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AUDITING DUE DILIGENCE IN LAW AND ETHICS: THE PONZI "FEEDER FUND" CASES

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ABSTRACT

Financial accounting is an information conveyance process. When financial auditors issue an opinion in regard to financial statements, the auditors are providing assurance that those financial statements fairly represent the entity, and are prepared in accordance with the relevant standards. If there is a problem with the financial statements for which an unqualified audit opinion has been issued, the auditors may be questioned in regard to their compliance with professional technical and ethical standards that require competency, honesty, and full disclosure. These questions may be asked by the auditors' professional organizations, such as the American Institute of Certified Public Accountants (AICPA), by government regulators who authorize the performance of auditing services, and by the judges and juries of the judicial system. This paper considers how the judiciary, in particular, takes into account auditors' technical and ethical standards when auditors are sued for professional negligence and negligent misrepresentation. This investigation is done within the context of the recent lawsuits against auditors of "feeder funds" that invested with Ponzi scam artists such as Bernard Madoff. This paper concludes that the auditing profession has a "teachable moment" in the wake of the feeder fund failures, and should not overlook this opportunity to upgrade its ethical standards.

JEL: K23; M42; M48

KEYWORDS: Auditing, financial disclosure, due diligence, negligent misrepresentation, accountants' liability, professional ethics, Ponzi, feeder funds.

INTRODUCTION

Financial auditing is a professional discipline that requires both the technical skills and ethics. In the United States, the technical skills include both a thorough understanding of generally accepted accounting principles (GAAP) employed by the audit client, and rigorous application of generally accepted auditing standards (GAAS) in order to ensure that the auditors' opinions are reliable. Auditors must also adhere to rigorous standards of due diligence, honesty and full disclosure in order to ensure that the auditors' opinions are trustworthy.

This paper provides a discussion of skills required of auditors. This paper considers how the judiciary, in particular, takes into account auditors' technical and ethical standards when auditors are sued for professional negligence and negligent misrepresentation. Specifically, we discuss the issue in relationship with the Bernie Madoff fraud case. In the following section the relevant literature and background are provided. The paper continues with a discussion of Ponzi feeder funds. The next section provides a discussion of red flags in Ponzi feeder fund audits. This paper continues with sections on legal and ethical analyses of auditor due diligence. The paper closes with some concluding comments.

LITERATURE REVIEW AND BACKGROUND

Several systems operate to evaluate and assess financial auditors' skills and ethics. First, financial auditors attempt to self-regulate through organizations such as the American Institute of Certified Public Accountants (AICPA) and affiliated state accounting societies. These organizations monitor member compliance with the AICPA code of professional conduct and related industry-generated

THE COMPONENTS OF THE INNOVATIVE ORGANIZATION: EVIDENCE FROM THAILAND

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ABSTRACT

This paper examines the components of the innovative organization in Thailand. The mixed method was used in gathering the data that can be categorized in two parts. Qualitative collection used focus group discussion in an R&D unit. The findings revealed that employees understood the innovation concept and the importance of innovation. This understanding could enable the company to compete in new business environments. In the quantitative element of the study, data were gathered from 152 employees by questionnaire. The results showed the means of innovative firm factors, company infrastructure, external confidence, clear objectives, team constitution, external influence, freedom, attitude toward risk, internal confidence, department growth and development, were not very different and the work period affected the perception of employees. The employees recommended that firms should create an innovative culture, set innovative behaviors as the work standard, and that communication among individuals, groups, and organizations would help employees create new ideas and implement their ideas.

JEL: M10, M12, M14

KEYWORDS: Innovation, Innovative Organization, Corporate Structure, Biotechnology, Strategy

INTRODUCTION

Biotechnology is the process of improving and utilizing the DNA of small cells, including the processes of genetically-modified organisms. It is used in important industries including the food industry, pharmaceutical industry, and energy industry. Each of these industries are related to the quality of people's lives. The governments of the United States, China, Japan, Singapore, Malaysia, and India have intensively invested in biotechnology research and development, and have allocated resources and set clear directional frameworks to obtain a world market share of biotechnology products as shown in Figure 1.

