JOURNAL OF BUSINESS ISSUES

2011, No. 1

ARTICLES

JOURNAL OF BUSINESS ISSUES

2011, No. 1

James R. Hasselback, Editor
Mary Ball Washington Eminent Scholar
College of Business
University of West Florida
Pensacola, FL 32514

EDITORIAL ADVISORY AND REVIEW BOARD

Copies of *Journal of Business Issues* are available on the website of the College of Business at the University of West Florida - http://www.uwf.edu/cob

JOURNAL OF BUSINESS ISSUES

2011, No. 1

TABLE OF CONTENTS

Sponsored by
College of Business
University of West Florida

Author Bibliographies

Robert W. Armstrong is Professor of Marketing in the Department of Management and Marketing at University of North Alabama, located in Florence, Alabama. His email address is rwarmstrong@una.edu.

Dennis Balch is Assistant Professor of Management in the Department of Management at the University of North Alabama, located in Florence, Alabama. His email address is drbalch@una.edu

David J. Burns is Professor of Marketing at Xavier University, located in Cincinnati, Ohio. His email address is burnsd@xavier.edu.

Paul Champagne is Professor of Management and Area Coordinator in the College of Business and Public Administration at Old Dominion University, located in Norfolk, Virginia. His email address is pchampag@odu.edu.

Tracie V. Cooper is Faculty Support Coordinator in the H. Wayne Huizenga School of Business and Entrepreneurship at Nova Southeastern University, located in Fort Lauderdale, Florida. Her email address is tracie@huizenga.nova.edu

Jedediah E. Dahl is in the College of Business & Technology at East Tennessee State University, located in Johnson City, Tennessee. His email address is dahlje@goldmail.etsu.edu

Bruce R. Gaumnitz is Professor of Accounting in the Department of Accounting at St. Cloud State University, located in St. Cloud, Minnesota. His email address is brgaumnitz@stcloudstate.edu

Myron Glassman is Professor of Marketing in the Department of Marketing at Old Dominion University, located in Norfolk, Virginia. His email address is mglassma@odu.edu.

Philip J. Harmelink is the Ernst and Young Professor of Accounting and Chairman of the Department of Accounting at the University of New Orleans located in New Orleans, Louisiana. His email address is pharmeli@uno.edu.

James R. Hasselback is the Mary Ball Washington Eminent Scholar in the Department of Accounting and Finance at the University of West Florida, located in Pensacola, Florida. His email address is jrhasselback@uwf.edu.

Jill Kearns Hayter is Assistant Professor of Economics in the Department of Economics & Finance at East Tennessee State University, located in Johnson City, Tennessee. Her email address is hayter@etsu.edu

John C. Lere is Professor Emeritus of Accounting in the Department of Accounting at St. Cloud State University, located in St. Cloud, Minnesota. His email address is jclere@stcloudstate.edu

Donovan A. McFarlane is Professor of Busienss Administration and Business Researach at Frederick Taylor University, located in Moraga, California. He is Visiting Professor of Management at DeVry University - Miramar Campus. His email is don_anthoni@yahoo.com.

Gary L. Shelley is Assistant Professor of Economics in the Department of Economics & Finance at East Tennessee State University, located in Johnson City, Tennessee His email address is shelley@etsu.edu

Homer B. Warren is Associate Professor in the Department of Marketing at Youngstown State University, located in Youngstown, Ohio. His email address is hbwarren@cc.ysu.edu.

Michael Zugelder is Associate Professor of Business Law in the College of Business & Public Administration at Old Dominion University, located in Norfolk, Virginia. His email address is mzugelde@odu.edu

LEGAL IMPLICATIONS OF APPEARANCE IN EMPLOYMENT DECISIONS

Myron Glassman, Old Dominion University
Michael Zugelder, Old Dominion University
Paul Champagne, Old Dominion University

Abstract: Physical appearance plays a role in hiring decisions especially when customer contact is involved. While employers have considerable latitude in developing dress and appearance codes, they must be careful not to discriminate based on gender, race, religion, or disability. Where protected groups are negatively impacted, employers must show that the appearance code is necessary for the firm's marketing image and must be willing to make reasonable accommodations. However, no accommodation is necessary if the appearance code represents a bona-fide occupational qualification.

INTRODUCTION

The role personal appearance plays in management and marketing is becoming more relevant and important. Whether right or wrong, in our society, people are evaluated based on their appearance. As a result, taller, in-shape, attractive employees are more likely to receive higher pay raises, more frequent promotions, and generally be more successful than employees with a less attractive appearance. While government agencies and legislation have tried to minimize appearance-related discrimination, the fact is that attitudes about appearance are firmly rooted in our society.

In this article, we first present relevant marketing and human resources literature for this phenomenon. We next discuss legal issues surrounding employers' use of appearance when making hiring decisions. We conclude with a discussion of the basic requirements of a reasonable dress and appearance policy.

BACKGROUND

The simplest explanation for the positive response to an attractive appearance is the "what is beautiful is good" stereotype (Vilela, et al., 2007). This stereotype is not surprising since Soderlund and Julander (2008) found that physical attractiveness affects brain activity. Consistent with this stereotype, relationships were found between physical attractiveness and sexual warmness, responsiveness, sensitivity, kindness, having better character, and being interesting, exciting, nurturing, and flexible (Dion, Berscheid, and Walster, 1972; Miller, 1970). In addition, attractive people are often seen as being more socially and intellectually competent (Eagly, Ashmore, Makhijani, and Longo, 1991), having higher levels of trustworthiness and expertise (Ahearne, Gruen, and Jarvis, 1999; Debevec, Madden, and Kernan, 1986; Patzer, 1983), having greater success in employment (Dion, Berscheid, and Walster, 1972), and achieving more academically and having better personal relationships (Clifford and Walster, 1973). Finally, of importance to marketers, attractive people are seen as more persuasive (Chaiken, 1979; Dion and Stein, 1978; Horai, Naccari, and Fatoullah, 1974; Snyder and Rothbart, 1971).

Many theories are used to explain these findings. They include Attribution Theory where a person attempts to determine the cause of a behavior by observing it. So, people attribute an internal state, e.g., competence, based on observable cues . . . attractiveness (Baker and Churchill, 1977). Balance Theory suggests that for a person to maintain cognitive harmony, he must attribute positive characteristics to a stimulus (person) that he feels is “good,” i.e., attractive (Mims, Hartnett, and Nay, 1975). Cognitive Dissonance Theory suggests it would be cognitively inconsistent to attribute negative personality characteristics to an attractive person (Mims, Hartnett, and Nay, 1975). In marketing terms, if the box looks nice, the product inside must be good. Other theories explaining this phenomenon include Exchange Theory (Caballero, Lumpkin, and Madden, 1989; Mims, Hartnett, and Nay, 1975) and Reinforcement Theory (Ahearne, Gruen, and Jarvis, 1999; Baker and Churchill, 1977; Caballero, Lumpkin, and Madden, 1989).

PHYSICAL APPEARANCE IN BUSINESS

Appearance plays a role in marketing, especially sales and advertising, and human resources in terms of hiring and performance reviews. Patzer (1985) believes an attractive appearance represents a strategic marketing tool, and the attractive appearance of the source of a message impacts persuasiveness and ultimately, marketing results. Advertising studies show that the attractiveness of a celebrity endorser’s appearance impacts the endorser’s effectiveness (Magnini, Garcia, and Honeycutt, 2010). Here, “effectiveness” includes beliefs as well as purchase intentions and actual behavior. In a sales situation, Reingen and Kernan (1993) conclude, “The traditional practice of emphasizing ‘good appearance’ for salespersons makes sense; the beautiful-is-better stereotype is not a myth; it has empirical validity.” In addition to sales, Soderlund and Julander (2008) found that the attractiveness of a service worker produced more customer satisfaction and that exposure to an attractive service provider improves the attitude toward the service provider which, in turn, leads to greater satisfaction. Ultimately, an encounter with a more attractive service provider results in a more positive attitude toward the firm.

While most research has examined the positive impact of good appearance, little research has been done examining the impact of a negative appearance. However, a study by Klassen, Clayson, and Jasper (1996) showed that when a salesperson is described as being obese, the retailer is perceived as having a poorer image and as being less successful.

Appearance affects hiring and other human resources decisions. For example, even though attractive employees should receive positive evaluations only when deserved, this is not always the case. Vilela, et al. (2007) found that a physically attractive appearance was positively related to performance ratings.

THE LAW AND PHYSICAL APPEARANCE

Since appearance, either consciously or unconsciously, plays a key role in many employment decisions, especially for customer contact positions, a logical question is, ”What can an employer do to enhance employee appearance without running afoul of the law?” Generally, employers may make decisions based on appearance as long as there is no discrimination intended or caused. Still, there are limits, especially if an appearance-related policy does not support the firm’s marketing image and is not uniformly applied. Here, a company could be charged with gender, race, religion, or disability discrimination in violation of Title VII of the Civil Rights Act of 1964 and subsequent anti-discrimination legislation.

Dress Codes and Appearance Standards

Dress and appearance codes are common and generally permissible methods of regulating appearance. Even for non-customer contact positions, many organizations establish appearance policies to foster professionalism. So, an employer can enforce a non-discriminatory dress and appearance code for “back room” employees if the employer feels the dress code is important to set the proper workplace tone. As long as these policies are reasonable, the employer has little to fear from the law. Yet, even though employers enjoy wide discretion, they have faced claims when these dress and appearance standards seem to have a greater impact on members of a group protected by Federal law.

Gender

Employers may establish dress and appearance codes that differ by gender, especially if the codes reinforce traditional norms or customary gender-specific dress. For example, since it is common for men to wear neckties, courts have upheld employers’ dress codes requiring men to wear neckties based on the employer’s desire to convey a clean and orderly store appearance (Fountain v. Safeway Stores Inc, 1977).

However, if differences in appearance standards place an unequal burden on one gender, then they may be seen as sex discrimination unless the employer proves a business necessity to justify the difference. For example, when a Chicago savings and loan’s dress code applied only to female employees, the court, in *Carroll v. Talman Fed. S&L Association of Chicago* (1979), did find sex discrimination. Here, women had to wear a company-furnished, color coordinated uniform while men in the same positions could wear any suit, sport coat and pants, or leisure suit. Also, women were required to buy the uniforms, pay for dry cleaning, and replace damaged clothing. The court noted that requiring an appearance-enhancing uniform was not per se discriminatory but it was, in this case, because the requirement was only for females. Without a business necessity for this disparate appearance requirement, the policy constituted sex discrimination.

Likewise in *Burlington Coat Factory Warehouse Inc., v. O’Donnell et al.* (1987), the court found Burlington’s female-only uniform requirement was demeaning to women and thus discriminatory for the same reasons found in *Carroll.* Again, Burlington attempted to regulate female sales clerks’ appearance by requiring them to wear a smock uniform, but did not impose a similar dress code on its male sales clerks whose appearance was significantly less regulated.

Grooming

Employers can also require reasonable grooming of their employees to enhance their appearance. As with dress codes, requirements can vary by gender if they are traditional and not more burdensome on one gender or do not impact protected classes. For example, in *Jespersen v. Harrah’s Operating Co., Inc*. (2005), the court upheld the employer’s termination of a female bartender who worked at a sports bar in Harrah’s casino, but refused to wear makeup as required by the employer’s “Personal Best” appearance program. While only female servers had to wear makeup and conform to other gender-specific grooming requirements, the court found the program did not create an undue burden on female servers. Likewise, the courts tend to allow employers to restrict hair length on men, and the EEOC typically does not pursue such restrictions (Harper v. Blockbuster Entertainment, 1998).

Race

An employer can face race discrimination claims if its dress or appearance policy impacts only a particular race. Similarly, an employer may not regulate appearance when an ethnic attire otherwise complies with the dress code. For example, a ban on wearing a traditional sari that does not violate the general tenets of the dress code could be considered discriminatory. Likewise, a personal grooming policy prohibiting an African-American woman from wearing hair in a certain style could also be a problem when other women are not subjected to similar appearance standards, even if management feels the style is less attractive.

Religion

Employers risk being charged with religious discrimination when the dress or appearance code requires employees to adopt an appearance contrary to their religious beliefs. Often, this involves prohibiting head coverings or facial hair. An employee will likely prevail on a religious discrimination claim if the employer cannot demonstrate that accommodating the employee's appearance request would lead to a loss of business. Thus, an employer is not required to grant an employee claiming religious discrimination a blanket exemption from a "no-facial-jewelry" policy if the policy's purpose is to protect the firm's marketing image. An employer, however, should make reasonable accommodations when possible such as placing the employee in an equal position away from customer view.

While management may find facial hair less attractive, a ban on facial hair can lead to religious discrimination claims, especially when there is no customer contact (Sadruddin v. City of Newark, 1999). Similarly, numerous claims against delivery and transportation firms have been made on religious grounds for workplace bans on dreadlocks, where the restriction was not clearly job related. (Pluralism Report, 2004).

However, when the employee has customer contact in a setting where a business-like appearance is required to reinforce the firm's marketing image, employers can require grooming restrictions. A marketing image based on a wholesome professional appearance justified Costco's decision to terminate a check-out employee who violated company policy by refusing to remove or cover her eyebrow jewelry, worn as dictated by her religion. The court, in *Cloutier v. Costco* (2004), held that Costco's offer to allow her to wear the jewelry, as long as it was covered, was a reasonable accommodation to her religious practices and that the employer had an important interest in having a professional appearing workforce.

An especially challenging grooming issue is whether or not to allow employees to wear tattoos. Many employers prohibit visible tattoos. But, employers can face discrimination claims especially if no business justification for the policy can be shown. For example, the Red Robin fast food chain was found liable for religious discrimination after firing a waiter who displayed tattoos that encircled both wrists in honor of an ancient Egyptian religion for violating the company's policy prohibiting visible body piercings or tattoos. The employee was offered the opportunity to cover the tattoos, but he refused (EEOC v. Red Robin Gourmet Burgers, 2005). Since many customers were tattooed, the court found no business necessity for the prohibition.

Disability

Employers may be asked to vary dress or grooming rules to accommodate disabled or pregnant employees. If the employee's condition is covered by the Americans with Disabilities Act (ADA), the employer should attempt to accommodate the condition unless doing so creates an undue hardship for the firm. For example, the employer, in *Alpert v. DeKalb Office Environment, Inc.* (2001), allowed an employee to wear tennis shoes on the sales floor, contrary to the dress code, as an accommodation for her knee surgery. However, her subsequent demand to wear biker pants without a medical reason violated the dress code of "good business taste" and justified her termination.

Pregnant employees have brought discrimination actions under the Pregnancy Discrimination Act of 1978 for not accommodating their condition within the dress code or providing a legitimate business reason for not making an accommodation. For example, in *Sample v. Rend Lake College* (2005), a $400,000 judgment was entered against a private college that dismissed the employee for wearing maternity shorts contrary to the general no shorts policy. No accommodation was offered.

Since the literature suggests that obese employees can have a negative impact on firm image, some employers may avoid hiring the obese, especially for customer contact positions. This practice may lead to litigation since morbid obesity is a disability, especially if it causes other chronic medical conditions. Likewise, ADA coverage can exist for someone with a deformity or injury affecting appearance because appearance may lead to a perceived disability. EEOC guidelines refer to the employer who inappropriately refuses to promote an employee with a facial scar to a management position for fear that customers or vendors would find it unappealing to look at.

BFOQ and Appearance

In addition to general appearance standards, employers can require a specific appearance to support its marketing strategy, even though protected individuals may be excluded. Employers can do this only if the appearance requirement represents a bona-fide occupational qualification (BFOQ). A BFOQ represents the essence of the business. There are three rationales for a BFOQ: safety, privacy, and the focus here, authenticity. Therefore, an employer may, for reasons of authenticity, only hire men or women with a certain physical appearance because the appearance is “reasonably necessary” to the essence of the employer’s business. Often, this concept is tied to customer preferences. While the EEOC recognizes this as legitimate, its guidelines clearly say that customer preference alone cannot justify a BFOQ. For example, a gender BFOQ based solely on customer preference will be rejected especially if the preference is based on customer-held stereotypes, such only women should be flight attendants or waitstaff.

While being a young, female nurse may have been a BFOQ and a legitimate appearance-related customer preference for a stewardess in the 1920’s when air travel was more risky and arduous, it was no longer so by the 1970’s. The Circuit Court disagreed with the trial court’s ruling in *Diaz v. Pan Am World Airways, Inc*. (1971) that a female-only BFOQ was justified because of a perceived passenger preference for female flight attendants who were seen as being better than males at providing courteous service and reassurance to anxious passengers. The Circuit Court found that gender (and attractiveness) were not a business necessity for the normal operation of Pan Am’s business, providing safe air travel.

Another example of customer preference for attractive employees not being a BFOQ is the court’s decision in *Gerdom v. Continental Airlines, Inc.* (1982). The court held that the strict weight requirements for female, but not male, flight attendants were discriminatory despite the fact that Continental showed that passengers preferred thin female flight attendants and had a marketing campaign highlighting its attractive “Continental Girls” flight attendants. The court noted that Continental never suggested the weight limitations were necessary to perform job duties of food and beverage service and passenger safety.

Southwest Airlines, despite a significant and lengthy marketing campaign to attract male passengers by positioning itself as the “love airlines,” could not convince the court that attractiveness for female cabin attendants and ticket agents represented a BFOQ. In rejecting the BFOQ defense, the court in *Wilson v. Southwest Airlines Co.* (1981) said that "sex does not become a BFOQ merely because an employer chooses to exploit female sexuality as a marketing tool or to insure profitability."

An obvious example of an appearance-related BFOQ is requiring the waitstaff in an "authentic" Chinese or Japanese restaurant to appear Asian. An authenticity-as-a-BFOQ defense has also been used by theme parks. Walt Disney parks maintain a strict dress code, the "Disney Look," which refers to all customer contact employees as "cast members." In the entertainment field, appearance is obviously a BFOQ. As Disney learned, calling a customer contact employee a "cast member," does not make him one unless character portrayal is involved. Disney has been forced to create exceptions to its appearance policies for female Muslim employees wearing the traditional hijab head dress when working as restaurant hostesses and vacation planners, positions clearly not involving character portrayal. The willingness to modify costumes and place people in back-stage roles to accommodate religious needs does not always preclude litigation. A Muslim hostess working in Disney's 1900's themed Grand Californian Hotel refused, as humiliating, Disney's accommodation offer for her to work in the back or wear a hat over her hijab.

One company that has successfully defended itself against challenges to its authentic-appearance BFOQ claim is the Hooters restaurant chain. From its inception, Hooters' stated business strategy has been to sell vicarious sexual entertainment to male customers in a restaurant context. This market positioning is accomplished by hiring attractive young women, called "Hooter Girls," and having them wear skimpy outfits. This strategy of parading young, attractive women in skimpy outfits in front of male customers has caused some at the EEOC to call Hooters "a Playboy Club for rednecks." However, despite the firm's well-conceived marketing strategy and the EEOC's apparent similar view of the strategy, from 1991 to 1994, the EEOC did investigate Hooters. The EEOC contended its primary business was food and not vicarious sex and therefore, Hooters did not have an authentic-appearance-related BFOQ defense. However, without formally declaring so, the Commission seemed to concede to Hooters' claim after the chain agreed to hire males in non-server positions (Latuga v. Hooters, Inc., 1996).

Other companies such as Jillian's have failed to establish a gender-based, authenticity related BFOQ. Despite claiming their marketing strategy is entertainment with food, Jillian's paid $360,000 to settle an EEOC class action by males excluded from its lucrative server positions and other so-called "female" job classifications. The restaurant chain was unable to show that its server positions were part of an entertainment offering that required only women servers (EEOC, 2004).

The need for a certain ambiance, based on appearance stereotypes, is not a valid BFOQ. After over ten years of litigation with the EEOC, the Miami Beach landmark Joe's Stone Crab House lost its argument for an authenticity-related, male-only BFOQ based on its strategy of creating a fine dining, "Old World" European ambiance that traditionally involved male servers (EEOC v. Joe's Stone Crabs Inc., 2000).

The Abercrombie & Fitch case is another example of the limitations of an authentic-appearance-based BFOQ claim. Their strategy focused on creating a "Classic American Look" and exclusively recruited and hired white males from Ivy League schools as sales clerks. The courts found both sex and national origin discrimination. Since then the firm has been sued by the EEOC several more times for religious discrimination caused by refusing to hire applicants for wearing head scarves during the interview (EEOC, 2010).

MANAGERIAL IMPLICATIONS

As described above, appearance plays an important role in hiring decisions and marketing strategies. In general, employers can impose reasonable dress and grooming restrictions and can even require certain physical characteristics of their employees. However, while employers have wide discretion to regulate employee appearance, especially with respect to dress and grooming, there are legal limitations if the appearance policy leads to discrimination claims based on sex, religion, or national origin. Still, an employer has relatively free reign if there is an actual BFOQ based on authenticity. To minimize legal and managerial problems, the employer should develop a policy that deals with dress or appearance and adheres to the following guidelines:

- List all required and prohibited appearance requirements.
- Explain how the requirement supports the firm's marketing strategy, being careful to not justify the requirement based solely on customer-held stereotypes.
- Determine whether the appearance requirement is usual and customary for the business or industry. Generally speaking, unless there is a discrimination claim, employers can prohibit visible tattoos, body piercings, make-up, and extreme hair styles.
- The firm can have a stricter definition of "professional appearance" for customer contact employees than for back-room employees since it is easier to show an image-related reason when the employee has customer contact.
- Apply the requirement to both genders equally or equivalently. If women have to wear a uniform, men should also be required to wear something equivalent. Note the gender-norm exception to this equal/equivalent rule, e.g., only women can be required to wear make-up.
- The ability to discriminate against a protected group based on an authentic-appearance BFOQ is limited. Hooters girls and Playboy Bunnies, like actors and actresses, could be considered as "playing a role" that requires an authentic appearance.
- Communicate the policy to all employees in a formal document.
- Review the policy periodically because laws and industry norms change.

REFERENCES

Ahearne, M., Gruen, T.W., and Jarvis, C. B. (1999). "If looks could sell: Moderation and mediation of the attractiveness effect on salesperson performance." *International Journal of Research in Marketing,* 16, 269-284.

Alpert v. De Kalb Office Environmental Inc., 206 F. Supp. 2d 1280 (N.D. Ga., 2001)

Baker, M. J., and Churchill, G. A., Jr. (1977). "The impact of physically attractive models on advertising evaluations." *Journal of Marketing Research*, 14, 538-555.

Bovard, J. (2000). The EEOC's War on Fairness, *The Future Freedom Foundation,* Retrieved Dec. 4, 2011from http://www.fff.org/freedom/0500d.asp

Caballero, M. J., Lumpkin, J. R., and Madden, C. S. (1989). "Using physical attractivenessas an advertising tool: An empirical test of the attraction phenomenon." *Journal of Advertising Research,* 29, 16-22.

Carroll v. Talman Fed. S&L Ass'n of Chicago, 448 F. Supp. 79 (N.D. Ill. 1978)

Chaiken, S. (1979). "Communicator physical attractiveness and persuasion." *Journal of Personality and Social Psychology*, 37, 1387-1397.

Clifford, M., and Walster, E. (1973). "The effect of physical attractiveness on teacher expectations." *Sociology of Education*, 46, 248-258.

Cloutier v. Costco, 390 F. 3d. 126 (1st Cir., 2004)

Cook, J. (2011). Roseville Hooters Weight and Gender Discrimination Case Approved for Appeal. *Oakland Press,* Retrieved Dec. 4, 2011 from http://www.theoaklandpress.com/articles/2011/02/03/news/doc4d49ed42f22fe212721764txt

Debevec, K., Madden,T. J., and Kernan, J. B. (1986). "Physical attractiveness, message evaluation, and compliance: Structural examination." *Psychological Reports,* 58, 503-508.

Diaz v. Pan Am World Airways, Inc. 442 F.2d 385 (1971)

Dion, K. K., Berscheid, E., and Walster, E. (1972). "What is beautiful is good." *Journal of Personality and Social Psychology,* 24, 285-290.

Dion, K. K., and Stein, S. (1978). "Physical attractiveness and interpersonal influences." *Journal of Experimental Social Psychology,* 14, 97-108.

Eagly, A. H., Ashmore, R. D., Makhijani, M. G., and Longo, L. C. (1991). "What is beautiful is good, but: A meta-analytic review of research on the physical attractiveness stereotype." *Psychological Bulletin*, 110, 109-128.

