

## Working Papers For The Year of 2002

**#2002-01 "Improving Advising Through Use of an Advising Team"** Jane Campbell (Kennesaw State University) and Randy Stuart (Kennesaw State University) The Michael J. Coles College of Business at Kennesaw State University modified its advising structure for undergraduate students. The new structure uses selected faculty members on advising teams and provides access to them through walk-in advising hours. The chief benefit to the students is more efficient and effective advising. Students have access to advising at more times and are more likely to get a correct answer quickly. The benefits of this system for the faculty are that the faculty members on a team enjoy a task to which their performance expectations are tied and that those faculty members who are not interested in advising can pursue their particular interests. This system acknowledges the differing interests, performance requirements, and abilities of faculty members. Other colleges and universities may find this approach beneficial for students and faculty alike.

**#2002-02 "Fraudulent Financial Reporting in the Oil and Gas Industry"** Mark Beasley (North Carolina State University), Joseph Carcello (University of Tennessee) and Dana Hermanson (Kennesaw State University) This study profiles instances of fraudulent financial reporting in the oil and gas industry during the 11-year period 1987-97. This analysis indicates that oil and gas executives orchestrating these frauds took advantage of the inherent subjective nature of accounts unique to the industry to overstate the financial position of these companies. Weaknesses in the corporate governance mechanisms including the audit committee, board of directors, and auditors provided opportunities for the perpetrators to carry out the fraud. While consequences of fraud can be severe for companies and individuals allegedly involved, there were no instances in which perpetrators faced criminal penalties for their actions.

**#2002-03 "Do Line Changes Compromise the Efficiency of the Football Betting Market?"** Ladd Kochman (Kennesaw State University) and Randy Goodwin (Kennesaw State University) A mechanical betting rule was applied to the 2151 college football games during the 1998-2001 seasons for which week-beginning and week-ending point spreads differed. Hypothesizing that such changes are predictive of the game's betting outcome, we placed (imaginary) wagers on the favorites that became more of a favorite and on underdogs that became less of an underdog. Wins-to-bets ratios partitioned by the magnitude, direction and time-of-the-season of line changes revealed that they conveyed no special information. One explanation may be that the argument that line changes are a function of better information and the opposing view that links line changes with irrational bettor sentiment are both correct—making line changes a confusing and unpredictable depository for fact and fantasy.

**#2002-04 "Ethics in Accounting and Auditing: The Critical Role of Independence"** Paula Morris (Kennesaw State University) In this paper, several issues related to the of independence for auditors are addressed as well as areas posing potential conflicts of interest between auditors and their clients. The relevance and effectiveness of SEC and AICPA rules are also explored.

**#2002-05 "Reexamining Organizational Strategic Control: Drawing Lessons from the Human Brain"** Rajaram Veliyath (Kennesaw State University) and K. Sathian (Emory University) Strategic control systems in global, multibusiness firms are required to manage and reconcile the tension between the contradictory imperatives of integration with stability and adaptation with change. In addition at the strategic level, the role of the control system expands beyond concerns of efficiency and effectiveness to include ensuring organizational legitimacy. Given the many acknowledged limitations of current organizational control

systems, there is a pressing need to examine the paradigmatic underpinnings of these control systems and adopt fresh perspectives in order to meet these complex demands placed on strategic control systems. This paper draws comparisons with the human brain as a control system. It identifies characteristic features of the brain that help to overcome some acknowledged limitations of existing control models and how, through its design and functioning, the brain accomplishes these features. The paper then suggests how some of these brain-like features might be replicated in organizational strategic control systems through the use of known scanning and forecasting techniques as well as through organizational and control system design. The paper concludes with the implications for future theory development and managerial practice.

