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The Journal of Business Leadership

Editorial Staff

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Editor's Preface

The Journal of Business Leadership [JBL] is the official journal of the American National Business Hall of Fame [ANBHF]. The ANBHF conducts an active research program with three primary objectives. The first objective is to collect and analyze information regarding the leadership skills of Hall of Fame members. The Hall believes that business success stories are an important part of American history and strives to document and preserve these stories.

The second objective of the research program is to support the research objectives of the associated academic journal, *JBL*, through support of certain areas of business leadership, ethical practices and management academic research.

The third objective is to evaluate the effectiveness of Hall of Fame classroom presentations. Evaluation instruments are developed and administered in classes following Hall of Fame presentations.

In support of the ANBHF mission, *The Journal of Business Leadership* is a multidisciplinary journal of interest to scholars, professionals, students, and practitioners in a broad range of management thinking. The purpose of the journal is to encourage the publication of case studies of business leadership. In keeping with the Hall's longitudinal study, The Ethical Views of Business Leaders, University Faculty and Students in the United States, submissions highlighting ethical leadership practices are encouraged.

JBL offers both peer-reviewed and non-peer-reviewed articles. All peer-reviewed articles must meet the highest and most rigorous standards and are anonymously reviewed by at least two scholars in the field. Non-peer-reviewed materials can be essay, research-in-progress, pilot studies, or commentary on some topic relevant to the field of business leadership. All non-peer- reviewed materials will be reviewed by the Editorial Board for quality and appropriateness, but are not guaranteed publication.

Welcome to this issue of *The Journal of Business Leadership.*

Robyn Hulsart
Contributing Editor

Armando Falcon: Man of Integrity

John D. Farlin
Ohio Dominican University

The Office of Federal Housing Enterprise Oversight (OFHEO) was established as an independent entity within the Department of Housing and Urban Development by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). OFHEO's primary mission was ensuring the capital adequacy and financial safety and soundness of Fannie Mae and Freddie Mac and their ¾ trillion dollar balance sheet. Armando Falcon was confirmed as the Director of the Office of Federal Housing Enterprise Oversight on September 29, 1999. He also served on the President's Corporate Fraud Task Force. Prior to his appointment as the Director of OFHEO, he served as the General Counsel for the Committee on Banking and Financial Services to the United States Congress.

INTRODUCTION

"How do you operate a business with the most generous government subsidies possible, which confer very powerful market advantages, and run the business into the ground?" Thus began Armando Falcon's testimony before The Financial Crisis Inquiry Commission on April 9, 2010. It was signed into law by the President on May 20, 2009. Titled the Fraud Enforcement and Recovery Act of 2009, it authorized the creation of the Financial Crisis Inquiry Commission. The Commission was established to "examine the causes, domestic and global, of the current financial and economic crisis in the United States" (S-386-111).

Mr. Falcon was testifying on his role as Director of OFHEO. Throughout his tenure as Director of OFHEO, Mr. Falcon was under siege from all political sides. The George W. Bush administration had inherited this Democratic appointee from the Clinton administration. Both Houses of Congress and both sides of the political aisle harbored a great deal of animosity and skepticism toward OFHEO and its Director Armando Falcon. Some felt he was a lapdog for the GSEs while still others felt he was far too hard on them and inhibited their mission of financing affordable housing. He had to constantly fight for the funds necessary to run his agency. He was also up against one of the most politically connected companies. Fannie Mae spent millions of dollars lobbying congress for favors on its behalf. In 1999 alone, the GSEs – Fannie Mae and Freddie Mac, increased their spending on lobbying to over $11 million and greatly increased their "soft" money political contributions (Mortgage-Related Groups 2000).

So strong was the influence of the GSEs on the Hill that they helped to craft the legislation designed to oversee their operations. When legislation creating OFHEO was debated, Fannie's allies in Congress made sure that OFHEO was placed in the Department of Housing and Urban Development which had absolutely no experience regulating financial markets (McLean & Ryan 2005). That, perhaps, helps to explain why Fannie and Freddie were regulated for "safety and soundness" by OFHEO while at the same time, regulated by the Securities and Exchange Commission (SEC) for accounting matters.

OFHEO was by Washington's standards, a relatively small, independent agency housed within the Department of Housing and Urban Development with an annual budget in 2003 of around $20 million. Even though its budget comes from the fees paid by the GSEs, Fannie made sure that an amendment to the original bill authorizing OFHEO forced OFHEO to go through the appropriations process every year. This allowed Fannie and Freddie's congressional allies to further humiliate OFHEO regulators and keep them cowed. OFHEO lacked the authority to take receivership of either company in the event of a catastrophic failure (OFHEO Report to Congress 2003). It had been understaffed and underfunded for years. Prior to his appointment to head the Office of Federal Housing Enterprise Oversight, the position had been vacant for nearly two years. The GSEs were pretty much used to having their way with OFHEO.

GSE'S: GOVERNMENT SPONSORED ENTERPRISES

The original idea behind Government Sponsored Enterprises (GSEs) was laudable but like many noteworthy endeavors it was co-opted by the greedy and unprincipled. Originally designed to encourage home-ownership by buying mortgages from banks who could ill afford to carry the loans on their books until maturity, Their charters gave them unmatched competitive advantages in the marketplace their competitors could only dream about and they used it to their advantage (McLean & Ryan 2005). For example, the U.S. Treasury is allowed to buy $2.25 billion of Fannie and Freddie's debt. That ability of the Federal Reserve greatly reduces the GSEs cost of borrowing. In yet another case in point, the GSEs are exempt from state and local taxes and have lower capital requirements than banks. And because of the general belief in the marketplace that they carried a "de facto" government guarantee, their cost of capital was only slightly higher than that of treasuries.

Fannie and Freddie make their money in one of two ways. They charge a fee for guaranteeing the payments on mortgages they buy, which they then sell to investors usually in the form of mortgage-backed securities (MBSs). The other way they earn income is their investment portfolios. These portfolios consist of MBSs that they have either purchased in the open market or have purchased from originators of mortgages. They make their money in this activity on the spread between their low cost of capital and the higher yield they earn on the mortgage portfolio.

FANNIE MAE

Fannie was first chartered in 1938 during the Roosevelt Administration to support the faltering housing market. In 1968 President Lyndon Johnson signed legislation amending Fannie's charter establishing the GSE as a private, shareholder owned company. For many years Fannie Mae got its way in Washington. Fannie had a history of well-connected Washington insiders as CEOs. David Maxwell was the CEO in the early 80's. He rebuilt Fannie after its first brush with financial disaster when their interest rate spread turned decidedly negative due to a spike in interest rates during the Carter Administration. Despite their troubles, banks continued to lend to Fannie largely comforted by the belief that their debt had the implied backing of the Federal government. Maxwell also put in place elements of the political and business juggernaut that was to characterize Fannie in the coming years (McLean & Ryan 2005). James Johnson followed Maxwell. He ran Fannie for most of the 90's. He was another politically connected CEO. He had worked as an advisor for Walter Mondale and later headed the Kerry search committee for his vice presidential running mate. His mission, as he saw it, was to ensure that Congress never wavered in its belief that America couldn't live without Fannie Mae (McLean & Ryan 2005). He did this through the Partnership Office's (POs). These non-profits were originally set up in 1979. But their presence and impact took on an even greater dimension under Johnson (Morgenson 1997; Thompson 2009). These POs as they were called were organized as foundations but they also handled the responsibility for Fannie's advertising. Johnson seeded them with $350 million in 1996. They were used as vehicles to proselytize the mission of Fannie, but eventually went beyond their original scope. The foundations gave away over $500 million in the five years ending in 2005. The organizations who received their funding in the past have included the Congressional Black Caucus and the Cold Climate Housing Research Center (McLean & Ryan 2005). They were oftentimes staffed with former politicians or their relatives. These partnership offices gave Fannie a grass roots organization unattainable for most publicly traded companies (McKinnon 2004). A Housing and Urban Development (HUD) investigation in 2004 found that the activities of these partnership offices were not limited to affordable housing issues as required under their original charter. In fact, HUD in the investigation found the fundamental purpose of the Partnership Offices was to gain access to Congress and engage in activities to influence Congress (Kopecki 2005). . Fannie wasn't hesitant to remind politicians about the investments in their districts by their partnership offices. In fact, Fannie's top lobbyist in July 2003 at a web conference showed a slide listing the 70 members of the House banking committee and reminded them that partnership offices stay in close contact with each congressman (McKinnon 2004).

Johnson handed the mantel to his vice chairman Franklin Raines in early 1999. Johnson had persuaded Raines to join Fannie Mae in 1991. Franklin Raines was politically connected having served a stint in the Clinton Administration as budget director between serving as vice chairman and chairman of Fannie Mae after Johnson's retirement. Years earlier, he had worked in the Nixon Administration. He was the first African-American to head a Fortune 500 company (McLean & Ryan 2009). It was at this same time in 1999 that Fannie Mae relaxed the requirements on loans that they would purchase and entered the subprime market as well (McLean & Ryan 2005; Thompson 2009). However, Fannie did not immediately increase their subprime inventory of mortgages. They comprised only a small percentage of Fannie's total mortgage purchases. However, several years later at the urging of HUD, both Fannie and Freddie began to increase their purchase of subprime and Alt-A loans. Much has been made of Fannie Mae's investment in subprime and Alt-A loans and Franklin Raines' part in their purchase, but Fannie did not start until late 2004 and then only after the accounting scandal (Hilzenrath 2008b). Perhaps it was an effort to deflect the criticism resulting from the scandal. It was actually under Mudd's tenure as head of Fannie Mae that subprime and Alt-A loans grew significantly as a percentage of the total mortgage portfolio.

It is largely Franklin Raines that we will focus on as the arch nemesis of Armando Falcon. Franklin Raines served as chairman of Fannie Mae during most of Armando Falcon's tenure as Director of OFHEO. They clashed repeatedly. Under Raines, Fannie Mae became ever more intimidating to those who questioned either its mission or its operations. Fannie maintained an army of lobbyists and called on their many friends in Congress and the homebuilding industry. Fannie developed a multi-faceted approach when dealing with congress. They offered substantial support to individual members of Congress, directing over $19 million in contributions to the "friends of Fannie" political coffers between 1990 and 2008 (Thompson 2009). They couched their actions of political largess around the "affordable housing" mantra that appealed to many but especially to particular members of the Democratic Party (McLean & Ryan 2005; Thompson 2009).

But as we will see, the Republican Party was not immune to the attractions of Fannies' cash either. Going against Fannie was considered hopeless. However, under Armando Falcon's stewardship, OFHEO grew teeth and attempted to become an effective regulator by focusing on the financial accounting maneuvers of Fannie. They gained additional support in this endeavor from the Bush Administration. OFHEO noted that between 1998 and 2004, Fannie overstated reported income and capital by more than $10 billion. They noted that this was done deliberately and systematically through accounting irregularities in order to maximize bonuses and executive compensation (Thompson 2009). At the time of their accounting irregularity, Fannie financed more than a quarter of U.S. residential mortgage debt outstanding (McKinnon & Hagerty 2004). It was at this time that the possibility of a new regulator to oversee Fannie and Freddie first surfaced; one with more authority to increase minimum capital requirements (Ibid). The Bush Administration led by Treasury Secretary John Snow wanted a new regulator, one who was able to place the GSEs into receivership if necessary. However, Fannie was able to quash the bill. However it would turn out to be a Pyrrhic victory. Raines would later that year lose his job over the accounting scandals uncovered by Armando Falcon and OFHEO.

FREDDIE MAC

The Federal Home Loan Mortgage Corporation (FHLMC) was established in 1970 by the U.S. Congress (Annual Report 2011). Freddie Mac established its first conventional mortgage security in 1971 called the Mortgage Participation Certificate (www.fundinguniverse.com). In 1973 Freddie Mac distributed 15 million shares of participating, preferred nonvoting stock to the individual member savings institutions. In 1989 they were formally listed on the New York Stock Exchange (NYSE). In 1997 Freddie Mac formally adopted the nickname as its official name (Freddie Mac website). In 2002, largely as a result of Armando Falcon's efforts to shed a light on the accounting irregularities at the institution, they agreed to be registered with the Securities and Exchange Commission. For the first time someone was holding them accountable for their egregious business practices. Private competitors long complained of Freddie and Fannie's implicit government guarantee.

During the first Bush Administration with the passage of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, increased capital requirements and increased lending to low- and moderate-income sectors were placed upon the GSEs. Freddie announced plans to raise $2 trillion in funding for an anticipated expansion in home ownership. Although Freddie had plenty of friends in high places, critics abounded in the marketplace. Both Fannie Mae and Freddie Mac ranked among the most profitable companies in the Standard & Poor (S&P) 500. Their aggressive tactics helped to boost home ownership from 64 percent to 68 percent over the decade of the 90's (www.funding universe.com). Homeownership hit an all-time high of 69.2% for two quarters in 2004 but dropped to 67.4% by 2009. Ironically, this 67.4% was the same level as a decade earlier. Clearly, the housing market was in decline. Homeownership has been predicted to drop to around 63.5% by 2020 (Terris 2009). This level is closer to the long-term historical range of homeownership seen in the 80's and 90's (Ibid).

In December 2003 OFHEO under Armando Falcon levied a $125 million fine on Freddie Mac for a series of accounting transgressions which were designed to smooth earnings in order to meet revenue targets. Freddie Mac executives used these revenue targets to justify the compensation and bonuses that they were paid. It was a wakeup call to the GSEs that indeed Mr. Falcon was serious about exercising his regulatory powers.

THE IMPLICIT GUARANTEE

It is useful at this juncture to bring up the discussion of the so-called "implicit guarantee" that has been assumed for many years but emphatically denied by the government and the GSEs. Although the charters of both GSEs explicitly renounce any taxpayer responsibility for their securities, the widespread belief in the marketplace is and has been for many years that the government would not abandon the GSEs in a crisis. In fact, the reality of the financial meltdown proves this out. It was also obvious as far back as 1981 when a spike in interest rates left Fannie Mae insolvent on a mark-to-market basis (CBO 2003). As a result of this widespread belief, a 2001 Congressional Budget Office (CBO) study estimated that Fannie Mae and Freddie Mac enjoyed a 46 basis point lower borrowing cost in 2000 which translated into a combined subsidy of $6 billion for the year 2000 alone (CBO 2001). Those who have emphatically denied the existence of any so called "explicit" guarantee include several former Treasury Secretaries. Secretaries Rubin and Summers under President Clinton and Paulson under President Bush have all disavowed the connection. Both Federal Reserve Chairmen Greenspan and Bernanke have also denied the existence of any "explicit" guarantee. However, in 1998, Fannie argued in a letter to the Office of the Comptroller of the Currency that its securities were safer than all AAArated debt because of the "implicit government backing of Fannie Mae" (McLean & Ryan 2005). The Bush Administration and Federal Reserve Chairman Greenspan at one point backed legislation that would explicitly clarify the issue of whether or not the GSEs carried a government guarantee of Fannie and Freddie debt by explicitly repudiating any so-called government guarantee. However the GSEs were able to block its passage thereby helping to maintain that belief.

Be that as it may, even the whiff or hint of an implicit guarantee was a useful mechanism for not only Fannie and Freddie but also the federal government. In the case of the GSEs, they were able to borrow money in the debt markets at rates far lower than their competitors while the government did not have to allocate any significant liabilities for the large support it was, in essence, granting the GSEs (Labaton 2008).

THE GSE's POLITICAL POWER

The GSEs for many years have had a reputation of bullying those who it felt stood between them and their self-interests. The GSEs, but Fannie Mae in particular, have always claimed that they made homeownership affordable at no cost to taxpayers. Now days that claim has virtually no credibility. As far back as 1995, the Congressional Budget Office estimated that fully 40 percent of Fannie Mae's pretax income was due to its lower capital costs. In other words, it was the implied federal guarantee of Fannie Mae's borrowings the kept their borrowing costs low (Morgenson 1997). True enough when Fannie was originally conceived over 70 years ago, banks just coming out of the throes of the Great Depression were reluctant to lend, but today there are dozens of sources of capital available to homebuyers with good credit (Ibid).

Both Fannie and Freddie have had a reputation for hiring politically connected executives. For instance, James Johnson, Fannie's predecessor to Franklin Raines ran the Mondale for President Campaign. Former Vice Chairman Jaime Gorelick was a deputy attorney general at the Department of Justice. Robert Zoellick, an executive vice president in the 90's was George Bush senior's White House deputy chief of staff; former board member Ann McLaughlin was labor secretary under Ronald Reagan. Herbert Moses, a former Fannie Mae manager is the domestic partner of Congressman Barney Frank, a strong supporter of the GSEs.

In 1979 Fannie Mae established the Fannie Mae Foundation and later in 1994 the company's Partnership Offices (POs). Each charitable organization became an advocate for the continued operation of both GSEs (McLean & Ryan 2005). These POs were considered the grassroots operation of Fannie's political machine. They were oftentimes staffed with ex-politicos or people connected to current politicians. Fannie also built close partnerships with homebuilders, realtors and trade groups in the housing industry. Fannie put together a book in 1996 personalized for each member of the House Banking Committee describing all the good things it did in each congressman's district to bolster home ownership (Ibid). These were the type of hardball tactics that Armando Falcon was up against as Director of OFHEO.

THE PROTAGONISTS AND ANTAGONISTS

ARMANDO FALCON

Mr. Falcon was nominated by then President Clinton to be the Director of the Office of Federal Housing Enterprise Oversight (OFHEO). He appeared before the Committee on Banking, Housing, and Urban Affairs in the United States Senate on July 30, 1999. He was introduced to the committee by Congressman Charles A. Gonzalez, son of Henry B. Gonzales of Texas. Armando Falcon had run against the younger Mr. Gonzales in the Democratic primary for the congressional seat from San Antonio Texas. Armando ran fifth in a field of seven candidates (Gillman 2005). After that defeat, he contacted several people he knew with the Clinton Administration. He was offered the OFHEO position. (Ibid).

It is a testament to the character of Mr. Falcon that his political opponent would introduce him to the senate committee for his confirmation hearings for Director of OFHEO. Earlier in his career, Armando served eight years on the legal staff of the House Banking Committee, serving the last two years as General Counsel. In 1997 he returned to San Antonio, Texas. During that time he helped write the Federal Deposit Insurance Corporation Improvement Act (FDICIA) law which was designed to prevent another deposit insurance crisis.

From the beginning of his tenure as Director of OFHEO, Mr. Falcon was criticized by both proponents and opponents of OFHEO's mission. Proponents of their mission considered the agency a lapdog of Fannie Mae and Freddie Mac. The agency's opponents considered OFHEO too zealous in carrying out its responsibilities. Mr. Falcon viewed OFHEO's primary responsibility as protecting the integrity of the secondary mortgage market. In that regard, he deemed financial safety of the GSEs as imperative in discharging that responsibility (Musero 2000).

In his role as Director of OFHEO, he was vilified by both political parties. It seems that the bestowal of campaign funds by Fannie and Freddie touched both political parties. Sen.

Christopher "Kit" Bond, R-Missouri, chairman of the Senate subcommittee that oversaw Mr. Falcon's agency sought to cut OFHEO's funding by $10 million. His sin in the view of Sen. Bond was to go to extraordinary lengths to embarrass Fannie Mae. Sen. Schumer, a Democrat, argued that some people advanced tougher regulation of Fannie and Freddie to push a broader agenda to eliminate them and the mission of providing affordable housing for the general population (Labaton 2005a). Although unnamed, Senator Schumer's comments were clearly directed at Armando.

Initially, it did not seem as if Falcon would last in the Bush Administration. In early 2003 President Bush nominated Mark Brickell from J.P. Morgan to replace Falcon as Director of OFHEO. However, Brickell's nomination was quickly killed by opponents who felt he was too cozy with the derivatives industry when he worked at J.P. Morgan (McLean & Ryan 2005). The Bush Administration then resigned itself to developing an uneasy but working alliance with Armando Falcon to tackle the enormous job of regulating the GSEs. It was at this juncture that Armando started to get the financial resources and support he so desperately needed in order to be an effective regulator of the GSEs.

FRANKLIN RAINES

Franklin Raines served in two Democratic administrations. He was Associate Director for Economics and Government in the Office of Management and Budget and Assistant Director of the White House Domestic Policy Staff from 1977 to 1979. From an advocacy standpoint, Franklin Raines seemed the ideal person to head Fannie Mae. He had years of experience as a Fannie Mae vice chairman and as Bill Clinton's budget director prior to assuming the chairmanship from James Johnson, he had the political ties.

He grew up in a household with six siblings. His mother scrubbed bathrooms at Boeing in Seattle. He would one day be a member of Boeing's board of directors (Blodget 2004). He graduated from Harvard and attended Harvard Law School. He became a Rhodes Scholar (McLean & Ryan 2005). Prior to assuming the CEO position, he had been Fannie's Vice Chairman before he left in 1996 to become Director of the U.S. Office of Management and Budget. In 1999 he returned to Fannie Mae as its CEO. He was handsomely compensated. From 1998 to 2003 Raines collected over $90 million in total compensation. Approximately 58 percent of this total was tied to achieving certain earnings per share goals. In 2004 Franklin Raines accepted what was euphemistically called "early retirement". Raines was interviewed by the *Washington Post* in July 2008. At that time, he was an investor and board member of Revolution Money and Revolution Health. Both were relatively new firms started by Steve Case founder and former CEO of AOL. Revolution Money was attempting to compete with the likes of PayPal.

J. TIMOTHY HOWARD

Up until his ouster, J. Timothy Howard had been chief financial officer of Fannie Mae since 1990. He had been one of the longest serving officers at Fannie Mae. He had served under three chief executive officers and worked with three chief operating officers (O'Brien & Lee, 2004). He joined Fannie Mae as chief economist in 1982 to serve under chief executive officer David O. Maxwell (Ibid). He would eventually resign under pressure along with Franklin Raines in late 2004. He was generally well-liked within the industry, but considered aloof and a perfectionist by those who worked under him at Fannie Mae. Early on in his career, he was quite willing to publicly dress down a subordinate. Others outside the agency criticized his diplomatic skills (Ibid). It was he who introduced Fannie to the use of derivatives to mitigate risk and even out earnings. It was OFHEOs questions on how Fannie handled its accounting for hedges in their derivative portfolio that would eventually lead to Raines' departure and with Raines, Mr. Howard (Weil & McKinnon 2004).

DANIEL H. MUDD

Franklin Raines was replaced by Daniel H. Mudd, son of CBS News Reporter Roger Mudd (Hagerty & Lublin 2004). In their December 31, 2004 Form 10-K filing with the Securities and Exchange Commission, the Federal National Mortgage Association, otherwise known as "Fannie Mae" detailed the steps taken in regard to the interim report from OFHEO on its findings in the special examination. They replaced their independent auditors KPMG LLP with Deloitte & Touche LLP. KPMG had served as Fannie Mae's auditors since 1969. Fannie Mae acknowledged that it violated more than a dozen accounting rules as part of what OFHEO characterized as " …an attempt to keep earnings on a steady, upward climb rather than showing ups and downs that might have upset Wall Street" (Hagerty & McKinnon 2006). Daniel Mudd had been recruited by Franklin Raines from General Electric Company. At General Electric, Mudd had risen from a line management position to chief executive of GE Capital in Japan (Shin 2005).

