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<sup>1</sup> Dr. Martin will be Editor of Volume 6-1 (1998). Please direct communication to him with regard to that issue.

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5. An American Psychological Association format is used for the references.

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NATIONAL INVESTMENT FUNDS AS TOOLS OF PRIVATIZATION AND RESTRUCTURING OF  
POLISH STATE ENTERPRISES

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ABSTRACT

*The paper presents the experiences of implementation of the Polish phase III privatization process, the creation and the current issues involving the fifteen National Investment Funds (NFIs). The distribution of the Universal Share Certificates has been progressing rather smoothly, while the operations of the funds, and especially decisions involving foreign members of their managing boards create many frictions in the overall political climate surrounding the NFIs as well as the whole mass privatization program. The challenge rests in the proper addressing of the agency issue, likely to become a central dilemma for the success of the privatization process.*

INTRODUCTION

Announcement of the Ministry of Privatization of the Republic of Poland (MOP, officially known as the Ministry of Ownership Transformations):

"During the first half of the 1996, the privatization process of 208 state enterprises was initiated. Since July of the 1990 till present, that is since the Privatization Act became a law, 3673 firms have been included in the privatization process. The direct privatization process affected 1223 firms or 33 percent of all transformed enterprises. The 1049 companies became commercialized through the formation of joint stock corporations with the State Treasury as a single shareholder (JSSPs). From this group 168 firms were privatized by a direct sale of 50 percent of their shares. Due to the poor financial condition, 1401 companies (or 38.1 percent of all privatized estate enterprises) underwent bankruptcy proceedings. The final liquidation affected 478 firms. Since July 1990 some 1123 state enterprises were put into state of

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bankruptcy and from this number 943 companies attempted to reorganize and improve their financial status. The banks negotiated restructuring deals with 170 companies willing to return to economic solvency, 105 firms exchanged their bank debts into shares and the last 99 enterprises promised to subject themselves to the commercialization process in the nearest future." (Dziennik Polski, Nr. 174 (15 840), July 26, 1996, "Lagging Privatization.")

The previous statement presents the current state of the entire Polish privatization concept attempting to convert the inefficient, state controlled and centralized economy into the modern, market oriented system.

This paper addresses the IIIrd, most difficult stage of this process, that is the mass privatization of state owned enterprises (SOEs) through the design and activation of the National Investment Funds (NFI). The former stages of the Polish privatization program were discussed in the previously presented papers (Borowiecki & Zderkowski, 1994, and Borowiecki & Zderkowski 1995). Appendix III presents the model of privatization in Poland.

The objective of this study was to collect, assemble and organize the available sources of knowledge concerning the NFIs, to present their salient points and to show the potential for malfunctioning of this privatization scheme. Moreover, the study attempts to analyze some critical aspects of mass privatization through the use of NFIs, and to separate objective developments from emotional speculations and populist conjunctures. This objective was accomplished by the 3 month long research study in Poland where the information sources are available in frequently scattered and incompatible form. Additional information was obtained through field interviews with the privatization decision makers, polling the employees of privatized companies and personal observations of the authors. Also, the process of research yielded one of the most extensive, complete and up-to-date literature on NFIs, otherwise not available in its entirety.

#### THE NATIONAL INVESTMENT FUNDS PROGRAM: THE FUNDAMENTALS

##### 1/ LEGAL FOUNDATIONS

The concept of the program of using National investment funds for privatization of Polish state enterprises evolved in 1989 through 1990 as an original Polish scheme for a capital privatization of small and mid-size state firms. During that period, the basic foundations of the scheme as well as its legal base were gradually and systematically formulated. The first phase of the process was completed by passing the fundamental bill passed into law on April 30, 1993 (Law Dated April 30, 1993 on National Investment Funds and Their Privatization, Journal of laws of the Republic of Poland 1993, No. 202, dated May 31, 1993).

Passing of this law, from its very inception, posed a tremendous difficulty, not only from the legislative perspective but also from the very heated political debate concerning the issues of social justice and historical

legacies involving state and private ownerships and constitutional rights was then, and remains even now, the only comprehensive project of the, so called "mass privatization" that managed to pass the phase of political slogans and bickering and enter the legislative tract.

It seems that from the logistic as well as *sensu stricto* legal viewpoint, the NFI program has no precedence in the history of privatization attempts. The study of various privatization schemes (coupon, voucher, and similar) carried out in a few states in the Central and East European region, indicates that these schemes are theoretically and practically restructurization and a final improvement and change of the economic standing of participating entities (CzechInvest Information Series 1993, Dybva & Svejnar 1991, Hillion & Young 1995, King 1999, United Nations 1993, Svejnar & Singer 1994). Additionally, the success in implementation of the program depends heavily on a smooth cooperation of multiple state agencies such as the Council Ministry of Ownership Transformation, the National Depository of Securities (NDS), Securities Commission, Warsaw Stock Exchange (WSE), the PKO State Savings Bank) as a distributor of the Universal Share Certificates (PSUS, see Appendix II), and several securities dealerships and brokerships participating in the sale and dematerialization of those certificates and Funds' shares. The program is based on the concept of privatization *via* capital markets where PSUs are gradually converted into shares of the selected \National Funds.

The most significant feature of the NFI's program is the fact that is the only approach towards state asset privatization with a legislative foundation (Baginska, 1995). The Law of the 1993 mandates and makes the executive branch of the government responsible for a prompt implementation of the privatization program and for developing of necessary specific regulations, safeguards and normative rules. Additionally, the program, as a truly mass procedure, includes the total adult population of the state, and, at the same time, a significant portion of over 500 enterprises constituting approximately 10 percent of the whole public productive sector of Poland. The importance of this feature of the program received a well represented attention of the observers (e.g. Humphreys 1995, a Frydman & Rapaczynski 1994, Michales 1995, Moore 1995).

## 2/ AN OVERVIEW

On December 15, 1994, Wieslaw Kaczmarek, The Minister of Ownership Transformation, signed the charter documents creating the fifteen National Investment Funds. The Funds took the form of closed-end funds registered as joint stock companies. Their purpose will be to increase the value of their assets--namely the shares of the Polish companies participating (30+ firms within each fund) in the Privatization Program. Each NFI is expected to remain in existence for at least 10 years, partly to ensure its management's commitment over the long term (Polish Home Page, 1996). After December 31, 2003, the general assembly of the shareholders will determine the future status of the fund.

The principal objective of the Funds is to work for an increased benefit



of the shareholders via increased capital support and improved effectiveness of funds' basic activities and excellence of the management. The newly created entities received names (First, Second . . . Fifteenth) and legal status upon due registration in the Commercial Register. All funds were properly registered on March 31, 1995. The primary owner of all shares of NFIs at the time of their creation was the State Treasury, represented by the Minister of Ownership Transformation. Privatization of the Funds will take place when the owners of Universal share Certificates (all adult residing citizens of Poland) exchange them for the shares of the funds (see A. Kostrz-Kostecka 1995, p. 31).

Initial financing of the NFI came from the World Bank (3166-POL and 3342-POL) totalling \$28 million allocated for the preparation of the program's plans and program implementation (restructurization and privatization of firms). Moreover, over \$95 million, in the form of a commercial credit, was granted to the NFIs for compensation of the management boards and other consultants. This credit, charged with 7.1% interest per annum, is to be paid back within the next five years. Additionally, EBOR (European Bank for Reconstruction and Development) provided a \$48 million loan for NFIs' financing needs in the start-up period. All credits are guaranteed by the State Treasury. The Funds may acquire additional resources by entering the domestic and international credit markets. The principal activity of the NFIs consists of purchasing of the securities emitted by the State Treasury, as well as acquiring securities, shares or other assets of the firms operating in Poland.

The 1993 Law imposes a substantial number of limitations on the type and extent of activities involving the NFIs (See A. Kostrz-Kostecka 1995, pp. 34-37). Most of them, however, apply only to the first three years of the funds' existence. Above all, the funds are limited in their unrestricted capacity to sell the shares of firms they manage, and especially those for whom the Fund assumes a leading position. The above regulations raised some serious questions regarding the appropriateness of funds' managerial strategies in respect to the "weaker" companies in their portfolio, as well as some funds' potential propensity to sell the "stars" for a short-term financial gains. Those potential abuses of the managerial power suggest the prohibition of a majority-control position above the 33 percent allowed by the 1993 Law, ban on selling firms in which funds hold less than 20 percent of stock, and requirement that the fund must find a strategic investor or enter the company into the Warsaw Stock Exchange while selling the firm in which it holds a leading position. The Law contends that any change or abolition of the principal limitations requires a change in the charter of the fund which can be instituted only by a unanimous decision of the general meeting when the fund is still in the 3-year period since its inception. Starting with the fourth year, any changes in the charter may be made by the three quarter majority of the general meeting's votes.

Each NFI, as a joint-stock company ruled by a Commercial Register, is governed by: the General Meeting of shareholders, the fund's Supervisory Board and the Managerial Board. The Supervisory Board is approved by the Selection Committee proposed and approved by the Prime Minister. Its 12-member body consists of suitably qualified individuals selected by the Parliament (both

Senate and the House--Sejm), national labor unions and the national inter-union organizations (Solidarity union). The Selection Committee is charged with a responsibility to approve the choice of the Supervisory and Managerial Boards. Its tenure will end when the State Treasury ceases to be the single shareholder of the privatized companies, that is when the conversion of the Universal Share Certificates into the fund shares starts (A. Kostrz-Kostecka, 1995, p. 39).

The general intention of the NFI's program is that, at the very beginning of funds operations, the State Treasury makes all critical decisions concerning the key aspects of creation and functioning of the NFIs. However, even when the Treasury holds a 100 percent of the fund's ownership, its role in the day-to-day operational activities of the fund is to be limited. Gradually, while the Treasury releases its dominant ownership position, its role is being reduced to the passive shareholder state and cede most of its powers into the hands of the Supervisory Boards. Consequently, the candidates for the membership of the Supervisory Boards should meet rather stringent personal and professional qualifications. The Law requires that at least two-thirds of a supervisory board of a fund including its chairman should be Polish citizens (Domanski & Fiszer, 1993, p. 132).

