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Our Accomplishments

Daniel E. Vetter
Editor-in-Chief

"Keep up the good work!"

This editorial is my last one. Therefore, I believe it is fitting to summarize the *Journal's* accomplishments over the past three years as well as make you aware of the highly professional and wonderful people I've had the pleasure to work with during my tenure.

As you probably know, the *Journal* serves two audiences—the business educator and the practitioner. We publish readable papers, mainly written by academic scholars, which also provide business insight to practitioners. It is not always easy to satisfy both clientele with the same manuscript. Some submissions are just too theoretical for our audience. Even some of the high quality empirical papers we receive must be edited to include practical implications. Then again, to satisfy our scholarly readership, these empirical papers should also make a reasonable contribution to the literature, The bottom line is that each paper should be interesting to a wide audience.

We also publish papers dealing with business education. Papers can use methodologies to measure the impact of innovative business education practices or approaches. Shorter papers describing teaching innovations and the use of technology in the classroom are also welcome. Business education papers are published on an ongoing basis. However, due to the topic's overall importance, we recently devoted an entire journal issue to business education. This special issue, *Bridging the Gap Between the Practitioner and the Educator*, was distributed nationally to most business colleges. If you would like a copy of this excellent issue, please contact Judy Lane at Ball State University. In addition, a special issue focusing on *Crossing Functional Lines-Creating Business Strategies* is scheduled for Spring 1998. For more information on this issue dealing with breaking down the traditional functional lines, contact our new Editor-in Chief, Rocky Newman at Miami University.

We had a number of other important accomplishments in the last three years. The significant editorial change that we instituted (credit goes to previous editor, Ray Gorman) is the more expanded role of the associate editors. They now have complete responsibility for the review and acceptance process for manuscripts in their areas of expertise. This process has reduced the possibility of accepting an inappropriate paper, and at the same time has reduced our acceptance rate to 15% for the last three years.

To maintain and improve the *Journal's* quality, the current editorial board is developing relationships between the *Journal* and several professional associations as well as inviting papers from distinguished scholars. Hopefully, nurturing these relationships will attract even more high quality manuscripts.

You may not be aware that our business college Deans provide the financial support for the publication of the *Journal*. They also have the opportunity to voice their opinions and viewpoints in the Dean's Forum. Our newest sponsoring institution is the College of Business at Northern Illinois University. The support and participation of this fine institution will even further improve the *Journal*.

It has been a sincere and very rewarding experience to work with the current Editorial Board (Ramon Avila, Jerry Kreuze, Rocky Newman, John Schemerhorn, and Sue Visscher). Karen Lewis at Central Michigan University provided much needed administrative support to keep the correspondence flowing. Thank you to Judy Lane, our Managing Editor. Judy keeps us focused, provides leadership support, and, most importantly, makes sure each issue gets published. Her editorial expertise and devotion to detail are greatly appreciated. Finally, the journal is being left in great hands. Keep up the good work!

Critical Success Factors for Community-Based Education

David Graf
Dean, College of Business
Northern Illinois University

"... we must be accessible, collaborative, and collegial in our relationships."

This issue marks the reentry of Northern Illinois University into the Mid-American Conference. It is also an opportunity for us to reaffirm our support for the *Mid-American Journal of Business* as a medium for innovative business education into the next century.

As we approach the 21st century, higher education finds it necessary to examine its core values. The National Association of State Universities and Land-Grant Colleges obtained the support of the W.K. Kellogg Foundation to examine the future of public higher education. Their first report issued in 1997, "Returning to Our Roots: The Student Experience," asks that we reject the notions that 1. college education always culminates with a degree, 2. the student is a full-time 18-25 year old and 3. the university experience is a campus experience.

American Assembly of Collegiate Schools of Business (AACSB), The International Association for Management Education, has provided colleges of business the opportunity and responsibility to become inclusive learning communities. The 1991 adoption of "mission-linked" accreditation standards and procedures led colleges of business to examine their common purpose — effective management education. In addition, it allowed us to celebrate diversity in our approaches.

The outcomes of the Kellogg Commission reports and the AACSB continuous improvement process asks us to seriously examine our core values. Do our core values reflect new delivery systems for degree and non-degree programs? Do they reflect the demographics and needs of our learners? Do they reflect a system which includes faculty and staff as part of the learning community?

A three-year strategic planning process at Northern Illinois University has led our stakeholders to reflect upon our response to these and other questions. The result of this self study has pointed to the need to develop core values required to meet new challenges in education. This self study is not unique to our university. The basic need to be "community-based" is common to all colleges of business. Critical to successful change are several factors.

We need to examine and develop the relationships between college/university, learners/alumni, and the business community. The relationships are both collegiate and personal. In the end we must be accessible, collaborative, and collegial in our relationships.

For learners to benefit from our relationships, we must reinvent our communication system. Technology is an important tool for communicating to our community. Technology only provides us with the means to communicate. To actually create an information sharing culture requires us to understand our individual roles within our mission. This requires pride in our accomplishments and the desire to share them with others.

Committed participants will be needed to provide an effective learning environment. Contributions can come from any participant-learner, business community, faculty, and staff. The organization will have a process to reflect on new ideas. The organization has a method of measuring quality innovation.

The efforts of an organization need to be coordinated. We will all need to have a global view of our learning environment that includes the physical spaces and technology that connects them, faculty and staff development, and the reward systems to support and encourage the people working in this environment. With the right structure and systems, we will be able to assess our individual and collective efforts to meet our objectives.

Our organizations have been downsized and rightsized. The upside of this process is the discovery that we cannot operate alone. Nor should we. The core values needed by students, business, faculty, and staff form the sense of community we need to address the changes to come in education.

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Situational Leadership:
Conversations with Paul Hersey

John R. Schermerhorn, Jr., *Ohio University*

"It is not enough to describe your leadership style or indicate your intentions. A Situational Leader assesses the performance of others and takes the responsibility for making things happen." *– Hersey*

***Paul Hersey** is known internationally as an educator, trainer, lecturer, and conference leader. Founder and CEO of the Center for Leadership Studies, he has helped train more than four million managers from over 1000 organizations worldwide, including Mobil, IBM, Caterpillar, Harris, and Illinois Bell. In the middle 1960s, Hersey's research at the Center for Leadership Studies led to the development of the Situational Leadership Model, an approach to leadership that has become widely accepted in the United States and other countries.*

*Author of the popular book **The Situational Leader**, Hersey joined Ohio University as Professor and Chair of the Management Department in 1966, and left in 1975 to develop his leadership center as a major global training organization. He has been recognized for his contributions to leadership studies by the Academy of Management and the American Society for Training and Development. With experience presenting Situational Leadership in more than 125 countries, Hersey continues to provide training and consulting expertise in leadership, management, education, sales, program development, and research. He was recently given the 1997 Award for Achievements in Business by the College of Business at Ohio University.*

Introduction

My interview with Paul Hersey took place over a period of time during the beautiful Southeastern Ohio autumn. It was all opportunity. Paul had returned to Ohio University to serve as a distinguished visiting professor at an institution where his academic career had begun some years previously. I knew that he was coming to OU, but I had never met the man. Of course, his leadership model had been part of my textbooks and courses for years. Then one day at the start of fall quarter, a new face appeared in my office door. Tanned, mustached, and with an air of confidence, there was no mistaking its identity. "You must be Paul Hersey," I said. "Hi," came the reply as a strong hand reached out to shake mine. "Dewey Johnson told me you were a good guy," said Paul, "I wanted to say hello."

And say hello he did. That first meeting led to many sessions in which I had the opportunity to ask questions relating to Paul's leadership ideas, their origins, and their global applications. Just as important, though, our conversations allowed me to travel with him through a career of international professional recognition, consulting assignments with the premier corporations of our day, and the accomplishments of true entrepreneurship. Finally, I enjoyed his ideas about teaching and learning, ideas conveyed to me with the same excitement his students must have felt when he entered his first class at Ohio University and announced the topic for the day — leadership!

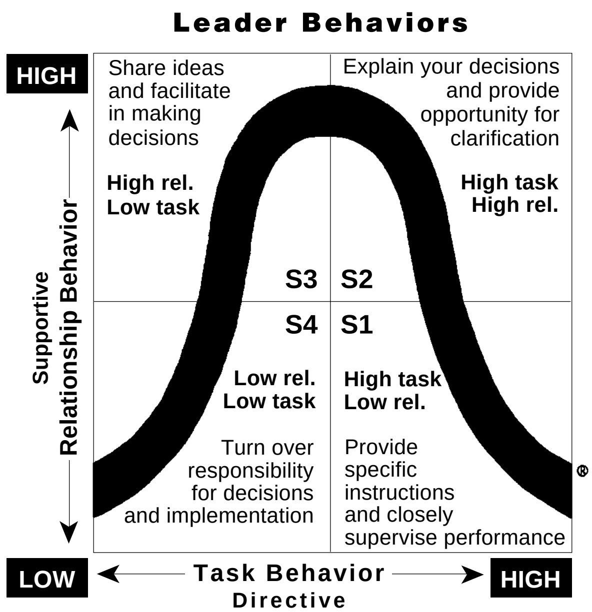
What follows is a question-and-answer selection from my interview with Paul about his leadership ideas. The goal of the presentation is to provide a historical context for Situational Leadership, and to better acquaint readers with his some of Paul's personal views and interpretations. For added background, a summary of Situational Leadership is reproduced here, along with a figure describing the model in detail.

Situational Leadership® Developed by Paul Hersey [1]

Over the last few decades**,** people in the field of management have been involved in a search for a "best" style of leadership. Yet, the evidence from research clearly indicates that there is no single all-purpose leadership style. Successful leaders are those who can adapt their behavior to meet the demands of their own unique situation.

A Situational Leadership® Model helpful to managers in diagnosing the demands of their situation has been developed as a result of extensive research. As shown in Figure 1, Situational Leadership is based on an interplay among (1) the amount of direction (task behavior) a leader gives, (2) the amount of socio-emotional support (relationship behavior) a leader provides, and (3) the "readiness" level that followers exhibit on a specific task, function, activity, or objective that the leader is attempting to accomplish through the individual or group.

Figure 1
Situational Leadership Model



HIGH Follower Readiness LOW

R4	R3	R2	R1
Able and willing or confident	Able but unwilling or insecure	Unable but willing or confident	Unable and unwilling or insecure

Task behavior is the extent to which a leader engages in one-way communication by explaining what each follower is to do, as well as when, where, and how tasks are to be accomplished. *Relationship behavior* is the extent to which a leader engages in two-way communication by providing socio-emotional support, "psychological strokes", and facilitating behaviors. *Readiness* is the ability and willingness of a person to take responsibility for directing their own behavior in relation to a specific task to be performed.

According to Situational Leadership, as the level of readiness of the follower continues to increase in terms of accomplishing a specific task, the leader should begin to *reduce* task behavior and *increase* relationship behavior. This should be the case until the individual or group reaches a moderate level of readiness. As the follower begins to move to an above-average level of readiness, it becomes appropriate for the leader to decrease not only task behavior but relationship behavior as well. Now the follower is not only ready in terms of the performance of the task but also is confident and committed. People at this level of readiness see a reduction of close supervision and an increase in delegation by the leader as a positive indication of trust and confidence.

Thus, Situational Leadership focuses on the appropriateness or *readiness* of the follower. This cycle can be illustrated by a bell-shaped curve superimposed on the four leadership quadrants, as shown in Figure 1. The labeling of the four styles of Situational Leadership shown in the Figure is sometimes useful for quick diagnostic judgements:

High-task/low-relationship leader behavior (S1) is referred to as "telling" because this style is characterized by one-way communication in which the leader defines the roles of followers and tells them what, how, when, and where to do various tasks.

High-task/high-relationship leader behavior (S2) is referred to as "selling" because with this style most of the direction is still provided by the leader. The leader also attempts through two-way communication and socio-emotional support to get the followers psychologically to "buy into" decisions that have to be made.

High-relationship/low-task leader behavior (S3) is called "participating" because with this style the leader and followers now share in decision making through two-way communication and much facilitating behavior from the leader, since followers have the ability and knowledge to do the task.

Low-relationship/low-task leader behavior (S4) is labeled "delegating" because the style involves letting followers "run their own show." The leader delegates since the followers are high in readiness, have the ability, and are both willing and able to take responsibility for directing their own behavior.

Paul Hersey Interview — Situational Leadership: The Model

Q **Schermerhorn**
In order to get started Paul, what is your preferred summary description of Situational Leadership theory?

A **Hersey**
First of all, I would not call Situational Leadership a theory. I would consider it a model. The difference is that a theory is something that you construct to analyze or understand a given event, whereas a model is something that you can take out and replicate and use in a variety of different settings. An example is the

manufacturing model developed by Henry Ford in his mass production facility. Perhaps early on, up through the time when I wrote an article entitled "Life Cycle Theory of Leadership," Situational Leadership was more of a construct. But now it is something practical and applicable, and it is being used all over the world.

Digressions

Schermerhorn: Let's discuss the history of management thinking for a moment. I have always been partial to the work of Douglas McGregor (1960). But whenever I speak about his views in my classes today, students invariably ask: "How can a book from the early 1960s be that important today?" The students seem so focused on the present that they have difficulty relating to anything historical. Are we so far advanced now that the thinking of Douglas McGregor and other historical leadership and management scholars is out of date?

Hersey: Absolutely not. In fact, if I look back on the people who made an impact on my life I value having had the opportunity to learn from those like Douglas McGregor, Carl Rogers, and others. I can't remember who said it, but I've always valued the expression: "We can see so much further from the shoulders of giants."

Schermerhorn: That's a beautiful statement. One of the things I worry about with our business education today is that we don't want to recognize the giants of the past anymore. In fact, the new giant is available right here on my desk — it's the Internet. The growing tendency of our students is to look only toward it for the information and ideas they need. As wonderful as the Internet is as a resource, the tendency of students to increasingly rely on it in for most of their information scares me.

Hersey: The balance must be kept between high tech and high touch. I think that we are losing the balance. The technological revolution of communications is important; it's the difference between surviving in business today and not. But you can't balance very long on a stool with one or two legs. We need all of these balances to keep things on an even scale.

Q ***Schermerhorn***

Let me make sure that I understand your distinction between a theory and a model. You do not call Situational Leadership a theory, because a theory is targeted toward understanding; you prefer to call it a model, because a model is targeted toward use or application. Is that correct?

A ***Hersey***

Yes. I view a model as applications-oriented, and that is precisely what Situational Leadership is all about. Now, getting back to your original question I would summarize the model this way. Situational Leadership is about being effective as a leader. This involves matching your leader behaviors (those behaviors you use when attempting to influence someone else) with the needs of the individual or group that you are working with. It is adapting the combination of directive behaviors and supportive behaviors appropriately to the readiness of others to perform specific tasks or functions.

Q ***Schermerhorn***

Let us assume that there are fifty leadership trainers and management educators at various locations in the world who are at this moment talking with audiences about Situational Leadership. Do you worry at all that the model is being properly described by them?

A ***Hersey***

Absolutely! This is a major concern and it is something that we have worked hard to deal with. At the Center for Leadership Studies we select very carefully those people who represent us around the world. Anyone who becomes "certified" as a Situational Leadership trainer comes to us to be trained. We work closely with them to clearly establish expertise in the model. Then, if they work in different countries, they are responsible for translations into languages other than English.

The model is presently translated into eighteen or nineteen languages. Obviously I don't understand them all. But I do work with the people who are doing the translations, and I try to keep that as uncontaminated as possible. Of course that doesn't mean that all translations are perfect, but it keeps them reasonably accurate. Judging by the acceptance which Situational Leadership has achieved around the world, we are pretty delighted with what's going on.

Even so, there are many other people teaching the model that haven't been trained by us. In these cases I don't really know how accurate their descriptions are. My gut feeling is that the basic concept will get across, that is the need for leaders to select influencing behaviors that are appropriate to their situations. Even though the model may not be explained in as complete or exact a way that I would like, the fact that the basic notion behind the model is being communicated is an accomplishment. It is probably better than allowing everyone to think about leadership in normative terms.

Q **Schermerhorn**
What do you mean in this reference to "normative" in leadership thinking?

A **Hersey**
If you go back to the 1960s leadership thinking was concentrated on finding some magic solution to the problem of creating effective leaders. An example is the "grid" notion developed by Blake and Mouton (1979). It is an excellent model as long as you understand what it is and what is isn't. The grid identifies concerns for production and concerns for people, but these are about values and attitudes. We all hope that every manager in our organization is highly concerned about end results—production, and highly concerned about developing the human resource—people. There's no question about that. The problem that some of the grid folks fell into, however, was drawing behavioral conclusions from a model based on attitudes. Situational Leadership extends this approach into a behavioral dimension. Given preferred values and attitudes, the leader's question becomes: "how do I behave?"

Q **Schermerhorn**
In Situational Leadership, "diagnosis" is an essential part of the skill that you are trying to teach. Is that correct?

A **Hersey**
Yes. Situational Leadership gives us a way as managers or as leaders to be just as professional as those who practice medicine or law. It also says that we cannot be professional by just writing prescriptions. A prescription without diagnosis is malpractice. What Situational Leadership teaches is that you need to do your diagnosis first and then act on it to provide those things that can make a difference.

Q **Schermerhorn**
When you get into situational diagnosis I begin to think about the contingency leadership theories of Fred Fiedler (Fiedler, Chemers and Mahar 1978) and Robert House (1971). In what ways is your thinking similar to those from this school of thought?

A **Hersey**
The big difference between Fiedler and me is that I believe we can help people learn to change their behaviors so they don't have to be replaced as leaders. I believe that leaders can learn to positively impact different kinds of situations. I believe that through training, people can become more effective leaders in a variety of situations.

Again, what we attempted to do in the middle or late 1960s was to provide a simple model, something that people can carry around with them. People have asked me many times: Why four styles, why four levels of readiness? Why not 5, why not 8, why not 81, like the Managerial Grid?" My response is that for a model to have any value it has to be used — and for it to be used it has to be simple.

My dad worked for Bell Labs and held the original patents on the dial system for telephones. When people were first given telephone numbers they made all kind of mistakes. Most numbers were five or six digits, some seven. What researchers eventually found was that as long as you kept the numbers in sets of four or less, the mistakes went way down. People can handle in their minds sets of ones, twos, threes, and fours. When you get beyond that you get lots of mistakes in the dialing system.

So that's where the "four" came from in Situational Leadership. It seemed to be the best number for people to remember. We didn't want the model to get too complicated. We wanted it to be remembered and used.

Q **Schermerhorn**
So many of our models and theories in management and organizational behavior today are terribly complex. They often seem more designed to communicate with scholars than practitioners. I don't get that sense in your model. It seems to have been designed for the manager or leader as end-user right from the beginning. Am I correct?

A **Hersey**
I think so. My concern has always been to offer something that can make a difference in the real world. Some time ago I was on a panel where someone remarked that too many academic publications were a lot to do about nothing. I don't know if that's totally correct. But, if something doesn't make a difference in the real world, if you can't go out and apply it, if it isn't going to help someone manage more effectively, what is it really worth?

I think that my career has been built around caring for the practitioner. Part of this is of course due to the fact that before I became a professor I had ten years of business experience.

Q **Schermerhorn**
I would like to push a little bit further on the research issue. What about the scholarly literature that has developed around the Situational Leadership model? Are you satisfied with it? Has the model been adequately treated by researchers?

A **Hersey**
I'm not sure that I really have an answer to that. I doubt that you can really pick up a textbook in management that doesn't reference it. There are those

Digressions

Hersey: I am not presently in academe and I have some feelings about the academic world that are quite different. I absolutely do not believe in "publish or perish." I think that is okay for private institutions that are endowed by contributors, but for state-supported universities and colleges I think the primary reason for our being members of the faculty is to equip young people to be effective in some career path. I think the reward systems are now set up inappropriately. Teachers should be rewarded competitively with industry. I can conceive of a model where people can make 150 to 200 thousands dollars a year and stay in the academic world as

Schermerhorn: I have always believed that the most senior faculty should teach the introductory courses. The current system often reverses that — with seniority generally comes assignment to upper-level courses. One of my favorite courses is introductory management. I enjoy teaching it and, to tell you the truth, that's where I believe I should be — at least for a good part of the time. What do you think?

Hersey: I think you should be there. That's where our best people should be. But we tend to have the same problem in industry. If you look at the way organizations were traditionally set up, they were layered pyramids. The higher you advanced the fewer people you supervised directly; the smaller your span of control.

people who publish simply because of the pressure to publish and who enjoy trying to tear down anything that is out there. We are giving people an opportunity to think about the Situational Leadership concept, and to try and find out if it can work for them. That's more what I am concerned about.

Situational Leadership: The Origins

Q ***Schermerhorn***

Does Situational Leadership have its origins in your industrial experience?

A ***Hersey***

Yes, let's talk about that. I spent ten years in a variety of different types of business settings. The last position I had was in a huge technical laboratory. The company had a unique problem. They had seven thousand of the brightest scientists and engineers in the country, perhaps in the world. Most came in with graduate degrees in engineering, physics, or mathematics. They had tremendous technical skills.

But when it came time to become a manger in this company, basically you got promoted based on your technical skills. So the company would often lose a super researcher and gain a very mediocre to poor manager. This was actually Peter's Principle working — getting promoted to your level of incompetence. We weren't using then what I call today the anti-Peter Principle vaccine: training and development prior to being promoted, the opportunity to try the job on a part-time basis before you get promoted to it full-time.

This was an important issue because traditionally, when unsuccessful as managers they were sent back into technical jobs. They had then lost confidence in themselves and their peer group no longer looked up to them as "winners." This was all caused by their unsuccessful experience in management.

So we had people who were no longer productive in the technical role, where they formerly excelled. We didn't want such failures and so we tried to put together a program to help people make a successful transition from technical to supervisory work. We began following the lead of Carl Rogers. We used non-directive interviewing to isolate various skills that were essential to managerial work. These included people skills like questioning, active listening responses, mirroring, encouraging — all things that we associate with Carl Rogers work, and all hands-on things that would be useful in goal setting, performance evaluation, and problem solving. We built an excellent training program where people tried these skills and role-played and internalized them. They didn't just learn the skills in terms of concepts or knowledge; they began to practice and use them before going into their work. As a trainer I would then go into goal setting, problem solving, and performance evaluation sessions to observe their behavior. As a non-participant observer I had no role other than to be a fly on the wall. And you would be surprised what you learn if you push back and aren't directly in view.

I quickly learned that when people, and now I'll use the terminology of the model, were above average in readiness, the people skills worked beautifully for their managers. They had a positive impact. But when the interchange was between a manager and followers with performance problems, the skills derived from Rogers' work didn't work well at all. We began to see that these high relationship behaviors work only in certain situations. That was basically the beginning of Situational Leadership.

Q ***Schermerhorn***

Is it fair to say that in the beginning you had not anticipated that the relationship skills would be situational in their impact?

A **Hersey**

Absolutely. It was my informal hypothesis that these skills are excellent skills and that I could help these people to be better managers just by training them to use these skills—that is, to be a good listener, facilitate participation, talk things over during problem solving. But I noticed that really low performers needed some guidance and direction. Their supervisors could be supportive in small successful approximations as they grew in performance readiness and accomplishment over time.

Q **Schermerhorn**

Have you told this story on the origins of Situational Leadership before?

A **Hersey**

Only orally. In fact one of the first formal times was at an American Society for Training and Development conference. It was the last session of the last day, and I expected nobody to be there. But the audience piled in. One of the questions I got was how did it all really start? Where did it come from?