LeLAND C. BRENDSEL

Leland Brendsel was ousted as chairman and chief executive officer of Freddie Mac in 2003. Mr. Brendsel joined Freddie Mac as executive vice president and chief financial officer in 1982. Prior to joining Freddie Mac, he was vice president and chief economist of the Federal Home Loan Bank of Des Moines, Iowa (Cuff 1987). He grew up on a farm in South Dakota. From those humble beginnings he rose to become proprietor of Wye Hall, an historic estate in Maryland (Hilzenrath 2007). He along with his chief financial officer Vaughn Clarke was forced to resign in June 2003. Freddie Mac's president David Glenn was fired during the same time period. At issue were the accounting practices of the company but Glenn was accused of altering documents and failing to cooperate with the ensuing investigation (Herman, 2003).

THE OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT (OFHEO)

Look for OFHEO today and it is nowhere to be found. In 2008, the Housing and Economic Recovery Act (HERA) created a new regulator the Federal Housing Finance Agency (FHFA). The law merged OFHEO, the FHFB and the Department of Housing and Urban Development's (HUD) GSE mission office (FHFA News Release 2008). Prior to this act, the supervision of Fannie Mae and Freddie Mac was split between the Office of Federal Housing Enterprise Oversight (OFHEO) who tested for financial soundness and the Department of Housing and Urban Development (HUD) which supervised these government-sponsored enterprises (GSEs) compliance with fair housing laws and the achievement of housing goals. A government-sponsored enterprise holds a federal charter but is owned by public shareholders (Crenshaw 2004). OFHEO was created in 1992 when Congress enacted The Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA) in order to overhaul the regulatory oversight of the GSEs in response to the savings and loan crisis. It had a very weak mandate with little legal authority (FCIC Staff Report on GSEs, 2010). This weakness was a direct consequence of Fannie Mae's actions when the legislation that created OFHEO was being considered. Fannie Mae lobbied hard to ensure that the agency was under the supervision of the Department of Housing and Urban Development rather than the Treasury which supervises national banks through the Office of the Comptroller of the Currency (Lee 2004). The first director of OFHEO was Aida Alvarez until she left to head the Small Business Administration. In the 1990s OFHEO rightly or wrongly acquired the reputation as a "weak" regulator that offered little in the way of impediments to Fannie and Freddie as they went about conducting their business (Thompson 2009). The position was left unfilled for two years before Armando Falcon's name was put forth as director (Who's Really to Blame nd).

Fannie preferred HUD largely because they perceived them to be more sympathetic then OFHEO. This view was bolstered by the report from the inspector general at HUD. In 2004, he issued a report that had been requested by Senator Christopher "Kit" Bond (R-Mo.). Senator Bond had a long running animosity toward OFHEO. He had attempted to withhold substantial sums of their budget until Armando Falcon was replaced. OFHEO funds its regulatory activities through direct assessments on Fannie and Freddie, but unlike other financial regulators, it must get approval from congress to levy the assessments (Musero 2000). Sen. Bond attempted to vastly limit the role of OFHEO in oversight of the GSE's (Hilzenrath 2004). Since 1999, Mr. Falcon had attempted to get OFHEO exempted from the appropriations process (Musero 2000).

The prescribed risk-based capital parameters for the GSEs were so low compared to those of commercial banks or thrifts that both GSEs operated with significant leverage (FCIC Staff Report on GSEs, 2010). The lower capital standards resulted in a lower cost structure and greater return on equity (ROE). A fact not lost on investors such as Warren Buffett. Fannie Mae's ROE peaked at 39.8 percent in 2001 and Freddie Mac's at 47.2 percent in 2002 (FCIC Report on GSEs, 2010).

HERA essentially ended the regulatory responsibility of OFHEO for Fannie Mae and Freddie Mac. This was perhaps for the best since OFHEO's mandate and legal authority were much weaker than that of the Federal Reserve, FDIC and Comptroller of the Currency towards the banks they oversee and the Office of Thrift Supervision (OTS) toward the thrift institutions they regulate. For example, OFHEO had limited ability to increase the capital requirements of Fannie Mae and Freddie Mac. This allowed both institutions to operate with significant leverage compared to bank and thrift institutions (FCIC Report on GSEs, 2010).

However, after an embarrassing disclosure of accounting irregularities at Freddie Mac in January 2003, greater scrutiny was focused on the GSEs from many quarters. These accounting irregularities piqued the interest of not only OFHEO but the SEC and the Justice Department (McKinnon & Hagerty 2004). The Treasury made it clear to both Fannie and Freddie that it felt it had the authority to restrict borrowing. Meantime HUD was signaling it intended to force both GSEs to devote more of their resources and energies to financing homes for low-income borrowers. Despite these red flags, it did not deter OFHEO to report in its annual report to

Congress on Freddie Mac's safety and soundness that "we remain satisfied that the board of directors and executive management are taking the appropriate action" with regards to the earnings restatement (Duell 2003). This would later prove an embarrassment to Armando Falcon and give his enemies further ammunition of OFHEO's incompetence to regulate the GSEs. He quickly recovered and became a strong regulator of the GSEs given his limited authority and budget.

It was Falcon's preliminary report on Fannie's systematic violations of accounting rules that seemed to provide the most vigorous threat to Fannie's invulnerability. At issue was Fannie's use of hedge accounting which allowed them to postpone recognizing gains and losses in their earnings on derivative contracts designed to "hedge" their financial exposure to changes in interest rates (Weil & McKinnon 2004). Final jurisdiction on this issue rested with the SEC and not OFHEO. Ironically, it was Fannie's eventual capitulation in 2002 to pressure from long-time congressional critics to acquiesce to SEC jurisdiction. When they did so, it effectively placed Fannie under SEC oversight (Ibid). Raines and CFO Howard hoped to parlay that decision into a favorable ruling from the SEC. They were clearly playing for time in hope of rallying their allies in Congress. And make no mistake, in Congress Fannie and Freddie had friends on both sides of the aisle. During a Congressional hearing in October 2004, Mr. Falcon was criticized by Democratic Representatives Paul Kanjorski of Pennsylvania and William Lacy Clay of Missouri with Representative Clay going so far as to categorize OFHEO's methods as "the political lynching of Franklin Raines" (Hagerty 2004). The advocates for Fannie and Freddie dismissed virtually every report from OFHEO including those that identified massive abuses and accounting irregularities. Every legislative proposal that would have created a Treasury-based regulator was portrayed as an attack on affordable housing (Thompson 2009). More than a dozen other panel members rallied to Fannie's defense during these hearings. Ironically, less than three months later both Messrs.' Raines and Howard would be ousted by Fannie's Board of Directors.

OFHEO's position was that Fannie incorrectly treated the majority of their hedges as "perfectly" hedged and failed to measure their effectiveness over time. Portfolio hedging is a dynamic concept and requires a great deal of sophistication to maintain the proper hedge as asset prices change over time. The hedges that Fannie had in place were designed to offset changes in interest rates. At a Congressional hearing in October 2004, Franklin Raines denied allegations that Fannie had violated accounting rules.

With prodding from OFHEO, Fannie's board began holding more and more meetings without Raines' presence (Hagerty & Lublin 2004). In October 2004, Raines got his first public opportunity to answer his increasingly vocal critics largely led by Armando Falcon and OFHEO. He appeared before a congressional subcommittee. He insisted that the company's accounting methods were proper but he also hedged somewhat by stating the he would accept responsibility if the SEC eventually determined otherwise (McKinnon & Hagerty 2004).

Fannie Mae's disclosure of the lucrative pay packages of its two ousted executives, CEO Franklin Raines and CFO J. Timothy Howard raised eyebrows especially at OFHEO where the pay package was being reviewed. By some estimates, Franklin Raines had accumulated 300,000 shares of Fannie stock valued at around $21 million. Future incentive stock awards could add an additional 70,000 to 300,000 shares. The total package was estimated at $19 million not counting the potential future stock incentives. However, it did not include his annual retirement compensation of $1.4 million per year plus the premiums on a multi-million dollar life insurance policy and a corporate match of his charitable contributions up to $10,000 (McKinnon 2004). CFO Howard was due approximately $4.4 million in stock options, $4 million in deferred compensation, plus a pension valued at $433,000 per year and several tens of thousands of shares of incentive stock awards (Ibid).

In 2006 the Office of Federal Housing Enterprise Oversight (OFHEO) announced a suit against Raines to recover the $90 million in payments made to Raines based upon overstated earnings. Raines settled the charges brought against him by OFHEO in early 2008 by agreeing to pay $2 million and forfeiting $22.7 million in stock and other benefits none of which come from Raines since all was covered by insurance (Huslin 2008).

Ironically it was a Republican Administration that was attempting to fire Falcon who was challenging the veracity of the financial records of a former Democratic Administration Budget Officer who now headed Fannie Mae. However, when their candidate was killed by the Administration's foes, President Bush reconciled himself to Mr. Falcon. He signaled his support for Armando by adding him to the President's corporate fraud task force and the White House worked to get OFHEO the funds to hire Deloitte & Touche to investigate Fannie (McLean & Ryan 2005).

But it just wasn't the Bush Administration that attempted to thwart OFHEO's ability to adequately regulate Fannie and Freddie. The Senate Appropriation's VA HUD Subcommittee passed a bill that provided funding for OFHEO in 2005 but $10 million could not be spent until Falcon was removed from office. That language was later removed from the bill. So pervasive was Fannie Mae and Freddie Mac's influence that neither party dared criticize either agency.

In 2008, Fannie Mae and Freddie Mac spent $7.4 million on lobbying for just the first six months of the year. Their combined cumulative lobbying expenses since 1998 put them in the pantheon of companies spending in this area. They ranked just behind the U.S. Chamber of Commerce and the American Medical Association but ahead of General Electric (Salant 2008).

CONCLUSION

Given all that has transpired over the last several years, it is difficult to imagine anyone disparaged for any criticism of the GSEs. Yet in late 1999 and early 2000, both Fannie and Freddie were held in such high esteem by both political parties, partly as a result of the political largess that they were willing to dispense, that anyone who dared to challenge the veracity of their accounting numbers was immediately set upon. Indeed, the GSEs who had built a cadre of formidable allies in Congress through political contributions and extensive lobbying spent most of 2004 and the previous four years trying to eliminate or at least severely limit Mr. Falcon's funding and force him out of office as he raised questions about the accounting practices of the GSEs (Bloomberg News 2004; Gillman 2005).

Armando Falcon was a hold-over from the Clinton Administration leading an agency whose charter was crafted with a great deal of input from Fannie Mae, one of the very same enterprises over which he had oversight. Armando Falcon was virtually unknown outside of San Antonio. This former Congressional aide for Congressman Henry Gonzales was constantly at odds with virtually everyone in Washington. He was hobbled by a modest budget with little if any political clout. However this did not deter Mr. Falcon from carrying out his responsibilities as best he could under the circumstances. Somewhat unusual in Washington, Mr. Falcon managed to unite both political parties in their animus toward him and OFHEO. Devoid of any real power to discharge his mandate in any meaningful way, he persevered under these difficult and trying circumstances. Astonishingly, former SEC chairman Arthur Levitt admitted that he never heard of OFHEO during his tenure as Chair of the SEC (Skrzycki 2004). However, Mr. Falcon's dogged determination to carry out his duties led to a management shakeup first at

Freddie Mac and then ultimately at Fannie Mae, the sine qua non of everything contemptible about the lobbying profession. He was the first to challenge the GSEs in any meaningful way despite a rather inauspicious start as Director of OFHEO.

The housing crisis would certainly have occurred with or without Armando Falcon's oversight of the GSEs. However, it may not have reached the level nor depth that it did had Congress, the Administration and the GSEs taken his warnings a little more seriously. Certainly he made mistakes. Early in his tenure at OFHEO, he was blamed by members of Congress for missing accounting problems at Freddie Mac (Skrzycki 2004). However, he did recover to become an effective overseer of the GSEs in spite of their political power and reach throughout the Halls of Congress. Mr. Falcon was hamstrung with statutory shortcomings. The regulatory powers of OFHEO were limited as was their budget resources. They were constrained in setting capital standards for the GSEs. They had insufficient enforcement powers and they had no authority to place a failed GSE into receivership (Stanton 2001). In a somewhat convoluted regulatory arrangement, the SEC has oversight of accounting matters while the OFHEO has oversight of the company's safety and soundness. As a ploy to further hamstring OFHEO, the GSEs eventually voluntarily agreed to subject themselves to mandatory regulation by the SEC under the Securities Exchange Act of 1934. The GSEs became registered companies bound by the 1934 Act. Their disclosures would be reviewed jointly by the SEC and OFHEO. Prior practice was to have the GSEs determine what corporate information was material and must be disclosed. Once registered, that changed and the ultimate arbiter of what must be disclosed became the SEC and OFHEO acting in the public interest. Mr. Falcon did his job admirably despite substandard statutory powers, insufficient resources and political interference from both parties.

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Educating Leaders to Manage Sub-optimization and Collaboration in Interdependent Team-based Organizations

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This paper describes an exercise that allows participants to experience the consequences of sub-optimization and collaboration in a multi-team interdependent task environment. The paper begins with a review of models and concepts relating to intergroup dynamics, intergroup conflict, and leader interventions for effectively managing intergroup relations. Directions for preparing and conducting the exercise are explained, followed by suggestions for maximizing learning potential during the debriefing and applying new insights to back home organizations.

INTRODUCTION

Since most organizations consist of various structures of interdependent teams where the activities of one group affect the performance or satisfaction of other groups, future organization leaders need awareness and training for managing intergroup dynamics (Neilson, 1972). Unfortunately, they do not often have opportunities to learn about intergroup dynamics in the classroom and are first confronted with their complexities in the workplace where the consequences of inappropriate behavior can be devastating (Bowen, 1998).

It has become common for management educators to utilize student project teams in their classes to complete such tasks as research projects, case analyses, and class presentations (Cox & Bobrowski, 2004). These team experiences provide excellent opportunities for students to learn about internal group processes and develop team skills when instructors initiate reflection, debriefing and learning application components (Kalliath & Laiken, 2006). It is important for students to learn about group dynamics and acquire team skills since most will function as group members and team leaders in organizations after they graduate. (Hunsaker, Pavett & Hunsaker, 2011).

It is especially important that future organization leaders understand the importance of collaboration versus sub-optimization. The entire July-August issue of the *Harvard Business Review* focused on the importance of collaboration. An article by Ibarra and Hansen (2011), for example, posited that the ability to harness ideas, people, and resources from across boundaries of all kinds has become a business essential. Another by Adler, Heckscher and Prusak (2011) concluded that organizations aspiring to outstanding success in this century must use collaboration to innovate efficiently on a large scale.

The Win as Much as You Can (WAMAYC) exercise described in Appendix A provides an environment with incentives for both short term personal gain and long term organization profitability with associated consequences for intergroup trust, liking, and collaboration. It demonstrates the consequences of these approaches, and the impact of various interventions on intergroup productivity, satisfaction, and development. The basic payoff matrix and rounds of play of the WAMAYC exercise are adapted from DeVito (1982) and Pfeiffer and Jones (1974). The authors have added the team, organization, and money reward distribution components.

The exercise has been used for learning about intergroup dynamics in classes of undergraduate business majors, MBAs, and executive MBAs. It has also provided insights for resolving conflicts and other interdependency problems between groups in a wide variety of business and governmental organizations (Hunsaker, 2002).

INTERGROUP CONCEPTS

Even if interacting groups intend to be cooperative, they may react in dysfunctional ways to environmental changes, opportunities for personal gain, and unexpected behaviors from other groups (Agarwal & Echambadi, 2002). For example, sub-optimization often occurs when one group behaves to maximize outcomes for itself at the expense of other groups (Kabanoff, 1991). If one group's behavior is perceived as threatening to the wellbeing of other groups, aggressive reactions will most likely occur (Kirchmeyer & Cohen, 1992).

Cooperative behavior often enables groups to achieve far more than they could if they acted independently, but, excessive cooperation can produce so much contentment that there is no motivation to improve (Cosier & Schwenk, 1990). Heightened competition can stimulate creativity and productivity within groups, but it can also promote sub-optimization and dysfunctional behaviors (Kirchmeyer & Cohen, 1992). The challenge for interdependent groups is to discover the degrees of competition and cooperation that are most functional at different stages of organizational development.

INTERGROUP CONFLICT

Intergroup conflicts are normal in organizations. They create the potential for negative consequences but if they are appropriately addressed, conflicts can provide benefits such as increased problem awareness and creative solutions.

a. Antecedent Conditions for Conflict

It is possible to achieve win–win outcomes for all groups if a conflict is recognized before negative sentiments set in. Early recognition requires awareness of the antecedent conditions for conflict. The most common sources of intergroup conflict are goal incompatibility, insufficient shared resources, different time orientations, interdependence, power differentials, different role expectations, and low trust between interacting groups (Pondy, 1967).

b. Methods of Addressing Conflict

Once conflict is manifest between groups, decreases in trust, cooperation, and communication contribute to lower productivity, satisfaction, and growth (Kirchmeyer & Cohen, 1992). At this point groups need to apply the most appropriate method to constructively manage the conflict. Five methods of approaching conflict are competing, accommodating, avoiding, collaborating, and compromising (Thomas, 1992).

Competing occurs when groups pursue their own concerns at the expense of others. *Accommodating* occurs when a group neglects its own concerns in order to maintain positive relationships with other groups. When *avoiding*, groups do not address the conflict at all causing important decisions to be made by default. *Collaborating* consists of working together to find a solution that fully satisfies both groups. *Compromising* occurs when two groups find a mutually acceptable middle ground that partially satisfies both parties. For interdependent groups to maintain productive relationships, Collaborating and Compromising solutions are necessary (Rahim, 1983).

c. Promoting Collaborative Intergroup Dynamics

There are a number of strategies for promoting collaborative relationships between interacting groups. They all require the establishment of common goals and accurate communications (Bloisi, Cook, & Hunsaker, 2007; Likert & Likert, 1976).

d. Establish Super-ordinate Goals

A super-ordinate goal is an outcome desired by all groups more than their individual group goals. Attaining a super-ordinate goal requires the cooperative effort of all groups. When conflicting groups accept their common survival as a super-ordinate goal, for example, they put aside their differences to pull together for the common good. They eliminate sub-optimizing strategies because there will be no rewards for any group if the organization does not survive.

e. Increase Communication

Communication between conflicting groups usually decreases (Schein, 1980). This can cause lack of understanding, faulty assumptions, and negative stereotypes. Keeping communication open is important if conflicting groups are to develop empathy and understanding of each other's positions. Anything that can facilitate communication and enhance understanding will be beneficial. It may help, for example, to rotate members between groups so they can experience things from the opposing perspectives (Schein, 1980).

f. Confrontation Meetings

A confrontation meeting brings conflicting groups together to communicate and problem solve. Groups attempt to work through their differences by sharing feelings and complaints in order to bring about a greater understanding of each group's attitudes, perceptions, and position (Tjosvold, Dann, & Wong, 1992).

g. Expansion of Resources

Limited resources often promote win/lose situations that cause intergroup conflict. Increasing resources so that all groups can meet their needs can eliminate this conflict (Likert & Likert, 1976).

h. Third-Party Judgment

Conflicting groups may appeal to a common superior or an outside judge to serve as a mediator in resolving their conflict. This approach is effective when groups have previously agreed to be bound by the decisions of the mediator (Likert & Likert, 1976).

i. Change Organizational Structure

When status differences or power imbalances cause intergroup conflict, a change in organizational structure may be the answer (Galbraith, 1973). Structural changes include rotating group members, creating liaison positions, and eliminating special-interest groups (Ancona & Caldwell, 1992). Conflicting groups can also be relocated or their task responsibilities can be redefined (Ancona, 1990).

j. Smoothing

Smoothing is a temporary means of repressing conflict by providing the groups with some incentive to avoid open expression of their differences. The smoothing process plays down the differences between the groups and accentuates their similarities and common interests. The rationale is that eventually the groups will realize they are not as alienated from one another as they initially believed. This approach is another temporary solution because it circumvents confronting the sources of conflict, increasing the probability that they will resurface and cause more serious disturbances (Tjoswold, Dann, & Wong, 1992; Rahim, 1986; Likert & Likert, 1976).

OVERVIEW OF THE WAMAYC EXERCISE

The Win as Much as You Can (WAMAYC) exercise requires participants to make decisions to sub-optimize or collaborate over seven rounds of play with varying payoffs. Although the stated game goal for participants is to win as much money as you can, the learning goals are to increase awareness of intergroup dynamics, learn the consequences of sub-optimizing versus collaborating, and be better prepared to react effectively to similar intergroup dynamics in the future.

During the exercise, students experience goal conflict, sub-optimization, communication problems, power struggles, trust issues, process inefficiencies, and decision dilemmas. Successful groups solve these problems through collaboration. All participants learn about the consequences of their actions from their respective monetary payoffs, observer feedback following each round, and the debriefing at the end of the exercise.

a. Participant Preparation

Participants prepare for the exercise by reading assignments before the class begins. The day of the exercise, the instructor provides a short lecture and discussion to review the intergroup concepts in the first part of this article. Participants need this conceptual knowledge to understand what is happening in the exercise, manage intergroup conflict, and provide meaningful feedback to each other.

b. Logistics

Participants are divided into two or more companies with four departments in each company. Departments are composed of one to four members. Each department receives the score sheet and payoff shown in Appendix A. Companies should be separated around the learning space and departments within each company should be seated far enough apart that conversations cannot be overheard by other departments.

c. Timing

The total exercise can last from 50 to 90 minutes depending on how much time is allocated for the following activities. Preparation takes from 10 to 15 minutes. The exercise takes 35 to 50 minutes for seven rounds. If time is limited, the second round can be eliminated and time for negotiations can be reduced. The debriefing time depends upon how much depth you go into, so it can vary from 10 to 25 minutes.

d. Debriefing

For maximizing learning potential from this exercise it is essential to conduct a thorough debriefing. If this doesn't occur, participants often leave the experience worked up and sometimes with negative sentiments towards "winners" who took their money because of trust betrayals and/or lack of cooperation.

e. Results

The WAMAYC has increased awareness of intergroup dynamics in classes of undergraduate business, MBA, and executive MBA students. It has also created insights for resolving intergroup conflicts in a variety of business and government organizations (Hunsaker, 2002). When participants are from the same organization, the experience frequently generates dilemmas similar to back home problems, and the debriefing can be applied to resolving these real issues. In MBA and executive debriefings, participants share how exercise experiences are similar to problems in their own organizations, and then help each other generate solutions improving a variety of dysfunctional situations.