EEOC (2004). *Jillian's To Pay $360,000 For Sex Discrimination Against Men*, Retrieved Dec. 4, 2011from http://www.eeoc.gov/press/8-13-04.html

EEOC (2004). *EEOC Agrees to Landmark Resolution of Discrimination Case Against Abercrombie & Fitch*. Retrieved Dec 4, 2011 from http://www.eeoc.gov/eeoc/newsroom/release/11-18-04.cfm

EEOC (2010). *Abercrombie & Fitch Sued for Religious Discrimination*. Retrieved Dec. 4, 2011 from http://www/eeoc.gov//eeoc/newsroom/release/9-1-10.cfm?renderforprint=1

EEOC (2011). Questions and Answers about Cancer in the Workplace and the Americans with Disabilities Act. Retrieved Dec. 4, 2011 from http://www.gov/facts/cancer.html

EEOC v. Red Robin Gourmet Burgers, 2005 WL 2090677, (W.D. Wash. 2005)

EEOC v. Joes Stone Crabs, Inc. 220 F. 3d. 1263 (11th Cir. 2000)

Fountain v. Safeway Stores, 555 F.2d 753 (9th Cir. 1977)

Fox News (2009) Texas man settles discrimination lawsuit against Hooters for not hiring male waiters. Retrieved Dec. 4, 2011 from http://www.foxnews.com/story/0,2933,517334,00.html

Gerdom v. Continental Airlines, Inc. 692 F.2d 602 (1982)
Hansen (2006). *Latest News*. Workforce. Retrieved Dec 4, 2011 from http://www.forcework/apps/pbcs.dll/articles?AID=/2006523/NEWS01/305239990&...
Harper v. Blockbuster Entertainment 139 F.3d 1385 (11th Cir. 1998)
Hooter.com (2011) About Hooters, Retrieved Dec. 4, 2011 from http://www.hotters.com/about.aspx
Horai, J., Naccari, N., and Fatoullah, E. (1974). "The effects of expertise and physical attractiveness upon opinion agreement and liking." *Sociometry,* 37, 601-606.
Jespersen v. Harrah's Operating Co., Inc. 392 F.3d. 1076 (9th Cir. 2004)
Koernig, S., Page, A.,(2002)."What if your dentist looked like Tom Cruise? Applying the match-up hypothesis to a service encounter." *Psychology and Marketing,* 19, 91-110.
Latuga v. Hooters, Inc. 1996 WL 164427 (N.D. Ill. 1996)
Magnini, V., Garcia, C. and Honeycutt Jr., E. (2010). "Identifying the attributes of an effective restaurant chain endorser." *Cornell Hospitality Quarterly,* 51, 238-250.
Miller, A. G. (1970). "Role of physical attractiveness in impression formation." *Psychonomic Science,* 19, 241-243.
Mims, P. R., Hartnett, J. J.,& Nay,W. R. (1975). "Interpersonal attraction and help volunteering as a function of physical attractiveness." *The Journal of Psychology,* 89, 125-131.
O'Donnell v. Burlington Coat Factory Warehouse, Inc. 656 F. Supp. 263 (S.D. Ohio 1987)
Patzer, G. L. (1983). "Research Source credibility as a function of communicator physical attractiveness. Journal of Business Research, 11, 229-241.
Patzer, G. L. (1985). "Research claims that beauty is wallet-deep." *Marketing News*, 19, 4.
Pregnancy Discrimination Act of 1978, Pub. L. 95-555, 92 Stat. 2076 (1978)
Reingen, P. H., and Kernan, J. B. (1993). "Social perception and interpersonal influence: Some consequences of the physical attractiveness stereotype in a personal selling setting." Journal of Consumer Psychology, 2, 25-28.
Sadruddin v. City of Newark 34 F. Supp. 23 (D. N.J.1999)
Sample v. Rend Lake College, (2005) WL 2465905 (S.D. Ill. 2005)
Snyder, M., & Rothbart, M. (1971). "Communicator attractiveness and opinion change." *Canadian Journal of Behavioural Science*, 3, 377-387.
Soderlund, M and Julander, C. (2008). "Physical attractiveness of the service worker in the moment of truth and its effects on customer satisfaction". *Journal of Retailing and Consumer Services.* 16, 216-226.
The Civil Rights Act of 1964, 42 U.S.C. Sec. 2000e-2 (2011)
The Pluralism Project at Harvard University. (2004). Religious Diversity and the Workplace 2004. Retrived Dec. 4, 2011 from http://pluralism.org/reports/view/147
Tully, S. (2010). Court cases have gone both ways on religious attire. Orange County Register, Retrived Dec. 4, 2011 from http://wwworesort.oregister.com/2010/08/20
Vilela, B., González, J., Ferrín, P., and Araújo, M. (2007) "Impression Management tactics and affective context: influence on sales performance appraisal," *European Journal of Marketing*, 41, 624-639.
Wilson v. Southwest Airlines Co. 517 F. Supp. 292 (1981)

VALUING THE APPLE BRAND: AN EMPIRICAL ANALYSIS OF LAPTOP COMPUTER PRICES

Gary L. Shelley, East Tennessee State University
Jill Kearns Hayter, East Tennessee State University
Jedediah E. Dahl, East Tennessee State University

Abstract: This study investigates whether a significant price premium exists for laptop computers bearing the Apple (or Macintosh) brand. After using regression analysis to control for the influence of other significant influences on price, it is found that on average Apple laptops are priced approximately 73.2% higher than those with Microsoft Windows operating systems. Thus, it appears that the Apple brand enjoys both a statistically significant and a numerically large price premium. In addition, laptops with Intel processors are found to sell at an estimated price premium of approximately 27.8% over machines with AMD processors.

INTRODUCTION AND LITERATURE REVIEW

Perhaps one of the first questions consumers ask themselves when purchasing a new computer is “PC or Mac?” Some consumers undoubtedly choose a PC due to the large cost difference between a PC and a Mac. However, other consumers are willing to pay the higher price for a Mac. This study uses regression analysis to estimate the price premium associated with Apple laptop computers as compared to Windows based laptops. The estimated price premium is one indicator of the value of the Apple brand. After controlling for the influence on price of several other laptop attributes, it is found that Apple indeed enjoys a numerically large and statistically significant price premium of approximately 73.2%.

Rapid technological change causes some consumers in the market for personal computers to rely on brand name in their purchasing decisions. Firms competing in this market can experience large gains by establishing a brand name that perseveres over time and is not easily copied. As described by Aaker (1996), establishment of a brand can create a barrier to entry by establishing a loyal customer base. The loyal customer base provides the firm a foundation for a price premium for their product, time to react to competitor advances, and a safeguard against damaging price competition. Aaker and Jacobson (2001) examine brand attitude, a measure of how consumers feel about a brand, in these high technology markets. They found that stock return is directly related to brand attitude.

The extent to which Apple’s brand has contributed to its success over the years has been discussed in depth. John Sculley, former CEO of Apple, told the G*uardian* newspaper in 1997: "People talk about technology, but Apple was a marketing company. It was the marketing company of the decade" (Kahney, 2002). Kahney’s article also quotes Marc Gobe, the author of *Emotional Branding*, as supporting Sculley’s position that Apple’s success has everything to do with its brand and little to do with new products. Gobe said “Without the brand Apple would be dead. Absolutely. Completely. The brand is all they've got. The power of their branding is all that keeps them alive. It's got nothing to do with products." The success of Apple branding is evidenced by its designation as "Brand of the Year" by Brandchannel.com in 2001. One indication that Apple continues to promote its brand is provided by the decision of the company to rebrand Apple and liven up the appearance of their computers. This rebranding was associated with replacement of the multi-colored Apple logo by the new silver one.

In addition to rebranding, Apple has succeeded in establishing an emotional brand. Gobe defines this aspect of branding in his book *Emotional Branding*, “By emotional, I mean how a brand engages consumers on the level of the senses and emotions; how a brand comes to life for people and forges a deeper, lasting connection.” Furthermore, Gobe discusses three ways in which Apple created their emotional brand. The first attribute is Apple’s genuine concern for people. Apple’s initial philosophy was to give people control through technology and to remain supportive of the use of computers in education. The second attribute is Apple’s distinctive graphic and spoken vocabulary, expressed through product plan cognizance and marketing. The third attribute is that Apple’s product designs are inspired by people and centered around people.

Emotional branding is only one way to distinguish a product brand. Another method is to create a brand-specific association. MacInnis and Nakamoto (1990) describe a brand-specific association as a characteristic that distinguishes a brand from other contending brands. According to Myers and Alpert (1968) establishing a strong brand association is one way to successfully market a product. Marketers will spend large amounts of money to form and support their brand-specific associations. This is all the more true if the brand association is viewed as a stepping stone for effective entry into a different product category. An example of this marketing strategy is the creation by Apple of a “user friendly” brand-specific association.[1]

Marketing research has agreed upon “brand equity” as the most accurate measure for determining the value of a brand. Farquhar (1989) defines brand equity on a theoretical basis; however, in practice it usually is defined as the value a brand name contributes to a product. One way to measure brand equity is from an estimate of the price premium associated with that brand.[2] The price premium is defined as the amount a consumer is willing to pay for a particular brand compared with another brand (or set of brands) that possesses similar qualities. Aaker believes all determinants of brand equity, including emotional branding and brand specific associations, influence the price premium. Thus, it is argued that the price premium is the best potential measure of brand equity.

An additional advantage of using the price premium as a measure of brand equity is its potential ease of calculation. One way that the price premium can be figured is by simply asking consumers how much more they would be willing to pay for a product bearing the brand of interest than for a similar competing brand’s product. Companies sometimes use this method of calculating the price premium to assess their brand value. For example, Aaker notes that Intel estimates its price premium twice a week by using interviewers to ask store customers exactly how much less they would pay for a computer that does not have “Intel Inside”.

Although the branding literature considers the price premium as the ideal measure of brand equity, to our knowledge no previous study has estimated the price premium that exists between a Mac and a PC. This study estimates the Apple price premium by conducting a regression analysis of the effect of a set of computer characteristics on laptop prices. One of the explanatory variables in this regression is a dummy variable associated with the Apple brand. The Apple price premium then is estimated as the value of the coefficient multiplying the dummy variable. An advantage of this estimate is that it is calculated controlling for the

[1] Although, Broniarczyk and Alba (1994) note that Apple’s association is not robustly related to other computer companies or with the entire Apple product line.

[2] Srivastava and Shocker (1991) suggest brand equity should not only be evaluated in terms of the benefits already delivered in the current market but extended to the possible gains to be felt from as yet untapped markets.

influence on price of the other explanatory variables included in the regression. Results indicate that Apple laptops enjoy an estimated price premium of 73.2% over laptops with Microsoft Windows operating systems. Results also indicate that laptops with Intel processors sell at an estimated 27.7% price premium over machines with AMD processors.[3]

DATA AND THE STATISTICAL MODEL

This project uses a data set composed of the prices and a set of characteristics of 108 different laptop computers listed on the Best Buy website on a single date. The use of data from the website of a single national store chain at a point in time allows direct comparison of the prices of a large variety of laptops without having to account for differences due to date, store name, or geographic location. Characteristics include the processor speed, processor brand, hard drive size, expandable memory, direct video memory, and operating system.[4]

Regression analysis is used to investigate the effect of the Apple brand on laptop price after controlling for the effects of the other computer characteristics. The dependent variable of the regression is one hundred times the natural logarithm of the dollar price (denoted as LPrice).[5] This means that regression coefficients may be interpreted as the approximate percentage effect of each explanatory variable on price. The effect of the Apple brand on price is captured by a dummy variable, OS, with a value of one for laptops with an Apple OS operating system and a value of zero for machines with a Microsoft Windows system.

The first control variable in the regression is the size of the laptop's hard drive, hereafter referred to as HDSize. It is expected that a larger hard drive adds to the price of a laptop.[6] The hard drives for laptops in this dataset range in size from 120 gigabytes to one Terabyte (1000 gigabytes), with a mean of 398.96 gigabytes. The potential expandable memory of the computer, denoted MemExp, also is included as a control variable.[7] Expandable memory in this sample ranged from 2 to 16 megabytes, with an average of 6.59 megabytes. Another control is a dummy variable, Proc, which has a value of 1 for laptops with Intel processors and a value of zero for machines with AMD processors.[8] As noted in the introduction, Intel believes that computers with "Intel inside" sell at a premium over those using competing processors.

The processor speed of the laptop (ProcSpeed) also is included in the set of controls. The speed of the processors in this set of laptops ranges from 1.3 gigahertz to 2.93 gigahertz. Due to an apparent nonlinear relationship with LPrice, the squared value of processor speed (ProcSpeed2) also is included in the set of explanatory variables. Another control variable, direct video memory (VidMem), also appears to have a nonlinear relationship with LPrice. A squared term (VidMem2) again is included to capture the nonlinearity.

[3] AMD refers to Advanced Micro Devices, Inc.

[4] We also considered the effects of other characteristics, such as memory cache, hard drive speed, screen size, number of USB ports, bus speed, and machine weight. However, these variables were dropped from the study due to a lack of statistically significant individual or joint effects on price.

[5] A regression using the simple dollar price as the dependent variable yields similar results regarding the size and statistical significance of the Apple price premium. Results of this regression are omitted for brevity but are available on request from the authors.

[6] All other control variables included in this study also are expected to have a direct effect on laptop price.

[7] Actual computer memory also was considered as a potential control, but it was found that expandable memory provided better explanatory power for this set of laptop prices.

[8] Intel and AMD are the only brands of processor used in the laptops included in this data sample.

The complete regression equation is given by:

$$\text{LPrice} = \beta_0 + \beta_1\text{OS} + \beta_2\text{HDSize} + \beta_3\text{MemExp} + \beta_4\text{Proc} + \beta_5\text{ProcSpeed} + \beta_6\text{ProcSpeed2}$$
$$\beta_7\text{VidMem} + \beta_8\text{VidMeme2} + \varepsilon$$

In this regression equation, a given β_j population regression coefficient shows the percentage effect of the associated explanatory variable on price. The β_1 coefficient is of particular interest because it provides the average percentage difference, or price premium, between prices of Apple and Windows based laptops controlling for the effects of the other explanatory variables. The unpredictable or unexplained component of LPrice is captured by the disturbance term ε.

EMPIRICAL RESULTS

Ordinary least squares (OLS) estimates of the regression equation are provided in Table 1. The R-squared of the regression shows that the regression explains 60.5% of variation in LPrice. The F-statistic has a value of 18.96 with a p-value less than 1%, meaning that the regression explains a statistically significant percentage of variation in LPrice. The adjusted R-squared, which corrects the R-squared statistic for the number of included explanatory variables, is equal to 57.3%.

Table 1
The Estimated Regression Model

Explanatory Variable	Coefficient	Std. Error	t-Stat	p-Value
Constant	860.7096	81.04834	10.61971	0.0000
OS	73.20277	13.11344	5.582269	0.0000
HDSize	0.116351	0.021360	5.447169	0.0000
MemExp	4.262363	1.459929	2.919569	0.0043
Proc	27.76186	7.929434	-3.501115	0.0007
ProcSpeed	-303.9057	78.50876	-3.870978	0.0002
ProcSpeed2	75.69854	19.38915	3.904170	0.0002
VidMem	0.072984	0.026194	2.786262	0.0064
VidMem2	-4.27E-05	1.80E-05	-2.369949	0.0197

Observations: 108
R-Square = 0.605
F-statistic = 18.95993
Adjusted R-Square = 0.573

A common problem with regressions involving cross-sectional data is heteroskedasticity. Heteroskedasticity, or a non-constant variance of the regression residuals, can cause the t-statistics of the estimated regression coefficients to follow non-standard statistical distributions. This can make reported p-values of the t-statistics associated with the coefficient estimates inaccurate and result in incorrect inference regarding the statistical significance of the effect of each explanatory variable. A Breusch-Pagan-Godfrey test of the regression residuals reveals no evidence of heteroskedasticity; therefore, we proceed with interpretation of the estimated model.[9]

The p-value of each estimated coefficient is less than a standard test size of 0.05, indicating that each explanatory variable individually has a statistically significant effect on LPrice. The coefficient estimate associated with HDSize indicates that a one unit increase in hard drive size is associated with a numerically small, but statistically significant increase in laptop price of 0.116%. The estimated coefficient multiplying MemExp indicates that a one unit increase in expandable memory on average is associated with a 4.26% increase in laptop price. The estimated coefficient of the Proc variable indicates that laptops with an Intel processor on average sell for a statistically significant 27.8% higher price than those with AMD processors. This may reflect a perception of higher quality of these processors by consumers.

Due to the nonlinear relations with LPrice, the effects of processor speed and video memory are somewhat more difficult to interpret based solely on the estimated coefficients. However, a likelihood ratio test of the joint significance of ProcSpeed and ProcSpeed2 has a p-value of 0.0004, rejecting a null hypothesis of no joint significance in favor of an alternative hypothesis of a significant nonlinear relation. Similarly, a likelihood ratio test of the joint significance of VidMem and VidMem2 has a p-value of 0.014, indicating a significant nonlinear relation between video memory and LPrice.

The estimated coefficient multiplying the dummy variable OS is of most interest to this study. This coefficient captures the percentage effect of the Apple operating system on the price of laptops. The coefficient estimate indicates that laptops with the Apple OS operating system on average sell for a 73.2% premium over machines with a Microsoft Windows operating system. The t-statistic (5.58) and p-value (0.0000) of the coefficient estimate indicate that this price premium is highly statistically significant. A confidence interval for the OS coefficient indicates that there is a 90% probability that the Apple price premium is between 51.4% and 94.9%. It should be noted that the large size of this price premium does not seem justifiable based on the cost of anti-virus protection for Windows based systems.[10] This result suggests that the marketing strategy of Apple has been very successful in establishing a positive price premium for its line of laptops.

CONCLUSION

This paper uses regression analysis to investigate the effects of various characteristics on the price of laptop computers. It is found that increases in hard drive size and expandable memory have significant positive effects on laptop price. It also is found that laptops with Intel processors sell at an estimated 27.7% price premium over machines with AMD processors. This result suggests that the label “Intel inside” is viewed quite positively by consumers. Finally, Apple laptops enjoy an estimated price premium of 73.2% over laptops with Windows operating systems. The Apple brand appears to contribute significantly to consumers’ perception of laptop value. This finding is consistent with the previous literature that suggests brand equity contributes to Apple’s success.

[9] The p-value of the Breusch-Pagan-Godfrey statistic is 0.363, which fails to reject a null hypothesis of homoskedasticity at any standard test size.
[10] Laptops with the Apple OS operating system do not require anti-virus protection.

REFERENCES

Aaker, D. (1996). "Measuring Brand Equity Across Products and Markets," *California Management Review*, 38 (3), 102-120.

Aaker, D. and Jacobson, R. (2001). "The Value Relevance of Brand Attitude in High-Technology Markets," *Journal of Marketing Research*, 38 (4), 85-93.

Broniarczyk, S. and Alba, J. (1994). "The Importance of the Brand in Brand Extension," *Journal of Marketing Research*, 31 (2), 214-228.

Farquhar, P. (1989). "Managing Brand Equity," *Marketing Research*, 1, 24-33.

Gobe, M. (2009). *Emotional Branding: The New Paradigm for Connecting Brands to People. (Updated and Revised Ed.)*. New York: Allworth Press, (Introduction).

Kahney, Leander, (2002), "Apple: It's All About the Brand," [Online] Available: http://www.wired.com/gadgets/mac/commentary/cultofmac/2002/12/56677 (December 4, 2002)

MacInnis, D. and Nakamoto, K. (1991). "Examining Factors that Influence the Perceived Goodness of Brand Extensions," Working Paper, Karl Eller Graduate School of Management, University of Arizona.

Myers, J. and Alpert, M. (1968). "Determinant Buying Attitudes: Meaning and Measurement," *Journal of Marketing*, 32, 13-20.

TRANSPARENCY AND CORPORATE CODES OF ETHICS: CONSEQUENCES TO THE COMPANY

Bruce R. Gaumnitz, St. Cloud State University
John C. Lere, St. Cloud State University

Abstract: This paper identifies and discusses beneficial and negative consequences from actions a company may take to make its code of ethics widely publicly available (transparent). Specifically, the paper describes consequences to the company arising because external parties become aware of the content of the company's code of ethics as a result of such wide distribution. Because of such awareness, the parties may change their beliefs concerning the behavior of the company. Their changed beliefs may lead the external parties to take different actions than they would in the absence of awareness of code content. This change in action may be beneficial to the company as when a potential customer who would otherwise purchase goods or services from a competitor now becomes the company's customer. An action change may also be detrimental to the company as when a potential stockholder who disagrees with a provision of the code chooses not to purchase company stock because of awareness of code content. Finally, there are some cases in which making a code of ethics widely available may have no consequences to the company. The existence of beneficial and detrimental consequences have implications for corporations, those affected by the well-being of the corporation, and policy makers.

INTRODUCTION

Although there has been extensive research on codes of ethics and decision making by those internal to the company or organization (Kaptein and Schwartz, 2008: 111), decisions by those external to the company using a corporate code of ethics does not appear to have been the major focus of previous studies. Various authors have, however, suggested or implied that there are benefits to a corporation from making its code of ethics publicly available (Molander, 1987: 624; Weaver, 1993: 49; Stevens, 1994; Kaptein and Wempe, 1998; Bernardi and LaCross, 2005; and Kaptein and Schwartz, 2008: 111). In addition, the existence of social responsibility investing (DeTienne and Lewis, 2005: 359) and research into the impact of perceptions concerning the ethical nature of a company on consumer behavior (Trudel and Cotte, 2009: 67) indicate a potential interest in company codes of ethics by external parties. A common theme in the corporate social responsibility (CSR) literature is also transparency (Holder-Webb et al., 2009; Waddock et al., 2002: 134). Disclosure of a code of ethics is one means to achieve transparency (Bernardi and LaCross, 2005).

Public disclosure makes a company's ethical positions more transparent. Transparency may have both beneficial and negative consequences to the corporation and also to other groups affected by the well-being of the corporation, such as employees who are affected by expansion or contraction of the corporation. These beneficial and negative consequences result from decisions made by external parties that include current and potential stockholders, current and potential customers, potential employees, current and potential suppliers, and governments and regulatory groups. These groups make decisions concerning actions that include purchasing stock in the corporation, purchasing goods or services of the corporation, applying for employment with the corporation, supplying goods or services to the corporation, and stiffening or relaxing regulatory controls. While some of the actions taken as a result of these decisions may be beneficial to the corporation, others may not. Therefore, transparency with respect to its code of ethics may or may not be desirable from the standpoint of the corporation.

This paper explores potential consequences of corporate-code-of-ethics transparency by analyzing how the code of ethics, serving as decision facilitating information (Demski and Feltham, 1976: 7-10), can affect the alternative chosen by a decision maker external to the corporation. In doing so, it identifies conditions under which the consequence of code-of-ethics transparency will be beneficial to the corporation, conditions under which there will be little if any consequences, and conditions under which the consequences are likely to be negative. The analysis in the paper is of potential interest to two groups: corporations that are considering making their code readily available and policy makers who might be considering mandating that corporations make their code of ethics readily available.

Four sections follow. The first section reviews literature related to corporate-code-of-ethics transparency. It explores the extent to which corporations have codes of ethics and discusses the extent to which they make their codes widely publicly available. A second section identifies conditions under which corporate-code-of-ethics transparency will lead to beneficial consequences to the corporation, conditions that will lead to negative consequences to the corporation and conditions that will lead to little or no consequences to the corporation. This section also describes costs related to transparency from the perspective of both the potential external decision maker and the corporation. Section three discusses implications of the findings for both the corporation considering making its code of ethics widely publicly available and for policy makers who might consider mandating corporate-code-of-ethics transparency. A final section provides a summary and conclusions.

LITERATURE REVIEW

Studies indicate that many large firms have codes of ethics (Langlois and Schlegelmilch 1990; Ruhnka and Boerstler, 1998; Deloitte and Touche, 2003; and Kaptein, 2004). Forty one percent of respondents in a study of large British, French, and West German companies (Langlois and Schlegelmilch, 1990) indicated that they had codes of ethics. Ruhnka and Boerstler (1998) report that they were able to obtain corporate codes of ethics from approximately 80% of Fortune 500 industrial companies and Fortune 500 service companies in 1991 and 1994. Eighty three percent of respondents to a 2003 survey of the top 4000 publicly traded companies by Deloitte and Touche (2003) indicated that their companies had developed codes of ethics or conduct. Kaptein (2004) in a study of the 200 largest companies in the world, found that 52.5% have a business code of ethics.

Differences in the population sampled appear to play a major role in the variation among reported percents. Langlois and Schlegelmilch's population is British, French, and West German companies and Kaptein's study included both United States and non-United States companies. Both Ruhnka and Boerstler and Deloitte and Touche focused on United States corporations. Kaptein indicates that codes are "most prevalent among U.S. companies" and that codes are much less common in Japanese companies, which were a significant portion of the population he studied (2004: 17). In addition, he reports lower code percents for companies in France and Germany, two of the three countries from which the Langlois and Schlegelmilch sample was drawn, than for companies in the United States. Regardless of the variation in percents, however, the studies all find that significant numbers of large companies have codes of ethics.

Studies concerning the extent to which these codes are made readily available to the public provide less direct evidence. Deloitte and Touche (2003) report that approximately 91% of their respondents indicate that their codes mention stakeholders and that 52% of their respondents indicate that they distribute copies of their codes of ethics to stakeholders mentioned in the code. Because the question asks about distribution of codes to those mentioned in the code, this may or may not indicate general distribution of the codes.

Bernardi and LaCross (2005) report transparency rates by auditor. To determine the rates, they visited the websites of 97 companies and determined if the company's code of ethics was disclosed within two levels of the website homepage. The transparency rate varied from 22% to 52% among the companies when grouped by which of the "Big Four" public accounting firms is their auditor. Since both of these studies are of United States companies, which tend to have codes of ethics, the results suggest that while significant numbers of United States companies do make their codes of ethics readily available to the public, significant numbers of companies do not.

As this section indicates, although many large companies have codes of ethics, the number that choose not to make their codes readily publicly available appears to be significant. The next section of the paper addresses the cost of transparency and the potential impact of knowledge of the content of a company's code of ethics on decisions made by parties external to the company.

COST OF TRANSPARENCY AND THE IMPACT OF CODE-OF-ETHICS TRANSPARENCY ON DECISIONS MADE BY EXTERNAL PARTIES

There are two dimensions to the impact of making a company's code of ethics readily publicly available. One dimension relates to out-of-pocket costs. The second dimension relates to the impact of code transparency on actions taken by external parties as a result of decisions they make using the code of ethics as information.

Cost of information

Out-of-pocket costs related to code-of-ethics transparency may fall on two parties: the external decision maker and the company.

External decision maker

If a company does not make its code of ethics readily available to the public, the cost of obtaining the information falls on the user. Individuals with enough motivation and resources will be able to obtain the code. Individuals with less resources may not be able to obtain the code.

It is unrealistic to assume that any large company having disclosed its code to perhaps tens of thousands of current and former employees could successfully maintain a cloak of secrecy around its code of ethics. If a company's code of ethics is to serve its purpose, too many people must have access to it for it to remain "private information" in the legal sense. As a result, a company's code of ethics can almost certainly be obtained by motivated external parties who wish to do so. This is particularly true if those parties are willing to expend significant resources to achieve their objective since privately gathering such information is costly (Cormier and Magnan, 1999: 433). Therefore, even if a company does not widely publicly distribute its code, there may be external parties who view the content of a code of ethics to be of potential significance to decisions they make concerning transactions with the company and who are willing and able to expend resources to obtain a copy of the code. The potential actions of these parties are irrelevant to the company considering code-of-ethics transparency since they are likely to obtain the code of ethics regardless of whether the company widely distributes its code. The impact of knowledge of the code of ethics on their decisions will not depend on code-of-ethics transparency.

The external parties of relevance to the present paper are those who make decisions that might be affected by knowledge of the content of a code of ethics but for whom the cost of obtaining the code of ethics exceeds the potential benefit from having knowledge of code content. Wide dissemination of the code of ethics by the company significantly reduces the cost of obtaining the code of ethics. As a result, wide distribution of the code of ethics may have an impact on the alternatives chosen by this group because, in the absence of wide dissemination of the code, they are likely to be unaware of the code content.

Company

A company can take a number of actions to make its code of ethics readily available to the public. For example, in response to requirements of the Sarbanes-Oxley Act of 2002 (107th Congress, 2002), the SEC issued Final Rule 33-8177 (SEC, 2003) on disclosure of codes of ethics for the corporate principal executive officer, principal financial officer, and principal accounting officer. It required that the code of ethics be available either 1) as an exhibit in the corporation's annual report, 2) on its corporate website, or 3) free of charge upon request to any requester. A company might also prominently display its code of ethics in facilities such as stores, factories, or distribution centers, include it in printed material such as advertisements and catalogs and provide a copy in information packets distributed to prospective employees. Although there are out-of-pocket costs to a company of making its code of ethics readily publicly available, these costs may be so small that they have little effect on whether a company chooses to make its code readily available to the public. For example, the out-of-pocket costs associated with electronically communicating a code of ethics by posting it on a website are likely to be negligible.

Impact on actions of external parties

The analysis in this section focuses on the beneficial and detrimental consequences to the company resulting from making code-of-ethics content known to external parties who use it as information to decide whether to engage in transactions with the company. Therefore, the issue of interest in this section is whether the wide distribution of its code of ethics by a company will result in decision makers choosing to take a different action than they would otherwise. And, if so, is the alternative now chosen one that is beneficial or detrimental to the company?

Whether the decision is to buy company stock, buy goods or services from the company, seek employment with the company, grant favorable terms to the company, or impose regulatory restrictions on the company, one can consider these decisions using a framework presented in Lere and Gaumnitz (2003). As they indicate, the impact of a code of ethics in a decision facilitating context derives from its effect on the beliefs of the decision maker and the resulting impact of this effect on the action chosen by the decision maker.