Q **Schermerhorn**

What I like about your "founding story" is that it describes a model that comes from a clear work reality. In the words of Glaser and Strauss (1967), we might call it well "grounded."

A **Hersey**

As I mentioned earlier, I think that all of us in the field in late 1950s and through the middle 1960s were looking for the golden fleece. We were looking for that magic solution or set of principles that would be useful in any management situation. Yet I think that most of us who were trained as behavioral scientists should have known better. A "principle" according to Webster is "a universal truth." When you are talking about human behavior you are simply talking probabilities — you are looking for things that can help. To use a baseball metaphor, you can't give me the way to hit a home run every time at bat, but you can help me to increase my batting average. That's what we are doing for people with the Situational Leadership model.

Q **Schermerhorn**

I don't know if this is a question or a comment. When you were working to train the scientists and engineers in relationship skills, you ended up seeing something different. From that you eventually created a model of leadership. What interests me greatly is that you were describing something that you had directly and personally observed in the workplace. I contrast this with those of us who build models from what others have written, and from the results of analyzing data taken from paper and pencil measurements. I guess what I want to ask is: Could you or would you have arrived at the same conclusion if you hadn't been there yourself and seen it with your very eyes?

A **Hersey**

I may not have. We are getting better at these things. But it takes work. In fact, we had an interesting problem with this training program — it did a lot of good. When you are in an organization that is of such a high quality, most of the workers skew into the high readiness areas, otherwise they wouldn't be hired. So with the people skills program we had only about 10 to 20 percent failures. Many people wouldn't even have noticed them, instead they focused their attention on the successes. I did notice the failures, and from that came my sensitivity to the situational aspects of leadership.

Q **Schermerhorn**

The tendency and potential risk in such training, you are saying, is to just look for successes and after you find them say — "there they are, so lets go do it again." Is that correct?

A **Hersey**

Yes. In this case that would have meant simply doing more, a lot more, training in relationship skills for supervisors. If I hadn't been in the role of observer, if I hadn't been able to go back and interview both the leader and the follower afterwards and get into some of their feelings, I may not have observed the unsuccessful side of the training and its outcomes. It just didn't happen a high percentage of the times. We were seeing a lot of successes. It was only little-by-little after I had done more observations and interviews that I recognized — "Hey, this is not for everybody."

Q **Schermerhorn**

What happened next?

A **Hersey**

I left the business world and got into the academic world in the early 1960s. Then my contact was not just with one large and successful company. My consulting work grew around a variety of companies of large, small and medium size. They weren't just hiring me to make good things better, but because they had problems that they wanted a consultant to work on. That's when I began to see real differences.

I was working with companies that weren't able to get the very best people and that didn't have high performance at every turn. Then I began to see the "Ah ha's" of a lot of folks who may have been capable and ready when hired, but were now turned off, upset, and no longer performing. It wasn't that they didn't have the ability, but they weren't using it. Remember that is an important slippage, or difference between present or actual performance accomplishments and your performance potential. It is the amount of ability that you are using that counts, not how much you have.

It is the amount of ability that you are using that counts, not how much you have.

Q **Schermerhorn**

Paul, we're about to the end of our interview. Let me ask just one final question in this context. You have described a journey from industry to academe and consulting, with the Situational Leadership model forming in your mind at each juncture. Was the model fully set at this early stage in your academic career, or has it continued to develop further as time passed and your experiences have grown?

A **Hersey**

Yes and no. It wasn't formally worked out in those early years. It was clearly forming, and I knew that I had to make distinctions and train managers to provide different behaviors. It was a model in the rough stages. By the middle 1960s, the time when I joined the faculty at Ohio University, we were calling it the Life Cycle Theory of Leadership. Then it was a theory in my mind and I still had some questions about it. Could we take it overseas? Could we use it? It was far less sophisticated than now as the Situational Leadership Model. By the early 1970s this model was pretty well set, although it has been refined continuously ever since. ■

Note

1. The figure and summary are adapted with permission from *Situational Leadership® A Summar*y, developed by Paul Hersey. Copyright © 1979, 1998, 1993 by the Center for Leadership Studies, Inc. All rights reserved.

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Can Technology Even Things Up for Community Banks?

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Abstract

Community banks are the smallest of the commercial banks in the United States. They have been bracing to cope with the impact of interstate banking, with the distinct possibility of large banks encroaching on their hitherto protected market territories. The challenge for these banks has been one of survival in an environment dominated by "mega" banks and non-bank financial firms able to provide the customers with an array of services at lower cost. In this environment, information technology plays a prominent role. The main purpose of our research was to find out how community banks perceive competitive threats from larger banks, how they have attained a threshold level of technology, and what they consider to be their strengths in competing with the larger rivals.

Introduction

The passage of the Interstate Banking Act in 1994 has brought many changes and uncertainties to community banking. Community banks, by definition, are financial firms with less than $600 million in assets whose scope of operations is often limited to local communities. The community bank executives fear that, as in Canada, the United States will consolidate its banking system to the point of having less than 400 banks in the country once large banks cross state lines with branches. On the other hand, they also look at their market and see that they are currently successfully competing with larger subsidiaries of out-of-town bank holding companies and small savings and loan associations and credit unions. They wonder if this will continue and, if so, for how long.

While the Fed Chairman (Greenspan 1996) pronounces that community banks are here to stay, as Wortman (1994) put it, technology is probably the "community banks' slingshot against the giants." The two related questions addressed in this paper are: One, *with the utilization of technology in their operations, do community banks feel confident that they are at the threshold level to compete effectively with their larger rivals?* The second question relates to the banks' relative strengths: *On a level playing field, what other strengths, besides technological, do the community bankers feel give them a competitive edge?* The paper is organized as follows: Literature Review, Methodology, Findings, Competitive Posture of Community Banks, and Conclusion.

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Literature Review

The recent literature on technology and community banks is vast; however, it is in the form of applied literature. Our review is focused on two contrasting themes and is synthesized in the form of three tentative propositions. The questions formulated for our survey research are based on these propositions.

The *major* theme is represented by a majority of professional authors. For example, as reported in American Banker (1993), a senior consultant with Ernst & Young observed that community banks are able to take advantage of many of the same technologies as their larger counterparts. Lunsford and Brewer (1994) point out that "Whether a [community] bank operates in Central Texas or Northern California, its

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future success will rely largely on its use of technology to deliver tomorrow's basic services...Technology is a critical way for community banks to maintain a sustainable competitive advantage in the marketplace" (pp. 36-40). Evidence from the American Banker/Tower Group survey (1993) as well as the Federal Reserve Bank/ Minneapolis survey (1996) indicate that even the smaller community banks—many of which have formed themselves into bank holding companies--are investing in bank-related information technology hardware and software.

A more telling survey conducted by the Federal Reserve Bank of Minneapolis revealed that the independent smaller community banks (identified as banks with less than $150 million in assets) will ride the wave of technology into the next century. According to Fed economist Dahl, "Those who intend to stick around plan to beef up their offering of technology-based products [services] to stay in the game" (Bronstein 1996,6). The survey also revealed that the respondent bankers said they expected intense rivalry from other community banks, brokerage firms, credit unions, lending subsidiaries of nonbanks (such as GMAC), and also [bigger] regional banks.

Proposition 1. *Technology is a necessary condition for the survival of community banks because investment in technology hardware and software is perceived as sustaining the competitive advantage of community banks.*

There is, however, a second theme, a *minor* one, articulated by some writers who believe that advanced technologies simply will not help the community banks to surrive for long. For example, Milligan (1995) pondered whether embracing technology will actually "level the playing field" for the smaller banks. The suggestion is that larger banks, especially the regional ones, with larger budgets will always be able to do more than the smaller community banks. Larger banks can invest in technology sooner—always leaving the smaller banks further behind. Taking the stance that smaller banks lag behind larger banks, Johnson (1995) recommends that small banks would be better off by selling themselves out. However, if smaller banks were to heed this advice, even then, empirical studies suggest that they would have to position themselves as attractive targets (Prasad 1991). The following proposition represents the view of a minority of professionals—a counterpoint to the first proposition.

Proposition 2. *Technology offers an overwhelming advantage to large banks and not to smaller community banks.*

As reported widely in the business press, banks have been earmarking increasing budgets for technology. Many writers also stress the importance of "incorporating planned information technology into banks' business strategies" (Britt 1996). As McClave of Wharton Research on Technology in retail banking cautions, "Different strategies require different technology choices. Without a well-defined brand identification plan, technology spending often leads to greater expense, not franchise enhancement" (1996, 9). Of course, as with any capital expenditure, some smaller community banks may be better off not spending heavily on technology if they cannot use the newly acquired technology to create customer value, establish market position, or enhance revenue from households and smaller local businesses.

In an *ABA Banking Journal* (1996, 38) study by KPMG Peat Marwick, "Given the opportunity to invest one-half of one percent of assets in any one area, the majority of the senior executives would invest in technology or marketing." Small banks, in competing with their larger counterparts, value certain technologies over others and are therefore more willing to spend an increasing percentage of their budgets on these technologies.

Proposition 3. *While technology is a necessary condition, and investment in hardware and software is perceived as inevitable, such capital expenditure needs to be bank-specific and an integral component of a community bank's strategic plan.*

According to Hunter (1995,43) "The reality of the business world today is that those who are best prepared and have the appropriate technology available to meet client needs will surely win." This is particularly true of community banks and their technology application strategies. The Tower Group survey pointed out that community banks expected to increase spending for information technology by 12 percent while the industry-wide rate was about 6.5 percent. While some community banks, with less than $600 million in assets, often resorted to outsourcing, not all small banks opted for outsourcing. Based on these propositions, we proceeded to survey community banks in six states, namely, Illinois, Indiana, Kentucky, Michigan, Minnesota and Ohio. It is worth recalling that historically, different states have had different laws and provisions to regulate and deregulate the banking and the financial services industries.

Methodology

Sample

For the purpose of our survey, we included community banks with assets of $600 million or less. They could be either independent banks or members of smaller Bank Holding Companies controlling less than five banks. On this criterion, we could identify 983 community banks operating in six states: Illinois, Indiana, Kentucky, Michigan, Minnesota and Ohio.

Following the systematic sampling method (Ghauri et al. 1995,78-79), we ordered all community banks in each of these six states by their postal zip codes. In two of the states, Illinois and Minnesota, the number of community banks exceeded 500. In both of these, we randomly selected a 33 percent systematic sample by drawing every third unit in the two ordered populations. In the other four states, the number was less than 250 in each, therefore all banks were included.

Included in the survey were the following numbers of community banks based in six states: Illinois=220; Indiana=149; Kentucky=240; Michigan=84; Minnesota =200, and Ohio=90. Thus, the sample contained 983 banks with assets of $600 million or less. The overall response rate was 442 of 983 or 44.96 percent. From these responses, thirty were excluded either because the responses were incomplete or the community bank had been acquired by a larger bank, leaving the number of usable responses at 412.

Mail Survey

Chief executive officers of each of these 983 community banks were sent a cover letter, a one-page questionnaire, and a return envelope. After a lapse of three weeks, one-half of the non-respondents were sent reminders. About 15 percent of the reminders apparently prompted response within a span of about ten days. The key questions included in the questionnaire elicited factual information as well as executive opinions on such matters as: Do bankers think they can successfully compete in the current deregulated competitive banking environment, why or why not, and the specific forms of technology that they perceive will bolster the competitive strengths of the community banks.

Instrument

The survey instrument (shown in Appendix A) was intentionally kept brief on the advice of two Michigan bankers who helped revise the preliminary questionnaire. In addition, telephone interviews were conducted with eighteen bank presidents (three in each state) eliciting their views on their rivals, reasons why some forms of technology might be much more valuable than others, and the future state of community banking in the Midwestern region.

Thus, the descriptive information reported in this article was gathered by means of a survey of 983 randomly selected independent community banks in six neighboring states. Among the 412 officers who completed the survey instruments 323 were Presidents, 82 were Vice Presidents and 7 did not identify job title. Three hundred thirteen had sixteen or more years of banking experience and forty-nine had eleven to fifteen years, with only thirty-eight having less than ten years of experience.

Findings

While the rate of response from the responding community bankers differs from state to state, ranging from 32.7 to 77.8 percent, the overall survey response rate was 41.9 percent (n=412 of 983). Aggregating responses from all six states and analyzing the information would be one approach. However, the intent of our survey was to gauge how community banks in different states were employing technology to become efficient in their operations and confident in their competitive stances. The rules and statues that have governed the banking business in the United States have also been state-specific,[1] and not universal. Thus, the information obtained is summarized by states and included in Tables 1, 3, and 4, and by asset size in Table 2.

Table 1 summarizes the extent of technology used by state; Table 3, the benefit or value of certain technologies as perceived by community banks; and Table 4, insights into how community banks perceive their competitive strengths including the contribution of the technologies in

Table 1
Use of Technology by Community Banks in Six States (n=412)
Percentage of responding banks

*Technologies**	*Overall (n=412)*	*KY (n=92)*	*MI (n=45)*	*IN (n=56)*	*MN (n=86)*	*IL (n=68)*	*OH (n=65)*
ATMs	81.0	83.3	93.3	94.1	62.6	70.8	91.4
Compliance Software	48.2	61.5	48.9	48.5	48.4	52.8	24.28
Imaging	24.4	19.8	15.6	25.0	16.5	11.1	58.3
In-House Data Processing	62.2	37.5	80.0	72.1	80.2	47.2	67.1
Networked PCs	62.4	61.4	60.0	67.6	62.6	59.7	62.9
Voice Response Systems	29.2	34.4	26.7	33.8	19.8	29.2	8.6

*One or more in use in 1995-96.
Source: Author's survey.

Note: The X^2 is 26.412, with degrees of freedom of 12, and a level of significance of .009. The degree of concordance (W) is .7603.

which they have invested. Table 2 summarizes the findings after the survey data were divided into three classes based on size: a) the smallest community banks, less than $151 million in assets; b) medium-sized banks, assets between $151 and $401 million; and c) large community banks, over $401 million in assets.

Extent of Use

The most widely utilized technology was the Automatic Teller Machine (ATM). Overall, ATMs were in "high" use (except in Illinois and Minnesota) and in all three asset size groups. ATMs enable banks to be "open" 24 hours, relieving human tellers, and help reduce payroll costs. However, they are rather expensive to install and maintain. That ATMs are not always desirable or cost-effective is reflected in the remarks made by a few bank presidents. An Illinois banker notes, "Our bank provides a more personal service...more important to our customers than ATMs..." A banker in Kentucky observed, "Fulton is a rural area that serves primarily an older population that wants a community bank, not machines." Notwithstanding differing customer needs, 79 percent of our survey respondents have installed ATMs.

A uniformly moderate use of compliance software and networked personal computers (PCs) was also evident. Even though banks operate in a more deregulated environment, compliance reporting has become much more extensive than before. Its use is slightly higher in Kentucky than in the other five states and lower in Ohio. The use of networked PCs is much higher than the use of compliance software in all six states.

With respect to in-house data processing, the use was moderate in four states and high in Michigan and Minnesota. The low percentage appears to be the result of either the smaller banks outsourcing the function (only 24 percent of the banks surveyed reported spending 20 percent or less of their budgets on outsourcing), or some community banks or bank holding companies consolidating it in the form of technology cooperatives. For example, a Kentucky banker pointed out, "We now have the ability to offer basic electronic services in all areas except 'trust' (or trustee services) at least cost."

Even though the survey did not ask for details about the technology co-ops, the case of one such unit led by a Scottville bank in Michigan is illustrative. It was set up as a service joint venture among three area community banks. Also, the formation of bank holding companies (BHC) among community banks appears to foster the formation of technology co-ops. An Illinois community bankers statement mirrors the phenomenon: "We are one of four banks owned by the BHC (with total BHC assets of $650 million), thus we can consolidate the backroom functions of all four banks such as audit, loan review, data processing, finance, and so forth." The survey reported similar results in the use of technology across all size categories of banks.

Perceived Benefit

In discussing the strategic role of technology in community banks, Nadler (1996) observes, "It is easy to agree with Alan Greenspan that bankers must keep current on technology--but community bankers need not lead in investing in the Internet" (p.14). Our survey showed that 66.5 per cent of responding bankers planned to increase their technology budgets, 27.4 percent expected to maintain current budget levels, and only 5.4 percent planned to cut it. By the same token, 24.3 percent planned to increase technology-related staff, 72.5 percent to stay the course, and only 3.2 percent to decrease it. Greenspan's advice is to automate credit extension to individuals and small businesses, and authorize specific individuals to get into or out of the system. There is merit in this approach in the sense that community bankers, like any other smaller firm, would have to have a firm-specific strategy to maximize the benefit from investing in the ever proliferating hardware and software technologies. The twin objectives of such a strategy can be, in the words of Lunsford and Brewer (1995), increasing efficiency and enhancing relationships.

Table 2
Use of Technology by Community Banks in Three Asset Sizes
Percentage of responding banks (n=412)

Technologies	*Overall (n=412)*	*Less than $151m (n=340)*	*$151- 401m (n=52)*	*+$401m (n=20)*
ATMs	78.3	73.9	98.0	100.0
Compliance Software	49.8	46.6	57.7	81.0
Imaging	18.6	15.2	28.8	47.6
In-House Data Processing	60.9	63.0	48.1	57.1
Networked PCs	63.3	59.2	76.9	95.2
Voice Response Systems	29.0	24.9	42.3	61.9

Note: The Pearson's X^2 is 41.25, with 6 degrees of freedom and a level of significance of .000. It is significant. The degree of concordance is .2889.

As noted earlier, community banks invested in six types of technologies even though the extent of the use was mostly uniform across the six states and by asset size class. Which of these six were thought of as either most or least valuable? We have summarized the responses to this question in Table 3. The use of ATMs and networked PCs were considered to be the most valuable technologies. The least valuable ones were imaging technology and compliance software. A few observations on these two are in order.

Table 3
Value of Technology to Smaller Banks
Percent reported by State* (n=412)

Technology	Technology As Most Valuable						Technology As Least Valuable					
	KY	MI	IN	MN	IL	OH	KY	MI	IN	MN	IL	OH
ATMs	**61.5**	**82.2**	**67.7**	**44.0**	**62.5**	**67.1**	13.5	8.9	8.8	12.1	9.7	10.0
Networked PCs	**36.5**	46.7	39.7	31.9	34.7	**44.3**	19.8	17.8	14.7	16.5	20.8	15.7
In-House Data Processing	29.2	**75.6**	**57.4**	**63.7**	**37.5**	25.7	14.6	4.4	10.3	8.8	22.2	18.6
Voice Response System	19.8	20.0	32.4	15.4	22.2	12.8	**22.9**	**33.3**	20.6	27.5	22.2	7.1
Imaging	16.7	11.1	20.6	7.7	5.6	21.4	18.8	**33.3**	**23.5**	**29.7**	**37.5**	**41.4**
Compliance Software	33.3	8.9	23.5	16.5	22.2	15.7	**23.0**	**48.9**	**27.9**	**33.0**	**30.6**	**24.3**

* While all respondents utilized the six technologies, the perceived value of each differ. The two most valued and the two least valued are shown in bold.

The rules and regulations governing bank lending as well as the paperwork tend to change frequently, and compliance software becomes a solution to minimizing paperwork. Overall, in our survey, 48.2 percent of the responding banks do use compliance software. However, in most of the states, community bankers appear to be ambivalent about the true value of compliance software. An Indiana banker laments, "...the real pressure on small banks is from changing laws and regulations." Many others do see the benefit of using compliance software, but they appear to be averse to regulations.

In imaging technology, according to Medeiros (1995), "digitized images of checks are captured during read/sort operations and subsequent check-processing operations are performed on the digitized check images" (p.59). As can be seen in Table 1, the extent of the use of imaging technology is "low" (that is, by 24.4 percent of the community banks). On an aggregate basis, it also ranks the lowest (16.7 percent) among valuable technologies. Some banks do not see much value in imaging if they are already truncating their checks. Yet, as the imaging technology itself advances, the opinions about it could very well change. The case of a bank in Iowa, as reported by Jensen (1995), might spread. The community bank in question was the first one to use imaging in Iowa. This bank's imaged data system allows it to "cross-sell" its products. Thus, it would appear that community banks in all six states do possess a threshold level of technology.

Technology and Competitive Posture

The smaller community banks can be divided into two categories. There are smaller banks in larger urban centers, and there are smaller banks in smaller cities and towns. For the most part, smaller banks are located in smaller towns. In the bankers' jargon, these rural markets are 'not perfectly contestable' (Devaney and Weber 1995); therefore, both actual and potential competitors influence the conduct of incumbent firms. This is very evident in looking at the spending patterns on technology. Small banks, according to bankers whom the author interviewed, utilize a technology such as ATM defensively. If they do not have ATMs, they fear that their larger competitors will gain an advantage. Small banks do feel, however, that they have several advantages over their larger competitors that, with a reasonable amount of technology, will allow them to successfully compete with larger banks. These are summarized in Table 4.

Smaller banks feel that they provide better service than their larger counterparts. When asked to explain how smaller banks could successfully compete with larger banks, this reason was the most often given. Comments such as, "We service our customers on a personal basis that large banks cannot" were given by 40.2 percent of banks. Big banks are, in some cases, using "Relationship Banking," where one account representative handles, or is aware of, all the accounts of one customer-business, mortgage, and consumer loans as well as deposit accounts—a practice smaller banks have always followed. In this way, more personal attention is given and more loyalty is developed. Thus, providing prompt service to customers appears to be an ingrained part of smaller bank culture, a feat that cannot be easily duplicated by larger banks or bank holding companies.

Community bankers also stated that small businesses need small loans approved quickly, tailored to meet their financial needs. Often the larger banks are not interested in loans of this size and cannot act quickly or make necessary accommodation. Community banks (20 percent) feel their flexibility and localized decisions give them an advantage which, in part, stems from the fact their boards compose of local business persons, not those of a metropolitan city far away.

Also in those small towns where one or more smaller banks coexist with a branch of a major bank holding company, the presidents of the smaller banks do not feel they compete with their larger rival, but with each other. They each have their own "niche" and service that niche. This is brought out in comments such as "We act in areas where the larger competitors do not come," or "We work with small businesses that large banks don't want." Part of this, of course, is that the smaller bank has a board of

Table 4
Confidence of Community Bankers
Percentage of banks responding to the question by State* (n=371)

Competitive Dimension	*IL (n=60)*	*IN (n-58)*	*KY (n=80)*	*MI (n=33)*	*MN (n=70)*	*OH (n=70)*	*Overall (n=371)*
Belief that smaller banks provide better service	60.0	50.0	63.8	39.4	48.6	31.4	40.2
Localized decisions, greater flexibility	30.0	31.0	26.2	21.2	24.3	15.7	20.0
More friendly treatment of bank customers	10.0	0.0	0.0	15.2	24.3	22.9	9.57
Protecting our 'niche'	13.3	27.6	10.0	12.1	14.3	4.3	10.65
Technology employed	11.7	27.6	18.8	12.1	12.9	7.1	13.3
Cost advantage	8.3	15.5	8.8	0.0	2.9	8.6	6.3

Note *The dimensions represent the reasons for bankers' confidence in effectively competing. The number who completed this particular section of the survey in all five states was slightly less than the number completing other sections.

Note: The degree of concordance (W) is .5587.

directors composed of local business people, not those of a big city far away.

