Journal of Business Systems, Governance & Ethics

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Journal of
Business Systems, Governance & Ethics

Published By

Victoria Graduate School of Business
Victoria University

Vol 4, No 2, 2009
ISSN 1833-4318

Victoria University
PO Box 14428
MELBOURNE VIC 8001
AUSTRALIA

The *Journal of Business Systems, Governance and Ethics* is published four times a year by Victoria University in online format for no charge. Printed copies are available, for a fee, upon request.

All articles published in this journal were subject to a process of blind peer review by at least two reviewers before selection for publication by the Editorial Board.

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Editorial

The first article in this issue traces the history of corporate governance in Nigeria. The article *Nurturing Corporate Governance System: The Emerging Trends in Nigeria* was written by Benjamin James Inyang from the University of Calabar in Nigeria and begins by noting the paucity of literature on this subject. The article describes how mainstream issues of corporate governance in Nigeria emerged with the enactment of the Companies and Allied Matters Act of 1990 that established the Corporate Affairs Commission, charging it with the responsibility of overseeing the regulation and supervision of the formation, incorporation, registration, management and winding up of companies. The article goes on to point our challenges that still need to be addressed.

The second article: *Rewards in a Not-For-Profit Organisation* by Ron Kluvers from Swinburne University and John Tippet from Victoria University in Australia reports on a study undertaken in a Not-For-Profit organisation providing services for people with disabilities. In response to a changing funding model the organisation has introduced a performance bonus which raises the question of how extrinsic rewards, compared with intrinsic rewards, are perceived by staff of such organisations. As the effectiveness of an organisation is influenced by the motivation of its employees, how do these employees see these rewards as a source of motivation? The authors note that as employee motivation impinges critically upon effectiveness of operations of the organisation it becomes a governance issue. Important findings of the study are that intrinsic rewards play a significant role in motivation of staff in this organisation while extrinsic rewards were regarded in a more ambiguous way.

Upper Echelon Theory and Ethical Behaviour: an Illustration of the Theory and a Plea for its Extension Towards Ethical Behaviour by Astrid van der Zee from Universiteit van Amsterdam and Dirk Swagerman from Rijksuniversiteit Groningen and Universiteit van Amsterdam is the third article. This article gives an illustration of the Upper Echelon Theory and presents arguments for more research on the relationship between upper echelons, strategic choices, and ethical behaviour. The underlying question in this research is whether companies actually change the composition of their Board of Directors because they believe that personal characteristics, such as age, tenure, and specialisation, play an important role in decision making and hence in the degree of their ethical behaviour. The article examines whether the composition of companies' top management teams is influenced by the issue of ethical behaviour, based on a sample of fifty listed companies.

In the next article: *Moral Questions and Dilemmas: Early Times to Present Day Issues*, Michael Small from Curtin Business School, Western Australia and Geoffrey Trowbridge from Curtin University of Technology, Western Australia look at developments which have occurred in ethical behaviour in a nation's armed forces. Beginning with the Greeks and their concept of 'manly virtue' it concludes with reference to courses in ethics conducted in various military academies. It suggests that developing an understanding of ethics in a military/naval context should be addressed at four levels: criteria identifying relevant ethical behaviour; agreement about what constitutes ethical behaviour; programs recruit and officer cadet level; and curricula in military/naval ethics should be an integral part of the program in military training establishments.

The final article: *Are Young Consumers Still Susceptible to the Country-of-Origin Effect?* was written by Alexander Josiassen from Victoria University. Josiassen begins by explaining that the effect that consumers' country-related images have on their purchasing decisions is known as the country of origin (COO) effect, and that marketing researchers have investigated COO effects in a range of contexts since the mid-1960s. A current argument is that since young consumers are used to seeing products from a variety of countries they do not have the country biases that the COO effect implies. The aim of the research described in this article was to investigate conceptually how the relationship between young consumers' product-country image and their product evaluations is influenced by two contextual variables: their product involvement and their perceived product-origin congruency.

Arthur Tatnall , Editor

Nurturing Corporate Governance System: The Emerging Trends in Nigeria

Benjamin James Inyang
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Abstract

The paper traced the nascent history of corporate governance system in Nigeria and noted the paucity of literature in the subject. Mainstream issues of corporate governance in the country emerged with the enactment of the Companies and Allied Matters Act of 1990 (CAMA 1990), which established the Corporate Affairs Commission (CAC), and charged it with the responsibility of overseeing the regulation and supervision of the formation, incorporation, registration, management and winding up of companies. The corporate governance codes of both the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN), gave impetus for the development of corporate governance structure, to ensure transparency, accountability, probity, integrity and fairness in the management and control of the public corporations, and thereby creating value for the shareholders and stakeholders. Major challenges which required urgent attention to enhance the effectiveness of the system were noted thus: making the voluntary codes mandatory; developing more effective mechanisms for monitoring compliance and enforcement; developing strong internal control mechanisms to checkmate the boards oversight responsibility; crafting strategies to enhance shareholders activism and the extension of the codes to state-owned enterprises with more cases of corporate governance abuses.

Keywords

Corporate governance; corporate governance system; corporate governance codes; shareholder activism

Introduction

Corporate governance is a relatively new area of study that is currently attracting increasing interest among a wide spectrum of people – governments, industry operators, directors, investors, stockholders, shareholders, academics, international organisations, etc. In fact, in today's world, corporate governance and its languages – disclosure, transparency, shareholder value and corporate governance – are buzzwords in meetings, conferences and roundtables at the World Bank, International Monetary Fund, (IMF) and the Organisation of Economic Co-operation and Development (OECD). These institutions consider informed corporate governance standards as critical in helping emerging markets rebuild competitiveness, restore investor confidence, and promote sustainable economic growth (Reddy, 2001; Koufopoulos, 2006).

The different stakeholders to corporate organisations are increasingly demanding to know more about the performance of these public corporations, and asking more pertinent questions about whether the activities of these corporations conform to established standards. Since corporations raised funds from the public to function and operate, they assume an obligation of public trust to act in a manner that protects the public interest and make full and fair public disclosure of corporate information, including financial results. This is the basis for corporate governance, and the primary responsibility for ensuring good corporate governance rests squarely with the board of directors and top management of the organisation. According to Elebute (2000. p. 10), "*The responsibility for corporate performance, enhancing shareholder value and reliable financial reporting resides first and foremost at the corporate level*".

In fact, the directors and top management define the tempo of activities, striving to achieve high quality performance and establishing sound financial reporting system for the organisation.

Several factors have tended to trigger the emerging interest in corporate governance:

a. The separation of ownership from management. The modern corporation has taken an identity of its own, where professional managers are appointed to run the affairs of the corporation. The professional managers constitute a distinct group from the owners, and are supervised in their day-to-day operations of the business by an elected board of directors. This separation of ownership from management creates the justification for defining an appropriate framework that will ensure transparency, accountability, probity, integrity and fairness in the management of the corporation.

b. Current issues of globalization and information communication technology facilitate business transactions across the countries of the world. These developments necessitate the evolution of international business standards to guide business operations across nations and thereby improve corporate performance and to benefit all stakeholders. When corporate governance principles are evolved and international standards are set, investors and creditors' confidence would be enhanced and the regulatory agencies would be sufficiently empowered to handle the monitoring responsibility in their different countries.

c. Corporate failures in recent times in both developed and developing countries have kindled interest in corporate governance. Such well-publicised corporate failures and scandals as: East Asian crises of 1997/98 – for example, Daewoo in South Korea (1998) involving accounting fraud and embezzlement by former CEO; in America the collapse of Enron (2001) involving bankruptcy due to accounting fraud and Worldcom (2002) where the company collapses with US$41bn debt due to fraudulent accounting; in United Kingdom the collapse of Marconi (2001) involving bankruptcy due to overprice acquisitions and neglecting of controls; HIH Insurance in Australia (2001) involving stock market manipulations; and Parmalat in Italy (2003) due to undisclosed debts of £14.3bn; Volkswagen in Germany (2005) due to abuse of corporate funds to provide inappropriate benefits (Subramanaya, 2007). In Nigeria we have major cases involving the collapse of the banking sector with 26 banks liquidated in 1997 and the recent financial scandals involving the falsification of the company financial statements in Cadbury Nigeria Plc in 2006 (Olusa, 2007; Amao & Amaeshi, 2007). All these corporate scandals further raise interest in developing international and national standards on corporate governance, which corporate organisations must adhere to.

This paper presents the mainstream issues in nurturing corporate governance in Nigeria. The paper is divided into five sections. The first section is the introduction while the second section deals with the literature review. The third section traces the evolution of corporate governance in Nigeria. The different roles of key institutions of corporate governance in the country are discussed in section four. The fifth section highlights the challenges facing corporate governance in Nigeria while the last section presents the concluding comments. The paper therefore aims at contributing to and improving on the existing paucity of literature on corporate governance in Nigeria specifically and Africa generally.

Literature Review

In its simplest conceptualisation, corporate governance refers to the broad range of policy and practices that stockholders, executive managers, and boards of directors use to manage the operations of corporate organisations towards fulfilling their responsibilities to the investors and other stokeholders in the society. It is essentially *"a system by which the orgnaisation or company directs, manages and controls the business of the company to enhance corporate performance and corporate responsiveness to shareholders and other stakeholders*" (Inyang, 2004:163). The basic tenets of good corporate governance are; accountability, efficiency and effectiveness, integrity and fairness, probity, responsibility and transparency. All of these must be considered as imperatives to organisational growth and survival.

Corporate governance is an engaging, fascinating and important subject that has generated a plethora of literature and significant global discourse in the United States of America, Europe and Australia (Kay and Silberston, 1995); Vinten, 1998; 2002; Aquilera and Luervo-Cazurra, 2004; Bhasa, 2004; Mardjono, 2005; Wieland, 2005; Chambers, 2006; Mason, Kirkbride and Bryde, 2007; Hill, 2008; Malin, 2008; Judge, Douglas and Kutan, 2008 and De Cleyn, 2008). Such international organisations like the World Bank, IMF and OECD have in their different ways through workshops, conferences, research studies and policy initiatives contributed immensely to the development of global standards of good corporate governance. See for example (Scott, 2007 and Claessens and Bruno, 2007).

The evolution of corporate governance in Africa is still in its infancy compare to the current state of affairs and the quantum of available literature in the western world. Okeahalam and Akinboade (2003) in a major review confirm the paucity of literature and the very limited rigorous research on corporate governance in Africa. Most of what is currently available in Africa are corporate governance codes of the different countries which were influenced essentially by OECD Principles of Corporate Governance (1999, 2004), the Commonwealth Association for Corporate Governance CACG (1999) and King Reports on Corporate Governance (South Africa, 1994, 2002). The financial scandals around the world and the recent collapse of major corporate institutions in the USA gave the impetus for the development of good corporate governance structure in the emerging economies of Africa. According to Ajogwu (2007. p.2), *"The corporate governance structure spells out the rules and procedures for making decisions on corporate affairs [and] provides the structure through which the company objectives are set as well as the means of attaining and monitoring the performance of those objectives. It defines the accountability of those charged with the responsibility of steering the company's affairs".* Good corporate governance is therefore the system of managing the affairs of corporations with a view to increasing shareholder value and meeting the expectations of other stakeholders.

Similarly, Aguilera and Cuervo-Cazurra (2004:417-418) consider the codes of good governance as "a set of '*best practice' recommendations regarding the behaviour and structure of the board of directors of a firm ... designed to address deficiencies in the corporate governance system by recommending a comprehensive set of norms on the role and composition of the board of directors, relationship with shareholders and top management, auditing and information disclosure, and selection, remuneration, and dismissal of directors and top managers*".

A few existing studies on African corporate governance are limited to single country investigation using case studies. Muranda (2006) investigates the relationship between corporate governance failures and financial distress in Zimbabwe's banking sector. The study found lack of a proactive approach by the regulatory authorities appeared to have encouraged poor corporate governance practices and that the failure by the board of directors to adapt to the demands of a changing competitive environment affected adherence to the principles of good corporate governance. Abor (2001) examines the relationship between corporate governance and capital structure decisions of listed firms in Ghana. The findings show statistically significant and positive associations between capital structure and board size, board composition and CEO duality. Abor and Adjasi (2007) provide conceptual insights on the application of corporate governance among small and medium enterprises (SMEs) in Ghana. The major finding of the study shows that the application of good corporate governance structure among SMEs in Ghana could help overcome credit constraints and managerial incompetence. Rossouw (2000) provides a background to the corporate governance reform in Africa and further analyses the relationship between business ethics and national codes of corporate governance. The study shows that business ethics are considered an integral and essential part of good governance in Africa. In his study of four African countries – Ghana, Nigeria, Kenya and South Africa, Kyereboah-Coleman (2001) explores the linkage between corporate governance and shareholder value maximization. The findings show that large board sizes enhance corporate performance and shareholder value maximization. Okeahalam and Akinboade's (2003) review of corporate governance in Africa is still a major contribution to this subject. The authors emphasise the need for African nations to learn some lessons from the financial scandals of the western world and East Asian countries, which were attributed essentially to an absence or dereliction of efficient corporate governance. The authors conclude that "*The adoption of corporate governance principles by African countries will be a giant step toward creating safeguards against corruption and mismanagement, promote transparency in economic life and attracting more domestic and foreign investment*" (p.28).

As it is with Africa generally, corporate governance literature offerings in Nigeria, is scanty. Yakasai (2001) provides some evidence of the evolution of corporate governance in Nigeria within the banking sector. Earlier studies by Okike (1994, 1995, 1998 and 1999) specifically examined the accounting and audit-reporting environment in Nigeria, as important elements of corporate governance. In a recent work, Okike (2007) presents a comprehensive review of corporate governance developments in Nigeria, thus expanding the literature on corporate governance in developing countries. Ahunwan (2002) gives an account of the nature of corporate governance in Nigeria, and extends further, to investigate the prospects for recent reforms of economic liberalization, deregulation and privatization, contributing to more responsible governance. Alo (2003) in a pioneer and edited book presents different perspectives and insights into keys areas of the corporate governance spectrum as valuable contribution to the literature in Nigeria. Nmehielle and Nwauche (2004) examine the corporate governance climate in Nigeria and critically inquires into the external and internal standards that guide Nigerian companies in the way they are governed. Ogbechie and Koufopoulos (2007) evaluate corporate governance issues in public quoted companies in Nigeria. The findings of the study show that Nigeria public companies have embraced the principles of good corporate governance but are at different stages of adoption of various issues that contribute to good corporate governance. Amao and Amaeshi (2008) explore how recent developments in Nigeria contribute to shareholders activism and how to improve participation of shareholders in corporate governance. Ajogwu (2007) presents a comprehensive work on the law and corporate governance practices in Nigeria. The book discusses the legal framework of corporate governance and the institutions that regulate corporate governance practices in Nigeria.

This paper builds on this scanty pioneering literature to expand the horizon of corporate governance in Nigeria noting the mainstream issues, the current reforms and the challenges that have to be overcome to develop a more dynamic and proactive corporate governance system.

Evolution of Corporate Governance in Nigeria

Corporate governance is of critical importance to a developing country and emerging economy like Nigeria. This is because the institutionalisation of a good corporate governance system will help to "*facilitate and stimulate the performance of corporations by creating and maintaining incentives that motivate insiders to maximize the firms' operating efficiency. At the same time it enables the limiting of insiders' abuse of power over corporate, resources, as well as providing the means of monitoring managers' behaviour in order to ensure corporate accountability*" (Ogbechie and Koufopoulos, 2007:351).

The provenance of corporate governance system in Nigeria which, involves issues relating to the regulation, control and governance of enterprises can be traced, essentially to Companies and Allied Matters Act (CAMA) 1990, which replaced the Companies Act 1968. This legal framework has its root in the British colonial legislation. In effect, the Nigerian legal system and corporate governance practices mirrored the United Kingdom (UK) pattern (Okika, 2007).

The UK legislations were reviewed when Nigeria attained political independence from Britain in 1960. The Companies Ordinance of 1922 was repealed and replaced by the Companies Act of 1968 (CA). The CA of 1968 was, of course, a replica of UK Companies Act of 1948. The reason for this development was because before the introduction of the indigenisation programme of the government in 1972, the

British nationals controlled the major business enterprises in the country, and to protect their economic interests they had to bring in their company legislation. This mimicking of the UK's Companies Act in Nigeria failed to accommodate the economic interests and development aspirations of the country. The government in 1972 promulgated the Nigerian Enterprises Promotion Decree, No. 4 of 1972, generally referred to as the Indigensation Decree to promote indigenous ownership of businesses. The Decree restricted foreign ownership by creating three schedules of enterprises: (i) enterprises exclusively reserved for Nigerians; (ii) enterprises in respect of which foreigners cannot hold more than 40% of the shares; and (iii) enterprises in respect of which foreigners cannot hold more than 60%. This classification was based on the perceived financial and managerial needs of the country at the time. The second schedule comprised manufacturing companies where foreign participation was expected to bring foreign capital and managerial expertise. The third schedule included capital-intensive enterprises (Ahunwan, 2002).

Presently, the Nigerian Enterprise Promotion Act No. 7 of 1995 has been repealed, thus abolishing any restriction with respect to the limits of shareholding. A foreigner can now fully own a business in Nigeria outside the production of arms and ammunition, drugs and psychotropic substances) and such a company must be incorporated under CAMA 1990, which is the main legal framework for corporate governance in Nigeria (CAMA 1990).

The impetus for the development of corporate governance system in Nigeria also came through the activities of the Nigerian Securities and Exchange Commission (SEC). In 2001, the SEC set up the Atedo Peterside committee to identify weaknesses in the current corporate governance practices in Nigeria with respect to public companies and make recommendations on the necessary changes therein. A Code of Best Practices for Public companies in Nigeria was adopted (SEC, 2003). The code is voluntary and is designed to entrench good business practices and standards for boards and directors, CEOs, auditors, etc., of listed companies, including banks.

A major development in the history of corporate governance in Nigeria is the recent intervention by the Central Bank of Nigeria (CBN). The incessant collapse experienced in the banking sector due to poor corporate governance and the recent bank consolidation exercise forced the CBN to issue new corporate governance guidelines to all banks operating in the country in February 2006. Known as Central Bank of Nigeria Code for Corporate Governance for Banks in Nigeria Post Consolidation (CBN, 2006), the code seeks to address the issues of poor corporate governance and create a sound banking system in Nigeria. The code introduced more stringent requirements in the area of industry transparency, equity ownership, criteria for the appointment of directors, board structure and composition, accounting and auditing, risk management and financial reporting. The new code according to CBN was developed to complement existing codes in the country, and compliance to it is mandatory for all banks.