Undergraduates, especially those without significant work experience, usually need to have organization design and process applications described for them during the debriefing for significant learning to take place. There are plenty of inter-team and interpersonal issues that undergraduates can immediately relate to however, including things such as communication problems, leadership, competition, cooperation, conflict, trust building, and problem solving.

Appendix A
Win As Much As You Can Exercise

During this exercise participants will experience the consequences of their decisions as they try to maximize earnings in a multi-team interdependent task environment. The most effective learning takes place when teams thoroughly analyze the payoff system, empathize with other teams, focus on the long term outcomes, and think creatively.

a. Goals

Although the stated game goal for participants is to win as much money as you can, the learning goals are to:

- Experience the consequences of sub-optimization and collaboration between interdependent task groups.
- Learn to diagnose potential conflict situations and apply appropriate conflict management approaches.
- Practice negotiation and problem solving skills.
- Increase awareness of the importance of trust between interdependent teams.

b. Timing

The time required to explain, set up companies, conduct, and debrief the exercises is approximately 90 minutes:

- 15 minutes to explain and set up the exercises
- 50 minutes for conducting the exercise:
    - Three minutes for each of the seven decision rounds (21 minutes);
    - Five minutes for each of the three negotiation periods (15 minutes);
    - Two minutes each for posting results of each of the seven decision rounds (15 minutes).
- 25 minutes for debriefing the exercise.

c. Set up

Divide the class into two or more companies. Then divide each company into four, one- to five-person departments. The four departments in each company should be seated far enough apart from each other so that members of each department can communicate without being overheard by other departments.

Explain that the exercise consists of seven rounds of decision making in which each department selects either D (Department) or C (Company) based on its prediction of what the other departments in its company will do and the payoff schedule. The objective is to Win as Much as You Can (WAMAYC). Winnings or losses depend on what is negotiated and what the other departments decide to do.

d. Process

1. Each player invests $1.00 in his or her company (gives the money to instructor). If any student is uncomfortable risking a dollar, or if it is a very large class, one option is to have the companies assign observers to help the instructor (a) collect and announce decisions; (b) observe internal and intergroup dynamics; (c) handle negotiations; (d) lead department debriefing; and (e) help lead the class debriefing.

2. Share that the objective is to “win as much as you can” by making decisions in your department at the beginning of each of seven rounds to either D to maximize profit for your Department, or C to maximize profit for your Company. Winnings or losses depend on what is negotiated and what the four departments in your *own* company decide to do. If a participant asks, “win as much as you can for the company or for the department?” respond “The objective is to Win as Much as You Can.”

3. Handout *Appendix B: WAMAYC Tally Sheet* to each participant.

4. Explain the rules of the exercise and the *WAMAYC Tally Sheet*:

- *Score Card*: For each of seven rounds of play, each department decides D or C, figures their own payoff after the facilitator posts results, and calculates their cumulative results. Each decision round is three minutes. The facilitator will post the total companies’ (all four departments) decisions, payoffs, and cumulative profits or losses. Each department does the same for themselves.

- *Payoff Schedule*: Explain the payoffs for each of the five decision combinations for the four departments in a company. Go back to the Score Card and show how the payoffs are multiplied in rounds three, five, and ten. Explain that departments can negotiate with each other before each of these rounds, but that there can be no communication between departments at any other time.

- *Negotiations*: If department want to negotiate they need to tell the facilitator who shares the request with the other department (that can agree or refuse to negotiate). If departments agree to negotiate, one representative from each meets in a private place. Negotiators are not allowed to show their score sheets to each other. Departments pick different members to negotiate with each of the other departments so that all get a chance to negotiate. Actual decisions for the next round, however, can only be made through consensus of department members after they return from negotiations. Each negotiation period is five minutes.

- *Profit Distribution Scheme*: At the end of the seven rounds of play, the facilitator posts the cumulative company scores. Departments for each company then post their cumulative scores. The sum of the four department scores should equal their company score. Then the instructor distributes the total pot of money as follows:
    - The company with the largest balance gets 40 percent. This should be equally distributed among the four departments, i.e., 10 percent each.

- The department with the largest balance gets 30 percent to keep for itself. Departments can be in the winning or losing company.
- The department with the second-largest balance gets 20 percent to keep for itself.
- The department with the third-largest balance gets 10 percent to keep for itself.
- If there is no positive payoff for either company, there will be no distribution, even if departments have positive balances. The facilitator keeps all of the money.

5. The facilitator answers any questions about the exercise and then gives the departments ten minutes to study the WAMAYC Tally Sheet, discuss their strategy, and make the decision for the first round.

6. Start the exercise with a three-minute decision round. Facilitators collect decisions from each team by visually copying their answers onto a *Companies Score Sheet.* An example of a *Companies Score Sheet* can be found in Appendix C. Facilitators should not be told decisions verbally if there is a chance they will be overheard by other teams. Instead, copy each team's decision from the score card onto the *Companies Score Sheet.* Then present the company decisions, payoffs, and cumulative balances on a large *Companies Score Sheet* on the board or flip chart for the entire class to see. Positive or negative payoffs will only occur for companies when all department decisions in n company are the same, i.e., four Ds or four Cs. Otherwise they balance out to zero. Ask the departments to enter their payoffs and cumulative balances on their own score cards. Continue this process for the remaining rounds of play with negotiations taking place before the third, fifth, and seventh round.

e. *Debriefing*

For maximizing learning potential from this exercise it is essential to conduct a thorough debriefing. A suggested debriefing scenario follows.

1. Distribute 40% of the pot money payoff to COMPANY Highest Balance.

2. Ask Departments to report their cumulative balances.

3. Distribute payoffs to departments with highest (30%), second highest (20%), and third highest (10%) balances.

4. Ask happened in this exercise and why. Allow the class to vent for a while.

5. Ask the company highest balance:
   a. How they achieved the highest balance, i.e., their strategy
   b. What their objectives were
   c. What the consequences are for them and their organization

6. Ask the department with the highest balance:
   a. How they achieved the highest balance, i.e., their strategy
   b. What their objectives were
7. Ask other departments how they feel about these "winning" departments and if they want

to work with them again in the future.

8. Discuss the implications of these behaviors on interdepartmental
    a. Productivity?
    b. Satisfaction?
    c. Motivation to contribute?
    d. Commitment to company?

9. Share that with a cooperative, win-win approach for each round of play trust and rapport would have been established and the monetary outcomes would have been $22 for all departments and $88 for the entire company. Compare these outcomes with the actual results and discuss the implications.

10. Discuss the long-term consequences if departments
    a. Sub-optimize (Low trust, low commitment, all lose or break even, etc.)
    b. Collaborate with other departments (Trust, liking, commitment, all profit, etc.)
    c. Discuss what is most appropriate for permanent, interdependent relationships

Close the debriefing by asking participants to share their take-a-ways from the exercise. Summarize what participants have learned and the implications for similar experiences in real organizations.

Appendix B
WAMAYC Tally Sheet

DIRECTIONS: At the beginning of each of the seven rounds choose either **D** to maximize profit for your department, or **C** to maximize profit for the entire company. Your "payoff" for each round depends on the choices made by the departments in your company.

PAYOFF SCHEDULE

4 D's:	Lose $1.00 each
3 D's: 1 C :	Win $1.00 each Lose $3.00
2 D's: 2 C's:	Win $2.00 each Lose $2.00 each
1 D : 3 C's:	Win $3.00 Lose $1.00 each
4 C's:	Win $1.00 each

SCORECARD

Round	Department's Choice (Circle)	Department's Pattern of Choices	Department's Payoff	Department's Cumulative Balance		
1	D C	__Ds __Cs				
2	D C	__Ds __Cs				
3	D C	__Ds __Cs			Negotiate	Bonus (3 X payoff)
4	D C	__Ds __Cs				
5	D C	__Ds __Cs			Negotiate	Bonus (3 X payoff)
6	D C	__Ds __Cs				
7	D C	__Ds __Cs			Negotiate	Bonus (3 X payoff)

PROFIT DISTRIBUTION

Company with largest balance gets **40%** (10% for each department)
Department with largest balance gets **30%**
Department with second largest balance gets **20%**

Department with third largest balance gets **10%**

NOTE: At least one company must achieve a **positive balance** greater than 0 after round 7, **or no money** will be distributed regardless of individual department balances.

Appendix C

Companies Scorecard

Company A Company B

Rd	Department choice tally	Company Payoff	Company Balance	Rd	Department choice tally	Company Payoff	Company Balance
1	___Ds___Cs			1	___Ds___Cs		
2	___Ds___Cs			2	___Ds___Cs		
3	___Ds___Cs			3	___Ds___Cs		
4	___Ds___Cs			4	___Ds___Cs		
5	___Ds___Cs			5	___Ds___Cs		
6	___Ds___Cs			6	___Ds___Cs		
7	___Ds___Cs			7	___Ds___Cs		

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Coincidence Of Loss: Fraud and the Economy

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As the pervasiveness of corporate and accounting scandals caused by instances of fraud dominate headlines, the popular press routinely asserts there is a direct correlation between a shrinking economy and an increase in the prevalence of fraud (Coecnen, 2010; McCartney, 2011; Smith, 2009). This article discusses selected indicators of economic downturn, fraud, legislative deterrents, and the likelihood that fraud exists in a number of organizational settings. Information gathered from multiple sources including the Association of Certified Fraud Examiners (ACFE), the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the Federal Bureau of Investigation, and Deloitte's Forensic Center was examined to determine the extent to which the representations made by the media are accurate.
During the period investigated, the case can be made there has been a continual slight increase in the prevalence of fraud but there is an absence of evidence specifically linking the increase to the downturn in the economy.

INTRODUCTION

On February 11, 2009, an ABCnews headline caught the public's eye: Fraud 'Directly Related' to Financial Crisis Probed. This was not the first, and certainly not the last, sensational headline espousing a connection between the downturn in the economy and an increase in occupational fraud. What made this story different was the report that FBI Deputy Director John Pistole advised Congress that bureau resources currently assigned to national security may need to be redirected due to the increase in white collar crime. According to the Deputy Director, "The FBI has more than 530 open corporate fraud investigations, including 38 corporate fraud and financial institution matters directly related to the current financial crisis…These are significantly large, similar to Enron." (Ryan, p.1)

HISTORICAL BACKGROUND

It was the longest bull market in United States history and it transformed the world economy. According to the National Bureau of Economic Research, 1982-1999 was one continuous economic mega-expansion of proportions never before seen. More wealth was created during this period than in the previous 200 years (Laffer, n.d.). This period of prosperity continued unabated so long that even the most reasonable of people were convinced that we had managed to alter the business cycle and contractions might be a thing of the past. It was on the crest of this wave that George W. Bush, on June 12th, 1999, announced his candidacy for

President. Though he had no way of knowing it, this wave was about to become a devastating tsunami.

In March 2001, the "irrational exuberance" cautioned by Federal Reserve Chairman Alan Greenspan, came to a dramatic conclusion (Reier, 2001). What has since come to be known as the dot.com bubble exploded in spectacular fashion. This crash heralded the end of the longest bull market in history and the United States plunged into recession.

The next explosion was literal as well as figurative: the September 11th terrorist attack. While at a horrific price, in terms of both blood and treasure, this event did stimulate the economy and pull us out of the dot.com initiated recession. The recovery, however, was short-lived, however, as Enron, Tyco, WorldCom, and Arthur Andersen self-destructed.

Housing was the next train out of the yard. The housing market peaked in the summer of 2005 with home prices rising and falling throughout 2006 and 2007. According to the US Census Bureau, the average median home price in March 2007 was $262,600. "Irrational exuberance" exacted its toll once again, and inventories increased as prices declined. Homeowners rapidly found themselves "underwater" with their mortgage loans, and foreclosures began their upward climb, reaching unprecedented heights. At the end of the decade, despite Congress' attempts to stimulate the housing market through homebuyer credits, the median home price had declined 30% from its high.

Oil was yet another train wreck. The price of light sweet crude began the decade at under $30 per barrel. In July of 2008, the price peaked at over $140 per barrel, before falling back and ending the decade in the high $80 range (King, Deng & Metz, 2011).

The economy officially entered recession in December 2007 and the economic turmoil deepened with the failures of Fannie and Freddie Mac and the Troubled Assets Relief Program (TARP). Unemployment, which was at 4% in 2000, reached a 27-year record in October 2009, topping out at 10.1% according to the U.S. Bureau of Labor Statistics (2011).

LEGISLATION

On July 30th 2002, President Bush signed the Sarbanes Oxley Act (SOX), a law significantly changing corporate governance and the rules and regulations under which accounting firms and corporations must operate. Provisions such as Section 404 increased the responsibilities of management. Other provisions include the establishment of the Public Company Accounting Oversight Board (Title I), and increased guidelines for auditor independence (Title II). Title III outlines corporate responsibility; increased financial disclosures are discussed in Title IV. Titles V and VI primarily deal with securities analysts while Title VII covers reports prescribed by the Comptroller General of the United States and the Securities and Exchange Commission. Finally, Titles VIII - X address the statute of limitations of securities fraud, determine sentencing guidelines, Whistleblowers policies, penalties and codes for fraud attempts, conspiracies, and mail fraud, and amend the Employee Retirement Income Security Act (ERISA), while also setting guidelines for corporate responsibility for financial reporting (Congress of the United States, HR 3763).

Also issued in 2002 was Statement on Accounting Standards No. 99: Consideration of Fraud (SAS 99). The intent of the standard is to improve auditor performance in detecting material misstatements due to fraudulent financial reporting. Donald Cressey (Wells, 2007) developed the fraud triangle which includes the tenets of pressure, opportunity and rationalization while SAS 99 defines these concepts as incentives, opportunities and attitudes. SAS 99 discusses the description and characteristics of fraud, the importance of professional skepticism, the risk of material misstatements due to fraudulent behavior, measures to obtain the information to identify the risks of material misstatements, identifying, assessing and responding to risks as well as evaluating, communicating and documenting results (FASB, 2006). Reasonable person theory would suggest that with the implementation of SOX and SAS 99 the potential for, or, the statistical probability of fraud would be minimized. However, events have proven this assumption to be incorrect. Because, at the time, the financial bubble of the housing market was emerging.

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act. Passed as a response to the continuing recession, the Act implements sweeping financial regulatory reform. The stated aim of the Act is “to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end "too big to fail", to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes” (Congress of the United States, HR 4173, p. 1). The provisions include strengthening consumer protections, ending “too big to fail” bailouts, protecting investors through new rules for transparency and accountability, extending whistle blower protection, and empowers regulators to aggressively pursue financial fraud.

METHODOLOGY

We will report the findings of multiple sources including the Association of Certified Fraud Examiners (ACFE), Committee of Sponsoring Organizations of the Treadway Commission (COSO), Federal Bureau of Investigation, and Deloitte's Forensic Center, in order to identify any relationship between the state of the economy and the prevalence of fraud. We will not be analyzing this data, but merely reporting the findings of these organizations in an effort to support our premise that during economic downturns, the commission of fraud increases. Topics will include indicators of economic downturn, fraud, and the likelihood that fraud exists in a number of organizational settings. Also, correlations between fraud and legislative deterrents such as SOX and SAS 99 will be discussed.

Fraud surveys agree that occupational fraud can be categorized into three broad categories: Asset misappropriation, corruption and financial statements. Asset misappropriation is generically defined as the movement of assets to a wrongful place. This definition could include theft, embezzlement or the misuse of an organization's assets. Corruption is loosely defined as the process of changing one's morals or principles from good to bad. In terms of fraudulent behavior we are looking at acts of bribery or conflicts of interest. Financial statement fraud encompasses overstatements of assets, understatements or concealment of liabilities, timing differences and largely misrepresenting the financial picture of an organization.

Using the ACFE's *Report to the Nation* survey results, the results demonstrated that over 85%, 92.7% and 91.5% of the fraud cases reported were attributed to the category of asset misappropriation for the years 2002, 2004 and 2006 respectively; for those same years 12%, 30% and 30.8% of the frauds reported were attributed to corruption and the balance to financial statement frauds. The 2008 report suggests a decline in percentages with 88.7% of fraud being perpetrated as asset misappropriations, 27.4% corruption schemes and 10.3% occurring in fraudulent financial statements.

In their 2010 *Report to the Nation*, the ACFE observed the percentage of occupational fraud cases decreased in the areas of corruption and financial statement fraud but within the area of asset misappropriation the actual percentage of fraud cases increased. In the areas of corruption and asset misappropriation the amount of financial losses actually dropped. The 2010 report noted fraudulent behavior was still on the rise in both private and public companies but the number of reports for government and not-for-profit organizations declined from previous years.

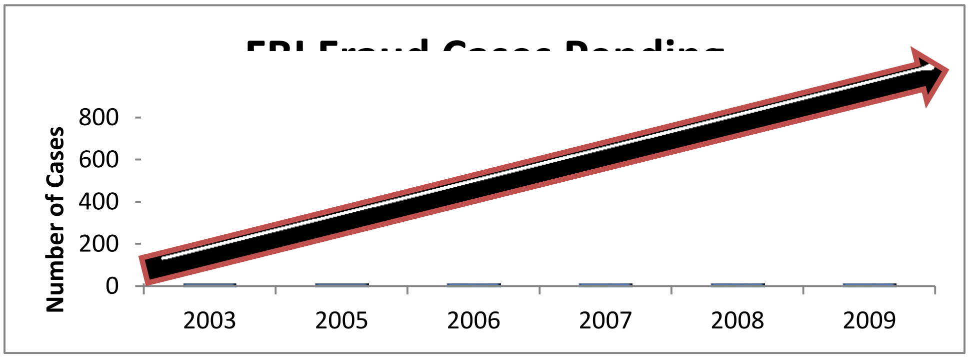
Survey results also demonstrate that asset misappropriation schemes increased to 89.8%, up 1.1% from 2008; corruption schemes decreased to 21.9% or 5% from 2008 and financial statement frauds decreased 7% from that of the survey results of 2008; Dropping from 10.3% to 4.3% (2010a). Information from COSO (2011) and the National Business Ethics Survey (2009) from the Ethics Resource Center highlight and corroborate the ACFE's findings.

The number of cases reported by ACFE was 1,134 reported cases between January 2004 and January 2006. In 2008, 959 cases of fraud were reported for the time period between January 2006 and February 2008 and in 2010 the actual number of reported cases was 1,843 almost three and four times the number of cases reported in 2002 and 2004, these were 663 and 508 respectively. The cases here primarily deal with asset misappropriation, corruption and financial statement fraud.

Coincident with the passage of SOX, in July 2002, President Bush formed a task force comprised of senior executives from numerous federal agencies for the express purpose of addressing the torrent of corporate fraud cases that surfaced in the wake of the Enron scandal. As the lead agency, the FBI focuses its efforts on cases which involve accounting schemes, self-dealing by corporate executives, and obstruction of justice to conceal illegal activities from criminal and regulatory authorities. According to the 2005 FBI Crimes Report, the majority of corporate fraud cases pursued by the FBI involve accounting schemes designed to deceive investors and Wall Street analysts about the true financial condition of a corporation.

The 2009 FBI Crimes Report details the incidence of fraud more specifically when it states, "While the number of cases involving the falsification of financial information remains relatively stable, the FBI has recently observed a spike in the number of corporate fraud cases involving subprime mortgage lending companies" (p.3). Other areas of increase were noted in securities and commodities fraud which would include Ponzi schemes, foreign exchange frauds, and pyramid schemes.

Both the ACFE surveys and the FBI Crimes reports reveal a continual increase in the amount of reported fraudulent behavior. Although the ACFE surveys suggest that the increase is fraud with dips which may or may not be aligned with overall economic turmoil the overall tendency from 2002 to 2010 is a steady increase in fraud based behavior (Figure 1). The number of fraud cases that the FBI investigated continued to climb from 2005 through 2009 with no evidence of this decreasing as evidenced by the number of cases still pending.



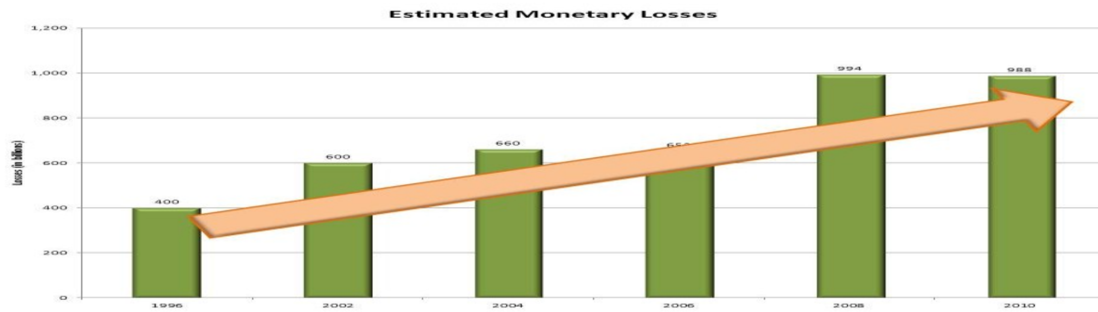
Source: *FBI Crimes Report 2009*

Figure 1. Number of Fraud Cases Pending

Recognizing once again that fraud by nature is a silent (concealed) crime and not easily detected makes it difficult to discover and even more difficult to quantify. Data from the *2004 Report to the Nation* suggest that there is an increase in fraudulent behavior as well as an increase in the amount of financial loss over fraud reported in 2002. This information, supported by other reports such as the study conducted by the COSO Fraudulent Financial Reporting (Beasley et.al, 2010) and the FBI Crimes Reports demonstrate a rising trend in both crimes against the organization and crimes against the individual. In 2002, the estimated loss due to fraud was $600 billion, up from $400 billion in the 2000 study (Figure 2). In the 2004 *Report to the Nation* it was estimated that the average fraud losses were 6% of a typical organization's average income: considering these results the estimated fraud loss was $660 billion. The 2006 *Report to the Nation* survey reports that the average fraud losses dropped to 5% with estimated losses approximating $652 billion. The 2008 (ACFE) report suggested that 7% of annual revenues would be lost amounting to an estimated loss of $994 billion dollars while the *2010 Report to the Nation* suggest that worldwide losses could equal $2.9 trillion and losses within the United States would reach $988 billion.

ANALYSIS & DISCUSSION

As John Kenneth Galbraith commented, "the man who is admired for the ingenuity of his larceny is almost always rediscovering some earlier form of fraud." Fraud, according to Albrecht is "a generic term, and embraces all the multifarious means which human ingenuity can devise, which are resorted to by one individual, to obtain an advantage over another by false representations. No definite and invariable rule can be laid down as a general proposition



Source: *ACFE Report to the Nations 1996 – 2010*

Figure 2. Estimated Monetary Losses

in defining fraud, as it includes surprise, trickery, cunning and unfair ways by which another is cheated. The only boundaries defining it are those which limit human knavery" (Albrecht, Albrecht, Albrecht & Zimbekman, 2009, p. 3).