Another reason for optimism in the struggle for competition is technology. As many forms of technology become more commonplace, they also become less costly, more affordable for smaller banks. Bankers say that "We are open to new technology," or "Technology is a great equalizer." Larger banks may be able to perform more services for their customers, but these are services that, for the most part, smaller banks' customers do not need or want, and if they do, a smaller bank may be able to do them through linkage with a correspondent.

The final reason for optimism is a cost advantage. Many banks stated that "We operate as cheaply as they do." Some took it even further, feeling they could do better in cost minimization; 6.3 percent of bankers perceived that small banks have a cost advantage—15.5 percent of bankers in Indiana saw this advantage. Because community banks are smaller, they often do not need the most expensive, larger versions of technology. Smaller banks "Buy the technology that our customers want and need," according to an Illinois banker. "Low overhead cost" is another factor, according to both an Indiana and an Illinois banker.

Conclusion

The changes emanating from the 1994 Interstate Banking Act can be construed as opportunities for the bigger urban banks and as a threat to community banks. It is a threat in the sense that larger banks, with huge budgets and resources, can generate substantial scale economies. Obviously, community banks, being smaller in asset size and often located in rural America, recognize this threat in a deregulated banking environment in which technology plays an ever prominent role.

To probe the "high-tech" dimension, we focused upon six Midwestern states. The systematic sample procedure allowed us to identify all community banks in these six states and to provide us with a random sample of 983 community banks that were independent financial firms or members of small bank holding companies (as of 1995-1996) and had assets of less than $600 million. The response rate of our survey was 44.96 percent.

Consistent with Proposition 1, most bankers proceed on the firm belief that their markets can be preserved. Some have opted to be acquired and some others have formed their own bank holding companies. Most feel confident by being both "high-tech" and "high-touch." The former connotes the application of various technologies in the 'backroom operations' and the latter signifies 'personalized,' friendly customer service at the teller and bank officer level.

The technologies that larger banks use, (for example, electronic clearinghouses, satellite communication systems, and internal electronic mail systems) are not the most appropriate to augment competitiveness at smaller community banks (ABA Banking Journal 1996). Instead, as our survey data indicate, ATMs in-house data processing and networked PCs provide the community banks with the technological wherewithal needed by them to be confident about their moves in the intensely competitive retail banking arena. Part of Proposition 3, namely, that technology-related outlays be closely linked to the community banks' strategic plan, appears to be a maxim that community bankers follow. Since our instrument did not address this question, more systematic information may have to be obtained.

Community banks perceive themselves as being able to compete with larger rivals, given a threshold level of technology. While state-of-the-art technology may serve to keep smaller community banks on a par with their larger counterparts—keep them in the game, so to speak—it is the other factor that will enable them to score points against their larger rivals, namely, the "relationship banking." While smaller banks cannot do everything a big bank can, they may not need to. The bigger regional banks may choose not to enter local banking markets. Even if they do, because of well-grounded relationships, the local customers will probably remain loyal to the community bank which serves their needs in an atmosphere of friendliness and flexibility. Thus, technology helps sustain the competitive advantage of community banks gained in the milieu of personal relationships.

In the final analysis, it would appear that it is the relationship banking, aided by prudent investments in information technology, that gives community banks the level playing field, if not the edge over larger banks operating in the same market. One avenue is to utilize the emerging theoretical framework of "relationship marketing" (McKenna 1991; Sheth and Parvatiyar 1995) and design future research on the premise that smaller community banks are here to stay but in order for them to be successful in a competitive financial environment they would have to be, as one banker expressed it, "both high-tech and high-touch." ■

Notes

1. There have been at least four major differences among states:

- Differences in branching rules—Indiana and Illinois permitted branching only recently, prior to which the state laws allowed only unit banks, that is one bank per charter. Other states permitted limited branching—a 25-mile rule as well as home office protection. These states also permitted the formation of bank holding companies within the states;
- Indiana and Illinois opened up the state to out-of-town bank holding companies at the same time as they allowed state-wide branching;
- The largest banks in some states, such as Indiana, are members of out-of-state bank holding corporations. They operate with more assets and wider scope than some of the state banks; and
- Differences in the demographics. Michigan and Minnesota, while as rural as Indiana and southern sections of Illinois, have small town manufacturing, and therefore, a larger industrial base.

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About the Author

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Appendix A
Respondent Survey

The survey questions ask for your opinion and judgment. Please complete it at your earliest convenience, and mail it in the stamped, self-addressed envelope. No information directly attributable to your bank will be disclosed without your consent. Thank you.

1. Do you feel your bank, being small, can effectively compete with larger competitors'?
   [ ] Yes (If yes, please explain why or why not.)
   [ ] No

2. Which of the following technologies (or high-tech products/systems) does your bank currently use?
   Check one or more:
   [ ] a. ATMs
   [ ] b. Imaging
   [ ] c. Compliance Software
   [ ] d. Networked Personal Computers
   [ ] e. In-house data processing
   [ ] f. Voice response systems
   [ ] g. Other

3. Which technology development do you feel has most helped your bank in competing against larger competitors and which helped the least. Please check either Most or Least.

	Most	Least
a. ATMs	[ ]	[ ]
b. Imaging	[ ]	[ ]
c. Compliance Software	[ ]	[ ]
d. Networked PCs	[ ]	[ ]
e. In-house data processing	[ ]	[ ]
f. Voice response system	[ ]	[ ]
g. Other/Please identify below:	[ ]	[ ]

4. What percent of your total technology budget is allocated for outsourcing? Please circle.
   a. 0% b. 1-10% c. 11-20%
   d. 21-30% e. 31-40% f. 41+%

5. Is your home-town rival bank a part of a BHC?
   [ ] Yes [ ] No

6. Comparing this year's (1996) budget for technology with last year's, do you expect to spend:
   [ ] More [ ] the same [ ] Less

Please explain/comment on your competitive posture in terms of what factors give your bank the edge over your rivals, especially the larger regional bank branches:

Thank You for your Cooperation!

Determining Promotional Effectiveness in Small Retail Firms:

An Empirical Investigation

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Abstract

This exploratory study examines how promotional effectiveness is determined in small firms and examines decision-makers attitudes toward promotional performance and measurement. Although it is commonly believed that small business managers rely upon intuitive methods, this study suggests that most small business managers apply some objective measure of effectiveness to their promotional strategies, typically using multiple methods. Evaluation techniques usually center on measures of financial performance and consumer behavior, with some firms relying on employee input for the assessment of promotional performance. The size of the firm and the gender of the decision-maker account for significant differences in the frequency and type of evaluation methods applied. The majority of small business managers are somewhat satisfied with how well their promotional efforts perform, however, many experience difficulty in determining the impact of their promotions and could benefit from the development of models and techniques designed specifically for use in small firms.

Introduction

A study of more than 500 small firms by AT&T (1993) identified advertising and promotion as one of the top three contributors to business success, following technology and employee training. Managers of small consumer-oriented businesses are typically faced with the task of choosing promotional methods and allocating resources to those efforts. Promotional decision making is difficult in small firms because of limited financial resources and marketing expertise (Jackson and Parasuraman 1986). Most small firms, unlike their large counterparts that can afford to employ or hire expert marketing professionals, rely on a "do-it-yourself" approach to promotional decision-making (Carson 1985; Tyebjee, Bruno and McIntyre 1983). Studies have shown that small business managers believe the purchase of advertising is constrained by limited financial resources (Weinrauch, Mann, Robinson and Pharr 1991; Wichmann 1983) and that promotional choices have become more difficult as consumer demographics and media habits change (Vaccaro and Kassaye 1989) and as promotion options increase. Despite the challenges associated with choosing promotions, studies have indicated that small firms use a wide variety of advertising and promotional methods (Jackson, Hawes and Hertel 1979; Nowak, Cameron and Krugman 1993; Otnes and Faber, 1989; Patti and Walker 1980; Van Auken, Doran and Rittenburg 1992; Van Auken, Rittenburg, Doran and Hsieh 1994) and contribute nearly half of all revenues spent on advertising in the United States (Krugman, Reid, Dunn and Barban 1994; Wells, Burnett and Moriarty 1995).

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Gauging the effectiveness of promotional efforts is considered an important aspect of business management since evaluation aids in assessing alternative strategies and helps reduce wasted promotional dollars. Vaccaro and Kassaye's (1988) study of three small retailers in metropolitan Boston showed that the firms had chosen advertising strategies which neither effectively or efficiently reached the desired target audience. Compared with large firms, it has been suggested that small firms avoid determining the effectiveness of their promotional efforts (Belch and Belch 1995, 569). Reasons given for avoiding such research are perceived high cost, difficulty in isolating effects attributable to advertising, uncertainty about what to test and lack of time to conduct the research (Barnes, Pynn and Noonan 1982; Belch and Belch 1995, 569-70; Boughton 1983; McDaniel and Parasuraman 1986); there is also speculation that evaluation in small firms is largely based on intuition.

Although much has been written about advertising and promotional effectiveness, most discussions of the measurement of promotional effectiveness have been oriented toward the strategic concerns of large (often national) marketers with emphasis on brand promotions, market share, and target groups. Weinrauch et. al (1991) reported that small business executives believe that too many consultants, educators, publications and government institutions emphasize advice and strategies which are suited to large rather than small firms. Arens and Bovee (1994, 543) argue that small local firms think about promotions from a tactical perspective, with emphasis on points of sale, sales volume and customers. Thus, while there is a substantial body of literature concerning measures of advertising and promotional effectiveness, much of it is not relevant to small firms.

The purpose of this study is to determine how small retail firms assess the effectiveness of their promotional efforts. This study extends recent research and looks at a national sample of small firms to address the following questions:

1. *To what extent and how is promotional effectiveness determined in small firms?*
2. *Which characteristics contribute to differences in evaluation methods used to assess promotional efforts in small firms?*
3. *What attitudes do small firms have toward promotional performance and measurement?*

It is anticipated that increased knowledge about these issues can provide more understanding of small business practice, and can lead to theory development and modeling suited specifically to small firm issues.

Literature on Promotional Effectiveness in Small Firms

Few studies have addressed the issue of promotional effectiveness in small firms. Of these, the discussions of evaluation techniques have been limited, samples have been selected from narrow geographic areas and/or sample sizes have been small. Van Auken, Doran and Rittenburg (1992) studied promotional strategies used by 132 small Iowa firms and reported effectiveness ratings for various promotional media. While effectiveness ratings of various advertising methods varied by business category, this study, unfortunately, did not indicate criteria or techniques used by the firms to determine effectiveness. A significant finding of this study was that firms tended to use the same promotion methods in their first and current year of operation, suggesting that an initial opinion about the effectiveness of a particular method becomes fairly ingrained, unless evidence to the contrary is provided. The authors provide several explanations for this phenomenon: (1) managers may lack adeptness in selecting alternative promotional methods; (2) promotion choices may be limited by affordability; (3) limited time or preoccupation with other responsibilities may preclude the formulation of formal promotional plans, prompting choices based on convenience and familiarity; and (4) difficulty and costs associated with formal measurement may be perceived as prohibitive, causing managers to rely more on judgement, past experience and help provided by media representatives. In a subsequent study, Van Auken, Rittenburg, Doran and Hsieh (1994) looked at advertising practices by 121 U.S. female entrepreneurs and identified perceived effectiveness as a major consideration in choosing advertising media, but indicated that promotion methods chosen by female entrepreneurs tended to differ from those chosen by male entrepreneurs.

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Only two studies explored the extent and type of methods that small firms use to evaluate the effectiveness of their promotional strategies. Varadarajan's (1985) study of thirty-one small retailers' coupon promotions indicated that the vast majority applied at least one evaluation technique. Although the tiny sample size precludes the ability to generalize the findings to a larger population, 95 percent of the firms counted the number of coupons redeemed; 81 percent noted store traffic; 76 percent looked at the effect on dollar sales volume; 56 percent looked at the effect on unit sales volume; 43 percent determined the effect on profits; and 10 percent estimated the effect on market share. This study also showed that about half the firms failed to maintain written records of past coupon promotions, thus reducing the opportunity for comparison with outcomes of subsequent or alternative promotional strategies. Nowak, Cameron and Krugman's (1993) study of 190 small Georgia firms indicated that 95 percent of the sample attempted some sort of assessment of advertising performance, often using multiple criteria, including "customer comments" (74%); "increased sales" (62%); "more customers" (43%); and "response tools"— i.e. coupons, P.O. Box numbers (23%).

Consistent with the Van Auken et. al studies, Nowak, Cameron and Krugman (1993) also reported that advertisers were relatively loyal to their chosen media, with the majority having used the same media for more than five years. However, despite loyalty to some media, most advertisers changed their media mix (i.e. allocation of resources to various media) regularly; twenty percent changed the media mix each year, and one-third changed it quarterly or monthly. Forty percent of the sample attributed change in the media mix to a regular review, one-third as a result of changes in media prices and another one-third to the availability of new media options. When providing reasons for terminating use of an advertising medium, 45 percent cited lack of consumer response and 33 percent cited expense.

Method

The Instrument

Because of the limited amount of literature related to advertising evaluation methods in small firms, the literature review was supplemented by information gathered during in-depth interviews with local small retail and service firms, including a men's apparel store, jeweler, millinery, health/fitness center, and beauty salon in a major Michigan metropolitan area. Each interview, which was conducted by the researcher, followed a 32-item script of open-ended questions on a variety of small business promotion topics; each interview session lasted between one and three hours. This effort resulted in a seven page 23-item questionnaire on a variety of small business promotion issues. The survey questions were of the closed-ended type, with most items requiring a response using a 5- or 7-point Likert-type scale. The questionnaire was pretested on two different occasions for content, wording and length using two different groups of small business owners who participated in a university-based small business management seminar; appropriate revisions were made. The final instrument included nine different advertising evaluation methods and six key attitude statements related to promotional measurement and performance.

The Sample

The sample frame consisted of firms defined as independently-owned, non-franchised, consumer-oriented retail and service firms employing 100 people or less in the U.S. The sample was randomly selected from Dun and Bradstreet's small business database using the following Standard Industry Classification (SIC) Codes: 53 (General Merchandise Stores); 56 (Apparel Stores); 57 (Home/ Furniture Stores); 59 (Miscellaneous Retail) and 72 (Personal Services). These business categories were chosen since industry reports indicate that consumer advertising and promotion is a common business practice for firms in these industries (BAR/LNA 1988) and thus, the evaluation of advertising performance would be a relevant managerial task. The General Merchandise Store category included small department, variety and general merchandise establishments; the Apparel store category included women's, men's and children's clothing, shoe and accessory stores; the Home/Furniture category included furniture, drapery, floor covering, appliance, radio, TV and music stores; the Miscellaneous Retail category included drug and liquor stores, sporting good shops, book, gift, hobby, and camera shops, florists and jewelers; the Personal Services category included laundries and dry cleaners, carpet and upholstery cleaners, photographic studios, fitness centers, beauty and barber shops and various repair (non-automotive) and cleaning services.

Data were collected via a mail survey sent to 1500 U.S. firms. The survey was directed to the person responsible for making the firm's advertising and promotion decisions. The initial and cover letters requested the respondents participation and guaranteed the anonymity of the respondent and the firm.

It must be noted that two major problems have plagued the research concerning promotional activity in small firms which have limited the ability to generalize the findings. First, most studies of this genre have been limited geographically. Therefore, one goal of this study was to look at a national sample of small firms so that findings might be more broadly generalized. Second, sample sizes have tended to be small due to low response rates and/or small sampling frames. Thus, several methods, suggested by earlier research (Andreasen 1970; Dillman 1978; Forsgren 1989) were employed in an attempt to alleviate the response rate problem. They were:

1. The use of a prenotification letter mailed to prospective respondents, followed by a cover letter and questionnaire one week later.
2. The inclusion of a cover letter expressing altruistic (We need your help...") and egoistic (You are important...") appeals, describing the importance and relevance of the survey.
3. The use of university letterhead, a contact name and telephone number on all correspondence to enhance credibility.
4. An express guarantee of anonymity and privacy for firms and individuals responding to the survey.
5. The use of non-personalized cover letters. Andreasen (1970) found personalized cover letters to reduce responses from business people due to a perceived threat to anonymity.
6. The inclusion of a postage paid return envelope.
7. The inclusion of a deadline for return of responses.

Results and Discussion

Response Rates

A total of 187 questionnaires was returned by the sample, indicating a response rate of 12.5 percent. Although this rate was disappointing, it is within the normal range of response rates to mail surveys typically experienced by researchers of small firms; Forsgren (1989) reports that small business response rates to survey requests typically do not exceed 20 percent. There was at least one identifiable response from forty-one of the fifty United States, based upon examination of postal service cancellation marks.

Sample Characteristics

A summary of characteristics of the firms and managers responding to the survey is reported in Table 1. Decision responsibility for advertising and promotions rested with the owner/manager of the business in 75.4 percent of the firms; business partners and employees made promotional decisions in 7.0 percent and 5.3 percent of the firms, respectively. Only 3.7 percent of the firms used an outside agent or consultant for advertising decisions. The extent of the firms' promotional activity is reported in Table 2. Nearly 92 percent of the firms engaged in advertising and promotion on a regular basis and 65 percent of the firms spent at least $10,000 annually on such efforts.

Measurement of Promotional Effectiveness

Respondents indicated whether they did or did not attempt application of some evaluation method to their firm's promotional efforts. A total of 86.1 percent (n=161) of the firms did indicate some measure of promotional effectiveness. Table 3 lists the evaluation methods used, reports the proportion of the sample using each method and, for those firms which do evaluate performance, indicates how frequently each method was used (based on a 5-point scale where 1 = "never" and 5 = "always"). The most frequently used evaluation methods were those related to measures of financial performance (sales volume, profits) followed closely by employee input, and observations of customer traffic and response. Firms were least likely to document customer comments or inquiries about the promotions.

Table 2
Promotional Activity by Small Firms

Frequency of Promotions	*n*	*% of Sample*
Daily	38	20.3
Weekly	58	31.0
Monthly	49	26.2
Only on a seasonal/holiday basis	27	14.4
Seldom	9	4.8
Never	5	2.7

Note: Percentages not totalling 100 are due to item non-responses.

ANOVA was used to determine whether differences in the frequency of use of various promotion evaluation techniques were associated with various characteristics of the firms, including business category, frequency of promotional activity, firm size, and demographic characteristics of the decision-makers, using the same 5-point scale. Only one statistically significant difference was related to business category. Firms in the apparel, home/furniture and miscellaneous retail industries were significantly ($F=2.74$, $p < .05$) more likely to incorporate employees' opinions into their evaluation of advertising performance compared with general merchandise and personal service firms, indicating the critical role of retail sales personnel in assessing customer reaction to promotions. ANOVA also indicated that the greater the frequency of a firm's advertising, the more likely the firm was to listen to customers talk about the promotion ($F = 2.38$, $p < .05$) as an evaluation method. Similarly, firms that advertised at least monthly had a greater tendency to measure effectiveness by conducting inventories of advertised items ($F = 4.56$, $p < .01$) and counting ads/coupons returned by customers ($F= 3.30$, $p < .01$) than firms that advertised less often.

Firm size, measured by revenues and employment levels, yielded the greatest number of significant differences in evaluation techniques. (A Pearson's correlation coefficient ($r=.56$) indicated a strong association between firm revenues and number of employees.) When firms were clus-

Table 1
Characteristics of Firms and Respondents

Business type/SIC Code	*n*	*%*	*Gender of Respondent*	*n*	*%*
General Merch. Stores/53	13	7.0	Male	143	76.5
Apparel Stores/56	13	7.0	Female	42	22.5
Home/Furniture Stores/57	23	12.3			
Miscellaneous Retail/59	71	38.0	***Age of Respondent***		
Personal (Consumer) Services/72	41	21.9	Under 18	0	None
			18 - 24	1	.5
Age of Firm			25 - 34	19	10.2
Less than 1 year	0	None	35 - 49	76	40.6
1 - 3 years	3	1.6	50 - 65	79	42.2
4 - 7 year	8	4.7	Over 65	10	5.3
8 - 10 years	13	7.0			
More than 10 years	161	86.1	***Education Completed***		
			Less than high school	3	1.6
Number of Employees			High School	32	17.1
1 - 2	1	.5	Trade School	5	2.7
3 - 10	11	5.9	2-year College	19	10.2
11 - 20	64	34.2	4-year College	86	46.1
21 - 50	77	41.2	Grad./Prof. School	41	21.9
51 - 100	30	16.0			
			Ethnic Identification		
Annual Revenues			White/Caucasian	172	92.0
Less than $500,000	19	10.1	Black/African-American	2	1.1
$500,001 - 1,000,000	25	13.4	Hispanic/Latino	4	2.1
$1,000,001 - 3,000,000	67	35.8	Asian/Pacific Islander	2	1.1
$3,000,001 - 5,000,000	30	16.0	Native American	2	1.1
$5,000,001 - 10,000,000	30	16.0	Arabic/Arab American	2	1.1
More than $10,000,000	15	8.0	Other	5	2.7

Note: Percentages not totalling 100 are due to item non-responses.

Table 3
Frequency of Methods Used to Evaluate Promotional Activities in Small Firms

Evaluation Method Used (% of total sample using method at least "sometimes")	Firm Size: Means* by Total Annual Revenues — Grand Mean*	Below $1 Million	$1-3 Million	$3-5 Million	Above $5 Million	ANOVA Results F	ANOVA Results p	Gender Means* — Male	Female	ANOVA Results F	ANOVA Results p
	N=161[a]	n=42	n=62	n=25	n=32	F	p	n=119[a]	n=42[a]	F	p
Keep track of changes in sales volume (85%)	4.48	4.24	4.30	4.54	4.74	2.54	.06	4.40	4.48	.23	.64
Compare sales/profits to same period last year (81%)	4.40	4.26	4.26	3.84	4.78	3.73	.01	4.36	4.41	.80	.37
Ask employees about the promotion (80%)	4.10	3.83	4.14	3.87	4.40	2.22	.09	3.97	4.41	5.76	.02
Note changes in customer/client traffic (81%)	3.93	3.63	3.82	4.24	4.06	2.41	.07	3.88	3.94	.04	.84
Count advertised items sold after ad runs (70%)	3.87	3.75	3.76	3.20	4.25	2.93	.06	3.66	4.24	5.67	.02
Count coupons or ads returned by customers (66%)	3.83	3.92	3.75	2.92	3.71	2.57	.06	3.53	4.22	6.23	.01
Listen to customers talk about the promotion (80%)	3.82	3.83	3.59	3.64	4.19	2.29	.08	3.78	3.81	.02	.89
Record number of times customers mention the promotion (55%)	2.86	2.73	2.78	3.30	2.93	1.35	.26	2.79	3.36	6.12	.01
Document phone inquiries following promotion (49%)	2.86	2.85	2.79	2.88	3.03	.25	.86	2.73	3.39	8.36	.01

**Based on a 5-point scale where: (1) = Never (2) = Seldom (3) = Sometimes (4) = Frequently (5) = Always.*

[a] Means reported in this table reflect only those firms (n=161) reporting use of some evaluation technique(s). Another 19 firms (10.2% of the total sample) reported they "never" evaluated promotional efforts and 7 firms (3.7% of sample) did not respond to these items.

tered into four revenue earnings categorie—below $1 million; $1-3 million; $3-5 million; and above $5 million—ANOVA produced statistically significant differences for seven of the nine promotion evaluation methods identified. These results are included in Table 3. A key observation is that firms in the highest earning category reported using most of the measurement techniques more frequently than the lower earning firms, suggesting a more systematic and perhaps more sophisticated approach to promotion evaluation. The emphasis on comparing sales or profits to the same period in the previous year also suggests that these firms tended to maintain records of past promotional performance.