In Nigeria, a survey by the SEC reported in a publication in April 2003, showed that corporate governance was at a rudimentary stage, as only 40% of quoted companies, including banks had recognized codes of corporate governance in place. Specifically for the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of financial institutions' distress in the country (CBN, 2006).

The Institute of Directors (IOD) Nigeria, has also contributed to the development of corporate governance in Nigeria. IOD, Nigeria was established in Nigeria in 1983 and became full affiliate in 2003. In 2005, the DOI, Nigeria set up a centre for Corporate Governance to champion the cause of good corporate governance amongst its members. The IOD, Nigeria carries out the corporate governance responsibility through a framework developed by the African Management Services Company (AMSCO). AMSCO is a joint initiative of the United Nations Development Programme (UNDP), African Development Bank and the International Finance Corporation (IFC). One of the objectives for the formation is the promotion of good corporate governance (Molokwu, 2003:82).

The Financial Institution Training Centre (FITC) established 1981 by the Banker's Committee comprising the CBN, Nigerian Deposit Insurance Corporation (NDIC), all licensed banks and discount houses in Nigeria, has contributed significantly to the development of corporate governance in the country. One of its objectives is "to protect, promote and advance the knowledge of good corporate governance in all sectors of the Nigerian economy" (FITC, n.d.). Over the years it organizes series of seminars and roundtables to create the needed awareness, and sensitize the stakeholders on the importance of good corporate governance to organisational survival. Arising from these activities, is the publication by FITC – *Issues in Corporate Governance* (Alo, 2003), which today stands as a major contribution to corporate governance literature and a reference point in corporate governance discourse in Nigeria.

The Society for Corporate Governance Nigeria (SCGN) established on March 31, 2005 is equally making significant contributions to the evolving corporate governance system in Nigeria. The SCGN's major objective is to promote the practice of corporate governance by directors and officers of companies with a view to optimizing shareholder value (SCGN, 2005). The promotion of good corporate governance practices will provide an important framework for a timely response by a company's board of directors to situations that may directly affect shareholders' value.

Having presented the nascent history of corporate governance in Nigeria, the next section addresses the issues of corporate governance practices entrenched in the country's regulatory framework.

Legal and Regulatory Framework of Corporate Governance

As noted above, the observance of the principles of good corporate governance in Nigeria has been secured through a combination of voluntary and mandatory mechanisms. The SEC Code of Best Practice for Public Companies in Nigeria is voluntary and is designed to entrench good business practices and standards for all listed companies, including banks. The mandatory corporate governance provisions relating to banks are contained in the Companies and Allied Matters Act (CAMA) 1990, the Banks and other Financial Institutions Act (BOFIA) 1999, the Investments and Securities Act 1999. The Securities and Exchange Commission Act (SECA) 1988 (and its accompanying Rules and Regulations, the Code of Conduct for Directors of Licensed Banks and Financial Institutions (approved by the Bankers' Committee in 2003) and Code of Corporate Governance for Banks in Nigeria Post Consolidation issued by CBN in 2006. Compliance with the provisions of these codes is compulsory.

These different institutions are saddled with the responsibility of ensuring effective management, control and accountability of public companies in Nigeria. It is pertinent to discuss the respective roles of these institutions.

The Role of the Government

The government plays a key role in corporate governance, by providing the legal framework for company incorporation, defining the parameters of business activities, monitoring their operations to conform with established standards and meeting obligations to all stakeholders and the society at large. The underlying principles which are embedded in the statute concerning the management and control of business enterprises in Nigeria, according to Okike (2007:176) are:

- the recognition of a company as a legal entity, distinct from its owners;
- the unlimited life of a company, because of the transferability of shares;
- an elected board oversees the running of the company and is accountable to the members on their stewardship;
- the directors have a responsibility to keep proper records of company's financial affairs, and to make appropriate returns;
- independent auditors are appointed by the members, to report on the truth and fairness of financial statements prepared by management.

The main legal framework for corporate governance is CAMA 1990, which governs company law in Nigeria. There are three principal mediums for doing business in the country. An individual operating as sole proprietor without formality, a partnership of two or more persons and the formation of a limited liability company registered under CAMA. CAMA places enormous responsibilities in the hands of board members, to effectively manage and control the affairs of the company to ensure corporate accountability, transparency and responsibility to shareholders and stakeholders. One of the government's agencies set up to monitor CAMA is the Corporate Affairs Commission (CAC).

The Role of the Corporate Affairs Commission (CAC)

The CAC was established as an autonomous body to replace the Companies Registry, a department of the Federal Ministry of Commerce and Tourism, which was then responsible for the registration and administration of the repealed Companies Act 1968. Section I of the CAMA 1990 establishes the CAC and charged it with the responsibility of overseeing the regulation and supervision of the formation, incorporation, registration, management and winding up of companies. The CAC maintains register of companies in all the states of the federation and undertakes investigations into the affairs of any company if the interests of shareholders and the public so demand. All companies are required to submit their audited financial statements to the CAC within 42 days of the annual general meeting. The Registrar of Companies at the CAC monitors compliance with the requirements of the Act, for non-compliance by companies and their officers. The role performed by the CAC increases confidence in the business community and provides protection for the individual consumer, creditor, or shareholders. Okike (2007) however, notes that in practice, the role of the CAC has remained perfunctory and ineffective as some companies and even auditors are known to have flouted company legislation without being punished. There is apparent general weakness in the enforcement mechanism of the CAC, due essentially to corrupt practices and poor record management.

The Role of the Securities and Exchange Commission (SEC)

The SEC is the apex regulatory organ of the capital market. The SEC was established by Decree No. 71 of 1979, but took effect retrospectively from 1st April 1978. Its primary objective is the promotion of an orderly and active capital market. A series of reviews in the country's capital market and financial system led to the promulgation of the Investment and Securities Decree No. 45 of 1999. The main objective of the Act was to create a conductive investment climate and to attract foreign investors into the country. SEC has the major functions of ensuring adequate protection of securities and the registration of all securities dealers, investment advisers and physical markets, such as the stock exchange and their trading floors/branches, in order to maintain proper standards of conduct and professionalism in the securities business. It regulates the securities market participants under the Investment and Securities Act of 1999 and the Securities and Exchange Commission Rules and Regulation 1999.

In keeping with its mandate of propagating good corporate governance, the SEC introduced the Code of Best Practices for Public Companies in Nigeria (SEC, 2003). This code is aimed primarily at ensuring that managers and investors of companies carry out their duties within a framework of accountability and transparency. The code focuses on the following key areas: (i) the board of directors; its responsibilities, structure and procedures (ii) audit committee and (iii) shareholders rights and privileges. A brief description of their functions and responsibilities are presented here.

The Boards of Directors

The Code provides for the responsibilities and functions of the board. The board has the responsibilities of directing the affairs of a company in a lawful and efficient manner and to ensure that the company continues to improve its value creation. The code lists the specific functions of the board to include: strategic planning; selection, performance appraisal and compensation of senior executives; succession planning; communication with shareholders; ensuring the integrity of financial controls and reports; and ensuring that ethical standards are maintained and that the company complies with the laws of Nigeria. The Code recommends a board size of not more than 15 and not less than 5 with a mix of executive and non-executive directors.

Audit Committee

The Code recognizes the importance of the Audit Committee because of its place in ensuring an objective of raising corporate governance standards in the organisation. The recommendations of the Audit Committee are designed to supplement the provisions of section 359(6) the CAMA. Thus, the responsibilities of the Audit Committee are to:

a. ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices;
b. review the scope and planning of audit requirement;
a. c review the findings on management matters in conjunction with the external auditor and department responses thereon;
c. keep under review the effectiveness of the company's system of accounting and internal control;
d. make recommendations to the Board in regard to the appointment, removal and remuneration of the external auditors of the company; and
e. authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee.

Shareholders

The Codes makes a number of recommendations to facilitate the participation of shareholders at general meetings. In this regard, a general meeting's venue should be such that it is possible and affordable, cost and distance wise, to enable a majority of shareholders to attend and vote, so as not to disenfranchise them.

The Code requires enough notice of such meetings to be given to shareholders. Thus, the notices of meetings should be sent at least 21 working days before the meeting with such details (including annual reports and audited financial statements) and other information as will enable them to vote properly on any issue. The general meeting should become an opportunity for the board of a company to communicate with the shareholders and to encourage shareholder participation in the governance of the company.

The Role of Central Bank of Nigeria (CBN)

The CBN is the apex regulatory institution in the banking industry. It promotes monetary stability and a sound financial system, acts as banker and financial adviser to the Federal Government as well as bank of last resort to other banks. The powers of the CBN include the regulation and supervision of the operations of banks and application of sanctions against defaulting banks and the revocation of licences, where necessary. The CBN has been very insistent on standards particularly regarding persons who are appointed Chairmen, members of the board of directors and top management of banks. The CBN released a Code on Corporate Governance for Banks on March 1st 2006 (effective April 3, 2006), after the bank consolidation exercise. This was essentially to address the issue of poor corporate governance in the banking sector.

The CBN code which has the force of law, prescribes a minimum standard which individual banks must meet. All existing banks in country are required by the code to adopt and enforce well articulated codes of ethics and conduct for directors, management and staff and to render periodic reports (Templars, 2006).

The key highlights of the Codes of corporate governance of SEC and CBN include:

- Separating the roles of the CEO and the board Chairman;
- Prescription of non-executive and executive directors on the board;
- Improving the quality and performance of board membership;
- Introducing merit as criteria to hold top management positions;
- Introducing transparency, due process and disclosure requirements;

- Transparency on financial and non-financial reporting;
- Protection of shareholder rights and privileges; and
- Defining the composition, role and duties of the audit committee, etc (Wilson, 2006).

The strategic position of the banking industry in the economy of the nation makes it imperative for the CBN to put in place a more stringent code of good corporate governance for banks. This is because bank failures due to poor corporate governance "*can pose significant public costs and consequences due to their impact on any applicable deposit insurance systems and the possibility of broader macroeconomic implications, such as contagion risk and impact on payment systems [and also] can lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a bank run or liquidity crisis*" (Wilson, 2006:3).

Challenges facing Corporate Governance in Nigeria

The challenges of corporate governance in Nigeria are quite enormous especially considering the development in the banking industry. Before the consolidation exercise of 2006, the Nigerian banks were very weak with poor corporate governance, and this affected customers' confidence in banking operations. The consolidation exercise helped to reduce the total number of banks from 89 to 25 mega banks – through mergers and acquisitions and consolidations. This development posed serious challenges which the CBN has acknowledged in its Code of Corporate Governance (CBN, 2006). These challenges include.

- Technical incompetence of board and management,
- Boardroom squabbles among directors;
- Squabbles among staff and management;
- Very few banks have a robust risk management system;
- Malpractices and sharp practices;
- Insider abuses;
- Rendering false returns and concealment of information from examiners;
- Ineffectiveness of board/statutory committees;
- Inadequate operational and financial controls, etc.

The CBN Code, in fact, seeks to address these major challenges and develop a sound banking system in the country. Some have argued that the Code "*may be unable to accomplish this if the underlying legal, institutional and regulatory frameworks for corporate governance in Nigeria are weak, inefficient and inadequate"* (Wilson, 2006:4). The CBN is apparently overburdened in its role as a bankers' bank, responsible for policy formulation and banking supervision. The additional responsibility of monitoring for compliance to the code of corporate governance may not be effectively handled. The capacity of the CBN to offer regulatory oversight of the banking and financial sector needs to be strengthened.

The code of best practice (SEC, 2003) has commendable recommendations designed to enhance the development of corporate governance in the country. This code is voluntary and therefore self-compliance by companies is always problematic. According to Nmehielle and Nwauche (2004:49) "*the minimum that can be done is to make it mandatory for all these companies to show compliance with the code either in their annual returns to corporate Affairs Commission or in the Annual General Meeting of the companies or make compliance part of the listing requirements of the Nigerian Stock Exchange*". While it is acknowledged that the institutions and the legal framework for effective corporate governance appear to be in existence in the country, the compliance and/or enforcement appear to be weak or non-existence. Oyejide and Soyibo (2001) suggest that for Nigeria to reap the benefits of effective corporate governance there is need to strengthen the enforcement mechanism of the regulatory institutions. The roles of the courts are important in this regards. The judicial system must have the capacity to restore the confidence of the shareholder and help him to enforce his rights.

The CAC must improve on its enforcement mechanisms, put in place more effective monitoring strategies and develop mechanisms to eliminate corrupt practices in the Commission. The CAC has the powers to receive annual returns from companies to know the state of affairs of such companies and identify areas the companies have failed in their responsibilities. The creditable discharge of these functions by CAC will definitely ensure the entrenchment of good corporate governance. There is need for CAC to be restructured to make it independent and able to ensure that the provisions of the CAMA 1990 are effectively enforced. At present, the CAC is deeply concerned with the registration of companies, while the monitoring and compliance activities are very weak. The challenge is for CAC to do more and prosecute companies that commit offences that under-mind the principles of good corporate governance.

Deliberate accounting fraud is another serious problem of corporate governance in the country. Cases of *"inaccurate reporting and non-compliance with regulatory requirements*" (Ibru, 2008) and the "*prevailing incidences of false and misleading financial reporting*" (Al-Faki, 2007) by some corporate organizations lead to corporate failures. A current case in point is that of Cadbury Nigeria PLC, when in 2006 the company falsified its audited financial statements. The CEO and the directors of the company who were found guilty by SEC that investigated the case were accordingly sanctioned (Onwuamaeze, 2008).

Corporate governance institutions must put in place strong internal control mechanisms to provide checks and balances against the oversight responsibility of the boards. Almost all reported cases of corporate failures indicate some level of failure on the part of directors to properly discharge their oversight functions and ensure that they receive all relevant information and demonstrate good faith judgement (Ahmed, 2007). The internalization of effective mechanisms in the running of corporate organisations would encourage accountability and transparency and also discourage concealment of financial statements. Such internal mechanisms would help establish the concept of insider whistle blowers in form of honest staff of the companies to speak out on questionable practices without repercussions.

An emerging and interesting development in the Nigerian corporate governance is shareholder activism. The shareholders are becoming more proactive in the push for effective corporate governance. "*The bounding together of shareholders in Nigeria has come both through private initiatives and government intervention. In a bid to shore up public participation in the ownership of corporation the Nigerian government encouraged and facilitated the establishment of a network of Shareholder Associations*", according to (Amao and Amaeshi, 2007:124). The different shareholder associations are registered with CAC. According to Etukudo (2000), the shareholder associations serve the interest of the investing public as shareholders who have the opportunity to contribute to the formulation of broad corporate policies, thereby enhancing management accountability. The challenge is for the corporate governance institutions to strengthen shareholder activism as a prerequisite for effective corporate governance and accountability in Nigeria.

Corporate governance discourse in Nigeria has apparently not been directed at state-owned enterprises (SOEs) despite the fact that there is abundant evidence that these enterprises have the worst abusers of corporate governance principles. Wong (2004) notes in his extensive research of SOEs, that poor corporate governance lies in the heart of the performance of SOEs throughout the world. In Nigeria, there is the general weakness of public institutions, high level of corruption, poor managerial capacity and total absence of market discipline for transparency and accountability, which combine to create a seeming lack of demand for corporate governance in state-owned enterprises (Ahmed, 2007). A major challenge now, is for the corporate governance institutions to extend their activities to state-owned enterprises to help entrench the principles of good corporate governance. State-owned enterprises have a major role to play in the economic development of the nation, and their failure to perform and achieve the goals for which they were established would spell doom for the economy. It is therefore important that good corporate governance code and structure are entrenched in state-owned enterprises.

Conclusion

Corporate governance as an emerging subject, concerned with the management and control of companies for the interest of stakeholders and society in general, has attracted more global discourse, generated more debates and a plethora of literature in the USA, Europe and Australia than in Africa generally, and Nigeria in particular. The well-publicised corporate scandals and failures in these nations and the East Asian crises gave impetus for the development of international and national standards on corporate governance. Nigeria, which has her fair share of corporate scandals and failures has joined the global trend to develop the codes of good corporate governance to guide business operations.

The evolution of corporate governance system in Nigeria has a nascent history, with the mainstream issues emerging with the enactment of CAMA 1990. The SEC 2003 Code and the CBN 2006 Code added more impetus in nurturing the national corporate governance system. These codes have tremendous impact on the operations of corporate organisations in the country, and ensuring that transparency, accountability, probity, integrity and fairness are promoted as standards for creating value for shareholders, stakeholders and the general public.

There are legions of challenges facing corporate governance system in the country. Some of these challenges include making the voluntary codes requiring self-compliance mandatory, developing more effective mechanisms for monitoring compliance to the codes, strengthening the enforcement mechanisms of the regulatory institutions, developing strong internal mechanisms to provide checks and balances against the oversight responsibility of the boards, creating the necessary conditions to encourage shareholder activism and extending corporate governance activities to state-owned enterprises where cases of corporate governance abuses are rampant.

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Rewards in a Not-for-Profit Organisation

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Abstract

This paper reports on a study undertaken in a Not-For-Profit (NFP) organisation providing services for people with disabilities. The organisation concerned is made up of two units and in response to a changing funding model, has introduced a performance bonus in one of the units. This situation raises the question as to how extrinsic rewards, as compared with intrinsic rewards, are perceived by staff of NFP organisations as a source of motivation. The effectiveness of an organisation is influenced by the motivation of its employees. Governance is concerned with enhancing the effectiveness of organisations. Because employee motivation impinges so critically upon effectiveness of the operations of the organisation, it is a governance issue. Data was gathered through a survey that had a number of statements about intrinsic and extrinsic rewards. The responses of the staff were indicated using a five-point Likert scale. The frequencies and percentages of those responses are reported in this study. The important findings of the study are that intrinsic rewards play a significant role in the motivation of staff in this NFP organisation. Extrinsic rewards were regarded in a more ambiguous way.

Keywords

Intrinsic rewards, extrinsic rewards, motivation, not-for-profit organisations

1. Introduction

The aim of this study is to understand the factors that motivate employees to work in a Not-for-Profit (NFP) organisation, and therefore to understand an important aspect of governance. In particular, this study considers the importance of intrinsic factors in the motivation of people working and remaining in the NFP sector despite being paid less than their private sector counterparts.