The selection process initiated in September and finalized in December of 1993 included a review of nearly 7,000 potential candidates out of which the Selection Committee chose 257 candidates for the positions of members and 35 candidates for a chairperson function. Ultimately, the Minister of Ownership Transformations Wieslaw Kaczmarek, with a consent of the Prime Minister made a final selection of individuals for both membership and chairmanship positions of all fifteen Funds (See the Listings in Appendix I) and their remuneration.

### 3/ ASSETS, STRUCTURE AND INVESTORS

The initial source of Funds' assets is the monetary contribution (approximately \$40 thousand per fund) as required by the Commercial Register as a precondition for registration. However, the principal portion of the funds' assets comes from the non-monetary contributions by the State Treasury (aport), that is the shares of the companies where the State Treasury is the single shareholder (JSSPs). They represent the shares of the converted (privatized) state enterprises as well as those Polish firms that have already functioned as the JSSPs. These enterprises come from a broad range of industrial sectors, including metallurgy, machining and precision engineering, chemical engineering, electrical and electronic products, pulp and paper, foodstuffs, construction and transportation equipment and others.

In accordance with the provision of the 1993 Law, the State Treasury contributes 60 percent of the shares (33 percent to be held by the "leading" fund and 27 percent divided in equal proportions among the remaining funds). A 15 percent of the shares will be distributed, free of charge to the employees of the involved firms, and the last 25 percent will be held by the State Treasury as a reserve. In some instances a further 15 percent (to be taken out of State Treasury's reserve) will be distributed free of charge to the entitled farmers

and fishermen. The distribution of the 33 percent of the shares designed for the leading funds will be decided according to an agreed upon procedure established to ensure fairness and equality of choice. The Law incorporated the requirements suggested by the Antimonopoly Agency to preclude the possibility of an excessive concentration of firms from the same industry in one fund's portfolio.

Once the shares of the enterprises entering the NFIs have been contributed by the State Treasury, it is expected that the companies will undergo a substantial restructuring and modification. The principal goal of this process will be to strengthen the internal financial and organizational, as well as market position, and make them as competitive as possible in order to enhance their market value and thence the one of the NIFs. Shares of the firms inside the NIF's portfolio may be sold directly to the selected strategic investors and some of them may be sold in their entirety to Polish or international companies or domestic and/or international investors. The possibility of creating joint ventures is also permitted by the 1993 Law. Eventually, it is expected that most of the enterprises will join the Warsaw Stock Exchange (Polish Home Page, 1995).

The MPP has been designed to ensure that all Polish citizens profit from the benefits of the privatization concept by applying for the Universal Share Certificates. "All citizens of Poland who are registered as permanent residents in Poland and who by December 31 of the year preceding the year of issuance of share certificates shall be at least 18 years old, shall be entitled to receive an equal number of share certificates, hereinafter referred to as "Universal Share Certificates," which may be exchanged for shares of funds other than referred to in Art. 8 above" (The Law of 1993, Art. 31, in Domanski and Fiszer, 1993, pp. 139-143). The shares will be a bearer security within a meaning of Art. 2 Sec. 1 of the 1993 Law and will be issued by the State Treasury, also in multiple form. The share certificates will be issued after producing a proper identification (Polish state ID card), and after redeeming of the fee that, according to the law should not exceed 10 percent of the average monthly wage in the national economy, announced by the President of the Central Statistical Office for the last month covered by the available statistics. At the time of writing of this paper, the fee was established at PLN 20, which roughly equals \$7.4. "The universal share certificates through entities such as securities, dealerships, and brokerage houses, for an equal number of shares in every fund existing at the time of issuance of the share certificate and designated by the appropriate minister (the Minister of Ownership Transformations) for the realization of such exchange takes place only after shares in all such funds have been admitted to public trading on the basis of Art. 49 of the Law referred to in Art. 27 above" (the Law of 1993, in Domanski and Fiszer, 1993, p. 144). The actual conversion has been taking place by the process of "dematerialization"--destroying the actual certificates and simultaneous creation of electronic entries in the ledgers of securities' brokers and dealers.

### RESEARCH FINDINGS AND CONCLUSIONS

1/ The process of privatization has been well in progress at the writing of this paper. The 1993 Law, ratified and implemented by the Polish Parliament, activated the Funds and approved of their Boards and Management teams. The unavoidable delays in the calendar of implementation are related to the complicated political climate in Poland and the pre-election anxiety.

2/ Over twelve million Polish citizens (about 50 percent of the total), eligible to receive the share certificates, continue this largest ownership buy-out in the history of Poland. The market value of the universal share certificates keeps increasing, recently reaching nearly 5 times the acquisition fee's level (PLN 20.00 or \$7.4). At the end of September 1996 first tranche of certificates has been converted into the funds' shares and traded at the Warsaw Stock Exchange. Despite all security provisions (redemption stamps in the citizens' state I.D. cards) there is a significant number of multiple purchase attempts and counterfeiting (mostly from the Far Eastern countries). The certificate sample is included in Appendix II.

3/ Fifteen principal National Investment Funds (listing in Appendix I have been fully organized, staffed, and registered in the Commercial Register. Their design and operations are generally in line with the 1993 Law and all amendments to it. All 15 Funds have already had their general meetings, selected and approved of their supervisory and managerial boards. In two cases, however, the supervisory boards removed and exchanged several foreign (and also domestic) members of their managerial staffs (Fund 9, 11 and 13) accused of alleged mismanagement. This and some other operational frictions indicated a potential agency problem (see comments in the section 4 of this summary).

4/ It is clear then that the designers of the NFI privatization program, as well as investors themselves, cannot ignore the fundamental agency issue--the effect of separation of ownership and control in the modern corporation, which gives rise to a conflict of interest between shareholders and managers, plus the general public and special interest groups. Several studies cited in the paper (especially Makhija and Spiro, 1996) strongly support this argument. According to the classic study by Berle and Means (1932), the ownership of stock in many enterprises is evidently so dispersed that scattered individual shareholders have no incentives to monitor and control their assets' management, leaving this to managers who are more inclined to pursue their own benefits at the expense of shareholders' benefit maximization. Newly privatized firms in the Central and Eastern Europe are particularly vulnerable to this possibility largely due to their post-communist legacy. In the past, under a system of state ownership, the separation of residual claims against the income stream generated by the assets and the control of assets created few serious agency problems. Residual claims were vested among the citizens at large, with individual stakes too small to provide a sufficient economic incentives to monitor and execute their rights. As Frydman & Rapaczynski (1994) observed, managers "learned to consider shrinking an illicit

appropriation of state property as their God (Party) given right." Sachs (1992, p. 43) observes that in the free-market transition, "the collapse of the old system has been followed by a mix of aimless, political rent-seeking, asset-stripping, and corruption" (p. 43). Unlike the Czech Republic's tight environmental and transitional path, Poland inherited a particularly difficult scenario in which the former communist managers inherited a free rein in the transformation of the past centrally coordinated system. Several decades of both over and under-investment, preeminence of obsolete technological base and a general neglect and abuse of firms' assets, left the country with a formidable number of large, inefficient and overly diversified conglomerates. It contrasts greatly with the value of growth options for many existing enterprises. Agency considerations are going to be very likely determinants of share demand (share price) of the privatized state assets. Thus, the resolution of the agency problems becomes a central issue in evaluating the probability of a successful expansion of the privatization process. The populace, increasingly economically challenged, and progressively wary and suspicious of the NFI management, will continue to demand an "open-book" policy that would assure the delivery of its benefits as written in the Law.

5/ A heated discussion surrounding the concept and timing of the NFI's creation comes largely from the fact that the true promoter of the Program is the State itself and that many Fund managers are either members of or have an "old guard" (new "nomenclature") roots. This causes an excessive politicization of the implementations' atmosphere and inflicts significant delays in the calendar of completion of the Program. Various political factions call for creation of a national association of citizens to supervise the whole program. This grass-root evaluating body would have a critical impact on the progression of the privatization scheme. Similarly, the hiring of an the power vested in strategic investors' portfolios (93 non-Polish strategic investors were listed as of mid-September, 1996) stirs a nationalistic opposition clearly evident in the Polish media.

6/ Controversy also surrounds the issue of seemingly "excessive" compensation of the management boards (on the average \$3 million per year + 1% of the Funds's shares per year +5% of the shares of that fund at the end of the 10-year contract). Critics claim that an over 15% share packet (if retained by the managerial boards) would give them a significant influence and control over the Fund's assets and, hence, operational decisions. Since the compensation of the supervisory boards' members is much lower than the one of the managerial board members, there is, maintain the observers, a clear potential for making the "controllers" dependent on and influenced by the "controlled ones."

7/ Another issue related to the strategies of the Funds is their propensity to sell well functioning firms to increase the Fund's share value and to eliminate poor (weak) performers that lower Fund's economic performance. This selective short/long term dilemma is being perceived as an important social deficiency threatening the fundamental interests of shareholders and endangering the general social guarantees and promises (Mojkowski 1996,

Puchala 1996). Also, the negativists of the Program suggest that the above tendency may steer the Funds' organization toward the holding arrangement for privatization (see Borowiecki & Zderkowski, 1995) favored by the current (leftist) governing political coalition. The above problems are undoubtedly examples of the emerging controversy over the issue of the corporate social responsibility, clearly present in the well established market-price economies in the West.

8/ Banks as financing bodies in the NFI privatization scheme may also become targets for possible conflict of interest allegations. It is especially true in the case of several Western (mainly German and American) banking institutions aggressively pursuing the Fund's business.

Clearly then, the future of the economic transformation of the state system as well as the fate of the leftist coalition government in Poland will hinge on the successful privatization by the use of the NFI. The above remarks conclude the intended scope of the research project. The immense scope of the research problem, type of information available and very dynamic and often dramatic nature of the Polish transition into capitalism. Time and space limitations have also contributed to often sketchy attention paid to some issues (e.g., agency issue). Much needs to be done in following up the recent developments in Polish privatization schemes. It is an on-going economic and socio-political process, far from being completed and fully comprehended. Research needs to be conducted, for example, in the area of barriers to implementation of all Polish privatization and re-privatization efforts and way of their elimination. Also, an assessment of restructurization efforts needs to be performed. The authors have already undertaken steps toward designing such a study in the nearest future.