No differences in evaluation methods were associated with the age or educational level of the decision-maker. However, gender produced significant differences for five of the nine evaluation methods identified. These results are also reported in Table 3. Female managers, reported documenting phone inquiries, counting the number of advertised items sold, asking employee opinions about the promotions, counting ads/coupons returned by customers and recording customer mentions of promotions significantly more often than males. It is interesting that female managers reported frequently documenting phone inquiries and recording customer mentions whereas the general sample indicated that these methods were used the least often. This finding suggests that the female manager may be more interested in communicating directly with customers and prospects and using that information in decision-making or that the communication styles of female decision makers are more direct and interactive.

Attitudes toward Promotional Performance and Measurement

Table 4 presents a summary of results to the attitude statements included in the survey. An overwhelming majority agreed that they would continue to stay with promotions they perceived as effective. This finding provides an explanation for the media loyalty phenomenon reported by Van Auken, Doran and Rittenburg (1992) and Nowak, Cameron and Krugman (1993). Nearly 60 percent of the sample expressed some degree of satisfaction with the performance of their current promotions, with about 28 percent expressing some degree of dissatisfaction. This response suggests that media loyalty may be related to satisfaction, but also indicates that less satisfied firms might change their media mix often or try alternative promotions in a effort to achieve better results. Regardless of the level of satisfaction with their current promotions, the firms appear not to be averse to experimentation with alternative promotions, as 67.2 percent of the respondents disagreed that "I do not like to experiment with new types of promotional strategies." This finding is also consistent with that of Nowak, Cameron and Krugman (1993) which reports availability of alternative media options as one prompt for changes in the promotional mix.

The attitudes expressed clearly indicate that promotional assessment is a challenging task for the small business manager, as 58.9 percent said that they found it difficult to determine how well specific promotions had worked. However, nearly 40 percent of firms indicated little difficulty with evaluation, suggesting that some type of regular review and assessment procedure existed. Responses were mixed with respect to having a desire to try alternative promotions; well over half the respondents expressed interest in trying alternative promotions, but a great deal of uncertainty was associated with predicting how well these alternatives might work. Although it is believed that time is a constraining force in promotional decision-making in small firms, the responses provide mixed results on the time issue. Just over half the respondents disagreed that time constraints curtailed investigation of new promotional strategies, while 46.4 percent indicated that time was indeed a problem in investigating promotions. In all likelihood, the difficulties related to promotional decisions are related, not only to time, but also to other resources such as marketing expertise and financial capability of the firm, as suggested by Jackson and Parasuraman (1988) and Seglund (1985).

An analysis of firm size, extent of promotion activities and gender of the decision maker also revealed several interesting results. ANOVA indicated significant differences on the basis of firm size ($F=2.78$; $p < .05$) and gender ($F=6.23$; $p < .01$) with respect to the statement "I would like to try other promotions, but I don't know how well they would work." A trend emerged indicating that the lower the firms' earnings, the more it was likely to agree with the statement; higher earning firms expressed less uncertainty with the projected outcomes of alternative promotions. Female decision makers were much more likely than males to agree with this statement, indicating greater uncertainty in considering alternative promotions.

Firms which advertised most frequently disagreed that they lacked the time to evaluate their promotions and also tended to disagree that they had difficulty in evaluating promotions. Thus, it appears that firms that advertise regularly make evaluation a priority in terms of resource allocation and have devised methods which make it possible to systematically review the outcomes of their promotional efforts in a timely manner. Female decision makers, however, cited lack of time, significantly ($F=6.5$;

Table 4
Attitudes Toward Advertising Performance and Measurement in Small Firms

		Distribution of Responses							
Attitude Statement	***Mean****	***(1)***	***(2)***	***(3)***	***(4)***	***(5)***	***(6)***	***(7)***	***Total (n) Responses[a]***
"When I find a promotional method that works, I stay with it."	6.09	1 (.5%)	2 (1.1%)	1 (.5%)	1 (.5%)	29 (15.9%)	84 (46.2%)	64 (35.1%)	182
"I am satisfied with how well the current promotions for my firm work."	4.63	2 (1.1%)	16 (8.9%)	33 (18.3%)	9 (5.0%)	68 (37.8%)	39 (21.7%)	13 (7.2%)	180
"I would like to try other types of promotions, but I don't know how well they would work."	4.21	15 (8.4%)	22 (12.4%)	21 (11.8%)	21 (11.8%)	62 (34.8%)	29 (16.3%)	9 (5.1%)	178
"I find it difficult to determine how well a specific promotion method worked for my firm."	4.18	20 (11.2%)	35 (19.6%)	12 (6.7%)	7 (3.9%)	45 (25.1%)	50 (27.1%)	10 (5.6%)	179
"I do not have time to investigate new promotional strategies."	3.53	35 (19.9%)	36 (20.5%)	20 (11.4%)	12 (6.8%)	39 (22.2%)	26 (14.7%)	8 (4.5%)	176
"I do not like to experiment with new types of promotional strategies"	3.04	32 (17.8%)	53 (29.4%)	36 (20.0%)	10 (5.5%)	35 (19.4%)	11 (6.1%)	3 (1.7%)	180

**Where:*
(1)= Strongly disagree (2)= Disagree (3)= Somewhat disagree (4)= Don't know (5)= Somewhat agree (6)= Agree (7)= Strongly agree
[a] *= Total (n) vary due to item non-responses.*

p < .01) more than males as a constraint to investigating alternative promotions. It is not clear whether the time constraints perceived by the females decision makers are related to other responsibilities related to running the firm or to responsibilities outside of the business.

Conclusions

The purpose of this study was to examine how promotional effectiveness is determined in small firms and to reveal attitudes about promotional measurement, based on a national sampling of small retail and service firms in the U.S. Although the findings are rather tentative, given the low response rate, the results suggest that, contrary to popular belief, measurement of promotional performance is not given short shrift in small firms. Consistent with Varadarajan's (1985) and Nowak, Cameron and Krugman's (1993) findings, the vast majority of respondents tended to apply at least one measure of effectiveness following promotional efforts, typically using measures of financial performance and consumer behavior. The emphasis on sales effects measures and customer considerations implies that small firm managers expect promotional efforts to produce positive, short-term financial outcomes and expect advertising to influence consumer behavior (such as building store traffic). Another important finding was the significant role that firm employee input played in evaluating promotions, indicating a participatory role for employees in small business promotion decisions.

A key finding was that firm size accounted for significant differences in the frequency of evaluation techniques applied, with higher earning firms using most evaluation methods more frequently. This suggests that larger firms establish promotion review procedures as a part of routine operations, and allocate resources (time, personnel, money, etc.) to these tasks on a regular basis.

Another interesting finding was the role that gender played in evaluating promotions. Female managers used the majority of evaluation techniques more often than males, and were much more likely to include customer comments and inquiries as a part of their assessment. These findings indicate that the communication styles of female managers vary from those of males and support the conclusions of Van Auken, Rittenburg, Doran and Hsieh (1994) who indicated that the promotional media preferred by female entrepreneurs differs from those of the general business population. These activities may also explain some of the perceived time constraints expressed by the female managers. These differences have important implications about how female managers relate to consumers and how they plan subsequent marketing communication efforts.

The attitudes toward promotional performance and measurement in small firms indicate that gauging effectiveness is indeed challenging for small firms, most likely due to limited expertise and/or discomfort with evaluation methodologies. Despite the difficulties encountered in measurement, many firms appear satisfied with the performance of their promotions. However, most indicate willingness to try alterative strategies, suggesting an ongoing search for effective strategies. The results indicates that low cost assistance in selecting and evaluating promotional strategies would benefit many small retail firms and that models specifically designed for small firms would be beneficial.

…higher earning firms use most evaluation methods more frequently.

While this study reveals new information and supports and extends earlier research, several limitations exist. Although the use of a national sample broadens the scope of the findings, attempts to generalize them to a broad population of small firms must be approached with caution due to the low response rate. As earlier studies have suggested, small business owner/managers appear to be notoriously resistant to responding to surveys, thus alternative data collection methods should be used. In addition, the makeup of the sample also raises some concerns. Based on the small business literature, the in-depth interviews and the pre-test sessions, greater variation had been anticipated in terms of respondent firm ages and annual spending on promotions. However, the firms that responded were relatively mature, had fairly substantial earnings and spent significantly on advertising. This result may be related to respondent self-selection or to some bias inherent in the Dun and Bradstreet mailing list. Because of their maturity and experience, many firms that responded to this survey may have adopted some systematic means of measuring promotional effects, when compared with younger and smaller firms, especially start-ups. Certainly, comparative data on firms more varied in age, size and level of promotional activity would be valuable to this area of research and would aid in developing theories specifically relevant to small firms. ■

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The Controversy Over Accounting for Stock Options:
A Historical Perspective

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Abstract

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 entitled "Accounting for Stock-Based Compensation." The FASB began looking at the issue in 1984, at the request of many, including the Securities Exchange Commission (SEC), the American Institute of Certified Public Accountants (AICPA), the largest public accounting firms, industry representatives, and others in the accounting profession. Even before the FASB issued its exposure draft on the subject in 1993, however, controversy began to surround its deliberations and decisions.

The FASB's exposure draft proposed that the cost of stock options be expensed on the income statement, consistent with other forms of compensation. This differed greatly from the accounting rules of APB Opinion 25 in effect at the time, which usually resulted in no compensation expense on the income statement. As might have been expected, many companies did not relish the idea of expensing something that previously had no effect on their bottom line. Pressure to modify its position was exerted on the FASB by the very organizations that had asked FASB to look into the issue in the first place.

As a result of the controversy and accompanying pressure placed on the FASB, Statement 123 is a compromise that encourages, but does not require, the recording of compensation expense as it relates to stock options. Footnote disclosures of the effects of the new standard on net income and earnings per share are required for companies that elect to continue to apply the provisions of Opinion 25.

Although the FASB took up this issue in 1984, and the intense controversy over it began in 1993, the discussions and disagreements over accounting for stock-based compensation are not new. Differences of opinions are evident in the accounting literature as far back as the 1920s. While the definition of a stock option has not changed much since those early days, the exact purposes, uses, and accounting treatments have never been agreed upon. This paper examines some of the various positions that have been put forth over the years, looks at the recent FASB actions and controversy, and attempts to look forward at what might lie ahead in this area.

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Introduction

In October, 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS 123). The Statement, entitled "Accounting for Stock-Based Compensation," was the result of one of the most controversial standard setting due process deliberations in the history of the accounting profession. The opinions of many regarding the statement that was finally issued were summed up by the title of Demery's (1995) article "FASB Caves in on Stock Options."

The controversy began in June of 1993, when FASB issued an exposure draft on accounting for compensatory stock options. Under the accounting guidelines of APB Opinion 25, which was in effect at that time, an expense was generally not recognized when stock options were used as a form of compensation. As a result, many companies, particularly high-tech and start-up companies, had viewed stock options as having little or no cost. Under the FASB's guidelines in the exposure draft, the use of stock options would result in the recognition of compensation expense in the income statement, consistent with other forms of compensation.

Predictably, many companies were opposed to a change that would mean the recognition of additional expense on the income statement and responded accordingly to the FASB's proposal. Mathews (1993, H1) reported that "no [FASB] issue has ever inspired the same volume of mail, threats, and doomsday scenarios as stock options, and how to record them on company books." Less than a year after the exposure draft was issued, but "after more than a year of unrelenting pressure from politicians, business and CPAs...the Financial Accounting Standards Board decided against mandating that companies report the value of employee stock options as an expense... [and instead] will 'work toward improving disclosures....' " (*Journal of Accountancy* 1995b, 18).

Stock options as a form of compensation… hav[e] been used as early as the 1920s.

In SFAS 123, which went into effect for fiscal years beginning after December 15, 1995, for options granted after December 15, 1994, entities are encouraged, but not required, to account for stock compensation awards using a fair value based method, which results in a charge to compensation cost on the income statement. Entities that choose to continue to apply Opinion 25 are required to "disclose pro forma net income and, if presented, earnings per share, determined as if the fair value based method had been applied..." (Financial Accounting Standards Board 1995, 5).

Why did the FASB "suddenly" decide to create such a controversy and "radically" change the method of accounting for stock options? Or was this yet another chapter in the continuing debate over the appropriate accounting treatment for stock options? Has the issuance of SFAS 123 finally settled the matter for good?

Stock options as a form of compensation are certainly not a new concept, having been used as early as the 1920s. Discussions regarding their accounting treatment have appeared in the literature as early as the 1930s. To understand the controversy surrounding FASB's efforts in this area, it is beneficial to explore the evolution of stock options as a form of compensation and the discussions over time regarding their accounting treatment.

In the next section, the ways that stock options have been defined, perceived, and used over time are discussed. Discussions regarding their accounting treatment and the evolution of authoritative pronouncements are presented in the third section. In the fourth section, the arguments for and against the FASB's changes in accounting for stock options are discussed, and finally, a summary is presented.

Stock Options

At least part of the controversy over accounting for stock options may stem from differences in the perceived purposes and uses of stock options. As discussed in this section, the formal definition of a stock option has not changed significantly over time, but the ways in which stock options have been perceived and used have varied considerably.

Definition

The following quotes illustrate how little the formal definition of a stock option has changed. Baker (1940, 107-8) defined stock options as "contractual privileged subscription rights which run for a definite time.... [T]hey give to an executive a contract to purchase shares of common stock over a period of years, at either a fixed or a varying price, usually on advantageous terms, and frequently at a restricted rate of purchase." In comparison, a stock option was defined in the FASB (1995, 137) statement as "a contract that gives the holder the right, but not the obligation, either to purchase or to sell a certain number of shares of stock at a predetermined price for a specified period of time." Stock options have been similarly defined in the intervening period (see Washington and Rothschild 1962; and Seidler and Carmichael 1981).

Although the formal definition of a stock option has changed little, a review of the many ways in which stock options have been perceived and used may provide some insight into the recent controversy.

Perceptions and Uses

In what may be considered the definitive study up to that time, Baker (1940) examined the use and disclosure of stock options for fifty-three large and fifty-three small industrial companies, and thirty-eight retail companies listed on the New York Stock Exchange. For the small companies, Baker (1940, 107) concluded that the information disclosed to the stockholders and public regarding stock options was "completely inadequate." Based on information from the remaining companies, he evaluated the merits of stock options as a form of compensation in meeting the objectives of an executive compensation plan. Baker described these objectives as: (1) attracting "able" executives, (2) retaining all needed executives, (3) managing turnover of the executive group in a fair manner, and (4) motivating executives to do their best and thus bring about company success. Baker concluded that, "there is little evidence in this study that stock options are of great significance in meeting these qualifications," but suggested that they may be useful under "special circumstances" (Baker, 21-2).

An editorial in the *Journal of Accountancy* (1944) suggested that companies used stock options in order to improve labor relations, reduce turnover, and improve morale. Other uses were to increase employee compensation without violating salary and wage controls imposed during the war and to provide an opportunity for employees to invest in the company, thereby stimulating employee interest in the business. Dohr (1945, 439) viewed this investment opportunity as the primary purpose for issuing stock options, describing them as "primarily a device for raising capital."

At the same time, stock options were being criticized by Dillavou (1945) as a means used by corporate directors and employees to hide the actual amount of compensation from shareholders. Mann (1952) also disapproved of the use of stock options as a form of compensation. He conceded that stock options are of value to the employee receiving them and that some of the arguments in favor of stock options may have merit, for example, as an incentive to retain top executives. He questioned, however, their value to the stockholders of the company, citing the possible dilution of ownership and the potential decline in market price when executives sold their shares.

In 1950, Congress granted preferential tax treatment through Section 130A to holders of “restricted” stock options.[1] As a result of this tax law change, the use of employee stock ownership and stock option plans (ESOPs) became more prevalent. According to Patton (1962), 60 percent of companies on the New York Stock Exchange had adopted option plans by 1962. The preferential tax treatment fueled more debate over the use of stock options. In addition to echoing Mann’s (1952) concerns regarding the cost to outside investors, Griswold (1960) pointed out that stock options were not required to be nondiscriminatory in order to qualify for preferential tax treatment, unlike pension, profit-sharing, and stock-bonus plans.

In response to these criticisms, Ford (1961) argued that stock options have value to the company by providing compensation and incentives to attract and retain good management. He countered Griswold’s concerns by claiming that the cost to outside investors through dilution of their ownership interests was minimal and that Congress was well aware of the incentive effects of stock options when they were granted preferential tax treatment.

While stock options were virtually the only long-term compensation incentive used during the 1950s and 1960s, their popularity declined during the 1970s due to weak market conditions, the curtailment of tax advantages, and the advent of other long-term incentives.[2] With a stronger stock market and the reinstatement of tax preferences in the early 1980s, stock options once again gained popularity and have continued to be the most prevalent long-term incentive (Graskamp 1989; Paulin 1989; Scannella 1989). According to Graskamp (1989), 90 percent of the 400 largest industrial and service companies used stock options in 1988.

Paulin described a major objective of stock options, as well as other long-term incentives, as linking executive remuneration to shareholder returns. He noted that the prevalence of stock options had not diminished significantly in spite of the loss of favorable capital gains tax rates, increased market uncertainty, and “persistent threats of new accounting rules with potentially adverse financial statement consequences” (Paulin 1989, 39). He pointed to this continued prevalence as evidence that they are perceived as being effective in meeting their major objective. Paulin did admit, however, that it is the ownership of stock made possible through options, not the option itself, that potentially influences decision-making behavior. He conceded that their effectiveness may thus be negligible when stock options are viewed solely as a form of additional compensation rather than ownership.

…at least part of the reason for the popularity of stock options was their accounting treatment.

Graskamp (1989) implied that at least part of the reason for the popularity of stock options was their accounting treatment. Because there was generally no compensation expense recognized under the accounting guidelines then in effect, options were “viewed as being more cost-efficient than other [long-term incentives]” (Graskamp 1989, 32). As for the objective of linking executive rewards to shareholder returns, Graskamp (1989, 31) noted that options have been criticized as being a “one-way street for managers. Managers are rewarded if share price appreciates, but have no downside risk if the share price declines.” Graskamp also suggested that stock options have not been effective in meeting the objective of increased management ownership because after they are exercised, managers are not required to retain their shares.

In summary, it is evident from this debate that the perceptions of the purposes of stock options have evolved over time, and that there is no consensus. It is interesting to note that the objectives that Baker (1940) concluded were not met by stock options (i.e. attract, retain, and motivate management) were the same reasons espoused by Ford (1961) for the use of stock options. Differences of opinion continue to exist, however, as to whether stock options should be regarded as compensation for past performance or incentive for future performance.

Evolution of Accounting for Stock Options

Regardless of their perceived purposes, it is apparent that stock options have value to the employee receiving them, although the cost to the company remains in question. The questions of value, as well as timing, have been significant issues in the debate over the accounting treatment of stock options.

Accounting Prior to Authoritative Standards

One of the earliest references to accounting for stock options appeared in the late 1930s in an editorial in the *Journal of Accountancy* (1937). The editorial was in response to a previous discussion in “Accounting Questions”[3] regarding accounting for stock issued to officers as bonuses, but went on to discuss accounting for stock options as well. The author recommended that no entry be made on the option issue date regardless of whether the option price was greater than or less than the market price of the stock on that date. His reasoning was that the option may never be exercised, and the spread between the option price and the stock's market price may fluctuate over the life of the option. When the option was exercised, the author recommended recording the stock issuance at the option price and disclosing the related-party nature of the transaction and the provisions of the compensation/option contract in the notes to the financial statements. The author also argued that:

> It is impossible to say that if the option is exercised the difference [between the option price and the stock's market price] at that date measures the value of any services which may have been rendered in the meantime. In cases such as these it is often more informative to deal with the matter in footnotes to the financial statements than in the accounts themselves, particularly when the results of operations might be distorted by charges in one period which actually relate in only a small part to that period. (*Journal of Accountancy* 1937, 9-10)

From his recommendation, it appears that the author viewed stock options as compensation for future performance.

Kunkel (1939) recommended that the fair value of the services performed by the employee be used to value the stock options, which should be fixed by the board of directors as part of the negotiated employment contract. That value should then be deducted from the income statement in a manner similar to other wages and salaries expense. From his discussion, it appears that, unlike the first author, Kunkel viewed stock options as compensation for past performance.

In his response to Kunkel, Reno (1939) suggested that having boards set a definite value for employee services compensated with stock options defeated the entire incentive goal of issuing stock options. He argued that employees understand that they are being compensated on an incentive basis, the value of which is determined in part by the results produced. Reno recommended that the corporation should attempt to measure, at financial statement dates, its liability to deliver stock in the future, even though the valuations could fluctuate.

Kunkel (1940) responded to Reno by arguing that the board would be determining the value of the employee's services, not the value of the stock options to the employee. The incentive value of stock options would not be reduced, he argued, because if the incentive works and the employee performs well, the corporation should in turn perform well and the value of the stock to the employee would increase. Kunkel questioned their incentive value, however, because a single employee has a very limited effect on the company's performance, and other factors outside of the employee's control, such as general economic conditions, affect the price of the company's stock. He noted that court cases had held that stock compensation should be valued on the date of receipt, but encouraged the profession to engage in further discussions that, hopefully, would lead to "a more equitable and satisfactory conclusion." (Kunkel 1940, 135)

An editorial in the *Journal of Accountancy* (1944) proposed that accounting rules for stock options should follow the tax rules. According to this editorial, stock options issued for the purpose of enabling employees to invest in the company posed "no unusual accounting problems." Stock options intended as additional compensation, however, should be divided between those issued for past services and those for which exercise would be conditional on the performance of future services. The author recommended that options issued for past services be valued on the date of grant as the difference between the fair value of the shares and the option price. For options whose exercise is conditional on future services, the author recommended that no compensation be recognized until the services had been performed, at which time the options would be valued at the difference between the fair value of the shares and the option price. The author described these recommendations as "broad principles," which should be applied to the wide variety of compensation option agreements according to the circumstances. He also noted that accounting for stock-based compensation was being examined by the Committee on Accounting Procedure (CAP), a committee of the American Institute of Accountants (AIA).[4]

Dillavou (1945) presented five potential methods of accounting for stock options and concluded that the preferable method gave recognition to the cash foregone by the corporation when the employee exercised options at less than the market price. Dillavou's (1945, 324) reasoning was that:

> It treats the transaction as though the stock had been sold on the market at the date when the option was exercised and part of the proceeds had been turned back to the employee as compensation for services. The value of the option is measured by the value of the stock when the option is exercised and the charge to operating expenses is fixed accordingly.

He also argued that this method: (1) would provide full disclosure in financial statements; (2) would correspond to the accounting treatment for options returned by the employee for cash compensation and for stock issued as compensation; (3) would allow the amount of compensation to be determined by the employee at the time of exercise; and (4) was supported by recent court decisions.

Dohr (1945) believed that accounting for stock options should follow the rules of accounting for compensation in general, and compensation in the form of stock in particular. Accordingly, Dohr recommended that compensation expense be recognized at the issue date or when the employee became legally entitled to the option, arguing that the corporation ceases to control the timing or amount of the employee's ultimate cash compensation at that point. He also argued that the option has value, or the employee would not accept it as part of his compensation. After contrasting the arguments of Dillavou and Dohr, Bell (1946) supported Dohr's recommended approach.

