Kennesaw State University
Coles College of Business

Coles Research Magazine

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Message From the Dean

Welcome to the second edition of the Coles Research Magazine.

As an institution of higher education, we serve two masters. Our academic colleagues assess the quality and rigor of our research and our ability to answer unasked questions. The business community, conversely, looks for research that is relevant to their daily practice and that positively impacts the students in the classroom. Few business schools find that 'sweet spot' where both sets of expectations are met with excellence and distinction.

We have done just that in the Coles College of Business at Kennesaw State University. Our faculty members are passionate about applying rigorous methodologies and grounded understanding to address issues relevant to business today. We teach how to do this in our research-based doctoral program where we prepare experienced business professionals for tenure track positions at AACSB accredited institutions across the country. These graduates combine their rich business backgrounds with intense research education that assures that they will impact their academic communities, the classroom, and the business world for decades to come.

As a business school, we cannot ignore the interests of either our academic or our business constituents. As the following pages demonstrate, Coles' faculty members understand both and use their talents to understand complex phenomenon in a way that brings analytical problem solving skills to the classroom and to the boardroom.

Please enjoy the second edition of the Coles Research Magazine and experience for yourself the extraordinary impact our faculty members are having.

Kathy S. Schwaig

Kathy S. Schwaig
Dean
Michael J. Coles College of Business
Kennesaw State University

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** Coles College of Business faculty highlighted in bold.*

Future Non-Audit Service Fees and Audit Quality

Monika Causholli, Dennis J. Chambers and Jeff L. Payne

Contemporary Accounting Research
Vol. 31, Issue 3 (September) 2014, pp. 681–712

Overview

One of the most hotly debated audit independence issues arising from the spectacular audit failures of the early 2000s has been the provision of non-audit services (NAS) by audit firms to their audit clients. Strong arguments have been made that such services create an economic bond between auditor and client, impairing auditor independence. Equally strong arguments have been made that the provision of NAS improves audit quality as auditors gain greater knowledge of their clients' operations. The decade of the 2000s saw an explosion of empirical research seeking evidence on this question. Those studies generally found little evidence to support the former argument and some evidence to support the latter. Causholli, Chambers, and Payne (2014) examine the question differently from the prior studies. Citing the incentive effects of partner compensation contracts, they posit that it is the NAS contracts being negotiated during the audit period, rather than the completed service contracts that have the potential to impair auditor independence. They find significant and robust evidence that future NAS are associated with lower audit quality.

Executive Takeaways

- Future NAS provided by an audit firm to clients, are associated with lower quality audits.
- This association is greater when clients have a strong incentive to manage earnings.
- The association does not extend to the period after SOX and other regulatory actions.

Dennis J. Chambers, Professor of Accounting

An Investigation of Corporate Bond Clawbacks (IPOCs): Debt Renegotiation Versus Exercising the Clawback Option

Kenneth N. Daniels, Fernando Díaz Hurtado and Gabriel G. Ramírez

Journal of Corporate Finance
Vol. 20, (April) 2013, pp. 14–21

Overview

Bond clawback provisions allow the issuer to partially redeem a bond issue often within three years of its issuance using proceeds only from new equity issues. We document that clawback bonds are often renegotiated and clawback provisions are rarely exercised (in only 12.19% of the cases is the clawback provision exercised). We find that the probability of exercising the clawback option increases if the firm has lower leverage, has better return on equity, and is not issuing in the 144 market. We also find that the higher yields observed on clawback bonds are associated with the likelihood of the clawback provision being exercised. We argue that the results are consistent with the view that firms that use clawback provisions are likely to have better fundamentals. These firms exercise the clawback provision because the firm is able to access the equity markets and issue the needed equity for exercising the clawback option. Renegotiation of clawback bonds results from the need to refinance the high cost IPOC issues and the difficulty in accessing the equity capital markets.