Employee motivation is a critical aspect of organisational effectiveness. Governance is vitally concerned with an organisation achieving its objectives, and this will not happen with poorly-motivated staff. Hence, motivation is a governance issue. A second aspect of governance is overseeing organisational practices that work towards the efficient use of available resources. These include employees, of course, and in our particular case the issue of staff turnover. In a study undertaken by Graffam, Noblet, Crosbie and Lavelle (2005) it was found that the employee turnover rate in the open disability employment industry was 27.3 per cent, in comparison to the all industries average of 12.4 per cent (ABS, 2002). The higher than average employee turnover is problematic for the industry, and hence an issue needing to be addressed in the interest of good governance. According to Graffam, Noblet, Crosbie and Lavelle (2005) the costs and unnecessary disruptions to the industry, including recruitment of replacement personnel, administrative, advertising and screening costs are significant.

This paper contributes to the knowledge of governance in the not-for-profit sector by testing the applicability to the latter sector of the generally-accepted notion that employees are motivated primarily by pay. The hypothesis to be tested is that employees are motivated by intrinsic rewards. Frey (1997), whilst essentially concerned with the crowding-out effect extrinsic incentives may have on intrinsic work motivation, suggests that when employees' income rises above subsistence level, they seek meaning in work; that is to say, intrinsic motivation becomes more important. Since employees in the organisation that is the subject of this study were not dissatisfied with their pay (see section 6, Table 1), it may be inferred that they considered their pay to be above subsistence level; and therefore that intrinsic motivation was likely to be more important to them.

According to Ryan and Deci (2000), the term, "extrinsic motivation" is the attainment of a separable outcome from the performance of an activity; whereas "intrinsic motivation" is the performance of an activity for the inherent satisfaction of the activity itself. The present study examines both intrinsic and extrinsic rewards in an organisation made up of two units: one unit paying a performance bonus (an obvious extrinsic reward) and the other unit not, thus providing an ideal context in which to study the motivational effect of an extrinsic reward compared with the motivational effect of intrinsic rewards.

Gupta and Mitra (1998) argue that money is an important motivator, although the NFP literature indicates that intrinsic rewards are important to staff in NFP sector organisations and argues that classical agency theory is inadequate to explain the motivation of employees in this sector. Extrinsic rewards, such as monetary bonuses, are incentives provided by others and are external to the recipient. Herzberg (2003) argues that money is a "hygiene factor", and cannot be a source of motivation. However, if the hygiene factor (in this case, pay) is perceived to be inadequate then the employee will be dissatisfied. Intrinsic rewards are personal, "internal" responses, such as satisfaction or pride in an accomplishment. According to Ryan and Deci (2000) fun and challenge are of greater significance to an intrinsically motivated person than external pressures and rewards.

The debate about the influence of extrinsic and intrinsic rewards on motivation appears to be cast in dichotomous terms. However, much of the evidence indicating the importance of extrinsic rewards comes from the business sector or was obtained using an experimental research method in which the context of the task is not considered. In fact participants in experiments are often required to perform trivial tasks. The focus of the experiment is usually to determine the effects of changing the level or frequency of rewards rather than what the participants are required to do. However, in a human services context the nature of the task is not trivial and in all likelihood is the reason for the employee being in the sector (Schepers et al., 2005). The fact that an individual is working in a NFP organisation is indicative of a set of values in which extrinsic rewards are not the first consideration (Weisbrod (1983), Preston (1989), Roomkin and Weisbrod (1999)).

The paper continues (section 2) with a statement of the context of the research. In section 3 the literature dealing with intrinsic and extrinsic rewards is discussed; followed by section 4 which is a brief description of the organisation in the study. In section 5 the research question is described and the research method outlined. Section 6 provides the statistical analysis, and section 7 discusses the findings. Finally, in section 8 conclusions are drawn.

2. The Context of this Study

Employee motivation cannot be examined in isolation from its organisational context since it is the activities undertaken within an organisation that are being considered; and in particular it is human motivation that encourages the individual to remain with the organisation (Berry, Broadbent and Otley 1995; Schepers et al. 2005). In this study the context is particularly relevant as it defines the activities and rewards (Jobome, 2006). Of particular significance is that any intrinsic rewards staff receive are closely linked to the type of work they do.

In a study undertaken by Graffam, Noblet, Crosbie and Lavelle (2005) it was found that the employee turnover rate in the open disability employment industry was 27.3 per cent, in comparison to the all industries average of 12.4 per cent (ABS, 2002). The higher than average employee turnover is problematic for the industry. According to Graffam, Noblet, Crosbie and Lavelle (2005) the costs and unnecessary disruptions to the industry, including the recruitment of replacement personnel, administrative, advertising and screening costs are significant. Other costs include interviewing, security checks, the processing of references, lost productivity, the cost of training, and costs associated with the period prior to departure when employees tend to be less productive. Therefore the issue of workforce motivation is important for the sector.

3. Rewards in the Not-for-Profit Sector

The literature points to two contrary positions regarding the motivational effect of rewards. One position argues that extrinsic rewards will be a source of motivation, while the other argues that intrinsic rewards have greater impact, particularly in a non-commercial setting. This argument has important implications for governance in the NFP sector.

Agency theory suggests that people are motivated by extrinsic rewards and that employees will only perform tasks for which they are rewarded (Jensen and Meckling 1976; Eisenhardt 1989; Baiman 1990). This means that people will only work to the best of their abilities if they consider the reward to be adequate. According to Jensen and Meckling (1976) agency theory states that individuals are wealth maximisers. Altruism is not considered to be a part of the principal/agent relationship.

Ryan and Deci (2000) point out that the question of extrinsic/intrinsic motivation is a complex issue. In particular, the significance of an extrinsic reward is related to the values of the employee; in other words, the efficacy of the extrinsic reward is linked to what the employee believes to be important. Gupta and Mitra (1998) using meta-analysis found that financial incentives are strong motivators. They found that financial incentives were particularly powerful with respect to performance quantity. However, results were uncertain when regarding performance quality – an important consideration in the human services sector and particularly important in the NFP sector where maintaining organisational effectiveness – namely, service quality – is an important aspect of governance.

The results of research in the public sector appear to contradict the conclusions of Gupta and Mitra. According to O'Donnell and Shields (2002) the application of performance-related pay in the Australian Public Service (APS) has been problematic. Similarly the research of Marsden and Richardson (1994) found that performance-related pay had limited motivational effects. O'Donnell (1998) found that the attempt to apply performance bonuses to senior officers of the APS did not contribute to an improvement in performance. Also, the OECD (1993) questioned the motivational effects of pay increases and bonuses, particularly for senior public service managers. According to Gaertner and Gaertner (1985), performance appraisals that placed emphasis on the development needs of managers had the potential to increase the performance of the manager. This finding is in line with Ryan and Deci's (2000) idea of assimilation: the assimilation of the organisation's demands with one's own values and needs. Gaertner and Gaertner's finding suggests that extrinsic rewards coupled with training or feedback that could assist the individual to improve performance have greater significance than extrinsic rewards alone. Given the problematic nature of performance-related pay in the public sector, there is reason to suggest that performance related pay in the NFP sector will be problematic also.

Governance includes setting the mission of an organisation. Dowling and Richardson (1997) showed that UK National Health Service (NHS) managers were positive about role and goal clarity, and feedback and support from superiors. Hence, these factors – clarity of goal and support from superiors – are significant motivators and are therefore clearly important to the effective management of organisations and, by implication, important to good governance.

Redman *et al.* (2000) found that two-thirds of NHS managers reported that a performance management system contributed to their motivation. However, the performance-related pay component of the system was perceived negatively. Respondents were particularly critical of performance pay being given to individuals in instances where performance was heavily dependent on a team effort. The findings of Gaertner and Gaertner (1985), Dowling and Richardson (1997), Redman *et al.* (2000) and O'Donnell and Shields (2002) are supported by Frey's (1997) contention that (once pay exceeds a subsistence level) intrinsic factors are stronger motivators; and suggest that extrinsic rewards by themselves are problematic and staff motivation also requires intrinsic rewards such as pride at doing a good job and a sense of doing something worthwhile.

People working in the third sector do so despite generally lower pay, because they consider the task to be important. Williams (1998) points out that people have different values, motives and perceptions and are not passive recipients who will automatically respond to work systems as management wishes. In keeping with the findings of Etzioni (1988) and Larson (1977), values, as pointed out by Williams, are considered to be important in the development of an individual's commitment to an organisation. The importance of altruistic values in relation to employment in the third sector was highlighted by Jobome (2006), who found in his study of management pay in large UK NFPs that intrinsic rewards dominated extrinsic ones.

Holcombe (1995), consistent with the argument of Ryan and Deci (2000), argues that bringing about a congruence of individual values with organisational values is creating a sense of mission that is an employee's personal commitment to the organisation. In her study of the Grameen Bank in Bangladesh, Holcombe demonstrates how important employee identification with the organisation's goals and values is to the achievement of the organisation's mission. Holcombe appears to be in total agreement with Ryan and Deci (2000); also with Brown and Yoshioka (2003). However, the latter found that a perception that pay was inadequate was a source of dissatisfaction, which could lead to a reduction of motivation. This point was also emphasised by Herzberg (2003), and is implicit in Frey (1997). Thus, extrinsic rewards cannot be ignored. In addition, Berry, Broadbent and Otley (1995) point out that people working in the 'caring services' may consider remunerative motivation as less important than the normative reward of 'doing a worthwhile job'. Similar conclusions were drawn by Bouillon et al. (2006) in their study of hospital managers: their research indicates that hospital managers were not motivated by individual opportunism alone.

The literature has clearly argued that financial incentives and controls may not be effective motivators in NFP's. Speckbacher (2003) states that NFP organisations may more easily attract committed employees precisely because the absence of owners is a signal to such employees that their selflessness will not be enriching someone else. Thus, the maintenance of a sense of care and of doing a worthwhile job is important to the effective operation of an NFP, and hence very important to its governance.

4. The Organisation

The organisation in which this study took place provides services for people with disabilities and is divided into two units: the *Employment* unit and the *Lifestyles* unit. The *Employment* unit is the larger of the two and finds employment for people with disabilities in the open market; and the *Lifestyles* unit provides independent living skills for intellectually disabled people. The organisation is regarded as successful as it has operated for six years, has a staff of about 60 people and has received public recognition for its work, including complimentary newspaper reports. There is an executive manager for the organisation as a whole, and a separate manager for each of the *Lifestyles* and *Employment* units. Each staff member in the *Employment* unit looks after approximately 20 clients, while *Lifestyles* unit staff develop and present programs for individuals and small groups. Staff and management in both units expressed a strong sense of collegiality. While the two units are aware of each other they consider themselves to be operating independently, having different clients and different sources of funding.

The organisation has two main sources of funding. The *Employment* unit has, to date, received block funding from the Australian Federal Government, while the *Lifestyles* unit is funded by Victorian State Government grants. The relationship between the Federal Government and the organisation is defined contractually and reflects the introduction of business ideology to the NFP sector. These changes were seen as potentially disruptive requiring the organisation to adopt a more business-like approach in an attempt to maintain performance.

The Federal Government has decided to fund open employment agencies on the basis of the number of clients they find employment for rather than by a set grant (block funding) that was paid irrespective of the number of clients who had been found employment. This change had been mooted for a number of years and management decided to improve *Employment* unit staff performance by offering a bonus. The bonus offered consisted of an additional month's pay if they were able to exceed their specified quota of clients placed in employment. The bonus scheme was easily understood, and supported by *Employment* unit staff. However, management did not extend the bonuses to *Lifestyles* unit staff as it was considered to be inappropriate.

5. Research Method

The research question is: Are employees of NFP organisations motivated by satisfaction from their work, or are they motivated by extrinsic rewards?

The small-sample *t*-test was used to analyse the data, constituting employee responses to six statements indicating intrinsic or extrinsic orientation of the reward. The statements were:

- I am satisfied with my pay
- I believe that bonus schemes can increase work performance
- I would prefer a reward system based on individual rather than team outcomes
- I am motivated by the achievements of my clients
- Working at the organisation allows me to achieve a good work/life balance
- I have fun while working at the organisation

Participants indicated their opinions to the six statements by circling a number, one to five, on a five-point likert scale. Response categories ranged from strongly disagreeing to strongly agreeing. Respondents returned 52 useable responses. The questionnaire was developed in conjunction with a manager of the organisation.

To understand the factors that motivate employees, the null hypothesis to be tested is:

Ho: **Employees are not motivated by intrinsic rewards.**

6. Statistical analysis

The statistics reported in the tables below reveal staff perceptions, from across the organisation. The response rate was 87 per cent. The significance level adopted is 5 per cent. *t*-test results for the data (and whether $p > .05$ or $p < .05$) are highlighted immediately below the relevant table.

TABLE 1

I am satisfied with my pay

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	3.8	3.9	3.9
	Disagree	14	26.9	27.5	31.4
	Neutral	14	26.9	27.5	58.8
	Agree	19	36.5	37.3	96.1
	Strongly Agree	2	3.8	3.9	100.0
	Total	51	98.1	100.0	
Missing	System	1	1.9		
Total		52	100.0		

One-Sample Test

	Test Va ue = 3					
					95% Conf dence Interv a of the D ff erence	
	t	df	S g. (2-ta ed)	Mean D ff erence	Lower	Upper
I am sat sf ed w th my pay	.711	50	.481	.098	-.18	.38

Table 1 results are not significant (t = .711, p > .05); there is no statistically significant difference between those who agreed and those who disagreed with the statement. 41 per cent of employees agreed with the statement, "I am satisfied with my pay", 34 per cent disagreed and 27 per cent were ambivalent about satisfaction with their pay. Hence, we cannot say that employees were motivated solely by extrinsic rewards. This highlights Herzberg's (2003) conclusion that pay does not motivate; rather, it is a "hygiene" factor.

TABLE 2

I believe that bonus schemes can increase work performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.8	5.8	5.8
	Disagree	8	15.4	15.4	21.2
	Neutral	16	30.8	30.8	51.9
	Agree	14	26.9	26.9	78.8
	Strongly Agree	11	21.2	21.2	100.0
	Total	52	100.0	100.0	

One-Sample Test

	Test Va ue = 3					
					95% Conf dence Interv a of the D ff erence	
	t	df	S g. (2-ta ed)	Mean D ff erence	Lower	Upper
I be eve that bonus schemes can ncrease work performance	2.629	51	.011	.423	.10	.75

The response to the statement "I believe that bonus schemes can increase work performance" (Table 2) was significant (t = 2.629, p < .05). Employees did believe that bonus schemes can increase work performance. This concurs with Ryan and Deci (2000) who state that the efficacy of an extrinsic reward is linked with the beliefs of the employee. The apparent motivation of the extrinsic reward is, in fact, linked with the belief of employees that the task being undertaken is worthwhile.

TABLE 3

would prefer a reward system based on my individual outcomes rather than based on my team outcomes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	9.6	10.2	10.2
	Disagree	18	34.6	36.7	46.9
	Neutral	19	36.5	38.8	85.7
	Agree	3	5.8	6.1	91.8
	Strongly Agree	4	7.7	8.2	100.0
	Total	49	94.2	100.0	
Missing	System	3	5.8		
Total		52	100.0		

One-Sample Test

	Test Va ue = 3					
					95% Conf dence Interv a of the D fference	
	t	df	S g. (2-ta ed)	Mean D fference	Lower	Upper
I wou d prefer a reward system based on my nd v dua outcomes rather than based on my team outcomes	-2.354	48	.023	-.347	-.64	-.05

Table 3 results were statistically significant (t = -2.354, p < .05). Employees did not (note the –ve t-value) prefer a reward system based on individual outcomes. This result further indicates the ambiguous nature of individual extrinsic rewards as motivators.

TABLE 4

I am motivated by the achievements of my clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	3.8	4.2	4.2
	Neutral	4	7.7	8.3	12.5
	Agree	22	42.3	45.8	58.3
	Strongly Agree	20	38.5	41.7	100.0
	Total	48	92.3	100.0	
Missing	System	4	7.7		
Total		52	100.0		

One-Sample Test

	Test Va ue = 3					
					95% Conf dence Interv a of the D f f erence	
	t	df	S g. (2-ta ed)	Mean D f f erence	Lower	Upper
I am mot v ated by the ach ev ements of my c ents	11.025	47	.000	1.250	1.02	1.48

Table 4 results are significant (t = 11.025, p = .000). Employees agreed that they were motivated by the achievement of their clients. This emphasises the importance of intrinsic rewards as motivators, and is further evidence of agreement with Herzberg's (2003) argument.

These results (Tables 3 and 4) clearly emphasise the importance of intrinsic rewards to employees. Table 4 results, in particular, highlight the importance of the mission of a NFP organisation as a source of motivation for its employees.

TABLE 5

Working at the organisation allows me to achieve a good work / life balance

		Frequency	Percent	Valid Percent	Cumulativ e Percent
Valid	Disagree	7	13.5	13.5	13.5
	Neutral	7	13.5	13.5	26.9
	Agree	22	42.3	42.3	69.2
	Strongly Agree	16	30.8	30.8	100.0
	Total	52	100.0	100.0	

One-Sample Test

	Test Va ue = 3					
					95% Conf dence Interv a of the D ff erence	
	t	df	S g. (2-ta ed)	Mean D ff erence	Lower	Upper
Work ng at the organ sat on a ows me to ach eve a good work / f e ba ance	6.549	51	.000	.904	.63	1.18

The statistically significant result of Table 5 (t = 6.549, p = .000) strengthens the argument that intrinsic rewards are important motivators to employees of this organisation. Obviously, work/life balance is an outcome of the particular employment environment, and this response of employees adds weight to the hypothesised importance of intrinsic rewards as motivators.

TABLE 6

I have fun while working at the organisation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	3.8	3.8	3.8
	Neutral	9	17.3	17.3	21.2
	Agree	29	55.8	55.8	76.9
	Strongly Agree	12	23.1	23.1	100.0
	Total	52	100.0	100.0	

One-Sample Test

	Test Va ue = 3					
					95% Conf dence Interv a of the D ff erence	
	t	df	S g. (2-ta ed)	Mean D ff erence	Lower	Upper
I hav e fun wh e work ng at the organ sat on	9.382	51	.000	.981	.77	1.19

Table 6 results were significant (t = 9.382, p = .000). Employees clearly indicated that they do have fun while working at the organisation: 78.9 per cent of respondents agreed that they have fun while working at the organisation.

7. Discussion

The results reported above lead to a rejection of the null hypothesis. Employees of this organisation did appear to be motivated by intrinsic rewards. Our results question the conclusions of Gupta and Mitra (1998) that extrinsic rewards are good motivators.

A significant proportion of employees were ambivalent about satisfaction with their pay. If employees are unsure about whether or not they are satisfied with their pay, then pay cannot be a prime source of motivation for them. This is in line with Herzberg's (2003) argument that pay is a "hygiene" factor, and does not satisfy.