Accounting Research Bulletin (ARB) No.37

The first authoritative guidance on accounting for stock options as a form of compensation was issued by the Committee on Accounting Procedure in 1948 as Accounting Research Bulletin No. 37 (ARB 37).[5] The provisions of ARB 37 applied only to stock options issued as a form of compensation and not to those issued primarily to raise capital or increase employee ownership, although no definitive criteria were given to make this determination. ARB 37 set the measurement date (the "property" date) as the date on which the option becomes the employee's property, that is, when the option becomes exercisable by the employee. At that date, ARB 37 required that compensation expense be recognized for the difference between the option price and the fair value.

Of the two members dissenting from the bulletin, one believed that compensation expense should be added back to "earned surplus" (retained earnings) if the option expired without being exercised. The other dissenter believed that no entry should be made until the option is exercised because, in his view, the transaction had not been completed until then and may never be if the option is not exercised.

Although many views were held by professionals at the time, the predominant view appeared to be that no compensation expense should be recognized in the income statement and that disclosure in the notes to the financial statements would be adequate.

ARB 43, Chapter 13B (ARB 37 Revised)

When ARB 43 was issued by the CAP in 1953[6], Chapter 13B revised ARB 37 in two ways. First, it provided criteria for determining which stock-based transactions with employees would be considered non-compensatory in nature. Second, it changed the date used to measure compensation expense for stock options from the property date to the date on which the option was granted to the employee, stating that "it was the value at that date which the employer may be presumed to have had in mind" (AIA CAP 1953, 312). The measurement of the compensation expense remained the same, which was the difference between the option price and the fair market value on the measurement date. The "fair value" of the option was the market value adjusted for any restrictions such as lack of transferability and future service requirements.

The reasoning behind the revision was that companies could easily circumvent the measurement date by constructing plans under which the property (or exercisable) date was virtually the same as the grant date. Concern was also expressed that when the option price was higher than the market price, no cost was recorded even though the option "undoubtedly has some 'value' " and the corporation had incurred some compensation cost (AIA Research Department 1953, 437). There was also a desire to be consistent with Internal Revenue Code Section 130A, which had been issued subsequent to ARB 37.

…the predominant view [in 1948] appeared to be that no compensation expense should be recognized in the income statement…

SEC Concerns

In response to the revisions to ARB 37, the Securities and Exchange Commission (SEC) issued a proposed rule supporting the accounting guidelines of the original ARB 37 and disapproving of the revisions. According to Dubois (1953, 504), the SEC's objection was that "the method prescribed in the revised bulletin would result in the almost complete exclusion from corporate income statements of charges for compensation to employees in the form of stock options."

The SEC was cited in Campbell (1961, 55) as noting that persuasive arguments had been made for each of three measurement dates, when options were (1) granted, (2) exercisable, or (3) exercised, and that "the propriety of using any one of these dates in all cases has not been established." The rule eventually adopted by the SEC called for specific disclosures relating to compensatory stock options in the notes to the financial statements. Campbell (1961, 56) described this approach as, "We can't figure out when these options should be valued or how they should be accounted for, but here is all of the relevant information. See if you can make any sense out of it."

Other Proposed Accounting Methods

Campbell characterized the authoritative guidelines as a "complete lack of accounting for stock option values" (1961, 51). He proposed a method similar to a much earlier proposal by Kunkel (1939). Campbell recommended that, like marketable options and warrants, stock options should be valued at the grant date and recorded as a deferred charge to be amortized over a reasonable compensation service period. Although transferability restrictions prevented stock options from being readily marketable, Campbell believed that the board of directors could establish a reasonable estimate of their value. Sweeney (1960) also advocated a similar method, but emphasized valuing the employee's services instead of the option.

Arthur Andersen & Co. (1969, 86-87) reiterated the view that options should be valued at the excess of the market price over the option price at the date the option becomes exercisable, similar to the requirements of the original ARB 37. Their reasoning was that:

> Under generally accepted accounting principles, the cost of the compensation inherent in stock options is not being recorded.... We believe that there is compensation involved in stock options beyond that presently being recognized...[and] that some reasonable basis should be developed so that recognition can be given in the accounts to this cost of compensation that is now being ignored.

APB Opinion 25

In 1972, the Accounting Principles Board[7] issued Opinion No. 25 (AICPA 1972), which superseded Chapter 13B of ARB 43. Opinion 25 further delineated the characteristics that made a plan noncompensatory in nature and refined the measurement date and value for stock options. The APB required that the "quoted market price" of the stock at the measurement date be used in valuing the options as opposed to the "fair value" used earlier under ARB 43. The definition of the measurement date was refined from the "grant" date in ARB 43 to the date at which both the number of shares the employee was entitled to receive and the option price were known in order to include option plans for which the price or number of shares varied.

Of the three members dissenting to the Opinion, one believed that the provisions would result in no compensation expense recognition. Another dissenter believed that the value of the call on the company's stock should be used instead of the difference between the quoted market price and the exercise price. The final dissenter believed that the "alleged abuses in accounting" had been overemphasized and that the APB acted prematurely in light of the accounting research study that was presumably examining the issue at the time.

FASB Actions and the Recent Controversy

Actions Prior to 1992

With the advent of other forms of stock-based incentive compensation, particularly stock appreciation rights (SARs)[8], discrepancies in accounting treatments became evident. Thomas and Farmer (1984) noted that no compensation expense is recognized at the date of grant for either SARs or stock options as long as the market price equals or exceeds the SAR or option price. Unlike options, however, compensation expense is recorded for any increase in market value from the grant date to the exercise date for SARs. According to Beresford (1996), this discrepancy in accounting treatments, in addition to comments by the SEC and the large accounting firms, prompted the Financial Accounting Standards Board (FASB)[9] to reconsider accounting for stock options and add the issue to its agenda in 1984.

By 1985, the FASB (1985) had formed the tentative conclusion that compensation cost should be recognized for the "minimum value" of stock options at the date of grant,…

By 1985, the FASB (1985) had formed the tentative conclusion that compensation cost should be recognized for the "minimum value" of stock options at the date of grant, measured as the difference between the market price and the present value of the exercise price plus estimated dividends during the option period. These tentative conclusions were revised slightly to change the measurement date to the date when both the number of shares and option price were known (FASB 1986a). They were further revised to change the measurement date to the later of the vesting date, when the employee has unconditional rights to the option, or the date when both the number of shares and option price were known. The second revision (FASB 1986b) also changed the measurement method to fair value, under the assumption that it would not be less than the minimum value.

By 1988, the FASB (1988) admitted that a consensus had not been reached and that the issue would be deferred until it could be determined, as part of a broader project, whether options should be considered liabilities or equity instruments.

Post-1992 Actions and Controversy

After concluding that options were equity instruments, the FASB (1992) resumed its consideration of the issue. At that time, the FASB (1992) reverted back to the grant date as the measurement date, with subsequent adjustments to the estimated value "to reflect the outcome of performance conditions and service-related factors such as forfeitures before vesting," but not for changes in the stock price. The exposure draft, issued June 30, 1993, kept the grant date as the measurement date and required that compensation cost be measured at that date using the fair value method. The exposure draft (FASB 1993) required that the model used in applying the fair value method take into consideration (1) the option price and expected term, (2) the market price, expected volatility, and expected dividend yield of the stock, and (3) the risk-free interest rate. The Black-Scholes and option-pricing models were mentioned as models that could be used. The compensation cost would then be amortized over the service period, generally from the grant date to the vesting date. As originally planned, the standard would require footnote disclosures beginning in 1994, with the income statement charges beginning in 1997.

As cited in Coopers and Lybrand (1993, 22), the FASB's rationale for requiring recognition of compensation expense based on the estimated fair value of the option at the date of grant could be summarized as follows:

1. Options have value that is not being recognized under current guidelines, implying that they are free;
2. It is possible to reasonably estimate the fair value of the options, as is currently being done in other cases where uncertainties exist, such as pensions; and
3. Options are a form of compensation, the cost of which should be recognized in the income statement.

Even before it was issued, the FASB's proposal set off an unprecedented controversy. Under pressure to do something about "excessive" executive compensation and realizing that no compensation cost was being recognized for one component of that compensation, Congress looked to the SEC, which then turned to the FASB (*Financial Executive* 1992). According to Mathews (1993, H6), shareholder activists, supporting the FASB proposal, contended that executives were resisting it because it would "hit them in the pocketbooks."

Much of the opposition came from business executives and corporations, who objected to the requirement that compensation cost be recognized on the income statement. According to Schatz (1993, 28), opposition groups drafted legislation to "prevent further damaging accounting changes," and wrote to President Clinton contending that the FASB's proposal "has no merit and ... poses a threat to economic recovery and entrepreneurship." In sponsoring the legislation, Senator Lieberman (D-CT) (*Journal of Accountancy* 1993, 15) stated that the FASB's approach may have been theoretically correct, "but from a public-policy, job-creation and competitiveness perspective, it simply is unnecessary and unusually disruptive."

According to Coopers and Lybrand (1993), the objections of those opposed to the FASB's exposure draft could be summarized as follows:

1. No expense should be recognized because "a stock option transaction is conceptually a capital transaction" involving no outflow of assets or incurrence of a liability.
2. The stock option should be measured as the cost to the company, not the value to the employee. The estimation methods are "impractical and unreliable," resulting in distorted financial reporting.
3. "The unnecessary reduction of earnings...will erode international competitiveness for U.S. companies, severely hurt start-up and technology companies, and lead to a decline in broad-based option programs."
4. "There is no clear evidence that the proposed change will improve financial reporting.... Instead, users have generally asked for expanded disclosures."

Politics in Standard Setting

The involvement of Congress and the President in the controversy has raised fears in the accounting profession that the standard setting process may become a political process (Pensions and Investments 1993). Although opposed to the FASB's exposure draft, the AICPA's Accounting Standards Executive Committee (AcSEC) supported the FASB's efforts, stating that the AICPA "long has opposed congressional attempts to override FASB decisions by legislating accounting standards" (*Journal of Accountancy* 1994d, 14). The SEC (Harlan 1994) also expressed reluctance to interfere with FASB's standard setting.

Two resolutions (*Journal of Accountancy* 1994c, 9) were passed by the Senate on the issue of accounting for stock options. The first urged the FASB to "abandon its controversial project on accounting for employee stock option compensation." In the second resolution, the Senate stated that "FASB's independence should be safeguarded and...Congress should not impair its objectivity or decision-making process."

FASB's Response to the Controversy

In response to the controversy over its exposure draft, the FASB announced in mid-1994 that companies would not be required meet the exposure draft's disclosure requirements for stock options granted in 1994. The reason given for the delay was that the FASB was "re-deliberating all its decisions" proposed in the exposure draft. At the same time, however, FASB stated that this decision "has no effect on the proposed requirement to begin recording expense in the income statement for the cost of stock options granted to employees as of 1997" (*Journal of Accountancy* 1994a, 14).

By February of 1995, FASB had backed away from its exposure draft's requirements even further. The FASB was quoted as saying that it "expects to encourage, rather than require, companies to adopt a new method that accounts for stock compensation awards based on their estimated fair value at the date they are granted" (*Journal of Accountancy* 1995b, 18).

The official Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," was issued in October of 1995. The statement encourages, but does not require, companies to account for stock-based compensation using a fair value method, which results in a charge to compensation cost on the income statement along with a number of disclosures. For entities that elect to continue to apply the provisions of Opinion 25, disclosures of net income and earnings per share as if the fair value method had been used are required in the footnotes.

Looking Back and Looking Forward

While the recent controversy surrounding the FASB's exposure draft and eventual statement is dramatic, history has revealed that accounting for stock options is certainly not a new issue. Part of the controversy may stem from the ways in which stock options have been used and perceived. Are they a reward for past performance, an incentive for future performance, or both?

The questions that have plagued the accounting treatment of stock options over time are: (1) How should stock options be measured and what, if any, expense should be recorded on the income statement; and (2) At what date should the measurement be made? Measurement dates proposed over time have included: (1) the grant date, (2) the date at which both the number of shares and the option price are known, (3) the vesting or "exercisable" date, and (4) the exercise date. Proposed measurement methods have included: (1) the fair value of services performed, (2) the difference between the option price and the "fair value" of the stock, (3) the difference between the option price and the "quoted market price" of the stock, (4) the "minimum value" method," and (5) the "fair value" method. Sound arguments have been presented for each of these dates and valuation methods. From this discussion of the evolution of the accounting treatment for stock options and the recent controversy, it is evident that no consensus has been reached on any one method.

A number of troubling issues have come to light through this recent battle over the accounting for stock options. Concerns have been expressed in a number of articles (Beresford 1996; Colvin 1995, 1994; Craig 1995; *Journal of Accountancy* 1994b, 1995a; Mano and Barton 1995; Sharav 1995) over the ramifications of the recent controversy over the stock-based compensation issue. During this controversy, pressure was placed on the FASB by many groups, both inside and outside the accounting profession. Many accountants wonder if top executives, who many felt had a considerable vested interest in FASB's final decision, should have as much influence over the accounting standard-setting process as they seem to have had in this area. Many also felt that the largest CPA firms' clients exerted great influence over the firms, which in turn exerted influence over the FASB. Congress passed resolutions dealing with the controversy, and many feel that the self-regulation of the accounting profession, which is one of its most important assets, is in jeopardy. Has the standard-setting process turned into a "popularity" or "profitability" contest? How much "damage" has been done to the chances of keeping the profession's regulation in its own hands?

One must wonder also whether the issuance of SFAS 123 has put an end to the issue of accounting for stock options. Many see a lack of closure on the issue in light of the FASB's encouragement versus requirement, and feel that the FASB's statement on stock option accounting is not its final statement. FASB's chairman, Dennis Beresford, disputes that belief, however. Beresford (1996, 126) stated that "contrary to some continuing rumors, the FASB does *not* have a secret plan to move the disclosure requirement into the income statement after some cooling-off period. In fact, I suspect that no current FASB Board member would be willing to consider this issue again."

Only time will answer these questions. If history is any indication, however, the debate over accounting for stock options will continue for some time to come. ■

Notes

1. The legislation also disallowed corporate deductions for the related expenses.
2. Examples of other long-term incentives include stock appreciation rights, restricted stock, and performance plans. See Paulin (1989) for an overview of long-term compensation incentives.
3. The "Accounting Questions" section of the *Journal of Accountancy* gave practitioners a forum for practical answers to accounting questions.
4. The American Institute of Accountants was the predecessor to the current American Institute of Certified Public Accountants.
5. See American Institute of Accountants Committee on Accounting Procedure (1949).
6. See American Institute of Accountants Committee on Accounting Procedure (1953).
7. The APB succeeded the CAP as the accounting standard setting body in 1959. All standards set by the CAP remained in force until specifically superseded by the APB.
8. The employee holding a stock appreciation right receives a cash payment for the appreciation in market value of the stock from the grant date to the date of exercise.
9. The FASB succeeded the APB as the authoritative accounting standard setting body in 1973. Pronouncements by the CAP and APB remain in effect until specifically superseded by the FASB.

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Union – Management Cooperation:
Different Relationships, Different Forms

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Abstract

A model is proposed that regards cooperative relationships between union and management as having three distinct forms. Problem-Solving is the most basic with employee problem-solving groups appended to existing union and management structures and processes. In the Team Concept the organization's work system is redesigned around work teams, more flexible work rules and significantly altered individual roles. The Partnership appears similar to the Team Concept but the fundamental, traditional roles of union and management are changed so that both organizations become jointly responsible for running the organization and attending to the welfare of employees. Each of the three forms reflects a more intimate level of relating with a more advanced form becoming possible only after the requisite knowledge and skills of the preceding form have been mastered. Viewing cooperation as having three distinct forms has important implications for understanding, implementing and maintaining cooperative efforts.

Introduction

The history of union and management activity has been a history of adversaries. Becoming adversaries was not something that occurred because people planned it carefully; the parties were cast into these roles at the outset and they then continued honing and using the skills necessary to survive and succeed in the relationship. Most of what we have come to know about unions and management has come about within the context of that adversarial relationship.

Kochan, Katz, and McKersie (1986) make the case that American industrial relations are going through an irreversible change away from this adversarial form and moving in the direction of increasing cooperation between union and management. Much of the current thinking about union-management cooperation (sometimes called partnership) generally regards it as a unified, generalized phenomenon and this thinking has impeded the full understanding of this emerging form. One consequence is that the various mechanisms of cooperating such as quality of work life (QWL) groups, joint problem-solving groups, and self-managed work teams have come to be viewed as minor variations on the notion of how groups of people cooperate at work. Another is a failure to recognize the different and refined skills necessary for success within different forms of cooperation. In addition, the significance of the emotional commitment and the level of trust necessary for success for different kinds of cooperating is not grasped if cooperation is treated as this undifferentiated concept.

…different forms of cooperation require different kinds of relationships between union and management if the effort is to succeed.

In contrast to the notion of one generalized form of cooperation, we propose that there are three different forms and that within each of these, certain techniques or mechanisms for cooperating are more likely to be found and are more likely to be successful. Furthermore, these different forms of cooperation require different kinds of relationships between union and management if the effort is to succeed. The most basic form of cooperation is one in which trained, volunteer employees are pulled from their regular work assignments for two to three hours each week to participate with a group in a problem-solving session. Such a group is assigned some problem and asked to recommend solutions to the joint union-management leadership team. These groups are very similar to quality circles and often are a part of QWL activities. They are essentially appended to the organization's existing structure and processes. Since this cooperative form represents only a small departure from the traditional relationship, a traditional labor contract would be found here.

A second cooperative form has the entire organization structured into work teams or self-managed work groups with a number of innovative work processes such as pay for knowledge and group performance evaluations. While the flavor of the labor agreement may be changed, union and management each continues to maintain its traditional role in the organization. The Kellog Company and the American Federation of Grain Millers installed such an arrangement in 1991.

The third form of cooperation is similar to the second in structure, but is distinctive in that the union and management change their fundamental roles. Rather than management running the business and the union looking out for the workers, here they become partners and do these two things together. Such an arrangement is found between the UAW and the Saturn Corporation where both parties are engaged in the full range of day-to-day activities.

Three cooperative forms of relating move from one stage to another with each more integrated and more intimate than its predecessor.

We maintain that these three cooperative forms of relating move from one stage to another with each more integrated and more intimate than its predecessor. To advance to the next form of cooperation it is necessary for the participants to have progressed through the more basic forms. We further believe there are logical connections between the various cooperation efforts and our experience suggests that these efforts evolve in a predictable sequence. Awareness of these distinctions among the forms of cooperation can make a difference in implementing cooperative efforts, in maintaining appropriate internal mechanisms, and in preventing the erosion of such efforts.

An examination of studies about union-management cooperation yields a number of schemes for categorizing, organizing, and thinking about ways union and management try to cooperate. Some of the early models about cooperation brought together concepts about organizational change with those of cooperation in unionized organizations. For example, Kochan and Dyer's (1976) model looked at three stages in the change process: stimulus for change, initial commitment to change, and maintaining the commitment over time. They then linked these elements to labor-management efforts to start a cooperative effort. Lawler and Drexler (1978) studied joint union-management quality of work life projects and generated a list of factors which would work in favor of such efforts and those which would work against them.

Schuster (1980) developed a broad-based model to study forms of labor-management cooperation having goals of improved productivity and organizational effectiveness. These included QWL projects, labor-management committees, quality circles, and gainsharing. Schuster (1984) also identified eight categories of cooperation along a micro-macro industrial relations dimension ranging from presidential labor-management committees to efforts for improving the quality of work life. In both of these efforts the union-management configurations were only categorized and no greater conceptual framework was set forth.

Kochan, Katz, and McKersie (1986) proposed three levels of industrial relations activity and explored the focus of employers, unions, and government at each of the levels. Using this framework, these authors categorized and examined many of the union-management cooperative techniques including quality circles, worker attitude surveys, work teams, joint planning, joint training activities, and gainsharing. The techniques were regarded as parts of the common cooperative effort. Their model was much broader in scope (including government, the national union, and corporate headquarters) than the model we propose and dealt with union-management relations in general and not just cooperative efforts.

In a major research effort on plant-level union-management cooperation, Cooke (1990) studied formalized, cooperative activities in manufacturing facilities in the United States and organized the most important of these by activities such as quality circles, labor-management committees, work teams, Scanlon plan (gainsharing), and employee stock ownership plans. Other than categorizing the efforts as team-based or as labor-management committee-based, no broad conceptual linkages or dynamics about cooperation were used or set forth.

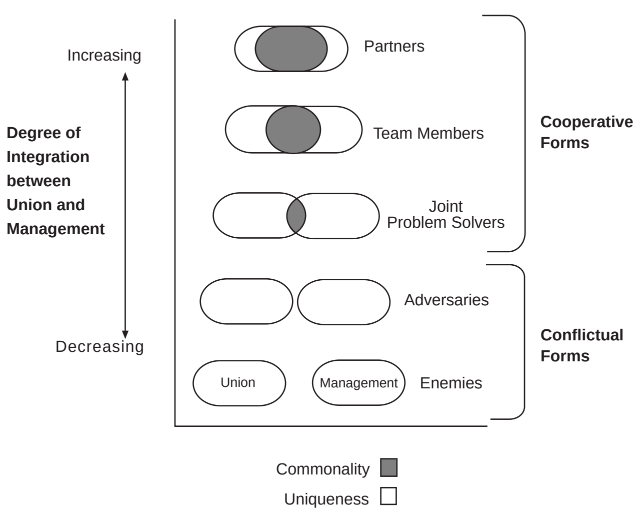
Woodworth and Meek (1995) used a seven-point labor-management relationship continuum ranging from Open Warfare through Joint Future Creation to help parties understand how to initiate a cooperative effort. Their "Open Warfare" was the same as the "Enemies" we use in our model. Their continuum flowed up to the point where a joint future is created, while the relationship continuum in our model contains the different forms that cooperation takes along a scale of integration for the two organizations. They did make the point that a cooperative relationship may be thought of as a process and not a structure. While their model was not highly elaborated, it parallels our thinking and conceptualizing about cooperation.

The Forms of Union-Management Relations

We believe that union-management cooperation takes on three distinct and identifiable relationship forms and that these relationships are sequenced in terms of the level of integration between union and management. Integration is the combining of two parts into a whole. From a practical perspective, a high level of integration between a union and management would be demonstrated by their having several important, shared goals for mutual gain and agreement about the means for attaining these. With a low level of integration, goals not only are not shared but may even be in opposition to each other. Each party would determine its own self-serving means to accomplish these goals.

In order to more fully understand the forms of cooperation, it is useful to look at the whole range of possible union-management relationships (which includes forms of conflict). Considering the relationships of union and management along a scale of integration of the two organizations, we believe that the forms of cooperation are preceded by two forms of conflict or competition which we label Adversaries and Enemies. This continuum of relationships is shown in Figure 1. The ovals symbolize union and management, and the degree of overlap depicts the degree of commonality between them. Commonality is essentially a shared vision and a sense of holding similar beliefs, values, and assumptions about people and the organization. This can sometimes be seen symbolically in an organization when a union and management combine their own emblems into a common, joint emblem.

Figure 1
Model of Union-Management Relationships showing Cooperative and Conflictual Forms



The non-overlapping areas indicate the uniqueness of each party. With increasing integration, the amount of commonality increases and the amount of uniqueness necessarily decreases. While we include five relational forms in the model, our interest is on those three that deal with cooperation. Therefore, the conflictual forms will be described only briefly.

The model assumes the two organizations will remain in a given form of relationship until they respond to external threats or opportunities or until proactive leadership seeks a new way for them to interact. While the model assumes the setting for these cooperative efforts is an established unionized facility at the firm or plant level with one geographic site, this assumption does not preclude the spread or migration of such efforts from one facility to another. The spread of cooperative efforts, while beyond the scope of this paper, is an important area for further examination.