**#2002-06 "The East Asian Model of Economic Development and Third World Developing Countries"** Jong-Heum Park (Kennesaw State University) The recent Asian financial crisis has raised a series of questions about the efficacy and sustainability of the so-called East Asian model of economic development. Many questioned whether the model could be considered valid to be followed by other developing countries in their pursuit of economic development. The common strengths and weaknesses shared by many East Asian economies helped to reinforce the misconception that there is a single East Asian model of economic development. But there are significant differences in economic structure and in development experience among the East Asian economies. There is one single common thread underlying these differences with development strategy and experience, however. That is the role of government. The governments of East Asia undertook major responsibility for the promotion of economic growth: they recognized the limitations of markets (or market failures) in the allocation of scarce resources in the economy and used government interventions to promote economic development. Government interventions were used to pick winners in the manufacturing sector, to promote cooperation and competition among firms, and to lead export-led industrialization. For many Third World countries, the relation-based East Asian model, if properly adopted and executed, can be effective in facilitating catching-up in the early stage of economic growth and development.

**#2002-07 "Information Security: Eight Steps Internal Auditors Should Take"** Linda Hadden (Keene State College), Ken Harmon (Middle Tennessee State University), Dana Hermanson (Kennesaw State University) and Daniel Ivancevich (University of North Carolina—Wilmington) Information often represents an organization's most valuable resource. Sensitive information can include strategic planning documents, customer files, product development plans, and even executives' emails. Protecting such information can be critical to organizational success, but until recently there had been relatively little focus on this issue by boards of directors and audit committees. This paper discusses recent developments related to board and audit committees' oversight of information security. In addition, we describe eight important steps for internal auditors called on to support the information security oversight efforts of board and audit committees.

**#2002-08 "A State University System: Issues in the Implementation of GASB 34 and 35"** Debra Wike (Board of Regents of the University System of Georgia) and Paula Morris (Kennesaw State University) GASBs #34 and #35 will significantly change the way in which public colleges and universities present their results of operation. Currently, many institutions use the AICPA model requiring the use of fund presentation. Collapsing these statements into a single column for the business activities option of reporting may cause interpretation issues that will have a negative funding impact on the schools. The segregated presentation of state appropriations and gifts as non-operating revenues may convince users that some institutions do not need the current level of funding. Another issue relates to plant, property, and equipment. Since the AICPA model calls for the presentation of plant, property, and equipment, other than identifying and valuing infrastructure the inclusion of fixed assets on the statement of net assets is not a problem. However, public colleges and universities using the AICPA model do not take depreciation. To soften the

impact of the interpretation of the operating statement, the governing boards of public institutions need to develop plans both to educate users about the new presentation and to communicate the needs of the schools for accomplishing their missions. To address the depreciation issues, the boards must develop depreciation methodologies and implementation plans for proper implementation of the standards. This paper discusses one university system's consideration of these issues.

**#2002-09 "Building Process Innovation: Deming's Cycle"** Satya Chakravorty (Kennesaw State University) and Douglas Hales (Clemson University) The purpose of this research is to propose how process innovation is achieved through application of Deming's cycle: Plan-Do-Study-Act. Specifically, we show that Deming's cycle is essentially a form of creative problem-solving designed to build process innovation. We gained a deeper understanding of the cycle through the results of a two-year, longitudinal case study. We find that relationships among PDSA components are much more complex than is suggested in existing literature. We then used these findings to propose how Deming's cycle impacts organizations and to uniquely suggest that his contributions to the field of organizational development were meant to expressly build innovation. In light of these findings, we further suggest that Deming's contributions should be reevaluated in the context of recent developments in the field of innovation (creativity).

**#2002-10 "Beyond Pay for Performance: A Panel Study of the Determinants of CEO Compensation"** James Cordeiro (SUNY at Brockport) and Rajaram Veliyath (Kennesaw State University) This paper examined the effect of corporate governance variables, ownership structure, and strategic variables on the cash and total compensation of 222 U.S. Fortune 1000 firm CEOs. Firm size, accounting performance, market returns, diversification, and risk positively impacted CEO cash compensation. However, only accounting performance, market returns, and risk positively affected CEO total compensation. Inside director stockholdings and outside institutional blockholders had a negative impact on cash compensation. The proportion of board outsiders positively affected cash compensation while CEO tenure had a curvilinear (inverted U-form) effect on both cash and total compensation components.