Employees, though, did agree that bonus schemes can improve performance. However, whilst a bonus is an extrinsic reward, this does not diminish the importance of intrinsic rewards. As Ryan and Deci (2000) state, extrinsically motivated behaviours are the outcome of individuals believing that the activity for which the bonus was received is socially significant, and valued by their colleagues, and leads to a sense of belonging. Thus, the real value of the bonus as a motivator is that it reinforces the intrinsic reward of feeling connected; of having done something worthwhile.

The response in the affirmative to the statement, "I am motivated by the achievements of my clients" was particularly reinforcing of the importance of intrinsic rewards. Most staff reported being motivated by the achievements of their clients, indicating the importance of the mission of the organisation as a source of motivation. This supports the findings of Holcombe (1995) in the case of the Grameen bank. It also supports the argument of Ryan and Deci (2000), Frey (1997), Etzioni (1988) – who states that individuals may derive utility from non-economic factors or rewards – and Larson (1977), who argue that serving the public good and control over the work environment can modify the behaviour of individuals.

The survey data support the contention of Deckop and Cirka (2000), that intrinsic rewards have a greater impact in NFP organisations. The results also support the contention of Berry, Broadbent and

Otley (1995), that people working in the caring services are more concerned with doing a worthwhile job than they are with remuneration. Further, the results support the suggestion made by Brown and Yoshioka (2003), that money is perceived as a means to an end and is a secondary matter to NFP staff since the majority of respondents reported being not dissatisfied with their pay.

The apparent predominance of intrinsic motivation in this organisation supports Herzberg's (2003) contention that pay is a "hygiene" factor and not a real motivator; and Jobome (2006), who found that intrinsic rewards dominated extrinsic rewards in UK NFPs. This is supported by the findings regarding having fun at work (Schepers et al. 2005), and the importance of the work/life balance. These two statements received considerable support from the survey respondents, which support seriously questions a commonly-held belief that extrinsic rewards are the single-most important motivator.

8. Conclusions

This study was undertaken to answer the question of the value of intrinsic rewards as motivators for employees in this organisation. Intrinsic motivational factors have been found to be significant, in both the presence of an employee bonus scheme and in its absence. This finding of the motivational importance of intrinsic factors is across the whole organisation, irrespective of the quite varying conditions under which employees of the organisation work; and is in support of Jobome (2006) who argues that in UK NFPs intrinsic rewards dominate extrinsic. Extrinsic motivators do play a role, but not to the extent that classical agency theory suggests. The findings of this paper support the contentions of Etzioni (1988) and Larson (1977), that people are motivated by non-economic rewards.

The results appear to indicate that classical agency theory cannot adequately explain the motivation of staff in the NFP sector. In addition, the importance of intrinsic motivators highlights the importance of context in the motivation of staff, and the need for further research into this aspect of motivation. Human behaviour is complex and explanations of motivation need to consider carefully the organisational context (Jobome, 2006). It is through the organisation that staff are able to work with clients and witness their successes, achieve a good work/life balance and have fun at work. The results reported in this paper are gained from one NFP organisation and therefore the conclusions must be tentative. However, the findings do indicate the direction of future research.

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Upper Echelon Theory and Ethical Behaviour: An Illustration of the Theory and a Plea for Its Extension Towards Ethical Behaviour

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Abstract

This paper gives an illustration of the Upper Echelon Theory and presents arguments for more research on the relationship between upper echelons, strategic choices, and ethical behaviour. Its central theme is: What is the effect of the Sarbanes-Oxley Act implementation on the composition of the Board of Directors of companies that are listed on a U.S. stock exchange? In this research we examined whether the composition of companies' top management teams is influenced by the issue of ethical behaviour. We used a sample of fifty listed companies, containing the members of the Board of Directors registered in the period 2000 - 2005.

The underlying question in this research is whether companies actually change the composition of their Board of Directors because they believe that personal characteristics, such as age, tenure, and specialisation, play an important role in decision making and hence in the degree of their ethical behaviour. In this paper we test three hypotheses. The conclusion is that two of our hypotheses support the Upper Echelon Theory.

Keywords

Upper Echelon Theory, Sarbanes-Oxley Act implementation, ethical behaviour

1. Introduction

The question of ethical behaviour is becoming increasingly relevant to the everyday management of businesses. A wave of bookkeeping scandals has overwhelmed the global marketplace, and has resulted in the now infamous 'internet-bubble'. Because in many of the recent cases the top managements of businesses were involved, and often they were even the initiators, corporate business ethics are now at stake. This urged the U.S. government to come up with additional laws on business practices, of which the Sarbanes-Oxley Act ('Sox') is an example. This act has increased the responsibilities of corporations' top managements (the upper echelons), seeking to induce more ethical behaviour. The implementation of this law has required quite an effort – of governments, companies, and certifying auditors.

The claim that the upper echelons, or top management teams, have an important role in the way in which large corporations are directed has been empirically proven by various researchers (e.g. Hall, 1977; Hannan and Freeman, 1977). The Upper Echelon Theory (Hambrick and Mason, 1984) even suggests that the more complex a decision, for example strategic measures, the more important the personal characteristics of the decision makers, such as age, tenure, and specialisation.

This research study was initiated to learn whether companies are aware of the dependence of their ethical behaviour on their top executives, and to extend the empirical evidence for the Upper Echelon Theory towards explaining corporations' ethical behaviour. Earlier studies on this topic focus mainly on proving the existence of the relationships suggested in the theory, by linking personal characteristics with the organization's results or pursued strategies. The studies that match personal characteristics and results have various outcomes; those dealing with personal characteristics and strategy show this relationship quite unanimously. However, this relationship has not been sufficiently illustrated yet and, more important, too little research has been conducted on the relations among the upper echelon, strategic decisions, and ethical behaviour. If we can identify the determinants of a corporation's ethical behaviour, it will be easier to influence them and to find ways to deal with unethical behaviour.

In this research we examined whether companies change the composition of their top management teams in order to deal with the question of ethical behaviour. Since the Sarbanes-Oxley Act was installed in 2002, many companies have had an incentive to evaluate the composition of their upper echelons and work towards more ethical ways of conducting business. In most large corporations the Board of Directors makes the final strategic decisions and can hence be considered as the upper echelon. The following research question can therefore be posed: *What were the effects of the implementation of the Sarbanes-Oxley Act on the composition of the Boards of Directors between 2000 and 2005?* In order to investigate this question, a quantitative research study was set up. We compiled a sample of fifty listed companies, containing the members of the Board of Directors registered within the period 2000 - 2005. Next, we collected data on the board members' gender, age, tenure in the organization, and specialisation. A division was made into the 'pre-Sox era' (2000, 2001, and 2002) and the 'post-Sox era' (2003, 2004, and 2005). After the data collection, the characteristics of the board members in these two periods were compared and analysed.

The outcomes have given rise to the refinement of the Upper Echelon Theory; companies acknowledge the view that changing the characteristics of their upper echelons will enable them to induce more ethical behaviour.

2. Hypotheses

The Upper Echelon Theory suggests that the personal characteristics of the members of the top management team play a far more important role than expected. Factors such as age, tenure within the organization, specialisation, social roots, and a member's financial situation are assumed to affect the decisions made by the top management team. Most studies confirm the relationship between the top management team and company performance or strategy. The relationship between the upper echelon and ethical behaviour has, however, not been investigated yet.

The aim of this research is to give an illustration of the Upper Echelon Theory and, if possible, to expand it into the field of business ethics. It should be emphasised that this study is not focussed on *proving* the existence of the relationship between the upper echelon and ethical behaviour, but on showing that companies *believe* it is there.

The Sarbanes-Oxley Act is based on the COSO-model, which promotes a focus on the general 'control environment', or in other words the corporate culture. Although it would make sense to write an act that follows the advice of the writers of the COSO-model, the Sarbanes-Oxley Act only touches upon the subject of corporate culture and control environment. For the rest, it is a long list of rules and regulations, involving an enormous bureaucracy, while it is not expected to solve the problem. Because earnings management practices do not result in lasting returns, as shown by Dechow et al (1994), companies are assumed to be willing to avoid frauds and bookkeeping scandals. Knowing (or expecting) that the Sarbanes-Oxley Act as such will not really solve the problem of lacking business ethics, companies have to work pro-actively towards a better solution. They will need to do more than 'just comply' with Sarbanes-Oxley. In fact, they have to try to find ways to improve the control environment, to create a better corporate culture, and to choose strategies that induce rather than discourage ethical behaviour.

The assumption is that companies are aware of the Upper Echelon Theory. In practice, they may not be familiar with its terminology or the reasoning behind it, but they will certainly be aware of the impact of top management teams on decisions, culture, and hence their ethical behaviour. Therefore, they are expected to change the composition of their upper echelons in such a way that it becomes easier to comply with the Sarbanes-Oxley Act, thereby reducing the risk of unethical behaviour. Especially the Boards of Directors of large corporations can be regarded as the upper echelons. The research question can thus be rephrased as follows:

> *What is the effect of the Sarbanes-Oxley Act implementation on the composition of the Boards of Directors of companies listed on a U.S. stock exchange?*

Hambrick and Mason (1984) make 21 propositions concerning top management team characteristics and company performance. These propositions are based on seven categories: age, functional background, corporate influences, education, socio-economic roots, stockholding, and group heterogeneity. This study focuses on only three of these categories. The three most accessible to the researcher have been chosen: age, tenure, and specialisation (functional background).

2.1 Hypothesis 1 – Age

For the category 'age' Hambrick and Mason present the following two propositions:

> *P 1. Firms with young managers will be more inclined to pursue risky strategies than will firms with older managers.*

> *P 2. Firms with young managers will experience greater growth and variability in profitability from industry averages than will firms with older managers.*

They base these propositions upon earlier research of Child (1974) and Hart and Mellons (1970). In these studies youth appears to be associated with corporate growth and the volatility of profitability. This may be explained by arguing that older people have already earned their place in society and will therefore choose a strategy that helps them maintain this position. Younger people, on the other hand, still have to earn their position, which is why they will choose strategies which pay off more, but may also be more risky. In order to illustrate the working of the Upper Echelon Theory, the proposition above will be hypothesised. We have seen that a risky (but high return) strategy puts more pressure on people to perform, which makes them more willing to manipulate the results. Therefore, if companies want to stimulate ethical behaviour, they have to choose strategies that do not encourage the personnel to manipulate. In other words, they have to choose less risky strategies. Hence the following hypothesis can be formulated:

> *H 1: Since the implementation of the Sarbanes-Oxley Act, the average age in the Board of Directors has become higher.*

2.2 Hypothesis 2 – Specialisation

In their 1984 article Hambrick and Mason formulate a number of propositions with respect to managers' functional track. In order to specify their ideas in such a way that they are consistent with other researchers' classifications they distinguish between 'output functions' and 'throughput functions'. These two categories align with, among other ones, the Miles and Snow's (1978) 'strategic typology'. Output functions are functions such as marketing, sales, and R&D. Throughput functions are production, accounting, and engineering. Hambrick and Mason propose the following:

> *P 3. There will be a positive relationship between the degree of output function experience of top managers and the extent to which the firm emphasizes outputs in its strategy. Indicators of output emphasizes are product innovation, diversification and forward integration.*

> *P 4. There will be a positive relationship between the degree of throughput function experience of top managers and the extent to which the firm emphasizes throughputs in its strategy. Indicators of throughput emphasis are automation, equipment newness and backward integration.*

Because product innovation, R&D, and diversification are often associated with risk, we may conclude that 'output managers' are less risk averse than 'throughput managers'. Assuming that firms want to adopt less risky strategies and starting from the standpoint that 'output managers' are less risk averse than 'throughput managers', it makes sense to expect that firms will choose to replace board members with a functional background in 'output functions' by those with a 'throughput background'. Some more support for this assumption can be found in another study, which shows that large corporations are increasingly dominated by managers with finance or law backgrounds (Hays and Abernathy, 1980). Hambrick and Mason argue that these executives adopt strategies that fit their personal, hands-on, experience. Implementing the Sarbanes-Oxley Act is a complex task, which has an impact on the entire organization. It is basically an administrative game, which means that its implementation is often initiated by the finance department. In addition, to avoid new bookkeeping scandals, the act gives corporations' leaders more responsibilities concerning their knowledge of the contents of the annual report. These are reasons to expect more individuals in the top management team with a finance or 'throughput' background. This results in hypothesis 2:

> *H 2: the percentage of board members with a background in throughput functions rather than in output functions, will increase.*

2.3 Hypothesis 3 – Tenure

For the category 'tenure' Hambrick and Mason (1984) put forward the following proposition:

> *P 10. Years of inside service by top managers will be negatively related to strategic choices involving new terrain, for example product innovation and diversification.*

Proposition 10 states that managers brought in from the outside are more inclined to choose strategies that involve new terrains, such as for example diversification and product innovation. This proposition can be interpreted as suggesting that external managers may choose more risky strategies than managers from within the company. Considering that companies seek to adjust their top management teams in such a way that less risky strategies are pursued, they are expected to replace board members with a short organizational tenure by those with a longer tenure within the organization. This results in hypothesis 3:

> *H 3: Since the implementation of the Sarbanes-Oxley Act, the length of the board members' tenures within the organization has increased.*

2.4 Research Model

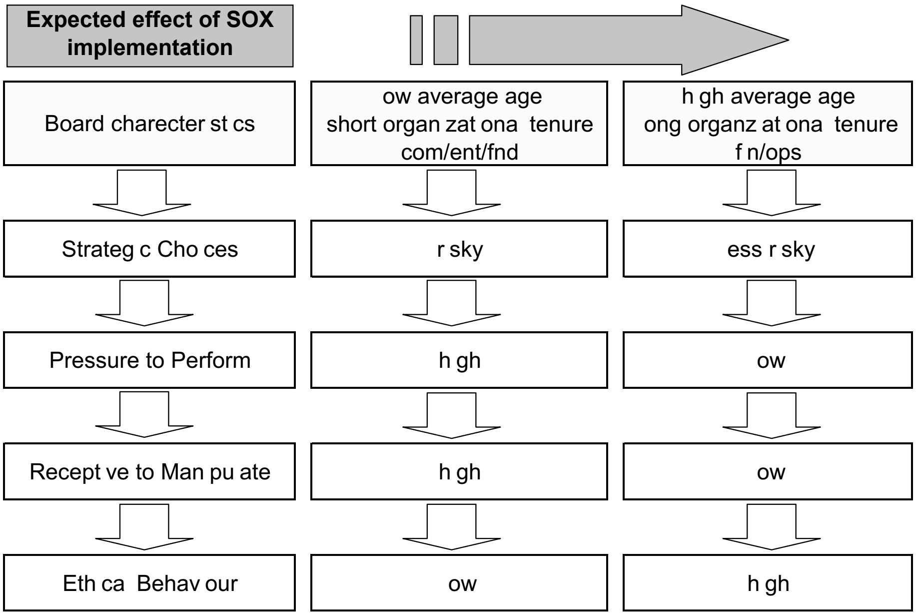
Based on the paragraphs above the following statements can be made:

- a lower age is related to more risky strategies than a higher age;
- throughput managers are more risk averse than output managers;

- a longer organizational tenure is associated with less risky strategies.

In addition, strategy and ethical behaviour are considered to be related through a process of target setting and remunerations schemes. Risky strategies often yield higher returns than more careful and conservative strategies. From a personal point of view, however, negative news or disappointing results are more difficult to report and can also be more costly.

In the following picture the above line of reasoning is summarised.



Picture 1: Summary of Theories

The left column depicts the ideas presented in previous research studies: the Board of Directors makes strategic choices. These choices may or may not create an (excessive) pressure to perform (e.g. a very risky but high return strategy increases the pressure to perform). A high pressure to perform makes managers more willing to 'cook the books', which undermines their willingness to operate in an ethical manner.

The middle and right column show the outcomes of earlier research: a low average age, a short organizational tenure, and a commercial / entrepreneurial background lead to more risky strategies than high age, long organizational tenure, and financial / operational backgrounds. High risk strategies lead to a higher level of pressure to perform, which makes managers more willing to manipulate the results. These strategies have a negative effect on companies' ethical behaviour. Low risk strategies lead to less pressure to perform, which makes managers less inclined to manipulate. These strategies have a positive effect on a company's ethical behaviour. The horizontal arrow at the top of the picture symbolises the core of this research:

> *Has the introduction of the Sarbanes-Oxley Act led to a shift in the composition of the Boards of Directors?*

Testing the hypotheses presented in the paragraphs above will provide insight into the working of the Upper Echelon Theory. The idea is that companies use this theory (albeit unconsciously) to guide their corporate strategies which determine the general direction in which they want to lead their companies. The Sarbanes-Oxley Act seeks to induce more ethical behaviour and has as such been an incentive to companies to adjust their corporate culture and/or control environment. By showing that the upper echelons from before Sarbanes-Oxley have a different composition than those after its implementation, it can be proven that companies not only use their upper echelons to impact their corporate strategies but also to induce more ethical behaviour. This research is explicitly aimed at the Board of Directors as a whole rather than at the individual board members. The hypotheses and statements made relate to the group and not to the separate group members. It is not suggested that, for example, younger managers have less integrity or are less trustworthy than older managers. The statements here concern the composition of the top management team, which says nothing about individual qualities. What is meant is that top management teams with a relatively low age will be more likely to choose risky strategies, thereby putting more pressure on the issue of ethics. Therefore, the Upper Echelon Theory may not only apply to strategic decision making but also to a company's ethical behaviour.

We tested our sample by studying the data on the Boards of Directors of companies with respect to the Sarbanes-Oxley Act and by calculating the measures as explained in the next paragraphs. In general, the choice between accepting or rejecting hypotheses requires some significance calculations. For various reasons, however, we did not include these calculations in this paper. Although they have been planned they not been done so far. The hypotheses can only be accepted if both calculation results yield the same results. This method may not be as refined as statistical tests, but will still give a reliable impression of the viability of the hypotheses.

3. Research Method

The following paragraphs give an outline of the methodology of the research. First, the population is defined, followed by a paragraph about the sample selection. Then, the time horizon is formulated and the data collection methods discussed.

3.1 Population

The American Federal Bureau of Investigation (FBI) is engaged, among many other tasks, in localising and solving a variety of frauds. The Bureau has not observed any major changes in the trends in corporate frauds. The most salient scandals were reported in 'newconomy' branches such as ICT, telecommunications, and privatised industries (utilities). Because we assume that these corporations will be motivated to reduce the risk of similar malpractices in the future, our research is focussed on the above mentioned three branches. The assumption is that as long as firms have not been engaged in any major public scandals, they have no incentive to make changes to their upper echelons.