In the context of the present paper, making a decision maker aware of the content of the company's code of ethics through wide dissemination of the code may change a decision maker's beliefs about the behavior of the company. That is, the content of its code may provide an indication of the actions the company will take in various situations. The potential effect of this changed belief about how the company will behave is on an action that the decision maker takes. For example, a potential stockholder might not purchase stock in the company absent the knowledge of code content. But, with knowledge of the code, the stockholder may purchase the stock as a result of changed beliefs. A potential customer who might purchase goods from a competitor may now purchase goods from the company. A potential employee who might not apply for employment with the company may now apply for employment with the company. A supplier may grant more favorable terms to the company than in the absence of knowledge of code content. And, a regulatory body may place fewer restrictions on the company than it would in the absence of knowledge of code content. Code transparency impacts are addressed under three headings: 1) beneficial consequences of wide distribution, 2) conditions under which wide distribution of a code is likely to result in little or no change in beliefs, and 3) conditions under which wide distribution may lead to changes in beliefs that are detrimental to the company.

Beneficial consequences of wide distribution

The beneficial consequences to a company of widely distributing its code of ethics arise when wide distribution changes the beliefs of external parties concerning potential behavior of the company. If the change in belief is sufficiently large and in a direction that represents an increase in the external party's belief that company behavior will coincide with the behavior that the external party desires, this may change the action chosen by the external party. If the action that would have been chosen is less desirable to the company than the action that the external party now chooses, the consequence to the company of wide distribution is beneficial.

For example, consider a potential stockholder who is very concerned about the treatment of the employees at a company's suppliers. If the company's code of ethics is not readily available to this potential stockholder, he or she may decide not to buy stock in the company based on a lack of knowledge concerning the company's position on treatment of supplier employees. Wide distribution of the company's code will make the code available to this potential stockholder. If the code contains a statement concerning treatment of supplier employees that causes the potential stockholder to believe that the company takes steps to assure reasonable treatment of supplier employees, this potential stockholder may now purchase the company's stock. This purchase of company stock, which would not have occurred without the wide dissemination of the company's code of ethics, is a beneficial consequence of the distribution.

A similar beneficial consequence might arise with a potential customer. Becoming aware of the company's code of ethics may make the potential customer aware of some company position on the treatment of customers that she or he considers to be important. If, in the absence of wide distribution, the customer was unsure concerning this aspect of customer treatment, the customer might purchase from some other company. If awareness of the company's position as expressed in the code causes the customer's belief to change sufficiently, the potential customer may now purchase from the company.

A beneficial consequence also occurs when an individual with strong potential as an employee would not seek employment with the company in the absence of knowledge of the company's code but does contact the company concerning employment as a result of wide distribution of the company's code. A potential supplier may grant a company more favorable terms based the supplier's changed beliefs concerning company behavior, which change occurs because the supplier becomes aware of the company's code of the ethics because of wide distribution. Finally, a regulatory body may choose to not impose some costly requirement on a company because of changes in their beliefs concerning company behavior resulting from positions expressed in the company's code of ethics.

Conditions under which wide distribution of a code is likely to result in little or no change in beliefs

The existence of alternate sources of information or lack of company credibility may mean that wide distribution of its code of ethics will lead to little or no change in the belief of external decision makers concerning the behavior of the company. Without changes in the beliefs of decision makers, there also will be no change in the actions taken by those decision makers.

Alternate sources of information

Widely distributing a code of ethics may or may not provide decision makers with information they did not otherwise possess. There may be other readily available, low cost sources, such as news reports, past experience with the company, and "word of mouth", that provide the same information to decision makers as would a code of ethics. If such sources exist, wide distribution of the code of ethics may have very little impact on decisions made. In this case, awareness of code-of-ethics content will not provide information that the decision maker does not already possess and will not change the decision maker's beliefs.

Credibility of company

Credibility is also likely to play a major role in determining the impact of making a code of ethics public. If the decision maker does not place credence in the content of a company's code of ethics, the extent of the change in beliefs will not be as great as if the decision maker does place credence in the code content. Little or no change in beliefs will be insufficient to result in the decision maker selecting a different action than he or she would in the absence of widespread code distribution.

Conditions under which wide distribution may lead to changes in beliefs that result in actions detrimental to the company

Detrimental consequences to the company can arise from two causes. First, the content of the code of ethics may change the beliefs of external parties concerning the potential behavior of the company in ways that do not reflect the company's potential behavior. Second, code-of-ethics transparency may result in both changed beliefs of the decision maker and a change in the action chosen by the decision maker. But the action now chosen is detrimental to the company.

Changed beliefs that do not reflect the company's potential behavior

Based on the content of the code of ethics, an external decision maker may believe that the company will take a certain action in a set of circumstances. While this may initially be beneficial to the company because of the action it leads the external party to take, it may ultimately be detrimental to the company if the company does not behave in a manner consistent with that expected by the external decision maker. This inconsistency between expectations and actions may reduce the credibility of the company for that decision maker. As a consequence, the content of the code of ethics or other messages provided by the company may have no future affect on the beliefs of the external decision maker and, as a result, the actions taken by that decision maker.

Three reasons why the changed belief of the external party may not reflect the company's potential behavior are

- misperception by the external decision maker
- expression of aspirations rather than current practices in the code
- lack of adequate practices in place to translate positions contained in code statements into actions

One reason why changed beliefs by the external party may not reflect the potential behavior of the company is misperception by the external decision maker. Changes in the decision maker's beliefs depend on how the decision maker interprets a company's code of ethics. Regardless of what ethical positions a company intends to express by statements in its code of ethics, the external decision maker places his or her own interpretation on those statements. And, it is how the decision maker interprets the statements that affects the decision made and actions taken.

In the extreme case, a decision maker may form an opinion that has little to do with the ethical positions of the company. The company's code may express its ethical positions and its behavior may be appropriate given those positions. Because the decision maker interprets the code statements as representing a different set of ethical positions than those intended by the company, however, the decision maker may perceive there to be a significant gap between the positions of the company and its behavior.

A second reason why changed beliefs by the external party may not reflect the potential behavior of the company is that the code represents the aspirations of the company rather than its current practices. Companies have different reasons for developing a code of ethics (Kaptein and Wempe, 1998: 959). Therefore, a code of ethics may represent the company's intended current practice, but it may also represent the company's aspirations. A code that represents aspirations probably does not indicate the behavior that one can currently expect from the company. Rather, it reflects the company's goal for behavior, a goal that may be achieved sometime in the future. If a company widely distributes a code of ethics that represents aspirations rather than current practice, it is very likely that external parties will have beliefs concerning company practice that do not reflect current company practice.

A third reason why changed beliefs by the external party may not reflect the potential behavior of the company is that the company does not have adequate practices in place to translate its ethical positions into actions. Even if a code of ethics does accurately portray the ethical positions of a company, it is possible that this will have little or no effect on how those who act on behalf of the company behave. The effect depends on whether the company has taken actions to assure that those who act on its behalf do so in accordance with the ethical positions expressed in the code. Actions to assure behavior consistent with the company's code of ethics can take several forms, such as, visible public support by top management, efforts to increase awareness such as signoff processes, employee training, and operating enforcement mechanisms that incorporate significant penalties for actions inconsistent with a code of ethics (Schwartz, 2004: 339).

Changed beliefs that result in detrimental actions by external parties

Widely distributing a code of ethics can also result in a change in beliefs and actions but the resulting action change may be detrimental to the company. Different decision makers have different views concerning the appropriateness of certain actions. As a result, indicating in a code of ethics that a company holds an ethical position may cause decision makers to choose alternatives that are desirable for the company, but may also cause decision makers to choose alternatives that are detrimental to the company.

Consider, for example, a company code-of-ethics statement that the company believes that charitable support for the community is important behavior for the company. Some decision makers such as potential stockholders may share this position and, as a result, purchase company stock that they would not have purchased if they were not aware of this company position. Other decision makers, however, may not share this position and as a result, may not purchase company stock that they would have otherwise. Therefore, making external parties aware of its ethical positions by widely distributing its code may have detrimental consequences to the company.

DISCUSSION

As indicated above, making a corporate code of ethics publicly available may have beneficial or negative consequences. These potential consequences may be relevant to a corporation that is deciding whether or not to make its code of ethics transparent. Because consequences to a corporation affect parties for whom the well-being of the corporation has an impact, it is also appropriate for policy makers who might consider mandating code-of-ethics transparency to recognize these consequences in their deliberations. This section discusses implications for both the corporation and policy makers.

Implications for corporations deciding whether to make their codes of ethics widely publicly available

A company's desire is that code-of-ethics transparency will lead to changes in beliefs and resulting changes in actions that are beneficial to the company. Recognizing 1) conditions which are likely to result in little or no change in beliefs and actions and 2) conditions that may lead to changes in beliefs and actions that are detrimental to the company is important in assessing the benefit to a company from widely distributing its code of ethics. If wide distribution of a company's code of ethics is expected to result in little or no change in beliefs, then it will also result in little or no change in the actions taken by external parties. As a result, the company will have incurred the cost of wide distribution, even if it is quite small, with little or no potential for benefit from that action. Avoiding or minimizing situations in which wide distribution is likely to lead to changes in beliefs that are detrimental to the company may increase the net benefit to the company from transparency.

The analysis in this paper identifies six important questions for a company to consider as it decides whether to make its code transparent. While each company will evaluate and combine the answers to these questions in its own way, they represent important issues for the company to consider.

- Do alternate sources of the content of the code exist?

- Does the company have credibility such that external parties will believe that the content of the code of ethics is an indication of the company's potential behavior?

- Is the content of the code likely to be misinterpreted by external parties?

- Does the content of the code represent the company's aspirations or current practice?

- Are adequate practices in place to translate ethical positions expressed in code statements into company behavior?

- Are external parties likely to view the behavior represented by the ethical positions expressed in the code to be desirable?

Implications for policy makers deciding whether to mandate code-of-ethics transparency

Significant public support exists for corporate social responsibility (CSR) reporting (DeTjenne and Lewis, 2005). One potential form of CSR is wide distribution of the company's code of ethics. In response to this public support, legislative bodies could put into place mechanisms that lead to mandated public disclosure of corporate codes of ethics. Since the potential consequences of mandated disclosure are both positive and negative, it is appropriate for policy making bodies to consider these consequences if they consider mandating transparency. Issues of relevance to policy makers identified in the present paper include the possibility that 1) mandated transparency may have different positive and negative impacts on various parties, 2) mandated transparency may have no impact on decision makers even though significant out-of-pocket costs are incurred to make codes widely publicly available, and 3) mandated transparency may have different impacts on segments of the economy.

Since there are both potential positive and negative consequences of code transparency, it is important for policy makers to recognize that transparency may not have a positive impact on all parties. The overall consequences for some may be beneficial and for others may be detrimental. Parties affected include the corporation itself, those who are affected by the well-being of the corporation such as employees, and external parties who might use the code content as information for decision making. For example, mandated disclosure might make it easier or more difficult for a corporation to obtain resources by selling stock. The ability to obtain additional resources resulting from disclosure might allow a corporation to expand and, as a consequence, hire additional employees. If disclosure makes it more difficult to sell stock, the company might contract and lay off employees.

Mandated transparency may also have an impact on external parties who make decisions concerning transactions with the corporation. Those parties who do not have access to the code of ethics without mandated transparency because it is costly to obtain the code now have relatively costless access to the code of ethics. They can use this information in decisions they make relative to transactions with the corporation. This group may benefit. Those parties for whom it was beneficial to obtain a corporation's code of ethics when it was not widely publicly available are probably affected negatively. Although they too have access to relatively costless information as a result of mandated transparency, prior to the mandate they possessed information that others did not.

When a corporation's lack of credibility or the existence of alternate sources for the information in a code of ethics result in little or no impact on the decisions made by parties external to the corporation, the costs of transparency probably outweigh the benefits. Although the cost of widespread public disclosure to a corporation, especially if achieved by posting the code of ethics on its website, is fairly small, the aggregate cost of the disclosure across all corporations affected by a mandate may be significant. If the objective of the policy makers is to provide information for decision makers external to the corporation, it is difficult to justify a mandate on the basis of benefits exceeding costs when there is expected to be little or no consequence from disclosure.

The existence of both significant voluntary disclosure and significant non-disclosure of codes of ethics by corporations raises a question about differences between disclosers and non-disclosers. It is possible that systematic differences exist between voluntary disclosers and non-disclosers such that the impact of mandated transparency will be different for significant segments of the economy. For example, if a significant number of the corporations that do not voluntarily disclose their codes of ethics do not disclose because their codes express aspirations, mandated transparency might result in the loss of potential benefits of codes that express aspirations. As discussed above, making the code widely publicly available may result in negative consequences for the corporation if its code of ethics expresses aspirations rather than current practices. Therefore, although a corporation that expresses aspirations in its code may not wish to make the code publicly available, mandated transparency would force it to do so. A potential response for a corporation to mandated transparency would be to restate its code of ethics to reflect current practice instead of aspirations.

SUMMARY AND CONCLUSIONS

This paper represents a new line of inquiry to the discussion of corporate-code-of-ethics transparency. It recognizes that making a corporate code of ethics readily available to the public provides external parties with information that they may use in decision making. Knowledge of code content may affect the alternative chosen in these decisions. As a result, making a corporate code of ethics widely publicly available may have an impact on the actions chosen by various external parties. This change in action may in turn lead to negative or positive consequences for both the corporation and for those affected by the well-being of the corporation. The present paper uses a model of decision making from the literature of information economics to explore the potential beneficial and negative consequences of corporate-code-of-ethics disclosure. Because a cost is associated with obtaining information, some external parties who, in the absence of corporate-code-of-ethics transparency, would not be aware of the content of the corporate code of ethics will now be aware of the content and may use this as decision facilitating information.

In this model, making external decision makers aware of the corporate-code-of-ethics content potentially changes their beliefs about how the corporation with behave in various situations. An external party's beliefs may be changed such that the party now believes that the corporation will behave in a manner consistent with the way he or she prefers. In this case, any change in action by the external party will be one that is beneficial to the corporation.

In cases in which the corporation lacks credibility or in which alternate sources provide the same information as does the corporate-code-of-ethics transparency, making the code of ethics publicly available is likely to yield little change in the decision maker's beliefs and no change in the actions taken. Here, any out-of-pocket cost associated with making the code of ethics publicly available, no matter how minimal, will be incurred with no offsetting benefits.

Finally, there are cases in which corporate-code-of-ethics transparency may have negative consequences to the company. This may arise 1) if the change in beliefs of the external decision makers is unreasonable as when they misinterpret the code of ethics, 2) if the code of ethics represents the aspirations of the corporation, not its current practices or 3) if the corporation does not have policies and procedures in place to assure that the ethical positions expressed in the code do in fact represent the behavior of the company employees. Negative consequences may also arise if the behavior described in the code of ethics is not the behavior desired by external parties. While this may lead to changed beliefs concerning corporate behavior and changed actions, now the change in action is one from an action desirable to the corporation to one that is undesirable for the corporation and those affected by the corporation's well-being.

Corporate codes of ethics are prevalent and there is significant interest in the codes by parties external to the corporation. As a consequence, corporate-code-of-ethics transparency is an appropriate issue for both individual corporations and policy makers to consider. Because the consequences of code-of-ethics transparency are not all beneficial, the decisions 1) by a corporation to voluntarily make its code of ethics widely publicly available and 2) by policy makers to mandate transparency are ones that warrant thorough deliberation.

REFERENCES

Bernardi, R. A. and C. C. LaCross, (2005). "Corporate Transparency: Code of Ethics Disclosures." *The CPA Journal* (April): 34-37.

Cormier, D. and M. Magnan, (1999). "An Examination of Social and Environmental Reporting Strategies: Determinants, Costs and Benefits." *Journal of Accounting, Auditing and Finance* 14 (4): 429 – 451.

Deloitte. (2003), "Business Ethics and Compliance in the Sarbanes-Oxley Era." www.globalcompliance.com/pdf/BusinessEthicsandComplianceSurvey.pdf

Demski, J. S. and G. A. Feltham. (1976), *Cost Determination: A Conceptual Approach.* Ames, IA: Iowa State University Press.

DeTienne, K.B. and L.W. Lewis. (2005), "The Pragmatic and Ethical Barriers to Corporate Social Responsibility Disclosure: The Nike Case." *Journal of Business Ethics* 60 (4): 359 - 376.

Holder-Webb, L., J. R. Cohen, L. Nath, and D. Wood. (2009), "The Supply of Corporate Social Responsibility Disclosures Among U.S. Firms." *Journal of Business Ethics* 84: 497-527.

Kaptein, M. 2004, "Business Codes of Multinational Firms: What Do They Say?" *Journal of Business Ethics* 50: 13-31.

Kaptein, M. and M. S. Schwartz. (2008), "The Effectiveness of Business Codes: a Critical Examination of Existing Studies and the Development of an Integrated Research Model." *Journal of Business Ethics 77* (2): 111-127.

Kaptein, M. and J. Wempe. (1998), "Twelve Gordian Knots When Developing an Organizational Code of Ethics." *Journal of Business Ethics* 17 (8): 853-869.

Langlois, C. C. and B. B. Schlegelmilch. (1990), "Do Corporate Codes of Ethics Reflect National Character? Evidence from Europe and the United States." *Journal of International Business Studies* 21(4): 519-539.

Lere, J.C. and B. R. Gaumnitz. (2003), "The Impact of Codes of Ethics on Decision Making: Some Insights from Information Economics." *Journal of Business Ethics* 48 (4): 365-379.

Molander, E.A. (1987), "A Paradigm for Design, Promulgation, and Enforcement of Ethical Codes." *Journal of Business Ethics* 6 (8): 619-631.

107th Congress. (2002), Sarbanes-Oxley Act of 2002. July 2002.

Ruhnka, J.C. and H. Boerstler. (1998), "Governmental Incentives for Corporate Self-Regulation." *Journal of Business Ethics* 17 (3): 309 - 326.

Schwartz, M. (2004), "Effective Corporate Codes of Ethics: Perceptions of Code Users." *Journal of Business Ethics* 55 (4): 323-343.

Securities and Exchange Commission. (2003), Final Rule Release 33-8177, Disclosure Required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002. January 23, 2003:1-60.

Stevens, B. (1994), "An Analysis of Corporate Ethical Code Studies: 'Where Do We Go from Here?'" *Journal of Business Ethics* 13 (1): 63-70.

Trudel, R. and J. Cotte, (2009), "Does It Pay to Be Good?" *MIT Sloan Management Review*. (2): 61-68.

Waddock, S. A., C. Bodwell, and S. B. Graves. (2002), "Responsibility: The New Business Imperative." *Academy of Management Executive* 16 (2): 132-148.

Weaver, G. R. (1993), "Corporate Codes of Ethics: Purpose, Process and Current Issues." *Business and Society* 32 (1): 44-58.

A MENTAL MODEL FOR DECISION MAKING IN STORE ENVIRONMENTS: THE ATMOSPHERIC ASSESSMENT TOOL

Homer B. Warren, Youngstown State University
David J. Burns, Xavier University

Abstract: Store environments are playing increasingly significant roles in the differentiation of individual retailers. Most research examining store environment, however, has been ad-hoc in nature, typically focusing on the experimental manipulation of a single atmospheric element. The atmospheric elements which comprise a store's environment, however, are highly interrelated. The purpose of this paper is to present a mental model for store environment decision-making. The model (the Atmospheric Assessment Tool) overtly recognizes the interdependencies and synergistic effects of individual elements of store environments and provide a tool for marketing and retailing practitioners and students to begin to contemplate this reality.

Retailers survive and prosper through sales – sales coming from consumer spending. To ensure success, therefore, all retailer activities should be oriented around attracting consumers into the store, and once they are in the store, enticing them to purchase products and/or purchase more of the store's products (Babin and Darden 1996). Furthermore, most retailers typically do not survive merely through single purchasing episodes. Instead, most retailers depend on repeated purchasing episodes from consumers returning to the store time and time again for long-term success. As a result, most retailers must focus not only on attracting customers to the store the first time, but on attracting them back to the store multiple times for repeat purchasing episodes.

The role of store environments in this process is becoming increasingly important and, consequently, is gaining increasing attention from practitioners and researchers alike (Vaccaro, Yucetepe, Torres-Baumgarten, and Lee 2009). A store's environment can have the ability to attract customers, to entice purchases, and to attract customers back to the store for repeated purchases (Dennis, Newman, Michon, Brakus, and Wright 2010). This ability of store environments to attract customers and entice them to buy has long been recognized (Fiore, Yah, and Yoh 2000). Indeed, the importance placed on store environments can easily be seen in the nineteenth century when several early department stores focused much attention and huge amounts of resources on providing consumers with the utmost in ornate and exotic shopping environments (Emmet 1930; Wakefield and Baker 1998).

Today, with the ever-increasing competitive nature of the retail industry, the importance of store environment to a retailer's success is unsurpassed. Faced with increasing competition and a growing collection of look-alike stores, store environment has begun to play a significant role in the differentiation of individual retailers. The present state of research examining store environment, however, is in its infancy (Turley and Milliman 2000). Much of the research on store environment has been ad-hoc, typically focusing on the experimental manipulation of a single element, often chosen with little practical or theoretical justification (Eroglu, Ellen, and Machleit 1991; Mattila and Wirtz 2001). Elements which have been examined include music (e.g., Garlin and Owen 2006; Jacob, Guéguen, Boulbry, and Sami 2009; Vida, Obadia, and Kunz 2007), color (e.g., Babin, Hardesty, and Suter 2003; Bellizzi and Hite 1992; Crowley 1993), lighting (e.g., Areni and Kim 1994; Summers and Hebert 2001), scent (e.g., Bone and Ellen 1999; Cebat and Michon 2003; Sprangenberg, Crowley, and Henderson 1996), and layout

(Smith and Burns 1996; Sorensen 2009). Only limited research has examined the manipulation of a set of variables, albeit a very small set (e.g., Baker, Grewal, and Parasuraman 1994; Baker, Levy, and Grewal 1992; Mattila and Wirtz 2001; Michon, Chebat, and Turley 2005; Sharma and Stafford 2000; Vaccaro, Yucetepe, Torres-Baumgarten, and Lee 2009).

Material on store environment is typically presented to marketing and retailing students in much the same fashion. As is illustrated in virtually any retailing text, individual elements of a store's environment are typically presented one at a time. Similarly, the effect of each element on consumers is presented singularly, usually with little attempt to show how the elements may interact. Furthermore, each element is often assumed to affect all individuals in the same fashion.

Contrary to popular research and pedagogical approaches, however, the elements which comprise a store's environment are highly interrelated – they work together in a highly synergistic fashion to affect consumers (Fiore, Yah, and Yoh 2000; Mattila and Wirtz 2001; Mehrabian and Russell 1974). The manner which one element may affect consumers when viewed unitarily may bear little relation to the element's effect when viewed in the context of all the elements which comprise a store's environment (Babin, Hardesty, and Suter 2003). Furthermore, each element may affect different groups of consumers in different fashions (Babin and Darden 1995; Donovan and Rossiter 1982; Mattila and Wirtz 2001).

The purpose of this paper is to present a mental model for store environment decision-making which can also be used as a pedagogical tool to provide marketing and retailing students with an ability to explore and manipulate atmospheric elements comprising a store's environment. The model (called the Atmospheric Assessment Tool (AAT)) overtly recognizes the interdependencies and synergistic effects of individual elements of store environments. First, the concept of store environment, or more accurately, store atmospherics, will be explored. Second, a discussion of the importance of mental models to retail research, pedagogy, and practice will be given. Third, the AAT will be presented. Finally, an illustration of how the AAT can be operationalized will be offered.

STORE ATMOSPHERICS

As discussed earlier, a store's environment is comprised of a large number of elements which have the ability to affect consumers. These elements are also called store atmospherics. Store atmospherics can be defined as the means by which a consumption environment engenders emotional reactions in customers, encouraging them to stay in the setting, browse evaluate and purchase; or, discouraging any of these activities. Atmospherics are facets of environmental design which influence consumer behavior by creating attention, by communicating a store image and level of service to potential buyers, and by stimulating affective responses (Foxall 1997, p. 506).

Store atmospherics have been shown to affect consumers through multiple channels (Fiore and Kimle 1997), including affective, cognitive, and unconscious channels. Each will be discussed.

One way which store atmospherics affect consumers is by affecting their moods (Bakamitsos and Siomkos 2004; Puccinalli, Deshpande, and Isen 2007). Research has shown that consumers experiencing positive moods exhibit consistently higher approach responses to retail environments (e.g., desire to stay) (e.g., Donovan and Rossiter 1982; Hui and Bateson 1991). Consumers experiencing positive moods have also been shown to be more likely to reach decision resolution (Isen 1989), have reduced decision time (Isen 1989), make a greater number of purchases (Isen 1987), spend greater amounts of money (Babin and Darden 1996), and experience higher satisfaction with the retailer (Babin and Darden 1996).

The cognitive channel involves the cognitive activity associated with evaluating the symbolic content of a store's environment (Fiore, Yah, and Yoh 2000). It involves conscious information processing (Petty, Cacioppo, and Schumann 1983) which may affect attitudes which in turn, may affect decisions (Dijksterhuis, Smith, van Baaren, and Wigboklus 2005). Much of the cognitive activity associated with store atmospherics has as its foundation semiotic communication. The large number of elements used together by consumers in their understanding of a store's environment are all signifiers, open to interpretation by consumers. Ziethaml (1988), for instance, suggests the existence of "value signals," or attributes apart from merchandise or pricing alone which can affect consumers' perception of value. Smith and Burns (1996) demonstrated how elements of the power aisle, namely the number of SKUs presented and the quantity of each, can act as value signals, affecting customers' perceptions of the prices of those products and, as a likely result, their overall price perception of the store.

Lastly, recent research suggests the existence of a direct perception-behavior link which operates unconsciously (Dijksterhuis and Bargh 2001). (Although this link was suggested over hundred years ago (James 1890; Lotze 1852), it was "rediscovered" only about 15 years ago (Dijksterhuis, Smith, van Baaren, and Wigboldus 2005)). Recent research suggests that consumers often react "mindlessly" to stimuli which trigger behavioral responses (e.g., Cialdini 2001; North, Hargreaves, and McKendrick 1997). Environmental factors, such as atmospherics, therefore, can activate individuals' values without conscious awareness (Holland, Hendricks, and Aarts 2005; Strahan, Spencer, and Zanna 2002).

For each of the channels through which store atmospherics affect consumers, one constant remains: consumers make sense of a store's environment, and consequently are affected by a store's environment in part by their interaction with, and interpretation of, the store's atmospherics. Of the large number of elements which comprise store atmospherics, only a minute sampling of them have been identified and even fewer have been the object of empirical study. Unfortunately, individual elements have been typically studied in isolation from the other elements (Mattila and Wirtz 2001), ignoring the holistic nature of store environment – the fact that the elements work together in a highly interrelated and synergistic fashion is usually not considered. Indeed, "the idea of looking at a 'basket' of environmental cues rather than a single cue at a time is fairly recent and is clearly under-researched" (Michon, Chebat, and Turley 2005, p. 577). As mentioned earlier, the manner which one element may affect consumers when viewed unitarily may bear little relation to the element's effect when viewed in the context of all the elements which comprise a store's environment (Babin, Hardesty, and Suter 2003), which further stresses the need for a holistic perspective when examining atmospherics. Baker (1998), however, alludes to the methodological limitations of manipulating large numbers of atmospheric elements in a real store environment and the validity problems inherent in laboratory research.