Executive Takeaways

- Clawback provision allows issuer to access capital desperately needed but it is costly.
- Bonds with clawbacks command higher yields – about 80 bps higher, than comparable bonds.
- Firms facing temporary capital constraints are more likely to exercise the clawback.
- Constrained firms unable to realize better prospects often renegotiate high cost IPOC.

Gabriel G. Ramírez, Professor of Finance

Modeling the Benefits of Cross-Training to Address the Nursing Shortage

Jomon Aliyas Paul and Leo MacDonald

International Journal of Production Economics
Vol. 150, Issue 1 (April) 2014, pp. 83-95

Overview

The United States is facing a serious shortage of nurses who play invaluable roles in patient care delivery. This has led to patient safety concerns and affected hospital staffs' ability to detect complications in patients, potentially leading to mortality increases. This problem is predicted to worsen as a result of both aging baby-boomers and aging nursing workforce. The implications are to direct health care issues and to health economics as well. This paper seeks to offer insight into strategies to help resolve this issue by evaluating the benefits of cross-training within the existing pool of nurses. Specifically, given uncertain demand, we determine the optimal allocation of both regular and cross-trained staff to minimize costs considering practical limitations, including constraints on total available resources, while maintaining minimum quality (worker heterogeneity) and patient service levels. Our models extend the literature on the effect of demand variability on expected shortage levels and optimal staff allocation decisions by capably handling various probability distributions as well as incorporating the impacts of the costs of cross-training and temporary staffing. We also develop optimization models for two department and multi-department problem scenarios, and demonstrate the benefits of cross-training via illustrative examples featuring emergency and surgical departments.

Executive Takeaways

- Strategic insights for meeting nursing demand and maintaining quality/service goals.
- Models to evaluate the benefits of cross-training in two & multi-department setups.
- Evolutionary optimization based heuristic for time efficient, high quality solutions.
- Demonstrate the overall cost and staffing impact in a two department chain.
- Establish directional nature of policy implications within a multi-department setup.

Leo MacDonald, Associate Professor of Quantitative Analysis
Jomon Aliyas Paul, Associate Professor of Quantitative Analysis

Differing Effects of Sales Control Systems Goals on Salesperson Motivation and Job Satisfaction

Anne Gottfried (DBA Graduate), Joseph F. Hair, Jr. (Committee Chair), Marko Sarstedt (Committee Member), Brian N. Rutherford (Committee Member and Richard Plank (Reader)

Overview

Sales managers determine the level of difficulty of goals, develop systems to control sales personnel, and create the psychological climate of the organization in which the sales team operates. This research examined how to design the most effective sales control system when different types of goals influence sales force motivation and ultimately, job satisfaction. The understanding gained about which types of goals are associated with the strongest motivation and the highest job satisfaction is of practical important to managers as they attempt to increase sales force efforts in pursuing specific challenging goals that benefit their organizations. The job satisfaction of sales personnel should be examined based on an understanding of the different components of overall job satisfaction, including satisfaction with supervisors, co-workers, customers, compensation, promotion, and company policies. The increased insights gained through the examination of the role each component of satisfaction played in the overall design of more effective sales force control systems should be particularly useful for sales managers.

Executive Takeaways

- Supportive sales environments result in the most-satisfied salespersons.
- Measuring qualitative goals is more challenging than measuring only sales quotas.
- Customer satisfaction more important than that of co-workers, supervisors, or promotions.

Joseph F. Hair, Jr., Professor of Marketing and Professional Sales
Brian N. Rutherford, Associate Professor of Marketing and Professional Sales

Measuring Family Business Performance: A Holistic, Idiosyncratic Approach

*Ralph I. Williams Jr. (DBA Student),
Torsten M. Pieper (Committee Chair),
Joseph H. Astrachan (Committee Member)
and Franz W. Kellermanns (Reader)*