The root causes of fraud, as defined by the Association of Certified Fraud Examiner's (ACFE) *2009 Fraud Examiner's Manual*, are "opportunity, pressure/incentive and rationalization". In other words, "fraud is more likely to occur when someone has the pressure or incentive to commit the crime, there is a lack of oversight that provides the opportunity for the individual to commit the fraud, and the person can justify or rationalize the behavior" (p. 3). While the ACFE's definition is considered the accepted approach to describing the elements of fraud, Wolfe and Hermanson (2004) introduced a fourth element for consideration dubbing their model the "fraud diamond". New to the model is consideration of the individual's capability: personal traits and abilities that play a major role in whether fraud may actually occur even with the presence of the other three elements" (p. 38). By enhancing the model to include the capability to commit fraud, the authors believe the critical question becomes whether or not the individual is actually capable of turning opportunity into reality.

As fraud, by its very nature, requires concealment, accurate observation is difficult. While frauds share certain characteristics, the motives are as individual as the fraudsters themselves. Although it is often assumed that people commit fraud for personal gain – basic greed – the reality can be more complex.

Motive often develops from financial pressure resulting from a fraudster's excessive life style. As companies cut back on personnel, salaries, benefits, and other perks, the pressure to commit fraud to maintain a lifestyle beyond one's reduced means increases. Adding credibility to this notion of motive, in the ACFE's *Report to the Nation* (2010), behavioral flags displayed by the perpetrators were identified. The most frequently observed warning signs displayed by the fraudsters prior to detection were living beyond their means (43%) and experiencing financial difficulties (36.4%).

Pressure to meet budgets and targets in a struggling economy offers another potential motive. According to a Committee of Sponsoring Organizations of the Treadway Commission (COSO) study on financial statement fraud, "The SEC's most commonly cited motivations for fraud included the need to meet internal or external earnings expectations, an attempt to conceal the company's deteriorating financial condition, the need to increase the stock price, the need to bolster financial performance for pending equity or debt financing, or the desire to increase management compensation based on financial results" (p. 3).

Stakeholders at all levels, from employees to the board of directors, may be induced to falsify data to reach bonus targets and shareholder expectations. Studies have shown that the greater the fraudster's position of trust within the organization, the greater the cost of the fraud. Profiles of fraudsters also show that they are rarely caught after the commission of a single act. Most have engaged in numerous acts of fraud. KPMG, in a study of the profile of 360 fraudsters, found that 91 percent of the perpetrators were involved in multiple fraudulent transactions, and that every third perpetrator acted more than 50 times (2007). This suggests that there may be a growth process in fraud: fraudsters may mature from minor indiscretions to bold and flagrant misstatements.

Opportunity generally arises through weaknesses in internal controls. This creates an environment in which fraudsters believe the risk of detection is minimal. According to a 2010 survey by the ACFE, key fraud-prevention measures can mitigate losses significantly (McCartney, 2011). As profit is a function of the relationship between revenue and expenses, during a downturn in the economy, the focus frequently turns from increasing revenue to cutting expenses. The cost of internal controls may fall victim to cuts as it is not perceived as contributing directly to the bottom line. In addition, layoffs have been pandemic during this period, leaving holes in many organizations' internal control structures. According to a 2010

ACFE survey of CFEs working as internal fraud examiners, 11.9% said their organizations had decreased their spending on preventive controls such as employee support programs, fraud training for employees and managers, and segregation of duties; 6.9% said their organizations had decreased their spending on detective controls including fraud hotlines, internal audit departments, and independent audits (ACFE, 2010b).While these numbers may be encouraging, they involve cuts of some of the most effective controls.

Table 1
Median Loss Based on Presence of Antifraud Controls

Control	% of Cases Implemented	Control in Place	Control Not in Place	Percent Reduction
Hotline	48.6%	$ 100,000	$ 245,000	59.2%
Employee support programs	44.8%	$ 100,000	$ 244,000	59.0%
Surprise audits	28.9%	$ 97,000	$ 200,000	51.5%
Fraud training for employees	39.6%	$ 100,000	$ 200,000	50.0%
Fraud training for managers/executives	41.5%	$ 100,000	$ 200,000	50.0%
Job rotation/mandatory vacation	14.6%	$ 100,000	$ 188,000	46.8%
Code of conduct	69.9%	$ 140,000	$ 262,000	46.6%
Antifraud policy	39.0%	$ 120,000	$ 200,000	40.0%
Management review	53.3%	$ 120,000	$ 200,000	40.0%
External audit of internal control over financial reporting	59.3%	$ 140,000	$ 215,000	34.9%
Internal audit/Fraud examination department	66.4%	$ 145,000	$ 209,000	30.6%
Independent audit committee	53.2%	$ 140,000	$ 200,000	30.0%
Management certification of financial statements	58.9%	$ 150,000	$ 200,000	25.0%
External audit of financial statements	76.1%	$ 150,000	$ 200,000	25.0%
Rewards for whistle-blowers	7.4%	$ 119,000	$ 155,000	23.2%

Source: *ACFE Report to the Nations, 2010*

In a recent study COSO found in their examination of financial statement fraud, that the audit committees and boards of the fraud companies seemed weak. Most audit committees rarely met, and the companies' boards of directors were dominated by insiders and others with significant ties to the company (COSO, 2010). In other words, the overseers were those most likely to be complicit in the fraud. When examining nearly 350 alleged accounting fraud cases investigated by the SEC, the COSO found in 89 percent of the fraud cases, the SEC named the CEO and/or CFO for involvement; within two years of the completion of the SEC investigation, about 20 percent of CEOs/CFOs had been indicted; over 60 percent of those indicted were convicted (COSO, 2010).

Rationalization is another crucial component of the fraud triangle. Rationalization is the self-justification for an illegal act by individuals who generally consider themselves, and are usually perceived by others, as honest and trustworthy. According to criminologist Donald Cressey, since the majority of individuals who commit occupation fraud are not career criminals or sociopaths, they feel a strong need to justify their actions (Hutson, 2010). The most convenient rationalization, of course, is, "The company has plenty. It won't miss this." This rationalization has been used to justify crimes from the pilfering of condiments by fast-food employees to large scale embezzlement.

Another rationalization is, "I was only borrowing the money. I was going to pay it back when things improved." This may even have been the truth when the first act was committed. This person has convinced himself that the current situation is temporary and that they have not actually stolen anything. During a period of economic downturn, the pressure to maintain lifestyle may make this rationalization acceptable to an otherwise ethical person.

The most destructive rationalization, however, is the "I deserve it" or "the company owes me" justification. This rationalization may derive from a gap between an employee's self-perceived importance and their remuneration. During an economic downturn, as workforces are reduced, remaining employees are often asked to do more work without additional compensation, or even at reduced compensation, bonuses, and benefits. Employees who feel they are not being given what they deserve may help themselves to what they are convinced is simply adequate compensation. The eroding morale of employees is evidenced in Deloitte's 2010 Ethics & Workplace Survey which found the economic downturn has diminished employees' trust and loyalty to employers. The survey found that nearly half of employed Americans planning to seek employment when the job market improves cite a loss of trust in their employer because of how decisions were made as the reason for leaving (Deloitte, 2010). In their analysis of Accounting and Auditing Enforcement Releases (AAERs) issued by the SEC in 2008, they found that in 81% of the cases company officers were named (Deloitte, 2011).

While these two studies focused on financial statement fraud, the ACFE conducted a broader study which included data compiled from 1,843 cases of occupational fraud that occurred worldwide between January 2008 and December 2009. While their *2010 Report to the*

Nations on Occupations Fraud and Abuse found fraudsters at all levels of the organization, they discovered that these high-level perpetrators cause the greatest damage to their organizations. The ACFE study reported that 46.2% of the US fraud cases were perpetrated by employees, 36.7% by managers, and only 17.1% by owner/executives; however, the owner/executive perpetrated frauds proved nine times more costly than the employee frauds and three times more costly than the manager frauds. This level of fraud also took much longer to detect (ACFE, 2010a).

A summary of the AFCE results shows the following profile of a perpetrator:

Table 2
Profile of Perpetrator

	Highest Frequency	Most Damage
Gender	Male	Male
Position	Manager	Owner/Executive
Age	36-45	over 60
Tenure	1-5 Years	more than 10 years
Education	College degree	Postgraduate degree
Department	Accounting, Operations, Sales, Executive/Upper Management	Exectuvie/Upper Management, Board of Directors, Legal, Purchasing, Finance

Source: *ACFE Report to the Nations, 2010*

The downturn in the economy has, in many ways, stimulated fraud by providing strong motives, increasing opportunities, and compelling rationalizations; however, in some areas, fraud detection may also increase during a downturn. Is it possible that the frauds we are seeing now actually occurred during periods of prosperity, but were only discovered because of the downturn? Had it not been for the two recessions during the decade, would Enron and Bernie Madoff still be two of the largest frauds in economic history? Several dynamics support this contention. The first is obvious: Ponzi schemes collapse. Ponzi schemes pay out huge returns to investors based not on profits, but on the payments from subsequent investors who are lured in by the historical and projected returns. The perpetuation of these schemes requires ever increasing inflows. During periods of economic prosperity, this is generally not a problem; however, during an economic downturn, inflows slow, or investors attempt to withdraw their money to meet other financial needs, and the schemes collapse.

Another factor that leads to an increase in fraud detection during a downturn in the economy is whistle blowing. According to the 2010 ACFE *Report to the Nation*, more fraud is initially discovered by tips than any other means. In fact, tips account for more than 40% of all fraud discovered; more than management review, internal audit, and external audit combined.

While tips have consistently been a primary source of detection, there is evidence that whistle blowing increases during periods of economic downturn, as the financial incentive to the whistleblower may overcome a conditioned aversion to "snitching." According to U.S. Department of Justice statistics, suites filed pursuant to the False Claims Act (31 U.S.C. §§ 3729-3733) have significantly increased during the most recent recession with recent developments suggesting that the trend may accelerate despite the alleged economic recovery. During 2010, the Securities and Exchange Commission finalized the whistleblower provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under these rules, whistleblowers providing original information resulting in successful enforcement actions of one million dollars or more may receive between 10-30% of the money as a reward. The Dodd-Frank Act also provides significantly greater protection to employee whistleblowers than was previously provided under the Sarbanes-Oxley Act (Finn, n.d.).

Also, a case can be made that in light of so many prosperous years we now tend to be living beyond our means. In a period of economic downturn, conspicuous consumption becomes obvious. This may engender suspicion among both internal and external stakeholders. Increased awareness of financial fraud as a result of the numerous high profile cases of the last decade make this suspicion all the more plausible.

The National Business Ethic Survey results show that in 2003 46% of employees surveyed reported observing misconduct in the workplace that violated company ethical standards (Ethics Resource Center, 2003). In 2005, the percentage rose to 52%, with the 2007 percentage increasing to 56% (Ethics Resource Center, 2005 & 2007). Finally, in 2009, there was a decrease to 49%. With this information in mind only 22% said that the recession negatively impacted the ethical culture within their specific company. Other NBES statistics show 14% of the workforce in 2004 felt pressure to commit misconduct, a number of which decreased to 9% in 2009.

The Ethics Resource Center (ERC) states, "Overall, 78 percent of those interviewed this year (2009) said they or a colleague had been affected by company efforts to weather the U.S. recession". Yet surprisingly, most of ERC's key measures improved:

- Misconduct at work is down. Fewer employees said they had witnessed misconduct on the job; the measure fell from 56 percent in 2007 to 49 percent in 2009
- Whistle-blowing is up. More employees said they had reported misconduct when they observed it; 63 percent in 2009, up from 58 percent in 2007
- Ethical cultures are stronger**.** ERC's measures of the strength of ethical culture in the workplace increased from 53 percent in 2007 to 62 percent this year – a positive sign
- Pressure to cut corners is lower**.** And overall, perceived pressure to commit an ethics violation – to cut corners, or worse – declined from 10 percent two years ago to 8 percent. (2009, p. 1)

The ERC contends**,** "This pattern has occurred before. During another period of economic anxiety and dislocation – from 2000 to 2003 – NBES data showed that ethics measures similarly had improved. This happened despite the sudden end of the "dot com bubble" in Internet-based companies' stock, the events of 9/11 and a string of corporate scandals, not the least of which was Enron. A possible explanation is that during hard times, when a company's well-being or even existence may be on the line and regulators are watching, management talks more about the importance of high standards to see the organization through the crisis. It may also be that some are less inclined to commit misconduct when management is on high alert" (Ethics Resource Center, 2009). They conclude, "The positive results of this study are likely to be temporary. We are beginning to see an important connection between workplace ethics and the larger economic and business cycle: when times are tough, ethics improve. When business thrives and regulatory intervention remains at status quo, ethics erode. We can expect this pattern to continue."

The ACFE Occupational Fraud statistics state that the biggest factor contributing to an increase in fraud is increased pressure (49.1%), increased opportunity (27.1%) and increased rationalization (23.7%). But when you compare this information to the National Business Ethic Survey the statistics show that during times of economic downturn these measures are improved.

Pressure decreases, opportunities within organizations decrease due to an increase in control measures and whistle blowing and, with the increase in ethical culture, rationalization decreases.

An interesting note is that much of our time line suggests that the recession officially ended in 2009 and this report would suggest that with the ending of the recession the rise in fraudulent behavior began to increase. The ACFE *Report on Occupational Fraud* (2010b) states that from early 2008-2009, 37.1% of the survey respondents said there was a slight increase in the number of frauds, 28.8% responded that there were approximately the same number of frauds and 18.1% said there was a significant increase in frauds.

As far as dollar amounts 28.8% of the respondents said that the dollar losses of fraud remained the same, 27.2% said there was a slight increase and 21.7% said there was a significant increase the balance of the respondents, 5.9%, would state that there was a decrease in observed change in dollar losses during the year (ACFE, 2010b).

LIMITATIONS

Acknowledging once again that fraud by nature is a silent (concealed) crime and not easily detected makes it difficult to discover and even more difficult to quantify. It is conceded, therefore, that the findings related to fraud only include a fraction of the actual cases and may not be representative of the whole as these only represent the fraudsters who were caught.

We were also limited in that our study only included reporting the findings of others. There are many opportunities for future research in the areas of organizational behavior and corporate culture. Better understanding of the psyche of the fraudster may provide tools for better detection; understanding the motives and rationalizations of the fraudster may supply the inputs necessary for better prevention measures. From an entity standpoint, insights into not just the internal control environment, but the organizational culture, may provide clues as to what allows, or perhaps even encourages, the individual to engage in fraudulent activity.

CONCLUSION

After studying data compiled by the major stakeholders in the fraud arena, the conclusion to be drawn is while the current US economy may be in a state of instability, there is no correlation between it and the increasing losses due to fraud. As Adam Smith wrote, "there's little doubt we're in a boom time for scams" (2009, p. 1). Coupled with information retrieved from the ACFE (2010b), it appears fraud cases have grown due to increasing financial pressures being felt by employees. However, employees do not shoulder the burden alone. As organizations feel the pain of a slumping economy it is easy to tighten the budgetary belt by doing away with previously implemented internal controls. This digression lends itself to a reasonable conclusion that when controls are stronger and people are more aware, fraudulent behavior decreases but once controls are removed or the awareness is decreased the behavior begins to rise.

Coenen argues, “The incidence of fraud in bad economic times might not really be higher overall than during times of prosperity” (2011, p. 37). Is it that as the economy turns downward companies lose the ability to manage revenues and therefore begin to focus on cutting expenses? Could this focus on decreasing expenses create a greater need to monitor financial behavior ultimately leading to an increase in fraud detection? Could it be that we merely think that there is a relationship between a downturn in the economy and an increase in fraud because of the focus placed on the sensational, negative stories played out in the popular press? Or, could it be that fraud monitoring tools are more effective at detecting the crimes and the rate of frauds being perpetrated is not on the rise but rather the number being detected is? Or, is it the case that as organizations feel the pain of shrinking profits, the impetus to prosecute fraud is greater?

The authors believe the ultimate question is, “Does it matter?” As fraud cases increase, companies need to remember to be diligent in their monitoring at all times. Strong internal controls and a well educated workforce go a long way toward maintaining the integrity of company resources. Every organization needs fraud prevention policies and procedures but, to date, there has not been tremendous focus on implementation of controls that directly address these risks. The prevalence of fraud in the workplace is real. Whether we are operating in good economic times or bad, we cannot take our eye off the possibility it is going to happen in our organization.

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Peruvian Small Business Owners and Entrepreneurs: Why Are They Creating Businesses and What Obstacles Are They Facing?

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Small business is a major economic driver for nations throughout the world. Free enterprise is challenging in any nation, but especially in countries that were ruled by dictatorships, such as Peru. Even today, Peruvian entrepreneurs struggle with obtaining operating licenses or permits for new businesses and face tremendous bureaucracy or corruption from the SUNAT (tax administration) and government. The purpose of this study is to examine free enterprise in Peru; exploring the challenges or obstacles business owners face in their country. Specifically, the study investigates 101 Peruvian entrepreneurs; identifying commonalities in start-up funding, motivation behind starting a business and similarities that venture owners experience in the nation. The intent is to gain clarity in how Peruvian entrepreneurs and business owners operate in their country. Results from the study indicate that the majority of Peruvian business owners rely on debt slightly more than equity funding to finance their ventures. In addition, Peruvian entrepreneurs establish businesses predominately for financial independence, as opposed to personal freedom. Entrepreneurs in Peru tend to bootstrap their nascent firms and borrow money from banks rather than use credit cards or friends or family. Lastly, they tend to provide services, rather than create, develop and sell new innovative products. To conclude, the paper highlights similarities and differences between business owners in America and other nations similar to Peru.

INTRODUCTION

Small business and entrepreneurship are chief drivers and key in developing an economy throughout the world. It is present in every industry and varies in size from a micro venture, to medium and large enterprises. Nations tend to emphasize the necessity of new venture creation because they generate economic opulence that sustains the country for generations (Azizi, Hosseini, Hosseini and Mirdamadi, 2010).

Over the years, small business has gained significant interest from an education perspective and research standpoint because it occurs on a global scale (Williams, 1983). In fact, a vast amount of research is dedicated to examining new venture behavior to uncover its economic impact in various regions throughout the world (Lussier *et al*., 2009; Sonfield and Lussier, 2009). Some of the most noteworthy reasons to study new venture creation is to discover what motivates individuals to go into business for themselves, to examine the numerous problems, challenges and benefits that business owners experience and to reveal the differences or similarities among nations as far as entrepreneurship and business are concerned (Radojevich-Kelley, 2011).

With this in mind, Peruvian business owners were selected for the purpose of this study. The study explores free enterprise in Peru because very little is known about Peruvian business owners from an American perspective. It is important to note that free enterprise is a relatively novel phenomenon for Peruvian citizens because historically the government hampered entrepreneurial efforts. For decade's communism and democracy repeatedly switched places depending on the elected leader in power (www.worldbank.org). Due to this, Peruvian citizens faced extended periods of repression, incarceration, and execution; resulting in tremendous fear that stifled the nation and society at large (http://www.presidencia.gob.pe/). This in turn, oppressed innovation and muted creativity among the Peruvian culture from an entrepreneurial perspective.

Massive economic reforms and privatization occurred during the early 1990's. Peru took positive measures by developing small enterprise programs that specifically targeted entrepreneurs and moved the country towards an individualistic approach for business (Sahley, 1995). In early 2001, free trade was promoted to try and capture foreign investment throughout the nation (www.export.gov). Throughout the years Peru's economic expansion improved; however, significant obstacles remain today (Orthmans, 2011). Even with a newly inaugurated government, the population must learn to trust and find confidence in a free market economy that has long been corrupted and choked.

It is for this reason, that the author examined private enterprise; thus identifying commonalities in funding, motivation, obstacles and problems that Peruvian business owner's face when conducting or creating business. The hope is to learn what it is like to own, operate and create a business in Peru. Questions addressed in this study are as follows: 1) How do entrepreneurs in Peru fund their new businesses? 2) Are start-ups in Peru product driven or service oriented? 3) Why do Peruvians create new business ventures? 4) What specific challenges or problems do Peruvian business owners face? 5) Are Peru's businesses similar to American SMEs? This study is important because it allows investors and individuals to grasp the nature of small business in Peru, how they operate; along with clarifying problems associated with running a business in the economy. The hope is to recognize the impact of business ventures in Peru compared to other countries.

For the purpose of this study, entrepreneurship is defined as the pursuit of opportunity beyond the resources that a business owner currently controls (Stevenson and Jarillo, 1990; Roberts *et al*., 2007).

LITERATURE REVIEW

Motivation To Become An Entrepreneur Historically, the most common sited reason for becoming an entrepreneur is for personal freedom and autonomy (Allen, 2009). Most entrepreneurs enjoy the freedom of pursuing their own passions, being their own boss and have an inherent personal longing to create a business (Barringer and Ireland, 2010). Another motivation for entrepreneurship is to pursue personal ideas (Barringer and Ireland, 2010) and for the pure joy of creating something that interests them (Shane, 1993). According to Barringer and Ireland (2010), citizens become entrepreneurs because they yearn to control their own destiny, desire greater prosperity, and are comfortable with taking risks in the hope of gaining rewards.

Common Methods of Funding Throughout the years, it is increasingly difficult to obtain venture funding for most businesses (De Lorenzo & Shah, 2007). Historically, the most traditional methods for funding are bootstrapping, angel investing, family or friends, venture capital and debt funding with bank loans and credit cards. These traditional methods provide necessary capital and resources for businesses to grow, and expand.

Unfortunately and most recently, there has been a contraction in the capital market, making it nearly impossible to access funds as a small business owner because of the Great Recession of 2008 (Weitekamp & Pruitt, 2009). Key challenges that business owners face today are with expansion, hiring more employees, and trying to compete globally. This is simply because business owners cannot obtain necessary funds from banks due to a lack of collateral, and they tend to lack marketing and general management skills that are crucial for success (De Lorenzo & Shah, 2007).

In fact, a 2005 report conducted by Brookings Institute found that small, medium enterprises (SME's) faced major obstacles and problems due to poor returns on investment, bankruptcies and from a lack of loan program usage (Brainard & LaFleur, 2005). Situations such as these cause the majority of banks and investors to steer away from SME's and focus on more established, larger and less risky businesses (Brainard & LaFleur, 2005).

In developed nations, it is often problematical for business owners to obtain bank loans or secure capital from outside investors due to deficient experience and overall team inexperience

(Rudra, 2005; Burnsed, 2008). In a transitioning economy such as Peru, traditional methods of funding were limited historically because of government control and restricted access, which created barriers for start-ups in the nation.

From a global perspective, there is heightened concern that many world economies have reduced resources. Limited financial resources stifle new venture creation and growth because businesses can't obtain necessary capital to start or expand their ventures (Rudra, 2005; Brainard and LaFleur, 2005).