An examination of biotechnology products reveals that energy products represent the highest proportion, followed by food products, chemical products, agricultural products, health products, and mining. Moreover, a report of the National Science and Technology Development Agency found that the economic value of biotechnology products in the world in 1983 was about 5,400 million dollars and increased to 11,000 million dollars and 58,000 million dollars in 1994 and 2003, and will increase to 300,000 million dollars in 2020.

The Thai government has also realized the importance of biotechnology and has developed a biotechnology development policy framework. The goal of the framework is to increase the nation's competitiveness as well as to develop the health and well-being of the people. Further, the government expects to receive investment from both domestic and international companies, cooperation between local firms and large countries in technology development, and expanded local trade to neighboring countries (National Science and Technology Development Agency, 2003). For this reason most local biotechnology companies have changed their strategy to an innovative and compete in the new business environment.

CREDIT POLICIES IN SOUTHERN ITALY SOLID WASTE FIRMS

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ABSTRACT

The aim of the present work is to analyze how relations between financial choices and the capital structure of firms condition the business dynamics of the companies involved. The paper involves an analysis of the balance sheets for the three year period 2005-2007 of firms dealing with urban waste disposal in a region of Southern Italy. The results show how economic dynamics and current tariff policies have resulted in conditions of financial imbalance that, in more than one case, have led to financial bankruptcy. The massive credit given to insolvent public bodies has resulted in excessive risk exposure. The result is levels of debt that it is hard to imagine would be tolerated in companies working under normal market competition. This paper analyzes waste disposal companies dealing in a part of the country that has been defined as underutilized. This sample provides an interesting opportunity to study the policy implications of the crisis and failure of such companies.

JEL: M4

KEYWORDS: Public Utility, Capital Structure

INTRODUCTION

The expression "public service" has diverse definitions and interpretations. This is true especially at the scientific and academic levels because of the absence of any precise legal definition (Sorace, 2001). National legislation has never provided a definition of local public service, nor of public service in general, neither has it laid down a basis on which to build an exact description (Cattaneo, 1990). Indeed, it is this lack of a systematic frame of reference governing legislative measures that has made it impossible to arrive at a clear definition in the academic and theoretical field (Maggiora, 1986; Fresa, 1983). There is no theoretical consensus on how to define public service. Various and often conflicting criteria are used to identify services which can be labelled public.

One line of theory suggests it is necessary to make use of subjective criteria. From this standpoint, ervices offered by public subjects or all those carried out by Public Administration in general can be defined as public (Borgonovi, 1984). From another theoretical view, it is essential to link the determination of public service to objective data. What is considered necessary is not the quality of the subject that undertakes the activity but rather the nature of the service. Thus, it is irrelevant whether the service provider is public or private. There is no shortage of authoritative theoretical positions that claim that the two approaches, if applied rigidly, can be inadequate because the definition of public service implies consideration of various criteria including: subjective, objective, teleological, institutional and so on (Zucchetti, 2002). In fact, to be defined as a public service, the goods and activities produced must respond to basic and widespread needs of the local community and to realize social, economic and civic ends (Landolfi, 1999).

Regarding local public services, legislators have taken up a midway position between the objective and subjective conception, privileging a mixed notion of public services. Article 112, first section of the legal decree 267/2000 on the one hand focuses attention on the role of the local body whose job it is to manage service provision. It tries to give some content to public service, by claiming that it must have as its aim the production of goods and activities to fulfil social ends and to promote the economic and civic

SHORTCUT TO THE U.S. MARKETS THROUGH REVERSE MERGERS

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CASE DESCRIPTON

A reverse merger takes place when a public company, commonly known as a "shell", acquires a private operating company through a share exchange transaction. The public shell typically has no business operations, but is valuable because of its public trading status. Post-merger, the operating company's owners take control of the newly formed public company. Reverse mergers have long been used in the U.S. as an alternative to achieve public trading status. Conventionally, foreign companies wishing to cross list their shares in the United States have followed the old-fashioned initial public offering (IPO) process. Their shares, typically in the form of American Depositary Receipts (ADRs), are registered with the SEC and are listed on a major stock exchange. In recent years, however, an increasing number of Chinese companies have gained U.S. market listing through reverse mergers. This article provides a detailed case study of an actual reverse merger. The case is appropriate for upper-level undergraduate or graduate finance courses such as corporate finance. Students should have the basic knowledge about the financial markets and corporate finance. Students can work individually or in teams on this project, which requires around 5-8 hours outside of class to complete. Classroom presentations and discussions should be arranged in a regular, 2-hour class.