Furthermore, to all companies listed on the New York Stock Exchange (NYSE) as well as to other U.S. stock markets applies that they have to conduct their policies conform the Sarbanes-Oxley Act. Nasdaq, where many of the ICT sector companies are listed, is considered the primary stock market for technology firms. Our research population, therefore, includes all firms in the ICT, telecommunications, and utilities branches which are listed on either the NYSE or Nasdaq. From the websites of the three branches in question (www.nyse.com and www.nasdaq.com) a list of companies was downloaded. Unfortunately, the Nasdaq and the NYSE do not use the same industry classification methods, so on some points we had to make a selection before adding the two lists together. The NYSE uses the Industry Classification Benchmark (ICB) to classify listed companies.

3.2 Sample

For statistical calculations to be valid a sample has to contain at least thirty records. So a sample of fifty records was considered to be well enough for the statistical calculations to make sense and keep the research concise at the same time. The table below shows the size of the population and the sample per sector.

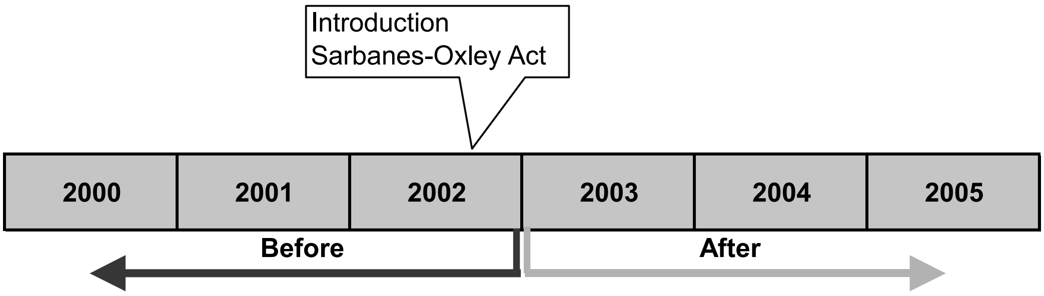
Industry	Population	% split	Sample
ICT	175	38%	19
Telecommunications	61	13%	7
Utilities	221	48%	24
Grand Total	**457**	**100%**	**50**

Table 1: Sample Sizes

The list of companies was saved in Microsoft Excel and the names of the companies were hidden, leaving only the stock exchange symbol visible. The list was first sorted on sector and then alphabetically on symbol. Per sector companies were randomly chosen by scrolling down and selecting them one at a time. Next, a list was made of the selected companies and a sanity check was done to control for doubles or other mistakes.

3.3 Time horizon

This research study deals with the question what effects the Sarbanes-Oxley Act implementation has had on the composition of companies' Boards of Directors. The Sarbanes-Oxley Act was introduced in 2002, which marks the breaking point of the time horizon. From this moment on companies had to operate in compliance with this law, which is why they started taking the necessary steps towards more transparency and corporate governance. In order to get an impression of the changes in the Board of Directors as a consequence of the introduction of the Sarbanes-Oxley Act, we had to compare two periods; a number of years before and a number of years after its introduction.



Picture 2: Time Line

In order to keep the research concise, a period of three years before and three years after was chosen while controlling for late filers (companies which complied in 2005 instead of 2004). Furthermore, it was assumed that changes in the Board of Directors take place gradually. In addition, for stability's sake we expected companies not to replace a significant number of board members at a time when it was not necessary. Therefore, we considered a period of three years (before and after) as the minimum suitable time frame in which to conduct our investigation.

3.4 Data collection

From the annual reports we collected and registered all members of the Board of Directors in a MS Excel database. The result was a sample of 50 companies with an average of 10 board members, containing at least 605 directors. Because the time span of the research covered a six-year period and there was a 'director turnover rate', the entire database consisted of 797 persons.

Hambrick and Mason's Upper Echelon Theory provided a theoretical base for our research into the management characteristics and strategic choices. At this point, however, we still had to prove the theory through empirical research. Various research has been conducted on this topic. Most studies examine more or less the same personal characteristics. For example, as already mentioned, Hambrick and Mason (1984) mention age, specialisation, tenure within the organization, and social roots as potential interesting factors to investigate. Wiersema and Bantel (1992) look at age, tenure within the organization, specialisation and education level, the latter serving as a proxy for social roots. Hence, it makes sense to focus on these characteristics.

Unfortunately however, not every company includes these indicators concerning their board members in their annual reports; some only include their names. Wiersema and Bantel (1992) use Dun &

Bradstreet's 'Reference Book of Corporate Management's' as their main source of biographical information. It is now available via www.hoovers.com.

3.5 Measures

We used the following three characteristics: age, tenure, and specialisation.

Age This refers to the age of the person in question in the year 2006, the year in which the research was conducted. By focussing on a person's age in one particular year, we could control for the fact that each year that people occur in the sample, they gain one year in age, which would impact the calculations.

Tenure within the organization – refers to the number of years that a person has been working for the company in question. Many board members have no tenure within the organization. They are appointed from outside and have other jobs in other companies. They are considered 'external'. Directors with zero years of tenure are attracted externally, and their function within the company starts from the moment they are appointed.

Specialisation – concerning specialisation we were particularly interested in financial specialists. As already explained, we started from the assumption that companies preferably choose board members who are financially educated.

3.6 Validity

By using the approach as stated above a reasonable level of validity could be ensured. The data used were archival and objective. Only 'professional specialisation' was more or less subjective and in some cases slightly ambiguous. The other measures, age and tenure, were hard and could be interpreted in only one way. Therefore, the reliability of this research was good in that the same results could be expected under the same circumstances.

The question whether or not companies choose to adjust the composition of their boards should in fact be interpreted as whether these companies *believe* there is a relationship between upper echelons, strategic choices, and ethical behaviour. In this respect, the present moment – a number of years after the implementation of the Sarbanes-Oxley Act – would be an excellent time to study this subject. By law firms are now forced to improve their business ethics, which has implications in all layers of the company, but especially for the top management teams. It is not likely that significant changes in companies' upper echelons after the Sarbanes-Oxley implementation would occur for no reason. Therefore, the occurrence of these changes may in fact be a good indicator of the way in which corporations try to find the best practice for raising the level of their business ethics.

During the process of data gathering, we found another factor which has an impact on the composition of the Board of Directors. It appeared that mergers and acquisitions were also an important reason for companies to adjust the composition of their Board of Directors. Therefore, we cannot be entirely sure whether the cause of the changes in the Board of Directors was in fact the Sarbanes-Oxley Act rather than something else. On the other hand, even if mergers and acquisitions had played a role, companies would have still had the choice of which board members to move forward – younger, less risk averse types, or elder, more conservative persons. So also in this case internal validity would still hold.

The population of the research was restricted to companies active in ICT, telecommunications and utilities branches, because in these industries reporting and bookkeeping incidents had occurred the most. We expected these companies to have a real incentive to make changes in their board structure. Companies which are doing well, which have had no major bookkeeping issues, and no negative press coverage, have no need to change their current ways of doing business. Therefore, companies which encountered problems in the past or have other reasons to reconsider their board structure have the strongest external validity.

4. Findings

In the following paragraphs the results are explained. For the assessment of the hypotheses the results were either considered to be significant, or they were evaluated. The sample contained some 797 individuals. Given this number of records, we considered the sample amply large enough to make some proper statistical calculations. However, as our focus was on the *changes* in the composition of the Board of Directors, we did not only need to look at the sample as a whole but also at the mutants. And when doing so, the sample appeared too small. When this is the case, the standard error becomes very large and the significance calculations rather impractical.

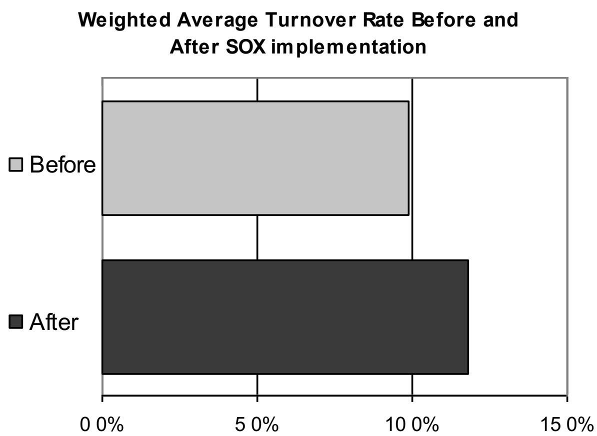
4.1 General metrics

The population counted 457 companies and the sample 50 companies. Each company had on average 10 board members, while the composition of their boards changed over the years. Therefore, the database provided information about 797 board members, active in three branches. The average Board of Directors counted 10.2 members. This number was stable during the years of our sample. Looking at the separate industries, however, we found that the size of the Boards of the companies in the utilities and telecommunications sectors decreased slightly, whereas the size of the Boards of companies in the ICT sector increased. This was possibly due to the fact that the average size of the Boards of Directors in the ICT sector was smaller than in the other two sectors.

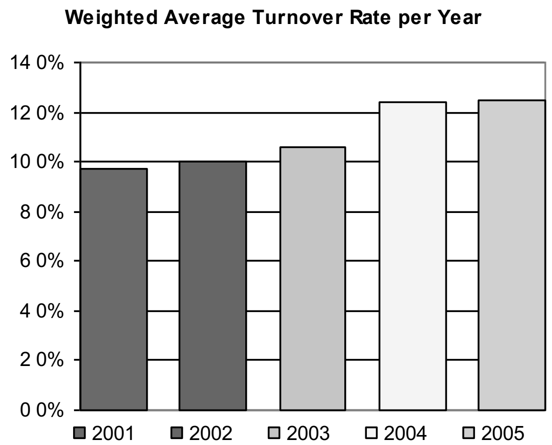
The 'board-turnover-rate' was also calculated. The formula used here was the following:

$$\frac{\text{Number of board members leaving in a certain year}}{\text{Total number of board members in that year}}$$

The two graphs (graph 1 and 2) depict the results. Graph 1 shows the weighted average board-turnover-rate before and after the Sarbanes-Oxley implementation. We see that the turnover rate has increased since the introduction of the Sarbanes-Oxley Act. When examining the data on a yearly basis (graph 2), we observe that the turnover rate has become higher over the years. It did not peak around 2002 and 2003 (introduction of the Sarbanes-Oxley Act) but instead rose during the whole period, from 9.7% in 2001 to 12.5% in 2005. A recent study by consulting agency Challenger, Gray & Christmas confirms this finding.

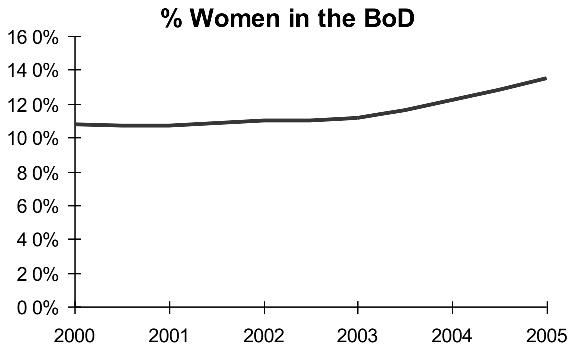


Graph 1: Turnover Rates Before and After Sox Implementation



Graph 2: Yearly Turnover Rates

Although not hypothesised as one of the personal characteristics, gender was examined as well. We see that during the sample period the number of women in the Board of Directors rose. Whether this has to do with the Sarbanes-Oxley implementation is not clear. Looking at the graph below, however, we do notice a bigger increase in women in the Board since 2003 – the year after the Sarbanes-Oxley Act was installed. The discussion about emancipation and women's role in society is much older than that about the implementation of the Sarbanes-Oxley Act. Therefore, the sudden larger increase in female directors cannot be explained by 'regular' developments in the emancipation issue. At the same time, this does not necessarily mean that the implementation of the Sarbanes-Oxley Act is the cause of the increase. Also other factors may play a role. However, these factors are considered to be outside the scope of this study.



Graph 3: Percentage of Women in the Board

4.2 Hypothesis 1 - Age

Hypothesis 1: Since the implementation of the Sarbanes-Oxley Act the average age in the Board of Directors has become higher.

From the table on the next page it becomes clear that the average age of the board members rose from 58.1 years in 2000 to 60.2 years in 2005. This can be explained by the fact that people become older nowadays and might not need to be replaced. However, the turnover rate *increased* during the entire period, suggesting that board members are replaced more often rather than less often. The higher average age suggests that they are replaced by relatively older colleagues. There were no large differences among the three industries.

Period	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Before**	**After**
Nr of records	405	428	439	446	468	490	1.272	1.404
Avg Age	**58,1**	**58,6**	**59,0**	**59,5**	**59,7**	**60,2**	**58,6**	**59,8**

Table 2: Average Age

When comparing the groups of individuals who were discharged from the Board of Directors with those who were taken on, we see that the average of the leavers is 66 years and the average age of the new entrants 58 years. This may be explained by the retirement of older board members.

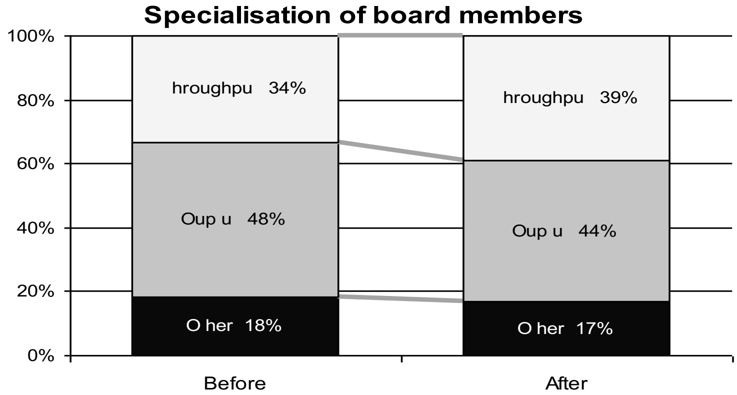
Combining both findings – a higher turnover rate and a lower average age of newcomers – we would expect a lower average age in the most recent years. In this period, however, we see a higher average age in the boards. This indicates that older individuals maintain their positions longer, whereas younger ones are being replaced.

A double check can be made by comparing the average age of those who left the board in 2001 (the first year of leavers) with those who left in 2005. Leavers in 2001 have an average age of 66 years, whereas in 2005 their average age is 61, which is 5 years younger. This finding hence supports hypothesis 1, according to which the board is expected to have a higher average age. It appears that companies do in fact replace relatively younger board members more often than older ones.

4.3 Hypothesis 2

H2: the percentage of board members with a background in throughput functions rather than in output functions, will increase. First of all, the general composition of the Boards of Directors before and after Sarbanes-Oxley implementation was examined. Graph 4 depicts the results of the analysis. In the graph a clear change is visible between the years 2001 and 2005. The percentage of board members with a background in an 'other' functional area remained approximately the same. The percentage of individuals with experience in output functions, however, decreased from 48% before the Sarbanes-Oxley implementation to 44% afterwards. The percentage of board members with a throughput background, on the other hand, increased from 34% to 39%.

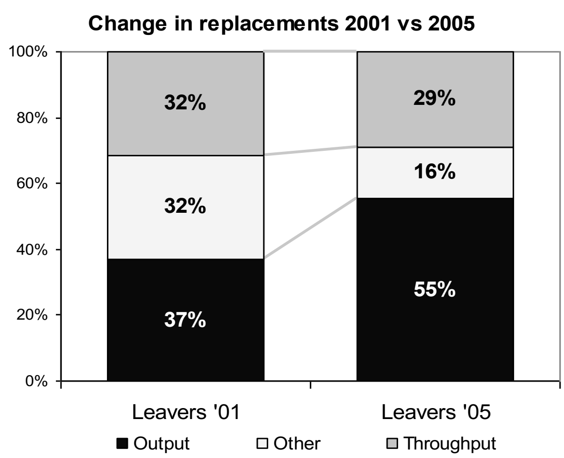
Because the percentage of board members who worked in 'other' fields remained more or less the same, we can conclude that companies actually chose to replace output managers by throughput managers.



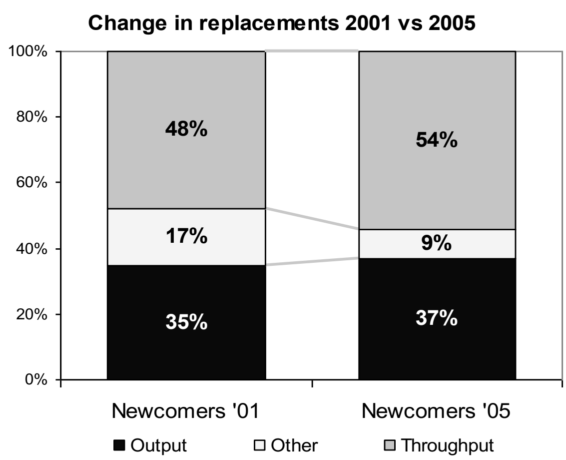
Graph 4: Changes in Specialisation Before and After the SOX-implementation

When making a cross check, we learned more about this finding. We compared the leavers and the newcomers in 2001 and 2005. Graphs 5a and 5b show the results. When comparing the leavers in 2001 with those in 2005, we see that in 2001 37% of the leavers had an output background. In 2005 this percentage had increased to 55%. So, after the implementation of the Sarbanes-Oxley Act, more than half of the replacements concerned individuals with a background in output functions, i.e. marketing managers, sales managers, entrepreneurs, and founders. In addition, especially board members with 'other' functional backgrounds were less often replaced. A particular reason for this has not been found so far. Finally, throughput managers were slightly less often replaced in 2005 than in 2001.

Graph 5a: Comparison of Leavers in



Graph 5b: Comparison of Newcomers in



2001 and 2005 **2001 and 2005**

In graph 5b, which compares the newcomers, an opposite shift is visible. In 2001 35% of the newly installed board members had an output background compared to 37% in 2005 - approximately the same. For throughput functions these percentages were 48% and 54% respectively.

So, combining both graphs, it can be concluded that in 2001 the leavers consisted of 37% output managers who were replaced by 35% output newcomers in that year. In other words: a replacement by persons with similar backgrounds. In 2005, however, we see that 55% of the output leavers were replaced by only 37% output newcomers. For throughput managers the opposite holds: 29% througput leavers and 54% throughput newcomers.

The cross checks also indicate that companies chose to replace output managers by throughput managers after the implementation of the Sarbanes-Oxley Act, whereas they did not do this before its introduction. Hypothesis 2 is therefore supported.