What is needed, therefore, is an epistomology to foster recognition that the elements that comprise a store's environment work together to present a single message to customers. Mental models in this epistomology would be structured on the premise that elements of a store's environment engender emotional reactions and stimulate cognitive and affective responses from customers. First, however, a brief examination of mental models seems appropriate.

MENTAL MODELS

Van Doren and Smith argue for the development of mental models:

> The objective of academia in general, and marketing faculty specifically, must be to enhance the strategic thinking skills of individual managers and to assist them in developing the ability to help their organizations adapt to the future in a competitively superior way. Developing strategic thinking means building and updating mental models (1999, p.147).

Mental models attempt to portray the thinking and decision making processes of individuals (in this instance, retail managers and consumers). Seel notes that mental models are "cognitive artifacts, i.e. inventions of the mind that represent, organize, and restructure the subject's domain-specific knowledge in such a way that even complex phenomena of the (observed or imagined) world become plausible" (2001, p. 408). Christiansen and Olson (2002) discuss how mental models include not only cognitions, but also include emotions, images, and values (each of the channels through which store atmospherics affect consumers). The notion of mental models is not new. Mental models have been used in disciplines such as industrial ergonomics (e.g., Moray 1998; Thather and Greyling 1998), human-computer interaction research (e.g., Staggers and Norcio 1993), industrial engineering (e.g., Sinreich, Gopher, Ben-Barak, Marmor, and Lahat 2005), project engineering (e.g., Whitty 2005), sociology (e.g., Betsch and Fredler 1999), law (e.g., Sutton 1994), psychology (e.g., Morris 2010), human resources (e.g., Pfeffer 2005), and marketing (e.g., Devinney, Dowling, and Cullins 2005; Grunert, Jeppesen, Jespersen, Sonne, Hansen, Trondsen, and Young 2005; Karakaya and Yannopoulous 2010) to name a few.

Mental models have been used sparingly in the study of retail decision-making, however. One exception is de Chermatony and Riley's (1998) use of mental modeling to examine the components of branding. Another as reported in Gilmore, Magulis, and Rauch (2001) and Christiansen and Olson (2002) is Zaltman's Metaphor Elicitation Technique (ZMET) (Zaltman 1997) which tries to uncover the mental models that guide consumer behavior. Zaltman believes that "a lot goes on in our minds that we're not aware of…. Most of what influences what we say and do occurs below the level of awareness. That's why we need new techniques [models]: to get at hidden knowledge – to get at what people don't know they know" (Gilmore, Margulis, and Rauch 2001, pp. 218-219).

THE ATMOSPHERIC ASSESSMENT TOOL

To overtly recognize the interdependencies and synergistic effects of individual store environment elements and, in turn, make store atmospheric decisions relative to the affective, cognitive, and unconscious components of a consumer's interaction with the environment, a mental model called the Atmospheric Assessment Tool (AAT) was created. Structurally, the AAT consists of a triangulation of retail consumers' demographic characteristics, their value sets, and store atmospherics (see Figure 1). The top angle contains the demographic characteristics (e.g., age, income, occupation, education, race, ethnicity, religion) of the segment that the retailer has targeted. The left side angle contains consumers' values (see Table 1 for examples). The right side angle contains an individual atmospheric element or preferably, a combination of atmospheric elements under consideration by the retailer or retail student.

The arrow from the top angle to the left side angle represents the relationship between demographics and values (i.e., a targeted market's demographic characteristics will have a value set). Research relating demographics and values supports this arrow (Sudbury and Simcock 2009). As an example, a study by Crosby, Gill, and Lee confirmed earlier findings that, "there are age group differences in values" (1984, p. 209). They concluded that, "cohort-historical, maturational, or some other age-related influence on values is present" (1984, p. 214). The arrow from the left side angle to the right side angle represents the relationship between consumers' values and perceptions and attitudes towards the store atmospheric elements encountered. Research relating values and perceptions supports this arrow (DaSilva Añaña and Meucci Nique 2007; Maxham and Netemeyer 2003). Lastly, the arrow from the top angle to the right side angle depicts store atmospheric perceptions based solely on the targeted consumers' demographic characteristics. Research also supports this arrow (Burt and Gabbott 1995; Ganesan-Lim, Russell-Bennett, and Dagger 2000). Consumer's age, for instance, may affect their assessment of signage and color (due to differing abilities to see) or of display type and aisle width (due to differeint physical abilities). It is logical to expect that the magnitude of this relationship, however, pales in comparison to the effect that values, and that demographic characteristics through values, has on an individuals' interpretation of store atmospheric elements.

Figure 1

The Atmospheric Assessment Tool

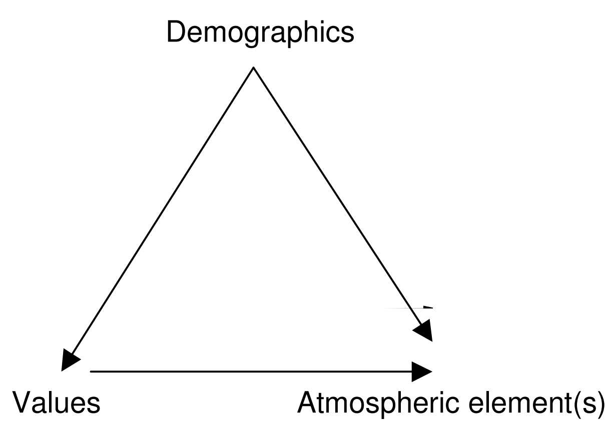


Table 1

Selected Values

Comfortable life	Exciting life	World of peace	Equality
World of beauty	Family security	Freedom	Happiness
Inner harmony	Mature love	National security	Pleasure
Salvation	Self-respect	Wisdom	True friendship
Social recognition	Ambitious	Broad-minded	Capable

Cheerful	Clean	Courageous	Forgiving
Helpful	Honest	Imaginative	Independent
Logical	Loving	Obedient	Fatalistic
Polite	Responsible	Self-control	Individual
Collective	Adult	Romantic	Child
Masculine	Feminine	Competitive	Cooperative
Youth	Hero worship	Work to live	Performance
Status	Tradition	Change	Risk taking
Safety	Problem solving	Nature loving	Active
Passive	Materialistic	Leisure	Hard work
Technology	Information	Abstinence	Humor
Serious	Immediate gratification	Sensual gratification	Sense of accomplishment

The values were compiled from various literature on values (e.g., Rokeach, 1973; Hawkins, Best, and Coney 2001).

USING VALUES IN THE AAT

While consensus has yet to be reached in terms of how to measure values, there does appear to be a generally accepted definition of values. Howard and Woodside defined values in two parts: "(1) an enduring belief that a specific mode of conduct is personally or socially preferable and (2) an enduring belief that a specific end-stage of existence is personally or socially preferable" (1984, p. 4).

The notion of "matching" or "fitting" marketing decisions with the targeted market's values is in line with the value-attitude-behavior hierarchy which proposes that within any given consumption choice situation, abstract values affect midrange attitudes that lead to specific consumer behaviors (Homer and Kahle 1988). The notion of "matching" or "fitting" marketing decisions to values is also in line with Reynolds and Gutman's means-ends chain research: "a means-ends chain is a model that seeks to explain how products or services are linked to ends, which are a person's values" (1984, p. 156). Furthermore, the means-end chain "offers a view of how values guide behavior by formulating a model of how values, which are very general in nature, relate to consumer choice, which is very specific" (1984, p. 156).

Vinson, Scott, and Lamont (1982) identified four ways that values may be used in marketing: market analysis and segmentation, product planning, promotional strategy, and public policy. Howard and Woodside looked at the different roles that values play in terms of extensive problem solving, limited problem solving, and routine response behavior and stated that “values affect a buyer’s recognition of a problem. Values are the broad functions common to all personalities. A value is either consciously or unconsciously a standard or criterion for guiding behavior” (1984, p. 4). They further concluded that “different consumers form different choice criteria according to their value systems” (1984, p. 5). Similarly, Pitts, and Woodside stated that, “values also appear to hold promise as useful market segmentation variables” (1984, p. 55). The role of values in retailing have surprisingly received relatively little research attention. Although a select few have examined the relationship between values and consumers’ marketplace activities (e.g., Allen 2001; Erdem, Oumlil, and Tuncalp 1999; Kim, Forsythe, Gu, and Moon 2002; Prasad and Reddy 2007), most of the research examining this relationship has examined relationships involving individual values.

INTEGRATING CONSUMERS’ VALUES AND ATMOSPHERICS

The AAT proposes that successful store atmospheric decisions are a function of the “match” or “fit” between a store atmospheric element or set of elements (right side angle of the triangle) and the values held by targeted consumers (left side angle of the triangle). The initial step in this process requires that the retail manager (or retail student) determine, by means of intuition, experience, and/or research, the values that best represent the targeted consumers. To depict the degree to which a value is applicable to the targeted consumers, a continuum with the extremes of not applicable (NA) and highly applicable (HA) (scaled from 1 to 10) is used for each value under consideration. Although the AAT does not explicitly provide rules to select values, values determined to be in the HA range of 6 to 10 should definitely be retained for analysis and be listed on the left side angle of the triangle.

When a retail manager or retail student is assessing a specific store atmospheric vis-á-vis a individual consumer, it is placed on the right side angle. The manager or student is to then contemplate how the element relates to each of the consumer’s HA values. This integrative thinking may take the following query form: How does the element satisfy each HA value? How will the element be interpreted by each HA value? Will the element be accepted, rejected, or ignored by the HA value?

The manager’s or student’s contemplation of the relationship between an atmospheric element and a value is essentially a determination of each HA value’s contribution to the consumer’s overall feelings (favorable, ambivalent, apathetic, or unfavorable) toward the element. To record this affective component of the consumer’s behavior towards the element, the AAT attaches an attitude disposition continuum to each value. The disposition ranges are from a strong liking (WOW) to a strong disliking (UGH). The center location of the continuum represents ambivalence or apathy (A/A). To record the degree of perceived disposition, a scale of -3 to +3 is used; -3 represents a strong UGH; +3 represents a strong WOW; and 0 represents the response of ambivalence or apathy. The consumer’s overall attitude towards the store atmospheric decision (Asa) is determined by summing the recorded dispositions (D) times the HA value’s degree of applicability (V):

$$Asa = \sum(V \times D)_{1\text{-}n}\text{; with } n = \text{the total number of HA values used}$$

Given the number of HA values selected, the retailer’s decision rule becomes: select any store atmospheric element placed in the box of the AAT that receives relatively high positive Asa results; reject any store atmospheric element that receives relatively low positive or negative Asa results.

When analyzing Asa for a group of consumers (i.e., a store’s target market), by definition, the individuals in the group should have similar values and they should relate similarly to a retailer's offerings. Since values can be unique to individuals, however, the analysis should consider each of the values and not eliminate values from consideration which may not be applicable to some of the members of the target market. The attitude of a target market toward the store atmospheric decision (TMAsa) would be equal to:

TMAsa = $\sum(\text{Asa})_{1\text{-}n}$; with n = the number of individuals in the target market

The retailer's decision rule remains the same except that it may be wise for the retailer to also view the standard deviation of the distribution of individual Asa scores.

THE STORE ENVIRONMENT: A COMBINATION OF MULTIPLE ATMOSPHERIC ELEMENTS

This initial analysis, though insightful, does not capture the true essence of the retail environment. Each year, any one retailer may make hundreds of store atmospheric decisions. In a number of cases, retailers often make decisions on singular atmospheric elements in isolation of other elements. This type of linear treatment of store atmospherics can be recognized by the AAT's decision process as outlined above. As stated earlier, however, consumers seldom respond to isolated atmospheric elements. Consequently, such linear treatment likely produces results which generally have little validity in the marketplace. Consumers respond to the interrelationships between and among atmospheric elements (an interrelationship that has synergistic dimensions). The WOWs, UGH's, or A/A feelings consumers have upon an encounter with a store's environment are a response to the combination of store atmospherics, not the individual elements that compose the combination.

To appropriately use the AAT, therefore, atmospheric elements must be considered as a set. Since consumers evaluate and interpret atmospheric elements within a holistic environment, to accurately assess a retailer's environment, it must be evaluated as such. In fact, the strength of the AAT rests in the fact that multiple atmospheric elements can be simultaneously considered (placed on its right side angle). Indeed, the AAT allows a retail manager or retail student to make assessments of any set of atmospheric elements pertinent to a particular retail setting. Instead of placing one element on the right side angle, a combination of elements is placed on this angle. The process of matching or fitting each of the targeted consumers' HA values to the combined elements and the Asa determination is carried out in the same fashion as was done for individual elements.

AN ILLUSTRATION

It would serve the reader well to apply the AAT to the following (admittedly greatly simplified) scenario. A retail department store believes that it has a fashion image that is focused on an upscale female target market (the corresponding demographics are placed at the top of the triangle). The retailer concludes that this market's strongest resulting HA values are comfortable life (+7), social recognition (+9), individuality (+6), romance (+7), feminine (+9), active (+8), materialism (+8), immediate gratification (+8), and sensual gratification (+10) (these are placed at the left side angle of the triangle). The retailer has determined through research that the following store atmospheric elements are pertinent in the market's assessment of the image of the perfume department: 1) music (i.e., soft slow tempo easy listening); 2) flooring (i.e., short pile neutral color carpeting); 3) color (i.e., dignified eye catching displays and counters); 4) salespeople (i.e., attractive, accessible, mature salespeople dressed in white tastefully fashioned lab coats); 5) accessibility (i.e., wide aisles and spacing between displays); 6) lighting (i.e., bright); 7) smell (i.e., fresh, aromatic, sensuous, and enticing); 8) attractive (i.e., very clean but intentionally cluttered counters); 9) comfort and style (i.e., tall thin well-cushioned stools); and 10) extras (i.e., expensive giveaways). These elements are placed in combination on the right side angle of the triangle.

The consumer enters the store and immediately encounters the perfume department. She is looking for something new to try in perfumes. As she moves from display to display, she is approached by a very helpful salesperson who explains the attributes of the perfumes. Though she is 5' 4" tall, the stools are a bit uncomfortable. From the beginning of her entry into the department until she makes a purchase an hour later, she has felt at ease. She feels a strong sense of well-being. Aside from the stools, it was a very pleasurable experience. From the AAT's perspective, this consumer has encountered the combined atmospheric elements in the department.

Although the discussion about how the consumer's values "match" with the elements in the box of the AAT would likely be quite extensive, each of the nine HA value's matching results will be presented here in a greatly shortened abstract. Comfortable life (+7) produces a +2 on the wow/ugh continuum because of the ingratiating treatment of the salespeople, the soothing feel of the music and lighting, the walking comfort of the carpeting, the wide aisles and spacing, and the captivating aromas of the new perfume smells. Social recognition (+9) produces a +1 on the continuum because of the treatment of the salespeople and the feeling other customers in the department will recognize that she has a social status that demands a highly service-assisted atmosphere. Individuality (+6) produces a +3 because of the treatment of the salespeople in making her feel special and unique and because of the large volume of elegant displays that provided alternatives for her individual preferences in perfume. Romance (+7) produced a +3 because of the aromas and music and lighting and multiple colors and dignified displays. Femininity (+9) produced a +3 for similar reasons as romance and a comfortable life, but also because of the intelligence and maturity of the salesperson. Sensual gratification (+10) produces a +3 for similar reasons as femininity, romance, and comfortable life. Active (+8) produces a -1 because she is very busy and even though she has set aside an hour for perfume shopping, she does have a brief moment of concern about spending more time than she should on the alternative evaluation. Materialism (+8) produces a +3 because of the elegant displays, the carpeting, and the expensive giveaways. Immediate gratification (+8) produces a +3 for similar reasons as presented for the other HA values.

Using the equation, $Asa = \Sigma\ (V \times D)_{1\text{-}n}$, the very pleasurable attitude that this consumer has towards the shopping experience is quantified as equaling +159 (out of a total possible +216). Indeed, the retailer in this illustration should be quite satisfied with their store environment (unless, of course, competitors' offerings score higher). However, in order to assess the effectiveness of any future changes in any of the individual elements listed above, the retailer must examine the new combination of elements. This is true even if only one element is changed. As discussed previously, due to the holistic nature of store atmospherics, a change in a single element may change how the remaining elements are interpreted. If the retailer chooses to examine the effects of a possible change in one of the elements in the perfume department (e.g., a change in the color or texture of the carpeting), the same analysis would be repeated, but this time with the altered atmospheric element added to the existing elements. The goal of the repeated analysis is to determine whether there would be a projected increase in Asa sufficient to warrant the implementation of the change. If the projected increase in Asa is sufficient and the change is implemented, an additional analysis would be required to verify the actual change occurring in Asa as a result of the change. The AAT, therefore, can be used by retailers to examine their current store environments, to assess the possible effects of proposed changes in store environments, and to determine the actual effect of a change of a store environment on customer's Asa.

The AAT also serves an important role as a pedagogical tool. The AAT can be used as a means by which marketing and retailing students can be exposed to the holistic nature of the effects of a store environment on consumers. By using the AAT, students can work with, and contemplate and research the effects of numerous atmospheric elements simultaneously, an activity which is not supported by conventional pedagogy. A specific pedagogical advantage of the AAT, therefore, is its ability to foster students' critical thinking skills. The AAT provides students with a tool by which they can holistically analyze store environments and begin to assess appropriate what-if scenarios.

DISCUSSION

A mental model, the AAT, was introduced to facilitate holistic assessment and decision-making concerning retail store environments. The primary strength of the model is its explicit acknowledgment that atmospheric decisions are not independent. Contrary to popular approaches by practitioners, researchers, and instructors alike, the elements which comprise a store's environment are highly interrelated – they work together in a highly synergistic fashion to affect consumers. Consumers experience each atmospheric element within the context of the interrelationship and the resulting synergy of a given set of atmospherics. Consumers are not necessarily affected merely by whether a store looks "nice" or the quality of, or absence of, a certain atmospheric element. Consumers' assessment of a store's environment is affected by the overall combination of elements present and how these elements interact with the values they hold. The model explicitly acknowledges that atmospheric decisions are not independent of each other. The model allows retailers and marketing and retail students to make atmospheric decisions within the context of the sensory (seeing, hearing, smelling, touching, and in some cases, tasting atmospheric elements), cognitive (match between values and elements), and affective (feelings produced in the match) components of consumers' perceptions.

The AAT, therefore, does not attempt to present new variables into the process of evaluating retailer atmospheric decisions. Instead, it attempts to present a new way of thinking about these decisions. It presents a methodology by which atmospheric decisions can be made better within the context of the values held by a retailer's target market. Furthermore, the applicability of the AAT is not limited by the size of the retailer. Although the complexity of the process will likely vary significantly between various applications, the AAT can be used by large chain stores or small mom and pop operations.

Clearly, the AAT does not offer a panacea for the complexities associated with the determination of the optimal store environment for a selected retailer's store or those associated with an assessment of a store's existing environment. Given the large number of atmospheric elements, the interrelationships between them, the large number of consumer values, and the interrelationships between consumer values and atmospheric elements, evaluating a store's environment will continue to be a complex undertaking. The strength of the AAT is its ability to provide a structure to aid the user in acknowledging and analyzing the various factors and interrelationships which contribute toward the development and maintenance of a store environment which is attractive to the retailer's target market. Specifically, use of the AAT will prompt users to specifically acknowledge the desires of the retailer's target market and to specifically address the interrelationships existing between atmospheric elements.

REFERENCES

Allen, Michael W. (2001), "A Practical Method for Uncovering the Direct and Indirect Relationships between Human Values and Consumer Purchases," *Journal of Consumer Marketing*, 18 (2), 102-120.

Areni, Charles S. and David Kim (1994), "The Influence of In-Store Lighting on Consumers' Examination of Merchandise in a Wine Store," *International Journal of Research in Marketing*, 11 (March), 117-125.

Babin, Barry J. and William R. Darden (1996), "Good and Bad Shopping Vibes: Spending and Patronage Satisfaction," *Journal of Business Research*, 35 (March), 201-206.

Babin, Barry J. and William R. Darden (1995), "Consumer Self-Regulation in a Retail Environment," *Journal of Retailing*, 71 (Spring), 47-70.

Babin, Barry J., David A. Hardesty and Tracy Suter (2003), "Color and Shopping Intentions: The Intervening Effect of Price Fairness and Perceived Affect," *Journal of Business Research*, 56 (July), 541-551.

Bakamitsos, Georgios and George J. Siolkos (2004), "Context Effects in Marketing Practice: The Case of Mood, "*Journal of Consumer Behaviour*, 3 (4), 304-314.

Baker, Julie (1998), "Examining the Informational Value of Store Environments," in *Servicescapes: The Concept of Place in Contemporary Markets*, John F. Sherry, ed. Chicago: NTC Business, 55-79.

Baker, Julie, Dhruv Grewal, and A. Parasuraman (1994), "The Influence of Store Environment on Quality Inferences and Store Image," *Journal of the Academy of Marketing Science*, 22 (Summer), 328-339.

Baker, Julie, Michael Levy and Dhruv Grewal (1992), "An Experimental Approach to Making Retail Store Environment Decisions," *Journal of Retailing*, 68 (Winter), 445-460.

Belizzi, Joseph A. and Robert E. Hite (1992), " Environmental Color, Consumer Feelings, and Purchase Likelihood," *Psychology and Marketing*, 9 (September/October), 347-63.

Betsch, Tilmann and Klaus Fredler (1999), "Understanding Conjunction Effects in Probability Judgments: The Role of Implicit Mental Models," *European Journal of Social Psychology*, 29 (February), 75-93.

Bone, Paula F. and Pam S. Ellen (1999), "Scents in the Marketplace: Explaining a Fraction of Olfaction," *Journal of Retailing*, 75, 243-262.

Burt, Steve and Mark Gabbott (1995), "The Elderly Consumer and Non-food Purchase Behavior," *European Journal of Marketing*, 29 (2), 43-57.

Chebat, Jean-Charles, and Richard Michon (2003), "Impact of Ambient Odors on Mall Shoppers' motions, Cognition and Spending: A Test of Competitive Causal Theories," *Journal of Business Research*, 56 (July), 529–539.

Christensen, Glenn L. and Jerry C. Olson (2002), "Mapping Consumers' Mental Models with ZMET," *Psychology & Marketing*, 19 (June), 477-501.

Cialdini, Robert B. (2001), *Influence: Science and Practice*. New York: HarperCollins.

Crosby, Lawrence A., James D. Gill and Robert E. Lee (1984), "Life Status and Age as Predictors of Value Orientation," in *Personal Values and Consumer Psychology*, Robert E. Pitts and Arch G. Woodside, eds. Lexington MA: Lexington Books, 201-218.

Crowley, Ayn E. (1993), "The Two Dimensional Impact of Color on Shopping," *Marketing Letters*, 4, 59-69.

DaSilva Añaña, Edar and Walter Meucci Nique (2007), "A Professional Category Positioning: The Role of Personal Values and their Influence on Consumer Perceptions," *Journal of Database Marketing & Customer Strategy Management*, 14 (July), 289-296.

de Chernatony, L. and F. D. Riley (1998), "Modeling the Components of the Brand," *European Journal of Marketing*, 32, 1074-1090.

Dennis, Charles, Andrew Newman, Richard Michon, J. Josko Brakus, and Len Tiu Wright (2010), “The Mediating Effects of Perception and Emotion: Digital Signage in Mall Atmospherics,” *Journal of Retailing & Consumer Services,* 17 (May), 205-215.

Devinney, Timothy, Grahame Dowling and Michael Collins (2005), “Client and Agency Mental Models in Evaluating Advertising,” *International Journal of Advertising*, 24 (1), 35-50.

Dijksterhuis, Ap and John A. Bargh (2001), “The Perception-Behavior Expressway: The Automatic Effects of Social Perception on Social Behavior,” in *Advances in Experimental Social Psychology*, Mark P. Zanna, ed. San Diego: Academic Press, 1-40.

Dijksterhuis, Ap, Pamela K. Smith, Rick B. Van Baaren and Daniël H. J. Wigboldus (2005), “The Unconscious Consumer: Effects of Environment on Consumer Behavior,” *Journal of Consumer Psychology*, 15 (3), 193-202.

Donovan, Robert J. and John R. Rossiter (1982), “Store Atmosphere: An Environmental Psychology Approach,” *Journal of Retailing*, 58 (Spring), 34-57.

Emmet, Boris (1930), *Department Stores: Recent Policies, Costs and Profits*. Stanford CA: Stanford University Press.

Erdem, Orhen, Ben A. Oumlil and Secil Tuncalp (1999), “Consumer Values and the Importance of Store Attributes,” *International Journal of Retail & Distribution Management*, 27 (4), 137-144.

Eroglu, Sevgin A., Pam Scholder Ellen and Karen A. Machleit (1991), “Environmental Cues in Retailing: Suggestions for a Research Agenda,” in *The Cutting Edge II*, William R. Darden, Robert F. Lusch and J. Barry Mason, eds. Baton Rouge LA: American Marketing Association, 51-60.

Fiore, Ann Marie and Patricia A. Kimle (1997), *Understanding Aesthetics for the Merchandising & Design Professional*. New York: Fairchild Publications.

Fiore, Ann Marie , Xinlu Yah and Eunah Yoh (2000), “Effects of a Product Display and Environmental Fragrancing on Approach Responses and Pleasurable Experiences,” *Psychology and Marketing*, 17 (January), 27-54.

Foxall, Gordon R. (1997), “The Emotional Texture of Consumer Environments: A Systematic Approach to Atmospherics,” *Journal of Economic Psychology*, 18 (September), 505-523.

Garlin, Francine V. and Katherine Owen (2006), Setting the Tone with the Tune: A Meta-analytic Review of the Effects of Background Music in Retail Settings,” *Journal of Business Research,* 59 (June),755–764.

Ganesan-Lim, Cheryl, Rebekah Russell-Bennett, and Tracey Dagger (2008), “The Impact of Service Contact Type and Demographic Characteristics on Service Quality Perceptions,” *Journal of Services Marketing*, 22 (7), 550-561.

Gilmore, Robert, William Margulis, and Richard A. Rauch (2001), “Consumer’s Attitude and Retailers’ Images in Creating Store Choice: A Study of Two Different Sides of the Same Story,” *International Journal of Value-Based Management*, 14 (3), 205-221.

Grunert, Klaus G., Lisbeth Fruensgaard Jeppesen, Kristina Risom Jespersen, Anne-Mette Sonne, Kâre Hansen, Torbjørn Trondsen and James A. Young (2005), “Market Orientation of Value Chains: A Conceptual Framework Based on Four Case Studies from the Food Industry,” *European Journal of Marketing*, 39 (5/6), 428-455.

Hawkins, Del I., Roger J. Best, and Kenneth A. Coney (2001), *Consumer Behavior: Building Marketing Strategy*, Boston MA: Irwin McGraw-Hill.

