

## Working Papers For The Year of 2000

**#2000-01 "Do Mutual Funds Understate Their Risk?"** Ladd Kochman (Kennesaw State University)- The zeal to outperform the market by concentrating on sectors of the economy or on a limited number of stocks with large upside potential has severely compromised the more fundamental appeal of mutual funds—diversification. The sacrifice of a high correlation with the market erodes the reliability of fund betas and leaves standard deviations as perhaps the lone dependable measure of portfolio risk. That expanded role only serves to magnify the error committed by mutual fund firms such as Fidelity and no doubt countless others when they compute standard deviations. This study spotlights and corrects that mistake, which has the effect of dramatically understating a portfolio's volatility.

**#2000-02 "Leveraging Knowledge in Small Firms"** Teresa Joyce (Kennesaw State University) and Bonnie Stivers (Kennesaw State University)- This paper presents the results of a 1999 study of small Canadian and U.S. firms funded by the Canadian Institute of Chartered Accountants. The purpose of the study was to identify current practices in the management of knowledge in small firms as well as to examine similarities and differences among knowledge management practices in both small and large firms. While knowledge is generally regarded as the primary asset for most firms in the next decade, knowledge management practices in small firms (employees < 500) are noticeably missing in the literature.

**#2000-03 "Globalization of Financial Markets and the Asian Crisis: Some Lessons for Third World Developing Countries"** Jong H. Park (Kennesaw State University)- One of the main causes of the Asian crisis lies in the rapidly increasing globalization currently taking place in the world economy. Globalization, if properly managed, may help push some developing countries into modernity and affluence. However, as the Asian financial turmoil in recent years suggests, embracing global financial markets can also be highly dangerous and costly. The Asian crisis has shown how important it is to have effective state institutions that are capable of successfully mediating the impact of globalization on economic development. At the same time, however, the Asian crisis hardly signifies the end of the East Asian model of economic development. Too drastic measures of liberalization and opening up may weaken the existing relation-based governance structure of the economy before a new and more rule-based governance mechanism could function.

**#2000-04 "Multivariate Analyses of Entrepreneurs' Perceptions of the Entrepreneurial Process"** Kevin Sightler (Kennesaw State University)- To assess perceptions about the content and nature of the entrepreneurial process as well as about entrepreneurs themselves, 354 volunteers judged the accuracy of 13 presumed myths of entrepreneurship. While judgments about those myths were clearly correlated, factor analyses revealed no clear factor structure for entrepreneurs and non-entrepreneurs combined or for non-entrepreneurs alone. For entrepreneurs, a three-factor structure emerged—albeit with fairly low reliabilities. A discriminant analysis indicated that perceptions of the entrepreneurial myths are insufficient to distinguish entrepreneurs from non-entrepreneurs. Conclusions and implications are included.

**#2000-05 "Is Your Firm Ready to Address Fraudulent Financial Reporting?"** Mark Beasley (North Carolina State University), Joseph Carcello (University of Tennessee) and Dana Hermanson (Kennesaw State University)- Regulators and other professional organizations have recently focused squarely on fraudulent financial reporting—cases in which corporate management intentionally misstates the financial results to mislead investors. Various boards and commissions have begun initiatives to enhance the performance of audit committees and auditors—primarily in the area of preventing or detecting fraudulent financial reporting. One such group (the Committee of Sponsoring

Organizations of the Treadway Commission—or COSO) supported a study which analyzed 200 SEC financial statement fraud actions against public companies over the 1987-97 period. The intentions of this paper are to examine the results of the COSO study in great detail, to consider the impact of other fraud-related initiatives and to raise a number of issues and questions for auditors to consider as they serve public firms. Answers to questions raised by this paper will not be attempted inasmuch as they will vary by audit firm and depend, in turn, on the quality controls, practice aids and culture in place as well as the client base served.

**#2000-06 "The Integration Allegation in Executive MBA Programs"** Sheb True (Kennesaw State University), Lou Pelton (University of North Texas), Gary Selden (Kennesaw State University) and Rodney Alsup (Kennesaw State University)- The impetus toward inter-functional integration in organizations is generating great demand for human capital with the necessary skills and knowledge to operate effectively in cross-functional role sets. Despite this growing demand, universities and colleges have largely adhered to a traditional model of graduate education in which specialization is achieved through functional segregation of areas, topics and skills. This national study—principally a replication of an earlier study addressing the finance discipline—surveyed key informants from various EMBA programs in the U.S. This study specifically addresses how marketing content is/is not integrated in the EMBA program design. Responding institutions indicate little progress toward inter-functional integration of marketing principles and practices in EMBA programs.