**#2002-11 "Line Changes and Football Market Efficiency"** Ladd Kochman (Kennesaw State University) and Randy Goodwin (Kennesaw State University) A mechanical betting rule was applied to the 902 professional football games played during the 1998-2001 seasons for which respective week-beginning and week-ending point spreads differed. Hypothesizing that those changes were based on new information and predictive of a game's betting outcome, we placed imaginary wagers on favorites who became more of a favorite and on underdogs who became less of an underdog. Results suggest that line changes are more predictive as the basis of a contrarian rule but not to a significantly profitable extent.

**#2002-12 "Football betting and the Neglect Effect: An Update"** Randy Goodwin (Kennesaw State University) and Ladd Kochman (Kennesaw State University) The hypothesis that underfollowed college football teams reward bettors much like neglected stocks reward investors is again tested. Results from the 1996-2001 seasons indicate that the 20 schools designated as "most neglected" were no more likely to hurdle the 52.4-percent breakeven rate (48.76%) than they were in an earlier study spanning the 1985-1995 years (48.31%). The 20 teams characterized as "least neglected" fell from 52.30% for 1985-1995 to 49.43% for 1996-2001. Beyond the obvious conclusion that the football betting market is efficient lies the strong possibility that its participants are capable of closely monitoring the 117 schools handicapped by Las Vegas.

**#2002-13 "Do Dividend Forecasts Matter?"** Upinder Dhillon (Binghamton University), Kartik Raman (Bentley College) and Gabriel Ramirez (Kennesaw State University) This study empirically re-examines the information content of dividends using measures of unexpected dividend and earnings changes based on Value Line forecasts. We investigate the market reaction to dividend surprise announcements and the relation between dividend surprises and contemporaneous and future earnings surprises and contrast our results to those obtained by the naïve dividend change method used extensively in extant studies. We document a potentially serious sample construction bias using the naïve dividend change method. Dividend surprises based on Value Line forecasts, unlike previous studies, provide results that are consistent with the implications of dividend signaling models. A significant positive relation between dividend surprise and future as well as contemporaneous earnings surprises is documented. The approach followed in the paper also permits the analysis of a significantly "forgotten" sample in past studies: firms announcing no dividend changes in which investors (analysts) are expecting a change. We find no change in dividends often reflects a negative dividend surprise and is indeed associated with a negative earnings surprise. One implication of this study for future research is that empirical tests of signaling models should incorporate dividend forecasts.

**#2002-14 "Debtor-in-Possession Financing and Bankruptcy Resolution: Empirical Evidence"** Sandeep Dahiya (Georgetown University), Kose John (New York University), Manju Puri (Stanford University) and Gabriel Ramirez (Kennesaw State University) Debtor-in-Possession (DIP) financing is unique secured financing available to firms filing for Chapter 11. Opponents of DIP financing argue that it leads to overinvestment. Alternatively, DIP financing can allow funding for positive NPV projects that increase the likelihood of reorganization and reduce time in bankruptcy. Using a large sample of bankruptcy filings, we find little evidence of systemic overinvestment. DIP financed firms are more likely to emerge from Chapter 11 than non-DIP financed firms. Interestingly, DIP financed firms have a shorter reorganization period; they are quicker to emerge and also quicker to liquidate. The reorganization period is even shorter when prior lenders provide the DIP financing.

**#2002-15 "Six Sigma: What Is Next?"** Samia Siha (Kennesaw State University) The Six Sigma concept was introduced by Motorola and refers to an average process defect rate of 3.4/million. Currently, most companies experience a defect rate of about 6200/million. Six Sigma is both a management discipline and a standardized approach to problem-solving. It relies on basic tools such as benchmarking, design of experiments, and analysis of variation. The purpose of this paper is to provide a literature review of Six Sigma that (1) identifies the issues, trends, and implementations in this area and (2) serves as a foundation and platform for future research agendas.