Holland, Rob W., Merel Hendriks, and Henk Aarts (2005), “Smells Like Clean Spirit,” *Psychological Science*, 16 (September), 689-693.

Homer, Pamela and Lynn A. Kahle (1988), “A Structural Equation Test of the Value-Attitude-Behavior Hierarchy,” *Journal of Personality and Social Psychology*, 54 (4), 638-46.

Howard, John A. and Woodside, Arch G. (1984), “Personal Values Affecting Consumer Psychology,” in *Personal Values and Consumer Psychology*, Robert E. Pitts and Arch G. Woodside. Lexington MA: Lexington Books, 3-12.

Hui, Michael K. and John E. G. Bateson (1991), "Perceived Control and the Effects of Crowding and Consumer Choice on the Service Experience," *Journal of Consumer Research*, 18 (September), 174-184

Isen, Alice M. (1987), "Positive Affect, Cognitive Processes, and Social Behavior," in *Advances in Experimental Social Psychology*, Leonard Berkowitz, ed. New York: Academic Press, 203-251.

Isen, Alice M. (1989), "Some Ways in Which Affect Influences Cognitive Processes: Implications for Advertising and Consumer Behavior," in *Cognitive and Affective Responses to Advertising*, Patricia Cafferata and Alice M. Tybout, eds. Lexington MA: Lexington Books, 3-37.

Jacob, Celine, Nicholas Guéguen, Gaëlle Boulbry, and Selmi Sami (2009), "'Love is in the Air:' Congruence Between Background Music and Goods in a Florist," *International Review of Retail, Distribution & Consumer Research,* 19 (February), 75-79.

James, Williams (1890), *Principles of Psychology*. New York: Holt.

Kim, Jai-Ok, Sandra Forsythe, Qingliang Gu and Sook Jae Moon (2002), "Cross-Cultural Consumer Values, Needs and Purchase Behavior," *Journal of Consumer Marketing*, 19 (6), 481-502.

Karakaya, Fahri and Peter Yannopoulos (2010) "Defensive Strategy Framework in Global Markets: A Mental Models Approach," *European Journal of Marketing*, 44 (7/8), 1077-1100.

Lotze, R. H. (1852), *Medical Psychology or the Physiology of the Soul*. Leipzig Germany: Weidmannshe Buchhandlung.

Mattila, Ann S. and Jochen Wirtz (2001), "Congruency of Scent and Music as a Driver of In-Store Evaluations and Behavior," *Journal of Retailing*, 77 (Summer), 273-289.

Maxham III, James G. and Richard G. Netemeyer (2003), "Firms Reap What They Sow: The Effects of Shared Values and Perceived Organizational Justice on Customers' Evaluations of Complaint Handling," *Journal of Marketing*, 67 (January), 46-62.

Mehrabian, Albert and James A. Russell (1974), *An Approach to Environmental Psychology*. Cambridge MA: MIT Press.

Michon, Richard, Jean-Charles Chebat and L. W. Turley (2005), "Mall Atmospherics: The Interaction Effects of the Mall Environment on Shopping Behavior," *Journal of Business Research*, 58 (May), 576-583.

Moray, Neville (1998), "Identifying Mental Models of Complex Human-Machine Systems," *International Journal of Industrial Ergonomics*, 22 (November), 293-297.

Morris, Bradley J. (2010), "The Mental Models Theory of Reasoning: Refinements and Extensions," Psychological Record, 60 (Fall), 729-734.

North, Adrian C., David J. Hargreaves and Jennifer McKendrick (1999), "The Influence of In-Store Music on Wine Selections," *Journal of Applied Psychology*, 84 (April), 271-276.

Petty, Richard E., John T. Cacioppo and David Schumann (1983), "Central and Peripheral Routes to Advertising Effectiveness: The Moderating Role of Involvement," *Journal of Consumer Research*, 10 (September), 135-146.

Pfeffer, Jeffrey (2005), "Changing Mental Models: HR's Most Important Task," *Human Resource Management*, 44 (Summer), 123-128.

Pitts, Robert E. and Arch G. Woodside (1984), "Personal Values and Market Segmentation: Applying Value Construct," in *Personal Values and Consumer Psychology*, Robert E. Pitts and Arch G. Woodside, eds. Lexington MA: Lexington Books, 55-67.

Prasad, J. S. and D. Raghunatha Reddy (2007), "A Study on the Role of Demographic and Psychographic Dynamics in Food and Grocery Retailing," Vision, 11 (October-December), 21-30.

Puccinelli, Nancy M., Rohit Deshpande, and Alice Isen (2007), "Should I Stay or Should I Go? Mood Congruity, Self-Monitoring and Retail Context Preference," *Journal of Business Research,* 60 (June), 640-648.

Reynolds, Thomas J. and Jonathon Gutman, (1984), "Laddering: Extending the Repertory Grid Methodology to Construct Attribute-Consequence-Value Hierarchies," in *Personal Values and Consumer Psychology*, Robert E. Pitts and Arch G. Woodside, eds. Lexington MA: Lexington Books.

Rokeach, Milton (1973), *The Nature of Human Values*. New York: Free Press, 155-167.

Seel, Norbert M. (2001), "Epistemology, Situated Cognition, and Mental Models: "Like a Bridge over Troubled Water," *Instructional Science*, 29 (4/5), 403-427.

Sharma, Arun and Thomas F. Stafford (2000), "The Effect of Retail Atmospherics on Customers: Perceptions of Salespeople and Customer Persuasion: An Empirical Investigation," *Journal of Business Research*, 49 (August), 183-191.

Sinreich, David, Daniel Gopher, Shay Ben-Barak, Yariv Marmor and Rakefet Lahat (2005), "Mental Models as a Practical Tool in the Engineer's Toolbox," *International Journal of Production Research*, 43 (July 15), 2977-2996.

Smith, Peter W. and David J. Burns (1996), "Atmospherics and Retail Environments: The Case of the 'Power Aisle,'" *International Journal of Retailing and Distribution Management*, 24 (January), 7-14.

Sorensen, Herb (2009), "The In-Store 'Audience,'" *Journal of Advertising Research*, 49 (June), 176-179.

Spangenberg, Eric R., Ayn E. Crowley and Pamela W. Henderson (1996), "Improving the Store Environment: Do Olfactory Cues Affect Evaluations and Behaviors?" *Journal of Marketing*, 60 (April), 67-80.

Staggers, N. and Anthony F. Norcio. (1993), "Mental Models: Concepts for Human-Computer Interaction Research," *International Journal of Man-Machine Studies*, 38 (April), 587-605.

Strahan, Erin J., Steven J. Spencer and Mark P. Zanna (2002), "Subliminal Priming and Persuasion: Striking While the Iron Is Hot," *Journal of Experimental Social Psychology*, 38 (November), 556-568.

Sudbury, Lynn and Peter Simcock (2009), "Understanding Older Consumers Through Cognitive Age and the List of Values: A U.K.-Based Perspective," *Psychology & Marketing*, 26 (January), 22-38.

Summers, Teresa and Paulette Hebert (2001), "Shedding Some Light on Store Atmospherics: Influence of Illumination on Consumer Behavior," *Journal of Business Research*, 54 (2), 145-150.

Sutton, Stuart A. (1994), "The Role of Attorney Mental Models of Law in Case Relevance Determinations: An Exploratory Analysis," *Journal of the American Society for Information Science*, 45 (April), 186-200.

Thatcher, A.and M. Greyling (1998), "Mental Models of the Internet," *International Journal of Industrial Erogonomics*, 22 (November), 299-304.

Turley, L. W. and Ronald Milliman (2000), "Atmospheric Effects on Shopping Behavior: A Review of the Experimental Evidence," *Journal of Business Research*, 49 (August), 193-211.

Vaccaro, Valerie, Veysel Yucetepe, Gladys Torres-Baumgarten, and Lee Myung-Soo (2009), "The Impact of Atmospheric Scent and Music-Retail Consistency on Consumers in a Retail or Service Environment," *Journal of International Business & Economics*, 9 (4), 185-196.

Van Doren, Don C. and D. B. Smith (1999), "Scenario Planning: A New Approach to Teaching Marketing Strategy," *Journal of Marketing Education*, 21 (August), 146-155.

Vida, Irena, Claude Obadia, and Michelle Kunz (2007), “The Effects of Background Music on Consumer Responses in a High-end Supermarket,” *International Review of Retail, Distribution & Consumer Research*, 17 (December), 469-482.

Vinson, D. E., J. E. Scott and L. M. Lamont (1982), “The Role of Personal Values in Marketing and Consumer Behavior,” in *Consumer Behavior: Classical and Contemporary Dimensions*, James U. McNeal and Stephen W. McDaniel, eds. Boston: Little Brown, & Co.

Wakefield, Kirk L. and Julie Baker (1998), “Excitement at the Mall: Determinants and Effects on Shopping Response,” *Journal of Retailing*, 74 (Fall), 515-539.

Whitty, Stephen Jonathan (2005), “A Memetic Paradigm of Project Management,” *International Journal of Project Management*, 23 (November), 575-583.

Zaltman, Gerald (1997), “Rethinking Market Research: Putting People Back in,” *Journal of Marketing Research*, 34 (November), 424–437.

Zeithaml Valerie A. (1988), “Consumer Perceptions of Price, Quality and Value: A Means-End Model and Synthesis of Evidence,” *Journal of Marketing*, 52 (July), 2-22.

"UNDER THE RADAR": A QUANTITATIVE ASSESSMENT OF THE CONSTRUCT OF BANALITY OF WRONGDOING IN AN AUSTRALIAN ENERGY COMPANY

Robert W. Armstrong, University of North Alabama
Dennis Balch, University of North Alabama

Abstract: This paper tests a conceptual model to explain persistent, accepted-as-normal corporate wrongdoing (hereafter banality of wrongdoing), particularly for high performance organizations. The model describes five explanatory variables: the culture of competition, ends-biased leadership, missionary zeal, legitimizing myth, and the corporate cocoon. The study found that the test of the overall model (r-squared = 0.97) showed that all variables were significant predictors of the *banality* construct. The relative importance of each variable was measuring using the coefficient values. The independent variables were from most to least important: *legitimizing myth, missionary zeal, culture of competition, end-biased leadership,* and *corporate cocoon.*

INTRODUCTION

Research has shown the involvement construct to be instrumental in consumer choice modeling in terms of purchase behavior and voting behavior. (e.g., Celsi and Olson, 1988; Krugman, 1965; Mitchell, 1979; Rothschild, 1984; Zaichkowsky). Research by Robin, Reidenabach, and Forrest (1996) has posited that involvement is related to ethical perception. In these examples, involvement is defined as the perceived importance of the product or act to the individual. Robin et al. developed a construct (i.e., Perceived Personal Importance of an Ethical Issue or P.I.E.) that evaluated involvement as a lesser part of moral involvement. The researchers stated that problems with business ethics occur "…within a context of a multiplicity of constraints and directives. They are not typically isolated events that can be analyzed clinically over a long period…" (Robin et al., p. 18, 1996).

If this is the case, managers have difficulty sorting out daily events as having potential ethical content or as being relevant enough to generate the involvement level necessary to develop an ethical dilemma. According Balch and Armstrong (2010), the problem of persistent corporate wrongdoing seems even more perplexing when we understand that such wrongdoing is not the product of mere individual behavior or just personal involvement. Often cases like this involve the concerted effort of many individuals; they depend on a culture that enables and condones the many seeming small or trivial unethical actions. In such cases wrongdoing has become normal, ordinary, and unexceptional—in a word, banal. In this situation, ethical problems occur "under the radar" of many business managers and moral involvement would be quite low until major problems eventuate.

In 1991, Jones proposed that "issues of high moral intensity will elicit more sophisticated moral reasoning … than will issues of low moral intensity." (p. 385) In banal situations, unethical decisions become commonplace or normalized and managers will not develop the moral intensity to adequately evaluate to the severity of the situation and greater ethical problems will likely develop.

Some researchers have primarily explored the topic of "normalized" wrongdoing through conceptual models (Coleman, 1987; Ashforth and Anand, 2003; Daboub, Rasheed, Priem, and Gray, 1995; Greil and Rudy, 1984; Schein, 2004). Others have employed case studies (Sims and Brinkmann, 2002, 2003; Clinard and Yeager, 1980; Clinard, 1990; Yoffie, 2001; Palmer and Maher, 2006). A limited amount of empirical work has been done, typically on highly focused issues rather than the broad conceptual models (Hegarty and Sims, 1978; Fritzsche and Becker, 1984; Reidenbach, Robin, and Dawson, 1991; Tenbrunsel, 1998; Armstrong, Williams, and Barrett, 2004; Armstrong, 2006).

While the subject of normalized or banal wrongdoing has been widely explored and the process mechanisms well-mapped (Coleman, 1987; Ashforth and Anand, 2003; Anand, Ashforth and Joshi, 2005; Palmer and Maher, 2006), there is no ready and accepted explanation for the persistence of the problem. Why should such a complex phenomenon that entails high career risk be so prevalent? Fritzsche and Becker (1984) found perceived reputational risk to be a significant factor in the management decision scenarios they studied. A major fraud is difficult to accomplish, requiring many of the same skills and insights as legitimate strategy. It would seem that large numbers of people should not easily persuaded into risky, career-threatening unethical behavior. The evidence demonstates the contrary. We seek to understand what factors impair ethical judgment and make wrongdoing a commonplace occurrence. Self-aggrandizement is an intuitively attractive explanation, but fails to account for the many cases in which ethical misconduct is performed on behalf of an organization rather than for self-benefit. Baucus (1994) argues that while predisposition for illegal activity may influence initial bad behavior, it can be a major factor in repeated offenses, establishing cultural norms for wrongdoing (p. 711). In other words, predisposition is reinforced through repetition, enabling wrongdoing to become commonplace or banal. Armstrong (2004) actually found the banality of wrongdoing to be more significant than greed in predicting wrongdoing, so something more powerful than mere greed seems to be at work. What gives rise to the banality of wrongdoing, and why is it so persistent?

PHILOSOPHICAL ARGUMENT

Balch and Armstrong (2010) proposed that a core motive for wrongdoing is to achieve advantage—the same core motive as legitimate high performance goal-seeking. They further proposed that legitimate and illegitimate goal seeking share an important technique—breaking rules. Corporate high performance requires vision and leadership, the ability to focus an organization to take risks. Succeeding often involves breaking the old rules-- defying skeptics to overcome conventional wisdom. If innovation goes too far and breaks the wrong rules through marginal ethical behavior, healthy leadership will recognize mistakes and use feedback for course correction; flawed leadership may instead develop a bunker mentality, deny mistakes, escalate commitment, and shut out annoying external feedback. Such leadership is likely to view established constraints as inconvenient, outdated, and irrelevant. This understanding may help explain the banality of wrongdoing, which we define as the acceptance of certain levels of unethical behavior as normal and expected in an organization. The researchers theorized that the same tools used to create legitimate success are useful for creating unethical success.

Dynamic, high performance[1] environments are favorable hosts for ethical misbehavior because they are iconoclastic (rule-breaking) by nature and because they usually emphasize goals more than they emphasize means. High performance is accomplished at the margin.

[1] By high performance we mean having a sustainable level of profitability that sets an organization apart from its peers as a preeminent competitor. This implies having some process, technology, or business model innovation that is difficult to emulate.

Operating aggressively close to boundary conditions is a requirement of effective competition, but it also increases the risk of crossing the boundary line between acceptable and unacceptable behavior. Once mistakes are made, there is a natural tendency to rationalize and self-justify; when this happens, the misbehavior may be rebranded as acceptable behavior (Coleman, 1987; Ashforth and Anand, 2003). When this happens, a cycle of normalized wrongdoing has begun.

THE CULTURE OF COMPETITION

The culture of competition provides a favorable host environment for corporate wrongdoing. By culture of competition we mean the pressure to break rules, defy convention, and engage in marginal ethical behavior to avoid conceding a competitive advantage. A colloquial way of stating the concept is to turn an old adage around: "it's not how you play the game that counts, it's whether you win or lose."

In sports, effective competition involves behavior at the margin—how quickly can a sprinter leave the starting blocks? How much should an offensive lineman use the hands? Similarly, business competition involves making judgments at the margin. At what point does a positive forecast become misleading exaggeration? At what point does aggressive practice cross the line into anticompetitive behavior? Failure to approach the limit may surrender competitive advantage; pushing too hard risks penalty. Performance at the margin—including the ethical margin—determines winners and losers. A common adage underscores the concept that playing close to the line is important: if you don't make mistakes, you're not trying hard enough. Some researchers argue that the very nature of competition makes organizations inherently criminogenic because they are goal-oriented and means-insensitive (Gross, 1978, 1980; Clinard and Yeager 1980). Incentive systems reinforce the goal bias, as they are typically triggered by financial results, not by the techniques used to obtain the results. If we are not rewarded for how we play the game, but only by whether we win or lose, we are likely to be more aggressive and take more risks at the ethical margin. This is particularly true if there is little disincentive—if the penalties for bad behavior are slight, which is often the case.[2]

If the nature of competition demands aggressive behavior at the bounds of acceptability, what happens when the line is crossed? Anand, Ashforth, and Joshi (2005) note that transgressors typically do not view themselves as corrupt; they go to significant lengths to defend their actions. They describe a number of popular rationalization techniques, as does Coleman (1987). Some of the popular rationalizations include denial of responsibility (I'm not to blame; I didn't have a choice), denial of injury (nobody was really hurt), denial of victim (the victim wasn't really a victim; he deserved it), social weighting (my accusers are more guilty than I; others do worse things than I), appeal to higher loyalties (I answer to a higher loyalty; I did what I did to prevent a greater wrong), balancing the ledger (I've earned the right to take this liberty). Rationalizations serve to neutralize the stigma associated with unethical behavior, making it easier and more acceptable to perform the same transgression again. Rationalization effectively redefines the bound of what is acceptable within a local culture, so that eventually the act is no longer seen as a transgression—when this happens, the corrupt act has become routinized (Ashforth and Anand, 2003). If an organization cheats on one rule, why not on another? If on a minor rule, why not on a more important one? Unchallenged, even minor

---

[2] Clinard and Yeager (1980) and Clinard (1990) document extensively the relatively slight penalties that corporations typically suffer for criminal and regulatory violations.

ethical misdeeds can have a corrosive effect on an organization's ethical climate. Normalization of wrongdoing is an incremental process—minor violations can pave the way for more serious wrongdoing. Ashforth and Anand (2003) explain how incrementalism can entrap individuals who are initiated into a corrupt culture with a minor transgression. Once compromised, individuals are more vulnerable to group pressure to perform the same transgression again—or a more significant one. Palmer and Maher (2006) enlarge on this theme, explaining how individuals who are not disposed toward unethical behavior stumble into it in an incremental way, often with good intentions (being a good teammate, being loyal, etc.). Incrementalism is the slippery slope of unethical behavior. Once on the slippery slope, it is hard to stop sliding.

We assert the following hypothesis regarding the culture of competition:

Hypothesis 1: As the culture of competition (as defined by rule breaking/boundary challenge behavior) increases, the perception of banality of wrongdoing increases.

ENDS-BIASED LEADERSHIP

By ends-biased leadership we mean a leadership which focuses so strongly on ends that insufficient attention is paid to the means and ethics by which the ends are achieved.

An organization's ethical capabilities depend on both policy and behavior. Without explicitly stated ethical codes, there is little hope of consistent ethical behavior in a sizable organization. But policy alone is insufficient. Enron, for instance, had impressive ethical window-dressing, including a corporate ethics officer and all the right formal statements of ethical principle (Sims & Brinkmann, 2003). To be effective, ethics policy has to be reflected in behavior. Discrepancy between the policy and the behavior (the talk and the walk) corrodes the ethical tone of an organization. Leadership has critical roles to play in establishing ethics policy, modeling ethical behavior, and enforcing ethics policy. Failure in any of these roles creates inconsistencies between the talk and the walk, in effect creating another sort of ethical marginality by giving ethics less attention than it needs in order to ensure sound behavior.

Normalization of bad behavior is not an inevitable result of corporate organization. Leadership plays a key role in establishing the context for culture to develop. Leaders manage and manipulate symbolic constructs to represent an organization to members and to the outside world (Alvesson, 1990; Dutton, Dukerich, and Harquail, 1994). Status quo leaders and institutional entrepreneurs compete for control of the symbolic and cultural resources of an organization because these are the means of creating meaning and inspiring action (Misangyi, 2008). Schein (1985, 2004), in his classic study of organizational culture and leadership, explicated key mechanisms that shape corporate culture. These may be used consciously or unwittingly by leaders, for good or for ill. Schein's core message is that leadership behavior is key to forming corporate culture. These mechanisms are powerful tools for positive influence; they are also powerful when misdirected. Perhaps the most powerful type of leadership influence is that of the visionary leader who can motivate organizations to extraordinary lengths—both positive and negative. Conger (1990) has explored the way visionary leadership shapes organizational culture, exposing potential negative effects of visionary figures, which we normally regard in a positive light. Sharp tools are both useful *and* dangerous.

In Schein's (2004) model, the following leadership behaviors are primary culture-forming mechanisms:

- What leaders pay attention to, measure, and control on a regular basis
- How leaders react to critical incidents and organizational crises
- How leaders allocate resources
- Deliberate role-modeling, teaching, and coaching
- How leaders allocate rewards and status
- How leaders recruit, select, promote, and excommunicate (p. 246)

It is not difficult to see how these mechanisms could affect the ethical culture of an organization and lead to banal unethical behavior. The commonplace observation that "you get what you measure" makes the point about attention. If leadership focuses on ends (like next quarter's financial return) and ignores means, it will allow, if not encourage, ethical shortcuts and undesirable long-term/short-term tradeoffs (Clinard and Yeager, 1980). Fritzsche and Becker (1984) tested a set of decision vignettes to determine what kind of ethical reasoning managers employed in making their decisions. They found that "individuals following a rule or a rights philosophy tend to place greater weight on ethical values relative to economic values, and individuals adhering to an act philosophy take the reverse position" (p. 174); their findings are consistent with the view that ends-oriented leadership provides cultural support for expedient behavior. If leaders react to crisis by shifting blame instead of confronting issues, an organization is likely to become adept at hiding instead of solving problems (Sims and Brinkmann, 2003). If leaders never spend their time or organizational budget on ethics awareness, the message is clear that this is not important. If leaders officially endorse one set of ethics but practice another, they establish a tolerance for bad behavior. If leaders give raises and promotions to those who take ethical shortcuts in order to get results, they are likely to nourish an unethical culture. If leaders hire only yes-men and weed out dissenters, they risk creating a self-referential culture that is more concerned with internal than external standards of approval (Ashforth and Anand, 2003).

Sims and Brinkmann (2002, 2003) analyze leadership behavior in the Salomon Brothers and Enron scandals, using Schein's (1985) five primary mechanisms[3] to show how leadership creates the environment for a self-perpetuating unethical culture to develop. The Salomon and Enron cases show how leader influence can normalize unethical behavior by establishing a culture that values bottom line results regardless of means employed to achieve them, that reacts to crisis by covering up rather than confronting problems, that models deceptive instead of transparent behavior, that rewards only one kind of result, that selects and retains employees for their willingness to be complicit in corrupt practice. Enron culture was created by "leaders that eschew the boundaries of ethical behavior" (Sims and Brinkmann, 2003, p. 246). At Salomon Brothers, John Gutfreund "created a culture that pushed everything to the limit with little thought for the long-term implications to the firm" (Sims and Brinkmann, 2002, p. 336).

Conger (1990) explores how visionary leadership can go bad, how qualities that can distinguish the visionary leader can also lead to disaster. A visionary leader is able first of all to see what others do not, to frame a vision of the future that is elusive and to persuade others that it can be realized. Such leaders are not overly impressed by the established order, by rules and constraints that contradict the vision. Such outside-the-box thinkers are critical to organizational innovation. Such a leader is not inherently ethical; if the visionary's focus on a difficult concept becomes distorted (excluding other alternatives, denying flaws in the vision, ignoring negative feedback), then the visionary's persuasive ability may become pernicious. This kind of leader may even become intoxicated by the excitement of defying the established order (Noelle-

[3] Schein has added the sixth mechanism of resource allocation since the 1985 edition of *Organizational Culture and Leadership*.

Neumann, 1984). His charm may be able to overwhelm critics and establish a bubble of self-confirmation. Such a leader may cultivate a special esprit de corps that can lead to an "us against the world" mentality which tends to discount the value of external standards and criticism, contributing to the self-referential corporate cocoon described later. Cognitive dissonance prevents the visionary from acknowledging the flaws in the vision because doing so would violate his own self-image. The visionary leader is most vulnerable when there is no independent-minded counterweight willing to contradict the visionary narrative and proclaim that the emperor has no clothes, when a "spiral of silence" (Noelle-Neumann, 1984) suppresses dissenting opinions. Many visionary leaders are autocratic, intolerant of dissent, and tend to surround themselves with dependent employees, effectively ensuring minimal challenge to the vision. The result is a self-referential culture that is cut off from external standards—producing at worst a cult-like disconnection from reality.

We assert the following hypothesis regarding ends-biased leadership:

Hypothesis 2: As ends-biased leadership (as defined by leader tolerance for wrongdoing and focus on financial returns) increases, banality of wrongdoing increases.

MISSIONARY ZEAL

By missionary zeal we mean an exaggerated commitment to mission, regardless of side effects; for instance, we might say "if our end is just, we are justified in bending a few rules to achieve it."

High performance organizations are all about pushing boundaries, reaching new levels of performance and efficiency, challenging dogma, doing things differently--breaking old rules and making new ones. Baucus (1994) observes that illegal corporate behavior is influenced by pressure to achieve results, predisposition to act unethically, and opportunities to misbehave. She notes that such opportunity is created by innovative firms that decentralize controls. The motive is to enable innovation; a side effect is the opportunity to develop expedient solutions that are unethical (Baucus, 1994, p. 710). Such organizations work hard to create a performance culture that drives and encourages individuals to think outside the box, to question assumptions and dare to innovate. These cultures do not celebrate the virtue of coloring within the lines; they do celebrate the value of taking risk to achieve goals. Some of the strongest performance cultures exhibit a sense of missionary zeal, a feeling that "we are creating something new on the face of the earth, and the old constraints don't apply here." The problem arises when productive iconoclasm is overextended—if the importance of breaking *some* established rules becomes contempt for any rules that get in the way. When this happens, organizations may use legitimizing myth to explain why their ethically questionable behavior is really acceptable.

