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LINKAGES BETWEEN CEO COMPENSATION, NET INCOME AND STOCK PRICES

Gary F. Keller, Monarch Business School Switzerland

ABSTRACT

Calculating the economic value that a CEO contributes to the worth of a corporation is seemingly a moot point. However, recent reporting changes regarding executive compensation has attracted widespread investor and public attention to this subject. Regardless of the industry, place in the economic/industry cycle the issue of analyzing if a CEO's annual compensation is directly correlated to yearly increases or decreases in an enterprise's value is a topic that few outside the boards of directors' corporate compensation committees clearly understand. The purpose of this 2015 quantitative research project was to follow-up a previous research project conducted in 2011 to investigate if any linkage exists between the annual salaries of the CEOs of public traded firms in the State of Wisconsin, USA and increases/decreases in the price of their corporations' stock price and net income. The results of the 2015 research indicate that statistically significant relationships existed between the annual salaries of the CEOs of public traded firms in the State of Wisconsin, USA and increases/decreases in the price of their corporations' stock price and net income. This conclusion is different from the 2011 research findings.

JEL: M120

KEYWORDS: CEO, Compensation, Employee Participation, Executive Compensation, Executives, Personnel

INTRODUCTION

The author of this study, a resident of Wisconsin selected the State of Wisconsin as a micro-study due to the number of Fortune 1000 firms (23) and Fortune 500 companies (8 - 18th highest in the United States) and their corporate headquarters. Some well-known corporations include Fiserv, Harley-Davidson, Johnson Controls, Kohl's, Manpower, Northwestern Mutual and Rockwell Automation. In 2011, the author conducted an analysis of public traded firms (Keller, 2013) to ascertain if statistically significant correlations existed between the compensation of corporate executives of 48 public traded firms and the stock prices and net incomes of their firms prior to the onset of the Great Recession in 2008 and during the economic recovery in 2010. The chief outcomes from that research showed that there was no statistically significant correlation between the compensation of corporate executives of 48 public traded firms in the state of Wisconsin and the net incomes and stock prices of their firms in 2008. In 2010, there was no statistically significant correlation between the compensation of corporate executives of 48 public traded firms in the study and the stock prices of their firms. However, there was a statistically significant correlation between the compensation of these executives and the net incomes of their firms.

The purpose of the 2015 study was to follow-up the 2011 investigation, which was one of the recommendations from the 2011 research paper. Another goal of the 2015 research was to assess to what degree CEO compensation changed when the American and economy experienced a surge in stock price and revenue increases. Corporate stock and financial results of the same firms' from 2010 and 2014 were compared to discover if any statistically significant changes occurred regarding the effect of executive compensation and corporate performance. The 2010 study included 48 corporations and their CEOs; the

2014 research evaluated 33 corporations. The reason for the disparity was due to turnover in some of the firms' CEOs. In the 2015 research, the same CEOs evaluated in 2011 are studied. The time covered in the 2015 research project is unique as it takes into account corporate stock price, net incomes and CEO compensation variances between the Great Recession and record post Great Recession recovery periods.

Total compensation for CEOs continued to grow during the course of the years of this series of studies from 2008 – 2014 "pushed up by the value of executive stock awards. The median compensation for the heads of Standard & Poor's 500 companies rose to a record $10.6 million, up from $10.5 million the year before" (Jsonline, 2015, para 12). The consistent, widening gap between executive and employee compensation prompted the Securities and Exchange Commission (SEC) in April 2015 "to propose rules to require companies to disclose the relationship between executive compensation and the financial performance of a company. The proposed rules, which would implement a requirement mandated by the Dodd-Frank Act, would provide greater transparency and allow shareholders to be better informed when they vote to elect directors and in connection with advisory votes on executive compensation" (SEC, 2015, para. 1).

One of the prominent results of the author's 2011 study of the effect of executive compensation and changes in a firm's stock price and net income in 2010 was that there was no statistically significant correlation between executive compensation and a firm's stock price and a statistically significant correction between executive compensation and a firm's net income. Given the notable increases in CEOs' compensation tied to an enterprise's stock price; the author conducted a follow-up research study on the same public traded firms and their CEOs (who were still in charge of the corporations) using the identical methodology as used in 2011. This research effort continues to scrutinize the question; do the actions of a CEO have a direct connection to corporate financial results? The Literature Review explored four threads, management's impact on corporate performance, CEO compensation trends, CEO and employee pay disparities and an assessment of CEO compensation developments in Wisconsin.

LITERATURE REVIEW

Hubbard (2006) cited the work of Alfred Chandler Jr. and David Landes who asserted that professional management was the key factor for the United States' rise to economic prominence compared to its European rivals. "Through the microeconomic perspective, management is, at heart, a choice made by each firm" (p. 30). An influential study by Bloom and Van Reenen (2006) of more than 700 manufacturing companies in Great Britain, France, Germany and the United States found that the approach taken by corporate leaders was the foremost management influence on enterprise performance. Those firms with superior management were associated with higher productivity, return on equity and market capitalization. Bloom and Van Reenen (2007) followed up their study of 700 European firms with an expanded research project encompassing more than 4,000 American, European and Asian businesses. Bloom and Van Reenen (2007) research further reinforced their 2006 findings. Bloom and Van Reenen also determined there was no single management practice that provided the key to improved corporate performance. Rather, it was the average score of 18 management practices grouped into "four areas: *operations* (three practices), *monitoring* (five practices), *targets* (five practices), and *incentives* (five practices)" (p. 1361) when compared to an enterprise's economic success that provided the most accurate indicator of success. One micro study conducted (Keller, 2009) applied Bloom and Van Reenen's methodology on for-profit corporations in southeast Wisconsin in late 2008. The results from this scholarship showed that management practices did not have a statistically significant impact on the economic performance of for-profit firms with the exception of one ownership type.

Jarque and Muth (2013) examined how CEO remuneration packages were constructed. In their study, the authors could not clearly determine what specific metric linked an executive's compensation and the performance of his/her firm. Additionally, Jarque and Muth found that the study of executive compensation is constrained by the availability of data. Their study revealed that: "executive compensation packages of most executives include stock and option grants on their own firm's shares, which typically come with requirements that they be held by the executive for at least three or four years. First, the compensation requires that are reported by firms (and are readily available to the press and researchers) are a combination of both expected value of compensation (for deferred compensation in the form of restricted stock and option grants that are not convertible into cash right away) and realized value (salaries, bonus payments, and perquisites). Second, a given year's compensation package provides income for several years to follow, since the CEO will be able to realize gains from selling and exercising stock and option grants once their vesting restrictions expire" (p. 252).

Ganor (2013) discovered a statistically significant correlation between corporate cash retention and CEO compensation which increased from 2008 – 2010. "The accumulation of cash contributed to an average growth of 10 percent in the CEO's annual compensation is associated with an average of 3 percent increase in the firm's money holdings and that the correlation between CEO compensation and cash holdings became statistically significant from 2008 through 2010" (p. 107). DiPrete, Eirich, and Pittinsky (2010) may have explained the "invisible hand" influencing the escalation of executive compensation. They assert that the impact of disproportionate pay enlargements for a relatively small number of executives in a given year/s proliferates to peer industry groups. Comparing peer industry averages is a frequently used method by boards of directors to gauge and calculate executive pay packages. DiPrete et al. coined the term "CEO leapfrogging" as one way to comprehend the consistent annual CEO pay escalation since the early 1990s.

The August, 2015 unemployment rate in the United States was 5.1 percent, the lowest rate since August 2007 (United States Department of Labor, 2015a). The National Conference of State Legislatures (2015) reported an unemployment rate for the State of Wisconsin (the region of interest of this series of studies) of 4.5 percent in August 2015, the lowest since 2008. The significant job and economic gains generated during the recovery after the Great Recession have fueled immense gains in wealth and executive compensation. Much research has focused on wage growth, the growing disparity between executive compensation and wages paid to non-executive employees and what if any legislation needs to be taken to moderate the pay ratio disparity between CEOs and workers. The Harvard Business School conducted research to discover what Americans thought about the wage discrepancy between CEOs and average workers. The results of the study found that Americans misjudged the salary gap significantly by a factor of nearly 116 times (30 vs. 350 (Ferdman, 2015). According to the AFL-CIO's annual pay gap analysis, the average Fortune 500 CEO in the United States in 2013 made more than $12 million per year; however, the multiple more than doubles when compared to minimum wage workers; the average CEO in 2013 out-earned this group 774 times (Dill, 2015). The national average wage (non-CEO) index for 2013 was $44,888.16. The index is 1.28 percent higher than the index for 2012 (Social Security Administration, 2015). Another perspective that summarizes the wage disparity trend was reported by Harwell and McGregor (2015); "Fifty years ago, the typical chief executive made $20 for every dollar a worker made; now, that gap is more than $300 to $1, and it's growing" (para. 4).

Shin (2014) sought to determine some influences that contributed to the widening wage gap. He concluded that the demise of unionization was a key factor. "In 2014, the union membership rate was 11.1 percent compared to 1983, the first year for which comparable union data are available, the union membership rate was 20.1 percent, and there were 17.7 million union workers" (U.S. Department of Labor, 2015b, para. 1). Shin asserted that unions a) not only contributed to representing workers' economic influence but also impacted executive compensation as a "moral pillar" (p. 1339) to balance standards about evenhandedness and fairness and b) the decline of unions left few if any restraints on tempering the wage fissure. Since 1999, Wisconsin's economy has fared well.

According to Fortune (2014) Wisconsin was one of nine states with the most number of companies in the Fortune 500. According to the Wisconsin Department of Revenue (2014): "The Wisconsin economy grew at a moderate pace in 2013 and will gain steam in 2014. The Wisconsin economy, as measured by personal income, grew 3.9% in 2012, just below the 4.2% growth nationwide. Wisconsin personal income should post growth of 2.9% in 2013 and will grow 4.0% in 2014" (p. 1). In 2010 in Wisconsin, the typical pay of a public traded Wisconsin company that was part of the researcher's study was $4.1 million. In 2014, the same group of CEOs' compensation was $4.3 million, an increase of 4 percent. In contrast, the average worker in Wisconsin made $808.00 per week or $42,016 per year (U.S. Department of Labor (2015c) compared to $39,156 in 2010 (an increase of 6 percent). The pay disparity between Wisconsin CEOs to the average employee in 2014 was 103:1 a 3 percent increase compared to the 99:1 ratio in 2010 and still significantly lower pay differential than national averages.

The scholarly and popular literature review continues to point to the enlarging chasm between CEO compensation and worker wages. While the causes for the gulf continues to be investigated, the key foundational questions that remain are: a) to what extent do CEOs (i.e. management) have an economic impact on their firms' stock prices and net incomes and is there a relationship between CEO compensation and changes in their firms stock prices and net incomes? This study continued the investigation of these questions focused on public traded companies in the state of Wisconsin.

METHODOLOGY

The problem addressed in this part of the quantitative micro-study was to determine if a linkage existed between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin and increases/decreases in the value of their corporations' stock price and net income. The 2011 study analyzed 48 corporations and their CEOs; this 2015 study evaluated 33 corporations. The reason for the disparity was due to turnover in certain firms' CEOs. The 2015 research evaluated only the same CEOs who were in the 2011 investigation. In this study, salary, stock prices and net income data came from public available sources, e.g. 10K and DEFA14K reports filed with the SEC and MarketWatch.com. The basic hypotheses that guided the 2011 study guided this 2015 study. Below are two sets of null and alternative hypotheses that.

Hypotheses

H1o. There is no statistically significant linkage between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin, and increases/decreases in the price of their corporations' stock prices in 2014.

H1a. There is a statistically significant linkage between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin, and increases/decreases in the price of their corporations' stock prices in 2014.

H2o. There is no statistically significant linkage between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin, and increases/decreases in the net income of their corporations' in 2014.

H2a. There is a statistically significant linkage between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin, and increases/decreases in the net income of their corporations' in 2014.

RESULTS AND DISCUSSION

The researcher used a t-test-paired two sample for means to analyze the data. A 5 percent level of significance determined whether to accept or reject Null Hypothesis 1: There is no statistically significant linkage between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin, USA and increases/decreases in the price of their corporations' stock prices in 2014. The data analysis results found that there was a statistically significant relationship between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin, USA and increases/decreases in the price of their corporations' stock prices in 2014. With a t critical two-tail value of 2.04 needed at the 5 percent level and a t value of 7.08 was found which is well below the 5 percent level of significance (.0000000247). Thus Null Hypothesis 1 is rejected (Table 1) and Alternative Hypothesis 1 is accepted. The researcher also used a t-test-paired two sample for means to analyze the data to determine whether to accept or reject Null Hypothesis 2: There is no statistically significant linkage between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin, and increases/decreases in the net income of their corporations' in 2014. The data analysis results found that there was a statistically significant linkage between the annual total compensation of the CEOs of 33 public traded firms in the State of Wisconsin, USA and increases/decreases in the corporation's stock prices in 2014. With a t critical two- tailed value of 2.04 was needed at the 5 percent level and a t value of 4.0 was found which is well below the 5 percent level of significance (.0003). Thus Null Hypothesis 2 is rejected (Table 1) and Alternative Hypothesis 2 is accepted.

Table 1: Relationship of CEO Compensation to Firm's Stock Price and Net Revenue 2014

Hypothesis	T-Critical Two-Tailed	T Value Found	P Value Found	Decision
1	2.04	7.08	.0000000247***	Reject Null Accept Alternative
2	2.04	4.0	0.0003***	Reject Null Accept Alternative

This table shows the results of a t-test-Paired Two Sample for Means; a 5 percent level of significance determined whether to accept or reject Null Hypothesis 1 and 2. The numbers below the p Value Found is indicate significance at the 1, 5 and 10 percent levels respectively. The outcome of the t-tests indicated there is a statistically significant linkage between the annual salaries of the CEOs of 33 public traded firms in the State of Wisconsin, USA and increases/decreases in the price of their corporations' stock prices and net incomes in 2014. P Value found Significance Level 10, 5**, 1***.*

Additional analysis compared the findings from research conducted in 2011 with that of 2015. The researcher only compared the stock prices and net incomes of the public traded firms led by the same CEOs in 2010 and 2014. Table 2 displays the findings of this analysis.

Table 2: Comparison of Average Net Income, CEO Compensation, and Stock Price on December 31, 2010 and 2014

Average Net Income in 2010	Average Net Income in 2014	Difference
$80,716,337	$209,106,248	$128,389,911 +61%
Average CEO Salary in 2010	**Average CEO Salary in 2014**	**Difference**
$4,084,465	$4,344,824	$260,359 +6%
Average Stock Price in 2010	**Average Stock Price in 2014**	**Difference**
$24.28	$42.70	$18.42 +43%

This table shows the extent of the recovery experienced by the United States' economy, and the 33 Wisconsin public traded firms in this 2015 research project, from the depths of the Great Recession to a growth trajectory in 2014. The average net income increased between 2010 and 2014 by $128,389,911.00 (61 percent) and the average per share stock price also enlarged on average by $18.42 (43 percent).

Interestingly, the average CEO total compensation package increased by $260,359.00 or 6 percent. The 6 percent salary increase requires further inquiry considering the significant improvements in corporate net income and stock prices. In the comparison between 2010 and 2014, in 2014 12 (36 percent) CEOs received lower total compensation packages and six firms (18 percent) reported declines in net incomes. Clearly, a rebound of the national economy contributed to increases across the key parameters under investigation in this 2014 study.

A broad perspective is required when analyzing CEO pay and its connection to firm performance. Table 3 depicts comparisons from three periods. The key indicators are the relatively small salary increases (18 percent) from 2008 – 2014 compared to the very strong (61 percent) growth in net income and (56 percent) surge in the price of the firms' stocks.

Table 3: Comparison of Average Net Income, CEO Compensation, and Stock Price on December 31, 2008, 2010 And 2014

Average CEO Salary in 2008	**Average CEO Salary in 2010**	**Difference**	**Average CEO Salary in 2014**	**Difference between 2008 and 2014**
$3,543,098.00	$4,084,465	$550,472 +13%	$4,344,824	$801,726 +18%
Average Net Income in 2008	**Average Net Income in 2010**	**Difference**	**Average Net Income in 2014**	**Difference between 2008 and 2014**
$80,716,337	$86,379,273	$5,662,936 +7%	$209,106,248	$128,389,911 +61%
Average Stock Price in 2008	**Average Stock Price in 2010**	**Difference**	**Average Stock Price in 2014**	**Difference between 2008 and 2014**
$17.71	$24.70	$6.99 +28%	$42.70	$24.00 +56%

This table compares the average salaries of CEOs, net incomes and stock prices of the CEOs and their firms that were the subjects of analysis in this study. The pre-Great Recession and Recovery years indicate that between 2008 and 2014 the average salary of a CEO of a public traded firm in Wisconsin increased by 18 percent, the average net income of these corporations enlarged by 61 percent and the average value of the companies' stock price grew 56 percent.

An important finding in this 2015 study was the consistent relationship between a CEO's pay and his/her effect on their firm's financial performance. The outcomes of research conducted in 2008 showed that there was no statistically significant linkage between the compensation of corporate executives of public traded companies in the state of Wisconsin and the stock prices and net incomes and of their entities in 2008. However, in 2010 while there was no statistically significant relationship between the compensation of corporate executives of 48 public traded firms in the state of Wisconsin and the price of their corporations' stock prices in 2010, there was a statistically significant relationship between the compensation of these executives and the net incomes of their corporations. This 2015 follow-up study indicated a major variance from the 2011 research indicating that there was a statistically significant relationship between the compensation of corporate executives of 33 public traded firms in the state of Wisconsin and both net incomes and stock prices.

CONCLUSION

The significant finding from this study was a major change from the 2011 research indicating that there now is a statistically significant relationship between the compensation of corporate executives of 33 public traded firms in the state of Wisconsin and both net incomes and stock prices of the companies they lead. This 2015 study found that the CEOs directly influence how a firm conducts its daily fiscal business and manages its human and capital resources. As Bloom and Van Reenan confirmed in their 2006 and 2007 studies, a bundle of 18 management practices, consistently executed directly contribute to the success (financial and operational) of a firm. The mini-longitudinal study conducted by this researcher affirmed Bloom and Van Reenan's contention.

This mini-longitudinal research also varied from the findings from the 2011 research regarding the relationship between the compensation of corporate executives of public traded companies in the state of Wisconsin and changes in the stock prices of their entities. The 2015 study found a statistically significant relationship between CEO compensation and increases in the price of their firm's stock price. Perhaps this finding is not remarkable. The numerous variables that influence the daily value of public traded firms are beyond the scope of this research. However; it is difficult to assert that the routine decisions of a rational

CEO and his/her staff and governance board have a predictable impact on the psychology of investors' buying and selling judgments. Emotions (fear and greed), economic shocks etc. all have roles in the ultimate price of a firm's perceived value and most importantly future prospects. Nevertheless, a CEO's compensation package includes lucrative incentives tied to the firm's stock price. Whether a governance board completely understands the rather tenuous connection between a CEO's decisions, stock price and compensation is a matter for future investigation. Finally, an unanticipated series of findings emerged from this 2015 follow-up research.

The governance boards of the 33 public traded firms located in the state of Wisconsin gave on average a 6 percent pay increase to their CEOs between 2010 and 2014. Interestingly the average Wisconsin worker also received an average pay increase of 6 percent during the same time. While the annual increases appear to be equitable, the pay disparity between Wisconsin CEOs to the average employee in 2014 was 103:1 a 3 percent increase compared to the 99:1 ratio in 2010; however still significantly lower than national averages. Nonetheless, a 99:1 pay differential may not provide much solace to those who struggle to meet their bills on a weekly basis. One reason for the decline in real wages may be the historical percentage weakening of wage and salary workers represented by unions. In 2014 in the state of Wisconsin, unions (U.S. Bureau of Labor Statistics, 2015) represented 11.3 percent. The continuous decline of manufacturing industries and union membership in the state of Wisconsin and its possible moderating influence on CEO pay and overall wage disparity is a subject for further research.

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BIOGRAPHY

Gary Keller is a Professor of Management at "Monarch Business School Switzerland". He also is a management consultant and teaches on an international basis. He can be reached at dr.keller@monarch-university.ch

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RELATIONSHIPS BETWEEN ORGANIZATIONAL SUPPORT, ORGANIZATIONAL COMMITMENT AND RETENTION: EVIDENCE FROM HIGH-POTENTIAL EMPLOYEES

Jocelyne Abraham, Université François Rabelais
Stéphane Renaud, Université de Montréal
Jean-Yves Saulquin, Université de Poitiers

ABSTRACT

This study examines the effects of perceived organizational support on high-potential employees' intention to stay with their organization in the short-, medium- and long-term, through the mediating effect of organizational commitment. Data derive from an online survey conducted among a sample of 221 high-potential employees working in organizations in the Centre-Val de Loire Region (France). Statistical analyses were conducted using the Macro MEDIATE developed by Hayes and Preacher (2014). In short, results revealed that the effect of organizational support on high-potential employees' intention to stay varies according to the three time points and suggest that the effect actually progresses over time.

JEL: M540

KEYWORDS: Organizational Support; Intent to Stay; Retention; Organizational Commitment; Human Resource Management

INTRODUCTION

The management of high-potential employees has proven to be a major concern, as organizations are increasingly faced with the risk of losing their highly qualified personnel. Attracting and retaining this specific population have become major challenges for HR managers now operating in an increasingly competitive and globalized market. According to the results of a large survey examining retention rates among U.S. organizations, approximately one-third of employees expect to leave their current employer for another job within the next year. Further, about 20 percent of employees surveyed estimated that their chances of leaving were greater than 50 percent (Bernthal & Wellins, 2001). It is evident that organizations must work to increase their value and competitiveness in order to ensure the retention of their staff. Today, value creation in firms is based largely on the development of intellectual capital (Bouchez, 2006). The notion of intellectual capital has been examined by numerous scholars (Bontis, 1998, 1999, 2003; Edvinsson and Malone, 1997; Roos et al., 1997; Lev, 2001) and is defined as the set of resources that provide the organization with competitive advantage over other firms. Some of these resources may be externally oriented (such as brands, patents and reputation) while others are intra-organizational (such as employees'strategic skills). High-potential employees constitute a key internal resource for organizations as they act as potential vectors for sustainable competitive advantage. Therefore, the ability to attract and retain exceptional talent is crucial for organizations.

The issue of effective management of high-potential employees has been studied heavily throughout the past decade. Numerous authors have highlighted the importance of this issue, ranging from Ducker (1999) who, in the early 2000s, pointed out that firms were already in a war for talent, to Vermès (2013) who demonstrated how Nicolas Fouquet (superintendent of Finances during the reign of Louis XIV) successfully guided his close collaborators (such as his gardener André Le Nôtre or painter Charles Le Brun) to become true experts. The literature on this subject suggests that in order to encourage retention of employees in general, appropriate HR management techniques should be implemented. Accordingly, much research reveals the importance of organizational support in reducing voluntary turnover (Eisenberger et al., 2002) as well as intentions to leave (Dawley et al. 2010; Johnson & DeConinck, 2009). Further, organizational commitment has been implicated as an important variable in explaining the relationship between organizational support and its related outcomes (Price 2001; Ramamoorthy & Flood, 2004). Therefore, the purpose of the current study is to examine the effects of perceived organizational support on high-potential employees' intention to stay with their organization over time, through the mediating effect of organizational commitment. It is hoped that the results of this study will provide answers to two major questions: firstly 'what is the impact of organizational support on the retention of high-potential employees in the short, medium and long term?' and secondly, 'does organizational commitment act as a mediating variable between organizational support and retention?'

The contributions of this study are twofold. Firstly, this article brings to light important relationships among three key HR management variables (organizational support, organizational commitment, and intention to stay) by focusing on the experience of a population currently neglected in the research literature, namely high-potential employees. The size of the sample as well as the use of numerous demographic, activity, organizational and work attributes can help inform HR managers as to the best practices to adopt with regard to these strategic employees. The second contribution is the use of a temporal approach in examining the progressive effects of perceived organizational support on the intention to stay over time. More specifically, this article explores high-potential employees' intention to stay with their organization for 6 months, 1 year and 2 years, which represent the time points of short, medium and long, respectively.

This paper is organized as follows. In the first section of the paper, a literature review is presented in which the concept of retention is defined and a description of its antecedents is offered. Further, the notion of high-potential is reviewed through the lens of social exchange theory in order to describe the subtle relations of exchange between high-potential employees and the organization, with a particular emphasis on employees' expectations regarding organizational support. The concept of organizational commitment is also reviewed as research suggests that this variable fosters the intention to stay. The literature review presented herein is essentially based on a review of key meta-analytic studies examining organizational support, commitment and retention. This strategy provides a highly exhaustive synthesis of the writings and general conclusions regarding these notions. The literature review is then followed by a presentation of the proposed research model as well as the study hypotheses. Next, the data collection strategy and methodology used in the study are presented. The article concludes with the results and conclusion sections.

LITERATURE REVIEW

In accordance with the literature on the subject, this section begins by defining the concept of retention and presenting its antecedents. The notions of high potential and social exchange within the organization are then outlined. Finally, the concepts of organizational support and organizational commitment with their respective antecedents are presented.