**#2000-07 "Offering Employment to Your External Auditor: Benefits and Risks"** Mark Beasley (North Carolina State University), Joseph Carcello (University of Tennessee) and Dana Hermanson (Kennesaw State University)- Companies searching for financial and accounting talent to join their senior executive teams often lure partners and other professional staff away from accounting firms that perform their annual audits. Although there are many advantages that accrue from such a practice, there are many risks as well. Among those risks are potential threats to the audit firm's independence—both before and after a former employee of the audit firm is hired. Any reduction of audit firm independence is likely to both diminish the quality of a company's financial reporting and increase the likelihood that financial reporting irregularities will remain undetected by the audit firm. While this paper reviews the benefits of hiring an external auditor, it focuses principally on the risks of doing so as well as on the regulatory initiatives and empirical evidence which those risks have evoked.

**#2000-08 "Corporate Winners and Losers When Industries Converge: Evidence from the Weakening of the Glass-Steagall Act"** Robert Hendershott (Santa Clara University), Darrell Lee (Kennesaw State University) and James Tompkins (Kennesaw State University)- Under the Gramm-Leach-Bliley (GLB) Act, insurers and investment banks' abilities to provide an array of financial services increased dramatically while commercial banks' abilities to do likewise rose only incrementally. In this paper, we examine the market response to this act. We find a strong positive response among insurance companies and investment banks and no significant response by commercial banks. This is consistent with the GLB Act allowing financial service providers to capture synergies across the three markets. To the extent that larger institutions are better positioned to expand into new markets, the fact that those institutions respond more positively to the GLB Act in all three sectors is consistent with this interpretation.

**#2000-09 "Effects of Team Learning on Success Rates in Introductory Finance Classes"** Virginia Ingram (Kennesaw State University) and Janet Adams (Kennesaw State University)- Team learning has been recommended as a means to expedite management of large sections (students > 200) of finance classes. In a naturally occurring experiment, we found that students in smaller classes (students < 70) who were assigned to teams for

problem-solving and group-testing for a portion of their grades consistently had higher success rates and lower withdrawal rates than those taught by the same instructor without using this method. Moreover, the instructor observed other benefits of the team-learning method including improved attendance, increased student involvement in and preparation for class, and more efficient use of in-class time.

**#2000-10 "The Impact of Capacity Utilization on the Performance of Drum-Buffer-Rope (DBR) Systems"** Brian Atwater (Colorado State University) and Satya Chakravorty (Kennesaw State University)- The purpose of this study is to present findings of an experiment using a simulation model of a job shop environment to provide some initial insights into the performance of DBR scheduling systems in dynamic operating environments. Employing three independent and two dependent variables, the study produced three major conclusions. One, the DBR system operated with significantly less mean flow time than the immediate release (IMM) system. Two, the IMM system had a significantly lower tardy rate than the DBR system. Three, the performances of the DBR and IMM systems converged as the level of the system's most heavily used resource decreases.

**#2000-11 "The Impact of Governance Mechanisms, Ownership Structure, and Strategic Variables on CEO Compensation: An Empirical Investigation"** James Cordeiro (SUNY at Brockport) and Rajaram Veliyath (Kennesaw State University)- This paper examines the relative effects of corporate governance variables, ownership structure, and strategic variables on the cash and, separately, the total compensation of CEOs among a panel of 222 Fortune 1000 U.S. firms over the period 1992-1995 using pooled cross-sectional, time series regression. In terms of firm-specific variables, firm size, accounting performance, market returns, diversification and risk had significant, positive impacts on CEO cash compensation while only accounting performance, market returns and risk positively affected CEO total compensation. In terms of governance variables, the percentage of inside director stockholdings and the number of outside institutions holding greater than 5% of outstanding shares had a negative impact on cash compensation but were insignificant for total compensation. The proportion of outside directors on the board positively affected cash compensation while CEO tenure had a curvilinear (inverted U-form) effect on both cash and total compensation components. CEO duality had no significant impact on either form of compensation.