Overview

For any type of organization, performance represents the measure of outcomes, goals, and aspirations vital to various organization stakeholders; thus performance is an important research variable. Family businesses are different from non-family businesses in that the family subsystem and the business subsystem overlap and interact to form the family business system. The desired outcomes, goals, and aspirations of each family business are a product of its particular family and business sub-systems. Thus, in family business, especially privately owned entities, performance is of particular interest since families can set their goals in their own ways, which may go well beyond financial outcomes. Despite notable recent advances, especially on conceptual grounds, current approaches to measuring performance in family business are limited by a focus solely on financial measures, and current approaches fail to acknowledge that goals are particular (idiosyncratic) to each family business. This research lays a foundation for the development of a performance measurement scale that is holistic – including the entire set of family business goals, both financial and non-financial – and considers the idiosyncratic nature of family businesses. The present study produced a family business performance measurement scale that employs 21 goals spread among six latent constructs.

Executive Takeaways

- Review of 262 family business performance studies supports the need for a measurement scale.
- This scale measures performance against a family firm's unique basket of goals.
- A similar scale may be applicable to measuring non-family business performance.
- This scale further extends the balanced scorecard into the family business domain.

Joseph H. Astrachan, Professor, Wells Fargo Eminent Scholar Chair of Family Business
Torsten M. Pieper, Assistant Professor of Management

Fixing the Fatally Flawed Medicare Auction

Brett Katzman

Overview

In papers published in the Southern Economic Journal, the Economists' Voice, and Economic Inquiry, Dr. Brett Katzman and coauthors describe fatal flaws in the Medicare auction used to set reimbursement prices in the multi-billion dollar Durable Medical Equipment industry that supplies seniors with home care devices. These papers rigorously use mathematical modeling and game theory to show how Medicare's experimental pricing rules encourage bidders to game the system, leading to economically inefficient results and sometimes, complete market failure. This is troubling since home care medical supply industry shortages lead to more costly hospital stays, thus defeating any savings the auction may generate. However, these papers also establish that the problems are easily fixed by switching to the well-established and time-tested clearing-price auction, an idea adopted by Dr. Tom Price (Rep. GA) when introducing House Bill HR 4185, the Protecting Access through Competitive-pricing Transition (PACT) Act, in December 2015. HR 4185 has roots in Dr. Katzman's Economic Inquiry paper (with Peter Cramton and Sean Ellermeyer), "Designed to Fail: The Medicare Auction for Durable Medical Equipment," and calls for abandoning the current auction and replacing it with the Market Pricing Program, an industry-specific variant of the clearing price auction.

Executive Takeaways

- By adopting bad auction rules, Medicare threatens the viability of the home care market.
- Medicare is moving forward with its auction despite scientific evidence against it.
- The auction will devastate the industry, leading to job loss and health care shortages.
- There is a simple fix to the problem; switch to the time-tested clearing-price auction.
- Dr. Tom Price's HR 4185 (PACT) will fix the problems.

Brett Katzman, Professor of Economics

EY-KSU Global Family Business Survey

Joseph H. Astrachan and Torsten M. Pieper

Overview

In the first-ever global survey of its kind, we studied one thousand of the largest and most successful family businesses from more than 20 countries around the world and uncovered the sources of their lasting success. We found that these companies optimize both family cohesion and profitable business growth. When too much emphasis is placed on one over the other, both are likely to suffer. More specifically, we identified key strategies that contribute to striking this delicate balance. The most successful family businesses actively nurture harmonious family relationships; they consciously brand themselves as family businesses; they invest in sustainable business practices; they focus on the future, preparing the next generation to enter the business; they use governance mechanisms to keep the family involved in the business; and they value and actively empower women leaders.

Executive Takeaways

- Family businesses are thriving around the world.
- We investigate 1,000 of the largest family businesses in the top 21 global markets.
- Strengthening family cohesion and businesses sustainability are keys to success.
- Making a person or group responsible for succession is essential to succession success.
- The more a family business prepares women for leadership, the higher its growth targets.