Retention and Its Antecedents

Retention refers to an employee's intention and/or decision to stay with his/her current employer (Cotton and Tuttle, 1986). Most studies focusing on this question have conceptualized this notion in terms of turnover rather than retention. Morin and Renaud (2009) identified numerous terms (e.g. job leaving, intention to leave, turnover) used in reference to the concept of retention. Moreover, they noted that studies tend to measure job leaving rather than employee retention, and questioned the idea that retention is the conceptual contrary of turnover. Accordingly, turnover can be characterized as involuntary (e.g. illness, retirement) or voluntary (in which case, it can be beneficial or harmful). Retention practices are useful only if they aim to retain high-performing employees who might otherwise decide to leave the organization. Retention thus reflects the efforts made by the organization to minimize the risks of undesirable voluntary job leaving. This article cites major empirical studies on the relationships between organizational practices and retention. The ultimate aim is to clarify the role of a variety of organizational practices in order to highlight HR interventions that help foster retention. To address this issue, which is complex to decypher, numerous models have been put forward delineating a wide range of explanatory variables. These models, however, tend to measure the mere presence of these variables rather than their intensity and often overlook their combined effects on retention.

In their meta-analysis, Cotton and Tuttle (1986) studied 26 variables in relation to turnover and demonstrated that almost all the variables were indeed associated with turnover. They also revealed that population, nationality and industry moderate relationships between many explanatory variables and turnover. The external variables used were the following: Employment perceptions (+), Unemployment rate (-), Accession rate (+), and Union presence (-). The internal variables included: Pay (-), Job performance (-), Role clarity (-), Task repetitiveness (+), Overall job satisfaction (-), Satisfaction with pay (–), Satisfaction with work itself (-), Satisfaction with supervision (–), Satisfaction with co-workers (-), Satisfaction with promotional opportunities (-), and Organizational commitment (-). The personal characteristics used were: Age (-), Tenure (-), Gender (Women +), Biographical information 0**,** Education (+), Marital status (married -)**,** Number of dependents (-)**,** Aptitude and ability 0**,** Intelligence (+), Behavioral intentions (+)**,** and Met expectations (-). The results of this meta-analysis were consistent with many of the conclusions found in previous studies. Accordingly, age, tenure, pay, overall job satisfaction and employment perceptions were strongly correlated with turnover. Task repetitiveness, accession rate and intelligence showed weak to no relationships with turnover. Moreover, it should be noted that employee category moderated the relationship between turnover and pay, turnover and job satisfaction as well as turnover and gender. The authors suggested that employee category has a significant impact on turnover and that studies on turnover would gain by including this criterion in their analyses.

In their meta-analysis of explanatory factors for turnover, Griffeth, Hom and Gaertner (2000) showed that job satisfaction, organizational commitment, job search, comparison of alternatives, and quit intentions accounted for withdrawal. The authors reported small to moderate predictive effects of characteristics of the work environment, job content, stress, work group cohesion, autonomy, leadership and, to a lesser extent, distributive justice and promotional chances. They also identified external explanatory factors such as alternative job opportunities. Few demographic attributes significantly accounted for turnover (except for number of children). Lastly, they emphasized the importance of merit-based reward systems for retaining high-potential employees.

Price (2001) put forward a model of turnover that included intention to stay (characterized as an antecedent). His model contained three groups of exogenous variables: individual, organizational and environmental variables. Moreover, his model highlighted the mediating effect of organizational commitment. The individual variables represented individual qualities: skills, level of job involvement and degree of positivism. While the first quality influenced turnover only, the other two qualities influenced intention to stay. The organizational variables described HR practices and internal managerial style. The author distinguished seven variables: autonomy, distributive and procedural justice, routinization, job stress, pay and retribution, organizational support, and promotional chances. These practices influenced intention to stay through a mediating relationship with job satisfaction and organizational commitment. Thus, organizational commitment acted as a mediating variable. The environmental variables were: similar job opportunities offered on the labour market and relatively strong social ties which could retain an employee who has a vague desire to leave. While social ties only affected turnover, market opportunities influenced both satisfaction and turnover.

In a meta-analysis of 25 studies with a focus on the social services sector, Mor Barak, Nissly and Levin (2001) examined the determinants of retention and investigated the factors behind employees' commitment to the organization. They found that the most significant explanatory variables for intention to leave were organizational commitment, professional commitment, burnout and job satisfaction. In the category of demographic data, age (being young), lack of work experience and lack of competence were statistically significant factors for both intention to leave and turnover. However, neither gender nor family situation was correlated with intention to leave or turnover.

As these authors pointed out, these findings can be considered as both bad and good news for managers. The bad news is that employees working in the social services tend to leave because they are not satisfied with their jobs, feel excessive stress and burnout, and do not feel supported by their supervisors and the organization. The good news is that when the decision to leave is based on working conditions and organizational culture, managers may be able to find solutions to these issues. Managers might thus benefit from periodic monitoring of their employees' feelings of job satisfaction and organizational commitment. Two studies cited by Mor Barak et al. (2001) have demonstrated that actions can be taken to reverse burnout and feelings of dissatisfaction among employees who are contemplating leaving (Cooley and Yovanoff 1996; Winefield, Fermier and Denson 1998). Lastly, it should be pointed out that the meta-analyses of Cotton and Tuttle (1986), Mor Barak et al. (2001) and Griffeth et al. (2000) did not take into account the relationship between perceived organizational support and employee turnover.

Notions of High Potential and Social Exchange with the Organization

In firms, the term "high-potential employees" refers to individuals who are identified or selected to participate in specific training programs or follow, in a formal or informal manner, accelerated career tracks in order to prepare them to replace managers, senior managers in key positions, or leaders of the organization (McCall, 1998, Walker, 1998). Viewed from outside, the high-potential employee is someone who has risen through the ranks to take on a senior position more rapidly than others. However, McCall et al. (1988) maintain that although qualities and talent play a role in the rise of high flyers, it is their ability and passion for learning that set them apart. Rault and Sartori (1991) define potential as the combination of two components: 1) a set of potential capacities based on existing aptitudes that have not yet been translated into real capacities through training or practice; and 2) a set of potential skills that have not yet been revealed in the current work situation but are known to exist because of capacities that have been exercised in other specific situations.

A high-potential employee is someone who has a greater capacity to learn and do so at a more rapid rate than others (Hugues and Hernez-Broome, 2004). Accumulating learning experiences allows these high-potential employees to acquire the skills needed for positions at the highest levels of the hierarchy. This experience presents opportunities for developing potential by facilitating the acquisition of theoretical knowledge (e.g. through training, reading, professional contacts, and exchanges and debates). Other types of experiences facilitate the acquisition of know-how, methods and practices (e.g. projects completed, experience in a position, exceptional work situations, innovation). Still other types of experiences foster the acquisition of relational or interpersonal skills (e.g. position of responsibility, public speaking, team facilitating, group decision making, and acting in an emergency or a stressful or conflict situation).A "high-potential manager", therefore, can be considered as a resource person who has the capacity to draw many lessons from his/her experience and remains open to training and learning. There is, however, always a gamble when predicting the future success of a high-potential employee. Current achievements are not a guarantee of the capacity to perform more complex tasks later on or, in particular, to obtain a leadership position. Among HR managers, high-potential managers are those expected to hold the highest future value for an organization, as they constitute an important part of the firm's intangible intellectual capital. As previously mentioned, it is crucial for firms to develop this type of capital seeing as the need for intellectual capital is increasing in the world of work. Included among high-potential managers are experts, individuals who possess rare knowledge and display the highest competence and reputation level (Abraham et al., 2013). For Ulrich (1998), intellectual capital results from a combination of commitment (or involvement) and competence. Yet, commitment and competence depend, not only on the employees' state of mind and the way they work, but also on the way the firm operates and manages its employees to obtain results (growth). Thus, it is in part the appropriate HRM techniques that condition the emergence and development of high-potential employees.

Recent surveys conducted among HR managers (Abraham et al., 2013) reveal that high-potential employees bring value to an organization in two ways. Firstly, these employees bring intrinsic value, which reflects their possession of rare knowledge becoming actualized through their experience. Secondly, high-potential employees bring contributive value, which reflects their contribution to the organization. The intrinsic qualities of high-potential employees encompass four characteristics: scarcity in the market and thus being difficult to replace, specific knowledge, significant experience and a strong reputation. The contributive value of high-potential employees is also evident through four characteristics: always being ready and prepared, the capacity to innovate, pedagogical and knowledge transfer skills, and the value added they bring. However, as indicated by Renaud et al. (2015), these employees' contributive value is never absolute. It depends largely on how they are managed by the firm, which highlights the importance of managerial style and HR policy. Their contributive value is nevertheless conditioned by their degree of involvement, sense of belonging and/or psychological ties to the firm. Thus, their value remains subject to the risk of their leaving or of psychological resignation on their part. According to these authors, the organization must ensure that the social exchange process is solidified (Homans, 1958; Blau, 1964) so as to thwart the volatility of high-potential employees and their more frequent intention to leave.

While economic exchange theory views high-potential employees and their organization as being part of a dynamic prescribed by the external market, social exchange theory views them as fitting into the overall dynamic within the firm. Social exchange has two main dimensions: the expectation of return and mutual trust between the two parties. Social exchange is based on the norm of reciprocity (Gouldner, 1960). It relies on an expectation of return and mutual trust between two parties. Each party expects immediate and deferred contributions from the other party. In the case of high-potential employees, it suggests that an organization that treats this employee population well, will create a desire on the part of the employees to reciprocate, which will be evidenced through higher commitment to the organization and, consequently, higher retention (Eisenberger et al., 2001). Furthermore, social exchange is based on a set of social rules whereby mutual gain goes well beyond the simple economic exchange of "effort for wages." Thus, on the one hand, the organization seeks to retain high-potential employees because they represent human capital from which a return on investment is expected. If this expectation is not fulfilled, the organization may reduce its retention efforts. On the other hand, high-potential employees show commitment to invest in the organization (job motivation, reliability, loyalty) because they expect immediate or deferred monetary recognition and non-monetary recognition in return. If their expectations are not fulfilled, they may reduce their commitment by looking for similar jobs outside the firm or decreasing their job involvement (psychological disinvestment).

Specifically, the organization must strike an important balance in the management of high potential employees. Organizations must be able to enhance the intrinsic and contributive value of their employees, all while implementing practices that will increase the probability of retention. According to social exchange theory, these practices must function to ensure satisfaction of financial remuneration, encourage personal commitment and improve the perception of organizational support. In every organization, the actors participate in the building of subtle relations of exchange involving the contributions/remuneration (immediate and deferred) expected by each party. The relationship between employees and their organization begins as an economic exchange. Within a short period of time after having entered into an organization, high-potential employees will assess whether they are receiving sufficient monetary benefits to warrant making efforts and staying with the organization. Social exchange theory specifies that in the long run the exchange relation will come to include, not only economic aspects but also trust, recognition, and support. This broader transaction allows high-potential employees to envisage long-lasting relations with their organization.

Organizational Support

Perceived organizational support plays an important role in the social exchange theoretical framework. It describes the employees' perception of the extent to which their organization recognizes their efforts, values their personal investment and contributes to their professional well-being through human resource practices that promote quality of their work environment (Eisenberger et al., 1990; Eisenberger et al., 2002). Eisenberger et al. (1986) were the first to underscore the importance of organizational support, as perceived by employees, in terms of having an impact on the latter's own organizational commitment. According to these authors, the greater the extent to which employees perceive their organization considers their expectations, the greater the effort they will invest. From the social exchange perspective, the organization derives significant benefits when employees are engaged in a reciprocity process. In their meta-analysis of 70 studies, Rhoades and Eisenberger (2002) reported a negative relationship between perceived organizational support and workers' intention to leave. Moreover, they noted that employees derive greater satisfaction from their jobs and are in a better mood at work when they perceive the presence of a relationship of reciprocity. In return, the organization benefits from stronger affective commitment, higher performance levels and lower rates of voluntary job leaving. Organizational support leads employees to experience a sense of belonging, trust and commitment to the firm. Employees who feel supported thus appear to stay longer with their organization because they feel the obligation to do so. In other words, perceived organizational support increases employee retention. Some subsequent studies have also demonstrated that perceived organizational support is negatively correlated with intention to leave (Dawley et al. 2010; Johnson and DeConinck, 2009) and employee turnover (Eisenberger et al., 2002). In sum, there is a consensus in the literature supporting a positive relationship between perceived organizational support and intention to stay.

Organizational Commitment and Its Antecedents

The concept of Organizational Commitment (OC), studied in organizational psychology for over thirty years (Morrow, 1983, Reichers, 1985, Steers 1977), is defined as an individual's (employee's) attachment to his/her organization. Studies have sought to bring out the individual and/or organizational determinants of organizational commitment (demographic variables, perceived organizational justice) in order to be in a better position to predict workplace behaviors (performance, absenteeism, intention to stay or leave the organization). According to Morrow (1983), there are several dimensions to the concept of commitment. Commitment can be related to values or ethics, referred to as values-based commitment. Alternatively, commitment can be conceptualized in accordance to work, career, a trade union or one's own organization. Morrow (1983) and Reichers (1985) emphasize the importance of specifying the precise connotation of commitment by asking the question, 'commited to what?'. The concept of organizational commitment is thus only one type of commitment among others.

Commitment is expressed as an employee's attachment or link to the organization. There are several types of organizational commitment, including attitudinal OC (by far the most documented) calculated OC and normative OC (Mowday et al., 1979). The tridimensional model of organizational commitment developed by Meyer and Allen (1991, 1997) and Allen and Meyer (1990) also distinguishes three components: affective commitment (AC), normative commitment (NC) and continuance commitment (CC). Affective commitment refers to the employees' emotional attachment to or identification with the organization. Normative commitment refers to employees' personal loyalty and moral obligations towards the organization (Allen and Meyer, 1996). Finally, Continuance commitment refers to the costs, as perceived by employees, associated with the possibility of leaving the organization. These costs can, for example, involve pay, benefits and retirement capital – factors that may help retain employees within the organization. The current study investigated only one form of organizational commitment, namely affective commitment. According to the many studies and meta-analyses on the subject, affective commitment is most often associated with turnover and intention to stay with or leave the organization. In fact, a meta-analysis by Mathieu and Zajac's (1990) revealed that organizational commitment is predictive of a group of variables related to "job performance", including, intention to leave, intention to search, and perception of alternative jobs (p. 174). Furthermore, Meyer et al.'s (2002) meta-analysis, which adopted the tridimensional model of organizational commitment devised by Meyer and Allen (1991,1997) and Allen and Meyer (1990), demonstrated that the three forms of OC positively affect intention to stay and negatively affect actual turnover. The results of this meta-analysis revealed that affective commitment had the greatest effect on intention to stay, hence, the methodological choice for the current study.

In their meta-analysis, Meyer et al. (2002) went a step further by proposing a model, integrating the three dimensions of commitment. Specifically, the model included the AC, NC and CC components, their antecedents and three groups of outcome variables. The outome variables included employer relevant outcomes such as turnover and/or intention to leave and workplace behaviors (presence, involvement, performance), as well as employee level outcomes such as health and well-being at work. Their findings revealed that the AC, CC and NC dimensions were all negatively correlated with turnover and intention to leave. Affective commitment (followed by NC) was the most strongly and positively associated with outcomes for the employer as well as the employee. The CC dimension did not have an impact on these outcomes. An examination of the consequences of commitment revealed that all three forms of commitment were negatively correlated with turnover and intention to leave, but that this was especially true for affective commitment. This study was particularly relevant in that it showed that affective commitment has positive effects not only for the organization but also for employees as it is strongly correlated with occupational health, well-being and work-life balance (negatively correlated with stress and work-life conflict).

Many studies have shown that affective commitment is an important predictor of intention to stay (Ramamoorthy and Flood, 2002). Specifically, Ramamoorthy and Flood's (2004) study on gender and employee attitudes tested whether two forms of commitment (affective and normative) mediated the relationships between perceived distributive and procedural justice and intention to stay. They hypothesized that positive relationships exist between distributive justice and procedural justice on the one hand and affective commitment and intention to stay on the other. Their results showed that affective commitment was strongly correlated with intention to stay and that the two forms of commitment were also strongly correlated. They found that the impact of perceived justice on intention to stay was indirectly explained by the mediation of the "affective commitment" variable. Their study also revealed that one of the components of procedural justice – perception of standard reinforcement – strongly influenced affective commitment but not normative commitment. This explains why Meyer et al. (2002) proposed that affective commitment and normative commitment have distinct antecedents. Similarly, Poon (2012) examined how distributive justice and procedural justice interact to predict intention to leave the organization through the moderating and mediating effect affective commitment. Her study involving 168 employees showed that affective commitment mediated the relationship between distributive justice and intention to leave and that the mediating effect varied according to the level of procedural justice.

Based on the research literature as well as social exchange theory, we tested two hypotheses using this model.

Hypothesis 1: Perceived organizational support increases high-potential employees' intention to stay over the long term.

Hypothesis 2: Affective commitment acts as a mediating variable between perceived organizational support and intention to stay.

Model and Hypotheses

The model of analysis used for our research is presented in Figure 1.

Figure 1: Model of Analysis

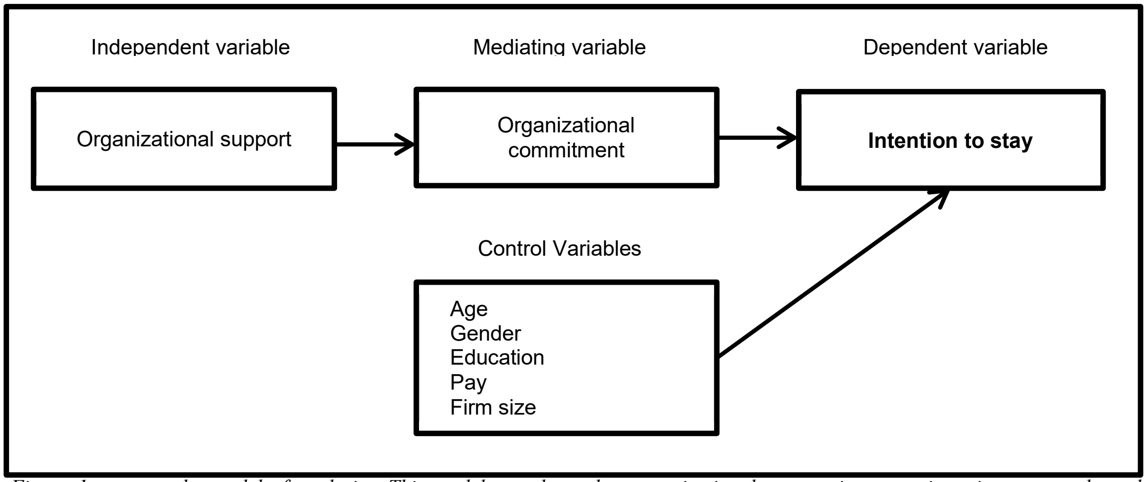

Figure 1 presents the model of analysis. This model postulates that organizational support increases intention to stay through its effect on organizational commitment.

DATA AND METHODOLOGY

Data for this study come from a survey conducted among a sample of high-potential employees working in organizations in the Centre-Val de Loire Region, France. The population under study was composed of graduates from both the 'Ecole Supérieure de Commerce et de Management de Tours' (ESCEM, School of Business and Management) as well as the 'Institut d'Administration des Entreprises de Tours' (IAE, Institute of Business Administration). Participants consisted of high-potential employees, as identified by their firm, who had graduated more than five years earlier and were now working in firms located in the region. Respondents were contacted by e-mail and their participation was voluntary. Data were collected through the use of an online questionnaire, completed via the secured (Web-based) platform LimeSurvey. The data collection took place between November 2014 and January 2015. In total, 520 high-potential employees were invited to participate in the study. Of these 520 high-potential employees, 221 questionnaires were exploitable, representing a 43% response rate.

The high-potential employees' intention to stay over the short, medium and long term was measured using the Staying or Leaving Index, an instrument developed by Bluedorn (1982). In the questionnaire, participants were asked to answer the following question: "If it were entirely up to you, what is the probability that you would stay with your current employer?" on a scale of 0 to 100, where 0 indicated almost nil probability and 100 an extremely high probability. This way of measuring intention to stay on a continuous scale is frequently used in empirical studies focusing on developing workforce loyalty. In this study, intention to stay over the short term was measured by the probability of staying for the next 6 months. Intention to stay over the medium term was measured by the probability of staying for a year. Lastly, intention to stay over the long term was measured by the probability of staying for the next 2 years.

The affective commitment index, developed by Allen and Meyer (1990), was used to measure the respondents' level of organizational commitment. The high-potential employees were asked to indicate their level of agreement with the following six items: 1- "I feel a strong sense of belonging to my current firm," 2- My current employer has a great deal of personal meaning for me," 3- "I am proud to belong to my current firm," 4- "I do not feel emotionally attached to my current firm," 5- "I do not feel like part of the family at my current employer" and 6- "I really feel as if my employer's problems are my own." The level of agreement for each item was measured on a 7-point Likert-type scale ranging from 1- strongly disagree, 2- moderately disagree, 3- slightly disagree, 4- neither agree nor disagree, 5- slightly agree, 6- moderately agree, to 7- strongly agree. After reversing the negatively formulated answers to items 4 and 5, means were calculated for all the items, yielding a continuous scale. The internal consistency of this index was excellent (Cronbach's $\alpha = 0.885$).

Organizational support was measured using the following 3 items: 1- "My current employer supports its employees," 2- "My current employer provides me with the tools (material, etc.) I need to do my job", and 3- "My current employer takes its employees' personal needs into account." Participants answered on a 7-point scale ranging from 1- strongly disagree, 2- moderately disagree, 3- slightly disagree, 4- neither agree nor disagree, 5- slightly agree, 6- moderately agree, to 7- strongly agree. Means were calculated for the 3 items to obtain a continuous variable. The Cronbach's alpha for the organizational support variable indicated that its measurement scale had strong internal consistency (Cronbach's $\alpha = 0.834$).

Five control variables, as identified in the literature, were measured to isolate the impact of organizational support on the high-potential employees' intention to stay. The control variables were age, gender, education, pay and firm size. The Age variable was measured on a continuous scale and was based on the respondent's year of birth. Gender was measured as a dichotomous variable coded as 1 if the respondent was female and 0 if the respondent was male. Education was measured as a dichotomous variable coded as 1 if the respondent held a Master's degree (Master1) or higher and 0 otherwise. The Pay variable indicated the respondent's gross annual pay and was measured using an ordinal scale where 1- corresponded to less than 30,000 Euros, 2- 30,000 to less than 45,000 Euros, 3- 45,000 to less than 60,000 Euros, 4- 60,000 to less than 75,000 Euros, 5- 75,000 to less than 90,000 Euros, 6- 90,000 to less than 105,000 Euros, 7- 105,000 to less than 120,000 Euros, and 8 – 120,000 Euros or more. Firm Size was measured using an ordinal scale where 1- indicated fewer than 20 employees, 2- 20 to less than 100 employees, 3- 100 to less than 200 employees, 4- 200 to less than 500 employees, and 5- 500 employees or more. Table 1 presents the descriptive statistics for all variables under study.

The results presented in Table 1 indicate that the high-potential employees' intention to stay with their current employer over the short term was very high (μ=84.05) but that their intention to stay over the medium term was lower (μ=71.76) and their intention to stay over the long term was much lower still (μ=57.42). The mean for organizational commitment reveals that the respondents "slightly" agreed with the different items associated with a high level of commitment. In other words, the high-potential employees, on average, (μ=4.74), showed a moderate level of organizational commitment (4.74 out of 7 = 67.71%). The mean of organizational support (μ=4.46) reveals that the respondents were somewhere between "slightly" agreeing and "moderately" agreeing with all the items. Thus, it appears that, on average, the participants considered that the firm supported them adequately. As shown in Table 1, the participants were, on average, slightly older than 39 years of age (μ=39.42) and 46% of them were female (μ=0.46). Among the participants, 93% held a post-graduate degree (μ=0.93). The mean of the respondents' gross annual pay was between 45,000 and 60,000 Euros (μ=2.89). Lastly, the high-potential employees participating in this study tended to work in large firms with, on average, between 200 and 500 employees (μ=4.04).

Table 1: Descriptive Statistics

	Mean	SD	Minimum	Maximum	N
Dependent variables					
Intention to stay short term	84.05	27.47	0	100	221
Intention to stay medium term	71.76	32.42	0	100	221
Intention to stay long term	57.42	35.56	0	100	221
Mediating variable					
Organizational commitment	4.74	1.40	1	7	221
Independent variable					
Organizational support	4.46	1.50	1	6	221
Control variables					
Age	39.42	9.23	22	62	221
Female	0.46	0.50	0	1	221
Education	0.93	0.25	0	1	221
Pay	2.89	1.34	1	8	221
Firm size	4.04	1.36	1	5	221

Table 1 provides descriptives statistics for the dependent, mediating, independent and control variables used in the estimation. Results indicate that intention to stay over the short term was very high (μ=84.05). Intention to stay over the medium term was lower (μ=71.76) and intention to stay over the long term was much lower still (μ=57.42).

RESULTS

Table 2 presents the results of the regression analyses performed on the high-potential employees' intention to stay. The regressions were conducted with SPSS software version 21 using the MEDIATE Macro suggested by Hayes and Preacher (2014). This macro is based on the method of least squares. It was used to measure the total effects as well as the direct and indirect relationships between variables. It also considered the mediating effect of affective commitment and the impact of the control variables. Thus, the analyses tested whether affective commitment acted as a mediating variable between organizational support and intention to stay. The MEDIATE Macro gave the results of two regressions: the first on affective commitment and the second on intention to stay. For total mediation to be present, two conditions must be met. First, organizational support must be statistically related to affective commitment. Second, organizational support must reveal no statistical association with intention to stay, when regressed with affective commitment. Moreover, Hayes and Preacher's MEDIATE Macro (2014) proposes a direct test of the mediation effect based on a bootstrap interval. If this interval includes zero, the mediation effect is not significant. If only the first condition is met and the bootstrap interval does not include zero, the mediation effect is considered to be partial. Table 2 reports the results of the regressions obtained by using the MEDIATE Macro with intention to stay over the short term, then intention to stay over the medium term and, lastly, intention to stay over the long term.