Geertz (1973) and Pacanowsky and Trujillo (1983) in their cultural approach to organizations, identify storytelling and ritual as critical elements of organizational life, the means by which culture is transmitted. Gardner (1995) explains why story telling is a fundamental leadership function. The stories told in an organization—the heroes celebrated, the deals commemorated, the anecdotes remembered--these demonstrate group values and embody the culture; they summarize and symbolize what the organization stands for and how it operates. These narratives record the core identity of an organization and are a key mechanism for passing on the culture. These core narratives are a major part of culture for a high-performance organization—they codify values, reinforce attitudes toward customers and competitors, and enshrine touchstone slogans. These narratives can be used to uphold high standards; they can also be used as legitimizing myth to "launder" less desirable aspects of an organization's behavior. Ashforth and Anand (2003) describe a narrative they call a rationalizing ideology. Their work on organizational corruption presents a conceptual model of normalization, explaining how elements of socialization, rationalization, and institutionalization can take an outsider, bind him to an organization, convince him that an unethical behavior is really not unethical, and make the process self-perpetuating. One key mechanism in their model is rationalizing ideology—a group-endorsed explanation that justifies questionable behavior. A predatory lender, for example, might choose to focus its rationalizing narrative on how it provides credit to deserving people who have been rejected by other lenders, neutralizing the negative perception of exploitive interest rates. The rationalizing ideology serves to resolve ethical conflicts in ways that serve the self-interest of individuals and groups within the organization. Note that the conflicts are resolved in a biased way, relative to the logic of the rationalizing ideology, not an external ethical standard. Rationalizing ideologies may be used prospectively (to deal with planned corrupt behavior) or retrospectively (to defend already-committed actions). We suggest that an organization's core narrative often serves as a rationalizing ideology—if questionable behaviors seem necessary to maintain the core narrative, then the importance of the core narrative helps to validate the behavior. Dissenters find themselves under social pressure to show loyalty and submit to what Noelle-Neuman (1984) calls a "spiral of silence." The stronger and more exaggerated the sense of mission, the more stark the choice becomes—"if you're not with us, you're against us."

In the model we describe, the notions of the core narrative and the rationalizing ideology are captured in the legitimizing myth variable discussed in the next section.

We assert the following hypothesis regarding missionary zeal:

Hypothesis 3: As missionary zeal (as defined by visionary leadership, exaggerated mission, and insistence on loyalty) increases, banality of wrongdoing increases.

Legitimizing Myth and Image Management

By legitimizing myth we mean a narrative (internal or external) that serves to justify why an organization behaves as it does. The legitimizing myths we use to justify our actions are sometimes conditioned by expectations we have of others' behavior. Tenbrunsel (1998) explores the concept of strategic deception, another example of ethically marginal behavior (that is, in negotiation, it is advantageous to mislead the negotiating opponent about acceptable terms). Her work finds that expectations about a negotiating opponent's probable deception influence the focal actor's likelihood of engaging in deception. For example, if I think my counterpart is likely to be deceptive, I am more likely to engage in preemptive deception. Legitimizing myths often characterize competitors in negative terms, in extreme cases even demonizing them. Armed with a negative image of a competitor, it is easier to rationalize our own negative behavior.

Enron, an example of a high performance culture gone bad, shows how the core narrative of industry high-flier created motives for deception necessary to sustain the image presented by the narrative. The narrative goes something like this: Enron's high growth rates support high valuations; showing continued high growth is essential, even if it means bending the rules. In the Enron case, industry deregulation removed the old regulatory rules, creating a fluid environment that demanded invention and testing where the new limits might be. In Enron culture, “Pushing the limits was considered a survival skill” (Sims and Brinkmann, 2003, p. 244). One employee quoted by Bartlett and Glinska (2001, from secondary source Sims and Brinkmann, 2003, p. 244) said, “it was all about an atmosphere of deliberately breaking the rules. “ This is where the Enron story turns bad. Despite having all the trappings of corporate social responsibility and ethical standards in place, Enron leadership did not really establish the post-regulatory ethical boundary past which Enron would not go. Sims and Brinkmann (2003) describe how the deep culture created by Enron leadership belied the façade of ethics instrumentalization (ethics code, corporate ethics officer). At Enron, management’s persistent emphasis on results tolerated no interruption of the Enron success myth. The performance culture evolved into a culture of “smoke and mirrors” manipulations to preserve the *appearance* of continued growth.

Microsoft’s antitrust case illustrates how hard it can be to change a company’s core narrative. Microsoft exemplifies a different kind of high performance hazard—outgrowing its youthful business practices but being unable to leave them behind. As a trade press article humorously puts it, “Underdog Bites Self”:

For a long time, Microsoft was an upstart. It was the second choice to provide the operating system for IBM's PC (behind Digital Research's CPM), and it spent years assuming that IBM would brush it aside. It took on Lotus, WordPerfect, Ashton-Tate, and scads of other once powerful competitors, winning more often than not when those companies made some fatal error. As an underdog, Microsoft had no peer.

Unfortunately, the company's culture never adapted to being the overlord. Microsoft never developed a strategy except relentless attack . . . (Zelnick, 2000, para. 5)

Yoffie and Kwak (2001) make similar observations in their comparison of Intel and Microsoft attitudes toward antitrust compliance: “Years after their garage days, many successful young companies continue to project the combative intensity that initially served them so well . . . . What the law tolerates in an up-and-comer is often off-limits for a market leader” (p. 120). In other words, at the ethical margin, what is viewed as ethical and what is not may depend on who the actor is. This is exactly what landed Microsoft in antitrust litigation—what is shrewd business practice by a small company may be anticompetitive practice when employed by a company with market leader influence. Intel, by contrast, illustrates awareness of this problem and the need for a market leader to back off the line between acceptable and unacceptable conduct. Andy Grove, observing the trauma that AT&T endured in its antitrust case, saw that the line was not always clear. Because of gray areas in antitrust compliance, he asserted the need to establish a “guard band” to ensure a margin of safety through “compliance standards that were more conservative than the company’s literal reading of the law” (Yoffie and Kwak, 2001, pp. 120-21). As Yoffie and Kwak see it, Intel was able to consciously evolve its core narrative to include an antitrust compliance ethic; Microsoft seemed to be tangled in rationalizations. More recent Intel history demonstrates the risk of operating at the margin where rules are being challenged and interpreted. In May, 2009, responding to an AMD complaint originally filed in 2000, European Union antitrust regulators assessed Intel a $1.45 billion fine for rebate practices judged unfair (Forelle, 2009, p. A.1).

Fundamentally, legitimizing myth exploits the core narrative and other image management techniques. Alvesson (1990) has explored the significance of images and image management in organizations. Because work is complex and an individual’s contribution is often hard to connect to the end product, it becomes important to manage the meaning of the work, otherwise employee motivation suffers from a lack of identification with the mission of the corporation. Images used to represent organizations are in one sense deceptive by design, since they present aspirations (states that have yet to be achieved) and selected positive aspects of the corporation rather than a complete “warts and all” reality. Alvesson argues that the modern experience of meaning in work has become divorced from substance and tied to image because of complexity and the abstract nature of service and information economy jobs. In Alvesson’s view, four elements figure into this shift from substance to image:

- Cultural change (fragmentation of society, increasing dependence on self-gratification as a means of establishing a sense of identity, individual receptiveness to image presentations as a way of establishing self-identification);

- Complexity and turbulence (much of what we know is mediated rather than directly experienced);

- Expansion of service sector (service is more subjective, depends on image for success);

- Role of mass media (pseudo-events—i.e., planned events—increasingly replace spontaneous events as communicators of meaning; information is filtered and meaning is managed).

Thus the modern organization is highly “imaginary” in character. What it is and what it means is learned through communication of images rather than through direct experience (consider that in a large corporation, most employees may never have direct contact with corporate officers in a spontaneous setting—all communication will be carefully managed). The cultural fragmentation creates an identity void; image management on the part of corporations can exploit the need for identity by creating uncertainty-reducing meaning.

High performance organizations create positive organizational images through core narratives/myths that encode organizational aspirations and values. These are powerful tools to engage employees and motivate organizational citizenship behavior.

Dutton, Dukerich, and Harquail (1994) explore how images of a work organization affect individuals’ self-identification with the organization. The more congruent the organization’s image is with an individual’s self-image, the stronger the identification will be. This has positive effects in influencing organizational citizenship behavior. When there is dissonance between the organizational image and the self-image, individuals are motivated to resolve the cognitive dissonance. Unresolved dissonance could lead to undesirable organizational outcomes—poor morale, reduced performance, attrition. One consequence of the desire to resolve individual-organizational dissonance is the natural selection of individuals who fit the organizational image—those who feel uncomfortable leave. This helps to explain how a corrupt organization may get more corrupt through time, how exceptional wrongdoing could gradually transform into wrongdoing that is banal.

Image management tools provide the means to promulgate legitimizing myth; missionary zeal provides the conviction that motivates the “just cause” rationalization: because the end is so important, our means are justified. Jeff Skilling’s defense of Enron illustrates this rationale: “. . . the business we're in is making it better for everyone. We're bringing the cost down; we're giving consumers choice . . . We are the good guys. We are on the side of angels” (“Interview,” 2001).

We assert the following hypothesis regarding legitimizing myth:

Hypothesis 4: As legitimizing myth (as defined by image management and "just cause" conviction) increases, banality of wrongdoing increases.

Corporate Cocoons

By corporate cocoon we mean an encapsulated or isolated frame of ethical reference which accepts as normal some behaviors that would be regarded unethical by societal standards. Legitimizing myths serve to defuse ethical dissonance. They work because they don't have to stand up to external scrutiny. They are not intended to convince outsiders, only insiders (Ashforth and Anand, 2003). Clearly, it is simpler to resolve ethical dissonance (the disquieting incongruence between one's positive self-image and the negative effects of one's actions) in a carefully controlled and compartmentalized zone of influence; that is, if a special set of rules applies. As Coleman (1987) notes, "the economic sphere is usually constructed as a separate realm from the world of home, family and friendship, and both worlds contain their own values and operative principles" (p. 420). An implication is that some acts acceptable in one realm would be unacceptable in the other. Even within an organization, subgroups may show similar differentiation in values and behavioral norms. Such compartmentalization enables potentially positive phenomena such as group identity, esprit de corps, or competitive pride, based on a degree of separation/isolation from external reality. Such compartmentalization also has a dark side.

Greil and Rudy (1984) call such encapsulated zones of influence social cocoons and explain their importance to identity transformation organizations (ITOs; for example, religious groups, drug rehabilitation groups). A critical part of effective identity transformation is weakening the hold of prior relationships and creating a strong new reference group—a cocoon—whose influence is dominant. ITOs use various types of isolation techniques (physical, social, ideological) to effect the shift of identity. It is useful to think of a corporate environment as a moderate form of identity transformation organization. Within reasonable bounds, cocoons may establish strong productive group norms; at extremes, however, a cocoon can become a powerful island of influence that cuts off individuals from "mainland" ethics. Think of the example of the Jim Jones religious cult—a self-consistent culture grossly at odds with external ethical standards. The contrast between inward and outward focus is one important distinction Reidenbach and Robin (1991) make between legalistic organizations primarily concerned to avoid harming the corporation and responsive organizations that demonstrate a concern for other stakeholders other than just the owners. Cocoons of unethical behavior in corporate life may not be as extreme as the Jones cult, but once exposed to scrutiny, they can be shockingly out of line with societal norms. The important point to note is that cocoons can provide a corrupt, self-justifying, self-referential group, a socially safe haven for bad behavior, isolated from external ethical norms.

The basic precondition for the extreme isolation we refer to as the corporate cocoon is something that is positive—a sense of organizational identity which implies a sense of otherness—being different from those outside the organization. Identifying the we/they, the in/out group distinctions is a critical part of framing competition so that organizations can usefully manipulate images and symbols to influence member behavior. As Dutton, Dukerich, and Harquail (1994) point out, group identification is a powerful influence: "Strong identification prompts increased cooperation with organizational members and increased competition with nonmembers" (p. 254); this "us against the world" sentiment is a key indicator of the corporate cocoon. The social nature of human beings creates a powerful impulse to accommodate individual views to the perceived majority opinion (Noelle-Neumann, 1984).

Once a pattern of self-justifying corruption is established, it is difficult to disrupt. This derives in part from cultural tendency to self-perpetuate: an organization selects new members who are likely to “fit”; employees who don’t comfortably “fit” will leave at higher rates than those who feel culturally at home; those who embrace the organization’s values are likely to gain power more readily than those who are critics of the culture; those powerful incumbents have greater control of the resources used to manage the image of the organization and frame its core narratives and legitimizing myths. The “institutional logic” of an organization (Misangyi, Weaver, and Elms, 2008, p. 754) is supported and perpetuated through a set of resources that may include economic assets, symbolic influence, and social status. Misangyi uses the example of corruption-mitigation efforts in postwar Bosnia and Herzegovina to show that control of the economic assets of an organization is insufficient to reform corrupt practice. The symbols of power and influence also have to change hands, and have to be used in ways that resonate with the established culture. That is, the reformers have to gain control of the image management mechanisms of the organization, and what Misangyi calls the “legitimating accounts” (2008, p. 759), the set of meanings used to motivate action within an organization. A corrupt legitimating account will perpetuate a corrupt status quo because it takes its own narrow institutional logic as a reference point rather than more broadly accepted standards of behavior.

We assert the following hypothesis regarding corporate cocoons:

Hypothesis 5: As the corporate cocoon (as defined by self-referential values and “us against the world” sentiment) increases, banality of wrongdoing increases.

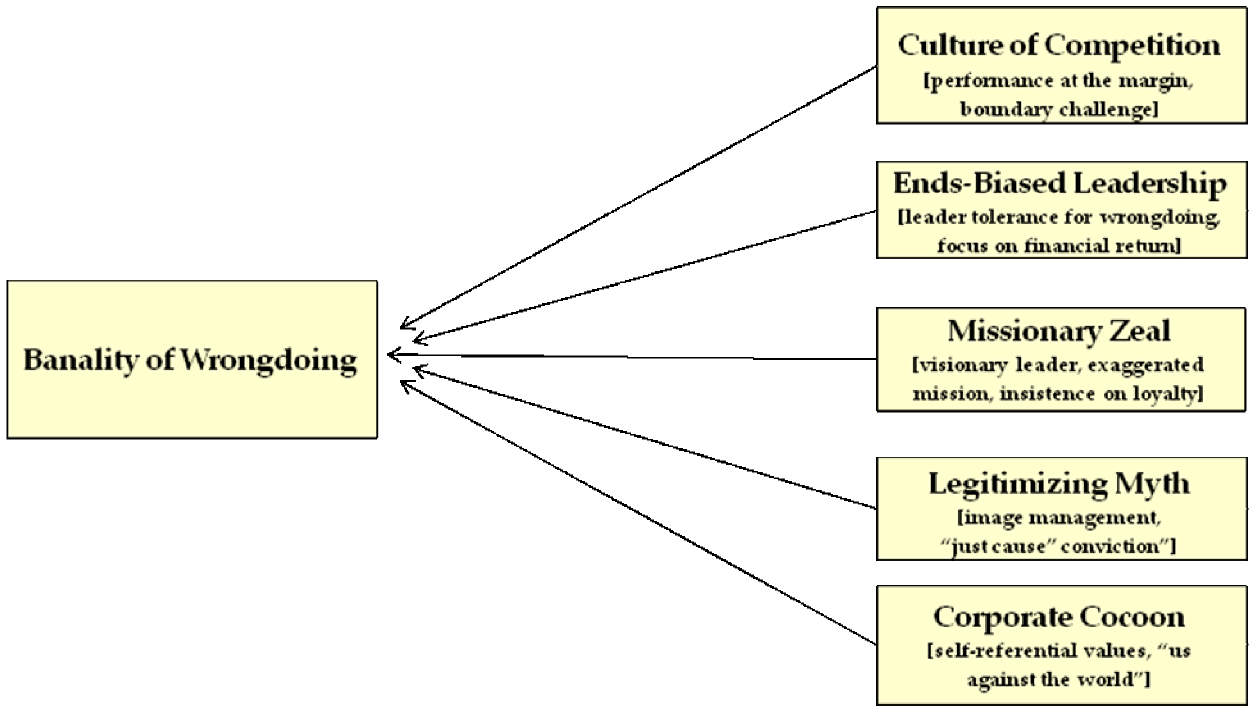
Conceptual Model

To explain the banality of corporate wrongdoing, Balch and Armstrong (2010) surveyed the relevant literature and developed a conceptual model (Figure 1). The conceptual model includes the variables defined in Table 1 and discussed in the paper. This paper will quantitatively test this conceptual model.

Table 1: Model Variables

Banality of Wrongdoing	the acceptance of certain levels of unethical behavior as normal and expected in an organization.
Culture of Competition	the pressure to break rules, defy convention, and engage in marginal ethical behavior to avoid conceding a competitive advantage.
Ends-Biased Leadership	leadership which focuses so strongly on ends (chiefly financial) that insufficient attention is paid to the means by which the ends are achieved, thus displaying tolerance for wrongdoing.
Missionary Zeal	an exaggerated commitment to mission, regardless of side effects.
Legitimizing Myth	a narrative (internal or external) that justifies why an organization behaves as it does.
Corporate Cocoon	an encapsulated or isolated frame of ethical reference which accepts as normal some behaviors that would be regarded unethical by societal standards.

Figure 1. Conceptual Model: Banality of Wrongdoing



Research Method

In order to test the conceptual model a questionnaire was developed to measure each of the independent variables (i.e., cultural of competition, ends-biased leadership, missionary zeal, legitimizing myth, and corporate cocoon) along with the dependent variable (i.e., banality of wrongdoing). A questionnaire was administered to all the managers in an Australian Energy Company. In total, 112 questionnaires were completed which represents 91% of management. Management roles was divided among geoscientists, engineers, human resources, accountants, and financial managers.

Measurement

To measure the managers' values regarding these ethical issues, a series of statements were derived from the literature that represents the independent and dependent variables. These summary statements (i.e., value statements) were given to two experienced values' researchers to determine face validity. The value statements were reduced to three value statements per variable. For example, to measure the *corporate cocoon*, the following statements were used: *personal ethics are different from work ethics, us against the world, internal approval is more important than society's approval.*

The Best-Worst Scaling method (Lee, J.A, Soutar, G.N. and Louviere, J., 2007) was used to measure the ethical value statements. This scaling method was used to try to avoid social desirability bias that occurs with rating scales. The Best-Worst Scaling (BWS hereafter) was originally developed to add context to questions by asking respondents to make choices among several relevant issues that compete for a respondent's evaluation (Finn and Louviere, 1992).

To measure the ethical value statements' importance, the value statement groups that represent the variables were placed in groups based on an experimental incomplete block design. Each block consisted of five of the six total variables with one variable absent from each of the six total blocks. BWS requires the respondent to choose one item that the respondent thinks is the most important and one item least important in each block. See Table 2. Cohen and Markowitz (2002) found that there is only one way to choose the most important item and therefore respondents cannot consistently use the middle, the end points, or one end of the importance scale. This method forces discrimination among items in a scale.

Table 2

Most Important Value (Tick One Box only)	**Of these, which best and least describes the values of a company for which you have worked or where you are currently working.**	**Least Important Value (Tick One Box only)**
O	Bottom line results, end justifies the means, do what it takes to succeed	O
O	Push the limits, challenge the rules, winning is everything	O
O	Our work is special, unquestioning loyalty, sacrifice for a worthy goal	O
O	Public image more aspiration than reality, we are superior to our competitors, important to defend against skeptics	O
O	Personal ethics are different than work ethics, us against the world, internal approval more important than society's approval	O

Marley and Louviere (2005) determined that there are several ways to calculate BWS scores. This paper calculated the BWS scores for each individual manager by counting the number of times each item was chosen as most important or the least important and subtracting the number for least important from the number for most important. This number was divided by the number of times the item appeared in the survey, creating a scale (-1 to +1) in which high scores implied that a value was more important to the respondent.

Results

The results section is divided into two sections. First, the individual hypotheses were tested. Second, the overall model was tested using multivariate regression.

Hypotheses Tests

Hypothesis 1: As the culture of competition (as defined by rule breaking/boundary challenge behavior) increases, the perception of banality of wrongdoing increases.

This hypothesis was tested using Pearson Correlation analysis. The relationship between *culture of competition* and *banality* is 0.265 and was significant at the 0.05 significance level. Therefore, the hypothesis that there is a relation between the variables was accepted.

Hypothesis 2: As ends-biased leadership (as defined by leader tolerance for wrongdoing and focus on financial returns) increases, banality of wrongdoing increases.

The Pearson Correlation coefficient for this hypothesis was -0.057 and was not significant. This hypothesis was rejected as having a relationship with *banality*.

Hypothesis 3: As missionary zeal (as defined by visionary leadership, exaggerated mission, and insistence on loyalty) increases, banality of wrongdoing increases.

The Pearson Correlation coefficient for missionary zeal and banality was 0.257 and was significant at the 0.05 level. This hypothesis was accepted.

Hypothesis 4: As legitimizing myth (as defined by image management and "just cause" conviction) increases, banality of wrongdoing increases.

The correlation between *legitimizing myth* and *banality* was 0.219 and was significant at the 0.05. This hypothesis was accepted.

Hypothesis 5: As the corporate cocoon (as defined by self-referential values and "us against the world" sentiment) increases, banality of wrongdoing increases.

The Pearson Correlation coefficient measuring the relationship between the *corporate cocoon* and *banality* was 0.349 and was significant at the 0.05 level. This hypothesis was accepted.

Model Testing

The model was tested using least squares regression. The dependent variable, *banality* was tested against the independent variables: *corporate cocoon*, *legitimizing myth, missionary zeal, ends-biased leadership,* and *culture of competition.* The r-squared for the equation was 0.973, which reflects a very good goodness of fit. The F-test for the overall equation was significant at the 0.05 level. All the variables were significant predictors of *banality.* The largest standardized beta coefficient was for *missionary zeal* followed by *culture of competition, legitimizing myth, ends-biased leadership* and lastly *corporate cocoon. Ends-biased leadership* was significant in the overall model but not as an individual correlate. Table 3 shows the coefficient relations.

Table 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.002	.015		.129	.898
	CULT	.962	.019	1.048	51.263	.000
	COCO	.938	.024	.716	39.021	.000
	EBL	.952	.025	.826	38.717	.000
	MYTH	.998	.022	1.007	45.374	.000
	MZ	.975	.020	1.060	49.710	.000

a. Dependent Variable: BANAL

Conclusions and Recommendations for Further Research

The individual hypotheses' tests reveal that all independent variables were significantly related to banality except *ends-biased leadership.* This reflects that *culture of competition, missionary zeal, legitimizing myth,* and *corporate cocoon values* related to *banality.* This suggests that the individual linkages suggested by the Balch and Armstrong (2010) conceptual model have some credibility and merit further study. The absence of *ends-biased leadership* as an individual correlate shows that as an individual value ends-biased leadership is unimportant to this energy company but was significant in the overall model test.

The test of overall conceptual model reflected that variables were all significant predictors of *banality*. The r-squared was 0.97, which was a result of the research method using a balanced incomplete block design where the respondents were forced to choose most important and least important from the values listed.

The relative importance of each variable was measured using the coefficient values. The independent variables were from most to least important: *legitimizing myth, missionary zeal, culture of competition, end-biased leadership,* and *corporate cocoon. Legitimizing myth* is defined as a narrative (internal or external) that justifies why an organization behaves as it does. *Legitimizing myth* was the most important variable explaining the variance in *banality.* It would be interesting to test whether this hierarchy is an artifact of this industry or whether this is a consistent pattern across business organizations. It would also be interesting to test whether there is a narrative within the corporate literature; internal memoranda or advertising that reflects this phenomenon specifically.

This research does not judge whether this organization was unethical based on the measurement of the *banality* construct. Only that contained within the *banality* construct are the following correlates: *legitimizing myth, missionary zeal, culture of competition, end-biased leadership,* and *corporate cocoon.* It would be quite revealing to test and compare organizations with good ethical conduct versus organizations that are in ethical trouble or have been in ethical turmoil and compare the scores of the independent variables.

REFERENCES

Alvesson, Mats (1990), “Organization: From Substance to Image.” *Organization Studies*. 11.3, 373-394.

Armstrong, Robert W. (2006), “Is Greed the Critical Organizational Variable in American Corporations?” *Journal of Business, Industry and Economics,* 7, 21-38.

Armstrong, Robert W., Williams, Robert J. and Barrett, J. Douglas. (2004), “The Impact of Banality, Risky Shift and Escalating Commitment on Ethical Decision Making.” *Journal of Business Ethics,* 53, 365-370.

Anand, Vikas, Ashforth, Blake E. and Joshi, Mahendra (2005), “Business as usual: The acceptance and perpetuation of corruption in organizations.” *Academy of Management Executive*, 19.4, 9-23.

Ashforth, Blake E. and Anand, Vikas (2003), “The Normalization of Corruption in Organizations.” *Research in Organizational Behavior*, 25, 1-52.

Ashforth, Blake E. and Kreiner, Glen E. (2002), “Normalizing emotion in organizations: Making the extraordinary seem ordinary.” *Human Resource Management Review,* 12, 215-235.

Balch, Dennis R. and Armstrong, Robert W. (2010), “Ethical Marginality: The Icarus Syndrome and Banality of Wrongdoing, *Journal of Business Ethics,* 92(2), 291-303.

Bartlett, C. A. and M. Glinska (2001), “Enron’s Transformation: From Gas Pipeline to New Economy Powerhouse.” Boston: Harvard Business School Press.

Baucus, Melissa S. (1994), “Pressure, Opportunity, and Predisposition: A Multivariate Model of Organization Illegality.” *Journal of Management*. 20.4, 699-721.

Celsi, Richard L., and Olsen, Jerry C. (1988), “The role of Involvement in Attention and Comprehension Processes.” *Journal of Consumer Research,* 15, September, 210-224.

Clinard, Marshall B., and Peter C. Yeager (1980), *Corporate Crime*. New York: Macmillan.

Clinard, Marshall B. (1990), *Corporate Corruption*. New York: Praeger.

Coleman, James William (1994), *The Criminal Elite: the Sociology of White-Collar Crime*. New York: St. Martin’s Press.

Coleman, James William (1987), “Toward an Integrated Theory of White-Collar Crime.” *American Journal of Sociology*, 93.2, 406-439.

Conger, Jay A. (1990), “The Dark Side of Leadership.” *Organizational Dynamics*, 19.2, 44-55.

Daboub, Anthony J., Rasheed, Abdul M. A., Priem, Richard L., and Gray, David A. (1995), “Top Management Team Characteristics and Corporate Illegal Activity.” *Academy of Management Review*, 20.1, 138-170.

Dutton, Jane E., Dukerich, Janet M., and Harquail, Celia V. (1994), “Organizational Images and Member Identification.” *Administrative Science Quarterly*. 39.2, 239-263.

Forelle, Charles and Clark, Don. (2009, May 14), Intel Fine Jolts Tech Sector --- EU Levies Record $1.45 Billion in Monopoly Case; Win for Rival Chip Maker AMD. Wall Street Journal (Eastern Edition), p. A.1. Retrieved May 16, 2009, from ABI/INFORM Global database. (Document ID: 1710938291).

Fritzsche, David J., and Becker, Helmut (1984), “Linking Management Behavior to Ethical Philosophy—An Empirical Investigation.” *Academy of Management Journal*, 27.1, 166-175.

Gardner, Howard (1995), *Leading Minds: An Anatomy of Leadership*. New York: Basic Books.

Geertz, Clifford (1973), *The Interpretation of Cultures*. New York: Basic Books.

Greil, Arthur L. and Rudy, David R. (1984), “Social Cocoons: Encapsulation and Identity Transformation Organizations.” *Sociological Inquiry,* 54, 260-278.

Gross, Edward (1978), “Organizational Crime: A Theoretical Perspective.” In N. Denzin (Ed.), *Studies in Symbolic Interaction, Volume I*. Greenwich, Connecticut: JAI Press.