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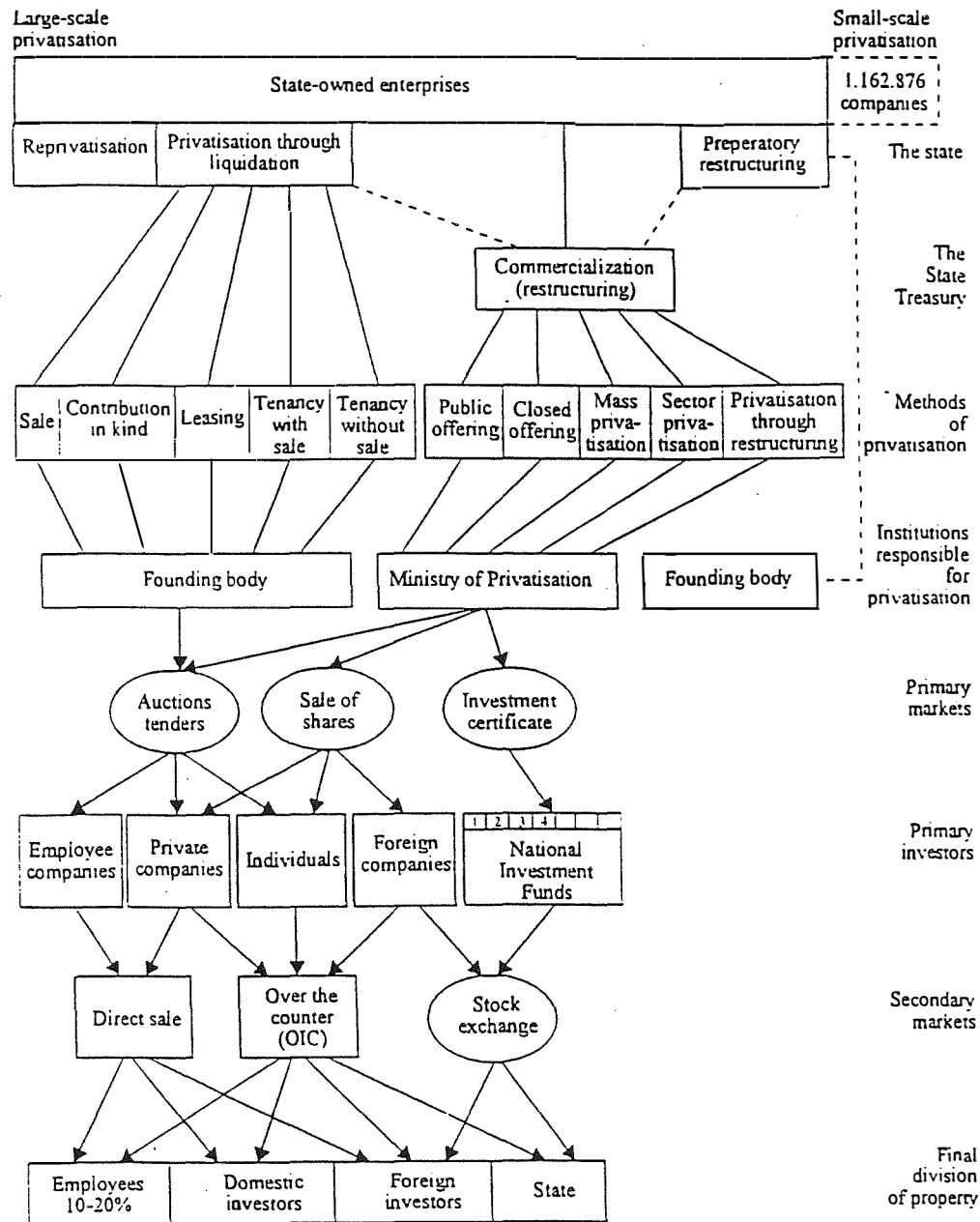
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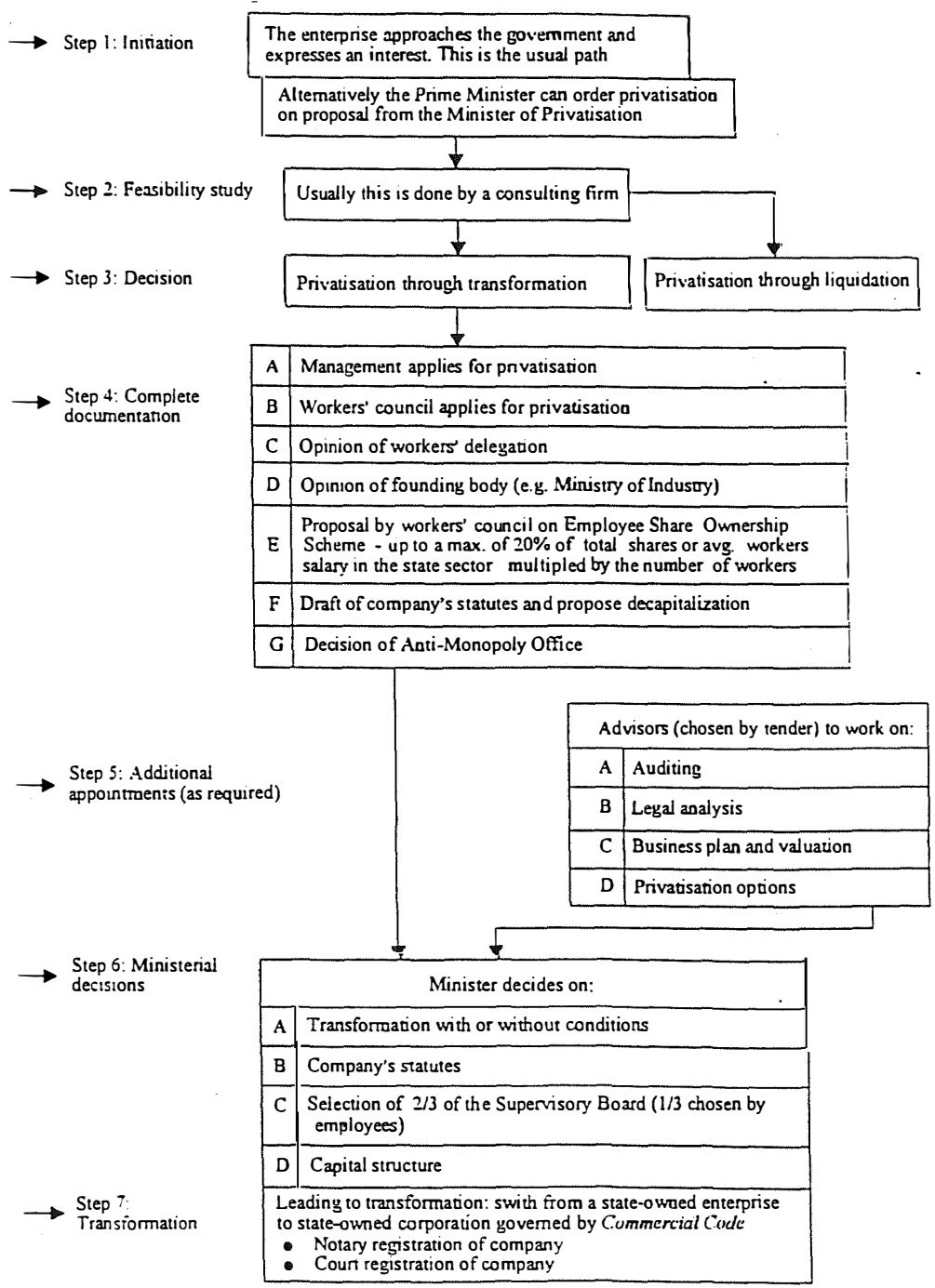


Figure 1 - The Model of Privatisation in Poland



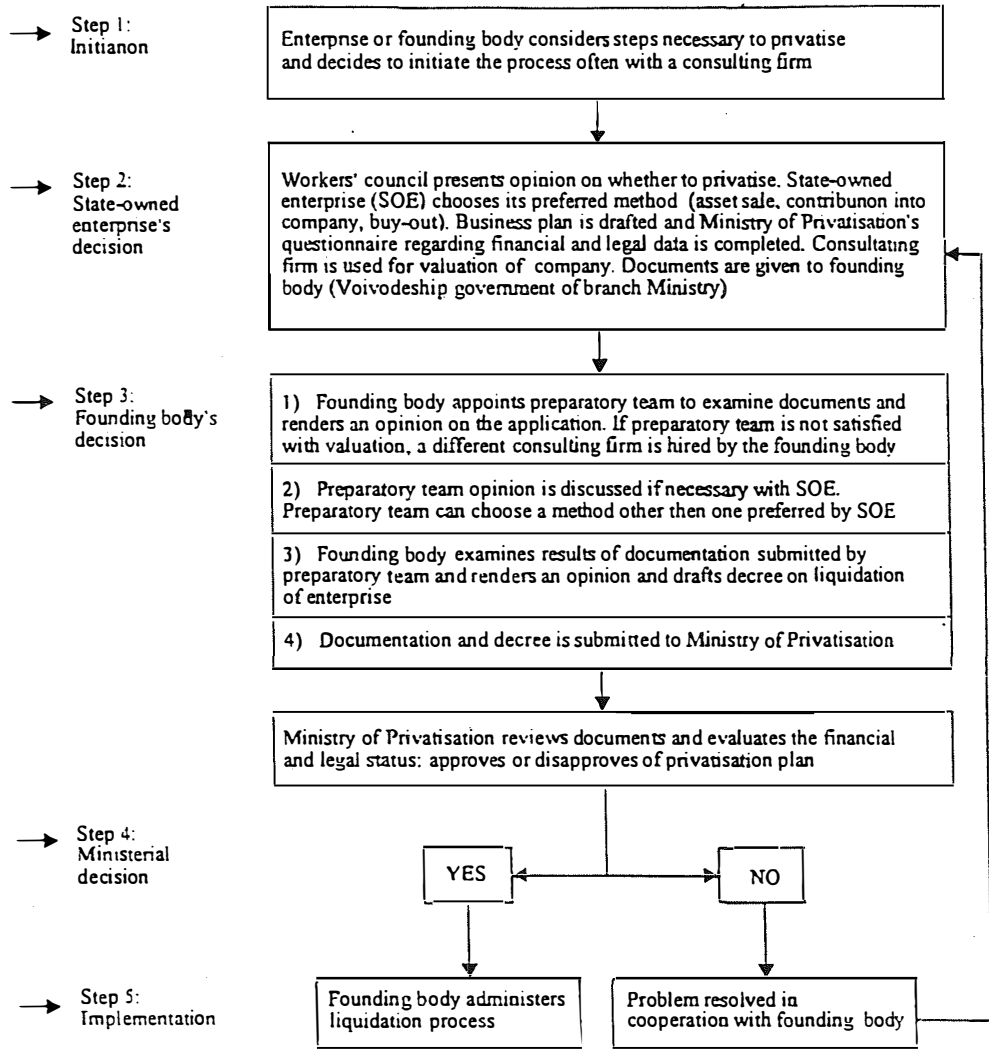
Source: Jermakowicz (1992).