First, regarding the regression results for intention to stay over the short term, organizational support and the control variables were first regressed on organizational commitment. The results presented in Table 2 indicate that organizational support had a positive impact on organizational commitment (b=0.686; $p<0.01$). This finding suggests that when high-potential employees perceived strong organizational support, their commitment to the organization increased. Organizational commitment, organizational support and the control variables were then regressed on intention to stay over the short term. Organizational support had no significant impact on intention to stay over the short term (b=2.050; $p>0.05$) whereas commitment had a positive but only marginally significant effect (b=4.016; $p<0.05$) on intention to stay over the short term. These results indicate that organizational support had no direct impact on the high-potential employees' intention to stay over the short term. Moreover, the bootstrap confidence interval included 0, thus invalidating the mediating role of commitment in the relationship between organizational support and the high-potential employees' intention to stay over the short term (CI=-0.196 to 6.225). Taken together, the above results indicate that organizational support had no direct effect on the high-potential employees' intention to stay over the short term and no indirect effect on their intention to stay over the short term through organizational commitment. Organizational support appears to have contributed only to increasing the high-potential employees' organizational commitment; however, this effect subsequently had no indirect influence on their intention to stay over the short term.

Table 2: Regressions on High-Potential Employees' Intention to Stay (Non-Standardized Coefficients)

	Intention to Stay Short Term (6 Months)		**Intention to Stay Medium Term (1 Year)**		**Intention to Stay Long Term (2 Years)**	
	Org. Com.	Int. stay	Org. Com.	Int. stay	Org. Com.	Int. stay
Control variables						
Age	0.002	-0.081	0.002	0.311	0.002	0.463
Female	-0.076	3.668	-0.076	7.209	-0.076	7.536
Education	0.213	-7.426	0.213	3.456	0.213	3.186
Pay	-0.039	0.018	-0.039	1.094	-0.039	1.701
Firm size	0.079	1.747	0.079	0.617	0.079	0.068
Consistency	1.216 *	57.188 **	1.216 *	-1.794	1.216 *	-36.302 *
Mediating variable						
Organizational commitment		4.016 *		7.054 **		9.464 **
Independent variable indépendante						
Organizational support	0.686 **	2.050	0.686 **	3.506	0.686 **	4.248 *
R^2 (adjusted)	0.538 **	0.082 **	0.538 **	0.175 **	0.538 **	0.255 **
N	221	221	221	221	221	221
Indirect Effect of Organizational Support Through Commitment						
Bootstrap Confidence Interval	-0.196 to 6.229		1.459 to 8.124		2.961 to 10.193	

** p < .05, ** p < .01. Table 2 shows the regression estimates for high-potential employees' intention to stay. The first two columns indicate that organizational support increases indirectly intention to stay over the short and medium terms through organizational commitment. The third column shows that organizational support increase directly and indirectly intention to stay over the long term.*

Second, regarding the regression results for intention to stay over the medium term, organizational support was first regressed on organizational commitment with the control variables. Organizational support positively and significantly influenced the high-potential employees' organizational commitment (b=0.686; p<0.01). This finding indicates that greater support contributed to increasing the high-potential employees' commitment to their firm. Organizational support and commitment were then regressed on intention to stay over the medium term with the control variables. The results presented in Table 2 indicate that organizational support had no significant impact on the high-potential employees' intention to stay over the medium term (b=3.506; p>0.05) whereas organizational commitment positively and significantly influenced the high-potential employees' intention to stay over the medium term (b=7.054; p<0.01). The bootstrap confidence interval did not include 0, thus confirming the mediating role of organizational commitment in the relationship between organizational support and the high-potential employees' intention to stay over the medium term (CI=1.459 to 8.124). Consequently, organizational support had no direct impact on the high-potential employees' intention to stay over the medium term. However, an indirect relationship existed through organizational commitment. Organizational support appears to have positively but indirectly influenced the high-potential employees' intention to stay over the medium term through the mediating effect of organizational commitment. Organizational support increased the level of commitment and the latter, in turn, contributed to increasing the high-potential employees' intention to stay with their firm over the medium term.

Lastly, regarding the regression results for intention to stay over the long term, organizational support and the control variables were first regressed on organizational commitment. The results indicate that organizational support had a positive and significant impact on the high-potential employees' organizational commitment (b=0.686; $p < 0.01$). All of these variables were then regressed on intention to stay over the long term. The results presented in Table 2 show not only that organizational commitment had a positive and significant effect on intention to stay over the long term (b=9.464; $p<0.01$) but also that organizational support had a positive and significant impact on the high-potential employees' intention to stay over the long term (b=4.248; $p<0.05$). The bootstrap confidence interval did not include 0, thus confirming the mediating role of organizational commitment in the relationship between organizational support and the high-potential employees' intention to stay over the long term (CI=2.961 to 10.193). However, since the relationship between organizational support and intention to stay over the long term was significant, it must be concluded that commitment played only a partial mediating role. The results thus indicate that organizational support directly influenced the high-potential employees' intention to stay over the long term and also indirectly influenced their intention to stay over the long term by contributing to increasing their organizational commitment.

CONCLUDING COMMENTS

The primary purpose of this study was to uncover the impact of organizational support on the retention of high-potential employees over the short, medium and long term and to determine the extent to which organizational commitment mediates this relationship. In order to test the hypotheses under study, a sample of high-potential employees, working in the Centre-Val de Loire Region in France were invited to complete an online questionnaire assessing their intention to remain with the organization for 6, 12, and/or 24 months, their perceived organizational support, as well as their organizational commitment levels. The results revealed that the effects of organizational support on intention to stay vary across the three time points assessed in this study. More importantly, the results suggest that the effect of organizational support on intention to stay seem to become stronger over time. Furthermore, results revealed that organizational support was positively and significantly associated with organizational commitment at all time points. Additionally, organizational commitment fully mediated the relationship between organizational support and intention to stay with the organizations for a 1-year period (medium term). Organizational commitment partially mediated the relationship between organizational support and intention to stay with the organization for a 2-year period (long term), whereas no mediation effect was found for intention to stay for a 6-month period (short term).

A unique contribution of the current study is that organizational support displayed a temporal effect on intention to stay. Specifically, organizational support was found to play a crucial role in affecting employees' decision to stay over the long term. This temporal approach is useful as it demonstrates that there is a timeframe after which employees become acutely aware of the support offered by their organization. After this period, managerial practices that offer support must be made clearly apparent to high-potential employees and must provide them with the necessary means to perform their tasks and satisfy their personal needs. Clearly, the results of this study highlight the utility of including temporal analyses in future studies examining the effects of organizational support on retention.

Consistent with previous research, the results of this study also revealed that organizational commitment plays an important role in mediating the relationship between organizational support and intention to stay. Over the short term (6 months), organizational support had no direct effect, or even indirect effect, on retention. In other words, high-potential employees appear to tolerate or even accept a lack of organizational support for a short period, and this does not appear to affect their commitment or intention to stay. Over the medium term (1 year), organizational support had an indirect effect on retention since it increased organizational commitment, which, in turn, fostered the intention to stay. Over the long term (2 years), organizational support not only had a direct effect on intention to stay but also had a direct effect on organizational commitment, which, in turn, had an effect on intention to stay. The retention of high-potential employees is thus strengthened over time through organizational commitment.

Taken together, the results of this study are in line with the propositions of social exchange theory. More precisely, the conclusions of this study indicate that in the social exchange that is established between high-potential employees and their organization, the contributive value of high-potential employees depends on their degree of involvement. The organization must gradually reinforce the social exchange in order to foster retention. In this deferred exchange transaction, perceived organizational support leads to commitment (understood as affective commitment) on the part of high-potential employees. The findings of this study also have practical implications for employers looking to ensure the retention of high-potential employees. Based on the results, it is recommend that HR decision-makers in the Centre-Val de Loire Region implement practices encouraging organizational support since this study clearly demonstrate that high-potential employees in this region currently exhibit a fairly low intention to stay for 2 years (only 57%). In the least captive labor pools and when retaining high-potential employees is a strategic challenge for management, the recommendation to invest in strong organizational support is a guarantee of sustainability for organizations.

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BIOGRAPHY

Jocelyne Abraham is a Professor at the IAE of Tours (Université François Rabelais) – CERMAT (EA2109). She is also a Senior Lecturer Research Supervisor. She can be reach at IAE of Tours 50 av Portalis BP 0607, 37200 Tours, France, Jocelyne.abraham@univ-tours.fr

Stéphane Renaud, Ph.D., is a Full Professor at the École de relations industrielles, Université de Montréal. He teaches and conducts applied research mostly on compensation. He can be reached at Université de Montréal, C.P. 6128, Succursale Centre-ville, Montréal (Québec) H3C 3J7 Canada, stephane.renaud@umontreal.ca

Jean-Yves Saulquin is a Professor of finance at the IAE de Poitiers (Université de Poitiers). He can be reached at IAE de Poitiers, Université de Poitiers 20 rue Guillaume VII le Troubadour, Bât.E1, TSA 61116 - 86073 Poitiers, France, jeanyves.saulquin@orange.fr

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ORGANIZATIONAL STRATEGIES FOR SMALL & MEDIUM SIZED ENTERPRISES

Beatriz Alicia Leyva Osuna, Sonora Institute of Technology
Héctor Guadalupe Márquez Ortiz, Sonora Institute of Technology
Sergio Ochoa Jiménez, Sonora Institute of Technology
Carlos Armando Jacobo Hernández, Sonora Institute of Technology

ABSTRACT

This paper is a descriptive research to identify the types of strategies used by Small and Medium Enterprises (SMEs), to provide a main competitive factor. Data collection involved two instruments, taken from Vezina (2011). We use an interview guide and questionnaire to directors and/or managers. We used the strategies typology of Miles and Snow (1978). Evidence shows that managers of small and medium enterprises for the most part, adopted a strategy that adapts to the environment. We further find that exploring and analyzing strategies were the most representative for small businesses, defined by staying in a more dynamic environment. Midsize companies adopt further to the analyzing type, characterized by trying to minimize risks and maximize profits in a safer environment and always supported by an administrative management system.

JEL: L10, L25, L60, M10

KEYWORDS: Small and Medium Sized Company, Strategy, Organization

INTRODUCTION

The study of small and medium-sized enterprises (SME´s) has become in an important area for academics an researchers. The concept of strategy represents a central topic to understand how companies achieves success and how managers achieve goals in the short, medium a long term. This paper provides quantitative and descriptive research using a non-probabilistic sample. The main objective was to analyze strategies used by SME´s considering decisions taken in these kind of companies in Mexico. Globalization, technology and the information revolution are phenomena that must be considered by companies, especially SME´s, to adapt processes, structure and all decisions. Soto & Dolan (2004) argue it is important that SME´S use a strategic methodology to help them compete in the market and obtain better performance. The importance of SMEs´ in the world economy has growth constantly in recent years, with special emphasis on establishing an important position in relation to big companies (Irigoyen & Puebla, 1997). This situation it is caused in some cases because of specialization in process or specific markets that small companies have compared to big companies that do not have these capabilities. In Mexico there exists 4.4 million enterprises around the country. Some 6.1 % of these enterprises are SME´s which generate 20.7% of Gross Domestic Product (GDP) and 32.9% of Mexico´s workforce. According to the Secretary of Economy (SE, 2012) In the state of Sonora, where this study was conducted, 50% of the state workforce are generated by SME´s. Therefore, these companies represent an important sector in the economy and as such are important for public decisions and academic research.

At the beginning the XXI century, there is a new interest by the government, civil society, and institutions of higher education for the potential of SME´s. Prior to the seventies they were considered marginal in the process of economic development. Two decades later (1980 and 1990) they were revalued for their aptitude to contribute to the reorganization of production and especially its impact on employment, gross domestic product and equity. Scholars of economic development in Latin America were largely impacted by the emergence of economies of scale and mass production (Rodriguez, 2010). However, there were few Latin American companies that managed the organizational changes needed. For example, in Mexico when the country opened negotiations of the Free Trade Agreement (NAFTA) with the United States and Canada, a study reported that companies were operating and starting efforts in preparation for trade liberalization in technological and organizational, marketing, financial and the environmental (De La Cerda, 2009).

The Boston Consulting Group, (1990), cited by Garcia et al. (2004) notes the success of a large or small company involves the use of management tools which help to achieve more effective management of various situations that arise. The development of a strategic business plan, assures better management of uncertainty and involves knowing how to handle risks and new responsibilities. We are aware of the enormous difficulties faced by entrepreneurs of SMEs to access knowledge, training, and ongoing counseling. On the one hand, due to the high costs of these activities, and on the other due to the initiatives which are aimed primarily at large enterprises, which causes them to be ineffective for SMEs.

Unlike more complex organizations with a greater degree of formalization of activities, strategy formulation in SMEs, is not performed explicitly in many cases. The approach to strategy is more a personal view of the owner or owners of the company, than the result of a conscious reflection in the heart of the organization. They do not usually apply specific methodologies to develop courses of action, but rather based their decisions on intuition and experience of the owners. They rely more on measures of emerging strategies rather than deliberate strategies (Santamaria, Sanchez & Almorza, 1997). According to Baker, Addams & Davis (1993), the reasons for this resistance of the SMEs, to formalize the strategic process, are the following: time constraints, market uncertainty, poor level of preparation, budget constraints and resistance to change.

Problem Statement

SMEs represent the backbone of the national economy, and emerge with the aim of contributing to the local development of the community, being understood as the process of growth, raising the welfare and improving their quality of life. According to Aimar (2000), the economy is in constant motion. Companies cannot afford not to change. But, change not only corresponds to the dictates of the market, transforming losses into profits, maximizing profits, seeking benefits, but goes beyond recurrent spending cuts and restructuring. It goes toward the Business Strategy. According to several investigations, Micro, Small and Medium Enterprises (MSMEs), close mostly due to their ignorance about strategies, programs, training, market, consulting support existence. The businessman with information from studies should get down to work in these areas to insure survival of the firm.

It is uncommon to see how organizations operate in complex and uncertain environments. Organizations become more complex if they do not know how to deal with these uncertain environments. This causes organizations to create their own internal environment with uncertainty that adds to external uncertainty. This causes organizations to become slow to react and confusion prevails. Those in the firing line are frustrated to see that leaders do not make decisions that allows them operate. But, curiously the organization has more activity than before. Many actions are taken without any purpose, which in turn increase the psychological effect of insecurity and distrust in people. Entrepreneurs sometimes do this to take more time in their decision making. But, as the leaders are gaining time, on analyzing a world of information, opportunities leave or threats are made stronger for a company that does not know what to do (Bungay, 2012). That is why SMEs, whether their line of business is service, manufacturing or trade, are still in need of fundamentals and strategic actions that continuously reveal opportunities and the possible strategies to facilitate decision-making. The firm needs to determine and establish successful timely action programs. For this reason, it is necessary to know, what strategies are used in small and medium-sized enterprises?

Justification

Today, more than ever, entrepreneurs need to think fast because of the constant changes in the external and internal environment. The importance of keeping updated on issues surrounding the company and its management cam not be overstated. A fast and safe way to deal with changes is through the design of business strategies that support compromises in the organization, its resources, market, finance, personnel, and operational areas. Radical changes pose a menace to entrepreneurs. They do not adopt administrative adjustments, when they become obsolete and have to make quick and accurate decisions that allow them to at least survive. One strategy can make a company competitive and allow it to face competition. It not only gives the firm opportunity to stay in business but to continue for an extended period of time. Successful SMEs are often characterized by having great professionals with experience and knowledge of the market, the environment, human and technological resources. The benefits of this study are to entrepreneurs. By combining experiences, they can adopt strategies to be used in the operation of their business. The contribution of the current study is to provide information to know in a formal and documentary way the perception of entrepreneurs according to the strategies they utilize. We wish to analyze these realities by comparing data and making decisions by different actors. More specifically, the objective is to identify the type of strategy used by small and medium-sized enterprises in Obregon, Sonora, Mexico.

LITERATURE REVIEW

While the importance of changes for companies has been discussed in a practical way, in the same manner these changes are present in the theoretical foundations. We examine these theoretical foundations in this section.

Conceptualizing SMEs

The small and medium enterprise, also known by the acronym SME, is a company with distinctive features, and has dimensions with occupational and financial limits preset by states or regions. SMEs are agents with specific logics, cultures, interests and entrepreneurship. Usually the term has also been micro, small and medium enterprises (MSMEs), which is an expansion of the original term that includes the microenterprise. The small and medium-sized enterprise is, at present, the center of the Mexico economic system. The tremendous growth of the current influence of these companies is due to the need to concentrate large capital and huge technical resources for the proper functioning of production and services, as well as to the high level of perfection achieved by many management standards (Rodriguez, 2005).

Similarly, the Secretariat of Economy (SE, 2012) indicates that for Mexico, and SME is any company with less than 500 workers. Under the new definition, *micro* enterprise includes firms with incomes below four million pesos. The *small* company will be the one that sells between 4.01 and 100 million pesos, and *medium-sized*, the one selling between 100.01 and 250 million pesos. Saavedra and Hernandez (2007) point out that the criteria for classifying companies vary by country, however, the most widely used in Latin America is the number of people employed. In Mexico, classification is based on the number of persons employed. Therefore, it had a single defining criterion (employment). However, the definition changed depending on whether the economic unit is industrial, commercial or a services firm. From 2009, the Secretariat of Economy announced a new system for stratification and determining whether the company is micro, small or medium-sized. In this system it is not enough to know the number of employees. It is also necessary to know the sales. A simple calculation for correct interpretation is essential. This information was published in the Official Journal of the Federation on June 30, 2009, shown in Table 1.

Table 1: Companies' Stratification

Stratification of Companies Published in the Official Journal of the Federation on June 30th, 2009									
Sector		**Micro**			**Small**			**Medium-sized**	
	Personnel	**Range of Annual Sales Amount (MP)**	**Combined Maximum Limit ***	**Personnel**	**Range of Annual Sales Amount (MP)**	**Combined Maximum Limit ***	**Personnel**	**Range of Annual Sales Amount (MP)**	**Combined Maximum Limit ***
Industry	From 0 to 10	Up to $4	4.6	From 11 to 50	From $4.01 to $100	95	From 51 to 250	From $100.1 to $250	250
Commerce	From 0 to 10	Up to $4	4.6	From 11 to 30	From $4.01 to $100	93	From 31 to 100	From $100.1 to $250	235
Service	From 0 to 10	Up to $4	4.6	From 11 to 50	From $4.01 to $100	95	From 51 to 100	From $100.1 to $250	235

Combined maximum limit = (Worker) x 10% + (Annual Sales) x 90. mp = million pesos In 2009 the Secretariat of Economy announced a new system when establishing stratification and determining whether the company is micro, small or medium-sized. It is not enough to know the number of employees. It is also necessary to know sales. This information was published in the Official Journal of the Federation on June 30, 2009.

Characteristics of the SMEs

The characteristics of small and medium-sized enterprises are explained below and separately, allowing us to understand the differences between them, even though they are kept in a single category as SME. Jack Fleitman, (cited by Thompson, 2007) mentions notes the main characteristics of the small business are as follows: The growth rate usually higher than the microenterprise and may be even higher than the medium or large enterprise, there is greater division of labor caused by a higher complexity of functions. In addition, the resolution of problems that arise requires a proper division of duties and delegation of authority. Requirement of a greater organization (than the microenterprise) regarding the coordination of personnel and material, technical and financial resources, ability to cover the local, regional and national market, and with the facilities provided by the Internet network. Finally, it cross borders with its products (especially if they are digital, like software and digital books) and services. It is in full competition with similar companies and uses direct labor. In many cases it has a high degree of mechanization and technical improvement. The following are features of Midsize Enterprise, presented by Hernandez (2011), from the Autonomous University of the State of Hidalgo Huejutla: a) Qualitative: Quality of personnel and invoicing b) Quantitative: indicates whether a company is medium sized if it meets two or more of the following characteristics: Independent Management (usually the managers are also owners), Capital is supplied by the owners, it is basically Local Area Operations, it is relatively small size in the industrial sector in which it operates and has between 50 to 500 employees. The medium-sized company has more professionalization in its leaders and employees, and also has more technology, higher production and distribution systems and has greater access to consulting and research, which is still difficult for small companies to access.

Advantages and Disadvantages of SMEs

Like everything, small and medium enterprises in Mexico, show advantages and disadvantages in their work as set forth below in Table 2. Information provided on the website of Pro Mexico, 2013. The real source of wealth is not measured by the company having excellent productivity levels, but for the intelligence of its people (DEMAC, 1991). This is true because every entrepreneur knows its downsides or can access information where they can study them. If this holds, then why not sit back and take advantage of their strengths to address their weaknesses and threats? It is there, where everything can change, making a thorough analysis of the situation and making the right decision.

Table 2: Advantages and Disadvantages of the Small and Medium-Sized Enterprises of Mexico

Advantages	Disadvantages
They are an important engine of development of the country.	No profits are reinvested to improve equipment and production techniques.
They are highly mobile, allowing them to expand or decrease the size of the plant, as well as changing the necessary technical processes.	It's difficult to recruit skilled and trained staff being unable to pay competitive salaries.
For their dynamism they have growth possibilities and eventually become a big company.	The production quality has some shortcomings because quality controls are minimal or nonexistent.
They absorb a significant portion of the economically active population, due to their great ability to generate jobs.	They cannot absorb the costs of the staff training and updating, but when they do, they face the problem of leakage of trained personnel.
They assimilate and adapt new technologies with relative ease.	Some other problems arising from the lack of organization as insufficient sales, competitive weakness, poor service, poor customer service, high prices or poor quality, excessive fixed assets, poor location, lack of control of inventories, tax problems and lack of adequate and timely funding.
They settle in various regions of the country and contribute to local and regional development through its multiplier effects.	
They have a good management, although in many cases influenced by personal opinion or business owners.	

This table provides a description of the advantages of small and medium enterprises. It gives them encouragement to continue representing the backbone of Mexico. Their main advantages stem from good management. They have a multiplier effect on the country by providing jobs and helping the economy of each state. SME disadvantages include the lack of investment culture of their profits in equipment and resources for the company. They do not have a high professional level, because they cannot pay wages and there is carelessness in their control systems. They do not have access to training, so can ends up in trouble within their functional and operational areas (Pro Mexico, 2013).

Main Causes for the Closing of SMEs

Rodriguez (2002), points out the most important thing about business failures lies in what causes them. A big step towards achieving the success of the small and medium-sized enterprises is to know and understand the reasons underlying the failure to be able to prevent them. The initial duration of companies indicates that of 200 new companies starting operations 80% do not reach the 2 years of life. Despite these data, there are opportunities to invest money and manage small and medium enterprises that are appealing. A high percentage of companies are born and die together. SMEs show a remarkable vitality, affirming its position within our economy. This is based on two reasons: small and medium enterprises covering economic and essential (personal) human needs. Similarly, the author mentions practice and experience provides information about the causes of corporate bankruptcy. Table 3 shows causes which, in nine out of ten of bankruptcies may occur.

Table 3: Causes of Corporate Bankruptcy

Cause	Percentage
-Negligence	1.6
-Fraud	1.3
-Lack of experience in the field.	16.4
-Lack of management experience	14.1
-Unbalanced Experience	21.6
-Incompetence of manager	41.0
- Disaster	0.6

This table shows the causes of corporate bankruptcy. Nine out of 10 businesses close for one of the reasons cited here. (Rodriguez, 2002).

Several authors agree that entrepreneurial management is the key to success. Entrepreneurs who take risks should not ignore factors that affect successful risk taking including: experience, knowledge and attitude to the challenges they will face.

Strategy

According to Krause (2009), the word strategy derives from the latin *strategĭa*, which at the same time comes from two Greek terms: *stratos* ("army"), *strategos* ("general") and *agein* ("driver", "guide").

Therefore, the primary meaning of strategy is the art of directing military operations. The concept of strategy originated in the military field. It is likely that the first text on the subject is "The Art of War" by Sun Tzu (1963), cited by Krause (2009) where it states: The art of war is of vital importance to the State. It is the area of life and death of all: civilian and military. It is also considered the way to safety or to ruin, so the study of the strategy cannot be put aside for any reason. Peter Drucker (1999), (quoted by Mannucci, 2006) states that the purpose of strategy is to enable an organization to achieve its desired results in an unpredictable environment. Strategy is also proof of the theory of business that the organization has. His failure to produce the expected results is the first serious indication that it is necessary to reflect again profoundly on that theory.

Koontz, Weihrich and Cannice (2008) indicate that strategy is defined as the way to determine the core long-term objectives within a company and the implementation of courses of action and allocation of resources to achieve those goals. Robbins and Clulter (2010), claim there are three reasons to determine their importance. The most significant is that it can make a difference in how well an organization develops. This reason shows why some businesses succeed while others fail, even when facing the same environmental conditions. Another reason has to do with the fact that managers of an organization of any size or type continually face changing situations. They deal with uncertainty through the strategic management process to analyze relevant factors and decide what action to take. Finally, management through strategies is best because organizations are diverse and complex. Each party needs to work to achieve the objectives. Strategic management helps achieve this.

Considering that business activities are carried out in a dynamic and changing environment, strategies are a key aspect to success and profitability. The strategy analyzes factors that contribute to the competitive environment in terms of time to anticipate the changes of financial, economic, and technological nature that affect business development (Rodriguez, 2005). Such is the influence on companies. (Chiavenato, 2006) states that a well-formulated strategy allows the firm to assign and integrate organizational resources into a unique and viable posture based on its internal competencies. Doing so allows the firm to anticipate environmental changes and move in a contingency way. Under these considerations, the more dynamic and changeable the environment becomes, the more decisive the strategy that is required. This holds especially when other smart players dispute the same customers and suppliers affecting desired organizational objectives.