Torsten M. Pieper, Assistant Professor of Management
Joseph H. Astrachan, Professor, Wells Fargo Eminent Scholar Chair of Family Business

Major Customer Reliance and Big 4 Auditor Going Concern Decisions

Dan Dhaliwal, Paul N. Michas, Vic Naiker and Divesh S. Sharma

Coles Working Paper Series, FALL15-06, October 2015

Overview

Audit clients' reliance on major customers for sales affects clients' profitability, cash flow and future viability. To understand whether auditors evaluate value chain relationships between audit clients and their major customers, we examine auditors' going concern modification decisions for a sample of financially distressed clients. Findings suggest that Big 4 auditors are more likely to issue going concern modifications to distressed clients when they rely more heavily on major customers. However, we find that Big 4 auditors are not equal; compared to higher quality Big 4 auditors, only lower quality Big 4 auditors are more likely to issue a going concern modification, particularly when audit clients relying more heavily on major customers are more financially distressed. When we evaluate the accuracy of Big 4 auditors' going concern modification decision in context of clients' reliance on major customers, we discover that lower quality Big 4 auditors are less accurate in their assessment of clients' going concern status, but higher quality Big 4 auditors are more accurate. Overall, the evidence we present suggests the quality of Big 4 auditors influences their evaluation of financially distressed clients' business risks stemming from clients' reliance on major customers.

Executive Takeaways

- Distressed clients relying on major customers receive a going concern modification.
- Lower quality Big 4 auditors issue more going concern modifications.
- Lower quality Big 4 auditors issue more inaccurate going concern modifications.
- Auditor quality is important when the audit is complex and challenging.

Divesh S. Sharma, Professor of Accounting

How Government Spending Impacts Tax Compliance

Diana Falsetta, Jennifer K. Schafer, and George T. Tsakumis

Coles Working Paper Series, FALL15-01, October 2015

Overview

This study examines how government spending affects tax compliance. Results of our study indicate that strong (weak) support for the government's use of tax dollars results in increased (decreased) tax compliance. In addition, audit probability only influences compliance decisions when there is support for government programs; without taxpayer support, compliance is lower regardless of the audit probability. This highlights the importance of gaining taxpayer support for government programs, and suggests that attempts to align the goals of taxpayers with those of the government may increase voluntary compliance among taxpayers. We also examine the influence of ethics and self-interest on taxpayers' compliance decisions. We find that for individuals who are motivated more by self-interest, a high audit rate, as well as support for a program may be necessary to improve compliance behavior.

Executive Takeaways

- Non-economic factors, such as goal congruency and self-interest, impact tax compliance.
- Taxpayers are more likely to comply when they agree with government spending.
- Machiavellian (self-interested) taxpayers are less likely to comply.
- Higher audit rates only improve compliance when taxpayers also support spending.

Jennifer K. Schafer, Associate Professor of Accounting

Determinants of Operational and Financial Performance and Market Concentration for Not-For-Profit Hospitals

Jomon Aliyas Paul, Benedikt Quosigk and Leo MacDonald

Coles Working Paper Series,
SPRING16-05, March 2016

Overview

Drawing on data from the American Hospital Association, Center for Medicare and Medicaid Services, and Internal Revenue Service Form 990, we search for determinants of not-for-profit (NP) hospital performance. We evaluate the impact of various factors to determine key aspects of effective financial and operational practices in NP hospitals. Specifically, we attempt to identify and evaluate key characteristics of NP hospitals that impact their financial performance and market concentration, as well quality of care measures including inpatient length of stay (LOS), mortality rate, market concentration measured by Herfindahl-Hirschman Index, and return on assets. The goal is to provide valuable insights for hospital administrators and policy makers, and lead to better efficiencies and reduced service costs. We find that high indigent patient population percentages and less independent boards can negatively impact NP performance, whereas higher levels of contributions are positively related to NP's financial health. Factors such as hospital size and indigent Medicare population percentage have positive impacts on quality of care with regard to mortality rate. Other factors, including median income, Governor's party affiliation, and population health status significantly impact at least one of the variables in each of the categories (quality of care, financial performance, and market concentration).