Figure 2 - Privatisation through Transformation



Source: See figure 1.

Figure 3 - Privatisation through Liquidation



Source: See figure 1.

## APPENDIX I.

## NATIONAL INVESTMENT FUNDS (NFIs)

FIRST NATIONAL INVESTMENT FUND

Management Company: BRE/GiroCredit Management, Sp.z o.o.

Chairman of the Board: Jan Jezak

Address: ul. Biala 3, 00-895 Warszawa, tel. 620 61 98 Fax: 620 41 84

Principal Shareholders: Bank Rozwoju Exportu SA (51%), GiroCredit Mergers 7 Acquisitions Inc. (49%).

SECOND NATIONAL INVESTMENT FUND

Management Company: Hevelius Management Sp. z o.o.

Chairman of the Board: Michal Trocki

Address: ul. Senatorska 14, 00-075 Warszawa

tel. 26 17 31, Fax: 27 27 74

Principal Shareholders: International UNP Holding Ltd. (65%), Bank Gdanski SA (25%), Murray Johnstone (Poland) Limited (10%).

THIRD NATIONAL INVESTMENT FUND

Management Company: TRINITY Management Sp. z o.o.

Chairman of the Board: Jan Kuzma

Address: ul. Stawki 2, 00-193 Warszawa

tel: 635 16 19, Fax: 635 0 82

Principal Shareholders: Bank Pekao SA (33 1/3%), Barclays de Zoete Wedd Limited (33 1/3%), Company Assistance Limited (33 1/3%).

FOURTH NATIONAL INVESTMENT FUND

Management Company: Konsorcjum Raiffeisen Atkins - Zarzadzanie Funduszami

Chairman of the Board: Andrez Rytzel

Address ul. Chmielna 132/134, 00-805 Warszawa

tel: 656 25 49, Fax: 656 25 20

Principal Shareholders: Raiffeisen Investment AG (26%), Raiffeisen-Centrobank (25%), WS Atkins Limited Sp. z o.o. (25%), WIL Consulting House Sp. z o.o. (9.5%), Idea Sp. z o.o. (9.5%), Adin Sp. z o.o. (5%).

NATIONAL INVESTMENT FUND "VICTORIA" (Formerly: Fifth National Investment Fund)

Management Company: Polski Towarzystwo Prywatny - Kleiwort Benson Sp. z o.o.

Chairman of the Board: Jan Rymczy

Address: ul. Długa 5, 00-263 Warszawa

tel. 635 63 44, Fax: 635 62 14

Principal Shareholders:

Kleinwort Benson Overseas B.V. (51%), Polska Grupa Zarzadzania Funduszami Sp. z o.o. (49%).

SIXTH NATIONAL INVESTMENT FUND

Management Company: Chase Gemina Polska Sp. z o.o.

Chairman of the Board: Krzysztof Bialowolski

Address: ul. Jasna 12, 00-013 Warszawa.

Tel: 27 06 07 Fax: 27 30 63.

Principal Shareholders: Chase Gemina Italia srl (51%), Wielkopolski Bank Kredytowy S.A. (29%), NICOm Consulting Ltd. (20%).

NARODOWY FUNDUSZ INWESTYCYJNY im. KAZIMIERZA WIELKIEGO - former name: Siodmy

Narodowy Fundusz Inwestycyjny.

Management Company: LG Fund management Co. AG

Chairman of the Board: Vacat

Address: ul. Mokotowska 40 A2/25, 00-543 Warszawa.

Tel: 26 52 19, Fax: 26 52 00.

Principal Shareholders: GICC Capital Corporation (33 & 1/3%), Lazard Freres et Cie (33 & 1/3%), Bank Gospodarstwa Krajowego (33 & 1/3%).

EIGHTH NATIONAL INVESTMENT FUND

Management Company: KP Konsorcjum Sp. z o.o.

Chairman of the board: Jerzy Malyska

Address: ul. Krakowski Przedmiescie 4/6, 00-333 Warszawa

tel: 26 28 78, fax: 26 03 12.

Principal Shareholders: KP International Ltd. (60%, Bank Hardlowy SA (20%), Painnewebber Inc. (20%).

NATIONAL INVESTMENT FUND im. EUGENIUSZA KWIATKOWSKIEGO - former name: Ninth

National Investment Fund.

Management Company: none at this time

Chairman of the Board: Jerzy Loch

Address: Al. Jerozolimskie 87, Warszawa.

Tel: 621 22 44, Fax: 621 72 82.

Principal Shareholders: none at this time.

TENTH NATIONAL INVESTMENT FUND

Management Company: Fidea Management Sp. z o.o.

Chairman of the Board: Henry Antoni Skarwinski

Address: ul. Foksal 1., 00-366 Warszawa.

Tel:/Fax: 26 80 53

Principal Shareholders: Banque ARJil (60%), Agencja Rozwoju Przemyslu SA (18%), Warszawska Grupa Konsultingowa Sp. z o.o. (18%), Bank Inicjatyw Spoeczno-Ekonicznych SA (4%).

ELEVENTH NATIONAL INVESTMENT FUND

Management Company: KN Wasserstein Sp. z o.o.  
Chairman of the Board: Jerzy Kedzierski  
Address: ul. Chlodna 64, 00-872 Warszawa.  
Tel: 661 63 25, Fax: 661 63 30

TWELFTH NATIONAL INVESTMENT FUND

Management Company: Palls Stern - PBX Eurofund Management Polska Sp. z o.o.  
Chairman of the Board: Piotr Swiderski  
Address: Al. Jerozolimskie 11/19 00-508 Warszawa  
Tel: 628 74 52, Fax: 625 21 25

Principal Shareholders: Bank Pallas Stern (80%) and Polski Bank Inwestycyjny SA (20%).

THIRTEENTH NATIONAL INVESTMENT FUND

Management Company: Yamichi Regent ABC Polska  
Chairman of the Board: Marek Bryx  
Address: ul. Grunwaldzka 102, 80-244 Gdansk  
Tel/Fax: 41 43 65

Principal Shareholders: Yamaichi International (Europe) Limited (54%), Regent Pacific Group Limited (36%), ABC Consulting Sp. z o.o. (10%).

FOURTEENTH NATIONAL INVESTMENT FUND

Management Company: International Westfund Holdings Limited  
Chairman of the Board: Leszek M. Kociecki  
Address: ul. Parkingowa 1, 00-517 Warszawa  
Tel: 623 63 48

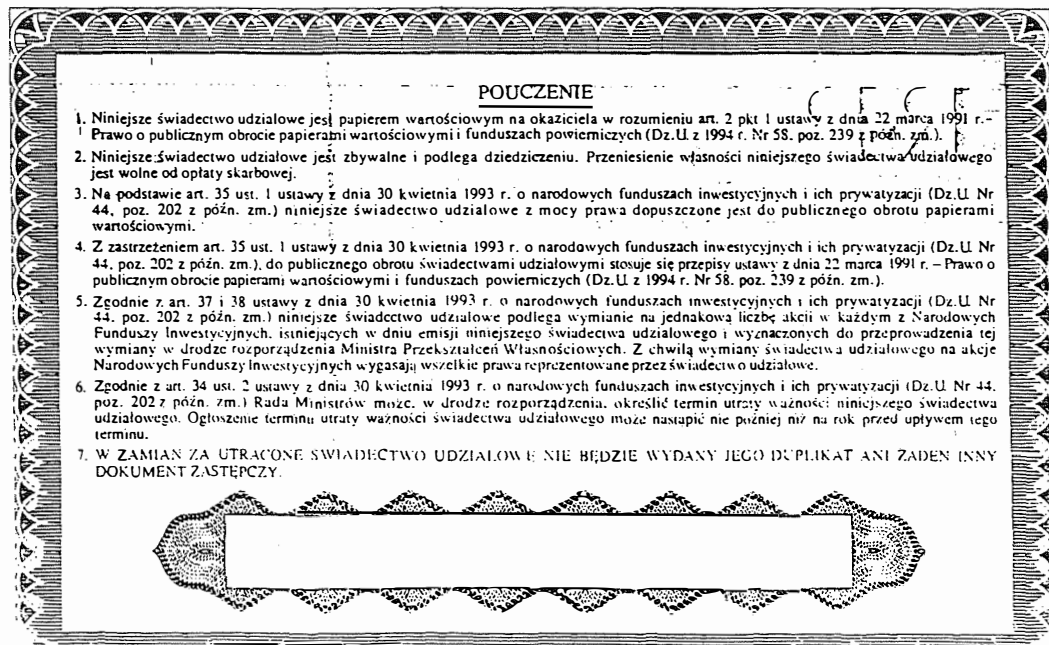
Principal Shareholders: Bank Zachodni SA (33 & 2/3%), Central Europe Trust Co. Ltd. (33%), Charterhouse Development Capital Ltd. (22 & 2/9%), Credit Commercial de France (11 & 1/9%).

