statistical analysis to project the future inflation may help to fine tune the method of forecasting inflation. As inflation is now a major contributing factor the overall cost of construction work, the ability to accurately forecast inflation becomes highly important.

History of Inflation. The inflation between 1956 and 2006 is shown in Chart 1. Between 1982 and 2003, inflation has remained less than 5% per year. Most people in the construction market did not witness the inflationary period of the 1970s. Between 1969 and 1981, the leading construction cost indexes averaged an annual increase of 8.5%. Between 1990 and 2003, these same indexes averaged an annual increase of 2.7%. The last three years of construction has averaged a 6.9% increase (Means, 2006; ENR, 2006; TCCO, 2006; & Fed, 2006).



(1) Means (2006), ENR (2006), & TCCO (2006).
(2) Fed (2006)

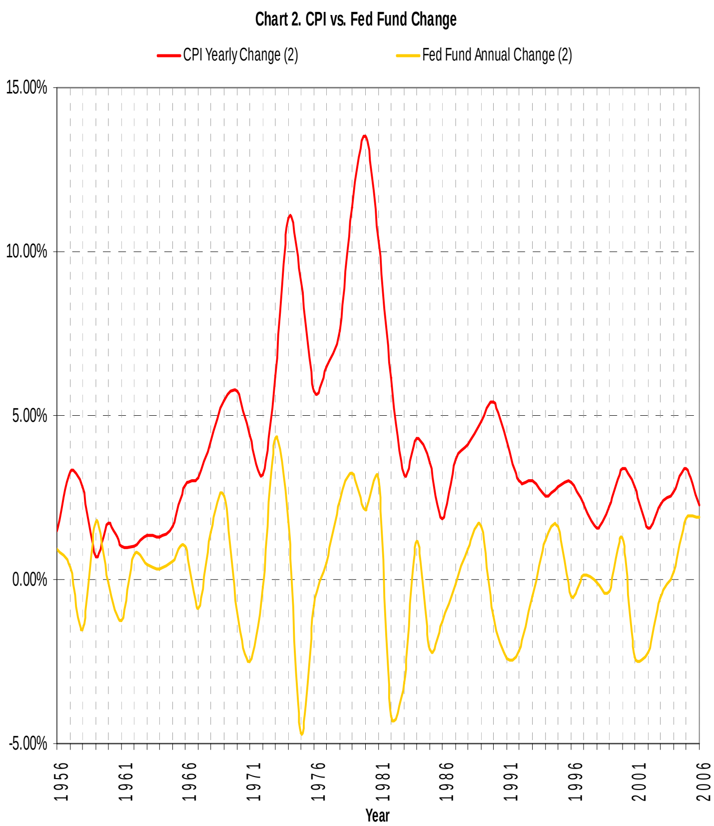
Carrying a large inflation percentage on current construction costs to project the budget two years into the future can have a significant impact on the overall budget of the project. For example, recent program estimates by Turner Healthcare have carried 12% annual inflation. On a $100 million construction project, this would add $24 million to the budget for inflation, or approximately $1 million per month. Owners must have a reasonable forecast to gain approval for healthcare projects without the need for seeking additional funding in the future to cover the increased cost of work.

Factors that Influence Healthcare Construction Costs

Many factors influence construction costs. The Federal Reserve rate, volume of work in developing countries, labor market factors, and total volume of construction work in the market are some of these influences. Because there are many other factors that influence construction costs (oil prices, mining strikes, etc.), it remains difficult to form solid conclusions of future construction costs. Overall inflation is dependent upon the relative strength of the individual contributing factors.

Federal Reserve Rate. The Federal Reserve adjusts the federal rate to help control inflation. In times of high inflation, the Fed would increase the rate until inflation was under control. The United States government uses the consumer price index, or CPI, to show the overall economic inflation (Jones, 2006).

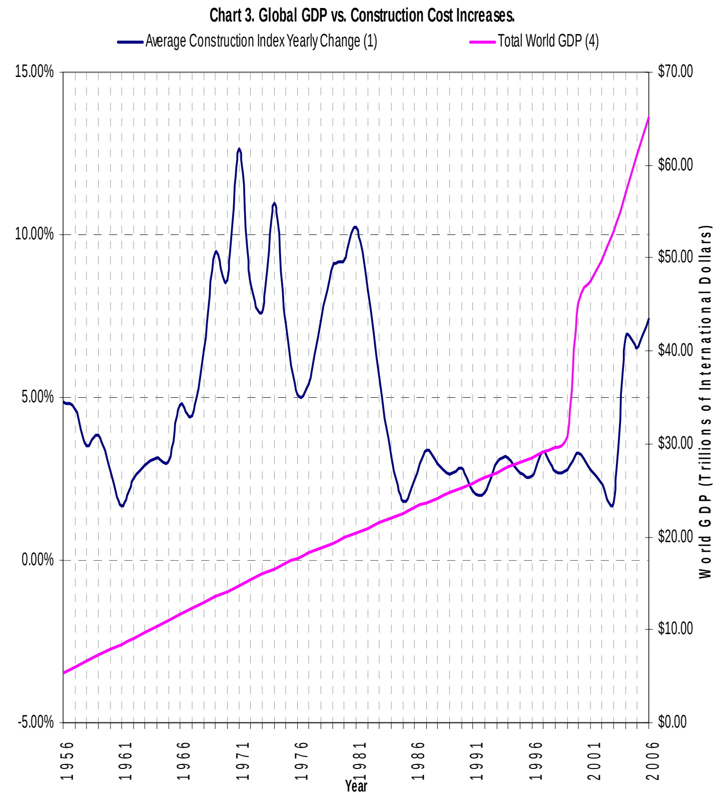
This index is a market-based analysis of current prices for goods in the US economy (Fed, 2006). The increase of the CPI is primarily controlled by the Federal Reserve rate. This relationship can be seen in Chart 2. As the Fed increases the rate, inflation of the CPI decreases. Chart 2 shows that the market reacts approximately two years after the rate changes. To some degree, the construction cost indexes follow this same pattern, but other factors can have a greater impact on construction costs.



(2) Fed (2006)

Globalization. Developing nations have had a significant impact on the effects of globalization. The amount of work in the global market affects material availability and price. This was seen in 2004 as China's demand for steel increased dramatically. This created a huge demand in the steel market and caused subsequent increases in the cost of material. Global market supply and demand issues also caused the increase in the copper market in 2005-2006. The huge demand for copper caused this market to experience huge increases in costs. Many suppliers would not guarantee prices for more than 24 hours during this period.