4.4 Hypothesis 3

Hypothesis 3: Since the implementation of the Sarbanes-Oxley Act, the length of the board members' tenures within the organization has increased.

Practically, this can either mean that companies more often choose new board members from within the organization than external directors, or that board members internally chosen remain in the board for a longer period of time.

First, the second option will be investigated. In the table below the average tenure within the organization (Ten-O) is given for the three branches:

Average Ten-O	2000	2001	2002	2003	2004	2005	Before	After
ICT	3,9	4,0	3,7	3,9	3,9	4,0	3,9	4,0
Telco	1,2	1,3	1,2	1,5	1,7	1,9	1,3	1,7
Utilities	1,5	1,8	1,5	1,4	1,7	1,8	1,6	1,6
All branches	**2,2**	**2,5**	**2,2**	**2,2**	**2,5**	**2,5**	**2,3**	**2,4**

Table 3: Average Tenure within the Organization

The average tenure within the organization increased from 2.2 years in 2000 to 2.5 years in 2005. When comparing the periods before and after the Sarbanes-Oxley implementation, we can see that the organizational tenure increased from 2.3 to 2.4 years. This increase, however, may be too small to be significant.

It is interesting to observe that the organizational tenures are longer in the ICT sector than in the other two branches. This may be explained by the fact that many companies in the ICT sector have only existed for a relatively short period of time (compared to the other sectors). Often, the ICT-companies' founders or executives are still highly active in the organization as opposed to those in the older branches.

The telecommunications industry shows a larger increase in organizational tenure than the other two branches. This may be explained by the fact that the telecommunications sector has been subject to a trend of take-overs in the recent years. In addition, after the implementation of the Sarbanes-Oxley Act companies appear to have increasingly appointed directors from within the company. Because the telecommunications sector is older than, for example, the ICT branch, the tenures can be longer than those in the ICT branch. This possibility, however, has not been investigated in full detail yet.

With respect to the option of appointing external board members, the following data emerged:

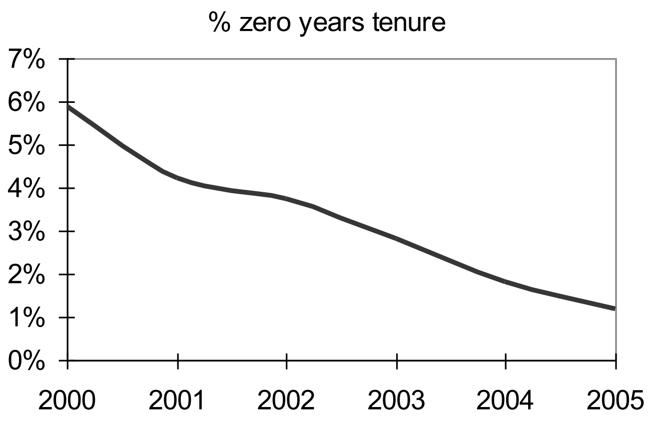
% External members	2000	2001	2002	2003	2004	2005	Before	After
ICT	74%	73%	75%	75%	75%	75%	74%	75%
Te co	72%	73%	72%	75%	79%	84%	72%	79%
Ut t es	83%	85%	86%	86%	86%	86%	84%	86%
All branches	**78%**	**79%**	**80%**	**81%**	**81%**	**82%**	**79%**	**81%**

Table 4: Percentage of External Board Members

The number of external board members (members of the Board of Directors that do not work in the company) *increased* over time. This is in contradistinction with hypothesis 3, according to which a decrease in external directors was expected rather than an increase. A possible explanation may be given by a study of Beekes, Pope and Young (2004). They found that companies with Boards composed of a relatively large number of external directors are less conservative in recognising bad new on a timely basis. These companies may realise that bringing bad news is easier for outsiders than for insiders, which explains their preference for a larger proportion of external directors in their Boards.

The above suggests that the small increase in organizational tenure is intrinsic, i.e: staff members working in the organization for a relatively long period of time were not replaced, which hence added one year of experience each year. Board members working a relatively short time for the organization were replaced more often than members with a longer tenure. But they were replaced by external colleagues rather than by staff members from within the organization.

A possible explanation is given in graph 6. In the year 2000, it was more common for companies to appoint new board members who would start working within the organization at the same time. These newcomers were external CEOs and Presidents who had no company history. From the above we can draw the conclusion that these members were replaced more often than their fellow CEOs with a longer tenure within the organization. Companies appear to have learned from appointing outsiders; they have become more reluctant in this respect.



Graph 6: Percentage of Board Members with Zero Years of Tenure

After conducting a cross-check other results emerged. We compared the leavers and the newcomers in the years 2001 and 2005. The table below shows the average tenures in both periods as well as the percentages of the directors appointed from outside the company.

Average Tenure	Years	External
Leavers 2001	7,3	91%
Newcomers 2001	9,6	74%
Variance	2,3	
Leavers 2005	9,8	89%
Newcomers 2005	13,5	86%
Variance	3,8	

Table 5: Average Tenure of Leavers and Newcomers in 2001 and 2005

As these findings indicate, companies did in fact opt for replacing directors with a shorter tenure by those with a longer tenure. They had done so already before the implementation of the Sarbanes-Oxley Act and continued to do so afterwards, although the variance in the length of the tenures had increased by 2005. Because the differences are quite small, the effects of the replacements may be less significant. The finding that companies more often choose to replace directors by externals, is also confirmed.

Summarising the above, we conclude that the average tenure within an organization has increased only slightly over the years. A comparison of leavers and newcomers shows that although companies replace shorter tenure directors with longer tenure directors, they do not do this with great frequency. In addition, these companies also replace leavers more often by externals. This finding is not in line with our expectations. Therefore, insufficient proof can be found to support hypothesis 3.

4.5 Summary of our findings and conclusion

The table below summarises the findings of the calculations.

Hypothesis	Subject	Calc. 1	Calc. 2	Accept/Reject
1	Age increase	Yes	Yes	Accept
2	More throughput functions	Yes	Yes	Accept
3	Longer tenure	No	No	Reject

Table 6: Summary of Findings

We can conclude that companies' Boards of Directors are generally composed of relatively older individuals of whom most have a throughput background rather than an output background. No sufficient support, however, was found which indicates that companies prefer to choose directors with a longer tenure.

5. Discussion and Conclusion

In the following paragraphs the results are discussed. We will ask ourselves whether the research question can be justified, and what we have learned. Next, the limitations of the research are dealt with, and the relevance of this study is explained. After that we will point to the implications for the Upper Echelon Theory. This part serves as an impulse for more discussion and theory building. Finally, some suggestions are made for future research on this topic.

5.1 Discussion of the results

In order to enable businesses to cope better with modern organizational practices, the Sarbanes-Oxley Act was implemented. One of the key elements of this act is ethical behaviour. Especially this element has increased the degree of responsibility in top management positions. Directors and presidents are now personally liable for the way in which their companies operate.

The Upper Echelon Theory suggests that the personal characteristics of executives influence the decisions that they make. The empirical support for this theory is, however, neither conclusive nor uniform.

One of this theory's shortcomings is that it focusses on strategic decision making. Nowadays, however, crucial issues are topics such as ethical behaviour and corporate governance, which implies that a focus on strategic decision making alone is no longer realistic. In the current context it is more important to acquire knowledge about the causes of (non-) ethical behaviour, so that scandals such as the Enron case can be prevented in the future. A relationship between an organization's upper echelon and its ethical behaviour is expected to exist in two ways: via strategic decisions and via corporate culture. So next to finding more empirical evidence for the Upper Echelon theory, another goal of this study was to find out whether firms adjust their upper echelons in order to induce more ethical behaviour.

The research question was addressed by taking a sample of fifty companies in the ICT, telecommunications, and utilities sector, and comparing the composition of their Boards of Directors before and after the implementation of the Sarbanes-Oxley Act.

Based on earlier research we expected that older executives with a long tenure within the organization and certain specialisations would tend to choose less risky strategies, thereby focussing more on business ethics. Younger executives, on the other hand, with a short organizational tenure and different specialisations were assumed to choose more risky strategies, thereby putting more pressure on the company's business ethics.

The first two hypotheses could be accepted, whereas the third hypothesis showed a controversial movement and had to be rejected. As indicated by earlier research, this may be explained by the finding that external directors appear to be less conservative in disclosing bad news on a timely basis (because they are less attached to the company). Although this paper does not yet include statistical calculations, there are indications that the research question holds: companies did in fact adjust their top management teams after the introduction of the Sarbanes-Oxley Act. This would imply that firms either consciously or unconsciously acknowledge the working of the Upper Echelon theory and use it to structure their business policies. It means that some additional proof has been found to support the Upper Echelon Theory. And although these initial results are still only indicators of possible outcomes, they are encouraging.

5.2 Limitations

There are some limitations to this research. First of all, we restricted our investigation to companies in three branches. These industries were chosen because they shared a history of incidents, giving them an incentive to change their boards. If we had included branches with no history of problems, no significant findings would have probably resulted.

A second limitation is that we only addressed companies which had their annual reports readily available on the internet. In this way, we did not have to wait for paper copies to be sent to us. This approach, however, resulted in a sample characterised by companies which are well organised in this respect, thereby excluding firms which have problems with their annual reports. This may have resulted in a somewhat untrue (too favourable) representation of the research population, which flattened the results.

A third limitation is that no control values were calculated in this research. Apart from the Sarbanes-Oxley Act, another important factor was found which influences the composition of the board of directors, namely 'mergers and acquisitions'. Often, the boards of the merging companies are joined together for a number of years. During this period certain members leave, while others remain in the board. There are several reasons why this factor was not controlled. First of all, it became apparent quite late in the research process. Second, building in this control would have meant re-conducting a great deal of research, which is beyond the scope of a university thesis. Most importantly, however: the three branches investigated in this study are characterised by high rates of mergers and acquisitions. Controlling for this factor would have eliminated too many companies in the sample.

5.3 Relevance and Discussion

We have established that the implementation of the Sarbanes-Oxley Act has had an impact on the way in which companies choose their upper echelons. Companies take the Sarbanes-Oxley Act seriously and they believe that ethical behaviour can at least be partly influenced by changing their upper echelons. Companies consider the composition of the Board of Directors as a tool to help them comply with the Sarbanes-Oxley Act.

According to Hambrick and Mason's Upper Echelon Theory companies recognise that the personal characteristics of the members of their upper echelons have an impact on their strategic decisions. Because certain changes are visible between the composition of their upper echelons before and after the Sarbanes-Oxley implementation, involving a focus on ethical behaviour rather than on business strategy, we may conclude that companies do not only believe that their upper echelons define their corporate strategies, but also that they can influence their ethical behaviour.

5.4 Future Research

The relationship between upper echelons, strategic decisions, and ethical behaviour, of which we now know that companies believe it exists, should be further investigated. The questions whether this relationship does in fact exist or whether it is just a perception, through which processes it is determined, and what its moderating factors are, still need to be answered.

Now that we have established that the companies in the three sectors which we studied show a tendency to change the composition of their upper echelons, it would be interesting to learn whether their performance rates will increase as a result of this measure, whether they will choose less risky strategies, and whether they will be less susceptible to scandals.

Another point of interest would be the movement towards more women in the Board of Directors. This study did no provide an explanation for this observation. Whether it forms part of the regular emancipation process or whether women are perceived as more ethical still needs to be investigated.

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Moral Questions and Dilemmas: Early Times to Present Day Issues

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Abstract

The purpose of this paper was to look at developments which have occurred in ethical behaviour in a nation's armed forces. The paper begins with the Greeks and their concept of arête 'manly virtue', and concludes with reference to courses in ethics conducted in various military academies. In Australia, the Department of Defence and the RAN have played a role in developing codes of conduct for all ranks, from senior officer to junior recruit. The paper suggests that developing an understanding of ethics in a military/naval context should be addressed at four levels. Criteria should be identified for identifying relevant ethical behaviour; agreement should be reached about what constitutes ethical behaviour; programs should be developed at recruit and officer cadet level; and finally, curricula in military/naval ethics should be an integral part of the program in military training establishments.

Keywords

Moral reasoning; core beliefs; codes of behaviour; codes of conduct,; a just war; rules of engagement; moral dilemmas.

Introduction

Should a country's armed forces have an understanding of the terms 'ethical behaviour, and codes of conduct', and should they be concerned with matters that some would argue are really ethical or moral issues? Well, it seems they should. In recent times, and with the help of recent media scrutiny, the relevance of this type of approach to some issues within the Australian Defence Force (ADF) has become more obvious.

The Vietnam War was the first war in which video from the battlefront was delivered via satellite in time for the evening news allowing unparalleled scrutiny of ethical and moral aspects of warfare. The advent of personal video cameras and mobile phones enhanced this capability to a very personal level. War correspondents and combat cameramen are now 'embedded' with fighting units and can tell much more visually than by words alone.

Events and situations which involve a moral and ethical component have been occurring throughout history in the fighting forces of many nations. In Western Europe for example, some of these incidents are described in the myths and legends of ancient Greece and Rome, and some in stories told in the Old Testament.

The military archetype of the moral warrior is recorded in the song: 'Some talk of Alexander and some of Hercules, of Hector and Lysander and such great men as these'. To these, the names of Achilles, Ajax, Agamemnon, Ulysses (Odysseus) and Aeneas could be added. These persons, most of whom are probably mythical, appear in early Greek history, with the exception of Aeneas who appears in Virgil's (Latin) Aeneid. Bury (1956, pp. 50-53) has described in detail the world of the eighth century, i.e. the beginnings of Greece and the heroic age.

Who were these people and why do we still have an interest in them? In brief, they were warlords, and they had several characteristics in common. One was a close connection with the sea, another was to exhibit ethical and moral correctness in time of war and when undertaking noble deeds and acts of chivalry.

Each of them hero, warrior, general or admiral was well aware of the code of behaviour that was expected of persons of their class. The guiding principle in their code was the idea of arête (translated from the Greek as 'virtue, goodness, excellence of any kind, valour, manly beauty, dignity'). Their codes of behaviour were based on values or core beliefs that are recognizable today; viz., integrity, honour, duty, loyalty, fairness, respect and caring. Small (2002, pp. 401-407) has argued that moral values such as trust, honesty and integrity are important in organisations and if ignored then organisations would find it hard to survive and prosper.

These values are promoted in military training programs today, including Australia's Defence Forces. The historical warrior's gentlemanly stance and view of war as a biological necessity may not so easily be translated into the present century. In the present age, a more egalitarian approach to ethical decision making could be subsumed under the political decision to undertake a 'just war'; i.e. the moral undertaking of a soldier's involvement in war is decided by the political arm of a society.

A Moral Issue

War defined here as a state of armed conflict between two or more sovereign nations involves a state of open hostility and the contravening of international law. It is a violent method of determining who holds the power and who controls the wealth and resources. War is a matter of actual, intentional and widespread conflict to determine whose ideals will prevail. Consequently, because war is ugly, paradoxical and inexplicable, it creates massive social change. More importantly, war raises moral questions for society such as 'is it wrong to go to war?' Can war ever be justified? What rights and responsibilities do the members of a society have when their society goes to war?

Theories relating to ethical behaviour in war include realism, pacifism, and 'just war' arguments. 'Realism' is sceptical about moral concepts being relevant to issues related to foreign policy. Instead, societies should concentrate on internal security and economic growth. 'Pacifism' takes the view that moral concepts about war are relevant, but using a normative approach argues that war should never be undertaken. 'Just war' arguments contend that states can have a moral reason for going to war i.e., the reason for war can be justified and is morally right.

A war is said to be just if it follows a set of moral and legal guidelines. Cicero (106-64 BC) argued in favour of the use of military force when necessary. He stated that force could be justified when war was declared by a legitimate government. For example, Cicero as consul persuaded the Senate to protect the state by the resolution, videant consules ne quid res publica detrimenti capiat 'let the consuls see to it that the state suffer no harm'. Cicero with this authority was able to move gladiators to Capua, mobilise the municipal levies and order the praetor Metellus Celer to organise new forces in Northern Italy (Cicero, 1964, p. xviii; Cary, 1954, p. 372).

The concept of a 'just war' also appears in Saint Paul's early Christian writings. St. Augustin (353-430) took the view that the only reason which justified war was the peace that followed. St. Thomas Aquinas (1225-1274) expanding on the ideas of St Augustin argued that there were three basic conditions which had to be met viz. (i) the war was prosecuted by a lawful authority; (ii) the war was undertaken with just cause; and (iii) the war was undertaken with the right intention. Hugo Grotius (1583-1645) the Dutch 'father and pioneer of international law' argued on the right of nations to use force in self-defence. In 1649, Parliament in England briefed the barrister, John Cooke, to conduct the first trial of a Head of State for waging war on his own people (Robertson, 2006). This 'just cause' was a forerunner of the prosecutions of Pinochet, Milosevic and Saddam Hussein.

So how did the current Laws of War originate? In 1899, an International Conference codified the rules of warfare and established the Permanent Court of Arbitration. In 1919, the League of Nations was established under the Treaty of Versailles to promote international cooperation and to achieve peace and security, but ceased its activities after failing to prevent the Second World War.

The United Nations came into existence on 24 October 1945, and a new regime of international law was instituted. Its provisions on laws of war adopted by the General Assembly are codified in the UN Charter, the Geneva Conventions and the Nuremberg principles. That Charter bars the threat or use of force unless authorised by the Security Council or, under Article 51, in self-defence against armed attack. However, while the UN is generally regarded as the ultimate authority, it should be noted that the majority of members are not democracies. It failed to prevent genocide in Kosovo, Rawanda and Sudan, and it failed to prevent massacres in Afghanistan and East Timor. In what can be considered justifiable humanitarian acts, India invaded East Pakistan in1971to end the mass slaughter of civilians; and Vietnam invaded Cambodia in 1978 to end Pol Pot's regime without reference to the UN.

Just War Theory

There are two fundamental principles that constitute the foundation of the 'Just War Theory'. The first is that actions are evaluated in terms of the range of likely consequences. A second is the principle of universality; we apply to ourselves the same standards we apply to others, if not more stringent ones. These principles are scalable and apply at the macro level as equally as they do at the individual level. The first test of any of any policy, legal, procedural or quality system is to acknowledge that the record on which defendants or systems are judged is the record on which history will judge us in the future – the Nuremburg principle.

So it is possible to compare the world reaction to the Armenian genocide, India's occupation of Goa, the Indonesian 'liberation' of Netherlands New Guinea, the Chinese invasion of Tibet, the Angolan war of national liberation, the Iran-Iraq War and the Kosovo War with the U.S. invasion of Iraq. The U.S. National Security Strategy of September 2002 contradicted the fundamental principle of universality, and thereby challenged us to reconsider what was 'just' and 'proper' in reaction to terrorism that crossed national boundaries.