**#2002-16 "The Diversification Frontier: A New Perspective on an Old Question"** Ladd Kochman (Kennesaw State University) w Although few would dispute that Markowitz makes a compelling case for combining assets with low correlations, questions have surfaced about his one-dimensional approach. In small portfolios where standard deviations are relevant, dividing funds between two stocks with a correlation no larger than 0.3 can surprisingly be less efficient than committing all funds to a single stock. A second condition for combining assets (a ratio of larger-to-smaller coefficients of variation) is introduced. A table of critical correlations and a diversification frontier are included to screen potential combinations.

**#2002-17 "Corporate America's Search for the 'Right' Direction: Outlook and Opportunities for Family Firms"** Robert Winsor (Loyola Marymount University), Frank Adams (Kennesaw State University) and Sheb True (Kennesaw State University) The existence of firms, whether family or non-family, in a market economy results from the fact that they are the least costly form of economic coordination. As a result, the more costly it

becomes to monitor manager behavior for a particular firm, or category of firms, the greater the resulting inefficiencies. Mounting evidence, drawn from the family business literature as well as from contemporary business literature, suggests that family firms are particularly well-suited to take advantage of these rising—and soon to rise—relative cost differences between family and non-family firms. In this paper, we have outlined many of the advantages that family businesses enjoy and should continue to enjoy in the current climate of corporate betrayal. These advantages stem from (1) a halo effect in regard to perspectives of trust, (2) government regulation and organizational efficiencies, and (3) financial and non-financial incentives as well as the longevity of family firms.

**#2002-18 "Market Efficiency and the Women's NBA"** Ladd Kochman (Kennesaw State University) and Randy Goodwin (Kennesaw State University) Women's basketball is now in its third century of competition. The first collegiate contest between women pitted Stanford University against the University of California in 1896. The first professional basketball league for women was launched in 1978 but folded three years later. Two more play-for-pay leagues were created in 1996, but only one (the WNBA) survives today. In 2000, Las Vegas casinos began taking bets on WNBA games. The availability of point spreads for the past three WNBA seasons now makes it possible to test the efficiency of the market for wagers on a women's professional sport. However, a more interesting use of the WNBA may be as a proxy for emerging capital markets. The league's short point spread history and relatively slow progress toward gaining a national following make the market for WNBA wagers an attractive target for both bettors and researchers looking for the inefficiencies normally associated with diminished participation and competitiveness. Despite rigorous attempts to beat the market by betting on all combinations of role (favorite vs. underdog), site (home vs. away) and timing (early vs. late season), no profitable strategies emerged.

**#2002-19 "China Wins the Race: Comparison of Chinese and Indian Economic Development"** John Garver (Georgia Institute of Technology) and Penny Prime (Kennesaw State University) The China-India economic race was a significant element of international politics in the first several decades of the Cold War. The U.S. put significant effort into ensuring that India surpassed China in its economic progress as a way of countering the communist threat. In the early 1970s, the U.S. began a new relation with China as a way to counter the U.S.S.R. and hence lost interest in the China-India race. Then, in the late 1970s, China began substantial reforms to marketize and join the global economy under Deng Xiaoping. This paper draws on World Development Indicators developed by the World Bank to demonstrate that China has by a substantial margin "won" this new round of the economic race. Having established China's lead in many economic sectors, this paper then explores the reasons for this outcome, discusses some of the geopolitical implications of China's victory, and considers the possibility that India may do significantly better in a future round of competition with China.