JEL: G34

KEYWORDS: Reverse Mergers, Chinese Companies, Public Shell; Case Study

CASE INFORMATION

A reverse merger is a merger between a public company that has virtually no business operations and a private company that has a viable business. The public company, commonly known as the "shell", issues shares to the owners of the private operating company in exchange for their 100% ownership. Post-merger, however, the former private company's owners take a majority control over the newly created company, which retains its public trading status. Reverse mergers are also known as reverse takeovers. They have long been used by private companies to achieve public trading status in the United States. Armand Hammer, a world-renowned oil magnate and industrialist, is generally credited with inventing the reverse merger. In the 1960s, Hammer invested in a public shell company into which he merged his Occidental Petroleum. Another notable example is the reverse merger completed by Ted Turner in 1970 with Rice Broadcasting, which went on to become Turner Broadcasting.

Typically the shell companies are publicly traded companies that have fallen on hard times. Frequently, they are companies that went public some years past. Some may have been traded on formalized exchanges such as the New York Stock Exchange (NYSE) or the Nasdaq Stock Market, but now are traded on the OTC Bulletin Board (OTCBB). Most of these companies have ceased business operations for years or on the verge of bankruptcy. They are basically worthless except for the fact that they are publicly traded. In response to the demand for "clean" shells, investment houses specializing in reverse mergers regularly create pure clean shells and other special purpose acquisition companies. To create a shell, they incorporate a company, register its shares and file the required quarterly and annual reports with the Securities and Exchange Commission (SEC), and list the shares on the OTC Bulletin Board. There are no minimum quantitative standards which must be met by an issuer for its securities to be

DOES SEXUALITY IN ADS WORK FOR EVERYONE: MUSLIM CONSUMERS' REACTIONS TO SEXUALITY IN ADS

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ABSTRACT

This paper explores the reactions and responses of Muslim consumers to advertisements that include sexuality. Specifically, it seeks to answer the following questions: What do Muslim consumers think about the advertisements that include sexuality? How does sexual content of ads influence their behavior? What might be the mechanism that explains the behavioral process? This study utilizes exploratory research methods to answer these questions. It suggests that Muslim consumers tend to develop negative attitude toward the advertisements that include sexuality. They may also develop negative attitude toward the brands in these ads, and toward the firms that own these brands, a process explained by "halo effect." Furthermore, they tend to take some measures in order to prevent both themselves and their children from being exposed to these ads. This paper argues that the concept "personal modesty" explains Muslim consumers' responses to sexuality in ads.

JEL: M37

KEYWORDS: Advertising, sexuality, Muslim consumers, personal modesty

INTRODUCTION

The use of sexuality in ads and its effects on consumer behavior have been a matter for discussion among researchers. Some (e.g. Smith et al., 1995; Reichert, 2002; Treise and Weigold, 1994) have found that advertisements which include sexuality may negatively influence consumer behavior; on the other hand, others (e.g. Reichert et al., 2001; Dudley, 1999) have shown that sexuality in ads may positively affect consumer behavior. Research (Reichert, 2002) suggests that religious preference is one of the most important factors that influence individuals' reactions to sexuality in advertisements. Given the importance of conservatism, personal modesty, the value of women and raising moral and righteous children in Muslim community, it emerges as important questions to explore what Muslim consumers think about and how they react to advertisements that contain sexuality. Furthermore, given the significant number of Muslim population in the world, which is gradually increasing, and the widespread use of sexuality in ads, it becomes more important to explore the aforementioned questions.