**#2000-12 "Board Characteristics and Audit Fees"** Joseph Carcello (University of Tennessee), Dana Hermanson (Kennesaw State University), Terry Neal (University of Kentucky) and Richard Riley (West Virginia University)- This paper examines the relationship between board characteristics and external audit fees among Fortune 1000 companies. We expect that a more independent, diligent, and expert board will be more concerned with effectively discharging its monitoring role and will be more supportive of the external audit function. Such a board is likely to insist on enhanced audit scope, thus increasing the audit fee. We find significant positive relationships between board independence, diligence, and expertise and audit fees. These results add to the growing body of literature documenting a relationship between corporate governance mechanisms and various facets of the audit process.

**#2000-13 "Competitiveness in the 21<sup>st</sup> Century: Reflections on the Growing Debate about Globalization"** Rajaram Veliyath (Kennesaw State University) and Shaker Zahra (Georgia State University)- Over the past two decades, the concept of global competitiveness has gained widespread acceptance and legitimacy in the literature. Competitiveness has been prescribed as a cure-all for countless economic, political and social problems. In recent years, however, there has been a rising chorus of critics who, while viewing competitiveness as a useful concept, argue nevertheless that pursuing competitiveness—which is inextricably linked with globalization and technological progress—has severe downside effects which have not been adequately addressed. Although

competitiveness can inspire nations, firms and individuals to pursue excellence, achieving world-class levels of competitiveness can also tax institutions and fuel concerns about local cultures and personal choices. In this paper, we review key issues that nations, firms and individuals face as they become more competitive. Our discussions also emphasize some guiding principles that need to be focused on in future discussions of global competitiveness.

**#2000-14 "Improvement of a T Plant Operation Using an Order Review and Release System"** Douglas Hales (Kennesaw State University) and Satya Chakravorty (Kennesaw State University)- This paper documents an improvement of a T plant operation using an order review and release system. The T plant operation manufactures storage building units for sale to discount retailers and installation contractors. After completion of the implementation, the need for finished goods and raw material inventory dropped by 95%, capacity improved by 20%, and lead-time was reduced by 30%.

**#2000-15 "Is the Sports-Betting Market Efficient? Insights from a Novel Methodology"** Ladd Kochman (Kennesaw State University) and Randy Goodwin (Kennesaw State University)- The overwhelming majority of sports-betting studies has demonstrated that mechanical betting rules do not produce regular profits. Another common thread is that the criteria used to choose a team on which to place a wager pertained strictly to that team—e.g., if it lost its previous game or if it is on a hot streak. This study conducts the first test of betting-market efficiency that imposes conditions on both competing teams. Despite the novel methodology, no rule produced a wins-to-bets ratio greater than 51 percent—less than the 52.8-percent breakeven rate and well below the levels associated with nonrandomness and profitability.

**#2000-16 "A New Metric for a New Time"** Richard Monroe (Kennesaw State University)- Strategies for organizations in the late 20<sup>th</sup> century have increasingly dealt with issues of time. Specifically, time-based competition is one strategy that addresses time for many operational issues. Other research has focused primarily on the timeliness of strategic decisions. Operations and strategic direction have not been integrated across all dimensions with regard to time. This paper proposes a new metric to achieve this integration.

**#2000-17 "Social Embeddedness, Overt and Covert Power and Their Effects on CEP Pay: An Empirical Examination Among Family Businesses in India"** Rajaram Veliyath (Kennesaw State University) and Kannan Ramaswamy (Thunderbird University)- This paper investigates the CEO's social embeddedness and overt and covert power as determinants of CEO pay in a sample of Indian family-controlled firms. Increased investment in developing countries mandates the need to understand the dynamics of pay setting for CEOs in those locations. Using a time-series cross-sectional regression analysis, we find family shareholding and the percentage of inside directors on the board (identified as bases of overt power for the CEO) to be the predominant influences on CEO pay. By contrast, some of the identified bases of covert power such as the CEO's tenure, age, education, and firm diversification were not significant. Surprisingly, controls for firm size and performance also exhibited no influence on CEO pay. These findings offer a useful point of reference against which results from western studies can be compared in order to develop a more holistic theory of CEO pay.