**#2002-20 "A Systems Integration Approach to eNegotiation"** Douglas Moodie (Kennesaw State University), Ernie Capozzoli (Kennesaw State University) and Sheb True (Kennesaw State University) The Internet has permanently changed the business landscape. This change has brought about reevaluation of an organization's business processes. This reevaluation has also coined many new terms. Most prominent are those terms involving processes that have been changed to seek potential competitive advantage electronically. Going electronic is more than just a new term; it may involve a fundamental rethinking of how a process works, how it adds value and what must be done to make the process truly "e". One process that is receiving increased scrutiny is negotiations for the buying and selling of goods and services. What are the implications of taking the negotiations process into the e-world? This paper discusses how organizations will progress in the use of computer-based intelligent buying and selling agents to a fully automated and integrated e-negotiation system for business transactions. The authors consider the largest market is not for e-systems to replace people in difficult and important negotiations but rather to carry

out negotiations on small transactions where the cost of people is not justified, and thus no negotiation takes place—e.g., fixed-price, fixed-delivery transactions. Additionally, as organizations move along a continuum to adopt e-negotiation processes and strategies, the reliance on computer-based systems mandates tightly integrated systems that support and add value to all of the organization's processes and activities. To further the discussion on systems integration requirements, a framework will be presented and extended to encompass e-negotiation processes.

**#2002-21 "Education for Market Competition: Perceptions of Chinese and U.S. Undergraduates"** Janet Adams (Kennesaw State University) and Bonnie Stivers (Dongbei University) w A study of Chinese and U.S. business students' perceptions of their education identified differences that have disturbing implications for China's efforts to move from a centrally planned to a socialist market economy. Five scales (creativity, usefulness, interaction, effort, and focus) showed significant differences between the young people in the two countries. U.S. students felt that their university education did more to value and foster creativity and innovation, was more useful, involved more interaction with their professors, required greater effort, and was more student-focused than their Chinese counterparts reported. This study indicates that China has far to go in changing its traditional educational system to support the government's economic policies.

**#2002-22 "Franchise Employee Satisfaction and Motivation"** Audhesh Paswan (University of North Texas), Lou Pelton (University of North Texas) and Sheb True (Kennesaw State University) Job satisfaction and motivation among front-line employees, often in the boundary-spanning role, has always been a key managerial concern. This is especially true in the case of service organizations, more so in the case of high-contact organizations, where the front-line employees make a significant contribution towards the service quality and the well-being of the organization. Consequently, contact people or the front-line employees in a service organization and their motivation have been acknowledged as crucial for the service delivery process and marketing orientation. This study investigates linkages among the resultant feelings (of extreme enthusiasm and delight versus mere satisfaction) among employees posited to be associated with the motivation or hygiene-related organizational activities, the construct of perceived openness in organizational climate and the personality trait of need for feedback. These associative linkages are empirically investigated in a franchise setting with a focus on the first-line employees of nationally-renowned fast food franchise system.

**#2002-23 "Six Sigma: What is Next?"** Samia Siha (Kennesaw State University) w To understand the extent of Six Sigma, it is enough to know that 25 percent of the Fortune 200 claims to implement Six Sigma. We have undertaken a literature review in an effort to identify the work done in this area. Issues, trends and implementations are discussed. The literature review will serve as a foundation and platform for future research agendas.

**#2002-24 "How Informative is Insider Selling at the IPO?"** Upinder Dhillon (Binghamton University), Kartik Raman (Bentley College) and Gabriel Ramirez (Kennesaw State University) The underpricing of initial public offerings (IPOs) and their long-run underperformance have been the focus of significant financial research during the past decade. An area that has also received significant attention is insider selling activity. In this paper we attempt to merge the intensity and structure of secondary share sales at the IPO, initial underpricing, and long-run stock price performance. This paper investigates the informative role of insider selling at the IPO by focusing on the intensity and structure of secondary share sales at the offering. We find greater underpricing when management insiders and venture capitalists are the main sellers and lower underpricing when non-management insiders are the chief sellers. Furthermore, long-run performance is worse when management insiders and venture capitalists are the primary sellers. In high insider selling firms, non-management insiders are the majority sellers while in low insider selling

firms, management insiders are the main sellers at the offering. The large proportion of secondary share sales in the high insider selling group is by institutional investors—possibly due to liquidity or portfolio rebalancing reasons. Thus, initial underpricing is lower and long-run underperformance is less severe for high insider selling firms.