FIFTEENTH NATIONAL INVESTMENT FUND

Management Company: Creditanstalt - SCG Investment Fund Management S.A.  
Chairman of the Board: Zbigniew Piotrowski  
Address: Al. Jerozolimskie 56C, 00-803 Warszawa  
Tel: 630 60 90, Fax: 630 61 18

Principal Shareholders: Creditanstalt Investment Bank AG (40%), Creditanstalt Financial Advisers (10%), SCG St. Gallen Investment Holding AG (50%)

APPENDIX II



ADVERTISING APPEALS IN BELIZE, CENTRAL AMERICA:  
IMPLICATIONS FOR CULTURAL VALUES

Maryanne Brandenburg<sup>1</sup>  
and  
Kurt Dudt<sup>2</sup>  
Indiana University of Pennsylvania

ABSTRACT

*Persuasive message appeals in print media of Belize, Central America, were analyzed for cultural value and social issue clues they contained. The study was expected to provide some understanding of the emerging culture of Belize. Research questions were stated regarding whether persuasive messages of print media are congruent with cultural values and, therefore, reveal cultural orientation and value systems. The persuasive message appeals analyzed were commercial advertisements of tangible consumer products. Belize advertisements were compared to a matching set of USA advertisements to further delineate cultural characteristics. T-tests indicated significant differences between the countries for utilitarian/rational appeals, emotional/affective appeals, Maslow's upper-level needs appeals, language style, and visual attractiveness. Analysis further indicated that Belize is an individualistic, male-oriented culture that primarily employs price economy appeals in its advertising. Episodic and emotional appeals were rarely used, and motivational appeals targeted lower-level physiological needs rather than higher-level needs of prestige, relational satisfaction, and ego-attitude support. The findings support the notion that Belize is in its re-formative stage as a culture because of its recently proclaimed sovereignty.*

INTRODUCTION

Persuasive messages in the form of advertisements are used to obtain the compliance that achieves personal, political, and economic ends valued by a culture (Han & Shavitt, 1994). While consumers across cultures have similar needs, culturally influenced variations are observable in the promotional strategies and products which satisfy those needs (Green, Cunningham, & Cunningham, 1995).

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<sup>1</sup> Dr. Brandenburg, Ohio University, is Associate Professor of Office Systems and Business Education at Indiana University. She teaches Business & Interpersonal Communications, Intercultural Communications, and Managerial Communication courses. Her present research interests include organizational communication in intercultural settings and education for career success.

<sup>2</sup> Dr. Dudt is Chair of the Communications Media Department at Indiana University of Pennsylvania. He teaches both graduate and undergraduate courses in communications and technology. This work was developed from his interest and research in Belize. (See 5-1, 47-52 for an earlier paper.)



The present study is an exploratory study designed to investigate persuasive messages of Belize print media which advertise tangible consumer products. Messages were analyzed for express cultural value systems and social issues of Belize. Cultural values include standards for behavior and attitudes toward youth, women, age, work, education, technology, religion, and relationships. Social issues are those of employment, health, and family relations.

### Belize culture

Belize is a small developing country about the size of Massachusetts and bordered by Mexico, Guatemala, and the Caribbean Sea. The population of Belize is approximately 200,000, or 23 people per square mile. The population is diverse: 40% Creoles, 33% Mestizos (Spanish and Indian mix), 9.5% Mayans, 8% Carinagu (Caribbean and African mix), and the balance African, European, North American, Chinese, Arab, and Mennonite.

For more than 100 years Belize was ruled by Great Britain. It was not until 1981 that Belize became a sovereign nation within the Commonwealth of Nations, and in 1993 Britain withdrew its last troops. Since 1981 Belize has been challenged to establish economic and political stability as a sovereign nation. A portion of her economic stability depends not only on the production of goods and services but also on how effectively advertisers attract consumers to those goods and services. Consumers in Belize include her citizens as well as international sojourners and eco-tourists.

## LITERATURE REVIEW

Persuasive messages for the purpose of advertising a product will feature readership congruency, motivation stimuli, effective language style, and visual attractiveness suitable for the consumer's particular culture (Moriarty & Sayre, 1982).

### Readership congruency

Readership congruency is the fit between the appeal element of a persuasive message and consumer social and self-concepts.

Social concept congruency. A core dimension of social concept congruency is cultural orientation toward collectivism or individualism. Collectivism emphasizes interdependency and roles, harmony, family security, social norms and hierarchies, cooperation, and low levels of competition. Individualism emphasizes independence, personal achievement, freedom, pleasure, competition, and favorable cost-benefit balances (Davidson, Jaccard, Triandis, Morales, & Diaz-guerrero, 1976; Han & Shavitt, 1994). Congruent messages will reinforce the collectivist or individualistic orientation of a culture (Han & Shavitt, 1994; Davidson, et al., 1976; and Glenn, Witmeyer, & Stevenson, 1977).

Self-congruency. A second dimension of readership congruency is self-congruency, which is defined as the psychological process of recognizing source cues which are consistent with the self-concept (Johar & Sirgy, 1991). The greater the consistency, the greater the possibility of message persuasion.

Specific variables studied within the broader concepts of social and self-congruency as they relate to cultural orientation include value expressive and utilitarian appeals, syncretic and analytic cognitions, and episodic and semantic memories. Value expressive is the relationship between self-concept and a stereotype consumers have of the typical product user, while utilitarian appeals focus on basic product information and cost savings (Johar & Sirgy, 1991). Syncretic cognition is persuasion through emotion, a holistic synthetic and affective emphasis; while analytic cognition is sequential, logical, and reason-oriented (Tucker, 1981). Episodic memory is the emotional effect derived from cues in the advertisement which suggest an event or episode and its related emotions. Semantic memory refers to categories one has for things and rules about what things usually go together. Thorson (1984) found that storage of information about episodic events plays a significant role in advertising effects and both episodic and semantic memories are involved in a successful persuasive message leading to product purchase.

Based on extant research, specific types of appeals which support valued social and self-congruencies will be contained within the persuasive messages of a culture. Consequently, advertisements of tangible products sold in Belize are expected to indicate the overall orientation of the culture toward collectivism or individualism. In addition, advertisements of tangible products are expected to contain specific motivational stimuli, effective language, and visual effects which are consistent with cultural value systems.

#### Motivational stimuli

Messages designed to motivate the consumer to action must be related to the consumer's interests, needs, goals, or problems, since the reasons behind any purchase are the benefits or satisfaction the consumer receives (Mueller, 1986). A well-known model for identifying benefits and satisfaction in relationship to needs is Maslow's hierarchy which includes, in order of importance, physiological needs, safety needs, social needs, esteem needs, and self-actualization needs. Maslow's theory of motivation is based on the premise that a) a person will have many needs, b) these needs will vary in importance and can, therefore, be ranked in a hierarchy, c) the person will seek to satisfy the most important need first, d) when a need is satisfied it will cease being a motivator, and e) the person will then turn to the next important need (Maslow, 1954). Application of Maslow's theory has been useful for identifying probable needs of a consumer group (Zacker, 1967; Secrist, 1988). For example, Secrist (1988) named four minimal classifications of motivation to consider when creating persuasive messages, two which relate to Maslow's lower level of needs for food, clothing, shelter, and safety, and two which relate to Maslow's upper-level needs for social appeal and ego-attitude support. Classifications for lower level needs were a) rational appeals with a strict presentation of factual information,

including saving time and money, and b) sensory appeals which promote good taste, good smell, or good feeling. Classifications for upper-level needs were a) the social appeals which promote prestige, love, acceptance, and relational rewards, and b) ego-attitude support appeals which bolster self-image and serve to fulfill the need to define one's own role and recognize one's own worth without undue concern for the approval of others.

#### Language style

Language style refers to the choice of words, word combinations, and level of formality which collectively create an overall tone for a message; for it is not so much what is said as how it is said that generates a certain effect (Zikmund & d'Amico, 1995). Two categories for word choice are action words and reader-oriented expressions. Action words give force to any message (Bovee & Thill, 1995; Guffey, 1995); and reader-oriented expressions focus on benefits, needs, and interests of the reader (Bovee & Thill, 1995; Guffey, 1995; Zikmund & d'Amico, 1995). The use of action words (verbs) and reader-oriented expressions help put the reader in the picture (doing, achieving, benefiting). The reader is thus encouraged to identify with the product as a means to satisfy needs and derive benefits.

#### Visual attractiveness

Advertisements should be created to grab the reader's visual attention (Zikmund & d'Amico, 1995), as visual appeal may be the first element of an advertisement which draws the reader's attention. Visual appeals which grab the reader's attention and set the mood and effect of the message will do so through use of colors, graphs and pictures, font variation, and white space. As is true with other appeal criteria, visual appeals will be consistent with norms and values of the readership.

### RESEARCH QUESTIONS

Based on extant research which provides evidence that advertising appeals a) will be congruent with a readership's social and self-concepts, b) will stimulate reader motivation to satisfy needs through product use, and c) will use culturally acceptable language and visual characteristics, the following research questions may be stated:

Do advertisements and the appeals they contain link product, advertiser, and consumer in a congruent manner?

Can advertisements be analyzed to reveal cultural values and characteristics?

In order to answer these research questions, Belize advertising analyses were conducted and results compared to United States appeals analyses. By using a comparative approach, researchers were better able to delineate cultural perimeters and also evaluate the effectiveness of Belize advertising to Western-oriented sojourners and eco-tourists.

### METHODOLOGY

Content analyses to identify type and intensity of advertising appeals were performed on a sample of 66 tangible product advertisements of the five nationally distributed Belize newspapers and 66 tangible product advertisements of three nationally distributed United States newspapers. The number of advertisements (66) corresponded with the total advertisements in Belize newspapers for a two-week period. The American advertisements were chosen by randomly selecting every fifth advertisement from three newspapers until 66 were identified. Advertised products included hardware, cosmetics, real estate, automobiles and parts, air conditioners, as well as numerous other tangible products (See Appendix A). The intended readerships for all selected newspapers were general. Because of Belize's Western aspirations as well as her intent to appeal to Western sojourners and eco-tourists (Culturgram 95), advertisements were analyzed in comparison to those of the United States.

Belize product advertisements appeared in Reporter, 28(10); Alkebulan, 2(8); Amandala, 1330; Amandala, 1329; The San Pedro Sun, 5(9); and The People's Pulse, 8(8). The United States advertisements appeared in USA Today (3/23/95); The Washington Post, 118(109); and Alexandria Gazette Packet, CCXII(7). All newspapers were published and distributed within a two-week period when the researchers were visiting Belize.