PERU COUNTRY HISTORY

According to World Bank Data (2010), Peru has a population size of 29.1 million people, a GNI per capita income of nearly $ 4,700, an unemployment rate of 6.8% and a GDP of almost $ 158.85 billion. Unfortunately, nearly 1/3 of the population is at official national poverty levels at 31% impoverished (www.doingbusiness.org). However, it is important to note that here has been a 13% reduction in poverty from 44.5% in 2006 to 31.3% in 2010 (World Bank Data, 2010).

According to the International Trade Administration, the economy in Peru performs better than its regional neighbors with a 9% growth rate for the economy in 2008 (www.export.gov). In 2009, the USA and Peru signed a free trade agreement that opened up trade between the two nations called the US-Peru Free Trade Agreement. As a result of the free trade negotiation, Peru is the 35 largest export market for America (www.export.gov). The major trading partners for Peru are USA, Japan, the European Union, Canada, Switzerland and China (www.worldbank.org). In addition to its strong ties with America, Peru is negotiating trade agreements with Canada, China, Australia, the EU, and Singapore (www.worldbank.org).

Mining and petroleum are major attractions for Peru exports, accounting for nearly 60% of Peruvian exports to USA (www.worldbank.org). Their major exports are petroleum. gold, copper, textiles, limited agriculture and apparel, while major imports include equipment, plastic, cars, electronics, some food and steel (www.export.gov). As of 2008, the USA imported nearly $ 6 billion of Peruvian goods ranging from minerals to petrol, apparel, and agricultural items (www.worldbank.org). The International Monetary Fund World Economic Outlook Database, 2010 indicates that Peru has shown significant progress in growth across all sectors of the economy thanks to structural reforms and free trade agreements. However, Peru is still plagued by high poverty, malnutrition and massive social inequalities (www.imf.org). In some parts of

Peru, poverty reaches 60% of the population in rural areas, but on average over one third of the entire population lives below the official poverty line which makes entrepreneurship difficult (www.imf.org).

Table 1: Country data (Peru, Surrounding South America Areas and USA) (estimates)

Country	Population (Million) (The World Bank, 2008)	Gross domestic product (Current US$) (The World Bank, 2009)	GNI PPP (per Capita) (Current US$) (The World Bank, 2009)	GNI Per Capita (The World Bank, 2000)
Peru	28.8	$ 126,923.1	$ 8,420	$ 4,780
Brazil	193.2	$ 1,594,489.7	$ 10,104	$ 6,820
Chile	17.0	$ 160,859.3	$ 13,270	$ 8,900
Argentina	40.1	$ 307,081.8	$ 14,100	$ 8,870
Colombia	45.7	$ 235,836.6	$ 8,680	$ 5,730
USA	307.0	$14,043,900.0	$ 45,640	$ 35,690

The World Bank http://data.worldbank.org/indicator/NY.GDP.MKTP.CD The World Bank Group http://search.worldbank.org/data?qterm=Argentina&language=EN&format=html

MATERIALS AND METHODS

Research design The research design was quantitative survey research. The data was collectedusing an instrument utilized during a previously published study by the current author (Radojevich-Kelley, 2011). The questionnaire was initially created in English, translated into Spanish, pre-tested and translated back into English for accuracy. A total of two individuals from Peru took the pre-test survey which resulted in adjustments made to various questions and to the instruction page on the scale. The survey instrument was dispersed with an attached cover letter and instructions to help respondents understand the intent of the study. The hope was to obtain descriptive and general information about entrepreneurs and business owners in Peru.

Sample For this study, Peru was chosen as the nation for data collection. The data was collected in Cusco, Peru. The sample included Peruvian businesses that filled out the survey instrument either in person, or electronically. The survey was hand-delivered or electronically dispersed to participants throughout the study. The sample was a random, convenience sample. There were a total of 125 emailed or hand-delivered surveys delivered to target business participants, resulting in 101 useable questionnaires. The response rate was 80.8%. According to Dennis (2003), the response rate is suitable for the sample size and exceeds the response rate averages and standards. In fact, approximately one third of all studies published in top business journals have response rates of 25% or less (Dennis, 2003).

Measures and analysis The survey instrument is a combination of open ended and close-ended questions. The close-ended questions asked participants to choose from pre-existing multiple choice questions and dichotomous answers. Open-ended questions asked participants to elaborate on answers. Survey participants were encouraged to expand their thoughts, opinions and answers to help the researcher understand the responses better. Descriptive statistics were calculated and reported.

RESULTS

Descriptive statistics As apparent in Table 2, the vast majority of the sample businesses or 93% of the businesses were formed between the years 1990 and 2011. As indicated in the table, a small percentage of new businesses were created prior to 1990. See Table 2 for a summary of descriptive statistics.

Table 2: Descriptive Statistics- Greatest Entrepreneurial Activity

Decade/ year of business inception-date	Sample (N = 101)	Percentage (%)
1980-1989	6	5.94
1990-1999	25	24.75
2000-2009	60	59.4
2010-2019…	9-so far	8.9
Skipped	1	

Equity versus debt results Results from Table 3 signify that the majority of Peruvian businesses are service based at 78%, rather than product producing at nearly 28%. Nearly 40% of the businesses studied use equity funding to finance their ventures over the past five years, compared to 65% that used debt funding. Debt funding was in the form of bank loans or credit cards. According to the sample, nearly half (49.5%) of Peruvian business owners used bank loans, while 39.4% utilized bootstrapping methods to fund their businesses in the past 5 years.

Table 3: Funding Results (Close-ended questions)

Variable	n/% (N= 101)
Product producing business	28/28%
Service oriented	72/72%
Skipped Question	1/1%
Financing in last 5 years	
Debt	64/64%%
Equity	36/36%
Skipped Question	1/1%
Funding in last 5 years	
Bank Loan	49.5/49%
Borrow from family	7.1/8%%
Borrow from friends	1/1%
Credit card	2/2%
Personal resources	39.4/39%
Other equity (Micro lending)	1/1%
Skipped question	1/1%
Funding at start-up	
Bank loan	49/49%
Borrow from family	8/8%
Borrow from friends	0/0%
Credit card	1/1%
Personal resources	40/ 40%
Other equity (Micro lending)	2/2%
Skipped question	1/1%

Interestingly enough, at inception the majority of Peru entrepreneurs used personal resources (40%) and obtained bank loans (49%), compared to borrowing from family (8%) or using credit cards (1%) to begin their businesses. In other words, at start-up the vast majority of entrepreneurs in Peru utilize debt financing (64%) in the form of bank loans, loans from friends and family or credit cards to finance their ventures, compared to equity funding (36%) at start up. In addition, as their ventures grow and expand, the majority of business owners continue to rely on bank loans (49.5%) and personal bootstrapping methods (39.5%) compared to other methods of funding to grow their ventures. As evident from the data, Peruvian entrepreneurs rely on personal savings and bank loans to begin their ventures. This in turn requires a healthy financial sector and considerable liquidity throughout the economy to guarantee that entrepreneurs will prosper in the nation. See Table 3 for a summary.

Motivation for starting a business According to the results in the study, nearly 58% of Peruvian respondents cited that their primary motivation for going into business was for financial independence, while realizing their dreams and personal independence ranked lowest (21% each). Nearly 92% of respondents said they would establish their business again if they could, while 8% thought that owning a venture was not worthwhile. See Table 4 for a summary.

Table 4: Motivation for starting a venture

Variable	n/% (N = 101)
Motivation for creating business	
Financial independence	57/57.6%
Personal freedom	21/21.2%
Create/realize your own idea	21/21.2%
Skipped	2
Would you do it again?	
Yes	89/91.8%
No	8/8.2%
Skipped question	4

Ownership structure results As evident in Table 5, nearly half of the businesses surveyed in Peru are classified as sole proprietorships at 53%, while 16% were classified as limited liability corporations and 12% were partnerships. See Table 5 for a summary.

Benefit and value of owning a business According to participants in the study, the majority of the sample finds that owning a business and becoming an entrepreneur is worthwhile and a good career choice, at nearly 97%. More than half of respondents cited that the single greatest benefit from owning their own business is financial prosperity, having higher discretionary income, being able to support their families and achieving basic financial/ economic freedom (57.4%). Personal independence and having the ability to set your own hours, days of the week and not having a boss tell you what to do ranked second as the greatest benefits of owning a venture at nearly 34%, while satisfaction and the pleasure of realizing one's own dream rated third at nearly 9%. See Table 6 for a summary.

Table 5: Ownership Structure Results

Variable	n/%(N=101)
Ownership structure	
Sole proprietorship	52/53.1%
Partnership	12/12.2%
Limited Liability Corp	16/16.3%
Other corporations	18/18.4%
Skipped	3

Table 6: Value of owning a venture (open ended survey questions)

Open ended questions/ categories built from commonalties Is it worth having your own business?	Total N= 101 n/ %
Yes	89/91.8%
No	8/8.2%
Skipped	4
Benefits of being in business for Yourself?	
Satisfaction and pleasure of realizing your dream	9/ 8.9%
Personal freedom / independence to make own choices	34/33.6%
Financial Gain/financial prosperity	58/57.4%

Easiest part of starting a business in Peru According to the study, the easiest thing about starting a business in Cusco is finding the location (26.7%), making the products/services (23.7%) and hiring the people (10.8%). See Table 7 for a summary.

Challenges and obstacles with owning a business in Peru More than a quarter of the respondents reported that the greatest obstacle with running a business in Cusco is poor government administration, and large bureaucracy. Nearly a quarter of Peruvian business owners cited that excessive permit delays were major challenges for business owners, along with obtaining start-up funding.

Table 7: Easiest part of starting a venture on Peru

Variables	n/%(Total N= 101)
Easiest thing about starting a business in Peru?	
Finding Location	27/26.7%
Getting Supplies/creating product or service	24/23.7%
Hiring People	11/10.8%
Filing our paperwork to create business	4/3.9%
Getting Clients/finding work/first sale	10/9.9%
Getting Funding/Using Funding	6/5.9%
Nothing everything was hard	14/13.8%
Other	5/4.9%

In addition, dealing with competition was another problem to overcome when beginning a business at 18%. Nearly 16 percent of business owners felt that there were no major obstacles for starting a venture in Cusco. See Table 8 for more details.

Table 8: Obstacles and challenges of owning a business in Peru

Variables	n/%(Total N= 101)
Biggest obstacles and challenges with starting a business in Peru?	
Bureaucracy/ SUNAT government permission	27/26.7%%
Administration/ Excessive Permit Delays	7/6.9%
Funding/lack of capital	17/16.8%
Finding right workers	2/1.9%
Competition	18/17.8%
Finding market	4/3.9%
Finding location	7/6.9%
Taxes	3/2.9%
Other	16/15.8%

Comparing USA to Peru According to the World Bank Report (2010), for every 1000 Peruvian residents between the ages of 15-64, approximately 2.65 citizens in the population opened up a business in 2009. In other words, a little less than half a percent (.26%) of the population became business owners in 2009, compared to 2.71 % in 2008. In the USA, approximately 7.69% of the population started a business in 2009 or 1 in 13 people in the population. See Table 9 for a breakdown.

Table 9: Comparison Analysis (Number of people in Population who have a business or will start a business)

Country	Percent of Population who start a business	What does this mean?
USA	7.69%	1 in every 13 people in the USA are business owners
Peru	.265%	2.65 in every 1000 people in Peru own a business

Population size divided by the number of businesses in the country (Reference: World Bank Report 2010)

According to a recent Global Entrepreneurship Monitor (GEM) dataset (2010), almost 6% of the Peruvians surveyed were new venture owners and had paid a salary/wages to the owners of the business for three months or more. In addition, Global Entrepreneurship Monitor (GEM) Report (2009) found that of those Peruvians surveyed, most entrepreneurs were compelled to create new ventures and new businesses due to necessity (Bosma and Levie, 2009). Nearly 60% of the participants in the GEM study felt that there were positive opportunities for entrepreneurs in Peru (Bosma and Levie, 2009), while nearly 40% reported that they would actively attempt to become entrepreneurs in the next 3 years, compared to 7% of USA participants (www.gemconsortium.org, 2010). It is expected that as government reforms continue throughout Peru, funding will be more readily available allowing more of the population to become entrepreneurs and pursue opportunities.

DISCUSSION

More than a quarter (26.7%) of business owners state that the greatest obstacles they face with owning a business in Peru is bureaucracy and excessive government administration. According to participants the government bureaucracy and administration, taxes by government, excessive permit paperwork, delays of permits and slow approval by government entities are major obstacles and sources of frustration for business owners in Peru. The findings from this study supports the World Bank's Doing Business Report (2012) findings which established Peru as one hundred and one ranked out of one hundred eighty three nations when it comes to dealing with construction permits and obtaining permits in general, eighty-fifth when it comes to paying taxes, the overall tax rate and ease of paying taxes and one hundred and eleventh for enforcement of contracts. Overall, Peru ranked number forty first for ease of doing business out of one hundred and eighty three countries. Both the findings from the World Bank Doing Business

Report (2012) and this study confirm that permit issues, taxes, governmental enforcement and bureaucracy hamper entrepreneurial efforts.

Other reported obstacles for business owners are increased competition from other similar businesses (17.8%), the lack of monetary support (16.8%), or an incapability to obtain funding in Peru seems to make starting a business difficult. However, it is important to note that the World Bank Doing Business (2012) report found that Peru ranked twenty forth out of one hundred and eighty three nations for ease of obtaining credit. The findings from this study contradict the World Bank Report (2012) rankings because many participants (16.8%) in this study found that obtaining bank loans and gaining monetary support was a major obstacle for them.

In addition to the above, over half or 57.6% of Peruvian entrepreneurs created ventures to gain personal wealth and economic prosperity, nearly a quarter (21%) created a business to gain personal freedom, while 21% of business owners became entrepreneurs for the pure pleasure of pursuing their ideas. This supports GEM findings that report nearly 50% of their participants were driven by the opportunity and to increase their personal freedom and personal wealth (www.gemconsortium.org, 2010).

The vast majority of participants in this study believe that owning a business is worthwhile and valuable at approximately 97%. The Global Entrepreneurship Monitor datasets support this finding at 82% who believe that entrepreneurship is a worthwhile career ((www.gemconsortium.org, 2010).

According to the results of this study, the most common method of funding start-ups in Peru is through bank loans (49%) and through personal resources (40%). This data supports the belief that financial institutions play an enormous role in entrepreneurial development in the nation and Peru should continue their new commitment to help entrepreneurs. Without proper funding, the majority of entrepreneurs will be unable to begin businesses to pursue their dreams or must rely on personal savings or alternative sources to fund their ventures. Furthermore, it is evident that the Peruvian culture encourages debt funding with 64% of the businesses utilizing it compared to equity funding. In this study, debt funding was in the form of bank loans, friends and family, credit card debt and micro lending. However, it was interesting that less than 1% of those surveyed used credit card debt to start their businesses, even though credit cards are supposedly readily available in Peru. Like Americans, Peruvians tend to save their money, use personal savings (40%) and bootstrap their nascent ventures. However, Americans tend to rely heavier on credit cards as far as debt funding, compared to Peruvians.

The significance of this study is to add to the body of knowledge on Peruvian entrepreneurs in the hope of understanding who they are, what motivates them, the challenges they face when starting businesses and how they find capital to fund their ventures. Since little is known about entrepreneurs in Peru any investigations can help researchers, investors and future business owners realize what business ventures are like in the country.

In the future, the findings of this study may be used to compare other nations similar to Peru in the hope of discovering commonalities and differences between countries throughout the world. This could help researchers understand how entrepreneurs perform globally, who they are, problems they face, and discover variances and similarities among countries.

LIMITATIONS

The study is limited to Peruvian business owners in Cusco. A greater sample size is suggested to confirm current results and allow for broader, larger generalizations. Results should not be interpreted and generalized to the entire population of business owners in Peru as the sample size is small.

CONCLUSION

According to this study and in contrast to the USA, Peruvian entrepreneurs create ventures primarily for financial prosperity and for monetary rewards, while Americans tend to primarily create businesses for personal freedom (Allen, 2009; Burch, 1986; Barringer and Ireland, 2010). Peruvians fund their start-ups mainly with personal resources or bootstrapping and through bank loans. Peruvian business owners fund their start-ups predominantly through debt.

Peruvian business owners explained that their greatest challenges are with administrative issues associated with the government, delayed and cumbersome permit approvals, increased competition and lack of ability to get funding. Similar to Peru, the USA seems to be facing some of these same obstacles, such as increased competition and lack of ability to get funding. This is especially true since the onset of the Great Recession of 2008 in America.

According to the World Bank Doing Business 2012 Report, the USA is ranked forth out of one hundred and eighty three in the world for ease of doing business, thirteenth in the world for starting a business, sixteenth in the world for registering property and fourth in the world for ease of obtaining credit (World Bank Doing Business, 2012). Peru is ranked forty-one in the world out of one hundred and eighty three for ease of doing business, fifty-fifth for starting a business, twenty second for registering property and twenty forth for obtaining credit (World Bank Doing Business, 2012).

In this study, participants cited that uncertainty about how to compete, difficulty obtaining money, and dealing with the SUNAT pose the greatest challenges to business owners and their future. They believe that entrepreneurship is worthwhile. This supports GEM (2009) findings as far as perceived opportunities (Bosma and Levie, 2009). According to the 2009 GEM Global Entrepreneurship Monitor Report, Peruvian citizens believe there is high media attention paid to entrepreneurs, that entrepreneurs have a high status and recognition among citizens, and that it is a worthwhile career track (Bosma and Levie, 2009). They have a moderate to high perception of opportunity for entrepreneurship in their nation, high perceived capability for entrepreneurship and a low fear of failure (Bosma and Levie, 2009). In support of these findings, this research study discovered that approximately 92% of respondents felt that owning their own business was a worthy endeavor.

It is important to note that there are a limited number of prior studies conducted in Peru, especially focusing on funding ventures, perceived benefits of venture creation and problems associated with being a business owner. More research is needed to fully understand entrepreneurship in the economy and a larger sample size is recommended. As entrepreneurship expands throughout Peru, business owners will have greater impact on their local economy and on many other economies throughout South and North America. Hopefully, an increase in entrepreneurial activity will bring more wealth to the Peru, which in turn will decrease the overall inequality among segment of the society, decrease malnutrition and poverty and increase the educational demands among the citizens of the nation.

Future research should focus on the cultural aspects of the society to see if attitudes aid or hinder participation in small business. In addition, studies examining infrastructure, malnutrition, extreme poverty and tourism should be examined from a new venture creation perspective. Women and entrepreneurship in Peru would be beneficial to study, with specific questions trying to identify problems or obstacles they face. A comparison between business owners in Cusco and Lima might be interesting to see where similarities and differences exist. Lastly, cross-country comparisons would be interesting and beneficial for researchers, business owners and foreign investors to uncover similarities and variances among member nations.

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Qualitative Comparative Analysis Complements Quantitative Statistics: A Study of the Effect of an MBA Intervention on Entrepreneurial Orientation

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Research using quantitative methods often produces non-significant results due to a lack of statistical power stemming from a less than adequate sample size. This study addresses how a relatively new qualitative comparative analysis (QCA) method may be used to expose meaningful relationships between causal variables and a dependent outcome variable. This study uses as its baseline for analysis a 2009 quantitative study of the effect of an MBA program intervention on the attitudinal construct entrepreneurial orientation as psychometrically measured from a survey of 71 participants in an AACSB-accredited MBA program conducted in Vietnam. The hypotheses in the baseline study could not be rejected due to lack of significance thereby limiting that study's contribution to the body of knowledge related to entrepreneurship and education. This study, based on the use of the qualitative comparative analysis method, offers insight into the question of why the baseline study failed to achieve significant results and further how the MBA program affected the entrepreneurial orientation of various subsets of participants.

INTRODUCTION

Peer Fiss (2011) argues that Ragin's qualitative comparative analysis (QCA) methodology (Ragin, 2008a) can be used to build better causal theories. Ragin originated QCA in the 1980's complimenting the efforts of other social scientists (Glaser & Strauss, 1967; Strauss & Corbin, 1998) to develop experimentally acceptable methods for analyzing small numbers of cases.

QCA, a set theoretic approach to analyzing similarities and differences between cases, originate as the crisp-set method (CsQCA) wherein case-related cause and outcome variables were dichotomously coded to reflect a case's presence as being fully in or fully out of intersecting cause/outcome case solution sets. The CsQCA methodology was improved upon to include fuzzy-set and multi-value analysis functionality (FsQCA and MvQCA respectively). While QCA has been used by social scientists since the 1980s the more refined FsQCA and MvQCA variants along with enabling computer software tools (Cronqvist, 2007; Fiss, 2008) began to find expanded application by business scientist in the last ten years (Herrmann & Cronqvist, 2007; Marx, 2010).

The purpose of this paper is to describe the use of the QCA method to extend the results found in an earlier quantitative correlational study (Lins, 2009) of the effect of an executive MBA education on the entrepreneurial orientation (EO) of a convenience sample of executives in

Vietnam. The referenced study did not show significant results at the hypothesis-based construct level (EO or its subconstructs of innovation, risk-taking, proactiveness) with a sample size of N=71. However, an item-level analysis (t-tests) did show significant variations between participant sub-groups.

The remainder of this paper is divided into six sections beginning with a brief overview of the QCA method and the EO construct used in the baseline study, followed by a description of the original study and the method used in this study to re-evaluate results. The paper concludes with a presentation of QCA-based results and a discussion of the benefits, and implications of utilizing the QCA methodology.

QUALITATIVE COMPARATIVE ANALYSIS

Qualitative comparative analysis (QCA) is set-theoretic methodology for analyzing configurational differences and similarities between small (generally less than 100) numbers of cases. The QCA method contrasts to statistical methods that rely on correlations of mean values in variables. The use of set theoretic enables the examination of what would be considered statistically as outlier or aberrant data. Such data may be present in only a few cases but these cases may indicate an alternate or additional cause of a selected outcome.

The QCA method starts with the building of a truth table for the cases to be analyzed. The rows of the table represent the cases and the columns of the table are the values of the a-priori postulated causal variables. The outcome variable to be investigated is added as the final column of the truth table. In crisp-set QCA (CsQCA) the values for all variables and the outcome must be dichotomous. The truth table will have as many rows as there are combinations of the variables, N (i.e. 2 to the N power). The actual case data when added to the truth table will generally occupy a small percentage of the total available rows (variable combinations) indicating a lack of diversity in the data. For QCA purposes, empty rows are called "remainders".

A truth table may be visually inspected in an analysis of a small number of variables to determine what combination of variables leads to the desired outcome. The number of cases represented by a row, or combination of rows (a solution set) as compared to all solution rows pointing to the desired outcome reflects the "coverage" of that solution path. The number of cases in a row having a desired outcome as compared to the number of reflected cases not having that outcome provides a measure of the "consistency" for the specific solution row.