An important facet of the relationship issue that needs exploration is that of employer-employee. However, at this stage of developing our model we have chosen to avoid undue complexity and therefore will defer addressing that until a future time.

Enemies

This form of open conflict is not prevalent and is not regarded as the starting point in the evolution, but it is included in the model to account for the most disintegrated form of relationship possible for a union and management. This stage can be characterized by violence, sabotage, work stoppages, lock-outs, injunctions, lawsuits, and a breakdown in the fundamental union-management transaction mechanisms. Differences are heightened and the two groups are polarized on virtually every issue of consequence. The conflict frequently spills over into the neighborhood, into community, social and civic activities, and even into families. The long-term goals of both organizations become subverted as each channels its energy and resources into winning the conflict and defeating the other. In some settings the conflict subsides only to erupt again and again and in some instances can persist for several years. For example, Phelps-Dodge, an Arizona copper mining company and its steelworkers (English 1984) had a particularly violent strike beginning July, 1983 and lasting eight months. Another example is Caterpillar which suffered the longest UAW strike in U.S. history in 1982-83. This was followed by a 163-day strike in late 1991 and still a third strike two years later. In spite of a settlement, conflict continues up to the present time.

Adversaries

This is the most common way for a union and management to relate. This relationship is the traditional legal-contractual form characterized by ‘we-they’ thinking, low trust, simmering conflict, and the machinery of the contract used to deal with nearly every dispute, difference, and idea. Here, the fundamental purpose of management is running the organization and looking to its success while that of the union is reacting to management and representing the interests of the workers.

The organization is likely to be structured along functional lines with heavy emphasis on explicit rules, efficiency, and making schedule. There are likely to be many job classifications and these are guarded fiercely by the union. The roles of both union leaders and managers are sharply defined and well understood. While GM and the UAW have cooperative relationships at a number of facilities, there are many sites that provide good examples of a traditional adversarial relationship.

Advancement to a more integrated form of relationship can result from the threat of business failure manifested by such signs as eroding quality, declining sales, and decreasing market share. The union may be faced with potential job losses and declining fervor among the membership. Movement toward greater integration can be initiated by new leadership action on either the union or management side, by recommendations from FMCS or from public pressure or public policy as in Wisconsin where the collective bargaining law for public employees encourages the parties to use mutual gain bargaining.

> ***... joint groups commonly are viewed as little problem-solving machines that can benefit operations at minimal cost and can also improve union-management relations.***

Joint Problem Solvers

Joint Problem Solving is the first and most basic form of cooperation to emerge and has been reported in virtually every industry in the country. Many early joint QWL efforts were of this nature. It commonly blossoms after a joint retreat or offsite meeting attended by union leaders and top managers of the facility. A number of things seem to follow quickly: an acceptance of the legitimate role of each party by the other, good will among the participants, an expressed desire to trust and be trusted, a promise to try the new way, and frequently the creation of a joint symbol of the new relationship.

It is in this form of relationship that quality circles and employee problem-solving groups are created as attachments to existing structures and processes. These kinds of mechanisms are the means by which the new relationship is acted out. Ordinarily a joint union-management oversight group is created to guide the two units in their new relationship. This joint committee creates, coordinates, and maintains joint structures and processes, develops strategy for education about cooperation and its proliferation, and links the joint effort to external organizations (mainly the national union and corporate headquarters). The fundamental purpose of the union and of management, however, remains unchanged; the structure of the organization is not altered and the contract remains in place. The purview of the contract is jealously guarded and great care is taken to see that problem-solving groups do not get involved in matters subject to collective bargaining.

In more formalized and structured arrangements of joint problem solving, each newly created group is given special training, is assigned some problem to solve, and then meets for two to three hours each week to work on this. Groups deal with problems that conceptually range along a continuum of risk for the union and for management. The lowest risk activities might include planning and carrying out a joint open house, a blood drive or perhaps a joint trip to another plant to learn more about union-management cooperation. Joint groups at the high end of the risk continuum may be asked to deal with tasks or problems that can impact the enterprise and the union in a substantive way: work scheduling, assignments, layout, or processes.

The early stages of this relationship are ordinarily a honeymoon period. The joint groups commonly are viewed as little problem-solving machines that can benefit operations at minimal cost and can also improve union-management relations. Common signs of success include decreases in absenteeism and grievances, increases in quality, and involved people saying they feel good about the relationship and the organization. However, as with any significant organizational change, not everyone is in agreement. Some managers, union leaders, union members, and salaried non-union employees may not only fail to accept the new effort and fail to participate, but may even attempt to sabotage it. Dealing successfully with this resistance can be crucial for the success of the effort. If this new relationship is weak and floundering it can be ignored and treated as just another program, but if the relationship is strong and flourishing it can cause stress for both parties as they try to accommodate the effort.

The factors that lead union and management to consider even closer cooperation are similar to those found in the transition from the Adversarial to the Problem-Solving form. But this time, in addition to the perceived threats, the recognition of the gains that can be made by people working together in groups plays a much greater part in energizing the organization. At this phase, management now may seek greater flexibility through a contract with fewer job classifications and fewer work rules. In return for such an arrangement, the union might want something such as job or income guarantees, profit sharing, or perhaps a greater say in certain decisions. The newly evolved arrangement may be called a Team Contract or a Team Agreement.

Team Members

The Team Concept is the next form to emerge in the sequence of relations between union and management and reflects an increased level of integration over the Problem-Solving form. An assumption of our Cooperation Model is that people in an organization can operate effectively at the Team Concept level only if they have acquired the knowledge and skill to operate effectively at the Joint Problem-Solving level. The main difference between the Problem-Solving and the Team relationships is that in the former the mechanisms for relating are appended to the existing organization while in the latter the organization is structured around the cooperative relationship. Whereas Joint Problem-Solving groups are "add-ons" to the regular structure, work teams under the Team Concept become the structure.

With a Team relationship the organization is relatively flat, the number of job classifications is usually very small compared to those of a traditional plant, and a pay-for-knowledge compensation system may be in place. The team usually does its own training and sometimes does its own performance appraisals. Workers may participate in many important work decisions around scheduling, work lay-out, job assignments, hiring, and promotions. Problem solving of the sort done in the earlier relationship is routinely done in the Teams.

The arrangement between NUMMI (the General Motors-Toyota joint venture) and the UAW provides a good example of this form. At NUMMI a typical team is composed of six to eight workers and is headed by an hourly team leader, not a salaried supervisor. There are only four organizational levels and only four job classifications (as opposed to 100 in a traditional plant). Workers are encouraged to become involved in all aspects of shop floor activity and are rotated regularly among jobs.

Obviously, technical training in areas such as job assignments, work processes, and technology application is fundamental to the success of the effort, but certainly of even greater importance to the success of the Team Concept is extensive preparation and training in group dynamics and team work. In addition, understanding about individual roles, changing roles, role conflict, and role ambiguity is important. Some Team Concept organizations further this culture by selecting new employees on the basis of their being able to work in a team environment.

In this form of relationship, running the operation is still the basic role of management while protecting workers' rights remains the fundamental role of the union. There is still a contract and a grievance procedure, but a difference between this and earlier forms of relating is that issues which formerly would have been matters for grievances are now more likely to be regarded as problems to be defined together and solved together. For example, in a traditional machine shop with an adversarial relationship, a cutting machine could be operated more easily with two of the safety guards moved out of place. This led to a grievance being filed for a safety violation. The grievance then went through all the steps of the grievance process for resolution. In a Team Concept facility, this same problem with the same machine was examined on the spot by the team, which approached the problem from a work process perspective. The team came up with a solution which was implemented without delay.

A major difficulty commonly found in this relationship is the role blurring for union leaders, supervisors, and managers. This is especially true during transition between relational forms and during early stages of the new relationship. To deal effectively with this, extensive individual preparation is essential not only for people in these roles, but also for those who interact regularly with them. This shift in roles requires a shift in paradigm for both organizations as each needs to reframe its view of the other. This is more likely to evolve slowly than to blossom overnight.

A major difficulty with the team concept is the role blurring for union leaders, supervisors, and managers.

The problems associated with role ambiguity are compounded by trying to work in a new structure which is now not only flatter, but in all likelihood is one that has gone from being organized around functions to one that is now organized around products, services or systems. The new emphasis upon greater individual responsibility can be a major challenge to people raised on a diet of limited responsibility and limited autonomy that was provided by the older, traditional form of managing. Means must be devised to help people acquire the new skills and knowledge necessary to operate effectively in this new work culture.

The Team relationship can persist for a long period of time, and will do so unless some threat or opportunity arises to energize the organization to change. The most likely threats and opportunities that can impact the viability of this form of relationship are similar to those that drive a Problem-Solving relationship to evolve into a Team relationship. But the need for greater integration as the response to these threats and opportunities must be felt by both the union and management.

Partners

The emergence or creation of a Partnership is usually associated with a major organizational event or change such as creating a new product or service, erecting a new facility, or establishing a new work technology. The structure of the organization for the Partnership is usually similar to that found at the Team Concept level. It is relatively flat with people working in autonomous or semi-autonomous teams, and these teams are organized into larger administrative or business units. Most leadership role elements are performed by group members, jobs are very "rich" in design, workers share in decision making and planning, and there may be a pay-for-knowledge compensation system in place. But there is a profound distinguishing feature about the Partnership.

In a traditional relationship, management runs the business and the union looks out for the welfare of the workers. This is ordinarily made explicit in the contract and is understood and accepted by both parties. This concept is close to the core of unionism. In the Partnership, this fundamental concept is changed. Now both the union and management, as partners, run the business and both are to look out for the workers' welfare.

At this level of cooperation there is top to bottom union involvement in decision making (Kochan, Katz and McKersie 1986; Katz and Kochan 1992). This ranges from decisions about work assignments on the shop floor to strategic organizational issues about product creation and marketing. The distinct, traditional roles of management proposing and the union opposing are now largely supplanted by these two role activities being shared fully by the Partnership members. Conflict and matters of due process are handled together. Virtually all procedures and work processes from concept to finish are done together. The union and management are now full partners in running the enterprise. Metaphorically, this is a marriage.

A major problem for the Partnership is the continued chaffing between the parent organizations and their offspring organizations…

Saturn Corporation is an example of a Partnership that has received much media visibility and is well documented (Sherman 1993; Treece 1990). This is a company with a new product, a new facility, a new work process, and a new culture. It matches our model closely with regard to internal organizational processes and external environmental pressures.

A major problem for the Partnership is the continued chaffing between the parent organizations and their offspring organizations in the Partnership. The national union and the local union frequently disagree about issues, and corporate offices and local management similarly disagree about important matters.

Another serious concern for the Partnership is the presence of possible constraints imposed by the original labor legislation of the 1930s (Schlossberg and Fetter 1986). Much of the legal framework for today's labor relations was developed at a very different socio-economic time and rests on the assumption of an adversarial relationship between union and management. Within that context a cooperative arrangement like a Partnership can look like unfair labor practice. The direction taken by the AFL-CIO under its new leadership will have an important effect on such cooperative ventures as the Partnership.

This form of relationship, we believe, is the most intimate form of cooperation for union and management and organizations that adopt it will face new individual-organizational issues. A test will come not when things are going well, but when the operation is faced with great uncertainty. Will the leadership be tempted to use or exploit the members of the workforce or will they be true to the ideals of the organization? Will secret coalitions develop to second guess the joint leadership and threaten the overall level of trust? Mechanisms for addressing conflict, due process, and member influence need to be carefully tended, nurtured, and monitored. If the mechanisms are effective and if people feel they are dealt with equitably in time of organizational stress, this form of organization can endure. However, if the mechanisms are not effective or if people feel individual needs are routinely sacrificed to meet organizational needs, a clandestine, informal organization will likely emerge to resist the formal organization. This could be the seed for disintegration back to the Adversarial form of relating.

Implications of the Cooperation Model

We believe there are fundamental differences between the various forms of union-management cooperation and feel our model provides a new perspective for understanding cooperation. First, it identifies and describes distinctive forms of union-management relations. Second, it identifies activities, processes, and problems associated with each form of relationship. Third, it outlines the sequence in which these forms evolve.

Implications for further study might be thought of at two levels. The first deals with broad issues about the model itself, and the second is concerned with questions derived from the model. With regard to the former, a fundamental question about the model is: To what extent does it correspond to actual experiences? The model also specifies the sequence in which relationships evolve. Do they in fact "evolve" and do they do so in the order suggested? According to the model Joint Problem Solving is the first and most basic form of cooperation. Could a union and management with no prior experience with cooperation begin a relationship as Team Members or Partners and be successful? How much "practice" at one relationship stage is necessary to prepare the organization for a new form?

While we have presented the forms of cooperation as increasing along a continuum of integration, reason and experience tell us that relations can also disintegrate. Two interesting questions are suggested by this line of thinking: Are all forms of cooperation equally susceptible to disintegration? What are the triggering mechanisms for disintegration? As we move into the future we need the means to answer questions about maintaining as well as starting cooperative efforts.

At a practical level, a union and management engaged in a cooperative effort must be attentive to signs of erosion in the relationship. It is important to have a monitoring process in place to gather data from different levels, functions, and sectors of the organization. This could be a survey, interviews, or group meetings. It need not be highly formalized or complex but it ought not be left to chance.

The role of power in union-management cooperative efforts must be explored further. In the Conflictual or Adversarial form of relationship power is probably more easily understood since each side has relatively clear objectives and relatively clear perceptions of the other's objectives. But in cooperative forms, understanding power and how it is exercised can be a murky topic. Most writers on the subject appear to assume that with cooperation, management is more willing to share the decision-making process with the union. However, Perline and Sexton (1994) found that those managers who are most likely to view their relationship with the union as cooperative are those who also perceive the smallest role for the union in the decision-making process. It is our belief that the perception and exercise of power are similar across the Problem-Solving relationship and the Adversarial form. We believe that it is with the Team Concept or Partner form that awareness of the commonality between the two parties changes the perception of power and is thereby more likely to lead to exercising power for mutual gain.

...awareness of the commonality between the two parties changes the perception of power and is thereby more likely to lead to exercising power for mutual gain.

At any given unionized location with some overall cooperative effort a range of behaviors is likely to be found. While the leadership sets the tone for the organization, there is still room for variation across subunits and individuals. The managers and union leadership can be very cooperative while the steward and first-line supervisors conduct their own little wars (Heckscher 1988). The degree of cooperation will vary over the points of contact between the organizations. We believe this variation to be much greater in the Problem-Solving relationship than in either the Team or Partnership form.

Further, cooperation between union and management is likely to vary from subject to subject. Management may be happy to share quality information with the union but refuse to discuss pricing strategy. The union may provide work rule flexibility in exchange for job security pledges, but be very distributive in their approach to bargaining wages. Again, we should expect greater variability in cooperative behavior across subject matter in a Problem-Solving relationship than in either a Team or a Partner relationship.

With nonunion work facilities increasing in number over the past twenty years, attention has been drawn to differences between these and unionized facilities. Kochan, Katz and Mckersie (1986) note that union/nonunion wage differences have been increasing and this difference has heightened the attractiveness of starting union businesses. This would argue for the advantage of a nonunionized organization, but still leaves the interesting issue of employer-employee relations.

The question has been raised about the value of the cooperative form over the adversarial form in unionized settings. Typically these results have been reported at the overall organization level and in such settings Cooke (1990) has found gains such as higher quality, lower absenteeism, and higher job satisfaction. However, monetary gains at the individual level have yet to be documented.

Can cooperative efforts be subverted or used for short-term expedients by a union or by management? Obviously they can and they are. If some minimal form of cooperation will buy labor peace, it may be just one of the things management tries in order to deal with the union. Similarly, more than one union has entered into a cooperative effort when management wanted it more than did the union. Maintaining the desired cooperation program then can be used by the union as a bargaining chip for their next demand. The issues of sincerity and intentions do enter into the understanding of relationships.

Katz and Kochan (1992) and Kochan, Katz and McKersie (1986) assert that the nature of industrial relations has changed in a fundamental way and that greater union-management cooperation is likely to be the way of the future. Lawler and Mohrman (1987) note the ways that corporations have been affected in the past twenty years by a complex global economy and by intense competition. These factors have led management to greater power sharing, more participative decision making, and increased disseminating of information to lower levels. These authors believe the role of unions in these new, high-involvement organizations should be one of assuring employee participation rather than fomenting an adversarial relationship.

Heckscher (1988), writing about this new direction for industrial relations, describes the changing union and the changing corporation and uses a concept, Associational Unionism, to mean a more flexible form of unionism. Among other things, this form can embrace more diverse occupational groups than unions historically have, is able to deal both with strategies and shop floor concerns, and uses a greater variety of tactics than unions have historically employed. This form of unionism involves major changes within and between union and management and necessitates major restructuring of worker representation.

If the predictions of increased union-management cooperation are accurate, it is important to understand more about cooperation if we are to be successful in initiating such efforts and in preventing their erosion. The model we propose is an effort to provide understanding about the nature of cooperation, the different forms and guidance for union leaders and managers as they try to use cooperation as a means to attain individual and organizational goals. ■

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Gender Differences in the Attitudes of Teenagers Toward Unions

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Abstract

This study investigated whether male and female high school students hold different attitudes about unions. Results indicated that female students perceived unions as less effective, less influential, and less powerful than male students. These differences remained after statistically controlling for work, social, and demographic factors. Thus, gender-based attitude differences are being formed as young people make the transition from school to work. However, no gender-based differences were found concerning willingness to vote for union representation. Suggestions on how unions can use these results and future research questions are discussed.

Introduction

Currently, about 13 percent of employed women in the United States are union members compared to 18 percent of employed men (Bureau of Labor Statistics 1995). John Sweeney, president of the AFL-CIO, has said that the labor movement needs to recruit more female members and to have more women in union leadership positions (Cleveland Plain Dealer 1996). In order to accomplish this, information about why women have a lower membership rate and less involvement in union leadership would seem important. Is the lower rate of female membership and participation a result of gender-based differences in attitudes about unions? One possible explanation is that women might hold more negative views of unions and their leaders, and perhaps women have less interest in union representation than men (Schur and Kruse 1992).

Underlying this explanation is a basic question that has been a focal point for research on gender-based differences in work attitudes. Are differences in work attitudes due to personal (dispositional) factors or are they merely reflecting differences in the working (situational) environment? Rather than gender-specific psychological factors, the source of gender-based attitude differences may be work and family characteristics that cause women and men to have dissimilar attitudes. Researchers have suggested that previous research results about differences in work attitudes between men and women might be due to demographic, social, and occupational variables that covary with gender (Lefkowitz 1994).

Are differences in work attitudes due to personal (dispositional) factors or are they merely reflecting differences in the working (situational) environment?

This present study was conducted for two primary reasons: 1) to determine if gender-based differences in attitudes toward unions exist with individuals who have had limited exposure to the working environment, and 2) to investigate if any observed differences are really due to other factors related to demographics, social background, or occupation. This study was designed to minimize spurious results that would suggest that gender-based differences are present when, in fact, those differences are related to other social or demographic factors (Yammarino and Dubinsky 1988). To control for possible influences of different demographic and social backgrounds on attitudes toward unions, the sample was obtained from the same geographic area and consisted of teenagers with similar family, age, education, and work experiences. Most of these individuals had not been exposed to many different work settings and most did not yet have adult family commitments such as marriage and children. The other technique used in this study was to statistically control for gender related factors such as occupation, income, political attitudes, religious background, and career plans. Thus, this study was designed to control for possible alternative explanations posited in previous research.

If it is found that young men and women express similar attitudes toward unions, this would suggest that perhaps subsequent work environments and social experiences influence union attitudes to create differences between the attitudes of men and women. On the other hand, if gender differences in union attitudes are discovered, this would indicate that by late adolescence, young men and women are forming differing perceptions of unions prior to the possible effects of family obligations, work and occupational environments. While the possibility of influence from working environments and socialization with coworkers remains, finding gender-based attitudinal differences would suggest that different marketing strategies might be needed to increase the membership and participation of male and female workers.

Explanations for Gender-based Differences

The premise that women are less interested in unions is based partly on the assumption that women have a more negative view of unions. One source for this negative predisposition is that women might perceive unions as male-dominated institutions. A union culture with male-oriented rituals and assertive stance might be unappealing to women who prefer a more supportive, nurturing organizational culture. Another possible reason for women having a more negative perception of unions might be that unions have not done enough to integrate women into unions or to bring women into leadership positions (Cook 1991). This might give women the impression that unions are uninterested in women and their issues, further estranging women from union activities. The "men's hut" mentality and tenor might lead women to conclude that unions provide an inhospitable environment.

The second issue in research on gender and work attitudes is whether differences are the result of other environmental sources that covary with gender rather than being caused by a predisposed tendency found in males and females. For example, men and women with similar social roles and status might not be likely to differ in their general attitudes toward unions. As many researchers have suggested, gender-based differences in work attitudes might be the result of systematic differences related to their occupations or socialization in the workplace (e.g., Miner 1974). Controlling for demographic, occupational, and social status differences with respect to gender has been found to reduce or eliminate supposed gender-based differences regarding job satisfaction and organizational involvement (Lefkowitz 1994). Attitudes toward unions might be another example of a work environment attitude in which reported gender-based differences are a by-product of relationships among other demographic and job-related factors.

In contrast, gender-based differences have been found to remain for certain dispositional or personality factors (e.g., life satisfaction, work ethic, and value-need preferences) even after controlling for the effects of demographic, occupational, and social status characteristics. The explanation has been that dispositional attitudes are less situation-specific than work-related reactions and therefore should be unaffected by social status, occupation, income, and work experience (Lefkowitz 1994). Some researchers take the position that attitudes toward unions are dispositional, and as such, are relatively stable by early adulthood with little variation after that point in life (Barling, Kelloway, and Bremermann 1991). This would suggest that union attitudes might be relatively unaffected by covariates of gender and work-related attitudes (Barling et al. 1991).

Another consideration is that while union attitudes are relatively stable by adulthood, those attitudes are most susceptible to change during adolescence and early adulthood. This proposition has been referred to as the impressionable years hypothesis (Krosnick and Alwin 1989). Finding gender differences in union attitudes within a group of older adolescents might suggest that as attitudes are becoming more fixed and less susceptible to change, distinct and stable gender-related patterns in attitudes toward unions have appeared.

Previous Research

The literature about gender-based differences in union attitudes is derived from the larger body of research on voting for union representation. This research has identified union instrumentality, union image, and job satisfaction as the primary determinants of both union voting intention and actual voting (Fiorito 1992). Union instrumentality generally refers to the usefulness of unions in their ability to ensure a good working environment in exchange for membership dues, while union image is concerned with an individual's overall negative or positive impression of unions. Research on the willingness of nonunion workers to vote for union representation has generally not found any significant differences related to gender (Kochan 1979; Deshpande and Fiorito 1989).

Two studies were conducted that specifically focused on gender-based differences in attitudes toward unions. Schur and Kruse (1992) investigated whether women were less interested than men in unionizing, or if the groups were equally interested but women face higher barriers to unionization. They concluded that the lower rate of female unionization was the result of having fewer opportunities to vote for unionization. Women had fewer opportunities because of their occupation, length of work experience, and the weakness of unions in the private sector.