Executive Takeaways

- Hospital Administrators gain empirical support for performance impacting factors.
- Managers on voting boards may lead to higher mortality rates and ROA.
- Hospitals with more specialized care have better Inpatient LOS performance.
- LOS is reduced by normative factors like accreditation and group purchasing agreements.
- Contract-managed-hospitals have worse performance than in-house-managed hospitals.

Benedikt Quosigk, Assistant Professor of Accounting
Jomon Aliyas Paul, Associate Professor of Quantitative Analysis
Leo MacDonald, Associate Professor of Quantitative Analysis

The Development of Middle Managers' Justice Perceptions

Lee Macenczak, Amy Henley and Stacy Campbell

Coles Working Paper Series,
SPRING16-04, March 2016

Overview

Prior research in the field of organizational justice primarily focused on specific justice dimensions and their impact on individual workers. This study takes a new direction by examining justice perceptions in middle managers, a previously unexamined group. Middle management is critical to the organization, their "linking pin" role being to simultaneously representing the interests of the organization and of their subordinates. As organizations have become flatter and more decentralized, the middle management group has taken on more responsibilities, allowing them to influence the organization in a variety of ways. Previous research indicates that the middle management groups' perceptions, behaviors, and interactions can influence both employees and senior leaders. Because justice perceptions are strongly linked to key organizational behaviors and attitudes, understanding how middle managers' perceptions are influenced can give organizations insights into how to keep this valuable group committed to the organization's strategies and initiatives. This research utilizes two studies to examine how managers' agreement with decision outcomes and how employee perceptions of procedural justice impact the managers' perceptions of distributive, procedural, and overall justice in situations where upper management decisions only indirectly impact the manager. Results indicate that decision agreement and employee justice perceptions influence managers' justice perceptions.

Executive Takeaways

- Middle managers play a key linking pin role in the overall success of the organization.
- Individual's overall justice perceptions can impact attitudes, behaviors, and performance.
- Middle managers are main decision implementers even if not directly affected by outcome.
- How a manager and his/her employees perceive a decision influences justice perceptions.
- Even if not impacted by a decision, managers can be influenced by employees' perceptions.

Lee Macenczak, Part-Time Assistant Professor of Management
Stacy Campbell, Associate Professor of Management & Entrepreneurship
Amy Henley, Associate Professor of Management & Entrepreneurship

Primary and Secondary Agency Conflicts in Family Firms: An Empirical Investigation

Saptarshi Purkayastha and Rajaram Veliyath

Coles Working Paper Series,
SPRING16-03, March 2016

Overview

Dominant family ownership is expected to reduce the extent of Primary (Principal-Agent) Agency problems because of added monitoring efficiencies, while increasing Secondary (Principal-Principal) Agency problems because of the voting power and influence arising from concentrated family ownership. Separately, the extent of family's management control of the firm could increase Primary Agency conflicts when family agents manage for the family's benefit while ignoring the interests of other owners (principals). However, in this situation, Secondary Agency conflicts arising from the family's ownership would not arise since the family has no dominant ownership position. The four governance contexts where these two types of Agency problems would vary were examined during the ten-year period from 2003 to 2012 in a sample of 1004 public Indian family businesses. Tentative support was found for the propositions that dominant family ownership reduced Primary Agency conflicts while concurrently increasing Secondary Agency conflicts. Likewise, dominant management control by family members could increase Primary Agency conflicts while not materially impacting Secondary Agency conflicts. Some of the counter-intuitive results may be because the paper isolated and examined only the family's influence in the four identified governance contexts, without controlling for the potentially confounding influences of other dominant ownership blocks types.

Executive Takeaways

- Managerial decisions that do not maximize shareholder wealth lead to lower stock returns.
- Major stockholders' actions unfavorable to minor shareholders can lower stock returns.
- Existence of these two types of agency conflicts in family business firms is identified.
- A diminished stock price could make the firm a takeover target.

Rajaram Veliyath, Professor, Associate Dean of Research & Graduate Programs

Special thanks to the following faculty and committees for their significant contributions to the Coles Research Magazine.

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