As the number of variables increases one's ability to visually analyze a truth table solution decreases and the QCA method utilizes a "Boolean" reduction of the row data to not only eliminate remainders, but to also reduce conflicting data and itemize solutions in an algebraic manner. Depending on assumptions made during the reduction process, solutions range from "complex" (each solution set itemized) to intermediate (a reduced truth table solution) to "parsimonious" (the most common solution, the overarching set of solutions produced after making assumptions about conflicted rows using counterfactual reasoning).

Two software programs were used to facilitate the QC analysis in this study, Ragin's Fuzzy set QCA (2008b) and Cronqvist's Tosmana (2007). Both programs capture row/column data matrices to build a truth table. Both programs allow for the Boolean reduction of the truth table to find complex, intermediate, and parsimonious solutions. However, Cronqvist offers a graphic depiction of solution set output that allows one to better envision solutions, while Ragin offers consistency and coverage metrics that enable one to comment quntitatively on the quality of the various solutions.

ENTREPRENEURIAL ORIENTATION

Entrepreneurial orientation (EO) is a construct that was developed by academics (Covin, Green, & Slevin, 2006; Kreiser, Marino, & Weaver, 2002; Lumpkin & Dess, 1996) to indicate an individual's propensity to behave in a manner that is thought to be conducive to the development of small businesses. EO is a mindset that values risk-taking, proactiveness, and innovation (Krueger, 2006). A high EO has been correlated with entrepreneurial intention (Barbosa, Gerhardt, & Kickul, 2007) and entrepreneurial behavior/performance (Benzing, Chu, & Callanan, 2005). Several studies (Gaddam, 2008; Krauss, Frese, Friedrich, & Unger, 2005) have found that EO explained up to 51% of the variance in firm performance.

However, mixed results have been found in academic studies related to the effectiveness of education on increasing values of the EO construct (Hemmasi & Hoelscher, 2005; Sarasvathy, 2005; Wilson, Kickul, & Marlino, 2007). Moreover, some academics have even argued that the MBA education with its focus on analytics will suppress EO (Mintzberg, 2005; Sarasvathy, 2005). There is an apparent gap in the knowledge related to education and its impact upon EO.

A QUANTITATIVE TEST OF AN EXECUTIVE MBA ON EO

This study uses as a baseline a quantitative, correlational study of a population of 353 applicants, students, and graduates of an executive MBA program conducted by an American, AACSB accredited University on-site in Hanoi and Ho Chi Minh City, Vietnam in 2009. The purpose of the study was to investigate the impact of the educational intervention on the entrepreneurial orientation of graduates of the program (Lins, 2009).

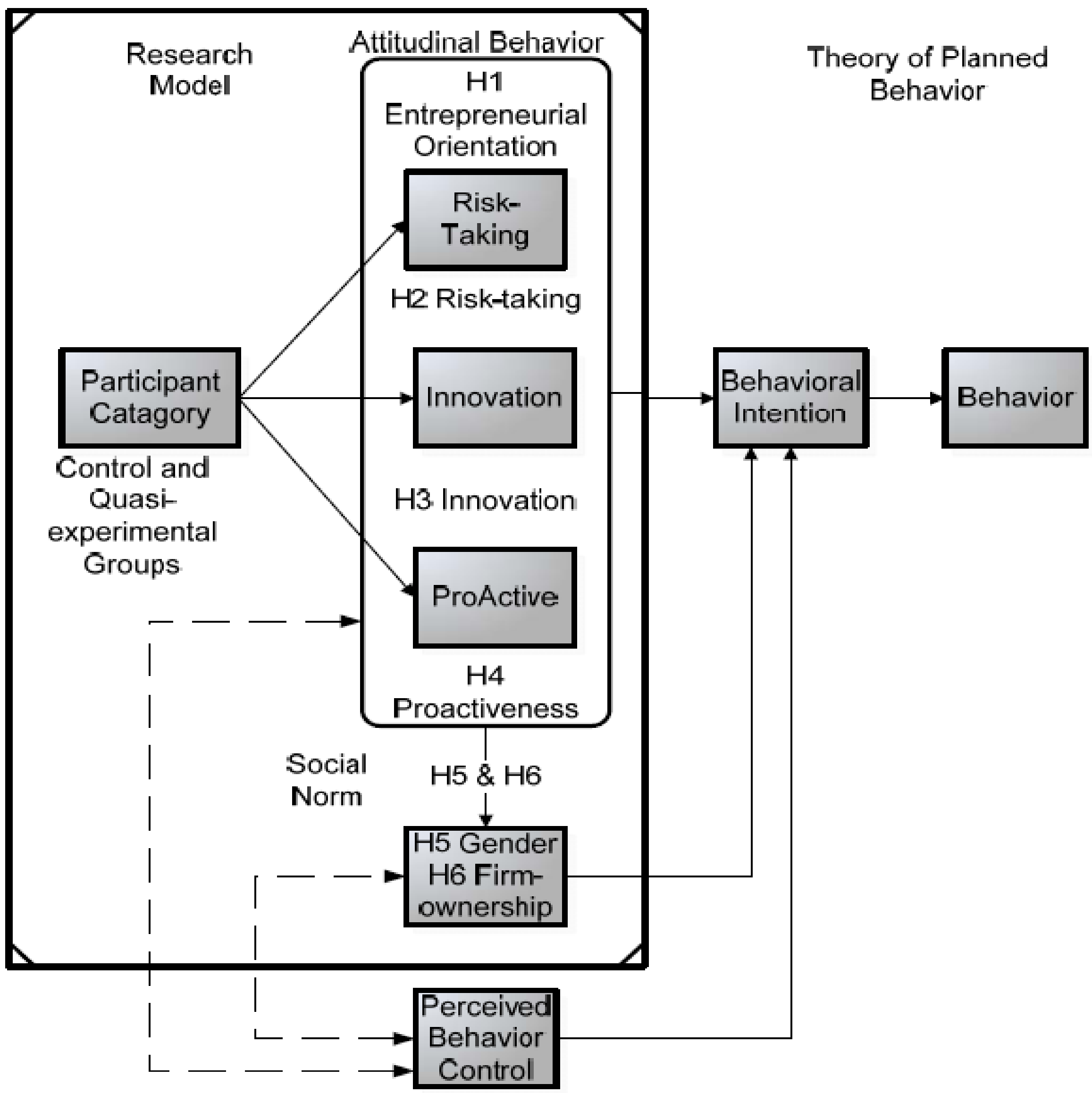
The research framework for the baseline study incorporated EO into Ajzen's theory of planned behavior (1991). Ajzen's theory relates attitudes towards specific behaviors, societal norms, and the influence of perceived behavioral controls to behavioral intentions. The EO construct is derived from three sub-constructs (risk-taking, innovation, proactiveness) that are measured by eight attitudinal items on a psychometric survey instrument (Kreiser, Marino, & Weaver, 2002. The four hypotheses shown in Figure 1 were formulated to test the effect of the MBA intervention on EO and its sub-constructs between groups and two hypotheses were generated to test for demographic differences within groups. Figure 1 summarizes the research framework.

The research design segregated applicants and new students into a control cohort and graduates into an experimental cohort for cross-sectional analysis. The survey form consisting of ten demographic questions and eight previously validated (Kreiser, et al., 2002) psychometric items related to the risk-taking, proactiveness, and innovation dimensions of EO was emailed to the target population. A total of 71 valid responses were received and analyzed.

A confirmatory factor analysis was performed on the psychometric responses to the survey to establish the validity of the survey instrument. A factor analysis was completed to validate the EO-related constructs and to provide a variance derived score for each. The factor analysis was followed by a structural equation model analysis to demonstrate demographic invariance between cohorts and to establish path correlational differences in EO and its sub-constructs (risk-taking, proactiveness, and innovation) between the control and experimental cohorts. Lastly, t-tests were conducted for significant difference between cohorts at the survey item level of analysis.

The confirmatory factor analysis successfully proved the validity of the EO construct and its applicability to the sample. However, the small sample size introduced negative variances in the SEM analysis thereby making the comparison of EO and its sub-constructs between groups unfeasible. Nevertheless, t-tests at the item level between groups and between some demographic measures (male/female, Hanoi/HCMC participants, participants in state-owned/privately owned firms) did show some significant difference.

Figure 1. Research Framework based on Ajzen's Theory of Planned Behavior



In summary, the subject study provided a small contribution to the understanding EO-related differences in the target population. However, as a result of statistical limitations imposed by a small sample size the study did not fulfill the purpose of confirming the impact, positive or negative, of the MBA educational intervention on EO.

USING THE QCA METHOD TO EXTEND MBA/EO CONCLUSIONS

The previously described baseline study (Lins, 2009) on the effect of an MBA intervention on entrepreneurial orientation failed to find statistical significance in the comparison between control (applicants) and quasi-experimental (graduates) groups. Moreover, even though the study did detect a few significant item level differences between groups, between male and females, between executives in state-owned vs. private-owned firms, and between Hanoi vs. Ho Chi Minh City based executives, these results could not be used to explain the effect of the MBA intervention nor the characteristics of high EO participants.

The purpose this study is similar to the baseline study in that this study seeks to find a relationship between EO and the MBA intervention, however, this study provides information on the path to a high EO. The path to a high EO is defined as the common characteristics (e.g. graduate, old/young, Hanoi/HCMC, etc.) of participants who share the same dichotomous value for each variable (i.e. they are in the same common characteristic set and exhibit the high-EO outcome).

This study integrates the baseline study's validation of demographic invariance of the group (graduate vs. applicant) variable and the calculation of the constructed factor score for EO. The baseline study's data set has been converted from SPSS format to a comma-separated-values (.CSV) format for input to two QCA oriented software programs.

Both QCA programs process data in a similar manner. First a truth table is generated based on variable-combinations. The truth table allocates a specific row for each combination of variable values. The variables are represented as columns in the truth table and variable values are placed in rows. In this study all values are dichotomous thus when examining four variables a 16-row (2n) truth table is generated. The input data is then scanned and each case (71 cases in this study) is added to the count field in the appropriate truth table row (the row that contains variable values identical to the case). Rows that have no matching cases are termed "remainders".

The next step in the QCA process is to reduce the number of solutions in the truth table 1) by screening based number of cases in each row to reduce questionable solutions, and 2) by using algebraic reduction (the Quine-McClusky algorithm) after making some simplifying assumptions based on a-priori knowledge. The result of this process in the TOSMANIA program is the creation of a best solution along with a statement of the simplifying assumptions, and a logical set graphic that depicts the solution/s using unique areas to portray the full membership in the outcome set, a conflicted membership in the outcome set, full non-membership in the outcome set, and no data case combinations (i.e. remainder rows).

This study utilizes both the previously described QCA software programs. Two separate passes are made on the data using four variables; group, state-owned, HCMC, and age. Two EO threshold values are analyzed to explore the effect of the outcome definition on causal path consistency. The variable and outcome data is dichotomous for each of the passes with only the dichotomous EO value being manipulated prior to each pass based on a desired threshold value.

The TOSMANA program has a facility for handling multi-value data but that facility was not explored in this study. The fsQCA program also has functionality to handle fuzzy value variables (e.g. the EO factor score) but this function was not utilized in this study.

RESULTS OF THE QCA ANALYSIS

Figure 2 presents the four causal variable and one outcome truth table that reflects the processing of the 71 valid cases of the baseline study. The table consists of 16 rows reflecting all possible combinations of the dichotomous values of four causal variables, group, state, hcmc, and old35. The table is sorted on the descending number of cases fitting each row. The first step in preparing for the analysis of the truth table is to remove rows that have less than a researcher determined number of cases. For this study all rows with less than two cases were removed. The second preparatory step was to enter an outcome for the "hiEO" column based on the researcher's decision as to what level of consistency is constitutes full inclusion in the outcome set. In this study a .80 or higher level of consistency was coded as 1, fully included. A consistency of .20 to .80 was coded as "C", conflicted, to indicate uncertain membership in or out of the high EO set. A consistency value of less than .20 was coded as 0 to reflect full non-membership in the high EO set.

RESULTS FOR A HIGH THRESHOLD ANALYSIS OF EO

The EO threshold for the first pass analysis of individual cases was set to classify 24% (17 cases) of the full data set as high (value = 1) based on their EO factor score, and 76% (54 cases) as low (value = 0) for the first pass of data through the two QCA programs.

The TOSMANA program was then used to generate a graphic set diagram depicting the allocation of cases to the row sets. Figure 3 shows the result of this distribution. The legend at the bottom of the diagram shows the pattern coding for assigned outcomes of 1 (fully in the set of high EO outcome), 0 (fully out of the set), C (conflicted , individual cases are both in and out), R (remainder rows of the truth table), and – (truth table rows to be ignored in the analysis).

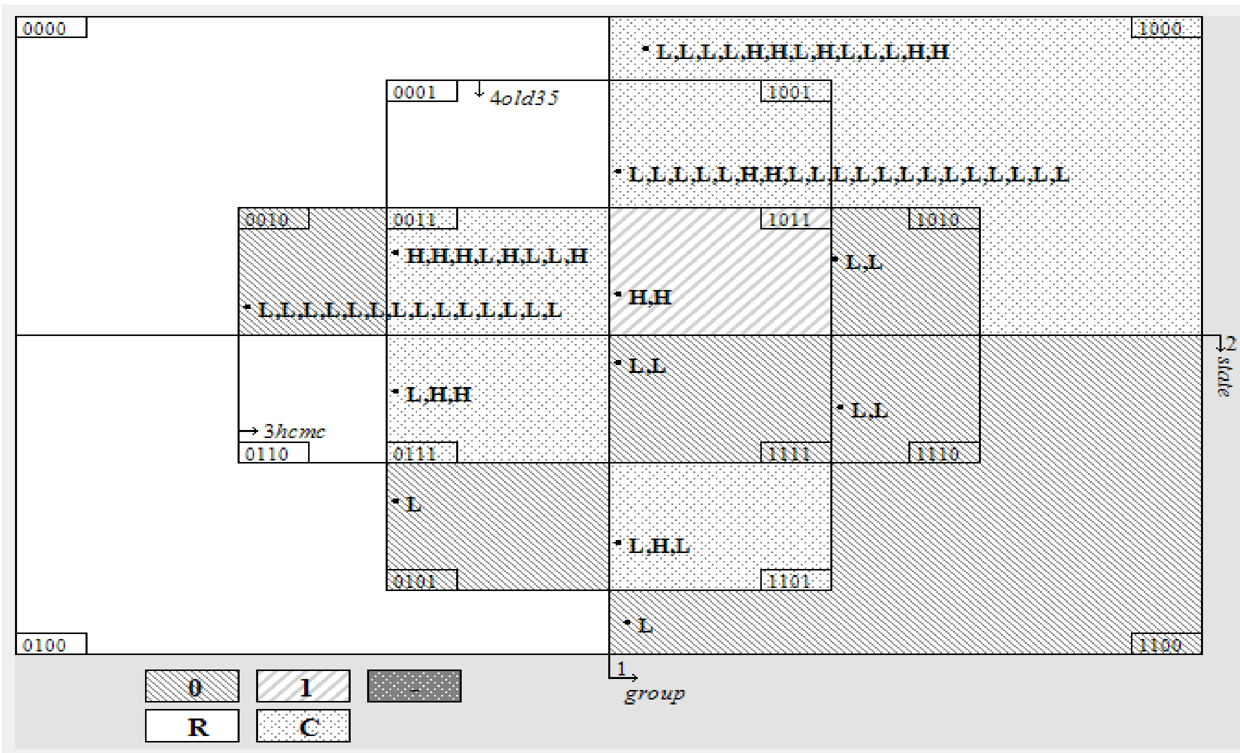
Figure 2. Full Truth Table for 71 cases including four remainder rows

group	state	hcmc	old35	number	hieo24	raw consis
1	0	0	1	20 (28%)		0.100000
0	0	1	0	14 (47%)		0.000000
1	0	0	0	13 (66%)		0.384615
0	0	1	1	8 (77%)		0.625000
0	1	1	1	3 (81%)		0.666667
1	1	0	1	3 (85%)		0.333333
1	0	1	0	2 (88%)		0.000000
1	0	1	1	2 (91%)		1.000000
1	1	1	0	2 (94%)		0.000000
1	1	1	1	2 (97%)		0.000000
0	1	0	1	1 (98%)		0.000000
1	1	0	0	1 (100%)		0.000000
0	0	0	0	0 (100%)		
0	0	0	1	0 (100%)		
0	1	0	0	0 (100%)		
0	1	1	0	0 (100%)		

The graphic segregates graduate (GROUP) and applicants (group) into the right and left halves of the overall diagram respectively. Cases that reflect participants from state-owned firms (STATE) are placed in the lower half of the overall diagram while cases reflecting participants from non-state-owned firms (state) are placed in the upper half of the overall diagram. The vertical rectangle within the overall diagram contains cases with older participants (OLD35+). The horizontal rectangle within the diagram contains cases with participants who live in Ho Chi Minh City (HCMC). The upper right/left corner of each set area shows its binary code (e.g. 1011 denotes GRAD, state, HCMC, OLD35, where lower case means NOT). Also within each set is a list of the included cases showing their individual EO outcomes (H is above the threshold, L is below).

The Tosmana program performs a Boolean reduction process on the truth table to arrive at a parsimonious solution of GROUP=1 indicating that graduates have a higher log-odds-based likelihood of possessing a high EO score. The program also provides "Implicants" for the parsimonious solution, (state*HCMC; X01X where the X denotes 0 or 1, lower case means NOT and * is a logical AND), (HCMC*OLD35; XX11), (STATE* OLD35; X1X1). Each of the implicants support the path to high EO at some level of consistency. However, only the set 1011 is fully consistent in supporting high EO. In contrast, the sets 1010, 0010, 1111, 1100, and 0101 are fully consistent in supporting a low EO (i.e. non-membership in the high EO set).

Figure 3. Set Diagram for EO threshold 76%



Ragin's fsQCA was run against the data using the same high threshold value for high EO as used in the TOSMANA program to produce solutions with consistency and coverage statistics. The following results were produced by fsQCA using the Quine-McCluskey algorithm;

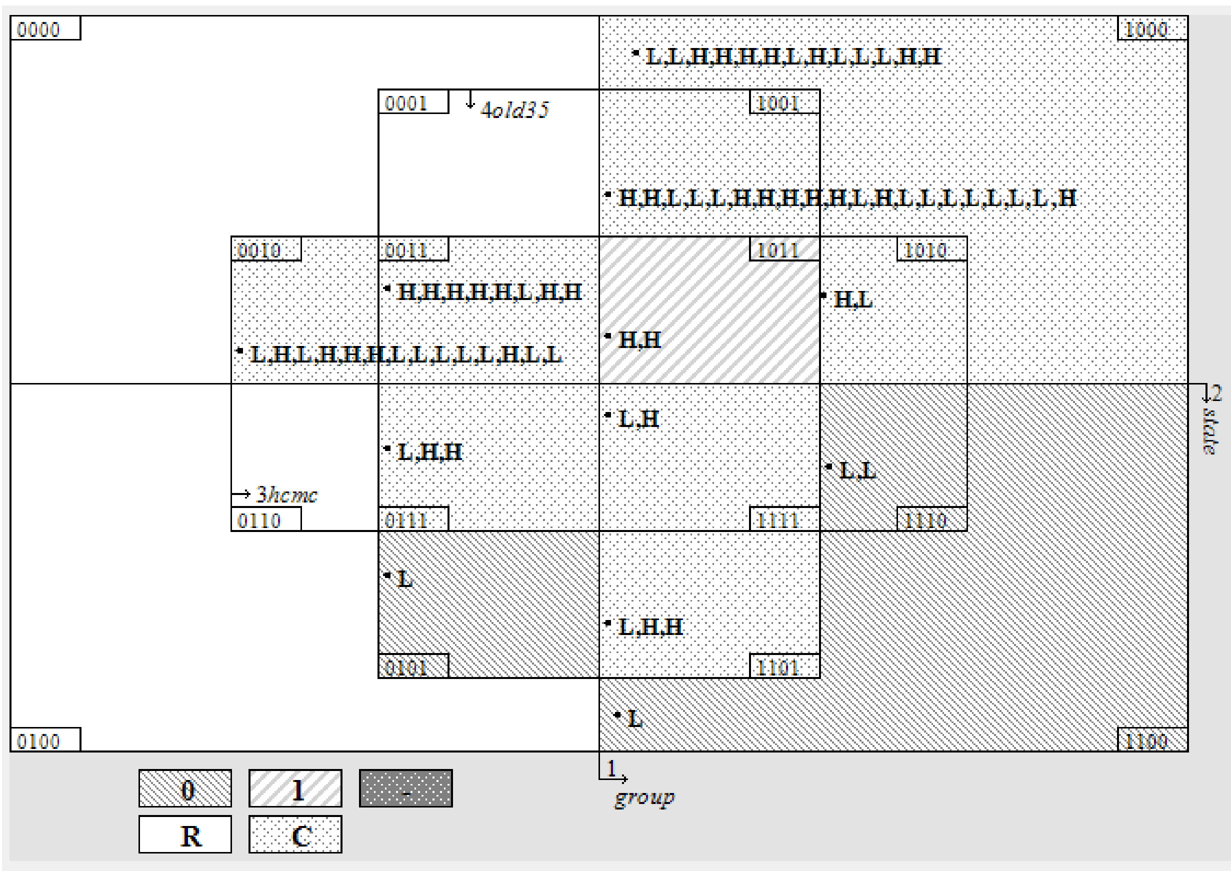
Parsimonious Solution
state*HCMC* OLD35
solution coverage: 0.411765 solution consistency: 0.700000
Intermediate Solution
Group*state*HCM*OLD35
solution coverage: 0.117647 solution consistency: 1.000000

The parsimonious and intermediate solutions from the fsQCA program differ from the parsimonious solution (GROUP) found with the TOSMANA program. Nevertheless, the combination of solutions from both sources along with the calculated consistency and coverage information for the fsQCA program provide insight into cases being investigated. The next section addresses the impact upon results when the threshold for defining high EO is lowered.

RESULTS FOR A LOW THRESHOLD DICHOTOMIZATION OF EO

The enumeration of results in this section follows the same method as in the preceding section with the EO threshold lowered to 50% (36 cases are defined as low and 35 are defined as high). Figure 4 depicts the graphical output from the TOSMANA program**.**

Figure 4. Outcome distribution of cases with a lowered EO threshold



In comparison to the high threshold analysis, the low threshold distribution of cases shows the same full membership of two cases in the 1011 solution set. However, three formerly designated as full non-membership solutions sets (0010, 1010, and 1111) are now considered conflicted. This apparent loss in definition (i.e. of being fully in or fully out of the outcome = 1 set) is not necessarily undesirable as it allows for a more liberal Boolean reduction of the truth table to provide additional solution paths and broader solution coverage albeit at a lower specific solution consistency.

