Scholarship is an important process that places a business school squarely at the crossroads of theory, education and practice. In higher education, faculty do not simply rely on others for new content and ideas but rather are active participants in the examination and creation of new knowledge. They engage in a set of activities that systematically addresses questions of theoretical and practical importance. They apply rigor and standards to scholarly inquiry that affords independence and quality assurance to the outcome.

Research in a college of business then is a vital component of its mission and is a major means of contribution to society. In the Coles College of Business, we value research and have created a collaborative, cross-functional environment that supports the varied research interests of our faculty. As the following pages show, our faculty members and doctoral students are creating innovative and influential scholarship that is accessible by businesses today. Not only is their research pushing the boundaries of what is known, it is also informing their teaching, their consulting and their interaction with the business community.

I am proud of the faculty in the Coles College of Business and am thankful to be a part of the dynamic community here at Kennesaw State University. I hope you share my excitement for the research presented and that you find the first edition of the Coles Research Magazine informative and enlightening.

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A major area of research in recent times has been the design of smart policies to counter terrorism. While governments in developed countries have been by and large successful in thwarting terrorist attacks, it has come at an enormous cost. These resources could alternatively have been used for productive purposes, such as in education or in building infrastructure. Therefore, it is imperative that the growth of expenditure on security be evaluated before it affects the long-term growth of the economy. This study examines this issue in the context of airport security. The focus is on two important (but related) research issues: determination of the socially optimal level of security and optimal allocation of resources between profiling and screening, given a chosen level of security. One striking result is that under certain circumstances, enhanced screening may induce terrorists to plan better so that attacks will be less frequent but more violent. Another interesting implication is that the expenditure on espionage is more valuable to a developed economy than to a developing economy. It is also shown that a program such as Pre-Check can be used to cushion the adverse effect of budgetary shortages. Finally, the findings indicate that a process innovation that reduces the cost of enhanced screening can cause the optimal investment in espionage to go either way.
How widespread is the fraud: Is it the apple, the bushel, or the crop? We often ask ourselves this question when we hear about the staggering amounts of fraud committed in this country. We also wonder why “good people do bad things.” By “bringing Freud to fraud,” this book emphasizes that fraud is a human act frequently motivated by an individual’s emotions and cognitive state (including associated group behavioral dynamics). But a rogue executive seems quite capable of recruiting accomplices and perpetrate collusive fraud—hence the notion of bad bushels, as well as pervasive, toxic cultures spawning rampant fraud, producing bad crop scenarios. For years, academic scholars have attempted to study and understand these behaviors. But the focus has been on the “how” rather than the “why” of fraud, with greed typically proffered as the primary rationale. The book uses behavioral science concepts such as “violation of trust,” to describe and explain fraud. Indeed, the psychology of fraud, or more broadly, “behavioral forensics,” is about learning to get into the fraudster’s mind, to “think like a crook to catch crook!” Emotional manipulation, the big and small lies, the conscious and unconscious mind and their urgings, psychological defenses, human, trust-based relationships—all play a role. This non-technical book also looks at the psychology of the victims using real world case studies.
This study uncovers unobserved tax evasion behaviors using reported U.S.-China eastbound trade statistics. Since the late 1990s, reported U.S. imports from China and Hong Kong have regularly and increasingly exceeded reported exports of China and Hong Kong to the United States, although in theory they should be very similar. Through detailed empirical analysis, the authors find strong statistical evidence of under-reporting exports at the Chinese border to avoid paying value-added tax (VAT). The value of VAT avoided is estimated at $6.5 billion during 2002-2008, and the associated understatements account for approximately two-thirds of the discrepancy. The increasing U.S. trade deficit with China is frequently viewed with alarm in U.S. policy circles. Examining the large trade data reporting discrepancies not only provides policy makers a clearer picture of US-China trade but also helps Customs authorities detect and curb evasion behaviors. In addition, the widespread evasion of VAT by exporting firms suggests that it may be difficult for the Chinese government to obtain very strong results from the present practice of using variations in the VAT rebate as a multi-purpose policy instrument to promote or discourage the exports in certain sectors. This paper shows that the effectiveness of such policies can be undermined by widespread evasion of the VAT.
Fraud continues to be a major problem for society. Thus, an important question to examine is, “Why do some people commit fraud?” For many years, the focus has been on the “fraud triangle’s” three ingredients of pressure/incentive, opportunity, and rationalization/attitude (Cressey, 1973). More recently, another fraud model has been proposed, the “fraud diamond,” which adds a fourth side to the triangle, capability – the personal traits needed to commit fraud, such as intelligence, ego, and immunity to stress (Wolfe and Hermanson, 2004). To begin to understand the effects of using different fraud models, this study examines how auditors assess fraud risk when using a practice aid based on the fraud triangle versus the fraud diamond. Based on an experiment with 89 auditors as participants, we find that auditors using the fraud diamond assess fraud risk as higher than those using the fraud triangle, suggesting that the type of fraud model affects auditors’ judgments. We also find evidence of a new fraud triangle emerging from the results, where the ingredients of fraud are pressure/incentive, opportunity, and “personal characteristics” (which include rationalization/attitude and capability). We encourage additional focus on the drivers of fraud, as well as additional research on the effects of using different fraud models in organizations.
Why Empowering Salespeople Is a Double-Edged Sword