**#2000-18 "Profiling Small Firms Based on Knowledge-Based Practices"** Bonnie Stivers (Kennesaw State University) and Teresa Joyce (Kennesaw State University)- This paper presents the results of a 1999 study of small U.S. and Canadian firms funded by the Canadian Institute of Chartered Accountants. The purpose of the study is to identify current practices in the management of knowledge in small firms as well as to examine the relationship between business practices focused on knowledge and innovation and other key

organizational variables. A questionnaire designed specifically for this study was mailed to top managers in a sample of U.S. and Canadian firms with fewer than 500 employees. Eighty-six U.S. firms and 155 Canadian companies returned completed questionnaires. The study analysis reveals that firms in each country can be grouped based on their focus on knowledge and innovation. In both countries, high focus firms tend to have a greater future focus on employees and on their public image. The high and moderate focus groups perceive every intangible resource identified in this study to be significantly more important in 2005 than in 1995. Differences in the group profiles of the two countries are also investigated.

**#2000-19 "What Are Outside Directors Really Paid For?"** James Cordeiro (SUNY at Brockport), Rajaram Veliyath (Kennesaw State University) and Edward Erasmus (SUNY at Brockport)- Using 1996 data on 200 large U.S. corporations, we develop and test an expanded model in which outside director compensation is significantly related to director effort, external monitoring, internal referents and firm performance—after controlling for firm size and inside ownership. We find some support for each of our hypotheses.

**#2000-20 "Faculty Perceptions of the Importance of Teaching, Research and Service"** Debbie Roebuck (Kennesaw State University) and Sheb True (Kennesaw State University)- This study determined the perceived importance of teaching, research and service among management faculty. It further examined the perceptions of management faculty regarding the relative importance of teaching and research to decision-makers responsible for allocating rewards (e.g., chairs and deans) as well as their own perceptions. A total of 509 Academy of Management members comprised the sample. The study found that a majority of those professors who enjoy teaching spent more time and placed a higher value on teaching. An overwhelming majority felt that graduate education provides adequate preparation for research but not for teaching. Respondents perceived that both chairs and deans view research as more important than teaching. Recommendations by the researchers are also reported.

**#2000-21 "Four Pillars of Ethical Financial Reporting"** Mark Beasley (North Carolina State University), Joseph Carcello (University of Tennessee) and Dana Hermanson (Kennesaw State University) Fraudulent financial reporting is an often-devastating problem affecting U.S. capital markets. Over the past few years, we have studied approximately 200 cases of financial statement fraud allegedly committed by U.S. public companies. Each of these instances was investigated by the Securities and Exchange Commission, and individuals were cited for violating the antifraud provisions of the U.S. securities laws. Based on our research, we discuss four pillars that we believe are necessary for ethical financial reporting to occur: (1) compensation and incentives, (2) governance, (3) controls and (4) culture and people. Companies that consider these pillars and build the proper foundation may save themselves the huge costs that attend allegations of misleading investors through unethical financial reporting.

**#2000-22 "The Influence of Organizational Ownership on Managerial Propensity to Diversify: A Study of the Indian Manufacturing Sector"** Kannan Ramaswamy (Thunderbird University), Mingfang Li (California State University-Northridge) and Rajaram Veliyath (Kennesaw State University) This study focuses on the Indian manufacturing sector to (1) examine the investment objectives of various ownership groups such as mutual funds, financial institutions, governmental agencies and foreign investor groups and (2) draw links between their motivations and the nature of the diversification strategies pursued by the organizations. Our findings suggest that there is considerable variation in the nature of the relationship between investment position and posture toward diversification. While the holdings of pressure-resistant groups such as mutual funds and financial institutions were negatively associated with unrelated diversification, pressure-sensitive groups such as banks and insurance companies were largely supportive of such moves. Pressure-

indeterminate groups such as governmental agencies were indifferent to diversification strategy choice. Thus, country-specific factors seem to play an influential role in the predisposition of owners and their posture toward diversification choices pursued by organizations in which they invest.

**#2000-23 "Development of a Decision Modeling Instrument for Evaluating Espoused Criteria Versus Criteria-in-Use"** Kevin Sightler (Kennesaw State University)

An instrument is proposed by which the espoused criteria for making a managerial decision are compared to actual criteria as determined by a mathematically-modeled representation of decision-makers' behavior. The instrument will also allow for objective assessment of the relative weight placed on decision criteria in making a decision. Pedagogical application in management training and development is discussed, and further application to the study of specific managerial issues is explored.