Fiorito and Greer (1986) looked at gender-based differences in several union outcome measures such as voting for representation and participation. Analyzing data from the 1977 Quality of Employment Survey and the 1981 General Social Survey, they found some differences but concluded that gender had a minimal role in determining the response to these measures of union attitudes. They surmised that the variation in responses by men and women to union measures was attributable to differences in labor force attachment, the industrial and occupational distribution of employment, previous exposure or experience with unions, and job satisfaction. The strongest effects they noted were associated with the female perception of lower union instrumentality and the influence that negative views of union leadership had on female pro-union voting intention. Their study also included controls for demographic, work attitudes, union beliefs, and employer characteristics.

…this research…investigated whether gender-based differences in attitudes toward unions existed with individuals who had limited exposure to the working environment…

This previous research leads to several suggestions that are incorporated in this study. First, besides voting intent, other measures of unionism should be examined such as union instrumentality and attitude toward union leaders (Fiorito and Greer 1986; Voos 1983). In this study, union instrumentality, attitude toward union leaders, and union power relative to employers were assessed. Second, union political instrumentality which has been cited as a factor affecting voting intention (Fiorito 1987), was included in this study. Third, most research stresses that union voting intent is a calculated decision based on whether one's self-interest will be advanced by union representation. However, Fiorito (1992) suggested that altruistic considerations may also influence voting intent and other union attitudes. A measure of perceived union altruism was also used to see if this had an independent effect on union attitudes as well as whether gender-based differences existed regarding union altruism. In summary, the purpose of this research was to investigate whether gender-based differences in attitudes toward unions existed with individuals who had limited exposure to the working environment, and to control for other gender-related factors that have been proposed to explain differences in previous research.

Method

Sample

The data from this study came from surveying 2,612 junior and senior high school students in a large Midwestern city. To control for the possible spurious effects found in previous research, the sample was drawn from the same geographic area, was numerically balanced between the sexes, and was limited in both age range (16 - 19 years old) and educational level. In addition, communities that were representative of the metropolitan area's occupational and racial composition were selected for study. This controlled for the potential effects of social and economic characteristics that may covary with gender. As a result, the male and female students in the sample were more likely to have similar work experiences. Of the collected surveys, 2,401 were judged as usable and comprised the sample for analyses. Surveys were eliminated because of excessive missing data (163) and because some respondents did not identify their gender (48). Fifty-two percent of respondents were male, 8 percent were nonwhite and 54 percent classified the primary wage earner in their family as blue collar or clerical.

The sample consisted of 1,982 students with work experience and 337 with no work experience. Seventy percent reported that they are now or have in the past worked thirty or more hours per week and 55 percent reported having at least six months or more of work experience.

Of the students with work experience, 390 (19%) reported past or current union membership. The high level of union experience reported by students is a by-product of two factors. First, the local labor market is more heavily unionized than the nation (about 30% compared to 16% nationally). For students with work experience, 65% say that one or more parents are union members and that rises to 83% for the parents of students who report union membership. The high labor market unionization and parental union membership make it more likely that students might find part-time or summer jobs in unionized workplaces. Second, several traditional sources of youth employment (e.g., supermarkets and manufacturing) are largely unionized in the area. These facts might explain the high number of students who say they have union experience.

Survey

The survey items for this study were based on measures used in the Quality of Employment Survey (Quinn and Staines 1979). Union voting intention was measured by a single question which asked if the person would vote for or against union representation if given the opportunity. Union instrumentality was measured by four items that asked if respondents believed that unions protect workers from unfair treatment, protect jobs, improve wages, and are worth the expenses associated with membership (α =.73).

Attitudes toward unions included union political instrumentality, union leaders, union altruism, labor and management cooperation, and union/employer power. Union political instrumentality asked if unions influence who gets elected, the laws that are passed, and how the country is run (α =.71). The union leader measure asked respondents if they believed union leaders used coercive tactics, placed their interests over members, and were corrupt (α =.68). Union altruism was measured by a single item asking if unions were influential in getting social legislation of benefit to all workers enacted by Congress. A single item was used to measure if unions and employers should cooperate with each other. Perception of union versus employer power was measured by responses to questions asking if unions and employers had too much power over how the country is run (Fiorito and Greer 1986).

For students with work experience, job satisfaction was measured by a composite scale that asked respondents to indicate their degree of overall satisfaction with work, pay received for work, and work experience (α = .76). It was expected that job satisfaction would be negatively related to union voting intention such that an individual less satisfied with his or her job would be more likely to report a pro-union voting intention. Attitude toward management was a composite measure that asked respondents to indicate the extent management showed trust, concern, support, encouraged teamwork, and had values similar to their own (α =.82). This scale was taken from research on organizational climate that has shown a relationship between organizational climate and positive beliefs or attitudes toward the organization (Hellriegel and Slocum 1974). Closer identification with management should, therefore, be negatively related to pro-union attitudes.

Dispositional or personal attitudes were measured by two single-item questions stating whether one's main satisfaction in life comes from work and if work is important mainly to earn money for the things you want. Another dispositional measure asked whether respondents felt they should have input into work-related decisions such as wages, working decisions, safety and health, and work scheduling (α =.78). Individuals who believe that workers have a right to influence these aspects of the work environment may favor unions since these are the traditional subjects of collective bargaining.

Besides sampling to minimize the effects of social and economic factors, statistical analysis was used to control for other background factors that could possibly account for observed differences in attitudes between men and women. Family union membership was measured by a single item that asked if either of the respondent's parents belonged to a union. Items were included to assess race, occupational background, religion, family income, ideology (i.e., conservative, liberal, or independent), intent to attend college, and political party identification. These background variables have been shown to covary with gender-related work attitudes and to union attitudes. Of these variables, minority status has been found to have the most consistent relationship to attitudes toward unions (Wheeler and McClendon 1991). Among ethnic groups, African-Americans would be expected to have more favorable attitudes toward unions (Kochan 1979).

Results

Analysis of the survey responses was conducted in three steps. First, whether significant differences existed in union attitudes of male and female students was tested. Second, hierarchical regression analysis was used to determine if any found gender-based differences still existed after accounting for demographic, social, and personal characteristics. Third, a moderator analysis was performed to determine if gender category is related to job and union attitude measures such that it aids in predicting union voting intention and union instrumentality.

> ***These results indicate that these male students perceive unions as more effective, influential, and politically powerful compared to the female students.***

The results of tests for union attitude differences between the female and male student responses are found in Table 1. For the total sample, male students had significantly stronger perceptions of union instrumentality, union political power, union power relative to employers, and union altruism. Compared to the female students, the male students more strongly believed that union leaders are self-interested and coercive. These results indicate that these male students perceive unions as more effective, influential, and politically powerful compared to the female students. No significant gender differences were found for measures of employer power. Both male and female students hold the belief that employers have too much power over decisions in the country rather than unions having too much power.

Only on the desirability for union-employer cooperation did the female students have a significantly stronger belief than the male students. Interestingly, responses from female and male students showed no significant differences in willingness to vote for union representation. Two additional questions were asked about the hypothetical reason for one's voting for or against union representation. Students were asked to assume they had voted for union representation and then to select from a list of four items their reason for the affirmative vote. Both sexes chose wages and benefits as the reason why they would vote for union representation (38% of females, 40% of males) followed by fair treatment (31% of females to 25% of males, $p<.0001$). In answer to the question, what reason would they select for voting against union representation, more students said unions would limit their independence and freedom at work (44% women to 32% men, $p<.001$). The next most selected reason was the concern that unions would hurt the employer (24% women to 27% men).

For the dispositional factors, female students indicated a significantly stronger belief in work being an important source of money for other things rather than money for the work itself. The male students, however, expressed a significantly stronger interest in having input into work decisions compared to the female students. There was no significant difference between female and male students in response to the question that one's main satisfaction in life will come from work.

Table 1
Male and Female Attitude and Demographic Variables: Descriptive Statistics and T-tests

	Variable	# of Items	α	Females M	Females SD	Males M	Males SD	Means Significantly Different
(1)	Vote for Union	1		.59	.49	.59	.49	ns
(2)	Approve of Unions	1		2.24	.67	2.26	.74	ns
(3)	Union Instrumentality	4	.73	13.95	2.45	14.45	2.65	p<.0001
(4)	Union Political Instrumentality	3	.71	9.29	1.74	9.66	2.09	p<.0001
(5)	Union Leaders	3	.68	9.20	1.71	9.73	2.01	p<.0001
(6)	Unions Stronger Than Employers	1		3.38	.86	3.51	.97	p<.001
(7)	Union Altruism	1		3.28	.71	3.45	.85	p<.0001
(8)	Unions/Management Cooperate	1		4.07	.77	4.00	.89	p<.05
(9)	Union/Business Leaders Same	1		3.25	.77	3.27	.93	ns
(10)	Too Much Power {Union-Employers}	1		-.20	1.02	-.26	1.22	ns
(11)	Main Satisfaction from Work	1		2.52	.74	2.55	.77	ns
(12)	Work Most Important for Money	1		2.08	.75	1.90	.78	p<.0001
(13)	Say on Workplace Decisions	5	.78	10.91	2.42	11.13	2.47	p<.05
(14)	Satisfaction with Work Experience	3	.76	9.15	1.89	9.05	2.04	ns
(15)	Identify with Management	5	.82	14.85	3.49	14.59	3.43	ns
(16)	Proportion Minority	1		.12	.33	.12	.32	ns
(17)	Proportion Students Union Member	1		.12	.31	.20	.40	p<.0001
(18)	Proportion Parents Union Member	1		.66	.71	.65	.71	ns
(19)	Student Plans to Go to College	1		.68	.47	.59	.49	p<.0001
(20)	Have Worked 10 Hours a Week	1		.83	.38	.79	.41	p<.05
(21)	Have Worked 30 or More Hours a Week	1		.58	.49	.74	.44	p<.0001
(22)	Work Experience 3 or less Months	1		.13	.33	.11	.31	ns
(23)	Work Experience 3 to 6 Months	1		.18	.38	.17	.37	ns
(24)	Work Experience 6 to 12 Months	1		.20	.40	.16	.37	p<.05
(25)	Work Experience 1 to 2 Years	1		.20	.40	.19	.39	ns
(26)	Work Experience More Than 2 Years	1		.29	.46	.36	.48	p<.0001
(27)	Family Blue Collar	1		.34	.47	.37	.43	ns
(28)	Family White Collar	1		.49	.50	.46	.50	ns
(29)	Family Clerical	1		.17	.37	.18	.38	ns
(30)	Family Income < 10,000	1		.03	.18	.03	.17	ns
(31)	Family Income 10,000 to < 20,000	1		.09	.28	.10	.30	ns
(32)	Family Income 20,000 to < 30,000	1		.18	.39	.21	.41	p<.05
(33)	Family Income 30,000 to < 45,000	1		.20	.40	.23	.42	ns
(34)	Family Income Above 45,000	1		.50	.50	.43	.50	p<.0001
(35)	Student Democrat	1		.35	.48	.30	.46	p<.01
(36)	Student Republican	1		.21	.41	.32	.47	p<.0001
(37)	Student Independent	1		.43	.50	.39	.49	p<.05
(38)	Student Conservative	1		.11	.32	.18	.39	p<.0001
(39)	Student Liberal	1		.22	.42	.23	.42	ns
(39)	Student Moderate	1		.66	.47	.59	.49	p<.0001
(40)	Student Protestant	1		.22	.41	.22	.42	ns
(41)	Student Catholic	1		.55	.50	.54	.50	ns
(42)	Other Formal Religion	1		.19	.39	.17	.38	ns

The number of cases for each variable differs because of missing data. The number of female students ranges from 1094 to 1156. The number of male students ranges from 1162 to 1245. Reliability coefficients are Cronbach's alpha.

The second step of the analysis ascertained whether the observed gender differences in union attitudes remain after work, demographic, social, and personal factors are taken into account. Hierarchical regression results are reported in Table 2. For union instrumentality, union political instrumentality, union leaders, union altruism, and unions are stronger than employers, gender differences still remained after demographic, social, and personal characteristics are entered. These covariates did, however, eliminate any gender effect for union-employer cooperation.

For students with work experience, significant differences between male and female responses still remain for the same union attitudes after accounting for the work satisfaction variables. For the two dispositional/personal variables with gender differences, the covariates eliminated the significant gender effect for desire for influence on

Table 2
Hierarchical Regression Results For Union Attiitude Variables With Significant Gender Differences For All Students (1) and Students With Work Experience (2)

Dependent Variable	*Union Instrum.*		*Union Political Instrum.*		*Union Leaders*		*Unions Stronger Than Emp.*		*Union Altruism*		*Union/Mgt. Cooperate*	
Change in Variables Entered At Step:	***(1) R^2***	***(2) R^2***	***(1) R^2***	***(2) R^2***	***(1) R^2***	***(2) R^2***	***(1) R^2***	***(2) R^2***	***(1) R^2***	***(2) R^2***	***(1) R^2***	***(2) R^2***
1. Political Party Identification (Democrat/Republican)	.01**	.01**	.00	.00	.01*	.00	.01*	.01*	.00	.01*	.00	.00
2. Political Ideology (Liberal/Conservative)	.00	.01*	.00	.00	.00	.00	.00	.00	.01*	.00	.00	.01*
3. Religious Affiliation (Prot./Cath./Other)	.01**	.01**	.00	.00	.00	.00	.00	.00	.00	.00	.00	.01*
4. Occupation of Parent (Blue/White Collar)	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.01*	.01*
5. G¢ïily Income (4 Groups:10K/10K-20K/ 20K-30K/30K-45K)	.00	.01*	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
6. Parents Union Members	.02**	.02**	.01*	.01*	.00	.00	.01*	.01*	.01**	.01**	.01*	.00
7. Minority Group Member	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
8. Role of Work (Work Most Important/ Work For Money)	.02**	.01**	.00	.00	.00	.00	.01**	.01*	.02**	.01*	.01**	.01*
9. Say On Work Decisions	.00	.00	.02**	.02**	.01**	.01*	.00	.00	.00	.00	.00	.01*
10. Will Attend College	.00	.00	.01*	.00	.00	.00	.00	.00	.00	.01**	.01**	.01**
11. Length Work Experience (4 Groups:<3 mo.; 3-6 mo.; 6-12 mo.; 1-2 yr.)	—	.00	—	.00	—	.00	—	.01**	—	.00	—	.00
12. Job Satisfaction (Job Sat./Identify with Management)	—	.01*	—	.00	—	.00	—	.00	—	.00	—	.01**
13. Student Union Member	.01**	.01**	.00	.00	.00	.00	.00	.00	.00	.00	.00	.01*
14. Gender (1=Male/0=Female)	.01**	.01**	.01**	.02**	.02**	.02**	.01*	.01**	.01**	.01**	.00	.00
R^2	.08**	.10**	.05**	.05**	.04**	.05**	.04**	.04**	.07**	.07**	.04**	.06**

(1) Results for all students, n=2148. Missing data among the 2317 students who could be classified as having worked or not reduced the number of cases with data for all variables to 2148.

(2) Results for students with work experience, n=1783. Missing data among the 1982 students who worked reduced the number of cases with data for all variables to 1783.

**p<.05; **p<.001*

work decisions, but the significant gender effect remains for value of work as a means to satisfy other interests.

Since gender differences remained for the union attitude measures (except for union-management cooperation), the third step was to test if gender interacts with the union attitude, personal/dispositional, and work reaction measures in predicting voting intention and union instrumentality. The results of the moderator variable analyses are presented in Table 3 (Panel A). No moderator variable effects are present for gender with any of the union attitude, work attitude or dispositional variables. At the suggestion of a reviewer, the analyses were done separately on males and females. These gender-subgroup results are reported in Panel B of Table 3. While we found the same pattern of effects for both sexes, the magnitude of the coefficients were different. With female students, the variables had smaller positive relationships and larger negative relationships with union instrumentality.

Discussion

This research addresses two major questions: are there gender-based differences in attitudes toward unions and how might gender attitude differences be explained? Significant gender-based differences in attitudes toward unions were found for union instrumentality, union

Table 3
Gender Moderator Analysis [Panel A] and Gender-Subgroup Analysis [Panel B]

A. Moderator Analyses[a] Dependent Variable	Union Voting Intention			Union Instrumentality Perception		
Independent Variable (IV)	*ß[b] for: IV*	*Gender*	*Moderator*	*ß[b] for: IV*	*Gender*	*Moderator*
Union Political Instrumentality	.095**	.111	-.136	.138***	.058	.033
Union Leaders	-.238***	-.003	.034	-.333***	.012	.151
Unions Stronger Than Employers	.077*	-.047	.034	.184***	.024	.069
Union Altruism	.224***	.058	-.098	.287***	-.027	.047
Labor & Management Should Cooperate	.096**	-.039	.035	.162***	-.037	.152
Main Life Satisfaction from Work	.026	-.061	.058	.086*	.011	.012
Work Important to Get Money for Needs	-.047	.025	-.043	-.053	.092	.102
Say on Work Decisions	.042	.019	-.029	.016	.084	.026
Identify with Management	-.079*	-.245*	.251*	.041	.067	.044
Satisfaction with Work	-.073*	-.121	.117	.066	.092	.018
Union Instrumentality	.398***	-.020	-.024			

B. Gender Subgroup Regressions: Significant ßs union attitude variables for Female and the Male subgroups

Students Grouped by Work Experience:	*No Work Experience*		*Have Work Experience Only*		*Union Work Experience*	
Gender Subgroup	*Male*	*Female*	*Male*	*Female*	*Male*	*Female*
Number in Subgroup	*182*	*155*	*630*	*710*	*192*	*122*
1. Dependent Variable: Union Voting Intent Independent Variable Standardized ßs where ßs are different						
Union Instrumentality	.28**	.24*	.31***	.28***	.21*	.54***
Union Leaders	-.17**	.17**	-.12***	-.12***	-.17*	ns
2. Dependent Variable: Union Instrumentality Independent Variable Standardized ßs where ßs are different						
Union Leaders	-.15*	-.24*	-.21**	-.27***	-.25***	-.37***
Too Much Power{Unions-Employers}	ns	-.19**	ns	-.14***	ns	-.29***
Union Political Instrumentality	.15*	.15*	-.10***	ns	ns	ns
Unions Stronger Than Employers	.23**	.18*	.15***	.07*	.17*	.30***
Union Altruism	.22***	.22***	.14***	.15***	.27***	.18***
Labor & Management Should Cooperate	.28***	.22***	.15**	.10**	ns	ns

**p<.05; **p<.01; ***p<.001*

[a] The same control variables are in each equation: Political Party Identification, Political Ideology, Religious Affiliation, Occupation of Parent, Parents Union Member, Minority, Say on Work Decisions, Will Attend College, Student Union Member, Length of Work Experience, and Work Satisfaction. The R^2s for each control variable model are .102 for Union Voting Intention and .054 for Union Instrumentality.

[b] Standardized ßs are for equation with direct effects and interaction terms in model.

political instrumentality, unions stronger than employers, union altruism, union leaders coercive, and the need for union-management cooperation. Males view unions as more instrumentally effective, powerful and altruistic, but also more strongly believe that union leaders are corrupt and domineering. Female students more strongly believe that unions and employers should cooperate, but this significant difference did not remain after the control variables were added to the equation.

Does the proposition that women are more unfavorably disposed towards unions than men account for these differences? If women are more unfavorably disposed, it might be expected that women would also have more critical and negative views of unions. It was found that females perceive unions as being less effective and less powerful organizations than the young men, but male students more strongly view union leaders as corrupt, which is the union attitude measure that carries the clearest negative or critical connotation. In fact, respondents were asked if they approve or disapprove of unions. A higher percentage of males express disapproval of unions (18% of males to 13% of females, $p<.001$), while more females approve of unions or have neutral views (87% to 82%, $p<.01$).

It has been asserted that women might prefer less adversarial organizations. Unions are adversarial in that pressure tactics and confrontation are used to further union objectives. Women might be more comfortable where cooperation rather than conflict is present in the workplace. As such, women might feel uneasy towards and less interested in unions. We did find that a higher percentage of females than males (77% of females, 73% of males, $p< .05$) agreed that labor and management should cooperate with one another. However, there was no gender difference in the effect of the cooperation variable on union voting intention and perceptions of union instrumentality: cooperation had a positive relationship for both sexes on those outcomes. The relationships between cooperation and voting intention and union instrumentality do not support the proposition that women are less interested in unions because of their adversarial character.

Also, if women are less inclined to believe that workers should have input into their jobs, then unions might not be seen as an option. We did find that females as compared to males do not as strongly believe that workers should have a say in decisions about work conditions. This might indicate that women do not feel as assertive as men and are more willing to tolerate rather than challenge unsatisfying work conditions. It might then be expected that this variable would be significantly related to union voting and instrumentality for males but not for females. We found, however, that input on work decisions did not significantly affect either male or female attitudes toward voting intent or union instrumentality. Thus, this result is not consistent with the adversarial organization argument.

Do these differences in union attitudes suggest that female students will be less interested in union representation? The data do not show any gender differences in pro-union voting intent; the same proportion of women as men, 59 percent, said they would be willing to vote for union representation in the total sample. For students who say they have been union members (390 of which 138 were female, 35%, and 252 male, 65%), the percentage who would vote for union representation was higher (65% compared to the 59% of the non-union experience students) with no significant gender difference (67% of females and 64% of males with union experience would vote for union representation). Moreover, in the regression analyses, gender did not moderate the relationship between union attitudes and union voting intent for either group: the impact of the attitudinal measures on union voting intent is not significantly different for females and males who have and have not been union members.

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This study found that the perception by female students of lower union instrumentality is the attitude with a consistent gender difference. Even female students who report union membership experience perceive unions as being less effective economically and politically than male students with union membership experience. A tentative explanation for this difference might be suggested by looking at the variables associated with union instrumentality for each gender group. We found that for both males and females a similar set of variables is associated with union instrumentality. Union leaders and the variable comparing union and business power were negatively related to union instrumentality. On the other hand, union political instrumentality, unions being stronger than employers, union altruism and union-management cooperation were positively associated. While the direction of these effects was consistent for both sexes, the magnitudes of the coefficients were different. For the female students, the variables union political instrumentality, unions being stronger than employers, union altruism, and union-management cooperation had smaller positive relationships with union instrumentality. The variables union leaders and union and business power had larger negative relationships with union instrumentality. This would lead to females having a perception of lower union instrumentality than males due to these stronger, negative effects and to the weaker positive effects (Table 3, Panel B).

Does this gender difference in union instrumentality have any apparent effect on voting intent? We found that gender did not moderate the relationship between union instrumentality and voting intent. Following the suggestions of a reviewer, we also conducted regression analyses within each gender group. This showed that union instrumentality has a larger effect on willingness of females to vote for union representation than it does for males. The gender group analyses suggest that the females' assessment of lower union instrumentality does not negatively affect the willingness of females to vote for union representation. But union instrumentality does have a stronger positive effect on female voting intent than on male voting intent.

The second question addressed in this study is whether gender differences are genuine or are due to other factors that are related to union attitudes. Statistical controls for amount of work experience, political beliefs, religion, family union background, family occupational background, minority status, and dispositional/personal factors were included. Gender-based differences, however, remain for union instrumentality, union political instrumentality, union leaders, union altruism, and unions stronger than employers.

Limitations of the Study

Can it then be concluded that real gender-specific differences in attitudes are present? It is important to note that the effective use of control variables, by sample design and by statistical control, depends on having selected the appropriate controls. Where significant gender-based differences remain, it can be asked if the correct control variables have been included or if the sample has been adequately designed to minimize spurious results. Some research suggests that control variables such as length of work experience and education do not sufficiently capture the complete effects of the work environment variables that might be the actual cause of attitude differences between genders (Lefkowitz 1994). While the factors statistically controlled for in this study are those which have been identified in previous gender research, other relevant factors may need to be considered when investigating union attitudes. As suggested by Deaux and Major (1987), more concurrent, situational family and work factors might have a stronger relationship to how the sexes respond to the work environment than demographic factors.