Specifically, the TOSMANA and FsQCA programs calculated the following solutions;

TOSMANA's Parsimonious Solution – GROUP (consistency and coverage not calculated.
FsQCA's Parsimonious Solutions – 1) state (consistency=.53, raw coverage=.86, unique coverage=.36) OR 2) OLD35 (consistency=.59, raw coverage=.63, unique coverage=.14) – 3) Total solution consistency=.52 and total solution coverage=1.00
FsQCA's Intermediate Solution – OLD35*HCMC*state with a consistency of .90 and coverage of .25

Figure 5. Sub/Superset Solution Statistics for the Low-threshold EO Pass

Sub/Super Solution

File Edit Sort

terms	consistency	coverage	combined
group*~state*hcmc*old35	1.000000	0.055556	0.380295
~state*hcmc*old35	0.900000	0.250000	0.564622
hcmc*old35	0.800000	0.333333	0.510873
group*~state*hcmc	0.750000	0.083333	0.345521
group*hcmc*old35	0.750000	0.083333	0.345521
~state*old35	0.600000	0.500000	0.334716
old35	0.589744	0.638889	0.274855
~state*hcmc	0.576923	0.416667	0.284043
hcmc	0.545455	0.500000	0.215443
~state	0.525424	0.861111	0.234630
group*old35	0.518519	0.388889	0.226803
group*~state	0.513514	0.527778	0.236300
group*~state*old35	0.500000	0.305556	0.225445
group*hcmc	0.500000	0.111111	0.140572
group	0.488889	0.611111	0.182827

The FsQCA program also calculated a "Sub/Superset Solution Matrix (see Figure 5). The sub/superset matrix shows consistency and coverage data for many combinations of variable values (not in the set values are indicated by a ~ preceding the variable name, an asterisk denotes a logical AND condition, "~group" is a synonym for graduate). The "combined" column in Figure 5 shows the relative importance of a solution based on the combination of its consistency and coverage scores. It can be seen that the solution (~state*hcmc*old35) carries the highest combination score (.564622) followed by the solution (hcmc*old35) with a score of .510873. Both these solutions show a consistency of greater than .75 the normal minimum cutoff for acceptability in QCA analysis (Fiss, 2009).

Based on the solutions shown, the FsQCA program was used to provide one final set of statistics related a hypothesized solution to evaluate "necessary conditions" inherent in the components of the solution. Figure 6 presents this data for the low-threshold EO analysis. From the statistics shown in Figure 6 it appears that the hybrid solution has acceptable consistency and adequate coverage. However, none of the solution components alone offer a necessary condition based on its individual coverage and consistency.

This section has presented the results of QCA analysis using two defined EO threshold values as input to two separate QCA-related software programs. These results will be interpreted in the next section.

Figure 6. FsQCA Program Analysis of Necessary Conditions

Analysis of Necessary Conditions
Outcome variable: hie50
Conditions tested:

	Consistency	Coverage
~state+hcmc+old35+group	1.000000	0.507042

Outcome variable: hie50

Conditions tested:

	Coverage	Consistency
group	0.611111	0.488889
~state	0.861111	0.525424
hcmc	0.500000	0.545455
old35	0.638889	0.589744

DISCUSSION OF RESULTS

The purpose of this study is to complement and expand on the research results found in the specified baseline study of EO and an MBA program intervention. The results of a crisp-set QCA method-based analysis described in the previous section are interpreted in this section to meet the purpose of this study.

The baseline study questioned if an MBA intervention correlated with an increase or decrease in EO. This study addresses that question and also investigates how, i.e. what combination of characteristics of the participants, might provide a likely path to a high EO. As a matter of caution, it should be noted that the baseline study was cross-sectional and therefore the grouping of applicants and graduate participants into control and quasi-experimental groups to support a pseudo-longitudinal study of pre and post intervention data is wholly dependent upon the acceptability of the demographic invariance analysis conducted in the baseline study.

The two-pass, high and low EO threshold analysis procedure described in the prior section demonstrated that as the threshold is lowered, possible solution sets (specific combinations of variables leading to the desired outcome) increase in number, decrease (individually) in consistency, and increase in coverage (individually and overall). For the lower EO (50% threshold on the EO factor score) analysis, the results predict (based on log-odds likelihood) that individuals who work in private firms, live in HCMC, and are over the age of 35 are most likely to exhibit a relatively high EO. The second highest ranked solution was for individuals who live in HCMC and are over 35 in age. Both these solution paths disregard the fact that the individual may have undergone the studied MBA intervention program (i.e. the group variable is not instrumental). However, the next three best solution paths to a high EO do include group variable as a component along with the components of the higher ranked solutions. In fact, the (group*~state*hcmc*old35) solution is the only solution with 1.00 consistency (but with only .05 coverage).

One interpretation of the results based on the discussion in the previous paragraph is that multiple paths to achieving a high EO exists, thus, the solution set exhibits equifinality. This interpretation partially answers the research question posed earlier about who will likely exhibit a high EO. However, the Boolean equations for the solution paths don't directly address the research question stated in the baseline study, does the MBA intervention enhance or reduce the likelihood of having a high EO. To address this question Figure 3 may be numerically analyzed to derive changes in the percentage of high EO outcomes in the three non-group identifier variable sets upon transition from group=0 (applicant, the left hand side of Figure 3) to group=1 (graduate, the right hand side of Figure 3). The following data summarizes this transition-related high EO ratio change data;

1. All applicants (.40) to all graduates (.36) = A drop in EO (using the average of low and high thresholds) is related to the intervention transition.
2. Applicants from state-owned firms (.50) to graduates of state-owned firms (.25) = the intervention appears to suppress EO employees in state-owned firms more than it does in applicants from privately owned firms.
3. Applicants living in HCMC (.42) to graduates in HCMC (.38) = The intervention has less effect on EO than the aggregate average. (Perhaps due to the relatively high EO rate before intervention?)
4. Older applicants (.67) to older graduates (.19) = The intervention appears to result in a dramatic reduction in EO. This contrasts to the positive post transition change in young applicants (.18) to young graduates (.36).

Paragraph 1 appears to answer the question as to whether the MBA program intervention reduces or enhances EO. Specifically, the intervention appears to reduce EO thereby implying that graduates are likely to be more analytical.

Paragraph 2 implies that employment in a state-owned firm enhances the analytical orientation of these student more than it does for students working in privately owned firms. This conclusion and the argument that “an MBA program trains students to be analytical” has been made by other researchers (Mintzberg, 2007; Sarasvathy, 2005). Literature on the constraints resulting from organizational structuring (Bergquist, 1993; DiMaggio & Powell, 1983; Washington & Ventresca, 2004) also appear to apply to this observation. Lastly, there is some anecdotal evidence that entrepreneurial-oriented graduates of the subject program who work in state owned enterprises while in the program are actually changing jobs after graduation and seeking entrepreneurial opportunities (Bui, 2011).

The observation in paragraph 3 relating to high EO executives follows the conclusion in paragraph 1, however, an additional implication may be rational, specifically, “it is difficult to increase EO when the starting value is already high” (a form of sample selection bias). The observation in paragraph 4 implies that older managers may profit more from their MBA experience. Mintzberg (2005, 2007) has been arguing this point for many years. This observed dynamic may also be a cultural artifact of the Asian culture. (Doktor, 1990; Hofstede & Bond, 1988)

The results noted in paragraph 4 imply that older students are more affected by the analytical content of the MBA program than their younger counterparts. It might be argued that these older executives have been operating their businesses in an entrepreneurial manner due to a lack of scientific management knowledge and the MBA exposure offers them an opportunity to compare their extensive experience with the potential of reliving that experience with the availability of new analytical methods.

CONCLUSIONS AND IMPLICATIONS

The results of this QCA-based study extend and complement the results found in a 2009 quantitative study of EO and an MBA education. This study is based on a convenience sample set of 71 applicants and graduates of an AACSB-accredited MBA program conducted in Vietnam, in English, for Vietnamese and foreign executives. This study concludes that the effect of the subject program upon the EO of graduates is a decrease in EO and an increase in analytical orientation. However, the results also suggest that there are several combinations of student demographics (working in HCMC, being young, working in a private firm) that imply a higher EO post graduation.

Most notably, the results imply that employees of state-owned firms may not profit in the same way (i.e. by achieving a higher EO) as attendees from privately owned firms. One supposition is that attendees from tightly structured publicly-owned firms may justifiably focus on analytical skill improvement as a result of the constraints in their environment.

One implication of the results found in this study is that educators should be aware of the differing goals of students employed by private versus state-owned firms (i.e. educators might suppress the, at times, trendy notion of teaching entrepreneurship). Secondly, educators could benefit from designing their class activities to insure that younger students who may have a relatively high EO propensity mix with older students.

A final implication, for executives contemplating attendance in an MBA program, is to not ignore the fact that an MBA curriculum is primarily focused on analytics with only a few opportunities to "learn" entrepreneurship. Moreover, the typical academic has had little opportunity to experience entrepreneurship except vicariously by learning from manager-students, and occasional consulting assignments. The gathering of entrepreneurial ideas and methods must therefore be accomplished through discussions with other students and elective courses taught by qualified instructors.

The primary benefit of using the QCA method for this study is that the results extend and complement the contribution to science made by the original, baseline study. Whereas, outlier data existing in the data set tended to suppress the significance of statistical mean differences when using quantitative methods, the presence of such data in a QCA enhances set diversity allowing for better Boolean reductions and more consistent intermediate solutions, thereby also serving as a scree for identifying covariate control variables that may be added to the quantitative analysis.

The use of QCA set depiction graphics serves to elucidate potential causal relationships better than using quantitative method based scatter diagrams and raw descriptive data metrics. The use of QCA also allows the subdivision of already small data sets (by statistical standards) into even smaller groups and still provide for the observation of potential causal relationships (Denk, 2010).

In summary, the cost of running a QCA to complement a quantitative statistical analysis is minimal as the software is free, SPSS and SAS data is easily converted for input, and the time required to understand the method is modest. Moreover, when dealing with sample sizes of less than 100 QCA may provide superior results as a primary method.

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EFFECTIVE OUTREACH STRATEGY AND PROGRAMS IN HIGHER EDUCATION

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Outreach programs have been implemented in higher learning institutions to increase student retention and satisfaction. The challenges of outreach can increase when students are in an online environment. Online students do not have physical contact with their instructor and classmates and this can cause students to feel isolated and discouraged. Online higher learning institutions can approach outreach at various levels: no formalized outreach program for instructors, a formalized outreach program for instructors incorporating required outreach periodically throughout the course for at risk students, or a formalized outreach program for instructors incorporating weekly outreach throughout the course for at risk students. The following research provides insight into each of these approaches and how each program can impact student retention and success.

INTRODUCTION

Outreach programs are a necessity in higher education. Students rely on their instructors to set the tone for the course and seek their instructor's guidance and mentoring throughout their time spent together in the course. Students, in general, need to know that their success in the classroom is important to both their instructor and the university. Even more importantly, direct instructor outreach is an essential tool for success for online learning programs as students do not have face-to-face interaction with their instructors as they would in an on ground setting. Without direct instructor contact with the student, the student's need for validation of their efforts from the instructor and institution is not met, which can lead to the student becoming disengaged within the class and/or the institution.

Outreach programs and strategies are effective from the start of the higher education experience (enrollment) to the end (graduation). Research has been conducted that supports the effectiveness of outreach efforts. In an article published in the *Adult Basic Education and Literacy Journal* by S. Goto, R. Spitzer, and J. Sadouk in 2009, the importance of interaction with potential students is emphasized. The authors emphasize that personal interaction encourages potential students to consider and investigate the benefits that can be achieved from higher education. The required interaction involves face-to-face contact with their recruiter as well as involvement in the university community. In some instances, variations of face-to-face contact are necessary due to the high demands of student enrollments. However, when contact is established between the student and the recruiter, it allows the recruiter to demonstrate empathy for the potential student's concerns or fears. While the focus of this article was course enrollment for ESL courses, the basic concepts of interaction and one-on-one time with student are consistent.

Outreach programs should be an integral program in educational institutions. In general, these types of outreach programs emphasize health, finance, and college success by offering periodic workshops or presentations on a variety of subjects such as personal finance, stress management, and time management. While professionals identify the importance of the programs, student attendance at these workshops/presentations is often extremely low. In a research study conducted by L. Marks and R. McLaughlin, successful interventions were indentified. These interventions include effective advertising, collaboration with regular courses, and support of instructors. Based on the research, reminders of the workshops by continuous advertisement are an effective means to trigger the desired behavior. In addition, by requiring students to attend a workshop/presentation as a part of their graded coursework, it stresses the value of the topics.

An article published in *Recruitment and Retention* titled Online Student Tracking System Nets Retention Awards describes how the implementation of a tracking system assisted in identifying at-risk students. Sinclair Community College implemented an online record management system that assists in monitoring at-risk students. Through the tracking system, individualized plans can be created to assist the student in creating a positive educational experience. By instructors or advisors identifying the individual needs of the student, better strategies can be developed to serve the student population.

While the first articles presented in the literature review relate to on-campus and face-to-face environments, it is important to note that instructor-student interaction plays a large role in the traditional on-campus environment for retention and student success. Knowing this fact, it can be assumed that instructor-student interaction is a more crucial role in the online environment where there is limited or no face-to-face interaction. Catherine Stover published an article in the *Distance Education Report* in 2005 discussing the student retention rates among online courses. As predicted, the retention rate is much lower than for traditional on-site campuses Stover states several factors that affect retention including classroom environment, classroom activities, faculty role, student services, faculty interaction, academic aptitude, and gender. Several of these factors can be controlled by the instructor supporting the conclusion that the instructor interaction with the student has a significant impact on a student's performance.

In June 2006, an article was published in *Recruitment and Retention in Higher Education* focusing on the variation of approaches needed, by online programs, to improve retention rates. As previously noted in Stover's article, the emphasis of a different approach to retention strategies in traditional programs has been made. In the *Recruitment and Retention* (2005) article, retention strategies or outreach should be more tailored to the student's needs and experiences. The article describes the evaluation approach taken by Empire State College to improve the retention of a growing online population. As noted in this evaluation, the academic advisors, mentors and instructors are a critical part of the online learning process to monitor the student's participation in a course and engage the student.

Further support is provided for instructor-student interaction, as a crucial component of the online learning environment in an article published in *Retention Strategies (2005)*. This article describes the need for a proactive approach by instructors to online student retention. The article outlines the trial and error approach taken by an instructor upon teaching her first online business law course. In this example, course retention increased from 50 percent to 92 percent. The increase was a result of the proactive approach the instructor took in contacting and pursuing students identified as at-risk. A few examples of the proactive actions include personalized letters to students, the use of and instructor participation in discussion forums, and creating opportunities to interact with students one-on-one in the virtual environment.

Additional support for instructor presence as a critical element of the online learning environment is provided in a published article titled *The Indicators of Instructor Presence that are Important to Students in Online Courses 2010).* In a survey conducted for this research, 299 respondents indicated within the five most important indicators was 'instructor presence'.

A final article highlighting the relevance of instructor-student interaction is located in *The Comparison of Student and Instructor Perceptions of Best Practices in Online Technology Courses (2008).* The Seven Principles of Chickering and Gamson were proven as relevant with four of the principles identified as having a lower perception of use. There were suggestions for improvement in these four identified principles which were time on task, active learning, cooperation among students, and diverse talents and ways of learning. The use of technology and a high level of instructor involvement was the central theme that would provide methods to improve these items in the online environment. The burden lies on the instructor's involvement level to online learning retention and student improvement.

Based on the current research and literature regarding student retention rates and the need of proactive approaches, two general conclusions can be made: The need for instructor-student interaction is a factor in the student's success whether the learning environment is a traditional on-campus program or online program and the degree and approach of instructor-student interaction for online learning environments must be proactive in the online learning environment.

STUDENT OUTREACH WORKS

Specifically, the purpose of this research is to study the effect of organized and directed faculty outreach on distance learning students. The group selected for this study was the population of students enrolled in Accounting I. The data for this study is organized into three study groups to compare the effect of 1) no outreach for all students enrolled in Accounting I to 2) limited outreach efforts conducted by faculty for students enrolled in Accounting I per the institution's student operations guidelines to 3) consistent weekly outreach conducted by an accounting instructor in their assigned Accounting I courses.

Prior to 2009, no outreach efforts were required or formally initiated by the institution. In 2009 the institution's student services began a limited outreach effort. The courses for the institution were ten weeks in length. Students were ranked by faculty at specific points in the term as to their likely success in the course. The faculty reviewed the student's status in the course in weeks one, three, five and seven. Students that faculty designated as being "At Risk", or below a 70% in the course, were flagged to be contacted by a student adviser encouraging the student to contact their faculty or adviser to discuss any problems that might be a cause for their poor performance. Also, in 2009 one of the accounting faculty members conducted weekly student outreach.

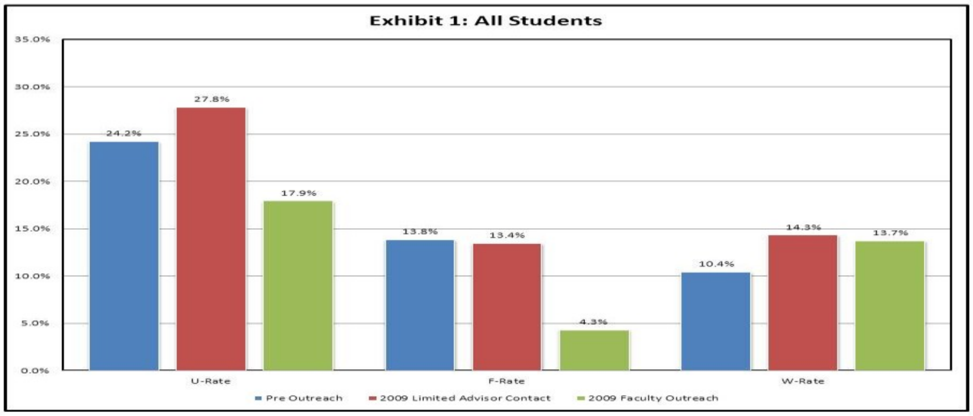
- The instructor contacted students that were "At Risk" each week via email and by phone for those not responding to email correspondence.
- The instructor kept the advising team informed of all student contact and enlisted their input and assistance in the weekly outreach efforts.

- The instructor offered assistance to the students in the email correspondence and phone calls such as a detailed list of class room resources, video assistance for navigating the class room resources, and one on one study sessions.
- The instructor also contacted students that received below a 70% on any of the week's assignment offering assistance as outlined above.
- The instructor also contacted students that maintained above a 70% three times during the term to thank them for their performance in the course.

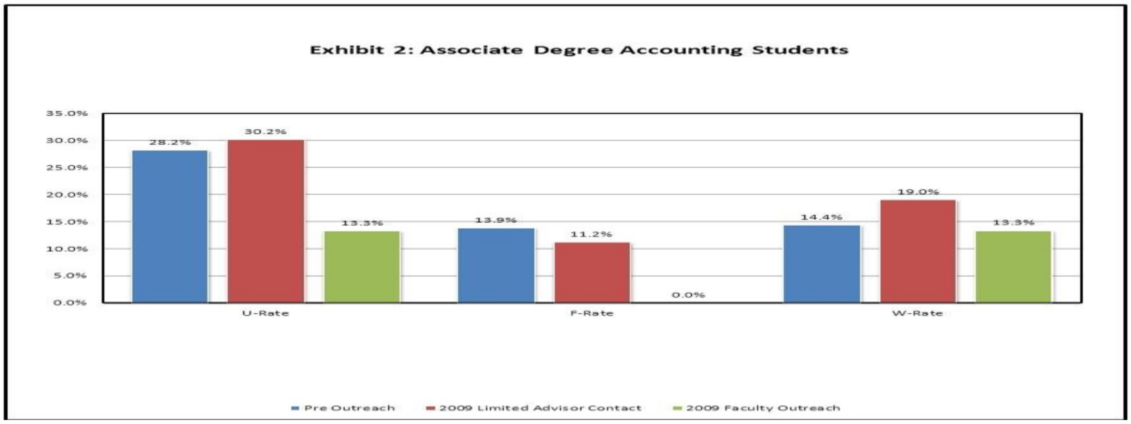
OUTREACH RESULTS

The graphs below (Exhibit 1 and Exhibit 2) compare the U-rates of the 3 study groups. The U-rate is an "Unsuccessful rate" and is the sum of the course withdrawal rate (W-rate) and the course failure rate (F-rate). The data has been grouped as "Pre Outreach", "Limited Advisor Contact", and "Faculty Outreach". The "Pre Outreach" represents the U-rates for all students enrolled in Accounting I prior to any formal intervention or outreach. The "Limited Advisor Contact" measures the U-rates for the group of Accounting I identified as at-risk students by the institution's student operations guidelines. The group labeled "Faculty Outreach" is comprised of the students in the control group that received consistent weekly outreach by their Accounting I instructor. The second graph represents a subset of the population represented in the first graph, but was filtered to include only those students enrolled as "Associate Degree" accounting candidates.

In the table (Exhibit 1), the difference in total U-rate for students enrolled in classes receiving no outreach and students receiving organized and deliberate faculty outreach were 6.3%. In addition, for students enrolled in classes with limited outreach versus faculty outreach the difference was 9.9%. Looking more closely at the total U-rate, the data has separated students into two groups: A group of students that failed the course and a group of students who withdrew from the course. The statistics for F-rate indicates a marked difference between students receiving faculty outreach, but failed (4.3%) and those students receiving either no outreach or limited outreach who failed (13.8% and 13.4%). This is a difference of 9.5% when comparing pre outreach to faculty outreach and a difference of 9.1% when comparing limited advisor contact to faculty outreach. The W-rate differences were 10.4% for students receiving no outreach, 14.3% for students receiving limited outreach and 13.7% for students enrolled in courses where faculty outreach was documented. The average grade for students enrolled in courses with faculty outreach was .33 grade points higher than the average grade of students enrolled in courses receiving no outreach.



The second control group studied was students enrolled in the Associate Degree in accounting program (Exhibit 2). This group was chosen to measure the effect of faculty outreach on only those students enrolled in the course who had declared accounting as their major area of study. There is a dramatic difference in total U-rates between the 3 groups. There is a U-rate difference of 14.9% between students receiving no outreach and students receiving faculty outreach and a 16.9% difference between limited outreach and faculty outreach. While the pattern of the U-rate is similar between the Accounting student population and the general population, the difference shown in the data regarding Accounting students is more pronounced. The F-rate comparison also indicates a pattern demonstrating the positive affect of faculty outreach. The W-rate also illustrates favorable results when faculty outreach is present in courses. The difference in the average student grade, between the group receiving no outreach and the group with faculty outreach, was .82 grade points higher for the Associates Degree student group receiving outreach.



The overall pattern of the data for the 3 groups appears to be consistent between the populations as a whole and the subgroup of Associates Degree in Accounting students in particular. The consistency of the patterns indicates that all students benefit from organized outreach efforts. The data also indicates limited, organized outreach which identifies at-risk students for advisor contact in weeks one, three, five and seven, has a positive impact on student success and retention. The data also demonstrates when an instructor conducts consistent weekly outreach to students, an even greater positive impact occurs with higher student success and retention.