**#2000-24 "Input-Output Accounting for Urban Water Networks"** Peter Terrebonne (Kennesaw State University) This paper illustrates the use of input-output accounts for organizing data describing interconnected water flows among multiple sectors of an urban water network. Input-output accounts for the Atlanta metropolitan area are presented along with provisional projections for the year 2025.

**#2000-25 "Cost of Quality: A Case Study"** Douglas Hales (Kennesaw State University) and Samia Siha (Kennesaw State University) Cost of quality (COQ) techniques have received widespread interest since the introduction of the Prevention-Appraisal-Failure (PAF) methodology in 1956 by A.V. Feigenbaum. Since then, many companies have used PAF and other COQ methodologies either to determine quality-related costs in their organizations or as decision-making tools to choose between two or more quality-improvement initiatives. Choosing a COQ method should be a function of both the objective of the costing process and the audience for the resulting data. That method should also be tailored to the needs of the organization. While quality costing literature gives some practical advice on how to categorize costs, few published case studies offer specific details of which costs are included and how data are collected. This paper presents the details of a case study of how this process was performed at Beta Plastics using the Poor Quality Cost (PQC) model. Specifically, two quality initiatives (normal quality efforts and superior quality efforts) are compared using the PQC model. This model was chosen for its consideration of many of the costs not included in a PAF methodology.

**#2000-26 "Implications of Cell Design: A Case of Millwork Manufacturing"** Satya Chakravorty (Kennesaw State University) and Douglas Hales (Kennesaw State University) Hyer et al. (1999) developed a comprehensive model for cell design. They examined the model using the implementation experience of cell design efforts in a large electronic assembly and testing center. Our case study investigates the model using the implementation experience of cell design efforts in a mid-size millwork manufacturing plant. In doing so, we provide support to the model and discuss how the millwork company dealt with the questions raised in Hyer's study—including suggestions for future research.

**#2000-27 "Fraud-Related SEC Enforcement Actions Against Auditors: 1987-1997"** Mark Beasley (North Carolina State University), Joseph Carcello (University of Tennessee) and Dana Hermanson (Kennesaw State University) This study examines fraud-related SEC enforcement actions to identify the settings in which auditors were cited by the SEC. The authors hope that such information will improve the auditing profession's ability to detect instances of material financial statement fraud.

**#2000-28 "Variations in Ownership Behavior and Propensity to Diversify: A Context-Specific Approach"** Kannan Ramaswamy (Thunderbird University), Mingfang Li

(California State University—Northridge) and Rajaram Veliyath (Kennesaw State University) The relationship between ownership and diversification has been the focus of renewed debate between the financial economists and strategic management scholars. While the former hold that manager-controlled firms tend to reflect higher levels of diversification, the latter argue that ownership and diversification are not systematically related. This empirical examination is set in India to offer a striking contrast from the predominantly U.S.-based studies that have focused on the ongoing debate. Findings show that the relationship between ownership and diversification is indeed context-specific and that diverse ownership groups adopt different postures in monitoring and/or influencing organizational diversification. While some ownership groups are closely associated with focused strategies and some encourage diversification, others are quite indifferent.

**#2000-29 "Audit Committees, Materiality, and Financial Expertise"** Todd DeZoort (University of South Carolina), Dana Hermanson (Kennesaw State University) and Richard Houston (University of Alabama) Recent initiatives have focused on audit committee performance and preparers' materiality assessments as means of improving the quality of financial reporting. Based on a national survey of 300 audit committee members, this study provides timely information on three issues related to audit committee members' financial expertise and their perceptions of materiality issues.

**#2000-30 "Lessons for Auditors from Fraud-Related SEC Enforcement Cases"** Mark Beasley (North Carolina State University), Joseph Carcello (University of Tennessee) and Dana Hermanson (Kennesaw State University) In this paper we describe recent fraud-related SEC enforcement actions against auditors and present action points that CPAs might consider to better detect financial statement fraud. Our analysis is based on a research monograph that we recently completed for the AICPA's Auditing Standards Board. The results and implications are based on 56 cases in which auditors were sanctioned by the SEC for their association with fraudulently misstated financial statements. While enforcement actions against auditors are rare, the consequences of individual cases can be great—making them special opportunities for learning and growth.