Looking at the entire world, the total gross domestic GDP product is a predictor of globalization. Chart 3 shows the increases in global GDP, and the relationship to construction cost increases. Between 1956 and 1999, the global GDP realized modest annual increases. Starting in 2000, the world GDP saw large gains with the increase in globalization. Between 1955 and 1999, the world GDP increased an average of 10.8% annually. Between 1999 and 2006, it has increased 16.0% annually. This large increase in global demand for construction materials has had significant impact on the cost of construction products domestically.



(1) Means (2006), ENR (2006), & TCCO (2006).
(4) World Bank (2006)

Labor Market. Because labor constitutes approximately half of the total construction costs in healthcare, the labor market has significant impact on the total inflation. Two factors that influence the labor costs on a project are the availability of labor and the skill of the workforce. Depending upon the specific location, these factors can vary dramatically.

Availability of labor is related to the unemployment rate. In expanding economic times, the unemployment rate falls. In extreme conditions, a labor shortage will occur. This situation is currently being seen in the skilled labor construction market. Based on research, FMI (Management Consulting/ Investment Banking for the Construction Industry) is projecting that the ability to find skilled craft employees will become a primary concern in the construction market (Heimbach et al, 2006).

In a personal interview with a specialty contractor in the healthcare market, finding skilled employees was highlighted as becoming increasingly difficult. To combat this shortage, hourly wage rates are increased to cover the pay scale required to attract workers, efficiency is decreased adding to the total hours required for a project, and overhead is increased to cover the additional need for supervision of lesser-qualified employees. In extreme situations, per diems are added to the cost of work to cover hotel and transportation of workers from other geographic areas. The impact on the particular trade is 5% to 12% of the total value of the work (Andrews, 2006).

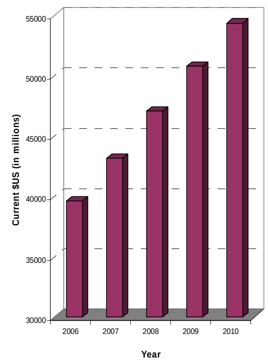
This increase in cost of work is not related to inflation. Adding cost to manage the labor shortage is critical. Getting enough qualified employees is one of the main efforts of specialty project managers to complete a quality project within the scheduled timeframe. The craft shortage is projected to get worse through 2012 (Jones, 2005). Long-term forecasts are showing that in some specializations, such as mechanical and electrical trades, the labor shortage will be extreme and is projected to continue through 2025 (Jones, 2005).

Total Volume of Construction Work. The total volume of work in the construction market has an impact on the total cost of individual projects. In markets that are experiencing rapid growth, labor shortages affect the total cost. In addition to the labor, contractors also increase profit margins on work in expanding economies. When construction slows down, contractors may include less than five percent profit in the total cost of work. However, when construction work is plentiful, contractors may include profit margins in excess of fifteen percent.

This factor is highly market specific. For example, in the Nashville market, there is over $3 billion worth of construction work that starting in 2007 and 2008. This increase in construction volume will influence the local market during that time. Healthcare projects are especially prone to increases in fees. Healthcare is a highly specialized construction market. If construction projects are plentiful, contractors will increase margins to “make a project worthwhile.” In extreme cases, profit margins on healthcare projects may exceed 20% for the specialty subcontractor.

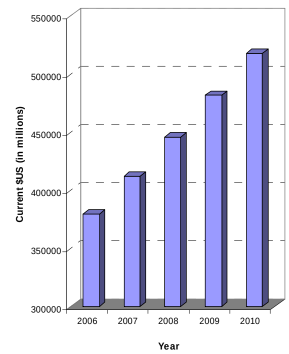
Historically, contractors would secure work outside of their normal geographical area to maintain revenue levels. However, the entire U.S. construction market is expected to increase. Currently, there are very limited areas where the volume of construction is not at record levels. Because of this limited competition, profitability of construction work increases. FMI is forecasting the healthcare market to increase to over $54 billion in 2010 (Hughes, 2005). This is a 37% increase over 2006 levels of work put in place, as shown in Chart 4. From 2001 to 2006, the healthcare market increased just over 49%. Chart 5 shows the projection of the non-residential building markets to increase over 36% by 2010 (Jones, 2006). With plenty of construction work available in the future, subcontractors may continue to hold higher profit margins.

Chart 4. Healthcare Construction Forecast



Jones (2006).

Chart 5. Non-residential Construction Forecast



Jones (2006).

Outlook on Healthcare Construction Costs

The previous indicators are projected to continue the current trends. These pressures on the healthcare construction market will continue to further increase the amount of escalation on future projects. The Turner Construction Company cost index is widely used in the construction market to show escalation in the building industry. Using time-series projection methods, the future values of the TCCO Index can be determined.

The Holt-Winters time-series regression was used to project this information. Using values back to 1968, the current number of data points is 38 (n=38). Using the multiplicative decomposition type, the average error was calculated at 2.32%. The standard deviation is 173.04. This forecast is statistically significant as the R-Squared value was 99.68% (John Galt Development, 2007).

Based on actual values of the TCCO Index between 1968 and 2006, the index is forecasted to increase to 841 in 2007, increasing to 1461 in 2017. The values are shown in Chart 6. The annual escalation percentage increases are shown in Chart 7.

Chart 6. TCCO Index

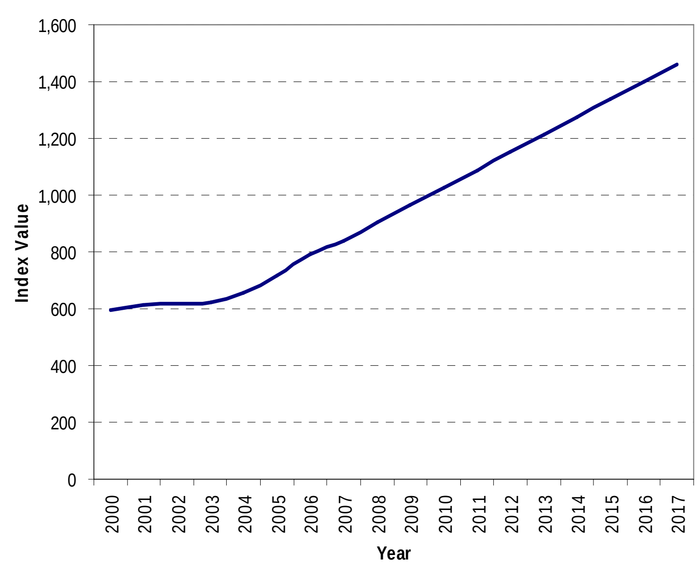
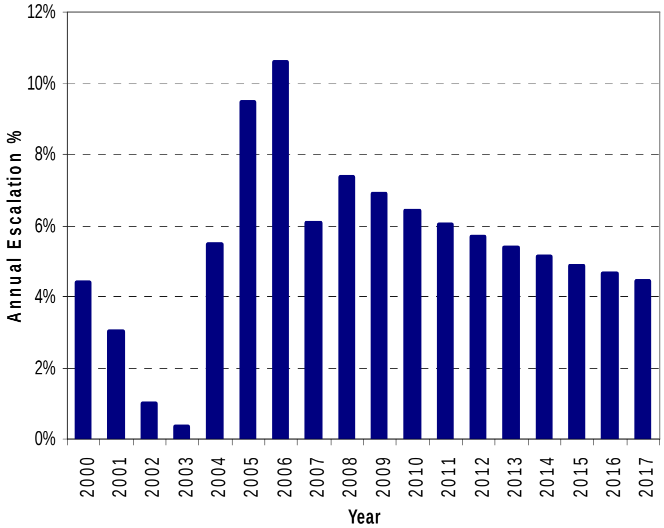