A content analysis was the best way to identify cultural orientation and values because a direct input by a representative sample of the Belize culture would have been difficult to obtain. Each product advertisement was a unit of analysis; and each was then analyzed for inclusion of a) utilitarian/rational appeals, b) emotion/affective appeals, c) motivational appeals, d) language style, and e) visual attractiveness. Utilitarian/rational appeals consisted of cost savings and basic product information such as performance, quality, and size. Emotional/affective appeals consisted of episodic memory cues, role relationships, congruence with accepted norms or standards of behaviors, prominence, and sensation. Motivational appeals applied Maslow's hierarchy of needs at two levels: lower level for physiological and safety and upper level for belonging, esteem, and self-actualization. Visual appeals included font, color, pictures and graphs, and overall attractiveness. Language style included reader-oriented expressions and use of action words.

The content analysis consisted of both a frequency count for type of appeal and an intensity rating for strength of appeal when it was included. A value of 1 for strength of appeal indicated a barely discernible or extremely weak appeal. Such an appeal would almost completely lack persuasion and interest for the consumer. On the other hand, a value of 7 for strength of appeal indicated an extremely strong appeal which shouted at the reader through strong language, visuals, or other elements to quickly elicit action. A sense of urgency to act NOW would have been created. Values of 2 to 6 for strength of appeal represented gradations between these two extremes. Only appeals which could be explicitly identified counted as data.

Personal-use products and shared-use products were tallied and rated separately because each has a different focus and is likely to employ different appeal strategies. Taken as a whole, appeals were interpreted for evidence of a collectivist or individualist orientation of the culture. Separate appeal categories were then interpreted for more specific cultural characteristics.

Frequency counts and intensity ratings for each of the five appeal categories were completed independently by three raters who used the ordinal scale of 1 to 10 or a percentage of occurrences, as appropriate for the analysis category. All the raters were given a half-hour training session. In addition, a pilot session was conducted on several advertisements. The results of the pilot session indicated agreement between the various raters. Raters evaluated the advertisements independently. Inter-rater reliability was based on the percentage of agreement between raters and ranged from .82 to .96 across all categories except "overall attractiveness," "reader orientation," and "font variation." In these categories, raters discussed their differences and were able to reach a consensus regarding the final ratings.

T-tests and relative percentage of occurrences were the procedures used to test the hypothesis that analysis of advertising appeals would provide indicators of cultural orientation and values. The results of these procedures are discussed in the following section.

### FINDINGS

Table 1 presents the means (scale 1 to 10) and standard deviations for four categories of appeal intensity as well as for language style and visual characteristics of Belize product advertisements.

T-tests, used to test for significant differences between Belize personal-use and Belize shared-use products of each appeal category, were not significant ( $P < .05$ ).

Table 2 presents the means (scale 1 to 10) and standard deviations for four categories of appeal intensity (scale 1-10) as well as for language style and visual characteristics of United States product advertisements.

As was true for Belize advertising appeals, t-tests failed to indicate significant differences between United States personal-use and United States shared-use products of any category. Therefore, intensity of appeals for personal-use and for shared-use products were similar within Belize and within the United States.

Means shown in Tables 1 and 2 indicate that the mean strength of appeals, language style, and characteristics of visual attractiveness for Belize advertisements were each less than those of the United States except for lower-level motivation. Belize had a higher mean intensity rating for lower-level motivation appeals. Tables 1 and 2 also suggest that the most outstanding characteristic (although comparatively weak) for both Belize personal-use and

shared-use product advertisements was visual attractiveness. The category of least intensity for Belize advertisements was emotional/affective appeals for both product use categories. Similar to Belize, the most outstanding characteristic of United States personal-use and United States shared-use product advertisements was visual attractiveness. The characteristic of least emphasis was appeal to lower-level motivation needs. When language style and visual characteristics are omitted, the data indicate that Belize has a preference for utilitarian/rational appeals for shared-use products and a preference for utilitarian/rational appeals and lower-level motivation needs appeals for personal-use products. On the other hand, the United States appears to have a preference for utilitarian/rational and upper-level motivational needs appeals for both personal and shared-use product advertisements.

#### T-tests and country comparisons for intensity of appeals

Personal-use products. When comparing intensity of Belize personal-use product appeals with United States personal-use product appeals, significant differences were indicated ( $p \leq .05$ ) for all categories except motivational stimuli, as illustrated in Table 3.

T-values in Table 3 indicate that Belize and the United States differ significantly in personal-use product utilitarian/rational appeals ( $p = .000$ ) and emotional/affective appeals ( $p = .005$ ), as well as for language style ( $p = .017$ ), and visual characteristics of advertising ( $p = .000$ ). Significant differences were not shown between countries for Maslow's lower-level motivation appeals ( $p = .514$ ) or for Maslow's upper-level motivation appeals ( $p = .091$ ).

Shared-use products. When comparing intensity of Belize shared-use product appeals and advertisement characteristics with the United States shared-use product appeals and advertisement characteristics, significant differences were indicated for all categories but one, Maslow's lower-level motivation appeals ( $p = .852$ ). The countries differed significantly in utilitarian/rational appeals ( $p = .000$ ), emotional/affective appeals ( $p = .001$ ), Maslow's upper-level motivational appeals ( $p = .013$ ), language style ( $p = .003$ ), and visual characteristics of the advertisements ( $p = .000$ ).

#### Country comparisons for frequency of appeals

Table 4 presents the percentage of times a specific type of appeal occurred in the set of 66 advertisements analyzed for each country.

As shown in Table 4, both Belize and the United States included a utilitarian/rational appeal in almost every product advertisement. Frequency of emotional/affective appeals, though, occurred 1.84 times more often in the United States personal-use product advertisements and 5 times more often in United States shared-use product advertisements than was true for Belize advertisements. Additionally, lower-level motivation needs appeals for shared-use products occurred 1.4 times more frequently, upper-level motivation appeals for personal-use products occurred 3.6 times more frequently, and upper-level motivation

appeals for shared-use products occurred 3.4 times more frequently in product advertisements of the United States as compared to Belize. Conversely, Belize lower-level motivation appeals for personal-use products occurred 3.4 times more frequently than was true for the United States. Overall, appeals to Belize readership are significantly different from those of the United States even though Belize emulates Western ways and advertises to Western sojourners and ecotourists as one component of the total readership of print media.

Summative results of this analysis support the notion that cultural values and characteristics are identifiable through advertising appeals. The possible cultural interpretations, however, are not entirely clear. Interpretations are discussed in the next section.

### DISCUSSION

The analysis indicated significant differences by country among appeal categories of product advertisements, and most of these differences are consistent with known facts about the Belize and United States cultures. Taken as a whole, the analysis of Belize advertisements showed a tendency toward an individualistic, rather than a collectivist, cultural orientation. Belize advertising focused on utilitarian/rational aspects of basic products and cost information most useful for an individual buyer or decision maker. There was no inclusion of relational benefits from product use. This information is consistent with the Davidson et al. (1976) findings that individualistic cultures weight utilitarian, or rational, factors more heavily than do collectivistic cultures. Belize Culturgram '95 further states that Belize is known for her varied ethnic groups which coexist rather than mix. Cumulatively, these indicators define Belize as an individualistic-oriented culture.

The cues for an individualistic orientation of Belize, however, were not as bold as those of the United States. United States advertisements showed a stronger emphasis on individualism through attention to cost-benefit economics as well as personal independence, pleasure, and personal achievements. These findings are consistent with previous works which demonstrate that persuasive messages will be congruent with and transmit and reflect degrees of individualistic or collectivistic values of a culture (Han & Shavitt, 1994; Davidson et al., 1976; and Glenn et al., 1977).

Social and self-concepts of Belize, which would consist of norms, roles, value systems, and attitudes acceptable and reinforced by the culture, were partially revealed through four findings. First, there was a noticeable absence of pictures or textual reference to youth or women in the advertisements. Less than five percent of the Belize advertisements showed pictures of people and only one portrayed a youth (engaged in a sport). None portrayed or referred to a woman. Judged by this evidence, Belize is male oriented. Male orientation is further evidenced by the findings that a high frequency of shared-use products are hardware, construction supplies, and real estate. Decisions to purchase or use these items may be more likely for males than for females. In contrast, United States shared-use advertisements were primarily for home furnishings and

secondarily for automobiles, products whose purchase decisions and uses would likely be gender mixed. These results support known facts about Belize and about the United States (Culturgram '95). Belize, for example, is known for its machismo, the general habit of men to demonstrate or claim their manliness through macho acts. The United States tends toward gender equality.

A second finding which revealed social and self-concepts of the Belize culture focused on language style and visual characteristics of the advertisements. Belize product advertisements were low on proportion of action words to total words. Reader orientation, which could put the reader in the picture acting, using, and benefiting from the product, was also low. Adding to the paucity of action words and reader orientation was a general blandness in the application of visual appeal. Only one of the 66 advertisements used color, only about half used a picture or graph, and the variety of font was generally limited to two or three sizes or styles. Compared to the United States, the tone of Belize advertisements is subdued and impersonal.

The third finding which revealed social and self-concepts of Belize culture was the noticeable void in Belize advertisements of the portrayal of an "ideal" self, a consumer who promotes standards or serves as a social role model. Additionally, references to age, work, technology, religion, or relationships were missing in Belize advertisements. It may be that Belize lacks a clear identity as a people and as a culture due to her relatively recent independence as a nation.

The fourth finding which revealed social and self-concepts of Belize culture was use of motivation appeals. Explicit motivational appeals for upper-level needs (which related to belonging, esteem, and self-actualization) were nearly absent from Belize advertisements but frequently found in United States advertisements. In the United States, upper-level needs appeals were used about four times more frequently for personal-use items and three times more frequently for shared-use items. On the other hand, lower-level motivational appeals appeared more frequently in Belize than in United States advertisements, Belize appeals are more focused on satisfying basic needs such as food, clothing, shelter, and safety than on esteem and ego-attitude support. These findings are consistent with the developing nation status of Belize.

One assumption of advertising analysis is that advertisers are skilled in creating congruent, persuasive messages for identified audiences. The present advertising analysis, however, indicated a possible deficit in Belize marketing and advertising skills due the heavy emphasis on utilitarian/rational appeals. As Thorson (1984) has shown, appeals to both episodic and semantic memories (affective/relationship and rational) are needed for successful persuasion. People will buy not for the product alone, but for the feelings of satisfaction and benefits they expect to derive (Mueller, 1986). Belize may be missing its mark by not developing appeals which are congruent with both the affective/relational and rational natures of its readership. Additionally, advertising of selective Belize products could appeal more precisely to Western sojourners and eco-tourists by including upper-level motivation appeals,



placement of people in balanced social roles, and increased quality of visual and language style characteristics. Programs of training or education in advertising skills may be helpful to improve marketing and advertising effectiveness of Belize businesses.