This study aims at exploring how Muslim consumers react and respond to ads that include sexuality. Specifically, it seeks to answer the following questions: What might be the outcomes of sexual advertisements, when it comes to Muslim consumers? What might be the mechanism that explains Muslim consumers' reactions to ads that include sexuality? What explains their reactions and responses?

For these purposes, this paper firstly offers a brief review of literature on sexuality in advertisements and personal modesty in Islam. Secondly, it introduces the exploratory research findings along with the proposed mechanism that explains the behavioral process. Finally, it discusses the contributions and future research.

CHURNING AND SUITABILITY OF INVESTMENTS: A FINANCIAL INDUSTRY REGULATORY AUTHORITY ARBITRATION CASE STUDY

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Katherine Kinkela, New York Institute of Technology
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CASE DESCRIPTION

The identities of all parties in this matter have been changed to maintain confidentiality. An investor claimed that a broker at a well established securities firm was churning her account and had placed her funds in an account that was not suitable, given her investment objectives. She retained legal counsel. Her attorneys hired a consultant who wrote a report that discussed whether the investments were suitable, as well as whether there was excessive trading. The consultant's report and ultimately the author's testimony were expected to be introduced as evidence in Financial Industry Regulatory Authority (FINRA) arbitration. Ms. Laura Smith, a 72 year old retired widow, opened a brokerage account with Establishment Securities in March 1997, in response to a telephone solicitation from George Shady, an Establishment registered representative. Ms. Smith's primary investment account was with another securities firm. In March 2000, Ms. Smith transferred her primary investment account to Establishment Securities in response to another telephone solicitation from Mr. Shady. Based upon a review of documents that Ms. Smith signed when the Establishment account was created, Ms. Smith had specified that the account was nondiscretionary, meaning that Mr. Shady could not make trades or changes to her portfolio without her permission and that her investment objectives were income and growth.

Subsequently by 2003, Ms. Smith noticed that there was unusual activity in her account, which prompted the legal action discussed in this paper. In particular, Ms. Smith's legal counsel filed claims against Establishment Securities alleging that her account had been churned and that her investments were not suitable, relative to her investment objectives. Pursuant to the agreement originally signed in the brokerage agreement, the parties agreed to settle disputes according to FINRA Code of Arbitration.

This case study is appropriate for Senior Level and Graduate students of Accounting and Finance.

JEL: M00, K1

KEYWORDS: Churning, Suitability.

CASE INFORMATION

Regulatory suitability rules prohibit a securities broker-dealer from recommending a security to a customer unless he has a reasonable belief that the security is suitable for that customer. The National Association of Securities Dealers (NASD) through its Rule 2310 and the New York Stock Exchange (NYSE) through its Rule 405 articulate guidelines as to the suitability of an investment. The various rules, collectively and singularly, impose an affirmative duty on the broker-dealer to take the client's particular circumstances and situation into consideration. The conditions that need to be assessed when recommending a particular security include a customer's financial situation, risk threshold, investment sophistication, investment objectives, and other securities holdings. Before agreeing to serve a client, a broker is expected to obtain sufficient information regarding the client's

CULTURAL DIAGNOSIS AND BYPASSING; THE EFFECT ON SUCCESSFUL INTERNATIONALIZATION

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ABSTRACT

Globalization and its effect on business continue to propel firms to look beyond local markets for opportunities for market development and as a source of growth. However, Cultural differences in various markets continue to exert enormous pressure on international market operations as a result of cultural bypassing or misdiagnosis and this requires international marketers to undertake robust cultural analysis to ensure successful market servicing strategies. This paper reviews and discusses the crucial role of culture in successful internationalization; key reviews of marketing strategies and failures of some major corporations presented, cultural analytical frameworks have been evaluated and novel theoretical propositions made to segment cultural elements into soft and hard cultures. The paper provides a logical step approach framework to guide the international market practitioners analyzing foreign market cultures.