Chart 7. Annual Escalation Projection



Conclusion

Based on the statistical significance of the projection, the values in Chart 7 should be used to project the future values of healthcare work. Slight variations could occur in local markets as the data is based on national averages and trends. Some markets may have higher than average issues associated with labor shortages, material supply, and record volumes of construction work. These isolated markets may experience inflation above the TCCO projection.

This analysis should be performed each year to verify that the projection is still within statistical limits. This will also identify if the market is changing and affecting the overall cost of work. Future research could be done to develop a relationship between the market indicators identified and the projected cost of work.

The Christian Response to Inflation

In business, Christians have a fiscal responsibility to accurately forecast costs. Living in God's plan with the Holy Spirit can give Christians knowledge and understanding to help this process. However, we have a greater responsibility to live our lives according to Biblical principles. As no area of our lives should be separated from God, we should strive to conduct business in a manner pleasing to Him. Predicting the future and forecasting should be no different. In the Sermon on the Mount, Jesus instructs us to "Seek first the kingdom of God, [and] … do not be anxious about tomorrow" (Mt. 6:33-34, ESV). Therefore when trying to forecast future trends, we should not make this more important than living our lives for our Savior.

It is good to remember that God is in control of everything, including inflation. Trying to plan is difficult.

We are taught to trust in the Lord for our futures. "If the Lord wills, we will live or do this or that" (Jas 4:14, ESV). No amount of inflation will stop a project that is part of God's will. By living in God's plan for our lives, we should develop projects that are part of God's plan. God is able to overcome any obstacle for His initiatives. Being part of His plan is a good way of achieving successful projects.

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Catching the New Wave of the Integrated Marketing Communications Mix: Viral

by

Amanda Poore

People driving down the road, watching television, and reading a newspaper have one thing in common: they are all exposed to advertising. The ads they see vary from weight-loss clinics to shoes to razors. Advertising is becoming more difficult and advertisers have to think of new ways of promoting products. The Integrated Marketing Communications (IMC) mix is one way advertisers and marketers are looking to solve the problem. The IMC mix "involves coordinating the various promotional elements and other marketing activities that communicate with a firm's customers" (Belch, G.E., & Belch, M.A., 2007, p. 9). The promotional elements include advertising, public relations, personal selling, and sales promotions. The IMC mix allows advertisers to promote their products using a promotional campaign that gives a unified message across the IMC mix. Many marketers are starting to include viral marketing as a vital component of the IMC mix. Viral marketing has the ability to directly reach target markets to increase brand awareness.

Once, there was a time in marketing's history that mass advertising worked. In the early stages of marketing, products were so new and innovative that people would rush to respond to the ads. However, in today's society, the market for consumer products has become saturated and full of clutter. The fact that markets are saturated and highly fragmented has caused marketers not to rely solely on traditional methods of promoting their products. The IMC mix is expanding to include viral marketing.

The End of Mass Advertising

In the past decade, a slowdown in mass advertising has occurred. Since the invention of the Internet, consumers have become wary of advertising and more critical of the mass media. As early as 1994, the end of mass advertising has been predicted based upon saturation of the market. Industries have become more fragmented and this fragmentation reduces the ability of advertisers to reach large numbers of consumers (Rust & Oliver, 1994). Part of the fragmentation has occurred because of the shift from a product-oriented economy to a service-oriented economy. When an advertiser has to promote a product it can do much to describe the product and create awareness through its characteristics, however, when that same advertiser has to promote an intangible service, it becomes more difficult. There is no product for consumers to touch, handle and experience; instead there is simply the idea of the service to be provided. According to Rust and Oliver (1994), because services require such different marketing than products, mass marketing has become more irrelevant.

As technology creates more fragmented markets, advertising will need to move from being involuntary to becoming voluntary (Rust & Oliver, 1994). Consumers will want choices about the way that marketers present their information; especially the manner in which they receive the messages. Historically, it was easy to reach a mass market. All a company had to do was place a commercial on the big television networks: CBS, NBC and ABC and they would have had most of the population watching. "In the 1960s, an advertiser could reach 80% of U.S. women with a spot aired simultaneously on CBS, NBC, and ABC. Today, an ad would have to run on 100 TV channels to have a prayer of duplicating this feat" (Bianco, 2004, ¶ 6). Companies now have to try harder to make their advertising dollars go farther. Consumers have changed the way they view advertising and marketing. No longer are they satisfied with push marketing strategies, they want to feel as though they have a say in the advertising they view. These consumers are much more difficult to reach because they are more cynical about advertising messages (Cappo, 1992). Advertising agencies need to see this change in consumer's attitudes and work on reaching them.

Another factor that has led to the slowdown of mass advertising is people are becoming less attentive to the happenings around them. Teenagers who have grown up with digital technology have the ability to respond quickly to stimuli and to recall less of the message of the stimuli. This phenomenon has been termed continuous partial attention (Saatchi, 2006). People who have grown up in the digital world have the ability to absorb information but not recall that information. Day-after recall scores for television commercials have decreased from 35% in the 1960s to 10% today (Saatchi, 2006). This calls for a new way of promoting products. The key to breaking through the clutter of marketing today is through simple messages. A company needs to determine one word that it wants to be associated with its brand name. An example of this is how Google now has the word "search" associated with it. After the word has been established, the company needs to go after it wholeheartedly and pursue the relationship between the company and the word. Having the word associated with the brand, the company will be able to break through the clutter with its simplicity.

The slowdown of mass advertising will completely change marketing; the way that advertisers promote their products, the way that marketing research firms look at customers, and even the way that customers look at marketing firms. This change causes marketers to have to think on their toes and to think outside the box. Research about their target markets will become more thorough and more important than ever before and advertisers will have to come up with innovative ways of reaching their customers. It is apparent that mass media is not the advertising medium of choice anymore and marketers have to examine new marketing as the alternative to traditional marketing.