An additional concern arises when the sufficient skills assumption is not met. The possibility exists that advertisements are not congruent with reader expectations, experiences, and needs. Therefore, appeals used in persuasive messages may yield incomplete or distorted information about cultural values and norms. In this case, the theory that advertising appeals may be analyzed to reveal cultural values and characteristics should be revised to read:

*To the extent that product advertisement appeals are congruent with the readership, they link product, advertiser, and consumer in a culturally-influenced manner and may be analyzed to reveal cultural values and characteristics.*

The significance of this study is that it supports the notion that an analysis of advertising appeals serves as a viable, yet not complete, means to further our understanding of a culture. Additionally, the study is significant for revealing training or educational opportunities.

#### LIMITATIONS OF THE STUDY

The study was exploratory and includes several limitations which reduce its generalizability. The first limitation is the sample selection. United States advertisements were chosen by convenience from newspapers readily available at news stands in the Washington, DC area. Two newspapers were national (USA Today and the Washington Post) and one was regional (Alexandria Gazette). A second limitation of the study was that none of the raters of the advertisements were from Belize. All the raters were American. A third limitation is that advertising samples were those spanning a two-week period during March and may not have been representative of advertising during other times of the year or spanning longer periods of time.

Future studies should include a randomly selected sample of national newspapers of the United States and Belize, as well as audience input with defined representatives from each of the market components. The present study may have been more definitive in revealing cultural details had Belize consumer and advertiser ratings been included. Comparisons with other countries at a similar stage of economic development might also be helpful, and analysis of a range of media (such as radio, print media, and television) may increase the number of cultural indicators for definitive information on role relations, attitudes toward youth and women, work, education, religion, and technology.

In conclusion, Belize appeals indicated a tendency toward cultural individualism. Appeals were primarily utilitarian or rational, with the strongest emphasis on price economy. Advertising text provided information most suitable for individual decision makers, and lower-level motivation appeals were

used more frequently than upper-level motivation appeals. A male orientation was evidenced. Effective advertising skills may need to be developed so as to support social and personal roles, reinforce desirable standards and values, and better appeal to Western sojourners and eco-tourists who provide the country's fastest growing source of income (Culturgram '95).

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Table 1

Strength of Advertising Appeals (Intensity<sup>1</sup>) Used for  
Personal- and Shared-Use Products of Belize, Central America

Appeals Categories	Personal-Use		Shared-Use	
	Intensity Mean	s.d.	Intensity Mean	s.d.
Utilitarian/rational	1.39	.70	1.32	.83
Emotional /affective	.58	.85	.31	.98
Maslow's lower-level needs	1.32	1.86	.47	1.59
Maslow's upper-level needs	1.11	2.56	.96	2.48
Language style characteristics	1.36	1.29	1.21	1.07
Visual attractiveness of advertisement	2.54	1.38	1.94	1.59

<sup>1</sup>Intensity (strength of advertising appeal) has a possible range of 1, barely discernible to 7, extremely strong.

Table 2

Strength of Advertising Appeals (Intensity<sup>1</sup>) Used for Personal- and Shared-Use Products of the United States

Appeals Categories	Personal-Use		Shared-Use	
	Intensity Mean	s.d.	Intensity Mean	s.d.
Utilitarian/rational	3.50	1.35	3.66	1.35
Emotional /affective	2.24	2.16	1.27	1.67
Maslow's lower-level needs	.84	2.52	.40	1.73
Maslow's upper-level needs	2.95	3.82	2.51	3.39
Language style characteristics	13.17	5.64	2.40	1.30
Visual attractiveness of advertisement	20.95	7.41	4.31	1.97

<sup>1</sup> Intensity (strength of advertising appeal) has a possible range of 1, barely discernible to 7, extremely strong.

Table 3

T Values for Belize versus United States Advertising Appeals

Appeals Categories	Personal-Use Products			Shared-Use Products		
	d.f.	t value	p value	d.f.	t value	p value
Utilitarian/rational	26.9	6.02	.000	76.5	10.15	.000
Emotional/affective	23.5	3.11	.005	74.1	3.39	.001
Maslow's lower-level needs	33.1	-.66	.514	91.3	-.19	.852
Maslow's upper-level needs	31.4	1.75	.091	84.2	2.54	.013
Language style	7.19	3.11	.017	22.3	3.30	.003
Visual attractiveness	33.2	5.10	.000	87.7	6.36	.000

Table 4

Percentage of Times An Appeal Occurred  
in Set of 66 Product Advertisements for Each Country

Appeals Categories	Advertisement Categories by Country			
	Belize Personal-Use Products	Belize Shared-Use Products	United States Personal-Use Products	United States Shared-Use Products
Utilitarian/rational	.95	1.00	1.00	1.00
Emotional/affective	.37	.11	.68	.55
Maslow's lower-level	.37	.09	.11	.13
Maslow's upper-level	.16	.15	.58	.51

## Appendix A

Product Type and Frequency of Occurrence

	Belize	United States
Automobile/Auto Supplies	.10	.16
Beauty/Grooming Supplies	.02	.02
Building Supplies and Tools	.16	.03
Cleaning Supplies	.04	.01
Clothing/Jewelry	.03	.17
Educational/Learning products	.06	.01
Electronics	.03	.10
Food/Beverage	.12	.00
Health and Fitness/Pharmaceutical	.08	.04
Home Furnishings	.00	.20
Real Estate	.21	.12
Recreational (Hobbies/Crafts/Art/Travel)	.03	.10
Variety Store/Miscellaneous Supplies	.12	.01
Yard Equipment/Gardening Supplies	.00	.03



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## HEDGE RATIOS FOR INTEREST RATE FUTURES

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### ABSTRACT

*This paper develops a model for determining dollar equivalence between a T-bond or note and a futures contract. The process is based on the derivative of the present value of the cash instrument and futures contract. The derived function also shows that as the interest rate increases, the hedge ratio approaches the ratio between the interest income of the cash instrument and the cheapest to deliver bond or note.*

### BACKGROUND

On February 17, 1994, 760,885 U.S. Treasury Bond and Note futures contracts were traded on a single day on the Chicago Board of Trade [CBOT]. This is more remarkable when one considers the fact that this futures market began in 1975. The U. S. Treasury bond and note futures markets are very important tools which are used by bankers, governments, insurance companies and all types of money managers for shifting the risk of changing interest rates to third parties. This paper presents a new approach to the calculation for adjusting the hedge to produce dollar equivalence for T-bond and T-note futures. These calculations are necessary in order to produce a hedge ratio which insures that the profit or loss in these cash instruments is offset by a similar change in futures contracts.

Futures markets give the participants the option of requiring delivery of the commodity. Whether or not delivery occurs, the threat of delivery is always present. It is the threat of delivery that causes the futures prices to converge

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to the cash price of the traded commodity. When delivery is made, the product being delivered must meet certain standards. The delivery of a substandard product penalizes the seller and the delivery of a product which exceeds the standards requires that the seller receive a premium.

In the futures market for U. S. Treasuries there is no standard for product quality, since all U. S. Treasury securities are classified as riskless. However, there are standards for interest rates and time to maturity. For example at the current time, the standard or reference bond for T-Bond futures prices is an eight percent bond having a maturity of at least 15 years from the first business day of the delivery month [CBOT].

An investor who wishes to protect himself against interest rate risk will usually own treasuries other than the 8% standard or cheapest to deliver. This raises two questions.

1. What value of the owned securities is equivalent to a \$100,000 contract for the cheapest to deliver bond or note?
2. How many futures contracts are required so that the changes in values of the cash and the futures holdings offset each other when interest rates change?

In a hedging situation, an investor wants dollar equivalence between futures contracts and cash investments. According to Figlewski [2] there are three computations required for equating the cash market to the futures market:

1. Compute changes in present value that are caused by a small change in interest rates for the instrument held against a similar change in the cheapest security permitted to be delivered for the futures contract.
2. Correct for the effect of marking to market.
3. Adjust for basis risk [Figlewski 1986].

This paper shows how differential calculus can be used to perform the calculations in step one. Once the calculations for step one are completed the computations for steps two and three can proceed as described by Figlewski [Figlewski 1986].

The key to dollar equivalency is maintaining the proper hedge ratio, where "The hedge ratio represents the number of units of futures traded per unit of cash securities held" [Figlewski 1986]. According to Figlewski [Figlewski 1986], and Kolb and Chiang [Kolb 1982; CBOT 1990], there are three methods that can be used in calculating the hedge ratio: regression analysis, application of duration, and weighing the hedge. Regression analysis is a somewhat cumbersome

procedure that requires data be collected on futures prices and securities prices in order to calculate how one changes with respect to the other. Unfortunately, futures contracts are of short duration often resulting in insufficient data for regression analysis.

The application of duration to calculate the number of futures contracts required to hedge a T-bond or note portfolio raises some interesting problems. The equations Kolb and Chiang use to calculate the present value of a T-bond use the same variable to represent the string of coupon payments and the face value of the bond. While this makes the equations easy to handle from a computational standpoint, it can also create some confusion when trying to apply the work to a hedging situation. In addition, the formulas used to calculate the present value of a T-bond also require that the user sum the present value of the string of coupon payments. The work presented in this paper does not require summation but permits the user to place known values in an equation consisting of four terms and directly calculate the results. Furthermore, Kolb and Chiang [1982] treat the present value of the hedge T-bond as a constant when determining how the value of the hedge changes with respect to interest rates. In addition, they do not reveal how their research is affected by the fact that futures contract prices are based on the cheapest T-bond or note to deliver.