Gross, Edward (1980), “Organizational Structure and Organizational Crime.” In G. Geis and E. Stotland (Eds.), *White-Collar Crime: Theory and Research* (pp. 52-75). London: Sage Publications.

Hamilton, Edith (1942), *Mythology*. Boston: Little, Brown.

Hegarty, W. Harvey and Sim, Henry P. Jr. (1978), “Some Determinants of Unethical Decision Behavior: An Experiment.” *Journal of Applied Psychology*, 63.4, 451-457.

Interview: Jeff Skilling (2001, March 28), PBS FRONTLINE. Accessed 5/16/2009. http://www.pbs.org/wgbh/pages/frontline/shows/blackout/interviews/skilling.html

Jones, Thomas, M. (1991), “Ethical Decision Making By Individuals in Organizations: An Issue-Contingent Model,” *Academy of Management Review,* 16, April, 366-395.

Krugman, Herbert E. (1967), “The Measurement of Advertising Involvement.” *Public Opinion Quarterly*, 31, Winter, 583-356.

Mitchell, Andrew, A. (1979), “Involvement: A Potentially Important Mediator of Consumer Behavior, in *Advances in Consumer Research*. Association for Consumer Research, William L. Wilkie, ed., 6, 191-195.

Misangyi, Vilmos F., Weaver, Gary R., and Elms, Heather (2008), “Ending Corruption: The Interplay Among Institutional Logics, Resources, and Institutional Entrepreneurs.” *Academy of Management Review*. 33.3, 685-709.

Noelle-Neumann, Elisabeth (1984), *The Spiral of Silence: Public Opinion—Our Social Skin. Chicago*. University of Chicago Press.

Pacanowsky, M., and O’Donnell-Trujillo, N. (1983), “Organizational Communication as Cultural Performance.” Communication Monographs, 50, 127-147.

Palmer, Donald and Maher, Michael W. (2006), “Developing the Process Model of Collective Corruption.” *Journal of Management Inquiry*, 15.4, 363-370.

Robin, Donald, P., Reidenbach, R. Eric and Forrest, P. J. (1996), “The Perceived Importance of an Ethical Decision-making of Ad Managers.” *Journal of Business Research,* 35, 17-28.

Reidenbach, R. Eric, Robin, Donald P, and Dawson, Lyndon (1991), An Application and Extension of a Multidimensional Ethics Scale to Selected Marketing Practices and Marketing Groups.” *Journal of the Academy of Marketing Science*, 19.2, 83-92.

Reidenbach, R. Eric, and Robin, Donald P. (1991), “A Conceptual Model of Corporate Moral Development.” *Journal of Business Ethics*, 10.4, 273-284.

Rosoff, Stephen M., Pontel, Henry N., Tillman, Robert (1998), *Profit Without Honor: White-Collar Crime and the Looting of America*. Upper Salle River, NJ: Prentice Hall.

Rothschild, Michael L., (1984), “Perpestives in Involvement: Current Problems and Future Directions, in *Advance in Consumer Research*. Tom Kinnear, ed., Assoications for Consumer Research, Ann Arbor, MI, 11, 216-217.

Schein, E. (1985, 2004), *Organizational Culture and Leadership*. Third Edition. San Francisco: Jossey-Bass.

Schneider, Benjamin. “The People Make the Place.” *Personnel Psychology*, 40, 437-453.

Sims, Ronald R. and Brinkmann, Johannes (2003), “Enron Ethics (Or: Culture Matters More than Codes).” *Journal of Business Ethics*, 45.3, 243-256.

Sims, Ronald R. and Brinkmann, Johannes (2002), “Leaders as Moral Role Models: The Case of John Gutfreund at Salomon Brothers.” *Journal of Business Ethics,* 35.4, 327-339.

Sutherland, Edwin H. ([1949] 1983), *White-Collar Crime: the Uncut Version*. New Haven, Connecticut: Yale Unversity Press.

Tenbrunsel, Ann E. (1998), “Misrepresentation and Expectations of Misrepresentation in an Ethical Dilemma: the Role of Incentives and Temptation.” *Academy of Management Journal*, 4.3, 330-339.

Yoffie, David B. and Kwak, Mary (2001), “Playing by the Rules: How Intel Avoids Antitrust Litigation.” Harvard Business Review, 79.6, 119-122.

Zaichkowsky, Judith Lynne, (1985), “Measuring the Involvment Construct.” *Journal of Consumer Research,* 12, December, 341-352.
Zelnick, Nate (2000), “Underdog Bites Self.” *Internet World* (6/1/2000), 6.11.

THE NEED TO REFORM OR ELIMINATE THE INDIVIDUAL ALTERNATIVE MINIMUM TAX

Philip J. Harmelink, University of New Orleans
James R. Hasselback, University of West Florida

Abstract: The AMT is the single most serious problem with the Tax Code. This article discusses some of the problems with the AMT, its computations, and the tax planning related to it. Total repeal of the individual AMT would be an alternative that should be considered so that taxpayers would not be subject to the AMT when it was not originally the intention of the Congress to subject many of these taxpayers to the AMT.

INTRODUCTION

The individual Alternative Minimum Tax (AMT) has been a part of the U.S. tax system since the Tax Reform Act of 1969 and was enacted effective for 1970. It came about as a result of a report that 155 taxpayers with income of over $200,000 paid no federal income taxes.[1] The AMT started out as an add-on minimum tax equal to 10% of the tax preferences in excess of $30,000 plus the taxpayer's regular tax liability and certain carryovers. The rate was increased to 15% and the exemption was decreased in 1976. Further changes took place in 1978, 1982, 1986, 1990, and 1993.

From 1979 to 1982, the tax added the possibility of an alternative minimum tax and so taxpayers paid the larger of the add-on tax or the AMT. In 1983, the add-on part of the AMT was repealed and taxpayers began paying the AMT only if the tentative alternative minimum tax was larger than the regular tax. Over the years, the rates of the AMT increased from 21% in 1990 to 24% in 1991, and then increased to the present 26% and 28% with the 1993 Act. Starting in 2003, the AMT tax allowed capital gains and qualified dividends to be taxed at the capital gains rate to give the advantages present with the regular tax computation. At the end of virtually every year, Congress makes small patches in the AMT relating to exemptions or relatively minor points.

In 2006, the IRS's National Taxpayer Advocate's report highlighted that the AMT is the single most serious problem with the Tax Code.[2] In addition, one of the conclusions of the latter report was that the AMT leads to situations where most taxpayers who owe the AMT do not realize it until preparing their returns or being notified by the IRS. The AMT does not just hit the high income taxpayers. In 2008, a total of 27 percent of the households that paid the AMT had adjusted gross income of $200,000 or less.[3] Nearly every time individual tax reform is proposed, the AMT is mentioned as an area of concern; yet, little reform has been accomplished because there is always the revenue concern. The AMT raised $26 billion of the $1,031 billion total individual income tax in 2008.[4]

This article discusses some of the problems with the AMT, its computations, and the tax planning related to it; the major components causing an AMT liability; alternative proposals for dealing with this difficult area; and recommendations for tax reform in this area. Although there

[1] Pub. L. No. 91-272, 83 Stat. 487 (Dec. 30, 1969).
[2] National Taxpayer Advocate 2006 Annual Report to Congress.
[3] IRS 2010 Fall Statistics on Income Bulletin, p. 53.
[4] Id., p. 49.

have been proposals for AMT reform over the years,[5] the present article discusses the reasons that the AMT is so frustrating and difficult for taxpayers, all of which leads logically to a call for immediate major reform or repeal.

PROBLEMS WITH THE AMT

The calculation of the AMT is incredibly complicated with an assortment of adjustments and tax preferences and is virtually impossible to calculate by hand. The AMT Form 6251 is 54 lines long and the instructions for that form are a very detailed 14 pages long. For those taxpayers using computerized tax software, the calculation of the AMT might not cause any significant computational problems, but many taxpayers still do not know what caused them to be hit by the AMT. The number of households that pay the tax has increased significantly in the last 10-15 years. In 1997, for example, 605,000 taxpayers paid the AMT; by 2008, the number of affected taxpayers jumped to 3.9 million, or about 4% of individual taxpayers.[6] The Congressional Budget Office projects that unless Congress acts, the AMT would affect nearly half of all households by 2035.[7] This was certainly not the intention of those who enacted the law originally.

For years, Congress has passed one-year patches aimed at minimizing the impact of the tax. For the 2010 tax year, a patch was passed on December 16, 2010, but only after the IRS had already designed its forms for 2010. The IRS had to reprogram its forms to accommodate the law change.

The AMT is aimed at people who live in high tax states, own homes, and have children. Taxpayers who live in states with high income tax rates are up to seven times more likely to pay the AMT than those who live in states with lower income taxes. Taxpayers with large families—specifically families with three or more children—are more likely to pay the AMT than smaller families.[8]

In summary, in computing the AMT, taxpayers first add (or subtract) adjustment and add tax preferences to arrive at Alternative Minimum Taxable Income (AMTI). They then must subtract an exemption (which can be phased out) resulting in a net AMTI, and compute the tentative minimum tax applying a 26% rate on the first $175,000 of AMTI and 28% on the amount of AMTI in excess of $175,000. If this tentative minimum tax is larger than the regular tax, the excess is the amount of AMT owed. In addition, qualified dividends that are taxed at a maximum rate of 15% and capital gains that are taxed at a maximum rate of 15% or 25% for regular tax purposes are taxed at those rates for AMT purposes. The foreign tax credit and nonrefundable personal credits are allowed against the tax in determining the tentative minimum tax. Extra work may be necessary in computing AMT carryforwards which might be different from regular tax carryforwards. If taxpayers qualify for the AMT, further calculations could be necessary to compute AMT versions of carryforward losses and credits until used up in future years.

---

[5] See, for example, "A Simple, Progressive Replacement for the AMT," *Tax Notes*, June 4, 2007, pp. 945-955.
[6] See note 3, p. 53.
[7] Congressional Budget Office, "CBO's 2011 Long-Term Budget Outlook," p. 62.
[8] See note 7.

Adjustments

There are a number of areas as follows that require adjustments under IRC § 56(a), in many cases with complicated calculations. The adjustments tend to have the effect of deferring certain deductions or recognizing income sooner.

1. Depreciation. Where personal property has been depreciated for regular tax purposes using the 200% declining balance, depreciation needs to be recomputed using the 150% declining balance method. In addition, taxpayers are required to switch from the declining balance method to the straight-line method in the first year that maximizes the deductions. Thus, the positive adjustments in the first few years of ownership will be offset by negative adjustments in the later years of ownership. For real property, taxpayers are required to use 40-year straight-line depreciation although for regular tax purposes, they may have used 39 or 27.5 year depreciation. This adjustment is no longer necessary for acquisitions of real property after 1998, but adjustments are still required for real property acquired before 1999.

2. Circulation, Mining Exploration, and Research and Development Expenditures. Circulation expenditure of periodicals must be amortized equally over three years (where they may be fully deducted for regular tax purposes) and mining and research expenditures must be amortized ratably over 10 years (where they might be amortized over five years for regular tax purposes). The basis for gain or loss determination is computed using the AMTI basis. Certain deductions related to pollution control facilities are not allowed. The credit allowed for alcohol and biodiesel fuels is included in income.

3. Incentive Stock Options (ISOs). The excess of the stock's fair market value at the time of the exercise of the ISOs over the amount paid for the stock must be included as an adjustment.

4. Passive Farming Losses. No deduction is allowed for losses from farming activities in which the taxpayer does not materially participate.

5. Net Operating Losses. Complicated rules must be applied where net operating losses (NOL) have been used. The regular NOL must be adjusted for AMTI adjustments and tax preferences.

6. Long-term Contracts. The percentage-of-completion method must be used for AMT purposes instead of a completed contract method.

7. Personal Exemption. The personal exemptions taken for regular purposes need to be added back as an adjustment in computing AMT. However, a separate exemption for AMT purposes can be taken although it is subject to a phase-out.

8. Standard Deduction. The standard deduction is not allowed for the AMTI computation.

9. Itemized Deductions. There are a number of adjustments relating to itemized deductions. Medical expenses are deductible for AMTI purposes only to the extent they exceed 10% of AGI. Since the percentage for regular tax purposes is 7½%, there is a maximum 2½% adjustment that is necessary for AMT purposes. If the actual deduction taken for regular purposes is less than the 2½% adjustment, the actual deduction would be the adjustment. Virtually all state and local real property taxes, personal property

taxes, and income taxes must be added back as an adjustment for AMT purposes (except the windfall profit tax and the generation-skipping tax imposed on income distributions). While the home mortgage interest deduction is generally allowed for AMT purposes, the amount of the deduction taken on a regular tax return because of home equity loan interest must be added back for AMT purposes. Investment interest expense up to the amount of net investment income is allowed. Miscellaneous itemized deductions are generally not allowed for AMTI calculations except for wagering losses, deductions for impairment-related work expenses, deductions for estate tax relating to income in respect of a decedent, and an assortment of other less common deductions. In the years when some of the itemized deductions are phased out, the phase-out must be added back to AMTI. If an AMT is due, the taxpayer may be able to lower his or her total tax (regular tax plus AMT) by claiming itemized deductions on Form 1040, even if the total itemized deductions are less than the standard deduction. This is because the standard deduction is not allowed for the AMT and, if one claims the standard deduction on Form 1040, one cannot claim itemized deductions for the AMT.

10. Other Adjustments. When a taxpayer is required to recognize gain or loss on disposal of a depreciable asset, the gain or loss must be adjusted to reflect the AMT depreciation amount rather than regular depreciation amounts. Passive activity gains and losses must be refigured for the AMT by taking into account all adjustments and preferences and any AMT prior year unallowed losses that apply to that activity. The amount of any AMT passive activity loss that is not deductible and is carried forward is likely to differ from the regular tax amount. If a charitable contribution of property was made to which Section 170(e) applies and there is a different basis for AMT purposes, an adjustment may have to be made. For the regular tax, some deductions are credits and may result in carryforwards to other tax years. Examples are investment interest expense, a net operating loss, a capital loss, a passive activity loss, and the foreign tax credit. Because one may have to refigure these items for the AMT, the carryback or carryforward amount may be different for the AMT than for the regular tax. The at-risk limits and basis amount also may differ for the AMT. Therefore, one must keep records of these different amounts.

Tax Preferences

There are a number of tax preferences that have to be added to taxable income to arrive at AMTI under IRC § 57.

1. Depletion. The excess of the percentage depletion deduction over the adjusted basis of the property at the end of the year is added as a tax preference for all minerals.

2. Intangible Drilling Costs. There is a tax preference for intangible drilling costs on oil, gas, and geothermal wells equal to the amount of excess intangible drilling costs over 65% of the net income from the resource properties. Excess intangible drilling costs are the amount by which the intangible drilling deduction for regular tax purposes exceeds the amount which would have been allowable if the costs had been capitalized and amortized over 120 months.

3. Tax-Exempt Interest. Although tax-exempt interest is generally not a tax preference item, the tax-exempt interest on private activity bonds issued after August 7, 1986, is a tax preference. The preference does not apply to bonds issued for the benefit of tax-exempt charitable or education institutions or for bonds issued for public purposes such

as schools and municipally owned public utilities, nor does it apply to tax-exempt interest in private activity bonds issued in 2009 and 2010.

4. Accelerated Depreciation or Amortization. There is a tax preference for accelerated depreciation on real property before 1987 that is in excess of straight-line depreciation. There is also a tax preference for amortization of certified pollution control facilities for the excess of 60-month amortization over depreciation otherwise allowable.

5. Exclusion for Gains on Sale of Certain Small Business Stock. There is a tax preference for the amount equal to 7% of the amount excluded from income under IRC § 1202 allowing taxpayers to exclude up to 50% of the gain on the sale of certain small business stock held more than 5 years. Thus, 3½% of the gain is treated as an AMT preference. In future years, the AMT preference will vary depending on when the stock was purchased.

6. There is no AMT adjustment if the taxpayer elects to deduct the following items ratably over the period of time shown:

   - Circulation expenditures – 3 years
   - Research and experimental expenditures – 10 years
   - Mining exploration and development costs – 10 years
   - Intangible drilling costs – 60 months

Exemption

There is a sizeable exemption allowed for AMT purposes; however, unfortunately for many taxpayers, it is phased out if AMTI exceeds certain amounts. For 2011, the exemption is $74,450 for joint filers and surviving spouses, $48,450 for single individuals, and $37,225 for married individuals filing separately or estates and trusts. The exemption amounts are reduced by 25 cents for each $1 by which AMTI exceed $150,000 for joint filers, $112,500 for single taxpayers, and $75,000 for married individuals filing separately. Thus, for example, if the AMTI were greater than $447,800 for joint filers, there would be no deduction for an exemption. In effect, the phase-out could make the 28% higher marginal AMT tax rate equivalent to an effective rate of 35% (1.25 x 28%) at levels above the phase-out point.

Calculation of the AMT

The rate applied to the AMTI is 26% on the first $175,000 and 28% on the remaining amount of AMTI. In addition, dividends taxed at 15% and long-term capital gains at 15% and 25% for regular purposes are taxed at the same rates for AMT purposes.

Tax Credits

Only the personal nonrefundable tax credits and the foreign tax credit reduce the AMT liability for individual taxpayers. Thus, the general business credit is not available against the AMT in certain situations. The general business credit is taken only to the extent that it reduces the regular tax to the tentative minimum tax. This is to the benefit of taxpayers since taxpayers then will not be in a situation where the business credit reduces the regular tax and then the AMT is increased to offset the business credit taken. In other words, this provision often allows the general business credits to be retained for carryback or carryforward purposes. A few of the personal nonrefundable tax credits have been made permanent against the AMT. The others must be renewed each year. The foreign tax credit is based on AMT income rather than regular income.

The AMT paid in one year may be carried forward indefinitely as a credit against the regular tax liability; however, the credit may not be used to offset any future minimum tax liability. Again, the taxpayer is not allowed to take a credit larger than the amount necessary to reduce the regular tax to the amount of the tentative minimum tax.

Tax Planning

Some taxpayers are sophisticated enough to do some tax planning that may reduce their AMT liability. Other taxpayers simply do not understand the AMT well enough to avoid the AMT and therefore get caught off-guard when their tax preparer software or their tax preparer inform them that they are being subject to the AMT. Planning becomes especially difficult because Congress usually waits until the end of the year to make their annual patches to the AMT. The types of tax planning recommended are tricky since taxpayers should only accelerate receipt of income or defer expenses up to the point where the tentative minimum tax equals the regular tax.

Sometimes it might be advantageous to accelerate income into an AMT year since the AMT rates of 26% and 28% are less than the highest regular tax rates with which one might be faced. Accelerating income could be accomplished by taking capital gains before year-end, receiving bonuses and commissions before year-end, redeeming Treasury bills and U.S. savings bonds before year-end to recognize multi-year accruals, or exchanging tax-exempt bonds for taxable bonds paying higher interest rates. Taxpayers holding private-activity bonds might wish to trade these bonds for regular municipal bonds or for taxable bonds with higher interest rates.

On the other hand, if taxpayers were certain they would not be subject to the AMT, they might want to incur expenses so as to reduce their regular tax. They could accomplish this by moving some allowed itemized deductions that would not be lost if they were subject to the AMT, such as charitable contributions, to the regular tax year where they could reduce taxes up to 35%.

PROPOSALS FOR DEALING WITH THE AMT AND ITS PROBLEMS

Various methods of dealing with the AMT and its problems and complications are possible, all of which have advantages and disadvantages.

Modification of Existing AMT Structure

One alternative is to modify the basic structure of the AMT. This could be done through revisions of any one or more of the following provisions or items.

The AMT exemption amount could be indexed for inflation, and/or increased significantly. This would eliminate the need for Congress to have to annually raise the exemption amount. More importantly, the phase-out of exemption could be eliminated. This, of course, would allow taxpayers to know just exactly what their exemptions were without having to be concerned that the phase-out would reduce the benefit of the exemption.

It would be possible to eliminate some very common adjustments. For example, the adjustment for state and local property and income taxes could be eliminated so that these tax deductions could be retained for AMT purposes. Taxpayers count on these deductions for regular tax purposes and to have them eliminated is very frustrating to taxpayers.

Another modification to the AMT would be to eliminate the need to make any adjustments relating to depreciation. There already has been a reduction in the need for an adjustment relating to depreciation, such as the provision that taxpayers no longer need to make the depreciation adjustment for acquisitions of real property after 1998.

A modification to allow common miscellaneous itemized deductions could be helpful to taxpayers. Although there are some miscellaneous itemized deductions that are allowed (such as wagering losses), many (such as employee-related expenses or investment-related expenses) need to be added back as an adjustment. Eliminating this adjustment would allow taxpayers to "keep" the deductions that they were entitled to for regular tax purposes.

Interest on mortgages could be totally retained even if it was interest on home-equity loans. This would eliminate the need for any adjustment relating to mortgage interest.

Another modification would be to decrease the AMT rates so that not so many taxpayers would be subject to the AMT. This would help coincide with the individual tax rates that have decreased to a maximum of 35 percent. Perhaps the AMT rate could go down to 21% like it was a couple of decades ago.

Sometimes taxpayers criticize the triggering of the AMT when there are ISOs and the difference between the fair market value and the exercise price has to be included as a tax preference even when no stock is actually sold. The inclusion of unrealized gain on ISOs imposes difficulties for people who cannot come up with cash to pay tax on gains that they have not realized yet. A number of taxpayers have been heavily penalized by this inclusion in AMT and then their stock declines significantly in value before they can sell the stock. Perhaps this adjustment could be eliminated. In 2008, Congress put in a special law to abate the AMT liability stemming from the exercise of ISOs.

Modification of the existing AMT structure for some or many of the above possible changes would still not totally solve the AMT problem. There would still be complexities in calculating AMT and uncertainties in tax planning.

Change the Regular Income Tax Structure

Another alternative to at least alleviate the AMT problem would be to change the regular income tax structure in such a way that the areas that cause taxpayers to be subject to the AMT would be eliminated from the regular tax structure. Some might argue that if income were taxed comprehensively by the regular tax code, there would be no need for the AMT. The AMT problem is caused by what some might claim are unjustifiable deductions on taxable income that cause taxpayers to be subject to the AMT. For example, the following changes in the regular income tax structure could occur:

1. Eliminate the deduction for state and local real and personal property taxes;

2. Eliminate the deduction for state and local income taxes;

3. Eliminate the allowed miscellaneous itemized deductions that would be added back as an adjustment for AMT purposes;

4. Make depreciation consistent for regular and AMT purposes;

5. Do not allow percentage depletion for regular purposes.

Such actions might keep some taxpayers from being subject to the AMT or might reduce the AMT problem for other taxpayers, but the changes would not totally eliminate the AMT problem.

Total Repeal of the AMT

Total repeal of the individual AMT would be an alternative that should be considered so that taxpayers would not be subject to the AMT when it was not originally the intention of the Congress to subject many of these taxpayers to the AMT. Although some might argue that the revenue lost from not having the AMT would be too great, Congress could increase the top ordinary income tax rates. At least, the tax liability then would be more predictable than it is under current law where taxpayers are often taken by surprise when they find out they are subject to the AMT. Further, many of the tax loopholes that were causing taxpayers with high income to not pay income taxes have been eliminated through provisions such as the at-risk rules enacted in 1976 and the passive loss rules enacted in 1986. It is simply not fair to give taxpayers benefits and deductions for regular tax purposes and then have them taken away through the AMT.

Those who argue against repeal would say that most of the AMT is paid by taxpayers having fairly high incomes, generally at least in the $150,000 to $200,000 range, and they should be prepared to pay taxes. Some argue that the focus should be on making sure that those with lower incomes are not subject to the AMT.

AUTHORS' RECOMMENDATION

The authors recommend that the AMT be totally repealed. In this time when significant individual tax reform is proposed, it would now be an excellent and appropriate time to totally eliminate the AMT. This complicated and burdensome tax definitely causes too many problems for too many taxpayers. Not only are the computations difficult, but tax planning is too complicated because most taxpayers simply do not understand what it takes to avoid or minimize the AMT.

If Congress believes too much revenue would be lost if the AMT were repealed, it could legislate a tax increase at higher levels of income to cover the revenue loss. At least taxpayers would be able to better predict their tax liability than they presently are and they would not be taken by surprise by the AMT. Further, many of the tax loopholes that originally were present and gave rise to the original AMT legislation have been closed with tax shelter changes under the at-risk rules and the passive loss rules. It is not fair that taxpayers who have counted on tax provisions for a long time should lose them through the AMT. To have bad tax law in effect principally because Congress desires to retain the AMT in order to obtain tax revenue is just not good tax policy.

CHINA: CROSS CULTURAL KNOWLEDGE AND BUSINESS PATTERNS

Donovan A. McFarlane, Frederick Taylor University
Tracie V. Cooper, Nova Southeastern University

Abstract: As China rapidly emerge to secure its place as the global capital of economic and business opportunities, many western companies and businesspeople are looking toward this nation as the next place for making their fortune. Unfortunately, the Chinese market and economy are not as easily penetrated and traversed as many would imagine. There are many difficult barriers and obstacles to overcome in doing business with the Chinese, and the authors of this paper explore and examine the various cultural barriers to doing business in China. The authors briefly look at the historical, social, cultural, and political contexts of Chinese society, and how these coalesce to create the reality of values and practices that affect business deals and negotiations today. The authors assess the literature on Chinese business patterns and use cultural and negotiation theories based mainly in the works of Gesteland, Katz, and Hofstede as frameworks for examining the contexts in which successful business deals and negotiation can potentially be created. Several recommendations including the development of greater cultural competence and understanding of Chinese society and value-orientation are made, as methods for Western and other entrepreneurs and their organizations to capitalize fully on the opportunities for business being created, as China adapts various aspects of free enterprise market system and democracy. Finally, the authors concur with Luthans and Doh on the necessity of practicing international management in order to bridge the cultural gaps that exists in the global competitive economy.

INTRODUCTION

Culture has become an important factor in business and leadership in the 21st century, and is one of the most important among the globalizing factors that affect business success and performance (Cohen, 2007, Gesteland, 1999; Schneider & Barsoux, 2003). We must now deal with cultures and peoples who were once isolated by various barriers to business, especially distinct and authentic cultural differences. However, diversity is now the hallmark of 21st century society and cultural competence has become an important requirement for doing business and engaging in leadership without border (Schneider & Barsoux, 2003; Cohen, 2007). Many nations that were once isolated have risen in both commerce and social values to significantly impact global business strategies and plans. One such nation is the People's Republic of China (China) which has gained tremendous prominence in economy, politics, and business over the last few decades.

As China opens its doors to more businesses and entrepreneurs both new and old challenges present themselves as obstacles to business opportunities. One sure way of better understanding and dealing with these challenges is to acquire more knowledge about the culture or to increase cultural competence about China and its people, especially those values that affect business relationships. As China continues its transition from a rigid communist economy and society to embracing some aspects of free enterprise and democratic structures and systems, it will become easier for future businesspeople to deal with Chinese businesses and entrepreneurs. While the historical and current culture reflect homogeneity overall, the infusion of free-market and democratic values is creating variances in business styles that will be advantageous to Western and other businesses operating in and dealing with Chinese businesspeople and market. However, at this point in time, it is extremely important to understand some of the historical, social, cultural, philosophical and political contexts in which Chinese value patterns and norms have evolved in order to facilitate greater success in business and negotiations.