Viral Marketing

A discussion of viral marketing may cause confusion because the definition is somewhat ambiguous. The main reason for this is the fact that viral marketing is so new. Viral marketing is an important part of the IMC mix. It is a type of word-of-mouth marketing and it has the potential to reach an entire target market without a lot of money and effort.

There are two elements that are unique to viral marketing. The first one is a message that is deliberately directed to the target audience and the second is creativity. In mass advertising, the message is directed mostly to populations because the ad is shown to everyone. In viral marketing, the message needs to be intentionally and specifically geared toward the target market.

If the target is not hit, then the product will not be a success. Along with this deliberate message to the target market, creativity is also essential to a successful viral marketing campaign because of clutter in advertising. Creativity is the way that marketers will capture the attention of the target market while giving it the message discussed earlier.

An important key to note about viral marketing is its attachment to an online element. Viral marketing uses the Internet as its main avenue of getting the word out about the product or service. The term was first used by Steve Jurvetson and Tim Draper in late 1997 (Phelps, Lewis, Mobilio, Perry, & Raman, 2004). The first example of viral marketing occurred in the late 1990's and it was used by Hotmail. The e-mail provider had a tagline at the end of each e-mail that was sent out that allowed readers to connect to a website and get their own Hotmail account (Helm, 2000). The main reason that viral marketing is expanding a great deal is the growth in Internet access across the world (Dudley, 2006). As companies begin to expand and use viral marketing techniques more often, they will see the importance of creating websites which promote and enhance the products or services. Companies can take the marketing message (the focus of viral marketing) and implement it in a website that people can view. After viewing the site, it is hoped that they will tell their friends about the website and will go out and purchase the product or service. A study was conducted of people who pass along e-mail messages as a component of viral marketing found that almost 40 % of the messages were forwarded on (Phelps et al., 2004). This study demonstrates that people are likely to pass along helpful information that they find online to their friends. The Internet is a key that helps consumers to pass messages they receive about products and services along to their friends. Viral marketing has a goal of creating a message that people will want to pass along. Companies do this is by creating either websites or e-mail messages that are easily passed along.

Viral Marketing - Definition

Viral marketing is the "deliberate spreading of a message through online word-of-mouth" (Barrett, 2001, ¶ 2). It can take the place of traditional mass marketing to create a brand awareness that could be otherwise impossible. It takes various forms including websites showing advertisements, blogs about products, and online games that incorporate a company's brand name. The main purpose of viral marketing is to generate brand awareness and to "leave consumers with a lasting impression of the brand" (Toth, 2006, ¶ 10). An example of viral marketing is a campaign created by ad agency Carat and Internet marketing firm Intrapromote. These two companies worked with Verado, a network security service company to create a viral marketing campaign. The campaign consisted of a computer game where IT professionals defended a computer network against hackers, spammers and mad scientists which tried to destroy the network. When the player lost the game they were taken to a screen which explained how Verado products could have eliminated the problems (Cholewka, 2001). The marketing company found that the game was downloaded by 43,000 people and that at least half of them downloaded it between 10 am and 3 pm, which is during the typical work day. An online game can leave a positive image of the brand in the players' minds by showing them how the product can be used and it can create brand awareness so players will tell their friends about the products. The goal of viral marketing, as the measure of a successful viral marketing campaign, is a high pass-along rate (Netherlands, 2006).

Electronic word-of-mouth advertising is a relatively new form of marketing that can be described as utilizing the target market as people spread the word about the products. Viral marketing utilizes techniques that allow the news of a new product or service to infiltrate the market. "The goal of viral marketing is to manufacture a marketing message–typically online and in a tangible format such as a video clip or e-mail–that can spread among consumers quickly and exponentially" (Balter & Butman, 2006, p. 49). This means that companies need to work hard at finding out exactly what consumers want in their products. Market research will allow companies to understand consumers' mindsets and to find ways of creating a message that can be utilized to get the message out.

There are two different types of viral marketing. First generation viral marketing involves a consumer utilizing a website and registering in order to receive content or to access a service. Second generation viral marketing involves a catchy or humorous creative that appeals to audiences (Viral Marketing, 2005). Second generation viral marketing is slightly problematic in the sense that it is difficult to capture data and it is heavily based upon the creative aspect. The problem with creativity is that it is hit or miss with respect to appealing to target customers. Advertisers need to remember that a good viral campaign does not include only creative aspects; it needs a reliable way of gathering information about the target audience as well.

What makes viral marketing unique is that it is specifically designed for the target market and it has the potential to only reach its target market. Viral marketing is designed to achieve this goal. Traditional media has become saturated. The way advertisers reach their target market is to advertise and promote to the masses, and hope that the intended audience will get the message. People in the market have a tendency to ignore the majority of mass advertising campaigns they view for that reason. They do not feel a need to put more information into their minds. Viral marketing reaches out to the specific target market for a product or service and forces the marketer to cater directly to its needs. If viral marketers miss the mark, they will know instantly; no one will respond in a positive way. Marketers can then change the campaign to appeal to the target market properly.

Viral marketing may not be for every product or service. However, it is important to realize that not only outrageous and edgy products are buzz-worthy (Dye, 2000). In order to have a successful viral marketing plan, a company requires only a product that customers have shown a demand for and the knowledge of its unique selling point. Products and services that will be successful with viral marketing are products and services that are distinctive in some way and are highly visible in the market. They have a good chance of becoming hits in the market.

Before a company can create a viral marketing campaign, it must first know the message it wants to portray. Creativity is needed to find ways customers will become intrigued with the product or service. In traditional marketing advertisers simply created ad campaigns which suited their preferences and if they liked the ads, they were run. However, in today's saturated market, advertisers cannot have this thinking. They need to be current and up to date knowing what is going on with their customers. One way of doing this is to explore the brand

and the brand image of the company. According to Ind & Watt (2006):

> To evaluate ideas there needs to be a clear understanding of the brand and its boundaries and a real understanding of the intensive processes that underlie the attitudes and behaviour of customers and other audiences. The brand vision and values should be both the starting point of any project and the source of evaluation. (p. 334)

When a company evaluates its brand name and where it desires to be positioned in the market, it gives its advertisers a foundation to go off when they are creating ads. It also gives the company a clear view of its customers and exactly who the company wants to target. Knowledge of the brand also enables the company to know which products will be successful in the market. "Analysis of organisations that are successful innovators suggests the answer to successful judgment lies in what can be conceptualised as an organisations's level of situational intelligence" (Ind & Watt, 2006, p. 331). Companies who have examined their brands are capable of having excellent product innovation and creating a remarkable product through viral marketing.