Types of Strategies

In search of identifying the strategic behavior in business, the existence or not of strategic plan and the strategy (Miles and Snow, 1978) developed a model of strategies based on the directive orientation by organizations. This model of strategies is known as the Miles and Snow Typology. The authors use a classification criteria based on the way they are adopt and attitudes towards innovation that they present through their managers. The following describes the types of strategies of the prospector, analyzer, defender and reactor, which will be used for the study.

The Prospector acts in an environment that is more dynamic than those in which the other strategies predominate. Its main ability is to find and develop new products and market opportunities for these type of organizations. It is usually more important to maintain an innovative status in the development of products and markets than making huge profits.

Analyzer organization minimize risk while maximizing profits; seeking to develop new products and new markets, but only with the certainty that they are viable. It relies on planning, control and stimulation systems simultaneously, always seeking to maintain a balanced state.

Defender organization deliberately maintain and operates in an environment for which a stable form of organization is the most appropriate. They try to create a relatively stable market. They have little ability to find and develop new areas of opportunity and are not interested in the changes. They focus on continuous improvement of work within its field of action. Organizations with this type of strategy, are capable of meeting the demands of today's world.

Reactor firms lack of mechanisms for responding to an environment of continuous change. Its product and market area is unstable and inconsistent. Typically, their acts are forced by environmental pressures and competition.

In analyzing this typology, the first three are in positive context of the companies. Their control, stability and consistency depend largely on the mastery they have of their adaptation cycle in its three dimensions (business issue, technological issue and organizational issue). A company that maintains a prospector, analyzer or defender strategy will have an advantage and may be driven towards good organizational performance. Rhe reactor is considered deficient in strategic decision making because they focus on a continuously changing environment determined by the behavior of their environment, thus promoting constant uncertainty for the company.

METHODOLOGY

The sample constitutes and represent the 418 SMEs in its three sectors: Industry, Commerce and Service of Ciudad Obregon, Sonora, Mexico. The companies in which the study was conducted had more than 10 and up to 250 employees, based on the information submitted by the economic census of the National Institute of Statistics, Geography and Informatics (INEGI, 2009), according to the stratification of companies by sector and number of employees published by the Official Journal of the Federation (DOF, 2009). The distribution of the sample is shown in Table 4.

Table 4: Distribution of Population and Sample

Sector	Total INEGI	Sample	Answered	Did Not Answer	Inexistent
Manufacturing	119	61	38	12	11
Commerce	107	75	37	21	17
Services	192	64	34	19	11
Total	418	200	109	52	39

The total number of SMEs is 418, from which a selection was made by non-probabilistic method. The main criteria is the geographic location for the application of instruments and visits. The distribution was proportional among the three sectors, with a total of 200. From the sample selected, 52 refused to provide information and 39 of them were not in the address of the database used. Own data and INEGI data, 2009.

For data collection, the selection of the instrument was based on the questionnaire and interview guide provided by Vezina (2011). The questions were reviewed and translated into Spanish from its original language. It was necessary to make some content adjustments to infer various aspects to be investigated with regard to the strategy, identity and performance. (Hernandez, 2010), argues that data collection involves developing a detailed plan of procedures that lead us to collect data for a specific purpose. We selected the subjects and materials which represent the basis for data collection, the survey was conducted during six months. We visited each enterprise selected. Some 109 firms responded from which 90 were classified as small enterprises (30 trading companies, 30 industrial and 30 services companies). Nineteen were medium size enterprises including 7 trading companies, 8 industrial and 4 services companies. In the application of the instrument, a list was elaborated and the visits to the companies were scheduled. Implementation of the instruments was carried out by students of the Bachelor of Management career of the Sonora Institute of Technology. Upon arriving at each company a letter of introduction was given, in which the entrepreneur is informed of the reasons for the visit and the arguments that led to conducting the investigation. The attention of the instruments by Directors and/or managers had an average duration of about 10 minutes. At the time of application of the instruments, we proceeded to give instructions to fill out the instrument and asked each respondent about possible questions regarding the content of the questions to resolve any uncertainties. To analyze the data obtained we relied on SPSS, version 15 for Windows, followed by a graphical representation of each response generated. Finally, the results of the research were presented.

RESULTS

On average, the companies have been in the market for 25 years. The staff responsible for running these companies has an average 10 years of experience working and performing the activities in which they are engaged are shown in Table 5.

Table 5: Identification of SMEs by Activity Sector

Characterization of SMEs				
Companies	**Distribution by Sector**		**Total**	**Percentage**
Small	Service	30	90	83%
	Manufacture	30		
	Commerce	30		
Medium	Service	4	19	17%
	Manufacture	8		
	Commerce	7		
	Total	109	109	100%

Companies in Cd. Obregon, Sonora are included in the present investigation. Sample composition includes 83% small firms: Services 30 companies, Manufacture 30 companies and Trade 30 companies, with a total of 90 small companies. Midsize companies are represented with 17%, which are composed of service with 4 companies, manufacturing 8 companies and Trade 7 companies totaling 19 local companies. (Compilation, 2013)

Analysis of the Small Enterprise

Table 6, provides results with respect to small firms. The sum of the frequency per question generates a total of 90 small companies analyzed in Ciudad Obregon, Sonora. The percentages total to 100%. Small businesses in Ciudad Obregon, mostly, and in a higher percentage, apply the analyzer strategy by 45%. These organizations seek to minimize the risk while maximizing profits. They seek to develop new products and new markets, but only with the certainty that they are viable. They rely on planning, control and stimulation systems simultaneously. It always seeks to maintain a balanced state. They wish to maintain an image before the competition. They adopt new and innovative ideas, but only after carefully analyzing them. For these firms, a reasonable part of organizational time is spent on monitoring the market. As for the comparison with its competitors, the increases or decreases in demand they have experienced is probably due to the assertive practice of deeply penetrating markets they currently serve, while adopting new services after a careful study of their potential. Finally compared to their competitors, the structure of these organizations is functional, organized by departments, Marketing, accounting, HR, etc.

The other 45% of small companies use the prospecting strategy, which is characterized by companies operating in an environment that is more dynamic than those in which the other strategies predominate. Its main ability is to find and develop new products and market opportunities. It is generally more important to maintain an innovative status in the development of products and markets than making huge profits. This strategy is applied in the following particular situations. Compared to their competitors, the services they offer to the customers are more innovative and in a constant change. The skills that the managers of that area have is characterized by diverse, flexible abilities, that allow for change. Another situation they respond to with this prospecting strategy is that the only thing protecting the company from competitors is that they are able to constantly develop new services and new markets. Unlike most competitors, small businesses are prepared for the future. They identify market trends and opportunities, which can result in the creation of service offerings and programs that are new to the industry or reach new markets. And finally compared with their competitors, the business structure is characterized as a functional nature. However, it can be extended to new areas of service offering oriented to the service or market.

Table 6: Types of Strategies Utilized by Small Enterprises

	Small Enterprises							
	Analyzer		Defender		Prospector		Reactor	
Question	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Compared to our competitors, the services we offer to our clients are characterized as:	8	8.9	34	37.8	37	41.1	11	12.2
Unlike our competitors, we have an image in the market that:	32	35.6	14	15.6	20	22.2	24	26.7
The time spent in our organization to monitor market changes and trends, can be described as:	44	48.9	11	12.2	25	27.8	10	11.1
Compared to our competitors, increases or losses in demand we have experienced are probably due to:	31	34.4	20	22.2	16	17.8	23	25.6
One of the most important objectives of our organization compared to our competitors is our dedication and commitment to:	36	40	23	25.6	23	25.6	8	8.9
Unlike our competitors, the skills our area managers possess are characterized as:	12	13.3	18	20	45	50	15	16.7
The only thing that protects our organization from our competitors is that we:	22	24.4	13	14.4	41	45.6	14	15.6
Unlike our competitors, our area managers tend to focus on:	26	28.9	28	31.1	21	23.3	15	16.7
Unlike most of our competitors, our company prepares for the future:	17	18.9	27	30	28	31.1	18	20
Compared to our competitors, the structure of our organization is:	25	27.8	21	23.3	25	27.8	19	21.1

This table displays the type of strategy (Analyzer, Defender, Prospector and Reactor) utilized by small businesses, for each situation represented by an Item. The Analyzer strategy is one of the most commonly used. This strategy tries to minimize the risk while maximizing profits. The other strategy applied by small companies is the prospector strategy. Those businesses act in an environment that is more dynamic than those in which other strategies predominate. Source: Own Elaboration, (2013).

Only 10% of the sample utilizes to a high percentage the defender strategy. This strategy is characterized by keeping in, and acting in, an environment for which a stable form of organization is the most suitable. Firms of this nature try to create a relatively stable markets. The firms have a little ability to locate and develop new opportunity areas and are not interested in modifications. These firms focus on continuing improvement of the labor within its field of action. Organizations with this type of strategy are able to meet the demands of today's world. Unlike its competitors, managers of these firms focus on maintaining a strong financial position through cost control and quality. None of the companies surveyed used the reactor strategy to a great percentage. Due to its nature, as the company with this kind of strategy lacks mechanisms for response to an environment of continuous change, its product and market area is unstable and inconsistent. These firms typically act as forced by environmental pressures and competition.

Analysis of the Medium-Sized Enterprise

Table 7 shows results for the medium-sized enterprises. A total of 19 medium-sized companies were analyzed in Cd. Obregon, Sonora. The percentages total 100%. According to the information concentrated in Table 7, 60% apply the analyzer strategy for different situations as described below. Unlike competitors, these medium-sized enterprises manage to develop an image in the market through new and innovative ideas, but only after carefully analyzing them. Another situation where they apply the analyzer strategy is with regard to the time these companies spend monitoring market changes and trends. These firms are characterized by spending a reasonable amount of time monitoring the market.

Table 7: Types of Strategies Used by Medium Sized Enterprises

	Medium-Sized Enterprise							
	Analyzer		**Defender**		**Prospector**		**Reactor**	
Question	**Frequency**	**%**	**Frequency**	**%**	**Frequency**	**%**	**Frequency**	**%**
11. Compared to our competitors, the services we offer to our clients are characterized as:	2	10.5	6	31.6	7	36.8	4	21.1
12. Unlike our competitors, we have an image in the market that:	8	42.1	3	15.8	5	26.3	3	15.8
13. The time spent in our organization to monitor market changes and trends, can be described as:	10	52.6	1	5.3	6	31.6	2	10.5
14. Compared to our competitors, increases or losses in demand we have experienced are probably due to:	9	47.4	4	21.1	5	26.3	1	5.3
15. One of the most important objectives of our organization compared to our competitors is our dedication and commitment to:	7	36.8	3	15.8	8	42.1	1	5.3
16. Unlike our competitors, the skills our area managers possess are characterized as:	5	26.3	5	26.3	7	36.8	2	10.5
17. The only thing that protects our organization from our competitors is that we:	5	26.3	3	15.8	9	47.4	2	10.5
18. Unlike our competitors, our area managers tend to focus on:	7	36.8	2	10.5	6	31.6	4	21.1
19. Unlike most of our competitors, our company prepares for the future:	7	36.8	5	26.3	6	31.6	1	5.3
20. Compared to our competitors, the structure of our organization is:	9	47.4	2	10.5	3	15.8	5	26.3

This table displays the type of strategy (Analyzer, Defender, Prospector and Reactor) utilized by medium-sized businesses, for each situation represented by an item. The Analyzer strategy is one of the most commonly used by the medium-sized companies. This strategy tries to minimize risk while maximizing profits. It looks for the development of new products and markets, but only with the certainty that they are viable. It relies on planning, control and stimulation systems simultaneously; it seeks to always keep a balanced state. Source: Own Elaboration, (2013).

Compared with their competitors, the increases or decreases in demand they have experienced is probably due to carrying out deep penetration in markets they currently serve, while adopting new services after a careful study of their potential. Unlike their competitors, managers or area managers tend to focus on analyzing market opportunities and select only those opportunities with proven potential, while maintaining a solid financial position. Similar to the analyzer strategy, the companies, unlike their competitors, prepare themselves for the future. They identify trends in the industry, where competitors have shown more potential in the long term. They solve problems related to the current offering of services and the needs of their current customers. In the same way the structure of these organizations is functional, organized by departments, marketing, accounting, HR, etc.

The remaining 40% of the companies in the study expressed using a prospecting strategy, which is characterized by companies operating in an environment that is more dynamic than those in which the other strategies predominate. The main ability is to find and develop new products and market opportunities. For such organizations it is often more important to maintain and innovative status on products and market development than making huge profits. Situations in which companies use this strategy are in relation to that compared with their competitors. The services they offer are characterized by being more innovative and constantly changing. One of the most important objectives of the company compared to the competition is their dedication and commitment to ensure that people, resources and equipment necessary to develop new services and access new markets are available and accessible. Unlike their competitors the skills that the managers or area managers possess, is characterized as flexible, that generates and allows change. Finally, they are able to constantly develop new services and new markets.

Defender and reactor strategies in medium-sized enterprises are used to a lesser extent, since they do not respond to competition without having a planned strategy (Reactor) and they deliberately do not work to maintain and operate in an environment for which a stable form of organization is the most appropriate, trying to create a relatively stable market, (Defender).

General Analysis of SMEs

Some 31% and 30% of SMEs follow the prospector and analyzer type strategies respectively. The defender strategy is the next option being used in 22% of companies. The reactor strategy was chosen by 17%. It is found that, considering this typology, the investigated companies tend to adopt some sort of strategy to suit their market. The most recurrent strategy at 83%, is the prospector strategy. Miles and Snow (1978) studied the need for companies to follow certain strategies that will enable them to succeed in their market. They conducted various field and research works covering different organizational types and found something common in the course of the life of different companies. They found the existence of an "adaptation cycle", which should be the main objective of the organization. At the same time, they developed a typology of adaptation strategies (prospector, analyzer, defender and reactor type) that had to do with distinctive mechanisms developed by organizations in the process of adapting to their context. They declare that organizational forms are "a logical way to shape the strategy, the structure and the management processes of an organization into an effective whole." Under this situation, and as discussed above, the organizations in the study also pay attention to different perspectives arising from its context, which is causing the adoption of different strategies. It was possible to check for a relation in the type of strategy adopted by managers in the process of adapting to their environment. Currently, the large number of SME companies that exist in Mexico and in the State of Sonora have the resources needed to solve many of their problems. This favors being an important part in the economy and being socially considered a great source of employment. However, one of the factors that continue to negatively affect them is a lack of professionalization in its administrative activities.

CONCLUSIONS

This project was conceived to identify strategies followed by small and medium enterprises from Ciudad Obregon, Sonora, in the pursuit of achieving adaptation in the market. Based on our findings we concluded that today's strategies help companies to achieve a steady and sustained growth, at the same time they manage to professionalize in the activities that their market environment demands. Managerial ability to manage strategies becomes a transcendental aspect of business life. The most common strategy used by companies surveyed was the prospector strategy (31%), the analyzer strategy is the second option selected (30%), while 22% of SME´s apply the defender strategy. In the end, 17% use the reactor strategy. Results support the idea that prospector and analyzer are the strategies selected by the most of companies included in this study. The results obtained imply a theoretical and empirical contribution to these businesses. The position presented in the results identifies, in different ways, the relevance for companies to develop strategies consciously. Doing so is an essential part of a coherent management role in the selection of the strategy that best suits the type of business and provides potential for a competitive advantage.

Also as part of the results, we find that managers from small and medium-sized enterprises for the most part, adopt some strategy to adapt to their environment. Miles and Snow (1978) also identifying that the prospector strategy was the most representative for small businesses. They argue the prospector strategy is maintained in a more dynamic environment where their capability is oriented to identify and explore new market opportunities. We also found that medium-sized firms tend to adopt the analyzer strategy, which try to minimize risk and maximize profits in a safer environment. These firms are always supported by a system of administrative management. In contrast, the analysis showed that this kind of company still maintains the reactor strategy with a minimal tendency. Future research might consider more variables related with the concepts explored here. For instance, researchers might analyze the management of every type of strategy. In addition, given the relevance of SMEs, it is necessary to implement measures to improve the economic environment and directly support the businesses to create the conditions that contribute to their establishment, growth and consolidation. (Pro Mexico, 2013).

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BIOGRAPHY

Beatriz Alicia Leyva Osuna has a Master's Degree in Management by ITSON. ITSON's Titular Researcher Professor. For contact at ITSON: calle 5 de febrero #818 sur, C.P. 85000; Cd. Obregón, Sonora; México. E-mail: beatriz.leyva@itson.edu.mx

Héctor Guadalupe Márquez Ortiz has a Master's Degree in Management by ITSON, research collaborator and thesis student. For contact at ITSON: calle 5 de febrero #818 sur, C.P. 85000; Cd. Obregón, Sonora; México. E-mail: hmarquez@itson.edu.mx

Sergio Ochoa Jiménez has a Doctorate Degree on Organizational Studies by the Universidad Autónoma Metropolitana (Autonomous Metropolitan University) (UAM), Titular Researcher Professor of the Sonora Institute of Technology (ITSON). For contact at ITSON: calle 5 de febrero #818 sur, C.P. 85000; Cd. Obregón, Sonora; México. E-mail: sergio.ochoa@itson.edu.mx

Carlos Armando Jacobo Hernández, has a Doctorate Degree in Strategic Planning by ITSON. ITSON's Titular Researcher Professor. For contact at ITSON: calle 5 de febrero #818 sur, C.P. 85000; Cd. Obregón, Sonora; México. E-mail: carlos.jacobo@itson.edu.mx

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LEADERSHIP BEST PRACTICES AND EMPLOYEE PERFORMANCE: A PHENOMENOLOGICAL TELECOMMUNICATION INDUSTRY STUDY

Karl Thompson, University of Phoenix
Jon K. Webber, University of Phoenix

ABSTRACT

This phenomenological study explored leadership best practices among senior managers at a major telecommunications organization in to determine the perceived effects that such routines had on actual employee performance. The study took place in State of Georgia in the United States from January 16 to February 18, 2014 and involved ten selected managers who held the role of customer service manager for a minimum of 2 years and were identified as a top performer based on the ranking and rating reports from the organization's data. The major themes that emerged centered around four major areas: (1) employee-oriented perspective of best leadership practices, (2) performance perspective of best leadership practices, (3) process perspective of best leadership practices, (4) learning and growth perspective of best leadership practices. It was determined that leaders should create a working environment where there is increased employee engagement and participation; communicate goals, gain employee understanding, and apply communication styles that fit the need of each employee at all levels; identify and plan opportunities of growth for employees through training and development; recognize the importance of personally engaging with their employees; and, understand the importance of having regular meetings to update employees about new products and services.

JEL: M10, M12, M15, M53, M54

KEYWORDS: Telecommunications, Leadership, Best Practices, Employee Engagement, Training, Employee Performance, Training

INTRODUCTION

Employees are valuable assets of an organization and the leaders of profitable companies place a high premium on increasing employee performance levels (Leigh, 2009). Leadership best practice are a powerful way to enhance individual growth and development, customer experience, employee performance, and organizational productivity (McNeese-Smith, 1996). The importance of leadership in an organization is no surprise as American business leaders spends more than \$55 billion on organizational productivity and employee performance improvement initiatives (Enos, 2000). Examining gaps between employee performance and leadership best practices assist organizations in developing a partnership for improving employee commitment, job satisfaction, and ultimately, organizational performance through best practices and consistency in leadership (Keiu, 2010). Having employees operate at their highest level of performance is of paramount importance to 21st century organizations (Drucker, 1999).

Leaders provide direction, leading by example, maintaining appropriate tools for process measurement, and creating a high level of credibility as time progresses (Kouzes & Posner, 2002), influencing employee performance. Leaders motivate employees by encouraging them to contribute ideas, which results in a fulfilling and enriching work environment (Khaliq, 2001). This study focused on the best practices of leadership and its effects on employee performance at a major telecommunication company in the state of Georgia in the United States. Primarily, the study sought to discover the findings of role model leaders in that organization and how exhibiting such exemplary behaviors might affect employee performance.

The purpose of this phenomenological study was to explore what telecommunication leaders perceive as leadership best practices and to determine the perceived effects of leadership best practices on employee performance. From the practical organizational perspective, the study sought to determine how leadership best practices play a role in nurturing a productive work environment that optimizes performance to achieve organizational objectives. The experiences of 10 senior leaders in the telecommunication customer service sector were explored and analyzed through sampling.

The remainder of the paper is organized as follows. The next section includes a literature review which shows that humans need to be motivated to perform at their highest potential level of work and that best practices are key in empowering organizations to produce optimal performance in their employees. The third section describes the data and methodology used to discover how best practices are potentially transferred from those who do them in senior leadership down through the rank and file in the organization to effect a change. The results and discussion portion reviews the four main findings of the study involving employee-oriented perspectives of best leadership practices, performance perspectives of best leadership practices, process perspectives of best leadership practices, and learning and growth perspectives of best leadership practices. The final section offers concluding comments and recommendations for further study and implementation.

LITERATURE REVIEW

Leadership styles for many years were consistent with McGregor's human motivational theories of Theory X and Theory Y. The leader who advocate one of the two extremes based on their management viewpoint. The leader's role, according to Theory X, is to forcefully control their employees by portraying them in a negative light where they are seen as disliking work, being lazy, and tending to avoid work whenever possible. In contrast, the Theory Y represented the notion that employees enjoyed working, were not lazy, and were motivated and developed their potential to perform their task (McGregor, 1960).

These two notions on motivation lasted for about 20 years when Blake and Moulton (1985) proposed that a leader with a high concern for production often demonstrates an autocratic leadership style. The autocratic leader retains all authority, dictates how work should be perform, and makes decisions without gathering input from others. The autocratic leader discourages employee participation. In contrast, leaders with a high concern for people often demonstrate a democratic style. The democratic leader involves employees in decisions affecting them, delegates' authority and tasks, encourages employee input, and uses feedback as an opportunity for performance improvement.

As theorists started mulling over what motivated employees, Goleman (1994) suggested the beginnings of what would become emotional intelligence. According to Goleman, there is a reciprocal relationship between the work environment, leadership style, and employee performance. In this reciprocal relationship Goleman asserts five key factors: (a) a work environment where employees can be creative and innovative, (b) performance feedback, (c) recognitions and rewards valued by employees, (d) mission and goals explained to employees, and (e) employees committed to the vision of the organization.

Best practices are behaviors adopted to fit a particular organization to produce superior results (Ashton, 1998). According to Idris and Ali (2008), organizations can adopt the best practices of top performing leaders and employees and use them as an advantage to assist low and medium performers raise their performance and operate at a higher level of their capacity by implementing many of the common factors or best practices used by the top performing employees in their organization.

Organizations must increase their reliance on employee involvement and improved relationships as their success depends on the firm's ability to build and harness employee skills and knowledge (Bass & Avolio, 1994). According to Drucker (1999), to increase knowledge–worker performance and productivity, there are six factors leaders must reinforce: (a) create a workplace requiring constant learning, teaching, and growth; (b) clarity on the exact task to be accomplished; (c) provide attention to the quality of work done by employees; (d) the autonomy to have employees handle their own performance concerns; (e) design a work environment for creativity and innovation; and (f) treat employees as intellectual assets and not simply a cost to the business.

Richman, Civian, Shannon, Hill, and Brennan (2008) suggested employee engagement refers to an increase in the intellectual and emotional commitment an employee expresses towards their job, manager, or organization, resulting in the employee exerting additional work. Organizational leaders must make employee engagement an ongoing best practice and prioritize their approach in handling any problem areas to ensure improvement in employee engagement. The best practices include maximizing leaders capabilities, leadership being engaged, leaders understanding how to help their team members, a good picture of what full engagement looks like, leaders being accountable for the coaching and development of their employees, and making sure employees know how they can contribute to the success of the organization (LaBarbara, 1999)

Employee full engagement is hard to sustain; however, it is important to nurture, recognize, train, and develop employees. When employees are involved and engaged in the decision-making process they will know what they do well and keep doing their job with confidence (Strom, 2010). Conversation with the employee is the most effective way to provide feedback on performance, allowing the generation of new ideas and increasing personal satisfaction and business results. This will also prevent a misunderstanding and build trust in the engagement process, helping employees understand the direction the organization is going and their role in the process (Wallace & Trinka, 2009).

Leadership best practices in the telecommunication company are when leaders establish measurable, realistic, specific, and timely goals to improve employee performance and assist in achieving improved team results. Goals are important since they provide the areas of attentiveness and focus to which performance improvements are required (Snow & Hrebiniak, 2002). Three factors for improving employee performance are (a) committed employees who are motivated to achieve key performance measures, (b) identification of progress and resources needed to achieve goals, and (c) raising employee performance and organizational productivity by building a learning organization (McNeese-Smith, 1996).

Herzberg, Mausner, and Snyderman's (1959) motivation theory identified factors such as the task or job design as satisfiers or motivators. The motivational theory is based on tasks specific to enhancing and motivating employees (Ramlall, 2004). Having an understanding of the various aspects of employee behavior can assist leaders in building a sense of worth, improving communication and self-esteem, and increasing employee performance (Covey, 2006). The daily task (job) performed and the assignment of the task to employees can influence their performance, motivational levels, and organizational productivity (Davis, 2010). The leader is the most likely the source of positive feedback or reinforcement toward employees for performing well (doing a great job) (Schull, 2010).

Employee morale results from a positive or negative attitude held by an individual, their attitude toward their job, and the organization the perception of a leader. Improving morale is dependent on how organizational leaders communicate and establish strategies. Included in this are the manner in which they appraise their leadership styles and the employees, assist in balancing their employees' work and life, promote a team-oriented environment, and how individuals are hired and positioned in the organization (Enos, 2000). The morale of an employee is a powerful indicator for the health and productivity of an organization; hence, the challenge of leadership is to maintain and sustain the morale of employees (Brode, 2012).