OVERVIEW OF THE CHINA: HISTORY, GOVERNMENT, AND CULTURE

China's History Overview

China is located in Asia and is regarded as one of the world's oldest civilization which once outpaced the world in progress and development until the civil unrests of the 1900s (History-of-China.com, 2007). China has more than 5000 years of history and was ruled in successive reigns under dynasties and emperors. According to The University of Maryland (2011a) centuries of migration, amalgamation, and development brought about a distinctive system of writing, philosophy, art, and political organization that came to be recognizable as Chinese civilization from a vast and extensive landscape of history. China's history is very long and complex because of the dynastic progression and the countless events and groups within that society struggling for dominance. While China is not ethnically diverse, and has not been known for diversity, its cultural history has always been rich because of differences among the people occupying its terrains. According to the University of Maryland (2011b) Chinese history, until the twentieth century, was written mostly by members of the ruling scholar-official class and was meant to provide the ruler with precedents to guide or justify his policies. These accounts focused on dynastic politics and colorful court histories and included developments among the commoners only as backdrops. Thus, most of Chinese history as we know it centers on political life and leadership until the 1900s which saw the last of the Imperial system around 1912.

China's Government and Its Structure

Historically, China's government has been a centralized leadership where the country was ruled for centuries by emperors and ministers of courts, with each successful dynasty continuing the centralized imperial government with appointment of provincial governors. China's dynastic power as a nation went unchallenged for centuries until the 16th century with the arrival and decline of the Qing Dynasty. According to the University of Maryland (2011b):

> The success of the Qing dynasty in maintaining the old order proved a liability when the empire was confronted with growing challenges from seafaring Western powers. The centuries of peace and self-satisfaction dating back to Ming times had encouraged little change in the attitudes of the ruling elite (p. 1).

China developed a Republic government in the second decade of the 1900 after deposing its last emperor, Emperor Pu Yi who was forced to abdicate in 1917 after only two short periods of reign. The Republic government was the work of several men including Chairman of China's communism Mao Tse Tung (Chairman Mao). China's Republic government is headed by the Communist Party of China (CPC). The CPC has both central and local organizations. According to China Internet Information Center (2011), at the top is the Central Committee and when it is not in session, the Political Bureau and its Standing Committee exercise the power of the Central Committee. Both the Political Bureau and its Standing Committee are elected by the plenary session of the Central Committee. China has a head of state who is the president of the Republic. The Presidency is regarded as an independent organ of the state and is an office of state power that exercises its power according to decisions of the National People's Congress and its Standing Committee (China Internet

Information Center, 2011). The president of the People's Republic of China exercises both domestic functions and powers and those in foreign affairs.

China's Culture: Values, Art, and Traditions

In China culture is everything to its people and this culture is deeply rooted in the minds and hearts of everyone because of its long history and the lack of interference the country experienced from outside cultures for centuries. China has a collectivist or group-oriented culture (Hodgetts, Luthans & Doh, 2005; Katz, 2008; Hofstede, 2009). Chinese cultural history is characterized by high levels of complex arts to calligraphy, architecture and poetry, to medicine, philosophy, and religion extending over a period of 5,000 years. Three major religions in China are Buddhism, Taoism, and Hinduism with several other religious practices scattered across the country including Christianity. However, the majority of Chinese are devoted followers of Buddhism. Chinese culture is rich with myths and legends and rich symbolism with dominant creature symbols such as the dragon, tiger, and phoenix holding particularly central positions in folk and popular culture. Calligraphy as an art form has been practiced for thousands of years and China boasts some of the world's greatest schools and scholars of both painting and calligraphy in history. A very traditional part of Chinese culture that remains highly intact is ancestral homage. Because there are so many different ethnic groups in China, cultural art forms and traditions do vary across the country. However, there is still a "Chinese Culture" because of Chinese nationalism and certain common values and art forms and customs among its people.

PATTERNS OF CROSS-CULTURAL BUSINESS BEHAVIOR

According to Gesteland (1999) cross-cultural patterns in business can be influenced by several different orientations that affect behaviors: deal vs. relationship focus, informal vs. formal cultures, rigid-time vs. fluid time, emotionally expressive vs. emotionally reserved cultures. Chinese business people are considered to be relationship focused (Katz, 2008) because they value respect, mutual trust, and getting to know those they engage in business with because the general idea is that they are doing business with people, not with companies. Thus, relationship and the concept of "Guanxi" become important in negotiation. According to the Los Angeles Chinese Learning Center (2011) "Guanxi literally means relationships…stands for any type of relationship. In the Chinese business world, however, it is also understood as the network of relationships among various parties that cooperate together and support one another" (p. 1). According to Gesteland (1999) deal-focused (DF) people are fundamentally task oriented while relationship-focused (RF) folks are more people-oriented. Chinese businesspeople represent a cross between these two extremes, but relationship is the core principle in doing business. Chinese business leaders pride themselves on valuing those they do business with and must get to develop a relationship to feel comfortable in a business partnership in order to invest trust.

Chinese culture is characterized by high levels of formality because of the history of the people and the centralization of leadership, existence of rules and principles for actions and behaviors, and the overall structure of a society built on inequality. Gesteland (1999) notes that problems can occur when informal business travelers such as Americans and Europeans from relatively egalitarian cultures cross paths with more formal counterparts from hierarchical societies such as the Chinese. Formality relates much to age, rank, position, and other statuses and Chinese business people expect and use formal language while addressing others, especially where seniority and achievements are concerned. Informality can be mistaken as a sign of being disrespectful, and in many instances, Chinese find some of the informalities in

Western societies both offensive and disrespectful.

There are rigid-time and fluid-time cultures that exist across the globe (Gesteland, 1999). Many Western cultures have more fluid-time constructs than Eastern societies such as China, where punctuality is a must, especially where business is concerned. According to Katz (2008) Chinese are very careful not to waste the time of those with seniority or higher rank, and for most meetings it is usually best to show up on time. This is not the same in American society or other Western societies as issues of rank and seniority have little to no bearing on punctuality. Fluid-time is more valued in Western cultures when it comes to business because time is a part of the idea of flexibility and adaptation as stressed in democratic and free enterprise societies to match understanding of change and uncertainty as features of contemporary global business environment.

Chinese are known for being emotionally reserved, while their American counterparts are known for high levels of self-expression and emotions. This is why we often see lessons of moderation underpinning fundamentals in Chinese philosophy and practices, from martial arts to meditation and the like. Confucius and Mencius often emphasize moderation as part of human developmental practices in their philosophies, for example. In fact, Chinese find being boisterous to be repulsive because they value self-restraint and self-control. Emotional restraint is esteemed very highly (Katz, 2008) because it communicates a sense of calm and respect for others. Thus, Chinese businesspeople generally speak quietly with gentle tones and allow periods of silence and this allows for reflection and time for others. Loud and boisterous behaviors are seen by Chinese businesspeople as bad for both social and business relationships. Americans and majority of Westerners on a whole must understand that this difference can be a factor that affect business success, and must therefore, understand the Chinese idea of self-restraint and self-control as part of developing and fostering mutual respect for comfort and continuation of business relationship.

The Los Angeles Chinese Learning Center (2011) has identified three elements or aspects to understanding Chinese business relationships. These three elements are: (i) the concept of fairness and treatment of others as treating someone with decency while others treat him/her unfairly could result in a good relationship; (ii) that good relationship starts with and builds on the trustworthiness of the individual or the company. For example, if an individual or business promised certain things and delivered as promised, they are showing trustworthiness and the Chinese would be more inclined to deal with them again; and (iii) that being dependable and reliable definitely strengthen the relationship between individuals doing business with each other.

The stress on relationship-orientation from the Chinese business perspective is not incident because “Chinese prefer to deal with people they know and trust” (Los Angeles Chinese Learning Center, 2011, p.1). This stems from a collective-cultural orientation where both history and societal, as well as philosophical principles have emerged to prove trust and familiarity as good basis not only for ideas of unity as found in Chinese philosophical learning, but also connected to the idea of showing respect on a mutual level. This means that Western and other non-Chinese business people need to invest heavily in developing strong relationships with their prospective Chinese business partners or clients to reap maximum success in business dealings. It is believed that the “right Guanxi” is required for successfully doing business in Chinese society (Los Angeles Chinese Learning Center, 2011) because it minimizes the risks, frustrations, and disappointments that Western and other companies and business people may encounter when they must deal with authorities that will determine entry, market parameters and the competitive standing of an organization in the long run in China.

Guanxi does not only represent relationship, but network for business in Chinese society.

MARKETING AND PRODUCT PLACEMENT IN CHINA

Marketing and selling products in China requires companies to take many factors into consideration aside from politics and economy. Chinese society is very complex in terms of the values, tastes, behaviors, preferences, and attitudes of its people. Moreover, owing to China's long period of isolation, there are still some biases against foreigners and foreign products, especially when it comes to Chinese nationalism and its relationship with certain cultures and people (Katz, 2008). Therefore, "it is crucial to show respect for the country's history and importance" (Katz, 2008, p. 1) in the global economy when marketing and selling in China. Marketing and selling products in China requires understanding the cultural values and behaviors that affect Chinese attitudes to foreigners and their products, and such an understanding can mean the difference between success and failure. Consumer tastes and preferences are affected by cultural and national values and Chinese are culturally and nationalistically entrenched, especially as characterized by their tendencies to maintain their tradition, language, arts and other cultural practices even when living abroad.

Chow (2010) argues that there are no fixed strategies or methods of marketing and selling products to the Chinese, but that success will depend on the types of products being marketed and how they appeal to the people given cultural and other factors. This is quite true. There have been many companies that have had exceptional marketing strategies with their products but have failed due to inability to understand the Chinese culture and society, as well as the need for their products. For example, eBay's failure in China is one of those cases that bring to light some of the seriousness of the Chinese market. E-Bay failed in China because it did not anticipate the impact of entry barriers for foreign companies, which were both cultural and legal-economic, as Chinese are still more attached to their own. In addition, Chinese customers are being bombarded with the same offerings and strategies for many western and Chinese companies who mistakenly believe that they are first movers in the business. Best Buy is another U.S. foreign company that has failed in the Chinese market. According to Rein (2011), in March 2011, Best Buy (BBY) gave up on all nine of its branded stores in China after five years in the market because Chinese consumers lacked the spending habits of Americans and Westerners, and moreover, there are competitively similar home-based businesses that the Chinese seem to support because of their fixed prices and other factors. Additionally, the Chinese government still pursues economic and investment policies that favor domestic companies and restrict the expansion and economic freedom of foreign companies in order to protect their native businesses and economy.

Many businesses attempt to market and sell their products in China without remembering that the Chinese always have access to local brands which tend to be much affordable for the majority of the population. Best Buy in China was perceived as being too expensive, with many of their products priced higher than in local markets (Rein, 2011). This factor alone would turn away many Chinese consumers who sometimes harbor intense doubts about supporting foreign businesses, especially given the restrictive policy of its government on foreign investments and wealth, as well as their past experiences with colonialism. The best method to market and sell products in China therefore seems to be to effective develop a low-cost and low-price strategy where price is comparable to or lower than those of local businesses, yet guaranteeing better quality. This could be difficult where the government takes much effort to protect local businesses from foreign competition and where the cost of cheap labor is offset by taxes and other impositions. The best approach might be to formulate alliance or partnership with local businesses or companies in the same line of business to first overcome the cultural resistance which may damper marketing efforts.

IDEAS FROM HOFSTEDE'S CULTURE FINDINGS

China has a very homogenous culture owing to its past isolation from the world and avoidance of foreigners. Hofstede (1984; 1985) provides a theory and with theoretical frameworks under which we can categorize national and organizational cultures based on several orientations. These cultural orientations include: the level of power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, and long term vs. short term orientation. According to Katz (2008) China's culture is strongly group-oriented, and this relates to Chinese society being collectivist and long-term oriented. Individual preferences are considered far less relevant than having a sense of belonging to a group, conforming to its norms, and maintaining harmony among its members. Because Chinese society has been traditionally oriented towards family, it is a collectivist society in which team work, group, family, and the community are the major focus. Even the very nature of its government reflects the collectivist ideal. Individualism is not highly valued, but has been increasing in recent decades. Power distance is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally (Hofstede, 2009; 1985; 1984). Chinese society has a high power distance stemming from the historical existence of rigid class structures of nobles and peasants and the influence of the imperial family on China's social tradition and social class structure. Power distance between and among classes of people and communities, rich and poor, noble and peasant, and even by name-origin characterized most of Chinese history and still prevail in some instances today. According to Yi, Ribbens, and Morgan (2010), "Even though the traditional Chinese culture values respect towards those with power and encourages acceptance of their assigned social status and positions, the Millennial generation in China hold less regard for authority than previous generations" (p. 1). Masculinity versus its opposite, femininity, refers to the distribution of emotional roles between the genders which is another fundamental issue for any society to which a range of solutions are found (Hofstede, 2009). Gender roles are rigid in Chinese society and women have never shared equal status with men despite few exceptional women making Chinese history in government.

While Chinese value relationships in social settings and family, Katz (2008) notes that there is a shift taking place in the younger generation being short-term-oriented rather than long-term-oriented because of current competition and high turnover in the economy. However, on a social level, Chinese value long-term relationship built around mutual respect. According to Hofstede (2009), uncertainty avoidance deals with a society's tolerance for uncertainty and ambiguity. Uncertainty avoidance indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Uncertainty avoiding cultures try to minimize the possibility of unstructured situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth. China is an uncertainty avoidance culture and has always been so because of its rigid social and political structure. Throughout China's history and governance much attempt was made at control and thus, the nation being a communist or central command reflects uncertainty avoidance operating at a high level in the national culture.

GENERATIONAL DIFFERENCES IN CHINESE SOCIETY

China has survived and achieved much greatness throughout history because of the great value placed on generational relations. In a country where ancestors are literally worshipped, generational ties have been strong for centuries. However, Katz (2008) notes that the Chinese value generational ties because of their care and general concern for the future. However, this is gradually changing among the younger generation as they are becoming worldlier and even westernized in many cases. According to Yi, Ribbens, and Morgan (2010):

> Generational differences are quite apparent in Chinese society. People who were born in the 1960s experienced the Cultural Revolution in their childhood. Those born in the 1970s witnessed the dramatic and profound social changes after China's open-door policy was enforced. The generation born in the 1980s is believed to be the spoiled generation that highly values materialism and self-realization, due to being the only child in the family as a result of the "One Child" policy (p. 1).

As a result of this, varied values and attitudes prevail among the generations in China. For example, Egri and Ralston (2004) found that Chinese who were born in the later years of the Consolidation Era (born 1961-1965) and the early years of the Cultural Revolution Era (born 1966-1970) share similar value orientations, while those born in the early years of the Cultural Revolution Era hold significantly different values from those born in the later years of the same era; for example the degree of openness to change and self-transcendence. At the time of their study, Egri and Ralston (2004) distinguished four generations shaping values and attitudes in Chinese society: Republicans (born 1930-1950), Consolidationists (born 1951-1960), Cultural Revolutionists (born 1961-1970) and Social Reformists (born 1971-1976). In comparing the values, attitudes, and behaviors of these generations, Egri and Ralston (2004) note that the Cultural Revolution generation was actively involved in the market economy and obtained high income through high education and high wisdom. As a result, from their experiences of more dramatic social and political changes than other later generations, this generation values involvement in change.

The Social Reform generation has been heavily influenced by the economic reform since their childhood and therefore is more interested in economic success and less enthusiastic about political dreams than the preceding generations. Chinese belonging to this generation are believed to be more realistic and pragmatic, and thus more silent and peaceful, than the Cultural Revolution generation (Yi, Ribbens, & Morgan, 2010): The Millennial generation or those who were born in the 1980s are also called the "Me generation," the "Affluent generation," the "Individualistic generation," or the "Spoiled generation," but most commonly is referred to as the "One Child generation" (p. 1). They are believed to be materialistic and have values and differences in lifestyle that make them strong and full of self-confidence, value personal well-being, and feel more in control of their destiny. However, we must be reminded that China is a vast land and that while these are generalizations, in many cases, we should approach understanding Chinese society with these as no more than guidelines because China is rapidly growing and changing and factors of education, social and technology exposures, etc., create people with varying value-orientation and views.

NEGOTIATING WITH CHINESE BUSINESS PEOPLE

Chinese value relationship and mutual respect in negotiation. According to Katz (2008) building lasting and trusting personal relationships is critically important. Katz (2008) argues:

> While members of other cultures may expect this to happen gradually over the course of a business engagement, many Chinese expect to establish strong bonds prior to closing any deals and to continue developing them into true friendships as the business partnership continues (p. 1).

As a result of the value placed on developing relationship in order to get comfortable and develop trust with those they do business with, Chinese businessmen will proceed into business afterwards and regular contact is required ("keeping in touch"). Katz (2008) tells us that the Chinese concept, called *Guanxi* is based on very strong commitments and mutual obligations and understanding this concept can lead to very high success rate in negotiations. Furthermore, it must not be forgotten when dealing with Chinese businesses that relationships are based on familiarity, respect, and personal trust, and that business relationships in China exist between individuals or groups of people, not between companies unlike in the United States or Europe or the Western nations. Another important thing to remember when dealing with Chinese business partners is the idea of "saving face" as Katz (2008) reminds us: "Causing embarrassment to another person or showing a lack of respect may cause a loss of face for all parties involved and can be disastrous for business negotiations" (p. 1).

Chinese businessmen and negotiators tend to be very formal and this pertains not only to manner of address, but to language and very strict adherence to status consciousness. The formality stems from respect that hinges on age, rank, as well as on achievements (Katz, 2008). While some small talks may take place during business meetings, formal rules are observed in communication. For example, Chinese business people usually speak in quiet gentle tones and conversations may include periods of silence and a certain distance is maintained during conversation (usually three feet apart). Verbal directness can be an issue since sometimes to save face or keep a friendly atmosphere the Chinese business person will not outright verbally express a negative response or disinterest. This can make negotiation difficult as much mind-reading becomes possible where cultural understandings do not suffice. Chinese value self-control and are not overly expressive when it comes to feelings and emotions because "emotional restraint is held in high esteem" (Katz, 2008, p. 1) among Chinese. Another important issue to watch is the use of non-verbal expressions in business dealings and negotiations as these can have more than intended and subtle meanings. According to Katz (2008) gestures are usually very subtle in Chinese culture even though non-verbal communication is important. Katz (2008) notes that touching others should be totally avoided and that the crossing of the legs could be seen as a sign of lack of self-control and could send the wrong messages. Katz (2008) states that many Westerners should avoid talking with their hands when negotiating or doing business with the Chinese as this can cause much distraction.

In China they mainly employ distributive and contingency bargaining strategies and Chinese negotiators can appear highly competitive and adversarial (Katz, 2008). However, all efforts are made to keep relationship intact, and therefore, when Chinese negotiators appear hostile or become "aggressive" in negotiations, it should not be construed literally. Furthermore, Chinese negotiators spend considerable time in negotiation and negotiations are generally very slow and thus, decision making can take considerable amount of time. Despite this, most Chinese business people are believed to be shrewd negotiators and haggling is not uncommon in negotiations. Katz (2008) also reports that some Chinese negotiators are skillful at employing deceptive techniques and may also use pressure techniques, but will do their utmost to avoid situations that cause them to lose face. Decision making usually involves many stakeholders and can be very slow because of hierarchical structures that require consultation and patience for reply (Katz, 2008). At the same time, there are instances when Chinese business people do not rely much on rules or laws in making decisions but look at specific situations, and personal experiences and feelings weigh strongly in all cases.

Given these understandings, it is important to present oneself appropriately when dealing business with Chinese counterparts. It is advisable that someone senior is selected to carry out the meeting or negotiation because of the importance placed on seniority.

Furthermore, people should enter into the meeting place according to seniority since the head of delegations usually enter first. Meetings should be scheduled in advance and Katz (2008) recommends at least three or four weeks in advance. Having an agenda and providing details on title, positions, and responsibilities is important because of the formality of Chinese business people and the culture (Los Angeles Chinese Learning Center, 2011; Katz, 2008). Chinese people value punctuality, especially in business. Showing up late for a meeting can have disastrous consequences because of rigid time constructs (Gesteland, 1999). According to Katz (2008):

> Punctuality expectations largely depend on the meeting participants' status and rank. The Chinese are careful not to waste a senior person's time. Being late to a meeting or social event without having a valid and plausible excuse can be a serious affront, so it is usually best to show up right on time (p. 1).

Thus, while we value punctuality in Western society, the Chinese place even higher value on it when it comes to business. However, reaction to issues of punctuality varies according to a combination of factors, with the rank of the official for the meeting being an important one. Overall, Chinese society is complex and the rules like the culture tend to be rigid and homogenous to a certain degree. However, as China becomes more culturally and socially open to the world these rules will change overtime.

CONCLUSION

China is experiencing unprecedented cultural, economic, and social changes that are working to accommodate greater business opportunities. According to Zigang (2004) with the globalization of world business, China has become an appealing market for foreign investors. Many investors wishing to do business in China must however understand that doing business there requires understanding not only the economy and politics, but its culture and its people as these are the key to being successful in product marketing and selling, and in business negotiations. Acquiring cultural competence is thus encouraged, and this can be pursued through several different avenues: learning the culture through visitation and firsthand experiences, reading about the culture and conducting research on the Internet, reading business manuals and keeping up with the media about news and developments involving Chinese society and its laws, politics, and business.

Luthans and Doh (2008) believe that changes in the global business environment will continue at an accelerated pace, thereby creating challenges for international management and business practices to reflect this dynamism and the increasing unpredictability of global economic and political events across countries and cultures. They believe that the paramount challenge in today's uncertain sociocultural, geopolitical, and economic environment is to learn and effectively practice international management by acquiring cultural competence and understanding. Acquiring cultural knowledge is a good investment that is a prerequisite in being successful when doing business with other nations and cultures, and China with its massive economy and emergence on the global scene will increasingly become the focus of such knowledge and challenge.

REFERENCES

China Internet Information Center. (2011), China: Structure of State. Retrieved from http://www.china.org.cn/english/features/state_structure/64404.htm

Chow, S. (2010), Product marketing strategy in China: Case study. *China Online Marketing*, June 10, 2010. Retrieved from http://www.china-online-marketing.com/blog/product-marketing/product-marketing-strategy-in-china-case-study/

Cohen, E. (2007), *Leadership without borders: Successful strategies from world-class leaders*. Singapore: John Wiley & Sons Ltd.

Egri, C.P., & Ralston, D.A. (2004), Generational cohorts and personal values: a comparison of China and the United States. *Organization Science*, Vol. 15 No.2, pp. 210-20.

Gesteland, R. (1999), *Patterns of cross-cultural business behavior: Marketing, negotiating and managing across cultures*. Denmark: Copenhagen Business School Press.

History-of-China.com. (2007), About history of China. Retrieved from http://www.history-of-china.com/

Hodgetts, R., Luthans, F., & Doh, J. (2005), *International management: Culture, strategy and behavior*. Boston, MA: McGraw-Hill/Irwin.

Hofstede, G. (2009), Dimensions of national cultures. Retrieved from http://www.geerthofstede.com/culture/dimensions-of-national-cultures.aspx

Hofstede, G.H. (1984), Cultural dimensions in management and planning. *Asia Pacific Journal of Management*, Vol. 1 No. 2, pp. 81-99.

Hofstede, G.H. (1985), The interaction between national and organizational value system. *Journal of Management Studies*, Vol. 22 No. 4, pp. 347-57.

Katz, L. (2008), *Negotiating international business - The negotiator's reference guide to 50 countries around the world*. Charleston, South Carolina: BookSurge Publishing.

Los Angeles Chinese Learning Center. (2011), Chinese business culture: Guanxi, an important Chinese business element. Retrieved from http://chinese-school.netfirms.com/guanxi.html

Luthans, F., & Doh, J. (2008), *International management: Culture, strategy and behavior*, 7th edition. New York: McGraw-Hill Higher Education.

Rein, S. (2011), Why Best Buy Failed in China. Retrieved from http://seekingalpha.com/article/256148-why-best-buy-failed-in-china

Schneider, S.C., & Barsoux, J-L. (2003), *Managing across cultures* (second edition). Essex, England: Pearson Education Limited.

University of Maryland. (2011a), China: Historical setting. Retrieved from http://www-chaos.umd.edu/history/setting.html

University of Maryland. (2011b), Emergence of Modern China. Retrieved from http://www-chaos.umd.edu/history/modern.html

Yi, X., Ribbens, B., & Morgan, C.N. (2010), Generational differences in China: Career implications. *Career Development International* (Previously published as *International Journal of Career Management*), Vol. 15 Iss. 6, pp.601 – 620, DOI: 10.1108/13620431011084439. Electronic link: http://www.emeraldinsight.com/journals.htm?articleid=1889689&show=html

Zigang, Z. (2004), Cross-cultural challenges when doing business in China. *Singapore Management Review*, Thursday, January 1 2004.

JOURNAL OF BUSINESS ISSUES

EDITORIAL POLICY AND MANUSCRIPT GUIDELINES

The Journal solicits unpublished manuscripts not currently under consideration by another publication. Papers submitted in connection with a formal program may be submitted provided the manuscript does not appear in whole or in part (other than a brief abstract) in the proceedings of the event. Each author must provide the Editor with a statement that the manuscript or a similar one has not been published and is not, nor will be, under consideration for publication elsewhere while being reviewed by the *Journal of Business Issues*. Manuscripts with more than four authors are discouraged.

Manuscripts should be set up in an 8½" by 11" format and be double-spaced, except for indented quotations. Margins of at least one inch from the top, bottom, and sides should facilitate editing and duplication. Electronic submissions are preferred.

Manuscripts should include a cover page which indicates the author's name, address, affiliation, and any acknowledgements. The author should not be identified anywhere else in the manuscript.

Manuscripts should include a separate abstract page not exceeding 250 words. The title but not the author's name and affiliation should appear on the abstract. The abstract should contain a concise statement of the purpose of the manuscript, the primary methods or approaches used, and the significance of the findings and contribution.

In order to be assured of an anonymous review, authors should not identify themselves directly or indirectly in the text of the paper. Reference to unpublished working papers and dissertations should be avoided. If necessary, authors may indicate the reference is being withheld because of self-citation.

Tables, figures, and exhibits should appear on separate pages. Each should be numbered and have a title.

Indent all new paragraphs with a tab. Place two spaces between each sentence. Use tabs to align columns in charts and exhibits rather than spacing over with the space bar.

Footnotes and references should appear at the end of the manuscript. However, every effort should be made to incorporate material into the body of the paper.

Manuscript copyright will be transferred to the *Journal of Business Issues*.

The *Journal of Business Issues* is a double-blind refereed journal publishing articles of interest to the business community and business faculty members. The journal is an academic journal sponsored by the College of Business at the University of West Florida and dedicated to excellence in Business.

Journal of Business Issues
College of Business
University of West Florida
Pensacola, FL 32514