Conclusion

While viral marketing is a new and successful form of product promotion, to date marketers have been reluctant to formally include this technique in the IMC mix. The ability to reach the target market while incurring low costs, and using new and creative efforts is what makes viral marketing such an important new element in product promotion. Adding viral marketing to a firm's IMC mix will enable marketers to become more effective at reaching their target markets.

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The Fear of Public Speaking: Overcoming Speech Anxiety

Andrew W. Fenwick

The ability of business executives to deliver relevant and timely public presentations is a staple for advancement through the corporate structure. Although important, the fear of public speaking often hinders the employee from delivering quality public speeches. This paper serves to examine some of the causes for this fear and methods to alleviate the trepidation and anxiety associated with public business presentations.

An Executive's Worst Nightmare

Many people dread the thought of speaking in front of an audience. Couple that fear and anxiety with the added pressure to impress a supervisor or potential client and many executives' worst fears become realized. Thoughts of panic, impending doom, or negative reaction from the audience are example responses to the fear of public speaking, but must be overcome if the business executive pursues advancement through the corporate structure. "In today's business environment, people at all levels in all types of companies are called upon to make formal, informal and impromptu presentations. And both personal and professional successes are dependent upon effective communications" (Berg, 2005, p. 28).

As employees rise through the ranks within the corporation, there are skills that become increasingly more important to master. Effective communication and interpersonal skills are near the top of any list, but are unfortunately far too often overlooked or minimized (McConnell, 2005). The inability to effectively communicate hinders the ability to conduct productive meetings, present relevant material in a thoughtful manner, and consequently seize opportunity for exposure to higher management for advancement. For this reason, it is important to understand the underlying causes for public speaking fears and what methods are available for overcoming them.

because its business model would cause it to incorrectly be viewed as a regulated investment corporation. Under the Investment Company Act of 1940, that would trigger different reporting requirements" (Shaw, 2005, ¶ 6).

Of course, the main reason the company chose AIM instead of a U.S. market was the strenuous rules and regulations of the Sarbanes-Oxley Act and the Securities and Exchange Act. The requirements of AIM and the United Kingdom (U.K.) federal government were not as "all-encompassing and detailed" as those of the United States. According to Shaw (2005), the U.K. did not "require for admission a minimum market cap, a trading record, minimum shares in public hands, or prior shareholder approval for transactions" (¶ 11). Rather than the burdensome quarterly and annual filings required for a U.S. listing, AIM only requires ongoing disclosures semi-annually (Shaw, 2005).

Understanding the Fear

The fear of public speaking "outranks death, flying, heights, and snakes in most fear surveys" (Brody & Gundermann, 1998, p. 86). But what exactly is the speaker so afraid of? Literature suggests that fear of fainting, fear of boring the audience, fear that the speaker's mind will go blank, and a fear of being judged may be some causes (p. 86). Rolls (1998) states that "going blank, having shaky body parts, getting itchy armpits, feeling your face become hot, wondering what to do with your hands, and the like" are all causes for public speaking fears (p. 104). Others "suffer with nerves," causing their "voice and hands [to] shake" and "panic at the thought" of public speaking (Lacey, 2006, p. 39).

Although there are some who suffer from extreme glossophobia, the formal name for the fear of public speaking, most people experience a rush of adrenaline and anxiety when faced with public presentations (Grenby, 2003). While there are techniques that can be practiced to alleviate the stress and fear, for those individuals suffering from extreme fears of a medical sort, treatments may undertake several years or more. However, the remainder of average people who experience normal levels of stress and anxiety in the face of public presentations can minimize the negative emotions through several methods.

Fear is normal. Perhaps one of the easiest ways to control fear is to understand that most Americans fear public speaking and are therefore not alone in their fears. "*The Book of Lists* (1977) notes that the number one fear of Americans is making a speech in public" (Rolls, 1998, p. 103). Therefore, the fear of public speaking is not unique, but rather a common trait. This commonality should help the speaker to form a connection with his or her audience that transcends the message and delivery of the presentation. Most captive audiences prefer to be entertained and educated, and do not wish to see the speaker fail or become rattled under pressure.

Fear is expected. Because the number one fear of Americans is speaking in public, it should be no surprise to the speaker when this fear becomes manifested. Whether trembling, a shaky voice, or forgetting the content of the message, fear typically presents itself in a physical manner. An experienced speaker expects this manifestation, and is prepared for it. A glass of water at the lectern or a light snack of a banana prior to speaking will help to alleviate some physical discomforts during the presentation (Brody, 1986).

Although physical manifestations of fear are very common, it is the mental and emotional instability that presents the greatest obstacle for most speakers. Overcoming the nervousness and emotional butterflies can be difficult, but begin in the mind of the speaker. "You become what you think about. Think scared, you'll be scared. Think passionate, you'll be passionate. Trace your feelings and you'll discover they come from thoughts" (Evans, 2005, p. 38). The bottom line is that fear is a natural byproduct of a lack of confidence (Berg, 2005).

Minimizing the Fear

The most basic approach to minimizing the fear of public speaking is a conscious and deliberate effort to face down the fears. Employees and executives who wish to rise through the corporate structure and anticipate public presentations to be part of that process should diligently and actively engage the activity in an attempt to alleviate their concerns. Only by speaking does one become a better speaker. Speakers who have made a reputation for themselves as charismatic leaders "worked—and they continue to work—on their presentation skills. But above all, they believed in themselves and their message" (Gallo, 2006, ¶1).

Preparation is the key. The instrument to successful public presentation is being prepared according to McConnell (2005),

> Preparation includes knowing one's subject and one's audience, appropriately organizing the material, learning how to present information according to what one wishes to convey or accomplish, learning how to utilize visual aids, and working to improve one's manner of using language in a public setting. (2005, p. 77)
> Although it is impressive when a speaker is able to deliver a quality impromptu presentation, it is rare. Even most experienced speakers understand the need to prepare a presentation in order to poise its delivery with maximum influence. Although nervousness may not be entirely eliminated, thorough preparation is the key to minimizing pre-speech jitters.

Thorough preparation for the business presentation begins with a complete understanding of the material being presented (p. 79). The speaker must understand his or her subject matter expertly, but this is not enough. Clear organization is needed to facilitate transfer of the information to the audience in a concise and meaningful manner. In order to accomplish this, the speaker must understand and give consideration to the makeup of the audience. "In short, edit for the ear" (Penrose, Rasberry & Myers, 2004, p. 299). The presentation must be styled to the audience, and avoid selective jargon, analogies or bias.