Ongoing Research

Frontline sales and service employees in business-to-business markets are often empowered to manage a firm’s relationship with its customers. In many cases, empowerment facilitates autonomy to determine, for example, the level of effort directed toward specific customers or whether to even pursue a prospective customer account. The objective of empowerment for salespeople is to hold them accountable for customer results, and its use has generally shown positive results such as improved job satisfaction. Unfortunately, potentially undesirable effects have not been studied. For example, salespeople are sometimes asked to terminate a customer or downgrade their status, and nothing is known about the potential negative outcomes of such a task. This study conducted quantitative and qualitative interviews that focused on this issue and learned that empowerment may have positive as well as unintended negative effects. The findings indicate that improved management of empowerment, particularly increased engagement (amount of energy and effort exerted), reduces burnout and ultimately salesperson turnover. Specifically, our study found that improved supervisor support increases engagement while at the same time reducing burnout, and that the most helpful approach is to quickly provide feedback to salespeople. This study focused on salespeople but in recent years other types of employees have been empowered and more research is needed to determine whether similar findings apply to other types of employees.
Smartphones and other types of communication technology have changed the way people manage the work-home boundary. Past research has shown that smartphones blur the boundaries between these roles by allowing interruptions (e.g., email messages, phone calls) from one role to infringe upon time spent in the other role. However, not much research has studied why people allow these interruptions to occur, or what the consequences of these interruptions are for work-family conflict and other outcomes. In this two-wave study, we tested a theoretical model of the way in which smartphones serve to permeate the boundaries between the work and family domains, and how these permeations enact consequences for the work and family roles. What we found is that although interruptions from work into family via smartphone are harmful in that they increase work-to-family conflict and negative outcomes in the family role, family interruptions via smartphone do not have the same negative consequences. That is, allowing one's family to permeate the work boundary via smartphone did not increase family-to-work conflict or negative outcomes in the work domain. Our findings have interesting implications for organizational policies regarding smartphone use, as well as for individuals attempting to manage their own smartphone usage between the work and family roles.
Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48) provides guidance on accounting for uncertain tax positions including the accrual of interest and penalty expense on unrecognized tax benefits (UTB). However, FIN 48 allows managers discretion over the classification of UTB interest and penalty expenses on the income statement. We use this unique setting to investigate whether tax avoidance behavior influences managers’ financial reporting decisions and determine whether these decisions have implications for financial reporting transparency. Managers of firms engaged in more tax avoidance may have an incentive to include UTB interest and penalties in tax expense, which can inflate the reported tax expense on the income statement, to better obfuscate their tax avoidance behavior and avoid increased scrutiny and reputational costs. We find firms with low effective tax rates (ETR) and firms engaged in tax disputes are more likely to include UTB interest and penalties as components of tax expense. We also find the inclusion of all UTB interest and penalties in tax expense is associated with less accurate analyst forecasts. This suggests that income statement classification of interest and penalties have an effect on financial statement transparency.
Audit Committee Oversight of Fraud Risk: The Role of Social Ties and Governance Characteristics


This study examines audit committee (AC) oversight of fraudulent financial reporting (FFR) risk and how such oversight varies with social ties and governance characteristics. Specifically, based on a survey of 134 U.S. public company AC members, we investigate how personal and professional ties between the AC member participant and the CEO and CFO, as well as other directors, influence the AC’s efforts to address FFR risk and assess management integrity. We find that AC participants with personal ties to the CEO are negatively associated with AC actions to assess FFR risk and management integrity. However, AC participants with professional ties to other independent directors and those with professional experience as corporate controllers are positively related to such actions. We find no evidence that participants’ professional ties to the CEO or CFO affect AC actions to assess FFR risk and management integrity. Further, we find that AC size is positively related to FFR risk assessment, while female AC participants and those serving on boards with greater independence are more likely to report engaging in AC activities to assess management integrity. Collectively, these results suggest that personal ties to the CEO can be corrosive to corporate governance, while professional ties to other directors are associated with enhanced AC oversight processes.
According to Thomson Reuters, U.S. companies raised $2.3 trillion through syndicated bank loans in 2013. This is compared with $1.5 trillion that U.S. companies raised through corporate bonds during the same period. Therefore, it is highly important to understand how loan syndicates are structured to address information asymmetry problems in lending. Using a sample of syndicated bank loans to U.S. companies after their initial public offerings (IPOs), we examine how private-equity (PE) sponsors’ relationships with banks influence their portfolio companies’ loan syndicate structure. We find that a stronger lending relationship between the borrower’s PE sponsor and its lead bank enables the bank to retain a significantly smaller share of the loan and form a larger and less concentrated syndicate. A stronger sponsor-bank relationship also attracts foreign bank participation. The relationship banking literature suggests that a bank’s relationship with a borrower can facilitate the bank’s information acquisition about the borrower. Our findings suggest that the bank’s relationship with a third-party financial sponsor of the borrower also mitigates information asymmetry problems in lending.
It is nearly a consensus among economists that free trade is generally a good thing. Freer trade is mainly achieved through trade negotiations, either multilaterally under the WTO which covers most of the countries in the world, or bilaterally through regional trade agreements (RTAs) such as the North American Free Trade Agreements and European Community. The multilateral approach under the WTO is usually regarded as the best way to liberalize world trade, but many countries have adopted a bilateral approach in recent years to form RTAs with small groups of trading partners. This paper studies the growth effects of RTAs, taking into account the WTO participation of RTA members. Because non-WTO members usually have higher tariffs than members, they have more room for larger tariff cuts through RTAs. Under this assumption, I show in a model a stronger growth effect of RTAs for non-WTO members than that for WTO members. Based on a comprehensive set of 270 RTAs and a large panel dataset covering 177 countries over the period of 1960-2007, the regression results provide strong support for this prediction. This implies that the complementarity between the two approaches of trade liberalization in promoting economic growth is so far limited. WTO members need to understand what the RTAs can accomplish beyond the WTO at no further expense of multilateral rules.
Special thanks to the following faculty and committees for their significant contributions to the Coles Research Magazine.

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