Understanding employee turnover is of great importance and is especially evident when a rival is attempting to hire high performing employees. According to Hom and Kinichi (2001), a high turnover rate can negatively affect the performance of an organization. Hence, identifying the reasons for employees' intention to leave provides an opportunity to predict turnover behaviors and implement measures to prevent or reduce turnover. A leaders' behavior can encourage or influence employees to exit the organization. Firmand (2009) made reference to inadequate training in leadership in the areas of personnel management and the adoption of a transformational approach as factors creating an imbalance for handling the task and the people being led.

Organizational culture is a set of norms, beliefs, and shared values dictating how organizational members interact with each other, as well as with external stakeholders (Jones, 2011). While some suggest the leader creates the culture (Schein, 1985), others argue the actors in the organization are the ones responsible for creating the culture (Lakos, 2007). Corporate culture works toward distinct ends and cross-cultural communication differences include languages, meaning, myth, and value of the culture (Hill, 2005). Leaders need to be sensitive to these barriers to effectively prepare their teams to improve communication in a cross-cultural environment (Fang, 2011).

Understanding cross-cultural communication and enhancing skills can affect many facets of behavior and reduce cross-cultural obstacles. Knowing how to communicate helps reduce noise and enhances encoding and decoding of communications (Francesco & Gold, 2005). Leadership must be sensitive to cultural differences and language barriers as difficulties can arise when communicating, especially when the conversation is via technology. A collective capability is required to get the necessary performance out of a cross-cultural team when its members are operating from different levels within their respective organization's hierarchy (Kirkbride, 2006).

Empowerment is characterized by decision-making and providing employees the power to carry out the job their position demands (Carson & King, 2005). Empowering employees gives them a sense of ownership and belonging, motivating them and reducing their intentions to leave the organization. Empowering employees combined with transformational leadership practices will fuel the interest of employees as this type of leadership is less task-oriented and more people-oriented, thus creating a balance to generate positive results to the organization's bottom line (Mobley, 1977).

According to Sonnenberg, Bas, and Jaap (2011), empowering employees is significantly important for any organization seeking to develop and improve overall productivity and performance. Empowerment involves investing legal power unto another person and properly providing a perpetually positive personnel performance. Although empowerment is positive, the key to empowerment is the proper preparation and development of subordinates, including appropriate training for the employees; allowing sufficient time to complete the task; ensuring the task is fully understood and give time for questions; providing guidance when requested; monitoring the progress of the task; and evaluating and providing feedback in concert with holding the employee responsible for the results of the task completed (Sonnenberg, et al.).

DATA AND METHODOLOGY

This study utilized a qualitative, phenomenological research design using open-ended interviews as the premise for data collection, theory generation, observation, and content analysis (Lim, 2008). This phenomenological study was used to better understand how leadership best practices may influence employee job performance for the organization, helping to transform and modernize the industry (Bennis, 2007). The study took place from January 16 to February 18, 2014 and involved ten selected managers who held the role of customer service manager in a telecommunication company in the state of Georgia, for a minimum of 2 years and were identified as a top performer based on the ranking and rating reports from the organization's data as a means of assessing the sample and allowing a detailed qualitative analysis, demographic information including age range, gender, and years' experience as a customer service manager was collected during the interview process. Discussions of the demographic and professional information are shown in Tables 1, 2, and 3.

The age ranges considered in the study were 18-25, 26-35, 36-45, and 46+. Table 1 shows that no participants were in the lower 18-25 age range. Three participants (30%) were 26-35, five participants (50%) were 36-45, and two participants (20%) were 46 or over. The role of those interviewed was typically a medium level position in large organizations. While the majority of participants were male, as Table 2 shows females were well represented.

Table 1: Distribution of Study Participants by Age

Study Participant	Age Range	Study Participant	Age Range
P1	46+	P6	26-35
P2	36-45	P7	36-45
P3	26-35	P8	26-35
P4	36-45	P9	36-45
P5	46+	P10	36-45

Table 1 illustrates the participants' age. N=10

Table 2: Distribution of Study Participants by Gender

Gender	No. (% of Total)
Female	3 (30%)
Male	7 (70%)

Table 2 illustrates the gender classification for the participants. N=10

This study involved open-ended interviews with 10 participants who were top performers and had direct experience in the telecommunication company being studied. The population was drawn from a diverse group of customer service employees in the customer service department who had at least two years of experience. According to Creswell (2005), normal sample size for a phenomenological studies range from 5 to 25 participants. Within the population, sampling is a crucial factor (Neuman, 2006). One important sampling criterion used in this study was that the participants had been recognized for their best practice performance.

All participants were required to have at least two years of experience to participate in the study. Participant experiences in a leadership role ranged from 3-16 years, with a mean of 10.2 years. In analyzing the data, experience was divided into three ranges, 3-6, 7-10, and 11-16. As shown in Table 3, most of the participants had considerable experience, with only 30% having 3-6 years, while 70% had 7-16 years of leadership experience.

To ensure the validity of the study, a pilot study with two participants was conducted to obtain feedback regarding the effectiveness of the one-on-one interview process and the clarity of the interview questions. The data from the pilot study interviews was not included in the results, but provided an opportunity to improve the clarity and reliability of the survey questions, as well as enhance the validity of the study (Neuman, 2006). Based on the feedback from the pilot study, insignificant modifications were made to the research question, allowing it to be more specific. Minor rewording of the interview questions improved their clarity, allowing the participant to more directly answer the questions. The finalized version of the interview questions is provided in Appendix A.

Table 3 Distribution of Study Participants by Years of Experience

Work Experience (Years)	Number of Participants	Percent of Total
3 – 6	3	30%
7 – 10	3	30%
11 - 16	4	40%
Total	10	100%

Table 3 illustrates the years of experience classification for the participants. N=10

In-depth interviews with open-ended questions lasted 45-60 minutes with the questions providing a semi-structured format of the 10 respondents regarding their perception of leadership best practices and employee performance. The purposes of the questions were to obtain information about their lived experience for the research. Information obtained included the perception and feeling of the respondents as indicated through their responses to the interview questions. Data was subsequently analyzed by the process of comparison, categorization, and grouping of data and results compared with data gathered from literature review. NVivo10® qualitative data analysis software tool facilitated the analysis of the data in the study.

The data analysis began upon completion of the data collection process and submission of the finalized interview transcripts. To ensure anonymity, an identification code was given to each study participant (P1 to P10) to assist in determining responses in place of using the actual name of the subject, which also provided the authors the ability to distinguish the results while maintaining confidentiality. Responses were obtained from face-to-face audio digital recorded interviews, which occurred between January 16, 2014, and February 18, 2014.

RESULTS AND DISCUSSION

The narrative data were analyzed, and themes pertaining to leadership best practices emerged regarding the viewpoints of the 10 senior level workers in this state of Georgia telecommunications organization. The themes that emerged from the interviews reflected a managerial leadership framework that aligns with the balanced scorecard perspective of organizational performance (Kaplan & Norton, 1996). Emergent themes were classified as major or sub based on the number of references from the interview process coded to the theme. The major themes centered around four major areas:

1) Employee-oriented perspective of best leadership practices.
2) Performance perspective of best leadership practices.
3) Process perspective of best leadership practices.
4) Learning and growth perspective of best leadership practices.

The major research question addressed is: What are the perceptions of leaders/managers of the telecommunication company in southern Georgia regarding leadership best practices and their experience of how these practices affect employee performance?

As shown in Table 4 Panel A sub themes, for employee oriented perspective of best leadership practices, four sub-themes emerged from the responses of the data collected during the study interviews: support, recognition, empowerment, and relationship. These themes suggested human resources management processes managers pursue to increase employee motivation and performance.

For Table 4 Panel B, for performance perspective of best leadership practices, two sub-themes emerged from the responses of the data collected during the study interviews: performance-oriented leadership behavior and goal-oriented leadership behavior. These sub-themes focused on the processes regarding what is required to improve employee performance and assist in achieving improved team results.

As shown in Table 4 Panel C, for process perspective of best leadership practices, two sub-themes emerged from the responses of the data collected during the study interviews: participative leadership behavior and communication leadership behavior. The participative approach involved including employees in the decision making process, leveraging employee skill sets and making a collaborative effort to acknowledge and celebrate employee success. The communication leadership behaviors focused on communication and ensure understanding and the accomplishment of goals.

Finally, Table 4 Panel D, for learning, training and development perspective of best leadership practices, three leadership behavior sub-themes emerged from the responses of the data collected during the study interviews: training and development, learning, and performance appraisal. Training and development leadership behaviors involved activities to develop employees and increase the competencies they need to achieve their objectives and improve organizational results. Learning leadership behavior involved spending time to know employees; viewing they will work harder if you show them that you care about their growth and development and building confident employees who are self-motivated and have a desire to win. The performance appraisal leadership behavior focused on coaching; developing actions; planning to leverage employee skill sets; being a good teacher in improving employee knowledge; creating high confidence levels on the customer experience; and interacting, guiding, and developing employees.

Table 4: Combined Sub Themes

Panel A: Themes on Employee-oriented Perspective of Best Leadership Practices	
Major Theme	**Sub Themes**
Employee-oriented perspective of best leadership practices	Support Recognition Empowerment Relationship
Panel B: Themes on Performance Perspective of Best Leadership Practices	
Major Theme	**Sub Themes**
Performance perspective of best leadership practices	Performance-oriented leadership behavior Goal-oriented leadership behavior
Panel C: Themes on Process Perspective of Best Leadership Practices	
Major Theme	**Sub Themes**
Process perspective of best leadership practices	Participative leadership behavior Communication leadership behavior
Panel D: Themes on Learning, Training, and Development Perspective of Best Leadership Practices	
Major Theme	**Sub Themes**
Learning, training, and development perspective of best leadership practices	Training and development leadership behavior Learning leadership behavior Performance appraisal leadership behavior

Table 4 Panel A illustrates the themes of employee oriented best practices.
Table 4 Panel B illustrates the themes of performance perspective of best leadership practices.
Table 4 Panel C illustrates the themes of process perspectives of best leadership practices
Table 4 Panel D illustrates the themes of learning, training, and development perspectives of best leadership practices.

The major research question addressed is: What are the perceptions of leaders/managers of the telecommunication company in the state of Georgia regarding leadership best practices and their experience of how these practices affect employee performance?

The first major theme was the employee oriented perspective of best leadership practices. This theme was evident in the narrative through 114 counts (32.9%) and referenced the variety of human resources practices that managers pursue in support of employee productivity and organizational growth. Of the sub-themes, participants mentioned support 10 times (2.8%), recognition 15 times (4.3%), empowerment 6 times (1.75%), and relationship 10 times (2.9%).

As shown in Table 5 Panel A, 80% of the participants indicated support and recognition formulated the major aspect of employee-oriented perspective of best leadership practices. This was followed by 40% of participants supporting the importance of empowerment and relationships. The sub-themes provide important strategies for improving employee performance through leadership best practices. The second major theme was the performance perspective of best leadership practices. This theme was evident in the narrative through 85 counts (26%) and referenced the importance of ensuring that employees bought into the vision, being a change catalyst, and focusing on accountability. Of the subthemes, participants mentioned performance-oriented leadership 25 times (7.2%) and goal-oriented leadership 24 times (6.9%).

Table 5: Combined Themes 1, 2, 3 and 4

Panel A: Theme 1-Employees-oriented Perspective of Best Leadership Practices			
Sub-themes	**Participants Indicating Sub-theme**	**Percent of Participants**	**References by Participants**
Support	P1.6; P2.6; P4.8; P5.6; P6.8; P7.6; P9.6; P10.6	80%	10
Recognition	P1.10; P3.10; P4.10; P5.10; P6.10; P7.10, P8.10; P9.10	80%	15
Empowerment	P2.11; P7.9; P8.9; P10.9	40%	6
Relationship	P1.10; P3.6; P4.6; P10.9	40%	10
Panel B: Theme 2: Performance Perspective of Best Leadership Practices			
Sub-themes	***Participants Indicating Sub-theme**	**Percent of Participants**	**References by Participants**
Performance-oriented leadership	P1.7; P1.8; P1.8; P2.4; P2.6; P2.12; P3.4, P4.5; P4.12; P6.4; P6.10; P8.5; P9.9	70%	25
Goal-oriented leadership	P1.4; P2.4; P3.4; P4.4; P4.11; P6.10; P6.12; P9.9	60%	24
Panel C: Theme 3: Process Perspective of Best Leadership Practices			
Sub-themes	***Participants Indicating Sub-theme**	**Percent of Participants**	**References by Participants**
Participative leadership behavior	P1.10; P2.11; P3.9; P3.12; P4.6; P4.11; P5.11; P8.4; P8.11	60%	15
Communication leadership behavior	P1.8; P1.11; P2.8; P3.9; P4.9; P6.9; P8.9	60%	22
Panel C: Theme 4: Learning, Training and Development Perspective of Best Leadership Practices			
Sub-themes	***Participants Indicating Sub-theme**	**Percent of Participants**	**References by Participants**
Training and development leadership behavior	P2.5; P2.6: P2.11; P3.9; P3.12; P4.6; P5.6; P5.7; P5.8; P6.9; P8.9; P10.6; P10.9	80%	10
Learning leadership behavior	P1.5, P1.10a; P1.11; P2.9; P3.11; P3.12; P4.8; P5.12; P7.9; P9.4; P9.8; P10.7; P10.8	80%	11
Performance appraisal	P1.9; P1.10; P2.7; P5.12; P6.9; P7.6; P8.8	60%	11

Table 5 Panel A illustrates the themes of employee oriented best practices indicating the participant and the interview question, e.g., P1.6 was the response from participant P1 to interview question #6. N=10
*Table 5 Panel B illustrates the themes of employee performance perspectives of best leadership practices, The * indicates the participant and the interview question, e.g., P1.7 was the response from participant P1 to interview question #7. N=10*
*Table 5 Panel C illustrates the themes of process perspectives of best leadership practices, The *indicates the participant and the interview question, e.g., P1.10 was the response from participant P1 to interview question #10.*
Table 5 Panel D illustrates the themes of learning, training, and development perspectives of best leadership practices. The *entry indicates the participant and the interview question, e.g., P2.5 was the response from participant P2 to interview question #5. *N=10*

As shown in Table 5 Panel B, 70% of the participants mentioned focusing on the performance oriented best leadership practices with 60% for the goal-oriented best leadership practices. The sub-themes provide important strategies for improving employee performance through leadership best practices.

The third major theme was the process perspective of best leadership practices. This theme was evident in the narrative through 52 counts (18%) and references identifying the various processes to improve employee performance and assist in achieving improved organizational results. Of the sub-themes, participants mentioned participative leadership behavior 18 times (4.5 %) and communication leadership behavior 22 times (6.3%). As shown in Table 5 Panel C, the concepts of participative and involvement and good communication were both indicated as key by 60% of the participants. The sub-themes provide important strategies for improving employee performance through leadership best practices.

The fourth major theme was learning, training, and development perspective of best leadership practices. This theme was evident in the narrative through 42 counts (12.1%) and referenced the importance of leaders spending time getting to know employees. Of the sub-themes, participants mentioned raining and development leadership behavior 10 times (2.9%), learning leadership behavior 11 times (3.2%), and performance appraisal 11 times (3.2%). Table 5 Panel D shows that 80% of participants indicated training and developing employees in having a *customer service mindset* was critical to enabling employees to get the job done, while establishing diversity from top-down and setting employees on a career development track. An equal 80% emphasized leadership behavior of spending time to know employees. Performance appraisal was also important, with 60% of participants noting the value of coaching, leveraging employee skill sets, improving employee knowledge, and creating high confidence levels. The sub-themes provide important strategies for improving employee performance through leadership best practices.

CONCLUDING COMMENTS

The goal was to research an area of interest and value to a telecommunication organization, identify and document patterns that emerged, and allow the researcher to generate leadership theories based on data gathered and analyzed. To ensure the validity of the study, a pilot study with two participants was conducted to obtain feedback regarding the effectiveness of the one-on-one interview process and the clarity of the interview questions. The data from the pilot study interviews was not included in the results, but provided an opportunity to improve the clarity and reliability of the survey questions, as well as enhance the validity of the study (Neuman, 2006).

Those in leadership positions within various telecommunication organizations may discover that the findings contained in the study can be used for the advancement of their organization and their leaders. The conclusions suggest a better way for leaders to lead people and get the most out of the experience. The results of the study extend the body of knowledge on best leadership practices. Six specific recommendations for leaders developed out of this study: 1) Leaders should create a working environment where there is increased employee engagement and participation. This will lead to greater employee decision-making ability and result in more productive employees who have a higher level of performance. 2) Leaders should communicate goals, gain employee understanding, and apply communication styles that fit the need of each employee at all levels. It is imperative for leaders to make a collaborative effort to create an environment that fosters open communication with employees through coaching, guiding, and developing them. 3) It is important for leaders to identify opportunities of growth for employees and plan execution through training and development. This will build confident employees who will be self-motivated and have a desire to win. Companies face escalating human capital needs and declining budgets; hence, the choice is to provide the training to build leaders or watch employees leave for other opportunities. 4) A key factor for leaders is to know their employees. They should connect with employees and stay engaged by asking pertinent questions, such as, how is everything going? How is your family doing? This builds awareness and shows that you care about their personal lives, as well as their success. 5) Leaders must develop an interest in the human side of the employee by developing a comprehensive training and development plan that addresses the employee's career path objectives and positively impacts employee advancement and growth. This will lead to creating a balanced framework of best practices leading to employee productivity. 6) It is important for leaders to have regular meetings with employees to update them and communicate about new products and services. Meetings open the gate to hear ideas and gain understanding of new products and address challenges. Leaders must exercise the behavior of being great listeners, students, and teachers. When leaders develop an attitude of oneness where they learn from the employee, as well as being a good teacher, it creates high confidence levels with employees to deliver on the customer experience and improve their knowledge and performance levels.

With companies facing cuts in profits and people based on economic conditions and an increased competitive environment, leaders in companies will need to re-focus and concentrate on leadership best practices to improve employee performance, retain the best talents, and allow companies to stay competitive and survive (Goolsby, 2009).

The quality of research depends on the volume of data collected, and depending on the skills of the researcher, can make analysis and interpretation time consuming. There is also a limitation in the phenomenological process itself as it allows the researcher's biases to influence the interpretation of data (Leedy & Ormrod, 2013). Thus, a limitation of the study was the interpretation of interview responses since these were central to the results and conclusion. A mistaken expression of a participant's professional and personal experiences could limit the interpretation of the study and any conclusion.

The focus of the phenomenological study on leadership best practices and employee performance was limited to leaders in the telecommunications industry in the southern Georgia area. Further research that includes other geographic areas may prove beneficial to leaders. In addition, based on the results of this study, three areas would seem to offer valuable avenues for future research within the phenomenon of leadership best practices: 1) A quantitative study on how best leadership practices can positively impact employee performance and improve organizational performance and productivity. 2) Since leadership changes with growing trends and quality of employees hired, a qualitative study re-focusing on leadership best practices and employee performance could be re-visited, focusing on developing skills to meet organizational plans. 3) A quantitative study on the success or failure of leadership best practices programs could be conducted to help leaders in other industries focus on programs/practices that improve organizational productivity while affording employees the opportunity to improve performance by developing their skills (Goolsby, 2009).

The results of the study provide a starting point for gaining a better understanding of the relationship between modeling such behavior and increasing employee performance within the customer service area of the telecommunications industry. A conclusion of the research findings is that when leaders create a work environment where there is employee engagement and participation through leadership best practice, the result is greater employee decision-making ability and in turn a more productive employee with a higher level of performance. From this point of view, organizations have an opportunity for success by promoting partnership with employees and working together to embrace excellence in performance, while promoting continuous organizational improvement.

APPENDIX

Appendix A: Interview Questions

	Begin Study Participant #	
	Demographic Information – Section 1	
1	Age:	
	18 – 25	☐
	26 – 35	☐
	36 – 45	☐
	46 and over	☐
		☐
2	Gender:	
	Male	☐
	Female	☐
3	Number of Years as a Customer Service Leadership role:	

	Open-Ended Interview Questions – Section 2	
4	What is your understanding of leadership?	
5	How do you see leadership and how it is working in your organization?	
6	What are some of your best leadership practices in managing employees?	
7	What are some leadership practices that have a negative impact on your performance?	
8	What are some leadership practices that have a positive impact on your performance?	
9	What factors would improve employee-manager working relationship and build trust?	
10	What factors would make you feel more appreciated at work?	
11	What leadership style would make a difference in your organization?	
12	How would this impact your performance?	

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BIOGRAPHY

Dr. Karl Thompson is an Associate Professor at St. Thomas University and Founder/CEO of Technical Support Leadership Consulting. Dr. Thompson worked in the telecommunication/service industry for over 20 years at various mid to high level positions and has led several projects that successfully improved processes and systems, developed motivated employees, and significantly improved customer service experience. Additionally, Karl has spearheaded business development initiatives in a highly regulated industry. He has conducted training and development events, need analysis to align with key business objectives in conjunction with budgetary goals and timelines and has served as a key member of leadership

teams that formulated recognition programs as a motivational tool to drive organizations strategic direction. He can be contacted at: 953 Poplar Mill Way, Buford, Georgia 30518. US Email: drkthom50@gmail.com

Dr. Jon Webber is an Associate Professor at the University of Phoenix. He is also the President/CEO of Webber Impact Management, a global consulting organization. His research appears in journals such as *Advances in Management and Applied Economics, Global Journal of Business Research, International Journal of Gambling Business and Economics, Interdisciplinary Journal of Information, Technology, and Management, International Journal of Management and Marketing, Journal of Management and Marketing Research, and the Journal of Business and Economics Review of Business and Finance Case Studies.* He has also published work in Cambridge Scholars Publishing (UK). He can be contacted at: 5015 Sunset Trail, Cumming, Georgia 30040. US Email: drjonwebber@gmail.com

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SMALL FIRMS INTERNATIONALIZATION: REDUCING THE PSYCHIC DISTANCE USING SOCIAL NETWORKS

Laurent Arnone, University of Mons (Belgium)
Elodie Deprince, University of Mons (Belgium)

ABSTRACT

This article investigates the role of social networking sites in the internationalization of small businesses. More specifically, we explore the effect social networks have on the level of psychic distance and how these new tools are used in order to reduce the perceived risk and strengthen business relationships. The multiple case study based on a two-year observation period shows that, besides their cost advantage in terms of advertising and communication, social networks support crucial marketing efforts such as the identification of new business opportunities and foster the development of professional and personal relationships with foreign partners. In turn, these tools facilitate and sometimes, accelerate, the internationalization of small businesses by lowering the perceived risks and the psychic distance characterizing new foreign markets.

JEL: M30

KEYWORDS: Small Businesses, Social Networks, Relationships, Internationalization, Case Study, Psychic Distance

INTRODUCTION

Small and Medium Enterprises (SMEs), of which most are small (6.9%) and micro (91.8%) companies, account for 98% of the European economy. In recent years SMEs have dramatically increased their involvement in international trade (Torres, 1999) as, nowadays, more than 20% of these SMEs extend their activities in several countries. Lately, authors have pointed out the relevance of social media technologies as a new panacea for small and medium enterprises (Michaelidou, Siamagka and Christodoulides, 2011; Barnes et al., 2012; Stockdale, Ahmed and Scheepers, 2012). Former research mainly investigated the benefits small businesses can gain from social media technology (Michaelidou et al., 2011; Persaud, Spence and Rahman, 2012; Stockdale et al., 2012). While some studies suggested that SMEs develop their international operations gradually (Johanson and Vahlne, 1977), recent research shows that some companies follow a faster scheme: they would quickly extend their operations in countries that are far away (Bell et al., 2003), sometimes from the very first weeks of the company' establishment. These new patterns of internationalization should not be isolated from the technological context in which they take place. Indeed, the evolution of business tools available is a critical factor influencing the internationalization process. For instance, online social networks are considered relevant tools in the context of international marketing efforts (Okazaki and Taylor, 2013). Authors such as Rialp, Alarcon and Rialp (2014) suggest that the astonishing power of social networks enables SMEs to perform marketing efforts at the international scale. Nevertheless, no research has yet studied the way smaller companies use these tools in the framework of their international activities.

Considering this existing body of literature, the value of this article is to investigate the benefits small businesses derive from online social networks, in the framework of their international operations. More specifically, we will explore the effect social networks can have on the concept of psychic distance and how these technologies are used in order to reduce the perceived risk and strengthen business relationships. More specifically, we will answer the following research question: how can small enterprises benefit from the use of social networks in the development of their international operations and, can these tools contribute to reduce the psychic distance with foreign partners? In order to answer this question, this paper will be structured into four sections. Firstly, we will present a literature review pertaining to SMEs international efforts and explain the concept of psychic distance. We will then highlight the main research related to business networks and their potential in an international context. The third section of the paper will then present the methodology followed for this research. We realized a multiple case study, implemented on a sample of 8 small exporting companies, based in Belgium. In the next section, the main findings resulting from our investigations will be detailed and discussed. Finally, we will draw the conclusion of the research.

LITERATURE REVIEW

In the following sections we will briefly present the theoretical frameworks considered to analyze the concept of psychic distance and its impact on SMEs' internationalization. We will then highlight the contribution of the network theory in the understanding of international business relationships. Finally, we will present a literature review related to social networks in the context of SMEs and international approaches.