Practice makes perfect. No matter how prepared and knowledgeable a speaker might be, nothing takes the place of experience. The novice speaker is sure to experience some stage fright and nervousness, which is greatly amplified by inexperience. The would-be public speaker must accept speaking engagements in an attempt to hone the skills necessary to become proficient. These may come from being asked to speak or by actively seeking opportunities to do so, and should be greeted as opportunities to expand proficiency and expertise.

It is important to understand that most accomplished public speakers did not come by the skill naturally. It is the culmination of hard work, dedication, and practice. There are countless presentation and public speaking books, self-help tapes, and seminars available, as well as professional coaches and training courses available to assist the would-be speaker in honing his or her skills. The volume of information in the marketplace highlights the need to acquire and practice these skills in the attempt to alleviate the fear of public speaking. Beaver (1997) states,

> "Searching for a way to overcome this fear is the leading reason why students sign up for…Effective Presentation Techniques," a course on the skills and practice techniques of business presentations taught at the Graduate School of Banking in Madison, Wisconsin (p. 60).

Control the Fear

Perhaps one of the easiest ways to control the fear of public speaking is the realization that very few in the audience can sense the speaker's nervousness. Practice and experience can mask the "telltale signs of anxiety" (p. 60). This does not excuse the lack of preparation and practice, which assists in alleviating any excess nervousness that exists from being unprepared. A presentation must be sharpened, as "practice will always improve one's actual performance" (Penrose et al., Rasberry & Myers, 2004, p. 301).

From beginning to end, to include the use of any necessary visual aids, the address must be iterated and prepped for timing and delivery. Special consideration should be given to the vocal delivery of the message in an attempt to minimize verbal tics, such as "um" and "uhh" (McConnell, 2005). It is also very important to hone the skill of delivery to reflect an appropriate rate and volume of expression, as well as proper articulation and pronunciation (Penrose et al., Rasberry & Myers, 2004). Recitation is the key to refining these skills from deliberate to effortless actions.

Trust is a Product of the Spirit

It cannot be overstated that quiet reflection spent in prayer and meditation calms the spirit of the anxious. By placing trust in Christ, the nervous and stressed speaker can receive a change of Spirit, from trust in self to trust in the Spirit of the Lord. The Apostle Paul writes in Philippians that "by prayer and petition, with thanksgiving" all requests should be presented unto the Lord in order to receive a peace that "transcends all understanding" (Phil 4:6-7, New International Version). The only true peace and relaxation comes from the Spirit, and is the only perfect cure for life's apprehensive moments. The Lord desires His people to "be strong and courageous…for the Lord your God will be with you wherever you go," calming fears and relaxing the Spirit, even onto the stage behind the lectern (Joshua 1:9).

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Speech Anxiety: Understanding the Causes and Learning to Overcome the Problem

Melinda Myers

Most business professionals are at some time in their careers required to give oral presentations or informal speeches to their peers, superiors, clients, or even the public. While oral presentations are common in the business world, many people still find themselves plagued with speech anxiety. Among the many factors contributing to speech anxiety are lack of preparation, negative perception about one's own voice, and negative self-talk. While speech anxiety may be difficult to overcome, there are several methods that professionals can use to conquer this problem; through the employment of theses techniques, even the most novice public speaker can learn to deliver an effective presentation.

Oral presentations are very important in the business world. Business professionals are often required to give presentations to their superiors, clients, peers, and even the public. While not all professions require employees to give speeches on a regular basis, it is true that almost every business person—regardless of position—will at some point in his or her career be asked to give an oral presentation, whether the presentation is formally prepared or impromptu. Because speeches are so prevalent in the business world and can have an effect on the reputations of both the individual presenter and the organization, it is crucial that business professionals are trained with the skills that they need to deliver effective presentations; unfortunately, many business professionals have never received formal speech training and feel very uncomfortable with the prospect of delivering an oral presentation. One common problem that business professionals face is that many people suffer from various levels of speech anxiety; the anxiety that people experience prior to giving speeches can cause them to forget information, stumble over words, speak too quickly or speak with too soft a voice (Penrose, Rasberry, & Myers, 2004). In order to overcome the issue of speech anxiety, it is necessary to understand where it comes from, as well as to learn different methods to improve presentation skills.

Sources of Speech Anxiety

Speech anxiety is caused by a variety of factors. Before one can understand how to improve his or her speech skills, he must first discover the source of the fear or anxiety. Some of the common factors that increase speech anxiety include negative self-talk, negative perception of one's own voice, and lack of preparation.

Negative Self-Talk. A major source of speech anxiety is "negative self-talk" (Brydon & Scott, 2000, p. 61). Negative self-talk occurs when a person worries excessively about giving a speech, imagines the worst scenario in giving the speech, or is overly consumed with fear of the physical symptoms of anxiety, such as a shaky voice or hands (2000). Most anxiety that people feel regarding public speaking is generated by their own thoughts and attitudes.

Negative Perception of One's Own Voice. Many people do not like to speak in front of groups because they do not like to hear their own voices. The results of one study found that "high social performance anxiety is associated with a negatively distorted perception of one's own voice" (Lund, et al., 2002, p. 28). Because of negative perceptions of their own voices, people are often hesitant to speak in front of crowds out of fear that the audience will judge them; this belief can have a destructive effect on a presenter's self-confidence, resulting in speech anxiety.

Lack of Preparation. A major source of speech anxiety is lack of preparation. Brydon and Scott (2000) suggest that speakers should prepare and practice just as an athlete practices for a big game or race; the authors say that when presenters fail to prepare, "the real source of their discomfort is a result of their own shortsightedness" (p. 59). If a presenter expects to succeed, he or she should plan to put effort into thorough preparation of the presentation.

In the contexts of a memorized speech or an extemporaneous presentation, many people feel anxiety because they fear that they will forget the information that they planned to deliver (Slater, Pertaub, Barker, & Clarke, 2006). Since the speaker's credibility is reliant upon his or her ability to give complete and accurate information, remembering the details of the speech is extremely important.

Overcoming Speech Anxiety

While speech anxiety is very common, there are many ways in which a speaker can overcome this problem. Methods of conquering the fear of public speaking include thorough preparation of information and materials, practice, employing relaxation techniques, and socializing with the audience.

Preparation. Since a major source of speech anxiety comes from lack of preparation, one way to defeat the problem is to fully prepare for the speech. Complete preparation includes analyzing the audience, researching the topic, collecting complete information, formulating an outline, and creating visual materials and outlines (DeVito, 2003). In the case of an impromptu presentation, the person asked to speak is not afforded the opportunity to prepare the presentation in advance; because a professional's success and reputation are often affected by these spontaneous presentations, impromptu speeches can inflict a high amount of stress and anxiety for the person presenting (Penrose, et.\ al., 2004). To ease this anxiety, it is suggested that business people try to anticipate if they will be asked to give such a presentation so that they are somewhat prepared if the situation arises (2004).