JEL: F23, M106

KEYWORDS: International marketing, Culture, Diagnosis, Market failures, Soft and hard culture

INTRODUCTION

The role and influence of culture to international business operations is paramount in a globalized environment where consumers are more informed and discerning than ever before. The cultural dispositions and grounding of individual consumers affect their attitude and behavior towards a product or service. The environment in which the individual or group socialized affects the attitude and behavior (Zeenat 2011). However, numerous firms continue to misdiagnose, bypass or fail to consider the cultural implications of their international marketing decisions leading to preventable market failures.
Many researchers in the area have acknowledged the critical place of culture in the successful internationalization of firms and brands. Wilson & Gilligan (1997) confirms that the most fundamental and indeed closest influencing force on behavior is the culture of a people which proves to be the most enduring. Similarly, Subhashini (2007) noted that the dimensions considered in shopper behavior in India do not only examine the individual motivations but also the cultural differences that influence shopper behavior. Culture consists of the values, beliefs, and norms of a society and they represent the most influential factor to a successful product launch or failure (Young & Javalgi 2007).

Many companies consider new market development as a strategic growth path (Ansoff, 1957) and mostly they see the development of international markets as the fastest means of growth or expansion.
The process leading to internationalization would be clearer and less cumbersome if international market operators appreciate the fact that markets are not the same in terms of consumer profiling and behavior and that it is rare to transfer wholesale what pertains in the local markets into the foreign markets. As Kotler (1988) cited by Wilson & Gilligan (1997) suggest that, human behavior is largely a result of cultural socialization leading to the development of set of values, perceptions, preferences and behavior. It has been suggested that the marketer's main focus in the internationalization process is to understand the similarities and differences in cultural norms and values and to adapt their offering to suit the differences and similarities (Keegan, 2002). Further, social values and the culture of that society influence international marketing is strongly (Papadopoulos, Zikmund and d'Amico, 1988). Following from the above role that culture plays in the internationalization process, a critical cultural examination and

FAIR VALUE TELEVISION: SALES VOLATILITY, BUSINESS RISK, AND FINANCIAL LEVERAGE

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CASE DESCRIPTION

Business risk and financial risk are among the most important concepts in corporate finance. The total risk of a corporation is the sum of its business risk and financial risk. Business risk is the risk of the corporation before the financing decision. It is the uncertainty inherent in the corporation's future operating income. An important cause of business risk is sales volatility. Financial risk is the added risk caused by debt financing. Using financial leverage increases the total risk of the firm by increasing the volatility of a corporation's net income and return on equity. The case provides an opportunity for students to understand the determinants of business risk, financial risk, and market value in a real-world setting. Fair Value Television (FVT) is a television retailer in California with a high sales volatility and business risk due to competition. The company is considering the effect of increasing financial leverage on its return on equity and common stock value.

JEL: G30; G32

KEYWORDS: Business Risk, Financial Risk, Total Risk, Financial Leverage, Beta, Market Value

CASE INFORMATION

Fair Value Television (FVT), Inc., is a midsize retailer of television sets in California with several stores in Los Angeles, San Francisco, and San Diego. Johnson is the founder and CEO of the company who has an electrical engineering degree from Princeton University. He always wanted to run a company. Soon after he received his degree from Princeton, he opened the first FVT store in Los Angeles with some seed money from his parents and friends in 1990. The business was booming because there was an increasing demand for high definition television sets in the United States. Many people were getting rid of their old television sets and replacing them with new technology LCD or plasma television sets.

The company enjoyed a high growth rate during its first few years. Ian Johnson took the company public with a successful initial public offering in 1995. The company paid no dividends and reinvested all of its earnings during the high growth years in the 1990s. The investors were happy with the capital gain the company's stock was providing and they did not mind not receiving any dividends from the company. However, when the growth rate began to slow down at the turn of the century, the company had to start paying out some dividends with the pressure from the shareholders. The company has had no net growth during the last couple of years because many people have already replaced their old television sets with a new technology set. This has forced the company to start distributing all of its net income as dividends to shareholders. The business continues to be profitable, however, and the shareholders are happy to receive a substantial amount of dividend from the company every year.