SMEs' Internationalization and the Concept of Psychic Distance

Over the last decades, SMEs' internationalization has been analyzed using a variety of theoretical frameworks. The stages theory, characterized by a key model known as the Uppsala model (Johanson and Wiedersheim-Paul, 1975), describes the internationalization of the small firm as a dynamic process through which the enterprise gradually increases its international investments. In this process, the foreign market entry decisions are influenced by what authors have termed "psychic distance" (Johanson and Wiedersheim-Paul, 1975). The concept of psychic distance encompasses, among others, cultural and language factors preventing or disturbing the flow of information between the firm and its foreign markets (Johanson and Wiedersheim-Paul, 1975). According to Hallen and Wiedersheim-Paul (1984) psychic distance is influenced by three components: (1) the degree of cultural affinity (generally most apparent at the national level of relationships); (2) the level of mutual trust engendered between the companies (generally considered an "organization-level" factor); and (3) the level of international experience of the individuals involved (generally viewed as an "individual level" factor). It is generally accepted that the greater the psychic distance, the more difficult it is for a company to gather the information needed to reduce the risks associated with its internationalization and decide if whether or not it should develop its operations in a specific country. On the basis of this concept, authors suggest that SMEs export firstly to countries characterized by a lower psychic distance.

International Networks and Business Relationships

More recently, scholars analyzed the internationalization of SMEs using the perspective of the network theory (Johanson and Mattson, 1988). According to this view, when embedded in a business network, small firms can gain improved market intelligence (Gilmore, Carson and Grant, 2001) and benefit from an easier access to critical resources. Studies show that these business networks and their relationships, can support and facilitate SMEs' internationalization efforts (Coviello and Munro, 1997; Zhao and Hsu, 2007) as well as improve their marketing activities (Carson, Gilmore and Rocks, 2004; Gilmore et al., 2001). As reported by Zhao and Hsu (2007), in order to overcome their size-related constraints, SMEs' managers rely on social ties to access information and reduce potential risks caused by their unfamiliarity with the foreign markets. These considerations are consistent with previous research in marketing which acknowledges that one of the strongest competitive advantages SMEs cultivate, relies on the quality of the relationships they develop with their business partners and customers (Pacitto, Julien and Bizeul, 2006). Along those lines, Pacitto et al. (2006) noted that if SMEs do not make extensive use of marketing tools, they do develop marketing practices, notably by implementing direct and strong relationships with their business partners and customers. Nevertheless, in an international context, the level of psychic distance may affect these relationships. Conway and Swift (2000, p. 1391) suggest that "the higher the level of psychic distance, the greater the time and effort required to develop successful business relationships". According to Hallen and Wiedesheim-Paul (1984), business relationships develop on a continuum starting from the "pre-contact" stage and then evolve through the "initial interaction" phase, the "relationship development" phase, and finally, the "mature relationship" stage. The authors note that "depending on the stage of evolution of a relationship, these factors will influence the psychic distance to a different extent" (Hallen and WiedesheimPaul, 1984). They consider that the psychic distance would be higher during the initial stages of the relationship and then decreases as interactions between the partners strengthen.

Social Networks: Potential Leverage for SMEs' International Strategies

Academic research pertaining to social media in the context of SMEs has been growing since a couple of years. From this literature, most studies investigated the benefits small businesses can gain from the use of social media technologies (Barnes et al., 2012; Michaelidou et al., 2012; Persaud et al., 2012; Stockdale et al., 2012). Several authors consider that the greatest benefit of social media for businesses is the opportunity to engage with customers and enhance relationships (Kaplan and Haenlein, 2010; Stockdale et al. 2012; Durkin, McGowan, and McKeown, 2013). According to Durkin et al. (2013, p. 720), SME business practitioners increasingly recognize the power of social media to "create and maintain trust and commitment with key stakeholders in their networks and to improve the quality in those network relationships". Indeed, the non-transactional nature of social media makes them particularly suitable for initiating dialogue with stakeholders and fostering the development of strong relationships (Kaplan and Haenlein, 2010; Stockdale et al., 2012).

Despite this growing interest, the uses smaller businesses are making of social networks in an international perspective have not been investigated. Yet, Okazaki and Taylor (2013) suggested that the global reach of social networking platforms such Facebook (1,3 billion users), Google+ (360 million users), Twitter (250 million users) or LinkedIn (190 million users), combined with their important degree of standardization, make them effective leverages for international strategies. Further, Rialp et al. (2014) reported that exporting firms' social media capability can positively impact their performance on foreign markets. Bell and Loane (2010) highlighted this international potential and showed that small born global companies are using Web 2.0 technologies in order to intensify their relationships with international partners. These findings confirm that the relational potential of social networks, acknowledged by many authors in domestic markets (Barnes et al., 2012; Stockdale et al., 2012; Durkin et al., 2013), can also be activated on an international scale. In the context of these recent works, the objective of this research will be to analyze the role of social networking sites in the internationalization of small businesses and how these tools can help companies to deal with psychic distance and strengthen business relationships.

DATA AND METHODOLOGY

Considering the lack of research on this phenomenon, an exploratory approach aiming at empirically investigating how social networks can contribute to SMEs' internationalization efforts, could bring valuable results. In order to shed light on a phenomenon that has not been investigated by former research, Yin (2003) suggests that a multiple case study can be a valuable approach. Furthermore, the multiple case study has been widely used in previous studies analyzing SMEs' internationalization practices (Coviello and Munro, 1997; Evers and Knight, 2008).

Selected Cases: Data were collected in 8 Belgium-based small enterprises. The criteria we considered for the selection of the small businesses included in our study follow the definition of the European Commission: a small business is a company that employs less than 50 people, has a turnover lower than €10 million and a total balance sheet lower that €10 million. Considering the exploratory nature of the research, the cases selected « span a variety of industry types and firms of different ages and marketing approaches » (Merriless and Tiessen, 1999, p. 238). This diversity allows us to observe the uses of social networks in several settings and contexts (both B2B and B2C), and to highlight a larger number of practices (Chandra, Styles and Wilkinson, 2012). In order to identify the companies to be included in our sample, we used the database of the Walloon Export and Foreign Investment Agency, which lists all the Walloon companies that are operating internationally. Within this database, we contacted the companies that meet the criteria of the small business and that are present on the three most important social networks in Belgium, that is to say Facebook, LinkedIn and Twitter. In total 25 companies were contacted by email and telephone. 8 have agreed to participate in the study, representing 32% of the companies originally contacted. Table 1 presents the 8 companies included in our research.

Table 1 : Entreprises Included in the Multiple Case Study

Enterprises	Established	Industry	Internationalization	Social Networks When Established	Social Networks in 2014
Training&Go (4 people)	2010	Trainings (B2B)	France and Cameroon	Facebook, Twitter, LinkedIn, Youtube, Viadeo	Facebook, Twitter, LinkedIn, Youtube, Viadeo, Scoop It!
Crea-Appli (5 peolpe)	2008	High-Tech (B2B and B2C)	France, Germany, U.S., China, etc.	Facebook	Facebook, Twitter, LinkedIn, Youtube, Google+
Skills (2 people)	2010	Consultancy (B2B)	Quebec and France	Facebook, LinkedIn, Twitter	Facebook, LinkedIn, Twitter, Youtube
ADlab (15 people)	2000	Marketing (B2B)	France and Spain	Facebook	Facebook, Twitter, Pinterest, LinkedIn, Youtube
Cuberdon (2 people)	2011	Confectionnary (B2C)	U.K., Japan, Spain, China, etc.	Facebook	Facebook, Twitter, LinkedIn
Dragon (4 people)	2011	High-Tech (B2B)	France	Facebook, Twitter, Pinterest, LinkedIn, Youtube	Facebook, Twitter, Pinterest, LinkedIn, Youtube
Qualiteit (1 people)	2013	Consultancy (B2B)	France	/	Facebook, Google, Twitter, LinkedIn
Movy (8 people)	2008	Audiovisual media (B2B)	China, Russia, France, U.S., etc.	/	Facebook, Viméo, Youtube, Twitter, Flickr

Research Design and Data Collection: Coviello and McAuley (1999) invite researchers to analyze the internationalization of SMEs using a longitudinal approach, allowing to better understand the dynamics of the process and its evolution. To that end, the results highlighted in this article are based on a two-year observation period, characterized by two waves of interviews: the first was conducted between April and May 2013 and the second, one year later, in May 2014. The same managers were interviewed twice. For each company, the interviews were carried out with the manager, a key player in the internationalization of small businesses and generally in charge of managing social networks (Persaud et al., 2012). If another person was responsible for the management of these tools, an additional interview was requested. The interviews lasted between 50 and 90 minutes and were carried out on the basis of an interview guide including the main themes pertaining to the internationalization of SMEs and the use of social networks. Each interview was recorded with the agreement of the respondents and transcribed. The body was then analyzed and coded as to reveal emerging themes (Miles, Huberman and Saldana, 2014). In addition, secondary data were collected from a monthly observation of the content generated on social networks by the companies. These data were triangulated with the information gathered during the interviews.

RESULTS AND DISCUSSION

This section will highlight the main results of our investigations. We observed that social networking sites facilitate the creation and development of relationships among international partners, such as customers, distributors or importers. Small businesses use this linking potential to strengthen their business relationships at three different levels: the company level, the professional-individual level and the private-individual level. At each of these levels, we find that the use of social networks helps reduce psychic distance and facilitates players' relationships.

Facilitating the Creation of New Relationships and Reducing Business Risks

At the *company level*, social tools can facilitate the creation of new business relationships among foreign partners and ease the access of small companies to new business opportunities. In this sense, these tools affect more specifically the "pre-contact" and "initial interaction" stages described by Hallen and Wiedesheim-Paul (1984). Our interviewees indicated that such opportunities may include spontaneous requests of interested customers or importers, or networking via a shared partner, etc. that can foster the company's international operations. The manager of a confectionery (Cuberdon) reported that: *"We have recently found a new distributor in Lisbon. He first contacted us via Facebook, and I have never met him. All this proceeded through 'Facebook exchanges', and then through emails. Then he made his first order".* If social networks are used to facilitate relationships and develop potential opportunities, they are also useful to reduce the perceived risks of new collaborations, making them effective more quickly. This can be illustrated by the way managers declare they use social networks to access personal and professional online profiles of potential international partners. These profiles include information such as previous experience, recommendations received by other people or the existence of common contacts. They allow managers to quickly verify the identity and professional reliability of the people and the companies with which business relationships could be developed abroad. As explained by one of the managers (Movy) *"I used LinkedIn to get information about this distributor who contacted me; to know if he was someone serious and reliable. For me this is the greatest benefit of LinkedIn: either to find or to confirm the potential of the person".* In this perspective, by facilitating the flow of information between the decision-makers and foreign markets and enhancing the level of mutual trust among partners, social networks can contribute to reduce the risk of new collaborations and lower the level of psychic distance.

Emphasizing the Individualization of Business Relationships

At the *professional-individual level*, the use of social networks by small businesses allows a more individualized management of business relationships. On a social networking site such as LinkedIn, besides the company's official page, one can find the professional profiles of each staff member (managers and employees). Each of them can create their own individual profile and manage their professional network. One interviewee (Skills) explained that: *"With social networking, I have a more direct contact. Before, it was done by email, but it is not the same at all ... With LinkedIn, I can track the person. If the person changes company, you receive a notification".* These uses highlight that the development of business relationships relies on the complementarities between the company and the individual levels. If this distinction was already pointed in Hallen's (1992) work, our results suggest that the use of social networks modifies the balance between these two levels and emphasize the importance of individual ties. As a matter of fact, in all the cases studied, managers' and employees' profiles had more connections or followers than the pages dedicated to the company itself.

Whereas Hallen and Wiedesheim-Paul (1984) consider mutual trust as an organizational-level factor influencing psychic distance, our findings suggest that the trust developed between partners will also, or even, mainly act at the individual level. In this perspective, the use of social networks for individualized business relationships helps lowering the level of psychic distance. Moreover, Hallen and Wiedesheim-

Paul (1984) consider that the level of experience an individual has in an international context influences the degree of psychic distance. From our investigations, social networking sites seems to lower the obstacle raised by the lack of international experience. Indeed, the pervasiveness of social networks and the familiarity users have developed with platforms such as Facebook or LinkedIn, makes them rather confident when using these platforms to interact with new international partners. This effect is even strengthened by the actual standardization of the tools on the international scale.

<u>Intertwining Professional and Private Relationships</u>

At the private-individual level, this greater individualization of business relationships among foreign partners, enabled by social networks, fosters mixing professional and private relationships. Indeed, our interviewees reported they usually added professional contacts to their private networks, blurring the boundaries between professional and private life. Our results highlight that this phenomenon mainly occurs when using social platforms such as Twitter or Facebook. In this perspective, even if the main social networking sites focus either on a professional dimension (e.g LinkedIn) or a private one (e.g Facebook), the interrelationships between these platforms and the diversity of contents generated by the users themselves, facilitate the immersion of initially professional contacts into users' private lives. This private/professional intertwining is exacerbated on specific social networks, such as Twitter, where users generally communicate both professional and private information. One of the interviewed marketing managers (Crea-Appli) added that she uses her Twitter account both to convey information about the company and its products, and to share pictures of her hobbies, such as pastry cooking. She stated: *"I always post things about pastries. You may not believe it but it works quite well! [...] People love it and it adds another dimension, a friendly touch. And, it's good for our business because people say: 'Oh, they're nice, I'll ask them some questions!"*.

Whereas the relationships between business partners generally takes time and needs several encounters before it reaches a greater level of sociability and intimacy, online social networks seem to accelerate this process. The use of social networks platforms helps partners to reach quickly more advanced stages of the business relationship continuum defined by Hallen and Wiedesheim-Paul (1984), that is the "relationship development" and the "mature relationship" stages. The tools contribute to strengthen the proximity between players and reduce the psychic distance that characterizes international trade relationships. This quick intensification of the relationships, both on professional and private dimensions, can, in turn, speed up the internationalization of the small business (Zhao and Hsu, 2007).

CONCLUSION

This article highlights the main results of a qualitative research aimed at investigating how SMEs leverage the power of social networking sites in the framework of their international activities. More specifically, our approach puts the focus on how these new tools contribute to lower the psychic distance and strengthen business relationships. A multiple case study based on a two-year observation period was conducted in 8 Belgium-based exporting small enterprises. The data were collected mainly through interviews with managers, complemented with the observation of the relevant social networking sites used by the companies. In the following paragraphs we will highlight the main contributions of our research, identify the main limitations of our approach as well as the possible directions researchers could consider for future investigations in this field. Firstly, our finding shows that social networks facilitate the creation and development of relationships among international partners, such as customers, distributors or importers. In this perspective, the role of these platforms exceeds that of a simple advertising tool, chosen for its cost advantage (Barnes et al., 2012). Moreover, the relational potential of social networks should not be considered in the perspective of business-to-consumer relationships only.

In the framework of small businesses' international activities, these social tools are mainly used in order to build relationships among business partners. Indeed, SMEs' managers rely on social networking sites to build new relationships and gain access to information that reduces the risks of foreign markets opportunities and, in turn, lowers psychic distance. Secondly, our research details how smaller businesses use social networking sites and tend to lower the psychic distance pertaining to their international activities. The results show that these new tools mainly act on two of the three factors considered by Hallen and WiedesheimPaul's (1984): the level of mutual trust and the international experience. The authors suggest that these factors can be identified respectively at two different levels: organizational and individual. Our findings indicate that small businesses use this linking potential to strengthen their business relationships at three different levels: the company (*organizational*) level, the professional-individual level and the private-individual level. Thirdly, our findings points out that the use of social networking sites by small businesses emphasize the importance of person-to-person business relationships and the development of closer ties between business partners. In turn, this can contribute and, even, strengthen the process described by Zhao and Hsu (2007) showing that managers rely on social ties in order to improve their access to foreign markets. This can, in turn, accelerate the SME's process of internationalization.

This article presents a number of limits that should be acknowledged. Firstly, although our research has enabled us to uncovered important dimensions of the phenomenon under study, its exploratory nature may have hindered other dimensions; these could be highlighted in future studies. In this perspective, it would be interesting to complement the findings presented in this article by new investigations including a larger number of enterprises and investigating the use of social networks in different geographical and cultural contexts. In addition, the data, were mainly collected through in-depth interviews with managers and might be biased by the managers' own perception of what is considered as relevant or not, as well as by involuntary or voluntary omissions. We tried to reduce this bias by complementing the interviews with an objective observation of the companies' activity on social networking platforms.

The aim of this exploratory approach was to shed light on a new phenomenon that offers great opportunities for future research. Firstly, our findings show that the use of social networks in small businesses mainly relies on the founder's and employees' uses of their personal profile pages on different social platforms (e.g. LinkedIn, Facebook). An interesting direction for future research could be to investigate to what extent to which social networks have influenced the balance between the organizational and individual levels of business relationships (Hallen and WiedesheimPaul's, 1984). Secondly, the OBV perspective (« *Opportunity Based View* ») used by Chandra et al. (2012) in the framework of their research could bring a better understanding of the dynamics of business networks and how the new social media platforms contribute to these, in the context of international operations. Finally, the research could be deepened through the implementation of a quantitative study that would enable to empirically test the results reported in this study.

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BIOGRAPHY

Laurent Arnone is Senior Lecturer of Marketing at the University of Mons (Warocqué School of Business and Economics). He is in charge of several courses, including consumer behaviour and international marketing. His research pertains to brand communities and relationship marketing approaches integrating social media. More specifically, he published several articles detailing the process of creating and managing virtual consumer communities, in the framework of relationship strategies. Laurent's current projects concern SMEs relationship strategies integrating the use of social media. He can be reached at : Warocqué School of Business and Economics, Department of Marketing and Communication, 17, Place Warocqué, 7000 Mons (Belgium). Tel.: +32 (0) 65 37 32 41.
Email: laurent.arnone@umons.ac.be

Elodie Deprince is Teaching Assistant and PhD Student in Marketing & Communication at University of Mons (Warocqué School of Business and Economics). Her research is about SMEs and new marketing tools used. She can be reached at: Warocqué School of Business and Economics, Department of Marketing and Communication, 17, Place Warocqué, 7000 Mons (Belgium). Tel.: +32 (0) 65 37 32 64.
Email: elodie.deprince@umons.ac.be.

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SPLICED CORRELATION: THEORY DEVELOPMENT

Jeffry Haber, Iona College

ABSTRACT

Correlation is a common metric used in portfolio management. It describes the relative movement of two streams of data, allowing inference of how one will behave given the movement of the other. Often a significant correlation relationship (whether it be uncorrelated, positively correlated or negatively correlated) in the long-term is not replicated in shorter term periods. Worse, often the short-term correlation is contradictory to the long-term. Utilizing three sets of data, where the streams of two are interchanged to form one stream at varying points of time could allow the long-term correlation to be also replicated in the short-term. There remain various obstacles to overcome, such as scaling, determination of inflection points and the selection of the data streams. Those are left to be solved in future papers - this paper puts forth the theoretical justification for the concept of spliced correlation.

JEL: G10, G11, G12, G23, G170

KEYWORDS: Correlation, Spliced Correlation, Investing, Portfolio Management

INTRODUCTION

Consider this thought experiment – you are walking down the street and you have a feeling that you are being followed. You constantly look back to see if there is a consistent presence of any of the people who are behind you. You cannot detect one. Now think of it from the pursuer's perspective (assuming your paranoia was well-founded). Since you would be able to detect a stable presence behind you, the pursuers alternate who is following you. Every time you look back you see someone different than the previous time. A trained spy might be able to catalog all the people that have recently been behind you and detect the tail, but probably not an ordinary citizen.

Correlation is not that much different from the thought experiment. Consider the following streams of figures (noted "A," "B" and "C"):

A	B	C
1	1	1
2	2	2
3	3	3
4	4	4
5	5	5
6	5	1
7	4	2
8	3	3
9	2	4
10	1	5

The correlation between A and B is 0.0; perfectly uncorrelated. It would seem that streams A and B behave randomly with respect to each other. But break the ten item string into two strings of five items each and a different story emerges – the correlation of the first five items is +1.0, perfectly positively correlated, and the correlation of the last five items is -1.0, perfectly negatively correlated. The two strings of perfect correlation combine to produce a single string of perfect non-correlation.

Now take the correlation between A and C – it is 0.5. If you take the correlation of the first five items you get 1.0, and if you take the correlation of the second five items you also get 1.0. Each of the shorter periods is perfectly correlated, taken as a whole the correlation is halfway between 0.0 and 1.0.

Essentially what is being demonstrated is that the long-term correlation (ten observations) is valid as long as you hold both streams for the full duration. If you enter or leave an investment anywhere within the ten periods your correlation experience might be quite different, and if you held one of the items for half the period your experience might be significantly different than what you would expect, given the correlation for the full period.

To calculate correlation you would traditionally take items two at a time over some period. Correlation is useful when it works, and not useful when it doesn't. A significant correlation figure over longer periods may not be present when taken in shorter intervals, and vice versa. Correlation is not causality, but an indication of what we expect to happen to something by virtue of observation of something else. One of the limitations of correlation has been the need to find two streams of data (in an investment context, generally monthly returns) that are correlated in both the short-term and the long-term. Long-term correlation is desirable because of the reliance that can be placed on it over a sustained duration. But this is only true if the correlation exists when taken in shorter periods as well. It would not be unusual for two streams of data that are highly correlated when calculated over a 15 year period (for example) to have non-correlation over meaningful, but shorter periods. Likewise for non-correlated streams of data over the long-term – it would not be unusual for these streams to be highly correlated in shorter, but significant periods.

So, what is necessary then, is for there to be significant correlation (positive, negative or non-correlation) over the long-term and the short-term. This has typically been hard (if not impossible) to find – compromises in correlation have been accepted, meaning that shorter periods of aberrant behavior have to be tolerated for what is considered the greater good – delivering the long-term correlation. This paper develops a methodology to provide both long- and short-term correlation with no compromise.

LITERATURE REVIEW

The importance of correlation in investing is long held and well-documented. Harry Markowitz's seminal work on portfolio selection placed correlation front and center in the portfolio manager's toolkit.

> "Soon after Harry Markowitz published his landmark 1952 article on portfolio selection, the correlation coefficient assumed vital significance as a measure of diversification and an input to portfolio construction" (Kinlaw and Turkington 2014).

Not only is correlation important when considering equity and debt markets, correlation is also prominent in discussion of any asset that can be included in a portfolio, such as commodities.

> "Indeed, most fund managers have started advising their customers to devote a share of their portfolios to commodity-related products as part of long-term diversification strategy" (Lombardi and Ravazzolo 2013).

> "… from the point of view of investors, the historical performance of collateralized investments in commodity futures suggests that they are an attractive asset class to diversify traditional portfolios of stocks and bonds." (Gorton and Rouwenhorst 2005).

Often, correlation is calculated over longer terms, but its significance and value is not described by the past, but what will happen in the future. A long-term correlation figure often does not hold in the short-term. It would not be unusual to find three consecutive years of highly correlated returns within a longer term (fifteen years) span of uncorrelated returns (this also holds for the various permutations – shorter, but meaningful, periods of highly positive correlation embedded within a long period of either negatively correlated or non-correlated, and so on).

One study (Haber and Braunstein 2008) took 180 observations (representing 15 years of random, monthly returns) and found that all observations had a correlation of .20 or below, representing uncorrelated returns. This result is relevant for the full-duration of the 15 year holding period. The last 12 observations (the final year of the 15 year holding period) provided a starkly different correlation result – 61% of the observations has a correlation of more than .20, 39% had a correlation of .30 or more, 21% had a correlation of .40 or more and 10% had a correlation of .50 or more. The key takeaway of another study was that the nearer and shorter the term, the greater the likelihood that the long-term correlation will fail to hold (Haber and Braunstein 2009).

The variation between long-term and short-term correlation was noted (Preis, Kenett, et al, 2012):

> "… in complex systems, such as financial systems, correlations are not constant but instead vary in time."

The importance of correlation in portfolio development is well-represented in the literature, as is its short-comings. What is missing is a solution to the problem of when a long-term correlation (say a calculation that indicated non-correlation) is contradicted by a short-term correlation (such as the correlation becoming highly positive).

THEORY DEVELOPMENT

Finding correlated streams usually involves selecting a group of variables and testing them two at a time. Spliced correlation starts out the same way, but considers whether various streams can be combined to produce a long-term correlation as well as a similar short-term correlation. Consider a data stream, visually denoted as "X". This stream will be held constant. Two additional streams, represented by "Y" and "Z" are plotted above and below "X." This is represented in Figure 1.

Figure 1: Depiction of When Splicing Would Be Valuable

```
                  Y                             Y
               Y                             Y
Y  Y  Y  Y  Y                 Y  Y  Y  Y  Y
X  X  X  X  X  X  X  X  X  X  X  X  X  X  X  X  X  X  X  X
               Z  Z  Z  Z  Z                 Z  Z  Z  Z  Z
                              Z
                                 Z
```

This figure depicts how one data stream (X) correlates with another stream (Y) for a period of time, and then no longer maintains that correlation. Once Y starts to trail away another stream (Z) correlates with X. This alternating pattern continues.

Stream "Y" is correlated with stream "X" for a period of time, then enters into a period of where it no longer correlates. When "Y" no longer correlates with "X," stream "Z" starts to correlate with "X." Then when "Z" no longer correlates with "X" "Y" resumes its correlation. This alternation occurs on a predictable pattern.

Splicing the two streams together ("Y" and "Z") produces a combined stream of data that can be used in correlation calculations with "X," as depicted in Figure 2.

Figure 2: Depiction of What the Spliced Sequence Would Look Like

X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Y	Y	Y	Y	Y	Z	Z	Z	Z	Z	Y	Y	Y	Y	Y	Z	Z	Z	Z	Z

This figure illustrates what the data streams would like when streams Y and Z are pieced together. Streams Y and Z form a single stream that is used to calculate the correlation with X for any duration.