Preparation also includes practicing the presentation in advance. Penrose et al. (2004) suggest that practicing a presentation at least three times helps the presenter to not only gain complete knowledge of the material, but also to "increase…self-confidence" (p. 301).

Practicing a speech should be treated like a dress rehearsal in which the presenter goes through the entire speech, using visual aids and monitoring the length of the speech; the presenter may also want to practice in front of a peer, or group of peers, in order to gain constructive feedback (2004).

Researchers suggest that while practicing in front of an audience provides valuable outside feedback, rehearsing in front of a mirror is also a very effective method of practice because it allows the speaker to "observe and monitor his or her nonverbal communication behaviors…in a typically private and relaxed environment" (Smith & Frymier, 2006, p. 122). Practicing in front of a mirror allows presenters to see themselves as if they were part of the audience. The speaker may also choose to record his or her own voice while practicing the presentation in order to evaluate tone, clarity, and speed of speech.

Relaxation Techniques. While it is important to mentally prepare for a speech, it may also help the presenter to perform relaxation techniques prior to getting in front of the crowd; physical relaxation can often calm the speaker and drive away anxious feelings. Lewis (1982) suggests that speakers perform head rolls to relax their throats, yawn several times to relax vocal chords, and shake their arms to relieve tension. If the presenter is physically relaxed prior to giving a speech, he or she is also likely to be more at ease mentally as well.

Make Friends with the Audience. One author states that a good way to overcome speech anxiety is for the speaker to try to get to know the people for which he or she will be presenting (Noonan, 1998). By getting to know the audience, the speaker may feel more comfortable and less anxious when it comes time to actually make the presentation. The speaker may even try to ease tension by admitting his or her own nervousness to the members of the audience (1998).

Biblical Support

Though the Bible does not directly instruct on speech preparation, it does say a great deal about fear and anxiety. Joshua 1:9 (New International Version) commands believers to "be strong and courageous. Do not be terrified; do not be discouraged for the Lord your God will be with you wherever you go." God does not desire for His people to live in fear, but with spirits of strength.

The Bible teaches that God's followers should not carry feelings of anxiety, but should rely on the Father to see them through each situation, no matter how big or small. Philippians 4:6-7 instructs believers to not be anxious, but to bring their requests to God with prayer and thanksgiving so that they may receive His peace. The Bible also tells the believer to "cast all your anxiety on Him because He cares for you" (1 Peter 5:7). One of the greatest ways to overcome anxiety is to pray for God's peace and understanding.

Conclusion

Since presentations can often have a great effect on the reputation of individuals and organizations alike, it is necessary that firms focus on training employees in effective oral presentations. The key to overcoming speech anxiety is to first understand its origin; if one can determine the source of his anxiety, he or she simply needs to develop and employ techniques to reverse the root of the problem. While speech anxiety is a large problem in the world of business professionals, it is possible to overcome such fear and to turn even the most inexperienced speaker into an eloquent and effective presenter.

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Speech Anxiety

Erik Donavan Henkel

Communication apprehension and anxiety is a common fear, but it can be especially hard on businesspeople because they are often required to give important presentations. Through an understanding of the causes of their anxiety and by learning practical ways to cope with their anxiety, a businessperson stands a strong chance of dealing with his or her fear. Some common causes include personality type, lack of confidence, lack of experience, and the formal setting of the business environment. Some practical methods of coping with the anxiety include fully preparing, attending communication seminars and courses, gaining experience in less crucial settings, and trusting in God.

Communication skills are essential for any businessperson who desires to be successful. While all forms of communication are important to managers, spoken communication skills become increasingly more important as a person climbs the corporate ladder. Managers are required to give speeches and presentations to subordinates, colleagues, executives, and potential customers. Unfortunately, many individuals suffer from a fear of public speaking or some other form of communication anxiety. Surveys now list the fear of public speaking as the most common fear, above even the fear of death (Bozell, 2000). Communication apprehension can greatly hamper an individual's career, since the individual will likely avoid taking any position or promotion that will require high degrees of verbal communication (Penrose, Rasberry, & Myers, 2004). Fortunately, if individuals understand why they have a fear and develop some practical ways of dealing with their anxiety, they have an opportunity to overcome their fear and succeed in their career.

Potential Causes

There are several potential reasons why individuals suffer from communication apprehension. First, there is a correlation between someone's personality and likelihood for experiencing communication apprehension. Introverted individuals are significantly more likely to experience communication anxiety than extroverted individuals (Opt, & Loffredo, 2000). It is important to clarify that not all introverts suffer from communication anxiety and that not all extroverts avoid experiencing communication anxiety. It simply means that introverted individuals have a greater propensity for communication anxiety. The relationship between personality and communication anxiety is likely the result of an individual's comfort level around others. Extroverts prefer the company of others and are often able to think more clearly by communicating verbally, while introverts often work best when they are able to internalize their thoughts before communicating (Kroeger, Thuesen, & Rutledge, 2002). Since communicating verbally is preferable for extraverts, they are naturally less anxious in that situation.

Another potential cause of communication anxiety is a lack of confidence. Berg (2005) describes communication apprehension as "nothing more than a lack of confidence built upon by a few bad experiences and unrealized fears that stream into a person's conscious and subconscious thoughts" (p. 28). Businesspeople need a sense of confidence in whatever tasks they are attempting. Individuals who do not believe they will succeed have little chance of proving themselves wrong, while those that believe they will succeed have a greater chance of doing just that. Both attitudes lead to self-fulfilling prophecies. A lack of confidence is usually based on a few bad experiences from the past followed by a person's avoidance of the anxiety producing situation in the presence. When individuals simply avoid giving presentations because they lack the confidence, they deprive themselves of the opportunity to reach their potential and prove themselves wrong.

A third potential cause of communication anxiety is the formal nature of the business environment (McKenzie, & Saunders, 2007). Giving a presentation to subordinates, colleagues, executives, and potential customers adds an extra degree of fear. Businesspeople realize that their presentations may be the deciding factor on whether or not their company receives the contract or sale. This places a huge burden and amount of pressure on the presenter. Presentations directed at top executives are also stressful. A single presentation may be the only chance a manager has at impressing his or her superiors. In this type of situations, managers may become so distracted by the pressure to succeed that they actually doomed themselves to failure. Managers need to focus their attention on the actual presentation and not the possibility of a huge promotion or large contract.