Generous dividend payments have helped the market price of the company's stock to remain at a reasonably high level. However, an important problem causing volatility in FVT's sales and stock price has been television set imports with unknown brand names from phantom television set manufacturers in the Far East. These manufacturers would flood the market with cheap and low quality television sets

CHANGES IN OPERATIONS MANAGEMENT OF PRIVATIZED SPANISH FIRMS

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ABSTRACT

Firm privatization entails a thorough process of reform that includes the introduction of new management practices. A review of theoretical and empirical studies conducted confirms that a systematic analysis *of changes in management arising after a public company's privatization does not exist. This study explores changes in operations management that take place after a public company's privatization and proposes relevant factors in four operations performance areas. In order to confirm the theoretical propositions posed, we used contemporary multiple case studies as a research methodology. In particular, changes experienced in the operations management area in four privatized Spanish companies were investigated using a longitudinal analysis. The results of this study confirm most theoretical propositions and identify four areas considered are relevant to the process of change in a privatized firm's operations management.*

JEL: M11

KEYWORDS: Privatization, changes in management, operations management, case study

INTRODUCTION

History includes periods in which state interventionism has alternated with private initiative and reducing the public sector size has been the main focus. Furthermore, the shift from one stage to another takes place because the negative results obtained from application of the preceding stage's economic policies. Since the 1980s, we have witnessed a defence of private property and initiative in which an anti-State or anti-public sector feeling that postulates a minimum of state intervention in economic life is widespread. In other words, a model of economic developmental has been chosen that focuses on private property and free trade. Only a small role is left for governmental action. Within this ideological context, applying privatization programs to public companies has been a relatively simple affair in many countries.

The current economic crisis has had a two-fold effect. First, it caused a number of governments to intervene in the private sector through varying degrees of nationalisation to avoid the risk of economic and financial collapse (the U.S., the U.K., Belgium, Holland, Austria, Germany and Ireland). According to the Fondazione Eni Enrico Mattei in Italy barometer*,* 2008 was the first year since 1981 that governments worldwide acquired more assets from the public sector than those they spun off through privatization programs. However, several countries are privatizing their shareholdings (Greece, the U.K. or the U.S.) in an attempt to reduce public debt and deficits triggered by the crisis. Privatization processes cause changes in operational areas of privatized firms.

The primary objective of this study is to explore changes in operations management that take place after a public firm is privatized. To do so, we formulated a series of theoretical propositions regarding the relevant factors behind these changes, assessed the degree of coincidence between the initial theoretical propositions, analyzed firm behavior and determined whether a common pattern among them exists.

INTELLECTUAL CAPITAL MANAGEMENT IN LOCAL PUBLIC UTILITIES

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ABSTRACT

The competitive advantage of companies is increasingly focused on Intellectual Capital (IC) and on its management. Factors such as skills, innovation, stakeholders' relation, development and sharing of knowledge have become key success factors. These aspects are important for Local Public Utilities. These organizations produce goods and services operating in competitive markets in a utility function for the local community using technological and organizational infrastructure resources. In the past, in these organizations, IC was critical to reach objectives such as to satisfy citizen needs. Local Public Utilities focused their assets on the technical components of management including plant equipment, technical expertise, professionalism, and quality control and security systems. The introduction of the economic efficiency logic and competitiveness led to a rethinking of the IC role. The production of public services becomes competitive in the market according to logic of economic efficiency. The relationship with the community begins to be formalized in "service contracts"; new management structures are introduced and companies need to remunerate the capital invested. Consequently, companies must implement strategic and organizational changes and focus on intangible assets as knowledge, skills and operational mechanisms. In the new scenario IC becomes an important strategic tool both in the company and in the outside environment. Proper IC management can improve company value.

JEL: E24; I23; J24; O15

KEYWORDS: Intellectual capital, Intellectual capital management, Local Public Utilities.