Correlation calculations are based on streams of numbers, no matter whether they are untouched, adjusted or an artifact of creation. The math will work just as well. What is not trivial is identifying the streams that will be spliced and the inflection points when the splicing takes place.

DEMONSTRATION OF THE THEORY

Investment management is the act of acquiring assets to build a portfolio in order to accomplish a particular goal. The metrics (such as correlation) used to select these assets are typically calculated over the long-term. Previous research has documented that the long-term correlation cannot be relied on in the short-term. This can have significant ramifications for risk management, achieving return goals and diversification. Spliced correlation is a potential methodology that provides a mechanism for the substitution of assets into the portfolio to maintain the long-term correlation over short periods.

To test the theory a narrative needs to be developed about how two data streams relate to each other, and when the circumstances under which they won't. Then an additional stream needs to be identified that will work when the first doesn't, and then the development of a system for understanding when the substitutions should take place.

Because the calculation of correlation is highly sensitive to sign changes, implementing a substituted set of data might introduce sign changes, simply because the figures are based on a different scale (think of using stock quotes for stream "Y" and US Treasury bond yields for stream "Z" – because they are denominated differently, any change from Y to Z will introduce a sizable decrease in data (and likewise there will be a corresponding large increase in going to Z to Y). The relative scaling of the two streams is a consideration.

How to determine the inflection point is another complication. Whether substitutions will be based on an ad-hoc model, where based on some algorithm the system will determine when to substitute or whether the substitution will take place on a scheduled basis (like every 5th day, for instance) will need to be worked out through testing.

CONCLUDING COMMENTS

Correlation is most valuable when it works in the short-term as well as the long-term. Historically, long-term, significant correlations go through extended short-term periods where the correlation is different from the long-term, in a non-trivial manner. Non-correlation can become extreme correlation; highly negative correlation can become highly positive correlation. Since correlation is based on two streams of data, there is an opportunity to combine two (or more) streams into one, for the purposes of calculating correlation. The combination of two (or more) streams into one could allow the long-term correlation to be replicated in any short-term period, given that the additional stream(s) is/are correlated similarly during short periods when the first stream is not, and the model knows when the appropriate inflection points occur so that substitution can be made. There would be further research required to address the implementation issues not discussed in this paper – such as calculating the inflection point when substitution should occur and determining the stream(s) that will be the substitute.

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BIOGRAPHY

Jeffry Haber is Controller of the Commonwealth Fund, a private foundation that seeks to move the United States towards a high performance health care system. The Commonwealth Fund has $750 million under investment.

He is also Professor of Accounting at Iona College, teaching undergraduate and graduate courses. He holds a PhD from Rensselaer Polytechnic Institute and MS and BS Degrees from Syracuse University. He holds CPA, CGMA and CAM licenses.

He is the author of the books What if Everything We Knew About Investing Was Wrong? and Accounting Demystified and numerous journal articles such as "Fooled by Correlation: How Blind Acceptance of Correlation Dogma Destroys Diversification," "Do the Unrealized Gains in Alternative Investments Ever Become Realized?" "The Accuracy of the Rates of Return Reported by Fund Managers: A Test in the United States," "Under-Reporting of Returns by Alternative Asset Funds," "Does the Market Go to 1?" "Correlation of Uncorrelated Asset Classes," "Examining the Role of Short-Term Correlation in Portfolio Diversification," "Of "Real" Investment Returns," and "The Failure of Equity Managers to Beat Their Benchmark: Lord is it I (or is it the Benchmark)?"

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MINIMIZING CORPORATE SOCIAL IRRESPONSIBILITY TO MAXIMIZE SOCIAL WELFARE

Christina Kleinau, HHL Leipzig Graduate School of Management
Christian Kretzmann, HHL Leipzig Graduate School of Management
Henning Zülch, HHL Leipzig Graduate School of Management

ABSTRACT

This paper turns traditional ideas about the responsibility of corporations upside down by arguing that it is not conducive to aim to maximize corporate social responsibility (CSR). Instead, corporations should embrace their social responsibility by working to minimize corporate social irresponsibility (CSI). It is more straightforward to minimize tangible sources of business and/or reputational risk, such as environmental damage or child labor in the supply chain, than to maximize a construct for which a generally accepted definition is still pending. What's more, this enables a corporation to use its core business competencies and expertise to maximize social welfare by protecting those societal resources which are relevant to its own value creation process. Thereby, the demand that corporations accept responsibility for a broad range of stakeholders is met but the importance of profits as the fundamental measure of a corporation's capability to create value for society is not undermined. Failing to introduce this conception means maintaining the status-quo whereby the net societal benefit of corporations' CSR activities is questionable and the opportunity costs are high as CSI issues and the detrimental effects thereof on corporations' core business and societal stakeholders will remain unmanaged.

JEL: M14, D60, G38

KEYWORDS: Business Ethics, Corporate Mission, Corporate Social Irresponsibility, Corporate Social Responsibility, Incentives, Risk Management, Shareholder Value Principle, Sustainability

INTRODUCTION

The purpose of a corporation is defined in its corporate mission statement which summarizes how the corporation aims to create value for society and thereby, generate profits for its owners. These two goals are inextricably intertwined because, in order to generate profits, a firm must deliver products and services to the market for which consumers' willingness to pay exceeds the firm's costs of production. Hence, corporate profits do not simply represent the monetary gain that corporate owners receive. In fact, they also reflect the net value for society which a corporation has produced when the cost of inputs are subtracted from the value of the output (Sirmon et al. 2007). This reasoning has led to the old adage that "the social responsibility of business is to increase its profits" (Friedman, 1970/2007, p. 74). This adage is also reflected in the shareholder value principle which states that the purpose of a corporation is to maximize total firm market value (Jensen, 2002) as reflected by the discounted value of the sum of future profits (Brealey et al. 2006).

Nonetheless, the quote from Friedman (1970) continues on to state that a corporation ought "to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom" (Friedman 1970/2007, p. 69). Hence, the profit maximization adage contains the expectation that all the societal costs resulting from the use of input resources are accurately reflected in corporate profits. It is generally expected that corporations will be punished if they externalize costs of production by disobeying law or ethical custom, thereby making it economically unattractive to do so (e.g. Makkai and Braithwaite 1994, Greenfield 2001).

Acknowledging this assumption is integral to the correct interpretation and application of Friedman's (1970) rebuttal of the demand that corporations make some form of 'extra contribution' to societal or environmental causes. Analogously, Jensen (2002) argues that the shareholder value principle "does not maximize social welfare (…) when monopolies or externalities exist" (Jensen 2002, p. 239) and acknowledges that these problems do exist in real markets. Nonetheless, he argues that it is inefficient to request firms "to maximize something else" (Jensen 2002, p. 239) such as charitable contributions. This results from the fact that it is "impossible to maximize in more than one dimension" (Jensen 2002, p. 238) and that it is neither the responsibility, nor the core competency, of a corporation to increase the stock of social and environmental capital in an economy. This argument is supplemented by the observation that quantifying such contributions is a vague and time-consuming exercise (e.g. Vogel 2005). Instead, law making authorities are to be held responsible for resolving social issues (e.g. Jensen 2002, Tyler 2014).

In contrast to this discussion which equates corporate responsibility with shareholder value maximization, there is also an explicit discussion of corporations' responsibility to broader society. Indeed, corporations are dependent on the availability of societal resources such as environmental and social capital to create value. If these resources are not used responsibly, at some point, they will be in short supply (Swallow 1990). In this light, it is logical to argue that because corporations have social power, they, by default, have a social responsibility to use that power wisely (e.g. Dodd 1932, Davis 1960). It follows then that even if a corporation cannot find a way to make an immediate and direct profit from responsible resource use, they nonetheless have a responsibility to make a contribution to maintaining the stock of environmental and social capital over the long term (Deakin 2005). This has led to the specific discussion of corporate social responsibility (CSR) being largely dedicated to discussing how corporations can make a non-profit orientated contribution to society (e.g. Carroll and Shabana 2010, Matten and Moon 2008).

Seemingly, these two logical strands of argumentation regarding the social responsibility of corporations are at a stalemate. This article aims to contribute to creating consensus in the debate by analyzing the strengths and weaknesses of these two approaches and then proposing a reconciliatory strategy based on a two-step argumentation. Firstly, it will be put forward that, given that the assumption that 'all input costs are reflected in corporate profits' does not hold, a corporation has a responsibility to dedicate corporate resources to ensuring that all input costs are internalized so as to safeguard long-term corporate value. Given the significance of the challenge which this responsibility represents, it will be argued that a corporation does not have an additional responsibility to contribute to resolving social issues which do not relate to the corporate mission.

This approach contributes to achieving consensus in the responsibility debate because, by actively identifying and minimizing costs of corporate value creation which are borne by society and the environment, a corporation's contribution to the resolution of environmental and social issues is increased. This precisely entails the demand made by those CSR proponents who argue that a corporation has a responsibility to society extending beyond its responsibility to shareholders. At the same time, the importance of profits as the final measure of a corporation's capability to create value for society is not undermined. Essentially, it will be argued that corporate responsibility means maximizing profits whilst minimizing corporate social irresponsibility (CSI). Following the definition by Kotchen and Moon (2012), CSI "is a set of actions that increases externalized costs and/or promotes distributional conflicts" (Kotchen and Moon 2012, p. 2). CSI is therefore a direct burden on society and constitutes a risk to a corporation's future value – either because the irresponsible use of the resource will mean that it is no longer available for use in value creation processes in future or because of the negative reputational effects associated with the discovery of corporate misbehavior.

This means that in order to embrace its corporate responsibility, a corporation must identify which key inputs to the value creation process are not used in a responsible manner and work to reduce these risks; thereby reducing the prevalence of CSI. In this paper, it will be argued that this maximizes corporations' contribution to social welfare because it utilizes the 'inside' information and competencies which corporations have with regard to the social issues which are most relevant to their core business. Furthermore, it will be argued that this responsibility can be embraced in practice by corporations specifically working to define and implement minimum standards regarding the responsible use of resources. This approach is compatible both with the demand that corporate profits must not be earned at the cost of broader society and with the demand that corporations ought to maximize a single, quantitative objective function – whilst respecting "the basic rules of the society, both those embodied in law and those embodied in ethical custom" (Friedman 1970/2007, p. 69).

The remainder of the paper is structured as follows. Section two provides a brief literature review on CSR. Section three covers the debate on Shareholder Value starting from its origin in the theory of a firm by Jensen and Meckling (1976). In section four, the main proposition of this paper is set out: corporations can maximize their contribution to social welfare by minimizing CSI instead of maximizing CSR. Section five concludes.

LITERATURE REVIEW

Bowen (1953) is generally cited as the initiator of the CSR debate whereby he argued that a businessman is not only responsible for corporate financial performance but also, for other effects which the firm may have on society. Subsequently, Eells (1956) explicitly equated this responsibility to corporate giving and McGuire (1963) inferred that the responsibility of a corporation went beyond adhering to legal standards. Another early contributor to the debate, Walton (1967), emphasized the importance of voluntarily engaging in CSR – despite the difficulties which may be associated with quantifying any return on those activities.

By the 1970's, the practical implication of this discussion had come to mean that businesses were expected to make charitable contributions to society (Carroll 1999). Profit making was seen as a responsibility of business, but was deemed to be self-serving and not a service to society (e.g. Adizes and Weston 1973). It was in this context that Friedman (1970) made the aforementioned contribution to the debate by arguing for the societal value of the profit-making maxim. Nonetheless, Davis (1973) categorically re-butted Friedman's (1970) conceptualization and argued that not only is profit-making not to be considered a sign of a corporation's acceptance of social responsibility, neither is abidance to the law evidence thereof. To claim to be a responsible corporation means to contribute to the resolution of societal problems above and beyond recourse to self-interest (Davis 1973). Sethi (1975) was the first to propose the measurement of "corporate social performance" as a means of tracking corporations' progress in this field whereby social obligation, social responsibility, and social responsiveness would be explicitly measured. Nonetheless, at the conclusion of the 1970's, the CSR debate was criticized for lacking clarity and this was attributed to lack of a clear theoretical or empirical basis (Zenisek 1979).

Carroll (1979) also first presented his definition of CSR at the end of the 1970s, which still finds broad acceptance to date. This definition encompasses the points outlined above whereby the primary responsibility of a corporation is economic but to be truly responsible, the corporation must respect the law and ethical custom in its economic value creation processes – and then make some additional contribution to society which does not necessarily directly relate to economic value creation (Carroll 1979). Whilst vivid academic discussion of CSR continued throughout the 1980s and 1990s, it largely turned to the operationalization and measurement of CSR (Carroll 1999). Throughout this time, authors continually reaffirmed that profit generation could be seen as a service to society (e.g. Carroll 1999, Drucker 1984). Nonetheless, profitability was effectively excluded from the debate as economic value creation could be directly measured via profits and required no further attention. Determining how to operationalize and measure a corporation's legal adherence, ethicality and benevolence presents a far greater challenge.

To date, the search for the 'business case' for CSR is cited to be the "holy grail" (Devinney 2009) of academic research on the topic. Ironically, this equates CSR to issues which are generally considered to lie outside of corporations' profit making responsibilities - whilst at the same time acknowledging that it would be irresponsible to expect corporations to undertake activities which jeopardize their ability to make profits. After all, a corporation which is not profitable cannot possibly make any 'additional contribution' to charity. Nevertheless, Carroll and Shabana (2010) cemented the position that the core of CSR relates to non-core business issues by arguing that the ethical and philanthropic responsibilities, which were deemed to be 'expected' and 'desirable', respectively, in Carroll's (1979) definition, actually ought to be seen as "the essence of CSR" (Carroll and Shabana 2010). In this way, the CSR debate was placed firmly outside of the mainstream business discussion – despite a lack of theoretical justification for the feasibility of this argument.

The lack of suitability of this approach for maximizing social welfare is clearly evident in business practice whereby CSR departments of corporations are simply appendages – or CSR is even outsourced to an external agency – and hence, CSR activities do not make use of corporations' unique, core competencies (e.g. Bruch and Walter 2005). Furthermore, this is a problem in light of the conclusion of the previous section that corporations require guidance as to how to deal with legal and ethical responsibilities which, if not embraced, constitute a threat to their ability to continue to create value for society on the basis of their core business activities (i.e. according to their mission statement). Porter and Kramer (2011) made a significant contribution to this debate by arguing that CSR activities ought to utilize corporations' core competencies and hence, be conducive to the creation of long-term value. Nonetheless, this contribution is still constrained to the paradigm that the business case for CSR - in terms of a positive return on ethical activities - needs to be determined.

It is only recently that the CSR discussion has come to consider that the true value of embracing corporate responsibility may lie in avoiding irresponsibility in the core business (e.g. Lange and Washburn 2012, Lin-Hi and Müller 2013). Indeed, it is somewhat counter-intuitive to argue that the most effective way for a corporation to demonstrate its responsibility is simply to ensure that it is not irresponsible. Nonetheless, if major issues in regard to corporate responsibility such as the financial crisis or the Deepwater Horizon disaster are considered, it can be argued that it is, in fact, evidence of corporate irresponsibility which leads to corporations being accused of failing to fulfill their role in society (Blankenburg et al. 2010). It is argued that it is precisely because the avoidance of irresponsibility is a basic societal expectation that evidence of CSI is so damaging to corporations' societal acceptance (Brammer 2005).

What's more, the complexity of issues such as the financial crisis, climate change or child labor in the supply chain suggests that it is no mean feat to manage these issues (Prieto-Carrón 2006). As stated above, the value which a corporation creates for society is effectively measured in monetary terms by the corporate revenue. Evidence of CSI in the use of resources, such as environmental damage or the exploitation of workers, suggests that not all the societal costs of value creation are as effectively measured (Hahn and Figge 2011). This observation bears witness to the problem that adherence to the plethora of laws and ethical customs in a globalized economy simply cannot be taken for granted (Minor 2011). At the same time, it is vital that challenges in these areas are met so that corporations can maintain their ability to create value for society. Hence, avoiding CSI is a conception of CSR which can be expected to find widespread acceptance in business practice and therefore, can also be expected to effectively contribute to the ultimate aim of CSR of ensuring that corporations are responsible members of society.

Shareholder Value Debate

The theoretical foundations for the Shareholder Value Principle (SVP) were laid by Jensen and Meckling (1976) who argued that the owners of a firm (i.e. shareholders) need to ensure that managers, as shareholders' agents, do not have an incentive to exploit shareholders' inability to perfectly observe and control agents' behavior. Hence, it was concluded that managers' incentives ought to be tied to firm value. Fama (1980) extended the analysis by arguing that both managers and shareholders contribute to the firm's survival in the competitive environment - managers make decisions and shareholders bear risk. What's more, it was argued that due to the illiquidity of managers' human capital as compared to shareholders' liquid financial capital, managers have a more significant interest in the long-term survival of the firm than shareholders (Fama 1980). Accordingly, the prioritization of shareholders' interests over managers' interests does not guarantee the long-term survival of the firm, per se.

However, under the assumption of market efficiency, Fama (1980) argued that share market prices represent the best assessment of long-term firm value based on the skills of the current management. Share prices are thus an effective means of valuing management's human capital. Therefore, a decrease in share price may be interpreted as a decrease in the market value of a manager's human capital and may lead to a manager being removed from his position (Jensen and Murphy 1990). Jensen and Murphy (1990) also explicitly champion the importance of managers being rewarded for delivering more value to shareholders and punished for their inability to do so by tying their compensation to stock prices.

In culmination, these theoretical considerations suggest that the SVP is the best way to ensure that a firm fulfills its goal of investing capital in projects which generate societal value, and therefore also shareholder value - as opposed to allowing managers to expend capital on frivolous consumption or charity (e.g. Rappaport 1986, Scharfstein 1988). This theoretical conception has achieved widespread acceptance in business practice (Stout 2012). However, in the wake of the major accounting fraud scandals such as at Enron and Worldcom, criticism of the incentives set by the SVP started to emerge (e.g. Langevoort 2002). The main points of criticism include i) that it has led managers to manipulate the communication of information to the financial markets (e.g. Graham et al. 2005), ii) that it has led managers to neglect other stakeholders' interests (e.g. Charreaux and Desbriéres 2001) and iii) that it has led investment to be skewed in favor of projects which pay out sooner rather than later - contingent upon the design of managers' bonus-plans (Watts and Zimmerman 1978).

The single most significant figure in all standard equity valuation models is the most recent quarterly earnings figure (Brealey et al. 2006). Hence, managers have a strong incentive to exploit loopholes and well-founded freedom in accounting regulations to ensure that they reach quarterly earnings targets (Guidry et al. 1999). In a survey of 401 financial executives, Graham et al. (2005) find that the majority of executives believe that the earnings per share is the single most important figure for stock analysts and investors. On this basis, 78% of executives declare that they manage accounting disclosure to meet analysts' expectations and that 77% of executives believe that if they do not meet earnings expectations, it could cost them their job (Graham et al. 2005). Therefore, in the short-term, a share price rise can be induced by managing earnings figures – but in the long-term, it can be reasonably expected that the lack of real societal value creation will be exposed and the share price will decrease again (ceteris paribus).

Charreaux and Desbriéres (2001) argue that so long as shareholders alone hold the power to remove managers from their position as a consequence of unsatisfactory performance, in a difficult economic environment, managers have an incentive to re-direct rents from other stakeholders to meet shareholders' expectations. In this case, residual risk is effectively transferred to less powerful stakeholders such as lower-ranked employees (who can be made redundant) or the environment (which can be harmed via less cautious – and less expensive - waste disposal methods) (e.g. Mitchell 1997). However, these stakeholders are vital to the long-term success of a corporation. This exemplifies how promises to generate returns in the short-term can take precedence over the necessary commitments for continuing to be able to generate returns in the long-term. The strategy of using less powerful stakeholders as scapegoats is clearly unsustainable as these stakeholders - who have contributed to value creation in the past - are unlikely to be willing and able to continue to do so in future (Wheeler et al. 2003).

The point of criticism that the SVP skews a corporation's investment portfolio towards projects that pay out in the short-term refers to the fact that managers' careers with a corporation are limited. Hence, so long as the SVP dictates that their incentives are linked to share price, it is logical for them to have a preference for projects which will have the largest, immediately quantifiable effect on share price (Watts and Zimmerman 1978). In theory, share prices measure the value of a corporation as a going concern. However, it is exceedingly rare for financial valuation models to make explicit cash flow forecasts for a time period greater than 10 years in the future as uncertainty is too great. Instead, a terminal value is calculated and positive cash flows from projects with an investment horizon of more than 10 years are not explicitly reflected in the valuation. Consequently, managers are able to maximize their performance oriented bonus by neglecting investments in projects which will pay out in the long-term (i.e. >10 years) - but are reflected in current earnings as a cost (Rawls 1971, Parfit 1984, Liedekerke 2004). Graham et al (2005) find that 55% of managers are willing to sacrifice economic value and incur future costs so as to meet a short-run earnings target. Once again, this represents a disinvestment in societal value creation when the long-term horizon is considered.

The points of criticism outlined above have in common that management prioritizes short-term concerns over long-term concerns. This problem is widely discussed in business practice and has come to be known as "short-termism" (Laverty 1996). Hence, it seems that implementation issues have hindered the theoretical conception of the SVP from attaining its goal to optimize long-term value creation. What's more, the three arguments above suggest that the issues which hinder the effective realization of the SVP are legal/ethical in nature – e.g. regarding honest disclosure or the protection of important (but exploitable) stakeholders' interests.

This is hardly surprising given that the globalized nature of the modern business environment has meant that the setting of legal boundaries for business has become increasingly challenging – as has defining reasonable ethical expectations (Basu and Palazzo 2008). However, these issues were simply not perceived as such significant potential problems by the original advocates of the SVP. Nonetheless, discussion of 'environmental risks' such as climate change or 'reputational risks' such as the exposure of child labor in the supply chain suggests that, in a globalized economy, corporations may indeed need to invest in managing social and environmental problems in order to protect their ability to generate profits in the long-term. Such issues are generally considered to be constituents of the CSR debate and hence, the following section reviews the development of this debate so as to analyze what theoretical insights are available as to how corporations may deal with social and environmental issues.

MINIMIZING CORPORATE SOCIAL IRRESPONSIBILITY

The above analysis of the two, seemingly contradictory, discussions of corporate responsibility (whereby the former discussion emphasized the responsibility of corporations to broader society whereas the latter discussion emphasized the responsibility of the corporation to its shareholders) has shown that, in fact, they share a strong degree of commonality (see also Husted and Salazar 2006). In a globalized economy, corporations can earn short-term gains by externalizing costs to the environment or other stakeholders who lack bargaining power but who, nonetheless, do make an important contribution to long-term value creation. Given the global nature of these sorts of issues, the call on behalf of non-governmental organizations and society at large for corporations to play a role in mitigating these issues has been loud - but it lacks direction. Hence, its importance has not been systematically embraced by the corporate actors who are in a position to take action (e.g. Archel et al. 2011, Cooper and Owen 2007). Instead, corporations attempting to appease these calls have been led to try to embrace CSR by making charitable donations – whilst simultaneously struggling with CSI issues in their core business. Over the last decade, progress in regards to resolving global, social issues has been negligible (Dyllic and Hockerts 2002) and the economic turmoil of the latter half of the past decade has seriously tested the sustainability of the economic progress witnessed in the early 2000s (Hall 2010).

To further clarify the distinction between 'maximizing CSR' and 'minimizing CSI', doing good and avoiding bad will be differentiated (see also Lin-Hi and Müller 2013). Doing good ("dG") can be defined as actions which surpass legitimate legal and ethical expectations (i.e. over-fulfillment). Such actions are easily communicable to external stakeholders (such as customers) because they are presented openly as a means of signaling. Signaling originates from contract theory and deals with the information transmission among two parties to resolve the issue of asymmetric information (Spence 1973). Generally, dG takes the form of charitable donations to a good cause such as the construction of basic infrastructure in developing nations. By doing so, the firm sends a signal that reveals potentially useful information to the customer (e.g. "We care for others"). Given that piece of additional information that the customer might otherwise not have, the purchasing habits can be altered (Luo and Battachrya 2006). For this reason, dG is oftentimes closely connected to a firm's advertising strategy (Varadarajan and Menon 1999). Ceteris paribus, a new signal of trustworthiness and benevolence to customers can be expected to increase sales or the willingness to accept higher prices (Bhattacharya and Sen 2004).

Avoiding bad ("aB") can be defined as corporate actions dedicated to improving corporate behavior in areas in which legitimate legal and ethical expectations are not met. aB cannot be used effectively as a signal as it is generally taken for granted by stakeholders (Lin-Hi and Müller 2013). In this case, if communicated, it may well awaken suspicions which stakeholders did not originally have – e.g. consider the slogan: "Our sales staff do not pay bribes to politicians". What's more, the corporation may well suffer negative consequences of honest communication. E.g. launching a campaign with the slogan "Our sales staff no longer pay bribes to politicians" would likely attract a legal investigation and subsequent punishment if it were proven that the corporation had indeed paid bribes in the past. Nonetheless, in contrast to dG, aB deals with immediate consequences of a firm's core business. 'Bad' can, by definition, only be avoided where it has previously been caused in the revenue generation process of a corporation – and thus, aB addresses issues which, in time, are increasingly likely to threaten a corporation's core value creation processes. What's more, aB requires a firm to actively reflect on which aspects of its core business are not in harmony with societal expectations and values. The 'status-quo' of legal and ethical standards effectively defines what society values.