Conclusions

This study leads to two conclusions: (1) In general, female high school students perceive unions as less effective and powerful than male students, and (2) even though the female students perceive unions as less instrumentally effective, a gender-based difference in the likelihood of voting for union representation was not found. This research, instead, found that female students are as interested in voting for union representation as male students. The controls used to account for spurious effects did not eliminate apparent gender-based differences in several union attitude measures. Thus, as the transition from high school begins, these females do exhibit systematic differences compared to males in union attitudes. The conclusion of previous research that gender differences in union attitudes are due to demographic, work attitude, and personal characteristics (Fiorito and Greer 1986) is not supported by this study. Confounding factors may still be responsible for the gender-based differences found here, but the sources of gender differences identified and controlled for in this study do not eliminate them.

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For unions, the chief message of this research is that unions might be able to strengthen support among women by improving the image of union effectiveness and power, especially in the sense that union power is seen as having a beneficial impact for all workers and for women in particular. There is no reason why the level of union instrumentality as perceived by females should be less than that of males. Increasing the level of female union instrumentality might lead to stronger support for union representation and involvement. Unions need to identify issues and design methods that can more effectively communicate information to women on the value and advantages of unionism. Some unions have adopted innovative methods such as the "One-on-One" campaign strategy that pairs union supporters with undecided workers (Lund 1993). Combining this strategy with a message that appeals to women might enhance support for unions and would be of considerable value to unions. For union members, education programs that stress union accomplishments might strengthen female instrumentality perceptions and lead to more support and involvement. Previous research has shown that the attitudes of family, friends, and co-workers can influence attitudes towards unions (Heshizer and Wilson 1995). If unions can find issues that close the gender-instrumentality gap, women might (as suggested by results in this study) be more inclined to vote for union representation.

More generally, this study suggests that "union image" may have something to do with how young people perceive unions. Both sexes were influenced negatively by the perception that union leaders are corrupt and coercive. Unions might consider expanding public relations activities to include information about union leadership that dispels this negative view of union leadership. Specifically targeting women in such public relations campaigns might be worthwhile. Female students who are union members, for example, have the same view of union leaders and union instrumentality as those without union experience. Communicating the union goals of fairness and equity, plus stressing union efforts to rid the workplace of gender discrimination, may be viable ways to favorably influence attitudes about unions held by both sexes and to achieve AFL-CIO President Sweeney's goal of more female union members and greater involvement in union leadership.

Further Research

It must be recognized that the presence of these gender-based differences in union attitudes after controlling for confounding factors might not mean that these are due to gender. The results here show that the traditional demographic controls do not eliminate gender-based differences in several attitudes towards unions, a finding paralleled in research on gender differences in reactions to the work environment. Additional research is needed that considers more contemporary personal-dispositional variables (e.g., need for affiliation) and work situational factors (e.g., organization support) as the source of gender-based differences in union attitudes. ■

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Mandatory Use of Electronic Mail and User Acceptance:
A Case Study

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Abstract

This case study reports findings on user acceptance of an electronic mail system in a business college setting. It builds on earlier research of computer-mediated communication systems by Hiltz and Johnson (1989). Although the use of the electronic mail system is mandatory in this organization, the overall results are parallel to earlier findings in terms of usage, satisfaction with, and perceived outcomes of the system. In contrast to a contention of earlier research, the current results suggest that mandatory use of electronic mail can be an appropriate strategy for implementing such systems in organizations.

Introduction

Computer-mediated communication systems (CMCS) use computers and telecommunication networks to facilitate two-way interactive communication among multiple individuals or groups who are geographically dispersed. As the 21st Century nears, CMCS are becoming increasingly available and accessible in higher education, business and industry, and government. Among the various CMCS, electronic mail systems are perhaps the most widely discussed and researched systems. For example, it is common to hear colleagues at conferences exchanging their Internet addresses or discussing which newsgroup to join to get the most useful information about a particular topic. The proliferation of CMCS, called the "new media" by Rice (1984) and Daft and Lengel (1986), has fundamentally changed the nature of organizational communication (Huber 1990; Culnan and Markus 1987; Strassman 1985; Zuboff 1988). While there are many testimonials to the positive effects of electronic mail sys-tems on productivity, few studies focus on questions related to system implementation and factors that encourage or inhibit system use.

The purpose of this article is to report the results of a survey within a business college community which addressed some of the issues related to implementation and use of a CMCS, the *All-in-1* electronic mail system. Specifically, the survey was conducted to address the following research questions:

- How much do employees use *All-in-1*?
- How frequently do employees use *All-in-1* mail for each of a number of different communication tasks?
- How satisfied are employees with using *All-in-1* as a communication medium?
- Do employees perceive their use of *All-in-1* as beneficial to their work?

While there are many testimonials to the positive effects of electronic mail systems on productivity, few studies focus on questions related to system implementation and factors that encourage or inhibit system use.

Literature Review

Two approaches are typically applied to the study of the acceptance, or system implementation success, of new communication technologies. One is exemplified by the line of research of Hiltz and Johnson (1989), while the other is represented by the work of Davis (1989).

Hiltz and Johnson (1989) focus on the relationships among use of a communication system, subjective satisfaction with using the system as a medium, and perceived positive outcomes from using the system. *System utilization* measures may focus on intensity of use by looking at hours of use within a given time period, or may focus on "cumulative use" or experience at a particular point in time. *Subjective satisfaction* refers to the users' reactions to the system as a means of communication and work. *Perceived benefits* attributable to the use of CMCS focus on impacts of system use such as communication effects, media substitution effects, and augmentation effects. Hiltz and Johnson found that system use, subjective satisfaction, and benefits are all significantly correlated, although the correlations are moderate in size for the three computer conferencing systems and one electronic mail system they studied. They concluded by suggesting that future studies of CMCS in particular, and perhaps interactive management information systems in general, should not assume that usage alone or subjective satisfaction alone is an adequate indicator of acceptance, or success, of a system implementation.

Our perspective is to agree with Hiltz and Johnson, …acceptance is made up of three components: system use, subjective satisfaction, and perceived benefits.

Davis' approach, on the other hand, focuses on two characteristics of an information system: perceived usefulness and perceived ease of use. *Usefulness* is defined as the extent to which an application contributes to the enhancement of the user's job performance (taking less time to accomplish a required task, producing higher quality work, etc.). *Ease of use* relates to the effort required by the user to take advantage of the application. Davis proposed these two constructs to explain and/or predict system use when use is *not mandatory* (our emphasis). Davis found that both perceived usefulness and perceived ease of use were significantly correlated with self-reported use, which he has equated with acceptance of the system (Davis 1989). However, the correlation between usefulness and self-reported use was significantly greater than the correlation between ease of use and self-reported use. Further, regression analysis suggested that perceived ease of use may actually be a causal antecedent to perceived usefulness, rather than a parallel, direct determinant of system use.

A comparison of the two approaches indicates that the main difference between the two is the definition of acceptance. For Hiltz and Johnson, acceptance is made up of three components: system use, subjective satisfaction, and perceived benefits. Our perspective is to agree with Hiltz and Johnson (1989) for two reasons. First, lack of use of a CMCS cannot be equated with rejection: the user (a) may have no task or reason for using an electronic mail system, especially when he or she has alternatives, (b) may not have convenient access to the system or to the people with whom he or she needs to communicate via the system, and (c) may lack understanding of what the system can do and/or how it operates. Second, high usage statistics alone should likewise not be considered as acceptance since employees may be required to use a system, even though they dislike it and believe that its costs or disadvantages outweigh its benefits (Komsky 1991; Lou 1994). In addition, Hiltz and Johnson's approach was specifically designed for studying CMCS. In contrast, Davis' approach was broadly designed for studying any information technology and acceptance was equated with usage. Since the use of *All-in-1* was required by the management in the present study, we consider it inappropriate to equate such a mandatory use with acceptance.

Another construct was proposed in an unpublished study by Panko (1992a) who made a distinction between a mainstream system and a "stunted system" as follows: "In terms of traffic, then, we would expect a system to deliver several messages a day [to each user, on the average] to be considered a mainstream system. We would also expect a very high level of penetration—perhaps on the order of 80 percent." He noted that a stunted system is "characterized by low use for the average user, many nonusers, and many intermittent users." Such stunted systems provide limited effectiveness to the organizations using them.

Research Method

The CMCS used in this study was *All-in-1*, an electronic mail system developed and marketed by Digital Equipment Corporation (DEC). *All-in-1* is one of the two widely used mainframe computer-based electronic mail systems (the other one is IBM's *PROFS*). Running on a VAX computer, *All-in-1* has a character-based user interface and rather awkward, arbitrary commands; there is no graphical capability for this product.

The research instrument consisted of a series of self-report, 5-point scaled Likert-type items, adapted from Hiltz and Johnson (1989). The questions were modified only to specify the particular electronic mail product used. Hiltz and Johnson are leading researchers in the study of CMCS and developed these scales to study CMCS acceptance. The purpose of this study was to use their instrument to evaluate perceptions of the sample participants who were required to use the *All-in-1* electronic mail system.

The items in the questionnaire can be grouped into three categories:

Use of All-in-1 assesses the level of self-reported use of *All-in-1* by the respondents in a typical five-day work week in terms of (1) number of minutes (connection time), (2) number of logins, (3) number of messages sent, and (4) number of messages received.

Subjective satisfaction with All-in-1 is assessed by nine items asking the respondents' overall reactions to their use of *All-in-1* as a means of communication and work. As indicated by Hiltz and Johnson (1989), user sub-jective satisfaction in the context of CMCS refers not to the product of using a system, but rather the process of interacting with the system as a communication medium.

Perceived outcomes of using All-in-1 is assessed by eight items asking the respondents' agreement or disagreement on the benefits of using *All-in-1* and eight items asking the respondents to indicate the changes in their communication patterns caused by their use of

All-in-1. These self-reports of perceived benefits and changes in communication behavior have been demonstrated to be related to productivity (Hiltz and Johnson 1989).

The population for this study consisted of eighty-one employees in a college of business in a comprehensive, four-year Midwestern university. Fifty-seven employees were faculty members, eight were administrators, and sixteen were staff members. These numbers exclude the investigators who are also faculty members in the college. Of these, approximately half of the faculty and administrators completed questionnaires (twenty-seven faculty and five administrators), while four of the sixteen staff members participated.

The university adopted *All-in-1* as the campus-wide electronic mail system and the College of Business was one of the early participants. *All-in-1* accounts were made available to employees only after they had completed a training class.

For most of the campus, use of *All-in-1* was voluntary. However, the Dean of the College of Business stipulated that all employees of the college must use electronic mail and further, that all official college communications must be distributed by electronic mail. Finally, the Dean stated that he would communicate with college employees only by electronic mail. So, *All-in-1* became the official communication medium for the College of Business three years before the survey was conducted.

Participants received self-administered questionnaires at a college meeting for all college employees. Two reminders by mail followed the distribution of the questionnaire. Thirty-seven (37) usable surveys were completed, yielding an overall 46 percent response rate.

Research Results and Discussion

The employees of this business college are members of three groups which have substantially different job-related roles and responsibilities: faculty members, administrators, and support staff. A cursory examination of the data suggested that these three groups of employees had rather different patterns of responses to the items in the survey. Consequently, the authors' initial computations were analysis of variance (ANOVA) to test whether there were statistically significant differences among these three groups for the following three dimensions:

- Usage (a composite of four measures of usage)
- Satisfaction (a mean of nine items)
- Perceived Outcomes (a mean of eight items)

The three corresponding ANOVA results, with two and thirty-four degrees of freedom are:

Usage:	$F = 4.20$	$p < .025$
Satisfaction:	$F = 2.50$	$p < .10$
Perceived Outcomes:	$F = 6.65$	$p < .005$

Since two of the scales resulted in significant differences among the groups, with the third close to significant (at the .05 level), we present the item results separately for the job categories. The item means are intended to suggest areas of difference among the three groups. They are not presented as tests of statistical significance.

The Use of All-in-1

Self-Reported Use. Respondents reported that they log into *All-in-1* approximately seven times a week, somewhat more for administrators and staff, less for faculty. However the length of time spent using the system was quite different; administrators and staff spent approximately three times as long on the system as faculty.

Differential use was also reflected in the number of messages sent; administrators sent well over ten times as many messages as faculty (fifty-seven a week compared to five for faculty and nine for staff members). Number of messages received was also quite different, though not as strikingly. Administrators received eighty-four messages a week, faculty about half as many (41), while staff received twenty-six.

Table 1
Average Self-reported Weekly Usage by Job Category

*Items**	*Faculty*	*Administrators*	*Staff*	*Overall*
Number of minutes	100.0	288.0	300.0	147.0
Number of log-ons	6.8	7.5	7.3	6.9
Messages sent	5.4	57.4	8.8	12.8
Messages received	41.4	84.0	25.8	45.6

* In a average week, how much do you use *All-in-1*?

Further, the authors have determined that the penetration rate is 94 percent. Panko stated that ". . . we would expect a system to deliver several messages a day [to each user, on the average] to be considered a mainstream system. We would also expect a very high level of penetration—perhaps on the order of 80 percent" (Panko 1992b). The system described by this paper, therefore, fits Panko's definition of a mainstream system, rather than a stunted system.

Computer-Monitored Use. The university's Computing and Technology Services provided summaries of actual logins for employees in the college. The average number of logins per week per employee is shown for the quarter before and the quarter after the survey was conducted; note that this was approximately three years after system use became mandatory:

Before	6.5 logins per week
After	8.2 logins per week

It appears that actual use is consistent with the self-reported overall 6.9 logins per week.

Subjective Satisfaction

Nine items were used to assess the respondents' subjective satisfaction with their use of *All-in-1*. All items are based on a five-point Likert scale with one as the most negative response and five as the most positive response. Recalling that the ANOVA test comparing satisfaction by job category was near significance ($F_{2, 34}$ = 2.50, p<0.10), means for these nine items appear in Table 2. Note that none of the items yielded a mean response of dissatisfaction, that is, a mean less than the middle of the scale (3). Staff members expressed especially strong satisfaction, with only one mean less than four on a five-point scale.

Table 2
Satisfaction with Using *All-in-1*

Items	*Faculty*	*Administrators*	*Staff*	*Overall*
Overall satisfaction	3.6	3.6	4.5	3.7
Stimulating	3.3	3.0	3.8	3.3
Understandable	3.1	3.0	4.5	3.3
User friendly	3.0	3.0	4.3	3.1
Easy to learn	3.5	3.4	4.5	3.6
Friendly	3.1	3.2	4.3	3.2
Not frustrating	3.2	3.4	4.8	3.4
Time Saving	3.4	4.0	4.8	3.6
Productive	3.6	4.2	4.5	3.8

* These questions concern your overall reactions to *All-in-1* as a means of communication and work.
(1=Most negative response and 5=Most positive response)

Perceived Outcomes

The perceived outcomes category is comprised of eight items that describe possible benefits of using *All-in-1*. Again, the item responses ranged from one for strongly disagree to five for strongly agree. The results appear in Table 3.

Table 3
Perceived Outcomes of Using *All-in-1*

*Items**	*Faculty*	*Administrator*	*Staff*	*Overall*
Easy to reach people	4.0	4.6	4.5	4.2
Ideas useful in work	3.2	4.2	3.5	3.4
Increased efficiency	3.7	4.2	4.5	3.8
Increased quality	3.7	3.6	4.3	3.7
Overall useful for work	3.8	4.8	4.5	4.0
Reduces use of phone	3.6	4.4	4.3	3.8
Reduces interoffice mail	4.1	4.2	4.8	4.2
Comm. more efficient	3.6	4.2	4.5	3.8

*Please indicate your level of agreement with each statement.
(1=Strongly disagree and 5 =Strongly agree)

The ANOVA for perceived outcomes was significant ($F_{2, 34}$ = 6.65, p < .005) indicating differences among the groups of employees. For all of the items in this category, every group rating was over the midpoint of three on the five-point scale. Administrators rated the system over four for all but Increased Quality of Work, and staff rated all the items above four except for Ideas Useful in Work. Faculty ratings were less enthusiastic, but all above the neutral point of three. This result is consistent with *All-in-1's* having become an accepted, or mainstream system. It is also consistent with the varying demands of the job categories. Voice mail and paper mail results could be expected to be similar. These results further support the contention that *All-in-1* has become a standard communication medium for this college.

Summary

The results of this exploratory study suggest that the *All-in-1* electronic mail system is used as a mainstream system, and it is an accepted communication tool in this organization. In addition, we found somewhat different patterns of use among the three groups of employees.

Concluding Remarks

Building on the previous studies of discretionary use of computer-mediated communication systems (CMCS), the objective of this study was to determine whether electronic mail can be accepted as a communication medium when its use is mandatory. The results of this study indicate that *All-in-1* is accepted even though the employees were required to use it. Further, the results suggest that user acceptance may vary depending on the user's job category.

Limitations

This study was conducted in a single organization in which the availability and accessibility of the electronic mail system was controlled. It should be noted that the overall sample size is modest and by no means random. Therefore, caution should be taken when one interprets the results reported in this study.

Another limitation of the present study is that it was conducted at one point in time in a single organizational unit using a particular electronic mail system. Is this college representative of an average college on this campus in terms of electronic mail use? Probably not. Ideally one would like to compare the electronic mail system use among different organizational units where use may be either mandatory or discretionary and to compare the acceptance of two electronic mail systems in one organization.

Implications

The mandatory use of *All-in-1* may have been a strong incentive for this electronic mail system to become a mainstream communication system. When its use is not mandatory, but other traditional media are readily available, an electronic mail system could easily become a stunted system. A stunted system with relatively few active users will eventually fail.

Further, this study demonstrates a potential relationship between a user's job category and that user's pattern of electronic mail use. The authors are currently exploring further the relationship between job category and electronic mail use patterns, particularly comparing units with discretionary use to units with mandatory use.

We recommend that an organization which intends to implement an electronic mail system establish proper training procedures and make use mandatory. A mandatory system runs little risk of becoming a stunted system.

Future Research

This study expands the parameters of CMCS by focusing on an organization in which use was mandated for all official communication. While previous research would predict resistance, these results show electronic mail became an accepted communication tool even under mandatory use.

The results by job category are believable; certainly use of telephone and paper mail could be expected to be similar to the electronic mail use. These results indicate that job category must be considered in future study of CMCS. When subgroups respond very differently, it is inappropriate to average their responses. Clearly, important differences would be masked.

The authors hope that these very preliminary patterns of use by respondents with differing job roles and responsibilities will stimulate other researchers to clarify and explore these issues with more precision. ■

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Leading Change

Reviewer: Janis Evink, *Haworth, Inc.*

by John P. Kotter
Boston, MA: Harvard Business School Press, 1996

Many companies have joined the downsizing and reengineering movement that has become so popular over the past decade. Advised and coached by business consultants, CEOs believed what they were doing was right for their companies. Yet, several years after they initiated major transformations, many of these same companies have abandoned them and reverted to their former ways. What went wrong?

John Kotter, the Konosuke Matsushita Professor of Leadership at the Harvard Business School, answers this question in detail in *Leading Change*. He discusses both what went wrong and what could have been done to avoid failure. The book has no footnotes or bibliography since Kotter relied exclusively on his earlier works and consulting experiences in writing it. Writing for a managerial audience, he integrates and extends a number of the ideas he put forth in his extensive earlier publications into a process for successful change. Kotter focuses on the role of managers and executives during and after the downsizing and reengineering phase of corporate life. He details typical managerial blunders he has observed, not to shame those who committed them, but to keep others from committing the same errors.

A strong guiding coalition is an essential part of the early stages of any effort to restructure, reengineer, or retool a set of strategies. The guiding coalition should be put together carefully so its membership reflects position power, expertise, credibility, and leadership. Both management and leadership skills are needed in the coalition. The former keeps the whole process under control while the latter is needed to drive the change. Leadership skills are critical. Kotter writes, "A guiding coalition made up only of managers—even superb managers who are wonderful people—will cause major change efforts to fail" (p. 59).

Those involved in a downsizing or reengineering effort often fail to properly estimate the power of vision. Without a clear, guiding vision, the effort to change can dissolve into projects which are confusing, incompatible with corporate policy, and time consuming. Without the necessary direction, these projects fall by the wayside, or run contrary to the transformation effort itself. Kotter's directive is simple: if you can't describe your change initiative in five minutes or less, and have it understood by your audience, you are in for trouble.

Companies that have developed an understandable and worthy vision are likely to stumble if they don't communicate their thoughts to the rest of the organization. Employees have no opportunity to adopt a process that has never been communicated to them. A more serious problem occurs when the vision has been verbally communicated, but the actions of management run contrary to the spoken word. This results in a lack of trust for the change initiative.

Even the best transformation processes take years to play out in organizations. It may be difficult to see immediate benefits of a restructuring, which is a very complex process. Kotter encourages the guiding coalition to set and recognize short-term goals, ones which can be attained in six to twelve months. When a short-term goal is attained, the organization should celebrate its success, allowing the celebration to create even greater momentum.

Despite the value of short-term "wins," they shouldn't be used to declare total victory. The changes from any transformation effort have to be given time to permeate the organization. According to Kotter, this process can take from three to ten years to occur because of the one step forward, two steps back nature of downsizing and reengineering. Until the dissemination is complete and changes are rooted in the corporate culture, the processes are very fragile. Declaring victory too soon may put a premature end to any momentum that has been achieved.

A good vision is crucial to avoiding errors and the inevitable consequences. A good vision clarifies the general direction for change, motivates people to take action in the right direction, and helps coordinate the actions of different people. This allows all members of the organization to pause throughout the project to align an individual decision to the overall vision. "Without a shared sense of direction, interdependent people can end up in constant conflict and nonstop meetings. With a shared vision, they can work with some degree of autonomy and yet not trip over each other," says Kotter (p.70).

Such a vision has a number of interrelated characteristics. It is imaginable, desirable, feasible, focused, flexible, and communicable. Each of these characteristics, if ignored or given only cursory attention, can lead to problems and pitfalls for the organization. According to Kotter, the most effective transformational visions are ambitious enough to force people out of comfortable routines. For example, a manufacturing company's vision might aim at bringing it to the point of being the highest quality low-cost producer, which holds great appeal to customers and stockholders alike. The vision takes advantage of external trends such as globalization and new technology, and makes no attempt to exploit anyone.

Kotter stresses that changing one aspect of a complex, highly interdependent system really means changing everything about it. Thus, any change initiative can be expected to have a domino effect in the organization and change will take much longer to implement than initially anticipated. These changes must be ingrained into the culture of the company so that they become "the way we do business around here." Errors allowed to occur unchecked, from whatever source, will result in the loss of huge potential gains, both internal and external.

Kotter closes *Leading Change* by stressing that rapid change will be a way of life in the twenty-first century. One of the keys to organizational success in the future will be to develop a corporate culture where group norms facilitate change rather than hinder it, as has so often happened in the past. Kotter's intent in writing *Leading Change* was to communicate what he had seen, heard, and concluded on the increasingly important topic of corporate change. He has succeeded admirably in this well organized and easy to read book. ■

Reference

Kotter, J.P. 1996. *Leading Change.* Boston, MA: Harvard Business School Press.

About the Reviewer

Janis Evink works for Haworth, Inc. and is a recent MBA graduate from Western Michigan University.