The previous research and the research data outlined above indicate that outreach can influence student comprehension and retention in a positive manner. When higher education institutions develop outreach initiatives via their advisors and instructors, the research indicates students are more engaged in their course and believe their presence matters to the institution, which is a motivator for them to strive for mastery in their course and ultimately increases student retention.

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Blended Learning—Merging The Best of Two Delivery Modes!

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Distance learning has evolved from the correspondence courses of the early 1900s to the totally online offerings of many of today's universities and colleges. Ultimately the Internet and massive technological advances have facilitated extensive opportunities for providing distance education for many who in the past have only dreamed of obtaining a higher education degree. Our society is often interested in "options". We like peanut butter with our chocolate, we want cell phones that are also cameras, and our television screens bring us the news as well as the newest video interactive game systems. Our families are blended and our automobiles are hybrids, so as a society we are accustomed to more than one component coming together to produce the same or similar results. Blended learning and/or courses are often considered the best of both worlds. Blended courses offer students face-to-face learning experiences paired with online options using technology to promote active and independent learning. Course redesign is required in order to merge the two delivery methods thus producing an updated blended product.

The institutional impulse to provide a blended course or curricula may vary from student demand, to logistics, to low performance in pure online programs. The form of a blended program usually follows its function—the percentage of time online and onsite conforming to institutional needs. Therefore, the format of blended programs varies widely. The face-to-face meetings for the course may be set up for the first half of the course with the online portion left for the second half of the course, or this may be reversed. Perhaps only 20% of course time will be spent online. Any effective combination of face-to-face delivery and online instruction can be used when preparing a blended course.

Dr. Frank Mayadas, program director at the Alfred P. Sloan Foundation, developed the metaphorical five pillars of quality online learning: ***access, learning effectiveness, cost effectiveness, student satisfaction, and faculty satisfaction.*** These five pillars may help guide our thinking in developing a strong online component in blended learning. (Lorenzo and Moore The Sloan Consortium Report, 2002)

Access to online learning has dramatically increased during the past decade. Technology has made an impact on most every individual and/or home throughout most regions of the world.

According to Internet World Stats (http://www.internetworldstats.com/stats.htm), in 2010 there were almost two billion Internet users worldwide. About 266,000,000 Internet users were from North America, with about 475,000,000 in Europe, and over 820,000,000 in Asia. Overall, the growth of Internet usage during the last decade has been about a 400 percent increase. So, ***access*** to the Internet is becoming more and more typical for most learners which gives educational institutions an avenue for expanding curriculum and opportunities to reach a broader population of learners.

Learning effectiveness is often difficult to determine and verify regardless of the medium used, but learning effectiveness is an essential element in determining the quality of a program's instructional efforts. Quality of instruction within the blended program is equally important as within the traditional face-to-face program. For over fifty years, Dr. Donald L. Kirkpatrick's Evaluation of Training Model has influenced training. His model has been endorsed by some of the most respected endeavors regarding training and was also endorsed by the American Society of Training and Development. Kirkpatrick's model can be implemented today with blended programs to help determine learning effectiveness. Kirkpatrick's (Kirkpatrick, 2005) evaluation model measured:

- what the student thought and felt about the training,
- their increase of knowledge or capability,
- their behavior and capability improvement and implementation, and
- the impact or result that the trainee's performance would have on society.

Cost effectiveness is a factor which is probably more important within today's economy than it has been throughout the entire existence of online learning programs. Corporate institutions as well as educational institutions are often motivated to look at the bottom line when determining the livelihood of training and education programs. As blended learning merges online with traditional face-to-face instruction, the cost of travel, classroom space, and instructional personnel are often minimized with these models. Blended course delivery essentially utilizes valuable classroom space at a reduced rate. Most universities today are facing budget cuts and reduced projections for new construction due to the economy. Building additional classrooms to meet the needs of increased student populations is not on the forefront for many. Classroom space usage is frequently reduced by as much as 50 percent by redesigning courses into the blended format.

According to a study by Ira Fink and Associates in 2005, many college administrators cited that their institutions lacked classroom space, but Fink also noted that "on average, classrooms represent just 5 percent of the space on campus" (Sturgeon 2007). Since technology has evolved so quickly, many universities and colleges have difficulty maintaining up-to-date classrooms. Classrooms which were built ten or more years ago often lack the connectivity that is required to accommodate the many facets of technology. Upgrading the classrooms is time consuming as well as expensive. Blended courses and programs implement technology within the online portions of the courses and reserve the classroom meetings for other traditionally-oriented types of instruction.

Student satisfaction is difficult to consider without also looking at student retention. Retention efforts are on the forefront of most colleges and universities. When students succeed they normally continue with their studies at a higher rate than those students who struggle.

Most studies find that students respond positively to interaction with faculty. Support and communication from the faculty within a course or program help give the student a sense of belonging or a connection. Blended courses have the advantage of providing the personal interaction with the students during the face-to-face portion of the course or program.

Why is ***faculty satisfaction*** important to a successful blended program? The teacher is responsible for bringing the course content to life for the student learner, so a positive, satisfied teacher will provide a better learning environment for the students. Faculty as well as students can benefit from multiple learning environments. For many instructors, the interaction with their student learners is extremely important, and the blended environment provides the personal avenue of teaching and learning. Some faculty and administrators are hesitant to endorse the online arena due to fears that the quality and integrity of the programs are at risk. Blended courses and programs may also be an acceptable compromise for those in the academic arena who doubt the value of online courses. By blending courses with both online features along with classroom meetings, faculty who are resistant to the online delivery systems may be more supportive of this approach.

WHY CHANGE?

Change is a small word which is has been used to justify making adjustments within many walks of life today. There are many for-profit universities and colleges making a noticeable impact on the way individuals are gaining their formal higher education. Since these institutions have gained much of the online market, blended courses can be the compromise many traditional universities can implement in order to offer a change to instructional delivery to both meet the needs of the client base as well as the hierarchies within the educational communities. Typically when the economy suffers, we see an increase in higher education student enrollments. The blended environment allows more flexibility for the unemployed student to have time to schedule job searches and/or supplemental earning opportunities. Blended courses also provide an avenue for continuation of the learning process when there are weather-related closures of campuses, illness outbreaks and quarantines, national disasters, holidays, and/or memorials. Students are acquainted with the online mechanism, and faculty can work with their students electronically if traditional face to face schedules have to be altered.

WHO MAKES UP THE BLENDED AUDIENCE?

Today's blended audience is made up of those who read their newspapers online, they download their music one song at a time, they purchase e-books rather than traditional textbooks, they own a Kindle and are thinking about purchasing an I-Pad, and most likely they belong to the Digital Natives, Generation Y, or Net Generation demographic groups. The Net Generation expects visual enhancements, exploratory opportunities, and participative learning experiences. Digital Natives have always had electronic technology; they don't remember a time without computers or cellular telephones. They were probably born after the mid-1980s, and they make up much of the traditional higher education population today. Generation Y, Net Generation, Millennial Generation, are other identifying terms for these young people.

Another term that is often used is Digital Immigrant, and many of our university faculty fall into this category. We did not grow up with the technology, but we strive to adopt it as well as all of its benefits. We sometimes struggle with the changes which are required to stay abreast of the vast technological changes.

SUMMARY AND CONCLUSION

As our world moves quickly from one technological development to another, educators and administrators within institutions of higher education must keep pace with the changes. By offering blended courses the schools can increase access to education to a broader student population, improve efficiency of classroom space, improve student learning outcomes, decrease building and facility costs, decrease commuting costs, and expand technology-enhanced learning.

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STUDENT ARTICLE: ETHICAL LEADERSHIP

Morgan Gliko

Many individuals are put into the position to lead, but lack the ethics and values to make the decisions that are in the best interest of their followers. The most important role within any organization or other aspect of life is the individual who takes charge and motivates others to follow. Within this article we will look at ways to improve our leadership qualities, look at examples of good and bad leaders throughout history and touch on the leadership style of servant leadership. Servant leadership is becoming a necessity for the 21 century employee. Empathy, communication, and emotional intelligence are becoming the standard qualities that our 21 century leaders need to be successful. The challenging role of leadership is always being tested, but the decisions that are made are used to measure our success. If our values and ethics are strong and never compromised, success will always follow.

Leaders make decisions based on right and wrong, and the beliefs of every individual vary. Defining ethics is a task that has many different variations that differ from each individual trying to define it. The character and beliefs of every individual differ from every person put into a position to lead. We base our decisions on what we as a leader believe to be the right or wrong at that particular point in time. We can learn to develop our ethical behavior just as we developed our views of right and wrong when we were in preschool. Being a leader is a position that requires treating every individual with dignity and respect. Being a leader is not a job, it is who we are. “Leaders aren't born. Neither are great artists, but both are born with potential” (McCrimmon, 2011). Developing our leadership ethics not only improves the quality of life for employees, it improves the life of everyone around you.

The two best ways for improving our leadership skills is through continuing education and developing our emotional intelligence. Being in a leadership role is the most important part of the team based atmosphere. It makes sense for organizations to invest in the most influential piece of the business world. Continuing education is an ongoing plus for both organizational success and employee productivity. “Emotional Intelligence is the ability possessed by an individual to manage his/her own and others emotions with whom he/she interacts” (Singh, 2007). The ability to lead is accomplished by the leader’s ability to control his or her emotions. The emotions of a leader have a direct effect on the people he or she is leading. For a leader to have the full respect and trust over his or her followers they must be able to motivate, manage emotions, have self-awareness, have empathy, and be able to communicate effectively. Emotional intelligence is highly underrated, but these qualities are the foundation of trust, and trust is the foundation of leadership.

A true leader is one that acts based on interests of others. This approach to leadership is defined as an altruism approach. "An altruism approach suggests that actions are moral if their primary purpose is to promote the best interests of others" (Northouse, 2007). Very often leaders are looking out for their own interests which their compromised ethics can jeopardize the goals of an organization or team. There are many examples of poor leadership for anyone to reference such as Adolf Hitler and all the way down to the local drug store manager down the street. However, can we truly believe that all leaders past and present have the true interests of his or her followers at heart? The true meaning of being a leader is performing selfless acts that promote the good of others. Every day is an opportunity for growth in maximizing our performance in dealing with people, customers, and employees. Organizations are faced with poor management and communication that affects morale and the organizations bottom line. Guidelines for hiring managers are very vague and can range from time in service or higher education, but continuing education is the key to success. "Research conducted by CEB suggests that effective managers can have an enormous impact on a company's bottom line. They can increase the retention level of direct reports by 40 percent and performance levels by 25 percent. Thus it is no surprise that 60 percent of the 250-plus heads of HR at midsize companies recently surveyed by CEB's HR Leadership Council see improving managers' capabilities at developing direct reports as their highest priority in 2011" (Corporate Executive Board, 2011). Leadership is based on continuing education and developing communication skills. Organizations are going to have to invest in their leaders to improve the environments for their employees.

On Sunday November 6, 2011 Randy McClain of the Tennessean Business section of the newspaper wrote an article called the "Era of Bad Feelings sours workplaces." Within the article McClain states that "employee loyalty is drooping worldwide, but the trend seems most pronounced in the United States." A research firm called Mercer has conducted many recent surveys concluding that employees are not concerned with pay and benefits, but about the quality of their leadership. "A perceived lack of respect for what they do and a widening imbalance between hours spent a work and time at home" are what concerns employees most. The result of this widespread lack of leadership and worsening economy are anger and high turnover rates. CEO's and managers need to start promoting continuing education either within the workplace through workshops, or provide incentives for their employees to go back to school. CEO's and managers need these types of programs to boost morale and promote growth within. The answer is not longer hours, but rather how productive can your hours be. Using the old excuse "you're just lucky to have a job" is not the answer either. Intimidation is a sign of poor leadership that cries panic. The answer is strong leadership that truly cares for their employees to promote growth and retainability. The Mercer company also found within their surveys that "the four top factors influencing how motivated employees feel are, in order: being treated with respect, work-life balance, the quality of leadership and working in an environment where employees feel they can offer good services to others." This type of atmosphere is what a strong, ethical, and fair leader can bring to an organization.

Examples of leadership can be found all throughout history, but few give us examples of selfless acts that benefit our followers. Most of the leaders that are held in high regard like President Andrew Jackson have accomplished great things for the United States, but it came at the expense of Native Americans through the removal of Native Americans to reservations. Power and money are usually the culprits that compromise our ethics, but there are a few who stand alone, and have shown true leadership. Chief Joseph is one of those people. In 1877 Chief Joseph tried to lead his people, the Nez Perce, into Canada to ensure their safety in a time when the United States government's goal was to relocate most Native American tribes to reservations. All this man wanted was peace, and would endure anything to keep his people safe. Chief Joseph forged off many U.S. attacks, but in the end he and his people were forced to relocate to a reservation. Chief Joseph had the best interest of his people at heart, and would do anything to prevent his tribe of bloodshed.

Servant leadership needs to become a common practice to fulfill the needs of today's employees. More and more employees are craving empathy and communication, opposed to pay and benefits. Quality of life is not just a paycheck anymore as we see a transition of monetary driven results of the past, substituted for an engaged employee who enjoys going to work. This type of leadership is one of pure intentions, and not for self-gains. If the leadership within todays businesses in our country would take the time to learn from this type of leadership, the country and business world would see a change for the better. There are ten principals to servant leadership that create the type of leader employees are craving. These ten principles were taken from Butler University.

The first is “listening, traditionally leaders have been valued for their communication and decision making skills. Servant-leaders must reinforce these important skills by making a deep commitment to listening intently to others. Servant-leaders seek to identify and clarify the will of a group. They seek to listen receptively to what is being said (and not said). Listening also encompasses getting in touch with one's inner voice, and seeking to understand what one's body, spirit, and mind are communicating.”

Second is “empathy, servant-leaders strive to understand and empathize with others. People need to be accepted and recognized for their special and unique spirit. One must assume the good intentions of coworkers and not reject them as people, even when forced to reject their behavior or performance.”

Third is “healing, learning to heal is a powerful force for transformation and integration. One of the great strengths of servant-leadership is the potential for healing one's self and others.”

Fourth is “awareness, general awareness, and especially self-awareness, strengthens the servant-leader.”

Fifth is “persuasion, servant-leaders rely on persuasion, rather than positional authority in making decisions. Servant-leaders seek to convince others, rather than coerce compliance. This particular element offers one of the clearest distinctions between the traditional authoritarian model and that of servant-leadership. The servant-leader is effective at building consensus within groups.”

Sixth is “conceptualization, servant-leaders seek to nurture their abilities to "dream great dreams." The ability to look at a problem (or an organization) from a conceptualizing perspective means that one must think beyond day-to-day realities. Servant-leaders must seek a delicate balance between conceptualization and day-to-day focus.”

Seventh is “foresight, foresight is a characteristic that enables servant-leaders to understand lessons from the past, the realities of the present, and the likely consequence of a decision in the future. It is deeply rooted in the intuitive mind.”

Eight is “stewardship, CEO's, staff, directors, and trustees all play significance roles in holding their institutions in trust for the great good of society.”

Ninth is "commitment to the Growth of People, servant-leaders believe that people have an intrinsic value beyond their tangible contributions as workers. As such, servant-leaders are deeply committed to a personal, professional, and spiritual growth of each and every individual within the organization."

Finally tenth is "building community, servant-leaders are aware that the shift from local communities to large institutions as the primary shaper of human lives has changed our perceptions and has caused a feeling of loss. Servant-leaders seek to identify a means for building community among those who work within a given institution."

Being a leader means serving others; serving others leads to success. The measurement of success depends on the values of the leader. If power and money are what motivate you then that is your choice, but true leadership lies within the wellness of the follower. To lead we must first follow and keep in mind that a true leader never compromises his or her ethics, and only then will you have an ethical leader.

In conclusion, the learning process for becoming a great leader never stops. Emotional intelligence and communication are key aspects of building the trust needed for a successful relationship. Leaders motivate, empower, lead by example, and mentor others for success. Using the examples above and having a true understanding of ethical leadership gives us a foundation to carry on and motivate others to follow. A true leader is very rare because his or her ethics will not be compromised, and the temptation of power and money are not a measurement of success. The evidence of this is supported in the article of the Tennessean based on Mercer's findings. Employees and people in general need someone who they know cares first and foremost. In all aspects of life, strong ethical leadership has a positive effect in whatever comes our way. Leadership is a lifelong continuing process of experience and continuing education to become the best possible leader for your followers.

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BOOK REVIEW

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Hulsart, Robyn and McCarthy,Vikkie (2011). ***Why the Free Market Must Be an Ethical Market: The Role of Business Schools in Moral Education.*** **Edwin Mellen Press, 168 pages. ISBN: 0-7734-2562-4**

When is enough, enough? Will business scandals continue to be the norm? *Why the Free Market Must Be an Ethical Market: The Role of Business Schools in Moral Education* makes the compelling case for teaching business ethics and provides a practical prescription for examining business ethics and increasing its importance in the classroom. A prescription requires an ailment (lack of business ethics), patients (global business community and business education programs), and a physician (this and other similarly-themed books). This timely book provides the methods required to raise the level of understanding of business ethics inside and outside of the classroom.

Corporate malfeasance, always a part of the business landscape, has proliferated greatly in recent decades (Holbrook, 2011). New cases continue to be in the mainstream of the public's consciousness and are a challenge for both business and practitioners of business education. An article in the New York Times (Story & Morgenson, 2010) discusses a Security and Exchange Commission (S.E.C.) filing against Goldman Sachs.

The focus of the S.E.C. case, an investment vehicle called Abacus 2007-AC1, was one of 25 such vehicles that Goldman created so the bank and some of its clients could bet against the housing market. As the Abacus portfolios in the S.E.C. case plunged in value, a prominent hedge fund manager made money from his bets against certain mortgage bonds, while investors lost more than $1 billion.

The discipline of business ethics is one that is needed in the classroom now more than ever (Cornelius, Wallace & Tassabehji, 2007). There is a gap in the field of business ethics and its place in the classroom. The audiences for this book are first and foremost the academy, for it is here where real change must occur with the future business leaders of tomorrow. Faculty will find this book interesting and a practical guide to incorporate business ethics in the classroom, and students will gain a richer understanding of why ethical actions learned in the classroom will need to turn to practices in the global business environment.

The MBA Oath (Anderson & Escher, 2010) argues professions such as medicine and the law are held to a higher standard than most professions; therefore, why is this not the case with the business profession? They argue there is a real and compelling need for business ethics to be a key component in the education of the MBA student, and this education of ethics needs to be delivered across all sectors of the business degree curriculum. *Why the Free Market Must Be an Ethical Market: The Role of Business Schools in Moral Education* adds greatly to this conversation.

This review will examine the book chapter by chapter, with the first chapter introducing the historical foundations of leadership and ethics in higher education.

Chapter two, "The Role of Business Education" makes a statement concerning the role of ethics in business education, and takes a historical look through the American Council on Education's 1997 study and the AACSB Leadership Task Force Report. The MBA is an oft-maligned figure who has to apologize for his status in the business world. Out of this degradation has come forth a movement to legitimize business school education. The MBA Oath (Anderson & Escher, 2010) lists six salient arguments for ethical education in the classroom: (a) high standards equals organizational accountability; (b) our (business ethics) troubles are not all behind us; (c) the MBA Oath is more than just a public relations campaign; (d) character alone is not enough; (e) we cannot rely on the law alone; and (f) the MBA Oath is a good first step in creating an ethical awareness in business education.

Chapter three introduces the reader to the gap between theory and practice in business education. Three cases are examined, with the footwear and apparel clothing company Timberland singled out for praise in their CSR and ethics management. These three cases exemplify the importance of a foundation ethical leadership for any company competing in today's global business environment. Cornelius, Wallace & Tassabehji (2007) suggest the ethics taught in business school education must be transferrable to the Corporate Social Responsibility framework found in the business community. Hulsart & McCarthy suggest in this book that this integration of ethical culture can be transferred to the corporate culture through a holistic approach, primarily through promoting and modeling to today's students, tomorrow's business leaders.

Chapter four, "Creating an Ethical Classroom Environment" provides many ideas on cheating in the online classroom, with a special emphasis on high-tech cheating. Styron & Styron

(2010) discuss ethical considerations within the online learning environment. E-cheating is their term for student academic cheating in the online learning environment. They go on to recommend four strategies to combat cheating in the online learning modality. The strategies are: (a) the professor's understanding of the advantages and disadvantages of the online modality; and then creating methods to accentuate the positives and mitigate the negatives; (b) create meaningful assessments; (c) use original assignments; and (d) implement an honor code or other written policy concerning student academic integrity. The stratagem supports the chapter's theoretical model for creating a trusting bond between students and professors, emphasizing the professor's leadership role in the relationship.

Since the explosion of online education, universities have implemented honor pledges, certificates verifying originality of a student's work, and other tools in order to minimize cheating. The authors make a strong case of the instructor having the most important role in facilitating trust and the university's policies in the classroom. The chapter contains a theoretical model for creating a bond between student and professor. They go on to demonstrate an ecosystem of an online course. This model integrates cyberspace, society, university/college department, the online course, and the dyadic relationship between instructor and student.

Chapter five is probably the most important chapter in the text: "Changing Views of Business Faculty". This quantitative analysis investigates the rising concerns of cheating in the online modality. Cheating in all modalities is a reality. Rakovski & Levy (2007) found support for the hypotheses that students were likely to cheat more often in out-of-classroom activities and believe in-class acts (exam-based acts) were the more serious of the two offenses.

Chapter five outlines the unique challenges of creating such climates in online education. The rise of online education will continue to contribute to concerns regarding academic integrity. In this chapter, the focus is specifically on incidences of online cheating and establishing climates of academic integrity for online courses. An interesting component of this chapter discusses the technology employed by students (smartphones, iPods, tablet computers, etc.) in order to cheat in the classroom. The authors discuss the online tools available to faculty to combat these challenges; however, the key is to have faculty know as much, if not more, about these tools than students.

Chapter six examines ethics and role in Corporate Social Responsibility. Business students need to be prepared in order to increase their receptiveness (readiness) of business ethics instruction. Cano & Sams (2011) examined a group of students to determine the scale of cheating in a classroom setting. They discovered a group who only were read a statement on academic integrity at the beginning of a semester was more likely to cheat than a group who were regularly reminded about ethics in the classroom.

The book concludes on an optimistic note with the future of business ethics education. In order to change the ethical climate in the academy, it is argued the key to changing the paradigm is in establishing meaningful and measureable goals in the delivery of business ethics education. It is again stressed the importance of leaders as the key to the academic integrity movement: accrediting organizations, colleges, deans, and faculty all have key roles in creating the desired change.

This book presents a fresh approach for academics in the field of business managements who are looking for a prescriptive approach to implement ethics into their curriculum. I recommend this book for both students and faculty alike and think this would be a good textbook in the study of business ethics.