INTRODUCTION

Knowledge is a strategic resource and, for a competitive business, organizations are increasingly knowledge based and more often concerned about intellectual capital (IC) rather than tangible assets (Guthrie and Petty, 2000; Carmeli and Tishler, 2004; Schiuma et al, 2007). Intellectual capital is a company's softer assets such as professional experience, skills, knowledge, organizational structure and routine and internal/external relationship. The intellectual capital framework classifies these characteristics into human capital, organizational or structural capital and relational or customer capital (Edvisson and Malone, 1997; Stewart, 1997; Guthrie and Petty, 2000; Youndt and Snell, 2004). Human capital refers to the knowledge, skill and experience of employees and managers; relational capital consisting of knowledge resources derived from networks of relationships between peer, customers, suppliers and business associates; and organizational capital represent institutionalized knowledge and codified experience stored in databases, routines, patents, manuals and the like (Bontis, 1998; Stewart 1997). These three new forms of capital capture a company in movement as it transforms its skills and knowledge into competitiveness. Therefore, companies must maintain and develop the existing capital structure and also acquire know-how, skills and professionalism, train and develop employees by emphasizing their business skills and capital to focus on trading and customers.

In service companies, intellectual capital and knowledge management are as important as they can be in production-oriented companies. There is a lack of systematic research on whether there are fundamental differences in the IC of service-oriented versus product-oriented companies. For this reason this paper

BEAUTY IN THE AGE OF MARKETING

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ABSTRACT

Research has repeatedly demonstrated that beauty is positively related to a number of important outcomes including social and personal power, self-esteem, and preferential treatment from others (Bloch and Richins, 1992; cf. Adams, 1977; Goldman and Lewis, 1977). Moreover, studies consistently suggest that the use of physically attractive models results in positive effects (Berscheid and Walster, 1974; Bower, 2011; Buunk and Dijkstra, 2011; Landy and Sigall, 1974). Accordingly, advertisers utilize attractive models to promote a wide array of products ranging from cosmetics to electronics. Despite the emergence of physical attractiveness as a major component of consumer marketing, there is little cohesive theoretical development in this area. This oversight ignores a marketplace dominated by global marketing initiatives which cross nation-state and cultural boundaries. We have no coherent language system for the study of beauty, nor has there been a systematic attempt to develop a theory of beauty that is robust enough to be useful to marketing and advertising practitioners. The purpose of this paper is to contribute to that theoretical development. First, we refine terminology. Second, we review the marketing literature related to the subject area. Finally, we tentatively suggest how socio-cultural factors may affect consumer perceptions of beauty.

JEL: M31

KEYWORDS: marketing, beauty, consumer behavior, cross-cultural research

INTRODUCTION

Beauty, it is said, is in the eye of the beholder. It is, accordingly, subjective and both socially and culturally influenced. For marketers, this is a less than useful perspective, for beauty *sells*. A body of research suggests, for example, that physically attractive models used in advertising produce consumer expectations of accountability, dynamism and trustworthiness; therefore, marketers tend to use these models to enhance and strengthen the appeal of their advertisements and products (Atkin and Block 1983; Kamins and Gupta 1994). Physically attractive people are known to be perceived by consumers as friendly, warm, dominant, sociable, outgoing, responsive, and possessing both self-esteem and intelligence (Adams, 1977; Adams and Read, 1983; Berscheid and Walster, 1974; Bloch and Richins, 1992; Cann, Siegfried, and Pearce, 1981; Dion and Dion ,1987; Goldman and Lewis, 1977). Individuals favor and are favorably disposed towards physically attractive people (Caballero, Lumpkin and Madden, 1989). More broadly, research in other fields finds physical attractiveness both a determinant and moderator of various processes including heterosexual liking (Berscheid, Dion, Walster, and Walster, 1971; Walster, Aronson, Abrahams, and Rottman, 1966), individuals' perception and evaluation (Sigall and Landy, 1973; Sigall and Aronson, 1969; Sigall, Page, and Brown, 1971), persuasion effectiveness (Mills and Aronson, 1965) and attributions of personal characteristics and future success (Clifford *and* Walster, in press; Dion, Berscheid, and Walster, 1972; Miller, 1970). It is therefore not surprising that physical attractiveness has become a major component of consumer marketing, Beauty is power.

What *is* surprising is the lack of theoretical development in the field, and that becomes apparent when beauty is conceptualized not as an independent variable but as a marketing construct. Understanding consumers' perceptions of beauty, particularly in a complex, global marketplace, has become increasingly strategically important.

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