This paper argues that finding a way to implement the minimization of CSI into a corporation's core business processes is vital to ensure that corporations' contribution to societal value creation is maximized. Corporations evidently must use resources in order to create value but the use of resources can occur in a responsible or an irresponsible manner. Using resources irresponsibly constitutes a risk to the profitability of a corporation's core business and is detrimental to society and/or the environment. Hence, in the following, it will be argued that avoiding CSI resolves the contention in the SVP versus CSR debate by first exemplifying why corporations ought to concentrate their 'CSR efforts' on detecting and minimizing CSI in their core business and then discussing how this strategy can be realized in practice.

<u>Why – Optimal Use of Resources</u>

Based on the fundamental production theory in economics, the goal of corporations and individuals is to make use of resources in an optimal way in order to increase their utility (e.g. by means of consumption or profit generation). As resources are limited, allocation decisions need to be made. McWilliams and Siegel (2001) address the issue of coping with scarce resources for CSR in the context of the theory of a firm. They hypothesize that, given the specifications of a firm and the structure of the environment under which it operates (e.g. size, labor market conditions), there is an ideal level of CSR and this level is derived by means of a cost-benefit analysis (ibid.). The additional costs which occur due to the corporation's societal commitment must be exceeded by an increase in revenue (ibid.). However, this approach of determining optimality is incomplete because 'avoiding bad' by adhering to the law is taken as being self-evident and not incorporated into the analysis. In reality, particularly large corporations that devote substantial amounts of money to go "beyond obeying the law" are found not to comply with basic standards (e.g. Chatterji and Listokin 2007, Lange and Washburn 2012). Strike et al. (2006) put forward that it is common for large firms to be socially responsible and irresponsible at the same time. Hardly any corporation is entirely good or entirely bad. Additionally, it is found that this coexistence is strongly related to the degree of international diversification (Strike et al. 2006).

In the following, it will be argued that the traditional approach of rewarding firms for (voluntary) pro-social behavior mis-incentivizes corporations and needs to be replaced by a conception of CSR that punishes anti-social behavior. It will be exemplified that corporations' are able to generate a more significant long-term benefit from their 'CSR activities' if they aim to minimize CSI in their core business. This approach is superior to the traditional conception of CSR whereby corporations make some non-core business related charitable contributions because it protects key inputs to corporate value creation activities. From a societal point of view, corporate knowledge, time and monetary resources are used more efficiently as the unique value creation structures which corporations possess can be effectively channeled towards the resolution of social issues. Furthermore, minimizing CSI is optimal from an individual corporation's point of view because it mitigates the conflict between maximizing profit and making a positive contribution to society. As discussed above, CSR as 'doing good' has encouraged corporations to undertake flagship projects which have little or nothing to do with their core business (Van Rekom et al 2013). Meanwhile, as emphasized in the discussion of the SVP, corporations are currently being criticized for 'short-termism' whereby managers are considered to succumb to incentives to prioritize short-term financial interests at the expense of societal or environmental stakeholders - who may well be important for long-term value creation (Snyder 2010).

In this context, the case of Nike Inc. can be considered as a prominent example. As a leading global producer of sports equipment and apparel, Nike was among the first targets of public campaigns against corporate irresponsibility (Business Insider 2013). In the 1990s, Nike had one of the world's largest advertising budgets and engaged in social projects such as supporting adolescent girls in developing countries (Nike 2008). Despite these activities and the aggressive promotion of Nike's image as the global leader in sports equipment and apparel, civil society continued to criticize Nike's poor labor standards (e.g. using sweatshops to produce their goods) (The Guardian 2011) and environmental irresponsibility (BBC 2011). None of the charitable causes which Nike supported were related to their core business or the impact which conducting their core business had on society (e.g. their sub-contractors' employees) or the environment where they operated. Until the end of the twentieth century, Nike refrained from undertaking progressive organizational changes but nowadays, Nike's strategy is to turn these threats into opportunities (Nike 2013). The company aims to differentiate itself by designing its products such that the use of materials is minimized – thereby creating less waste (ibid.). The materials themselves are also chosen to be more environmentally friendly (ibid.). Whilst Nike arguably still has a long way to go to appease the expectations of all societal stakeholders, the understanding that no amount of dG can make up for the externalization of costs resulting from irresponsible resource use seems to have been strategically embraced.

In an academic context, Van Rekom et al. (2013) argue that CSR initiatives do not have a noteworthy long-term impact if they are not directly related to the core business of a firm. This represents a loss of opportunity because a corporation that engages in peripheral (i.e. non-core business related) activities does not make use of its core competencies and expertise (Coombs 1996). If corporations embrace the aim of 'avoiding bad' rather than supporting miscellaneous 'good causes', the scope of actions that a corporation can undertake in order to embrace its social responsibility is focused. The expectation is that thereby, the corporation does not engage in peripheral activities which might be outsourced to CSR departments but rather, focusses on activities that are linked to their core business. At first glance, this appears to be a reduction of opportunities for a firm to do good and use this as a means of marketing – and indeed, it is. However, research has proven that the credibility of CSR initiatives is higher for those projects that are closely linked to a firm's products, geographical location and operations (e.g. Du et al 2011). In relation to the Nike Inc. example above, it is reasonable to assume that Nike is well informed about the quantity and quality of materials needed to produce sporting goods and apparel. It is less intuitive to expect that Nike can create value for adolescent girls in developing countries.

All in all, in a world in which governments are not able to ensure that corporations internalize all negative externalities and where they are not examined in CSR assessments (because the focus is placed on voluntary beneficial actions rather than on non-compliance with self-evident regulations), corporations have incentives to maximize their profit at the expense of their stakeholders. However, this cannot occur on a sustainable basis – i.e. externalizing costs has negative implications for social welfare and therefore, is detrimental to long-term value creation (Demsetz 1967). Hence, we argue that firms should focus on detecting and avoiding negative effects of their core business (i.e. their key areas of revenue creation) rather than focusing on areas that are peripheral to their daily business. This enables firms to use their expertise and core competencies and is an important investment in their long-term profitability.Based on this argument that aB is the more effective way for an individual corporation to maximize its welfare than by pursuing dG, this section addresses the optimality of the strategy from a societal point of view. It will be shown that the conception of CSR that prioritizes 'doing good' provokes simultaneous over- and under-fulfillment of legal and ethical requirements. This, in turn, leads to an inefficient allocation of corporate resources and produces a sub-optimal state of social welfare.

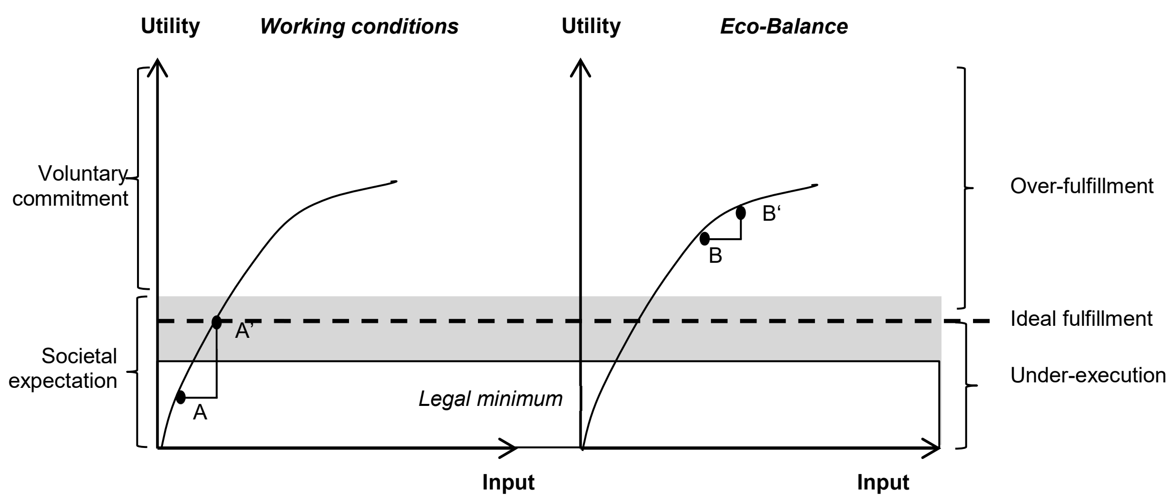
As mentioned above, it is not uncommon for firms to fail to comply with legitimate legal and ethical expectations in certain areas whilst simultaneously over-fulfilling expectations in other areas. Moreover, cases are documented in which firms consciously decide to act highly benevolent in some field in order to create a buffer for future misconduct in other areas (Minor 2011). Corporations that are conscious about their public image face two options - they can either minimize CSI (in line with our suggestion) or they can use CSR to compensate for anti-social actions which leads to the coexistence of over- and under-fulfillment (Kotchen and Moon 2012). Unfortunately, this practice of offsetting leads to a state in which aspects that are highly visible to the public are over-fulfilled and widely promoted whilst other important investments in the maintenance of societal resources are neglected - and this is intentionally kept out of the public eye (Wagner 2008). If the concept of minimizing CSI is embraced, corporations are no longer incentivized to misuse their CSR commitment to cover up or offset irresponsible behavior. This meets the cry for increased acceptance of social responsibility expressed in the academic debate on CSR.

In the following, the efficient allocation of resources for the purpose of maximizing social welfare will be discussed whereby social welfare refers to the aggregate utility of a society. In this way, different states of economies that result from a variation in the supply or allocation of resources can be compared (Bergson 1938). For the purpose of this analysis, we assume that a firm can create a bundle of actions to increase welfare that consists of the two components: doing good (dG) and avoiding bad (aB). Accordingly, we define a firm's effort to be allocated efficiently if substituting dG and aB cannot increase the total social welfare any further.

Under the current conception of CSR, certain aspects which are mostly unrelated to the core business are voluntarily over-fulfilled such that legitimate legal and ethical expectations are exceeded. However, as revealed in the fundamental economic principle, utility and thereby social welfare as the sum of all individuals' utility, increases with each additional input unit but the marginal utility diminishes (Mankiw 2011). While the first unit of input yields the highest gain in utility, the second leads to a smaller, yet positive, change that is followed by a continuing reduction.

It is sometimes argued that any effort of 'doing good' made by a corporation, (regardless of how small the incremental benefit is) is good. However, this point of view does not take account of the opportunity costs of dG. Resources which are dedicated to dG cannot be dedicated to aB. If a corporation is completely compliant and fulfills legitimate legal and ethical expectations in all areas, CSI would not exist and the opportunity costs of dG would be non-existent. In any other case, a more significant benefit for society could be generated by aB instead of dG and hence, there is an opportunity cost associated with dG so it is not simply good, per se. Figure 1 provides an illustrative example of the impact on societal utility which an increase in working conditions has versus an improvement of a firm's eco-balance. Relevant thresholds for judgements are in the order of the level of potential fulfillment: legal minimum, societal expectation, and voluntary commitment. These thresholds correspond to a utility-based evaluation as either under-execution, ideal fulfillment, and over-fulfillment. Based on the fundamental economic utility function, one can see that, in this example, increasing working conditions, which are still under-executed in terms of not yet fulfilling societal expectations, corresponds to much a higher incremental utility than in the area of eco-balance where the company has already achieved a state of over-fulfillment which exceeds societal expectations. However, as argued above, if maximizing CSR is the basis for the evaluation of firms, they are more likely to choose the smaller gain in utility which corresponds to higher public attention.

Figure 1: Illustration of Societal Utility Generation Relative to the 'Ideal Fulfilment' of Legal and Ethical Expectations



To continue the example: Let us assume that Firm X desires to be regarded as socially responsible and is evaluating its investment opportunities. Further, assume that Firm X has to decide whether to increase the stringency of its controls on the working conditions of its international sub-contractors or whether to improve the eco-efficiency of its flagship office in its home country. For the same investment sum, a shift from point A to A' (in terms of working conditions) or a shift from B to B' (in terms of eco-balance) would be feasible. Firm X suspects that many of their international sub-contractors bribe the local auditors who are employed to ensure that Firm X's ethical labor standards are maintained and hence, social welfare could be significantly increased by an investment in monitoring laborers' working conditions more closely. It is widely acknowledged that many laborers in developing nations are poorly treated and that corruption is highly detrimental for economic development (Theobald 1990). However, there is no obvious evidence of mishandling in Firm X's supply chain and the firm expects that no stakeholder will investigate the issue. Meanwhile, the illustration of the eco-balance curve suggests that the potential for Firm X to increase social welfare by improving the eco-balance is limited. This can be interpreted such that Firm X's core business already has a relatively minimal impact on the environment. Yet, the investment in eco-efficiency is readily communicable to stakeholders and likely to be valued in CSR rankings.

The question now is: What is optimal from a societal perspective? As one can deduce from the illustration, the marginal societal utility gain (that is, the first derivative of the concave utility function) is much higher for the investment in closely monitoring working conditions. However, Firm X aims to generate signals of their responsibility. As stated above, aB is far more challenging to communicate and under the current, widespread understanding of CSR, it is not covered in CSR rankings. Hence, given that dG has a higher visibility and aB is taken for granted and offers little or no opportunities for positive publicity (Consider: "Since the beginning of this year, we have actually ensured that all our production facilities comply with our ethical labor standards!"), the firm is likely to invest even further in their eco-balance. Thereby, the potential societal gain of enforcing higher labor standards is foregone. What's more, this occurs unbeknownst to shareholders with a long-term orientation who bear the consequences if, at some future date, the corporate misbehavior is exposed.

Concluding, corporations' attempts to embrace their social responsibility are oftentimes not driven by what is the management's fundamental intention (e.g. derived from their corporate mission) but rather aligned to the current public perception of what is good. The current perception in turn leads to a sub-optimal state in which corporations strive for voluntary over-fulfillment (dG) in some areas whilst neglecting negative consequences of their actions in other areas (not aB).

How – Establish Minimum Standards

It was argued above that the key difference between 'doing good' and 'avoiding bad' is whether the legitimate legal and ethical expectations are under- or over-fulfilled. Hence, it begs the question how 'legitimate expectations' ought to be defined (see also Suchanek 2012). The technical definition of 'minimum standards' can be conceptualized as the point where the utility curve stops increasing so dramatically (i.e. where the second derivative of the utility curve is 0), as indicated in Figure 1. In a society with well-defined laws and effective enforcement mechanisms, legal standards effectively constitute the minimum standards regarding what is irrefutably valued in that society (Rawls 1971). E.g. nations with a legally defined minimum wage can be said to have a higher 'minimum standard' for equality, i.e. equality is valued more highly than in nations without a legally defined minimum wage. Thus, legal standards are a first, inviolable reference point for defining 'legitimate expectations'.

In this way, CSR can be conceptualized as corporate governance or compliance (e.g. Aguilera et al. 2006, Jamali et al. 2008). Under the assumption that legal standards are indeed effectively enforced, the costs of the sanctions associated with non-adherence ensures that profits, and thereby shareholder value, are maximized when corporations maintain these standards (Greenfield 2001). Diverse corporate governance instruments exist to ensure that managers and employees abide by legal standards (Harjoto and Jo 2010). However, in today's globalized economy, adhering to legal standards is not sufficient to ensure that a corporation's ability to create value for itself, and for society, is protected (e.g. Jensen 2002, Strike et al. 2006). In many countries, legal standards are either not defined or not enforced (Low and Yeats 1992). Therefore, corporate governance mechanisms have developed to include such instruments as codes of ethics or voluntary commitments to soft law initiatives such as the UN Guiding Principles on Business and Human Rights (Berglöf and von Thadden 1999).

Nonetheless, as argued above, this approach of standards being 'inflicted' on corporations has been insufficient to guarantee compliance and thereby, the achievement of societal goals. Violation of soft law initiatives such as the UN Guiding Principles on Business and Human Rights is an example of the possibility for a corporation to exploit societal resources – without having to take full account of the cost of the use of that resource in monetary terms (Campbell 2007). It is vital that the issue of corporate responsibility is not limited to the compliance discourse so as to account for the fact that if a corporation's international operations do not comply with the ethical expectations of its main sales market, it can and, likely, will be held responsible for this (Epstein and Roy 2003). Hence, corporations are not simply ‘expected’ to comply with ethical expectations. They also have a long-term strategic interest in doing so.

A large portion of society considers it to be ethically unjustifiable to take advantage of the lack of an effective legal system in overseas markets to externalize production costs to societal stakeholders and this portion of society will expect corporations to act accordingly (e.g. Freeman et al. 2004). In terms of the graphs in Figure 1, this means that the standard of ‘ideal fulfilment’ according to societal expectations is above the legal minimum. However, there is no universally defined societal utility curve of which the second derivative could be found so as to determine the universally ideal minimum standard. This means that harmonizing the SVP and CSR discussions as this paper proposes, is vital for clarifying and implementing the insight that adhering to minimum standards protects a firm’s ability to create value long-term. The likelihood that a firm will be held accountable for violating legitimate expectations can be increased if, instead of making contradictory demands on corporations as is to the case if the traditional conception of maximizing CSR is relied on to define corporate responsibility, the focus is laid on minimizing CSI. This will increase the incentive for corporations to consider their ethical responsibilities from a core business perspective and dedicate their unique resources to resolving these issues – thereby managing potential threats to their value creation activities.

In this context, King (2007) argues for the value of dialogue between corporations and social interest groups in order to develop a strategy for dealing with social issues in the absence of a governmental authority. Though King (2007) emphasizes the productive benefit of this form of stakeholder interaction, we wish to emphasize the reduction of the risk of significant negative effects. This approach adds a certain - as we argue, vital - focal point regarding which issues corporations ought to concentrate their efforts on. In regards to the aforementioned issue of labor standards, those corporations which are exposed to the greatest risk of negative consequences from the issue have the highest responsibility to campaign for the implementation of effective minimum standards. In this case, societal scrutiny on labor issues is likely to be directed at a discount clothing manufacturer (whereby the business model entails an intense pressure to reduce costs) or a well-known, worldwide brand such as Nike (whereby the publicity scandal is assumed to be greatest). These corporations not only have a social responsibility to manage this particular risk, but also a responsibility to their shareholders to do so.

In an academic context, McWilliams et al. (2002) also emphasize the potential for corporations to generate and protect a competitive advantage by lobbying for the implementation of certain regulatory standards which competitors do not yet have the capability to comply with. Those corporations for which a social issue poses the biggest threat to their core business ought to be the ‘market leaders’ in managing that issue. In this way, corporations which are best informed about societal problems, e.g. where current laws and standards are either set too low or are not enforced, can contribute most constructively to minimizing the threat to their core business. Similarly, Brammer et al. (2012) observe the importance of introducing institutional theory to the ‘mainstream’ CSR discussion given that institutions evolve to embody and enforce the ‘status quo’ of society’s expectations of corporate ethics. Douglas North, a core proponent of institutional theory, defines institutions as “the rules of the game in a society, or more formally, are the humanly devised constraints that shape human interaction” (North 2006). Explicitly defined and enforced minimum standards are a prominent example of an institution.

Currently, examples of negative externalities abound and the societal costs of corporate value creation are, unfortunately, widely observable. Hence, it is vital that institutions are introduced to manage problems of human interaction which create externalities. However, this evolution will not occur by chance. It requires investment such as in targeted dialogues and indeed, ‘investment’ is the key word. Given that the payoff of specific investments to remedy observable negative effects of corporate value creation processes is uncertain, corporations which endeavor to do so initially suffer a competitive disadvantage due to the cost of the investment (Pies et al. 2009). Yet, if a corporation fails to embrace its responsibility, this means that important business risks will not be managed and this can also be expected to be associated with significant costs in the future. Thus, whilst the strategy of minimizing CSI requires the use of resources, it is indeed an investment. There is a business case for risk management. By contrast, dedicating resources to societal causes which are unrelated to corporate value creation activities is difficult to conceptualize as an investment. It is for this reason that evidence of a firm's quantifiable benefit as a result of its social commitment is referred to as the (mythical) "holy grail" (Devinney 2009) of CSR research. Hence, corporations do not have a responsibility to make charitable contributions.

The business case for minimizing CSI lies in the fact that using key resources irresponsibly is a risk to a corporation's value creation activities. Nonetheless, inherent to the concept of risk is the fact that the benefit of averting a crisis effectively remains immeasurable. The cost of a crisis is only quantified when that crisis occurs. Even so, in crisis situations, costs are, by definition, immense and shareholder value is significantly negatively affected. For example, in hindsight, BP's decision to save costs by compromising on technical safety standards at the Deep Water Horizon oil rig did not maximize shareholder value (Lin-Hi and Blumberg 2011). Though indeed, the probable costs of such 'ethical risks' materializing is often not explicitly calculated as this is an exceedingly challenging undertaking (Skogdalenn and Vinnem 2011).

The difficulty of quantifying the uncertain cost of ethical risks explains why it is important to draw on insights and combine both the SVP and CSR discussions. As emphasized above, the SVP (which is very quantitatively oriented) has led to short-termism and neglect of the long-term cost of externalities and ethical risks to (future) shareholders. Simultaneously, the CSR discussion has become detached from the 'survival condition' of profitability for all corporations. Aiming to minimize the sources of CSI which pose the biggest threat to a corporation's core business via the establishment of minimum standards synthesizes the strengths and overcomes the weaknesses evident in the two (competing) approaches to corporate responsibility.

CONCLUDING COMMENTS

Turning the traditional approach to CSR upside down, as this paper seeks to do, makes corporate responsibility a core business issue which is relevant for all stages of corporate value creation. This means that corporate responsibility is not simply a task which can be outsourced to a specialized department or consultancy firm as it requires intimate knowledge of the risks associated with the core business. What's more, it implies that, unlike the approach of maximizing CSR, minimizing CSI is systematically compatible with the long-term profit maximization principle. In the words of Rupp et al. (2011) who argue for a synthesis of the responsibility-profitability discussion due to the positive motivational effects, CSR ought to stop "being a set of practices organizations feel pressured by external groups to carry out and starts becoming a set of practices that represent a manifestation of the organization's and stakeholders' shared values" (Rupp et al. 2011, p. 5).

Aiming to minimize CSI reduces the complexity of potential managerial actions with regard to embracing corporate responsibility as it provides a distinct focus as to how resources can be used most efficiently. It is more straightforward to minimize tangible sources of business and/or reputational risk, such as environmental damage or child labor in the supply chain, than to maximize the construct of CSR which "can mean anything to anybody" (Frankenthal 2001, p. 20). What's more, reflecting on reducing CSI eliminates the temptation to misuse CSR to generate quick (reputational) wins – whilst failing to manage long-term threats to the profitability of the core business. By interacting with stakeholders to establish realistic minimum standards, the most important social issues which the corporation has the power – and the incentive – to influence can be identified and dealt with.To be sure, the idea of minimizing CSI still faces significant head wind. As mentioned, corporations are understandably disinclined to bring attention to those issues whereby societal resources are used most irresponsibly. In this way, it is vital that it is not only corporations who embrace the strategy of minimizing CSI – but also broader society (Sethi 2003).

Governmental and non-governmental organizations need to be prepared to discuss and show understanding for the challenges which corporations face in attempting to embrace their corporate responsibility on a global scale. At the same time, civil society needs to develop the strong expectation that corporations are prepared to discuss these issues and cease to expect that corporations make some, easily communicable contribution to resolving diverse social issues.

Similarly, in this conception, shareholders are expected to see the strategy of minimizing CSI as an investment in maintaining and maximizing long-term value creation. This means that those corporations who have a high proportion of shareholders with a short-term orientation are less likely to be able to successfully implement the strategy. This challenge is also mirrored on an individual level. Those employees who are best informed about social issues are likely to have the highest disincentive to approach the issue. For example, a supply chain manager will obviously be reticent to approach their seniors to discuss the high number of child laborers which they are responsible for. So long as an employee does not expect negative consequences to result from a social issue whilst they are responsible for it, their ethical incentive to draw attention to the issue will be weighed against the need to consider the negative consequences of doing so, which may even be so extreme as to involve legal repercussions or job loss.

Nonetheless, the significance of these challenges decreases as the level of understanding and acceptance for the strategy of minimizing CSI increases. In this vein, this paper has sought to exemplify the desirability of the conception from the perspective of an individual firm and society. This conception of minimizing CSI enables a corporation to use its unique resources to maximize social welfare by protecting societal resources - and this simultaneously enhances its ability to generate profits over the long-term. Failing to introduce this conception means maintaining the status-quo whereby the net societal benefit of corporations' CSR activities is questionable and the opportunity costs thereof are high as CSI issues will continue to plague corporations' core business and societal stakeholders.

Abbreviations

aB	avoiding bad
dG	doing good
CSI	Corporate social irresponsibility
CSR	corporate social responsibility
SVP	shareholder value principle

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BIOGRAPHY

HHL Leipzig Graduate School of Management
Jahnallee 59
04109 Leipzig, Germany
Phone ++49-341-9851701

Christina Kleinau, christina.kleinau@hhl.de. Christina Kleinau is a Research Associate at the Dr Werner Jackstädt Chair of Economic and Business Ethics at HHL Leipzig Graduate School of Management in Leipzig, Germany. Her core research interest is ethics in finance but she also works on the broader topic of corporate responsibility in any industry as well as more specific issues such as the implications of agricultural commodity speculation for sustainable resource use.

Christian Kretzmann (corresponding author), christian.kretzmann@hhl.de. Doctoral candidate and research associate at the Chair of Accounting and Auditing, HHL Leipzig Graduate School of Management, Germany. His primary field of interest is information processing in equity markets with a focus on financial communication.

Prof. Dr. Henning Zülch, henning.zuelch@hhl.de. Chair of Accounting and Auditing, HHL Leipzig Graduate School of Management, Germany and Visiting Professor at the University of Vienna, Austria. His research is focused on Financial Accounting based on International Financial Reporting Standards (IFRS) and Corporate Governance.

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Contact Information

Mercedes Jalbert, Managing Editor
The IBFR
P.O. Box 4908
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