To date, the 'Just War Theory' as it has since become known is divided into three parts, Jus ad Bellum, Jus in Bello and Jus post Bellum. The document is presented in Latin, and gives the impression of having its origins in early Greek or Roman times. However, the term emerged only after World War II.

Part i. Jus ad bellum. Jus ad Bellum refers to the justice of the arguments in the phase leading up to a war. An example could be the debate and subsequent analysis in respect to Weapons of Mass Destruction (WMDs) prior to the commencement of the Iraq campaign. Were there WMDs or were there not? Six criteria would have had to have been met before war, or any form of military action could be justified. To illustrate: (i) was there a just cause, such as self-defence, against an armed attack? (ii) Was there a right intention in prosecuting the war? (iii) Did a proper authority sanction the slide towards a declaration of war? (iv) Was the war likely to be successful? (v) Was this the last resort? Had all non-violent options been exhausted? (vi) Were the benefits worth all the costs? Would the peace after the war be preferable to the situation without the war? Just war theory emphasizes that each and every one of the six criteria must be fulfilled for a particular declaration of war to be justified.

In respect to the Iraq war, there remains a lack of consensus in the community about the responses to some of these criteria. The concern is that the criterion of a legitimate authority, which has traditionally conferred the power to wage war upon heads of state, is called into question where the conflict is with, or between, organisations that are not nation-states. For some irrational, nihilistic groups, terrorism is their only option and the distinction between combatant and civilian, between one group's religious zeal and another's moral vision is blurred, confused and irreconcilable with 'just war' criteria.

Part ii. Jus in Bello. Jus in Bello refers to the justice of conduct within war, i.e. after the war has begun. One example could be the atrocities committed by Bosnian-Serb and Serb forces on Moslem prisoners during the Yugo-Slav war of the 1990s. Radovan Karadzic, a Bosnian-Serb, was arrested in July 2008 after thirteen years eluding justice. Ratko Mladic, the Bosnian-Serb general, is still being pursued for war crimes. Ante Gotovina, a general on the Croat side, was apprehended and is now facing the International Court in Holland. A just war approach would expect that such persons suspected of war crimes would be pursued and held accountable for their actions.

For the most part, the age of chivalry is still with us. Soldiers are expected to follow a number of conventions/rules in respect to the way they carry out their duties; viz. all international law prohibitions on weapons should be obeyed. Blinding lasers, landmines and cluster weapons are examples of weapons being actively proposed for prohibition. Chemical weapons are banned by many treaties, whereas nuclear weapons are not so clearly prohibited. The principle of discrimination recognises the civilian population which should be respected as non-combatants and left alone. The use of force should be moderated according to the amount needed to achieve the goal of the skirmish.

We are now in age where more damage may be done via a keyboard and remote controls than a bomb. The 'net-centric warfare' that provides filtered data, imagery and intelligence from multiple sources to and from the front line soldier/sailor/airman facilitates unprecedented responses that can be horribly wrong. Combatants should not engage in mala in se, using weapons or methods which are 'evil in themselves' e.g. mass rape, ethnic cleansing and using biological weapons. Combatants should avoid inhuman retaliation, and should provide benevolent quarantine for prisoners of war because enemy personnel taken prisoner are no longer engaged in doing harm.

Jus in Bello requires that the state, even though it is engaged in a war, must respect the human rights of its own citizens and military forces, and not merely concentrate on the enemy. Legitimate questions are whether or not traditional civil liberties should be curtailed in wartime, and can military personnel refuse to take part in operations they believe to be unjust? For example, Israel's policy in withdrawing from the Gaza strip and other occupied areas (August 2005) has presented some of its military personnel with a moral dilemma. Another example of a moral dilemma for commanders is the consequence of the Bush doctrine that 'those who harbor terrorists are as guilty as the terrorists themselves and must be attacked and destroyed' (Speech 7 October 2002).

Part iii. Jus post Bellum. Jus post Bellum refers to the level of justice after a war is terminated, and to peace treaties which are drawn up after war has finished. The Treaty of Versailles (1919) imposed harsh conditions on Germany after the Great War. To illustrate, Germany lost the territories of Alsace and Lorraine which were returned to France, Malmédy went to Belgium, Luxemburg was freed from German control, part of Schleswig went to Denmark, and all the overseas territories went to Britain or her dominions to France and Japan. The financial conditions imposed by the Allies were also harsh, and are said to have been, in part, causes of the 1939-1945 war. For example, after the Great War, Germany had to recompense France and Belgium for war damage, transferring livestock, coal and ships as reparation.

The jus post bellum expectations include a formal apology from the vanquished, and submission to reasonable punishment. War crimes trials, the executions of key military figures (e.g. Japanese General Tojo, and German Generals Keitel and Jodl), and rehabilitation were all legitimate part of the jus post bellum process. In the Japanese occupied territories alone, over 900 Japanese were executed after WW II.

Rehabilitation in respect to the Croatian/Serbian/Moslem conflict of the 1990s is being carried out, but revenge, punishment and undue hardship against a civilian population are strictly forbidden. These were ignored during that period.

The regulating of terms and procedures of a just peace are necessary in the settlement of the war. There is a need for an ethical strategy, as well as a military strategy, for the concluding of hostilities so as not to provoke parties into resuming the dispute.

Principles for a jus post bellum period can include the vindication of rights. Revenge is inappropriate, but the cessation agreement should secure the rights of those whose violation triggered the war. Settlements not only should be reasonable, but should be seen to be reasonable by all concerned. Political leaders, military leaders and rights violators should be held accountable leading to a fair and public international trial where appropriate. Compensation or some form of financial restitution may be considered a part of rehabilitation. However, the most controversial aspect of reform relates to the expected structural transformation of a regime to a minimally just state. Another controversial aspect of reform relates to the U.S. and its allies firstly supporting and then opposing certain leaders with apparent disdain for their citizens e.g. Ceausescu, Suharto, Marcos, Duvalier, Chun, Mobutu, Somoza, Saddam Hussein, Aristide and most recently Mugabe.

In effect, the Just War Theory offers practical rules to guide decision makers on the appropriateness of their conduct before, during and after a war; especially in the case of a defensible war fought in a morally controlled fashion and completed in a responsible manner.

Training in Moral Reasoning and Ethical Theory

Military and naval academies in the United States now include courses in moral reasoning and ethical theory. Topics raised many years ago by the Stoics, Aristotle, St. Thomas Aquinas, Immanuel Kant, Jeremy Bentham, John Stewart Mill and John Rawls are included. In February 1998, the U.S. Naval Academy established the 'Center for the Study of Professional Military Ethics' in which military and naval ethical issues are analysed. This type of facility is now in place in the Australian Defence Force Academy (ADFA).

Since the second world war, the ultimate authority of the nation state has been superseded by social structures accepting international political structures under which national military forces are employed e.g. United Nations Peacekeeping Forces, NATO and the 'Coalition of the Willing'. Within these, the fighting men are bound to obedience of the state they serve. There are circumstances in which men or women find themselves under moral compulsion to refrain from what they are lawfully ordered to do. Conflicts of loyalties can and do arise, for example General Douglas MacArthur and President Charles de Gaulle, could both have been open to a charge of treason. In Vietnam and the Middle East, disobedience on grounds of conscience has arisen when the military has diverged from the ethical mores of the parent society. Modern warfare has evolved into limited wars fought for limited ends. The nation-in-arms is no more. And so it is to be expected that discussion of topics within an ethical framework takes place at ADFA. For example, topics include: Analytical and Critical Thinking, What are ethical decisions? Values in the Australian Defence Force; The Nature of Just and Unjust Wars; The Ethical Military Officer; Permitted and Prohibited Weapons; Ethical Dilemmas, Issues of Military Life. The central philosophical/moral question underlying the ADFA discussions is: What ought one do in certain situations? At the recruit training level, the emphasis is on producing a 'thinking' soldier.

Members of a nation's defence force can sometimes find themselves in difficult and stressful situations e.g. ADF personnel who are part of regional assistance programs, peacekeeping and military deployments. Many of the decisions they make in these engagements will have a moral component, and these will need to be addressed in the Rules of Engagement.

Rules of Engagement

Most countries have principles, policies and standard operating procedures that define when, where and how force may be used. Military personnel are also given additional rules of engagement before performing any mission or military operation. The rules provide a consistent, understandable and repeatable standard on how forces will act in anticipated circumstances. They are thought out in detail in advance of an engagement and usually cover a number of scenarios, with different rules for each. U.S., U.K. and Australian armed forces provide their soldiers, sailors and airmen with rules that prescribe:

- The right to use force in self-defence and to match the level of response to the level of the threat;
- Actions they may take without consulting a higher authority, unless explicitly forbidden;
- Actions that may only be taken if explicitly ordered by a higher authority. The constant dilemma for the military is how to resolve two competing goals; the need to use force effectively to accomplish the mission objectives and the need to avoid unnecessary force.
- Actions that should be taken to fulfil a Commander's intent in the event of temporary loss of communications, command or control.

Moral Dilemmas in Time of War

Situations which describe the moral conflicts and the moral dilemmas which arise in wartime are often written into film sequences or narratives, but have a reality nevertheless. Following the Rules of Engagement, any individual may be held accountable for his/her actions in a split second response involving life and death considerations. Monsarrat (1953) described a tense scene moments after Lt-Commander George Ericson R.N.R., Captain of *Compass Rose* had released depth charges among forty survivors from a sunken ship. This was not only a moral issue for Lt.-Commander Ericson; it was also a dilemma; meaning it was a situation in which two choices (hence the expression 'on the horns of a dilemma') were available to the subject. Unfortunately both of these choices would have unsatisfactory outcomes. Ericson had the difficult choice of (i) attempting to rescue the forty survivors who were calling out to him and thereby putting his own ship at risk. Or (ii) he could attempt to sink the U-boat which he assumed had sunk their ship, thereby killing the survivors who were struggling in the water. Whichever way he responded, the best outcome was going to be less satisfactory than he would have liked, and the worst-case the outcome would have been catastrophic.

During the 1982 Falklands campaign, the Argentine cruiser *General Belgrano* was sunk by the hunter-killer submarine HMS *Conqueror. General Belgrano* was outside the 200 mile exclusion zone, but a (moral) decision was made to sink the Argentine warship because it was believed she posed a threat to operations in the Falklands. *Conqueror* fired two torpedoes, and the *General Belgrano* sank on the 2nd May 1982. On this occasion, 723 of the crew were rescued, but 368 were lost. Reeve cited in Reeve & Stevens (2003, p. 21) has described the realities of being torpedoed and drifting in sub-Antarctic waters.

It appears that accepted rules and values change in times of war. Stevens cited in Reeve & Stevens (2003, p. 263-264) summarises Admiral Sir John Fisher's general rule as: (i) Give no quarter; (ii) Take no prisoners; (iii) Sink everything; (iv) No time for mercy. Therefore, the question becomes one of whether, and to what degree can a moral position be established. Is it possible for personnel to maintain an ethical and moral standpoint when they enlist in their nation's armed forces? The answers to this question and the dilemmas which occur in military situations have been portrayed in the media recently. They show officers in a number of war zones in which the wars were not universally supported at home.

Personnel in today's ADF are expected to adhere to values such as: integrity, honour, duty, loyalty, fairness, respect and caring. The Department of Defence, as the co-ordinating government department charged with maintaining the nation's defence assets uses the mnemonic *implicit* to identify the values required throughout the Department. The term becomes more meaningful when written as imPLICIT, **p**rofessionalism, **l**oyalty, **i**nnovation, **c**ourage, **i**ntegrity and **t**eamwork.

The Navy has developed a similar values-framework based on the letters HHCIL; a mnemonic related to the Department of Defence's code. Honour, the fundamental value on which the Navy's reputation and that of individuals depends; the second H stands for Honesty, for always being truthful and knowing and doing what is right. Courage, the strength of character and doing what is right in the face of personal adversity, danger or threat. Integrity refers to truth, honesty and fairness. Integrity gains respect and trust from others. Loyalty refers to commitment to each other and to one's duty of service to Australia. The submarine service has added one other to the Navy list *viz. esprit de corps.* While not strictly a value, *esprit de corps* seems to be appropriate for the special role that submariners play in the defence of Australia. Gordon cited in Reeve and Stevens (2003, pp. 39-41) has listed nine examples of 'inspired command' from Nelson in 1797 to some of the decisive naval battles of WW II.

It could be argued that the promotion of specific values, whilst good in intent, does not achieve the same positive outcome as an examination which leads to the practice of high ethical behaviours. Values are not ethics. Ethics identifies the rules by which situations are judged to determine the degree to which the outcomes are acceptable and consequently of value. Thus, one may test one's values by referring to a series of widely accepted slogans *viz., the Golden Rule, the Utilitarian Principle, the Categorical Imperative, the professional ethic, the media test, the legal test, and the Rotary four way test,*

The *Golden Rule* states that a person should always act in a way you would expect others to act towards you. The idea of the Golden Rule is found in Matthew 7: 12, and Luke 6: 31. It also appears in the writings of others who were concerned with leading a good life. The *Utilitarian Principle,* Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873), states that one should always act in such a way as to produce the greatest good for the greatest number; *i.e.* the good of individuals is the ultimate value. It could be argued that the principle which seeks the greatest good for the greatest number could be justified in a war situation with a soldier's actions being considered ethical when, although an incident may not be good for the enemy, it was beneficial to large numbers of other people. The *Categorical Imperative* (Immanuel Kant) states that one ought never to act in such a way that the ethical maxim could not be a universal law; *i.e.* we should act in such a way that the action taken could be a universal law or rule of behaviour.

Even in a war zone, a rule allowing killing would not be a good universal law, although arguments may be made for the situation of war being a special case scenario. The *professional ethic* is a way of saying that any actions taken would need to be viewed as professional by a panel of one's peers. It is arguable that a review panel of peers would find a military person's actions admissible and acceptable when they had obeyed their lawful instructions and followed procedures established during their training. The *media test* raises questions such as would, for example, senior ADF personnel feel comfortable being on TV or on the front page of a newspaper to explain why s/he took a particular action? Given the code of silence that had surrounded reports of unethical actions in respect to a number of suicides among recruits undergoing training until very recently, it could be assumed that this is a powerful and useful test, and that the examples of the unethical behaviour would be identified. The *legal test* raises questions such as were the actions that the person took legal? It could be argued that if a war is legal, then that argument may be sufficient for some personnel. However, others would argue that the legal test is not sufficient and does not guarantee that war zone actions are ethical. The *Rotary four way test* is a composite set of criteria that summarises some of the key issues about an event. Four questions are asked: (i) was the decision truthful? (ii) Is the decision fair to all concerned? (iii) Will the actions build goodwill? (iv) Will the actions be beneficial to all concerned? It could be argued that only one answer in the negative would be sufficient to label an event unethical. Applying such criteria to actions taken in wartime does present difficulty.

In some cases a criterion could be seen to be supportive of certain actions taken, whereas in other examples such as the media test and the four way test, there would be difficulty in justifying certain actions.

Conclusion

The paper begins with a reference to the Ancient Greeks and their of concept of *arête* (manly virtue). This period occurs *c.* 800-700 (the rise of aristocracies) and *c.* 750-700 (Homer composes the *Iliad* and *Odyssey*). The paper includes an example from World War II, illustrating a moral dilemma; and to another decision taken in the recent Falklands campaign (1982). Reference was made to U. S. military and naval academies where military ethics are now an integral part of the curriculum. The Department of Defence and the RAN have played a key role in developing codes of conduct or behaviour for all ranks from senior executive to junior recruit. These can be summarised as imPLICIT for Defence, and HHCIL for the Navy. In summing up, ethics *in* war, and the ethics *of* war are complex subjects, both at the personal level and the professional level. Therefore developing an understanding of ethics and responding in an ethical way to military/naval issues should be addressed at four levels. (i) Criteria should be identified for identifying relevant acceptable and ethical behaviour. (ii) Agreement should be reached about what constitutes ethical behaviour. (iii) Programs should be developed at recruit and officer cadet level, and (iv) curricula in military/naval ethics should be an integral part of the curriculum in institutions responsible for training a nation's defence forces.

Acknowledgements

The writers acknowledge:

Commodore M.E. Deeks RAN CSC and Dr S. Coleman, ADFA for their generous contributions of time and resources in preparing sections of this paper.

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Are Young Consumers Still Susceptible to the Country-of-Origin Effect?

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Abstract

The effect that consumers' country-related images have on their purchase decisions is known as the country of origin effect. Marketing researchers have thoroughly investigated Country-of-Origin (COO) effects in a range of contexts since the mid-1960s. However, since the 1980s it has been thought (e.g., Levitt 1983; Ohmae 1995) that consumer needs and wants are converging and that nation-states are artificial and superficial entities of little value to consumers indicators of product quality. The argument is that since young consumers are used to seeing products from a variety of countries they do not have the country biases that the COO effect stipulates (Usunier 2006). A recent study (Wong et al. 2008) on young Chinese consumers and the COO effect appears to confirm that young consumers are no longer influenced by the COO effect. The aim of this research was to conceptually investigate how the relationship between young consumers' product-country image and their product evaluations is influenced by two contextual variables: their product involvement and their perceived product-origin congruency.

Keywords

Country-of-Origin, marketing research, value to consumers, young consumers.

Introduction

American Coca-Cola and IPod, Mexican Corona, and Australian Billabong are all examples of companies that appeal to a global youth culture while celebrating their national heritages. Since Schooler's (1965) seminal article the effect of country-of-origin (COO) biases on consumer purchase behaviour has been an issue of continuing interest. Over the past four decades the attention of researchers in this area has continuously shifted as new challenges presented themselves (Josiassen and Karpen 2007). A key challenge is the investigation of potential variables that moderate the influence of COO (Eroglu and Machleit 1989; Laroche, Papadopoulos, Heslop and Mourali 2005). Researchers have traditionally been interested in the influence of product involvement (Ahmed, Johnson, Yang and Fatt 2004; d'Astous and Ahmed 1999) and in recent years it has been suggested that perceived product origin incongruence may significantly reduce the importance consumers place on the COO cue (Chao 2001).

The influence of these moderators, however, on young consumers' purchase behaviour is unclear. The importance of this particular market segment to marketers is well-documented as young consumers typically drive brand growth and success (Morgan 2007). The present-day young consumers are young in an era where multi-origin market offerings are more pronounced than any other generation has experienced (Wong, Polonsky and Garma 2008). Prominent researchers have even suggested (Levitt 1983; Ohmae 1995) that consumer needs are converging and that younger consumers therefore ignore regional and national differences. This perspective is supported by recent insights investigating the COO effect in the context of young Chinese consumers: "In targeting young consumers it appears that globalization leads consumers to believe that the world is converging and becoming one 'country'" (Wong, Polonsky and Garma 2008, p. 469).