Finally, an individual's lack of experience can serve as a potential cause of communication anxiety. Executives who give presentations on a regular basis are less likely to experience high levels of anxiety (Penrose et al., 2004). The old adage about an individual being forced to either sink or swim holds very true in business. Businesspeople placed in a position where they constantly give presentations usually become more comfortable with giving them and more confident in their ability to deliver a good presentation. Those individuals are the ones that learn to swim. The other individuals who give presentations but do not adjust to them over time and continuously remain overwhelmed with fear are likely to be removed from a position where they are required to give presentations. Those individuals are the ones that sink. Businesspeople with little or no experience at giving presentations have not had the opportunity to acquire the skills and knowledge of the seasoned veterans. They are much more likely to experience anxiety and nervousness during their speech.

Practical Ways to Deal with Stress and Anxiety

While the fear and anxiety of public speaking can be crippling at times, there are practical ways of coping with the stress and anxiety. First, preparation is the key to overcoming speech anxiety (Lewis, 2000). Prepared individuals are more confident. No one should expect success when he or she fails to put forth the required effort. Businesspeople are professionals who can tell the difference between extremely charismatic speakers with little substance and average speakers with superior quality products or services. This does not negate the need for businesspeople to be great speakers but an understanding of this principle helps to take some of the pressure off. A really good presentation can often speak for itself. By putting forth the effort and creating a quality presentation, the speaker already knows he or she stands a strong chance of success or at the very least a much greater chance of success than if the speaker failed to prepare.

Since most causes for communication anxiety have some roots in a lack of experience, a logical solution to the apprehension is for individuals to gain experience. Berg (2005) says that "experience is the best learning tool" (p. 28). Positive experiences in the present will counteract any negative experiences a person has had in the past because people tend to focus on their current successes instead of dwelling on their past failures. One of the simplest ways to gain experience is by volunteering to speak at less critical times and in less serious situations. Once individuals gain confidence and experience by speaking in less important situations, they will be less anxious when speaking in actual meetings and giving important presentations. Speakers can also gain experience with each individual presentation by presenting to colleagues prior to the actual meeting or by practicing in front of a mirror where they can view their delivery first hand. Both of these acts also serve as preparation for the meeting. Experience does not equal success, but it does build a strong foundation for success.

Third, studies have shown that courses and classes that teach communication skills reduce speech anxiety and apprehension (Schroeder, 2002). Practice makes perfect and businesspeople who give speeches may want to consider taking a course to help them prepare. Universities understand how important the ability to give quality presentations and speeches is to any businessperson. For that reason most MBA programs require a communication course with a heavy emphasis on the speaking aspects of communication (Bogert, & Butt, 1996). However, individuals do not necessarily need to take a graduate course in communication to overcome their anxiety; an undergraduate course from a community college may be all someone needs to give that person to the confidence to succeed. If a college course is not an option the individual may consider a simple skills training seminar (Schroeder). Many businesses offer seminars to help their employees succeed at a variety of tasks and improving communication skills is often among the seminars. Even individuals who excel at giving presentations should consider taking a seminar to further their abilities. No one knows everything and everyone can also learn something.

Finally, Christians need to rely on faith and trust in God when dealing with stress and anxiety. Joshua 1:9 (New American Standard Bible) states "Do not be terrified; do not be discouraged, for the Lord your God will be with you wherever you go." Christians should be calmed through an understanding that God is with them during their presentations. He is strong even when they are facing their greatest fears. Philippians 4:6-7 states "Be anxious for nothing, but in everything by prayer and supplication with thanksgiving let your requests be made known to God. And the peace of God, which surpasses all comprehension, will guard your hearts and your minds in Christ Jesus." Verse 13 gives confirmation of this principle when Paul states, "I can do all things through Him who strengthens me."

Moses is a prime example of an individual who put some of these practical methods into practice to overcome his speech anxiety. In Exodus 4:10, Moses states that he has "never been eloquent" and that he is "slow of speech." God addresses Moses' concern by having him take his brother Aaron to speak publicly for him. As the book of Exodus continues, Moses becomes more confident in his ability to speak and begins to speak directly to small groups. Throughout the rest of Exodus and the Pentateuch, Moses continues to gain confidence and place his faith in God to provide him with the strength he needs. Eventually, Moses reaches the point where he becomes comfortable enough to speak directly to all the Israelites. Moses is no longer a slave to his fear and anxiety but is free to fully be a servant for God.

Conclusion

Anxiety, apprehension, and fears induced by public speaking may seem uncontrollable, but they do not have to equal a death sentence. Few individuals would be able to guess that "96 percent of executives express some public speaking anxiety" (Penrose et al., 2004, p. 24). The key is not having zero anxiety but instead learning how to cope with the anxiety one does have. The major components to coping with anxiety are an understanding of the basic causes and learning methods to cope with those causes. Sometimes personality factors may be the initial cause of a person's anxiety. Those individuals need to realize that sometimes people just have to step outside of their comfort zones to truly understand what they are capable of. Other individuals are hampered by a lack of experience or confidence. Those individuals may want to consider taking a speech course or seminar to build both confidence and experience. Other individuals are intimidated by the formal nature of the business environment. Strong preparation is essential for overcoming this intimidating factor. Finally, regardless of the potential reason for a person's anxiety and fears, his or her faith and trust in God is the ultimate foundation for overcoming them.

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Afterword

Bruce K. Bell

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Moreover, many readers of this journal may be considering earning a Master of Business Administration degree, and we invite you to explore the Liberty University MBA degree program. Fully accredited by the Southern Association of Colleges and Schools (SACS) and the Transnational Association of Christian Colleges and Schools (TRACS), Liberty's MBA is 45 hours and includes specializations in Accounting, International Management, Human Resource Management, and Organizational Leadership. For those desiring a master's degree without the intensity of the MBA, a 30-hour Master of Science in Management degree is available without the above concentrations.

Additionally, a 30-hour Master of Science degree in Accounting is available from Liberty University, offering individuals seeking an advanced degree in Accounting the opportunity to earn a master's degree in as little as one year.

All courses for the MBA, the M.S. in Management, and the M.S. in Accounting are eight-weeks in length and are conducted over the Internet, incorporating graduate-level readings and tests, discussion board postings, and evaluations of others' work. No residency is required for any of these graduate programs.

Applicants must have graduated from accredited institutions, earned a 3.0 grade point average (on a 4.0 scale), and possess basic computer literacy. Interested applicants should contact Kyle Falce, director of graduate admissions, at kafalce@liberty.edu or (434) 592-3525.

We hope you have enjoyed and benefited from some of the information and ideas in this issue of the *Liberty Business Review*.