The present research conceptually explores two issues: Firstly, whether a COO effect can be found in the context of young consumers, and secondly whether product involvement and product origin congruency influence the effect of young consumers' COO-image on their product evaluations. This remainder of the paper is organised as follows: First, the theoretical area is introduced, and then two propositions are developed and forwarded. Finally, the article concludes with a discussion.

Conceptual Background

Since Schooler's (1965) seminal article the effect of country-of-origin (COO) biases on consumer attitudes has been an issue of continuing interest. Over the past four decades the attention of researchers has continuously shifted as new challenges presented themselves. Focus has shifted from looking for simple demographic explanations to origin biases, over a search for reasons why consumers often prefer domestic products to also include research on products with multi-national origin.

While researchers have studied this topic for more than 40 years now, and while there are more than 1000 articles printed in this area, the area is seen as a stale and uninteresting area by many researchers. In contrast, many practitioners tell us that origin plays a vital part in how businesses act and perform (e.g. Colyer 2005). Consequently, it seems that the academic literature does not sufficiently provide sophisticated normative guidelines for the management of COO and this state of affairs may lead to management by gut feelings or personal experiences.

The strategic use and limitations of origin management remain unclear (Beverland and Lindgreen 2002). While companies have a wide array of tools for managing their brand images, the set of tools for managing origin images is still rather crude. A rule of thumb such as *"*products from developed countries should emphasize "made-in" and charge a premium price while products originating from developing countries should focus on brand image and a value pricing*"* (Mohamad, Ahmed, Jr and Tyebkhan 2000) is overly simplistic and would result in wrong decisions for a wide portion of product-country combinations. The result of the limited set of tools which is available to practitioners, is that origin-image management is based on anecdotes and crude advice that does not stem from a holistic framework of COO effects. Consequently, organizations lack the tools to manage the most basic image they have.

The perception of the area as problematic has not emerged because it is not important, but rather because there is still a disappointingly large divide between the area's potential contribution and the actual contribution that has been made. With a history stretching more than 40 years, many incremental steps shedding light on the area have been taken. Some bigger than others and while the criticism is understandable, there has been a continuing progress in knowledge advancement.

The following section of the paper is loosely based on the historical method. A historical account of how knowledge has advanced can often help to see future trends or remaining gaps (Low and Fullerton 1994; Nevett 1991).

Historical Trends in Country-of-Origin Research

From the published literature in origin research we identify nine significant milestones. These milestones which are summarized in Table 1 have all shaped the directions that research in this area has taken for the past 40 years. While they have had a large impact, they are by no means the exclusive forces behind the accumulation of knowledge that we have seen in this period. Several literature reviews have been conducted over the last 40 years and this paper can be seen as an extension of these significant efforts (e.g. Baughn and Yaprak 1993; Bilkey and Nes 1982; Ozsomer and Cavusgil 1991; Papadopoulos and Heslop 2002). Several researchers, such as John Darling, Charles Lillis, Chem Narayana, Nikolas Papadopoulos, Louise Heslop, Erdener Kaynak, Paul Chao and recently authors like George Balabanis, Adamantis Diamantopoulos and Peeter Verlegh, who are not mentioned among the nine milestones, have nonetheless made important contributions.

Table 1

Nine Major Milestones in Country-of-Origin Research

	Year(s)	Author(s)	Key Contributions
1	1965	Robert Schooler	*Initial article published in the area*
2	1970/77	Akira Nagashima	*Development of the semantic differential scale*[1]
3	1982	Warren J. Bilkey and Erik Nes	*The first literature review*
4	1984, 85, 89	Johny Johansson et al.	*Multivariate studies*
5	1987	Shimp and Sharma	*Construction of the CETSCALE to measure consumer ethnocentrism*
6	1990/92	C. Min Han et al. and Martin S. Roth and Jean B. Romeo	*Focus on the interaction between products and origin images*
7	1986 and onwards	Attila Yaprak, Ravi Parameswaran and R. Mohan Pisharodi as well as Eugene D. Jaffe and Israel D. Nebenzahl	*Identification and application of country-of-origin facets*
8	1998/02	Jill Klein and co-authors	*The introduction of the animosity construct*
9	1980s onwards	Laroche, Eroglu, Machleit, Josiassen, d'Astous, Chao, Phau and others.	*Focus on contingency variables which explain previous variation in COO findings*

Schooler (1965) is often considered to be the article which initiated the interest into origin research. Schooler (1965) discovered differential effects based on the country of origin. Specifically, it was discovered that consumers in the Central American Common Market attributed certain characteristics to products from the other member countries based on their origin country.

The second milestone was set when Nagashima (1970, 1977) adjusted and employed the semantic differential method, developed by Osgood (1955), to this area. Since then this method has been used widely in origin research. Nagashima's two studies allowed him to make another important suggestion. Namely, that origin images can change over time.

The article by Bilkey and Nes (1982) is the third milestone. The authors pointed out several key weaknesses in past research and their article marks an important point in time that affected the research design of much subsequent COO research. This article is still today the most cited article in this area. The key suggestion was that so far almost all the studies in this area had been carried out by asking the respondents about their views on one single cue – country of origin. Bilkey and Nes claimed that studies that include only a single cue are likely to overestimate the effect of this single cue. This finding was known already from research on price-quality relationships, where price is consistently found to be a quality indicator, but where the effect is only high as long as price is the only other cue (Olson 1977). They recommended that future research should employ multiple cues so that the focal cue, country of origin, is less likely to be overestimated.

[1] A semantic differential scale is a bi-polar scale using adjectival opposites.

After almost 20 years of mostly descriptive studies, Johansson and his co-authors carried out several multivariate studies. They adopted multi cue designs based on Bilkey and Nes' suspicions that single cue studies would overestimate the differential effects of the origin cue (1989; Johansson 1998; Johansson, Douglas and Nonaka 1985; Johansson and Nebenzahl 1986; Johansson, Ronkainen and Czinkota 1994).

The fifth milestone concerned the construction of the CETSCALE (Shimp and Sharma 1987). The CETSCALE measures the positive bias consumers may have towards domestic products. The CETSCALE has been widely used since and the existence of a home country bias has been confirmed repeatedly (Balabanis and Diamantopoulos 2004; Balabanis, Mueller and Melewar 2002; Chao, Wuhrer and Werani 2005; Kamaruddin, Mokhlis and Othman 2002; Kaynak and Kara 2002; Moon 2003; Moon and Jain 2001; Sharma, Shimp and Shin 1995) .

At this point in time several articles had noted that origin images may be product class or category dependent (Eroglu and Machleit 1989; Johansson, Douglas and Nonaka 1985). Han (1989) tried to explain some of the possible mechanisms behind this. Specifically, Han (1989) posited that the consumer may make sense of product images and country images in two ways. Either as a summary construct (a bias towards products based on prior experience with products from this country) or as a halo construct (a bias towards products based on the image of the country). Another important article that shed light on the product/country interface was the article by Roth and Romeo (1992). Roth and Romeo (1992) argue that consumers have some product characteristics they value more than other product characteristics depending on the product category. The idea is that the consumer looks for a fit between; a) the product characteristics that the consumer values in this particular product category and b) the product characteristics that the consumer believes the country is good at providing. This will result in either a fit or a misfit, with either being a favorable (fit along dimensions deemed important) or unfavorable (fit along dimensions deemed unimportant). This period of focusing on product/country interplay is the sixth milestone.

The seventh milestone relates to the disintegration of the origin image construct into its parts. Yaprak, Parameswaran and Pisharodi have published a series of articles developing and boundary testing a multi-dimensional measure of origin image (Parameswaran and Pisharodi 1994, 2002; Parameswaran and Yaprak 1987; Pisharodi and Parameswaran 1992, 1999; Yaprak and Parameswaran 1986). The dimensions or sub constructs are: 1) The general country image, 2) the product specific country image and 3) the brand specific country image. The authorship of Jaffe and Nebenzahl and co-authors look at another dimensionality of the origin image construct. They argue that many products have more than one origin; the product may for instance be designed in one country and manufactured in another. These divisions still play important roles in current research.

The eighth milestone refers to the initial animosity research. Klein et al argue that some consumers have a negative bias towards other countries and that this negative bias can affect their attitudes towards products from these countries (Klein, Ettenson and Morris 1998). An empirical test showed that some Chinese consumers do have such a negative bias towards products from Japan because of animosity towards Japan. Klein's (1998) initial animosity article is one of the most cited newer articles in origin research (e.g. Balabanis, Diamantopoulos, Mueller and Melewar 2001; Kaynak and Kara 2002; Klein 2002; Wong, Rindfleisch and Burroughs 2003)

The ninth milestone refers to the focus on contingency variables which moderate the COO effect. Several researchers (e.g. Eroglu and Machleit 1989; Laroche, Papadopoulos, Heslop and Mourali 2005) have proposed that the competing conclusions seen previously in COO research are the result of context-specific factors that moderate the importance of COO image during product evaluations. In this regard, studies in international marketing have pointed to the influence of two context-specific factors in particular: product familiarity (Eroglu and Machleit 1989; Josiassen, Lukas and Whitwell 2008; Laroche, Papadopoulos, Heslop and Mourali 2005) and product involvement (e.g. Ahmed, Johnson, Yang and Fatt 2004; d'Astous and Ahmed 1999).

Proposition Development

Product Involvement

Product Involvement in this study refers to "[…] the general level of interest in the object or the centrality of the object to the person's ego structure" (Day 1970, p. 10). Studies that try to determine the effect of COO image on consumers' product evaluations almost exclusively rely on high-involvement products (Phau and Prendergast 2000). Not only have very few studies examined whether the COO effect is salient for low-involvement products (Ahmed, Johnson, Yang and Fatt 2004), but "[t]here is no one study which explicitly compares both levels of involvement" (Phau and Prendergast 2000, p. 162). Consequently, researchers call for COO research to further examine the role of product involvement (e.g. d'Astous and Ahmed 1999; Pharr 2005; Phau and Prendergast 2000).

While competing views have existed on the influence of product involvement, the Product-Involvement-Weakens-the-COO-Effect (PIWCE) perspective (Josiassen, Lukas and Whitwell 2008) has become the dominant view. The PIWCE perspective on the contingency effect of product involvement is grounded in the literature on the Elaboration Likelihood Model (ELM) used in persuasion research. The ELM predicts that consumers go through either a 'central' or a 'peripheral' route to persuasion (Haugtvedt, Petty and Cacioppo 1992; Petty and Cacioppo 1984; Petty, Cacioppo and Schumann 1983). When consumers utilize a central route they exert the necessary cognitive effort to evaluate the information available to them. In contrast, consumers that utilize a peripheral route tend to base their evaluation on a more superficial analysis; typically, they employ salient and readily accessible cues. In general, the ELM posits that consumers will use a central route under high involvement circumstances and a peripheral route under low involvement circumstances (Petty, Cacioppo and Schumann 1983).

Drawing on the findings from persuasion research some COO-image studies (e.g. Han 1989; Maheswaran 1994) suggest that consumers rely more on COO information when they are less involved in the product category because COO image acts as a salient and accessible proxy on which to base a buying decision. Rather than being merely another piece of information, the COO acts as a stand-in for other product information.

Gurhan-Canli and Maheswaran (2000) propose, therefore, that when consumers consider a low involvement product, COO image is likely to be an important part of the information on which they base their product decisions. Verlegh et al. (2005, p. 128) conclude that: "country of origin has a greater impact on product evaluations when consumers are less motivated to process available information, for example when involvement is low." On the other hand, some researchers argue that country-of-origin image is stronger in high involvement contexts (Ahmed and d'Astous 1999; Ahmed, d'Astous and Eljabri 2002; Ahmed, Johnson, Ling, Fang and Hui 2002; Ahmed, Johnson, Yang and Fatt 2004). However, recent research (Josiassen, Lukas and Whitwell 2008) has confirmed that for the general consumer, country-of-origin image has a stronger effect on product evaluations when the consumer is less involved. Do 21 year-old Freya and 26-year-old Anastasia warrant being investigated separately from, for example, 31 year-old Patricia, 44 year-old Roy and 44 year-old Kirsten? Extant research on young consumes show that this demographic segment should be scrutinized separately. Young consumers (18-26 years of age) have a tendency towards higher product involvement than older consumers do (Strizhakova, Coulter and Price 2008) and the present study suggests that a differential effect of product involvement can be confirmed among young consumers. Thus:

P_1: For young consumers, the relationship between country-of-origin image and product evaluation is weaker with increasing product involvement.

Product Origin Congruency

In a market place with increasing global sourcing, products often originate in more than one country (e.g. designed in country X and manufactured in country Y). Product origin congruency refers to the level of congruency between these different origins. These product origin facets have only come into prominence in the COO literature in recent years (e.g. Li, Murray and Scott 2000) and an increasing amount of COO studies recognize the mounting presence of multi-origin products. An experiment (Chao 2001) indicates that product origin congruency may have an influence as to how consumers evaluate products.

The theoretical underpinning for congruency effects was first proposed by Osgood and Tannenbaum (1955). The congruency effect postulates that because incongruent information creates dissonance, congruent information will be preferred and relied on to a greater extent. Information is more congruent when more sources of information point in the same direction (Chao 2001). If, for instance, a high quality brand is sold in a high quality outlet, then those two indicators of quality would be congruent. If, on the other hand, the brand was sold in a low-quality outlet, such as a discount store, then the two quality indicators would be incongruent.

The congruency effect is well researched in the marketing literature. For example, congruency between a celebrity endorser and the type of product has been found to follow the congruency principle (Friedman and Friedman 1979; Kamins 1990; Misra and Beatty 1990). Leclerc et al. (1994) found that incongruence between foreign branding (perceived origin based on the brand name) and supplied actual origin information diminished the effect of the foreign branding effort itself.

Chao (2001) in an experiment constructs a low congruency setting and a high congruency setting. Based on the results, Chao (2001) suggests that product origin congruency may enhance the importance of COO image in consumers' product evaluation. This study extends Chao's (2001) experimental work in a survey setting while purposefully focusing on the youth segment.

A supporting theoretical argument can be drawn from self-concept theory (Sirgy 1982, 1985, 1986) which argues that consumers strive to achieve congruency between their actual and ideal selves. The image congruency hypothesis (e.g. Hong and Zinkhan 1995) further suggests that consumers utilize products to express themselves, and products that they see as matching their ideal self (ideal congruence) will be more favourably judged. The present study argues that young consumers strive for self-image congruency to at least the same extent as the general consumer. Thus, the following proposition is forwarded:

P2: For young consumers, the relationship between country-of-origin image and product evaluation is stronger with increasing product origin congruency.

Discussion

This study proposes that young consumers' COO image has a different effect on their product evaluations depending on the context. Specifically, it is proposed that consumers' reliance on COO image when evaluating a given product is contingent on product involvement. In addition, less involved young consumers are thought to depend more on COO image than will more involved young consumers. This supports the notion that COO image acts mainly as a proxy. When consumers are less involved in a given product category, they will rely more heavily on relatively fewer cues, such as COO (Gurhan-Canli and Maheswaran 2000; Han 1989). However, this does not imply that COO image is unimportant for high-involvement products.

Finally, the article proposes that young consumers rely considerably more on the COO cue when the product origin facets are perceived as congruent. Higher perceived product origin congruency would increase the perceived reliability of the COO image held by consumers. As a consequence this image may be used more when evaluating products and considering a purchase. In other words, when young consumers consider a product from a higher image product-origin, the positive relationship between COO image and product evaluation is strengthened the more the consumer perceives that the product origins are congruent.

Practical Implications and Future Research

Unlike recent research in the context of young Chinese consumers (Wong, Polonsky and Garma 2008), we suggest that young consumers differentiate between product offerings from different countries. As such, it is proposed that Levitt's (1983) predictions about one global market according to which nation states are meaningless in terms of forecasting the quality of products, have not materialized in the market place. Rather, the study suggests that the COO effect plays a significant role in young consumers' purchase behaviour.

The article proposes that young consumers' product involvement weakens the influence of their COO image on product evaluations. As such, the influence of COO image would be higher for those young consumers who are less involved with the product than consumers who are more involved with the product. In addition to augmenting our knowledge of the conditions under which COO image is more or less salient, this research is an extension of work which aims to examine the role of the various facets of COO (Ahmed and d'Astous 2004; Chao 2001; Josiassen, Lukas and Whitwell 2008; Kleppe, Iversen and Stensaker 2002; Laroche, Papadopoulos, Heslop and Mourali 2005; Li, Murray and Scott 2000). The study builds on and extends previous research (Josiassen, Lukas and Whitwell 2008) on the interacting role of product familiarity as well as extant experimental research (Chao 2001) regarding the influence of product origin congruency. This is one of the first COO-studies to purposefully focus on young consumers purchase behaviour. It is the first study to conceptually investigate the roles of involvement and congruency in the context of young consumers. The research is important as the proposed contingencies are key variables that differentiate young consumers. In addition, studies on the COO effect have found insignificant or even contradictory results (Pappu, Quester and Cooksey 2006) and thus the present research promotes a contingency approach . This understanding will help advance international marketing theory and may help explain inconsistent prior findings.

For marketers, COO image is an important tool for influencing product attitudes and behaviour (Winter 2004). This study argues that despite the technological developments over the recent decades young consumers are still influenced by the COO cue. It is especially important for the international marketing practitioner to know under which conditions the cue is more salient. The implications of the propositions presented here suggest that when dealing with less product-involved young customers, the COO image attached to a company's products is particularly critical. For industry organisations and government initiatives the significant interactions mean that funding used for country- or industry-specific origin branding can be directed towards those youth segments with the highest pay-off. The proposition regarding the interaction effect of product origin congruency on product evaluations suggests that young consumers rely more on the image of the product origin that they associate with the product when they perceive high origin congruence. Thus, the country of origin associated with a product is an important cue that marketers can employ, and understanding under which circumstances its use is more vital increases the chances for successful employment (Josiassen and Harzing 2008). Future research should examine empirically the conjectures made in this article. Future research should also consider investigating the youth segment specifically in developing countries. Another interesting research avenue is to investigate whether the COO cue is salient for young consumers, and under which contextual circumstances, in a large economy with relatively little foreign trade, such as the USA. In general, research on constructs that may moderate the effect of COO is a fertile area for future research endeavours.

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