The third method for calculating the hedge ratio, weighing the hedge, uses a deductive approach to insure that yield changes produce an equal dollar change in the futures and cash positions. This approach makes use of the present value formulas. The present value formulas are used to evaluate the change of value of the cash instrument at the present interest rate and at a slightly different yield. The same process is applied to the cheapest to deliver bond or note which satisfies the delivery conditions of the futures contract. Thus if  $\Delta P$  represents the price change in a security for an interest rate change  $\Delta R$  then

$$\Delta P/\Delta R = \text{price change/unit change in interest rates.}$$

Similarly, if  $\Delta F$  represents the price change in the cheapest to deliver bond or note then

$$\Delta F/\Delta R = \text{price change/unit change in interest rate.}$$

Then the adjustment factor that produces dollar equivalence between the cash instrument and the cheapest reference bond or note to deliver against the futures contract is

$$\frac{\Delta P/\Delta F}{\Delta R/\Delta R} \tag{1}$$

which is called relative yield sensitivity. Now if

$$h = \frac{\Delta P/\Delta F}{\Delta R/\Delta R}$$

$N_c$  = number of cash units held

$S$  = size of futures contract

then

$$\text{hedge ratio} = h N_c / S \quad (2)$$

While the computation process is relatively straightforward, it is somewhat cumbersome. This paper refines this approach through the application of calculus.

There are two important results from the application of calculus. First, it proves that, as interest rates increase, the relative yield sensitivity converges, to a limiting value determined by the ratio of the coupons of the hedged T-bond and cheapest to deliver bond. Second, the formula that is derived involves no summation signs and can easily be programmed on a hand calculator or personal computer. The hedger can then calculate a string of values showing how the relative yield sensitivity changes with respect to interest rates. These computations can then be used to determine the optimum number of futures contracts required for the hedge and whether or not the hedge should be adjusted once the hedge has been established.

#### THE THEORY

The current price of U. S. Treasuries, as well as the price of futures contracts on U. S. Treasuries, can be closely approximated using the present value formulas. In making the computations, there are two present value formulas which are required, the present value of a single payment and present value of a series of uniform payments. Therefore, let  $T_1$  represent the present value of a lump sum (payment due investor upon maturity of security) where

$F$  = face value of security

$r$  = current rate of interest over period which interest is compounded

$n$  = number of periods into the future in which payment will be made

then

$$T_1 = F(1+r)^{-n} \quad (3)$$

Now let  $T_2$  represent the present value of a string of uniform payments into the future where

$C$  = value of each payment

then

$$T_2 = C[(1-(1+r)^{-n})/r] \quad (4)$$

The total present value, T, of the security becomes

$$T = T_1 + T_2 \quad (5)$$

Now from calculus we know that taking the derivative of the present value with respect to the interest rate will give us the instantaneous rate of change of value of the security or how much the present value of the security changes per unit change of interest rate. Thus taking the derivative of the present value of a single payment we get

$$\frac{dT_1}{dr} = -nF(1+r)^{-(n+1)} \quad (6)$$

and taking the derivative of the present value of a series of uniform payments we get

$$\frac{dT_2}{dr} = C[nr^{-1}(1+r)^{-(n+1)} - r^{-2} + r^{-2}(1+r)^{-n}] \quad (7)$$

Therefore, the effect of a change in interest rates on the present value or current price of a security is given by

$$\frac{dT}{dr} = -nF(1+r)^{-(n+1)} + C[nr^{-1}(1+r)^{-(n+1)} - r^{-2} + r^{-2}(1+r)^{-n}] \quad (8)$$

Then if

$n_1$  = number of periods to maturity for the cash instrument  
 $n_2$  = number of periods to maturity for the cheapest to deliver bond or note

$C_1$  = coupon for the cash instrument

$C_2$  = coupon for the cheapest to deliver bond or note

$dT_c/dr$  = instantaneous rate of change of the value of the cash instrument

$dT_f/dr$  = instantaneous rate of change of cheapest to deliver bond or note

the relative yield sensitivity becomes

$$\frac{dT_c/dr}{dT_f/dr} = \frac{-n_1F(1+r)^{-(n_1+1)} + C_1[n_1r^{-1}(1+r)^{-(n_1+1)} - r^{-2} + r^{-2}(1+r)^{-n_1}]}{-n_2F(1+r)^{-(n_2+1)} + C_2[n_2r^{-1}(1+r)^{-(n_2+1)} - r^{-2} + r^{-2}(1+r)^{-n_2}]}$$

Now let us find the common denominator for the numerator and denominator of relative yield sensitivity:

$$\frac{-n_1Fr^2 + C_1n_1r - C_1(1+r)^{(n_1+1)} + C_1(1+r)}{r^2(1+r)^{(n_1+1)}}$$


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$$\frac{-n_2Fr^2 + C_2n_2r - C_2(1+r)^{(n_2+1)} + C_2(1+r)}{r^2(1+r)^{(n_2+1)}} \tag{10}$$

The following expression is obtained by the algebraic manipulations described in the appendix:

$$\frac{\frac{-n_1F}{r^{(n_1-1)}} + \frac{C_1n_1}{r^{n_1}} - C_1\left(1 + \frac{1}{r}\right)^{(n_1+1)} + C_1\left(\frac{1}{r^{(n_1+1)}} + \frac{1}{r^{n_1}}\right)}{\left[\frac{-n_2F}{r^{(n_2-1)}} + \frac{C_2n_2}{r^{n_2}} - C_2\left(1 + \frac{1}{r}\right)^{(n_2+1)} + C_2\left(\frac{1}{r^{(n_2+1)}} + \frac{1}{r^{n_2}}\right)\right] \left(1 + \frac{1}{r}\right)^{(n_1-n_2)}} \tag{11}$$

Since this paper is concerned with the hedging process as it is related to T-notes and T-bonds, the time to maturity must be greater than one year, hence both  $n_1$  and  $n_2$  must be greater than one. Under this condition, the limit of the preceding expression as  $r$  approaches infinity can be taken.

$$\lim_{r \rightarrow \infty} \left[ \frac{-n_1F}{r^{(n_1-1)}} + \frac{C_1n_1}{r^{n_1}} - C_1\left(1 + \frac{1}{r}\right)^{(n_1+1)} + C_1\left(\frac{1}{r^{(n_1+1)}} + \frac{1}{r^{n_1}}\right) \right]$$


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$$\lim_{r \rightarrow \infty} \left[ \frac{-n_2F}{r^{(n_2-1)}} + \frac{C_2n_2}{r^{n_2}} - C_2\left(1 + \frac{1}{r}\right)^{(n_2+1)} + C_2\left(\frac{1}{r^{(n_2+1)}} + \frac{1}{r^{n_2}}\right) \right] \lim_{r \rightarrow \infty} \left(1 + \frac{1}{r}\right)^{(n_1-n_2)} \tag{12}$$

There are three possible relationships that can exist between  $n_1$  and  $n_2$ :

1.  $n_1 = n_2$

$$2. \quad n_1 > n_2$$

$$3. \quad n_1 < n_2$$

If  $n_1 = n_2$ , the expression

$$\lim_{r \rightarrow \infty} (1 + 1/r)^{(n_1 - n_2)}$$

which appears in the denominator of the relative yield sensitivity becomes:

$$\lim_{r \rightarrow \infty} (1 + 1/r)^0 = 1$$

Hence the term disappears.

If  $n_1 > n_2$ , then  $n_1 - n_2 > 0$  and

$$\lim_{r \rightarrow \infty} (1 + 1/r)^{(n_1 - n_2)} = 1$$

and the term disappears.

If  $n_1 < n_2$ , then  $n_1 - n_2 < 0$  and

$$\lim_{r \rightarrow \infty} (1 + 1/r)^{(n_1 - n_2)} \text{ is moved to the numerator where it becomes}$$

$$\lim_{r \rightarrow \infty} (1 + 1/r)^{(n_2 - n_1)} = 1$$

and disappears.

This leaves the expression

$$\lim_{r \rightarrow \infty} \left[ \frac{-n_1 F}{r^{(n_1 - 1)}} + \frac{C_1 n_1}{r^{n_1}} - C_1 \left(1 + \frac{1}{r}\right)^{(n_1 + 1)} + C_1 \left(\frac{1}{r^{(n_1 + 1)}} + \frac{1}{r^{n_1}}\right) \right] \quad (13)$$

$$\lim_{r \rightarrow \infty} \left[ \frac{-n_2 F}{r^{(n_2 - 1)}} + \frac{C_2 n_2}{r^{n_2}} - C_2 \left(1 + \frac{1}{r}\right)^{(n_2 + 1)} + \frac{C_2}{r^{(n_2 + 1)}} \left(\frac{1}{r^{n_2}}\right) \right]$$

Now as the interest rate,  $r$ , increases without bound the relative yield sensitivity clearly becomes

$$C_1 / C_2 \quad (14)$$



Thus, 
$$\frac{dT_1/dr}{dT_2/dr} = 1.137759$$

is the relative yield sensitivity. This means that at an interest rate of 2% a one dollar change in value of the 8%/25 year bond is equivalent to a \$1.14 change in the 10%/25 year bond. To hedge \$1,000,000 worth of 10% 25 year bonds using \$100,000 futures contracts would require that

$$1.137759(1,000,000)/100,000 = 11.37759$$

futures contracts be sold. Selling more than the required 11.3 futures contracts would result in the hedger making more money on the futures market than would be lost on the cash market if interest rates went up. However, if interest rates declined more money would be lost on the futures contracts than would be made on the cash market. Similarly if less than the required amount of futures contracts were sold and the interest rates went up, more money would be lost on the cash market than would be made on the futures. Declining interest rates would then cause more money to be made on the cash market than would be lost on the futures market.

### CONCLUSIONS

Investments in T-notes and T-bonds, in the past, have been considered a riskless investment. The likelihood that the federal government will default is considered to be minimal. However, investing in these fixed-income securities is a risky endeavor since the present value of securities rise and fall as interest rates fall and rise. The longer the time to maturity of the investment, the more likely interest rates will change. The more likely interest rates are to change, the more important it becomes to protect against this risk. The existence of this interest rate risk has created a need for individuals and institutions to protect themselves against it by using hedging in the futures market. In order to reduce the risk of losses in fixed-income securities, hedging requires that the investor purchase futures contracts in such a manner as to insure that changes in the value of the cash investment are offset by equal changes in the futures prices. The balancing of cash investments with futures can be tricky.

This paper has demonstrated:

1. How differential calculus can be used to make the computations necessary to maintain the balance between the cash and futures positions.
2. That as interest rates increase the relative yield sensitivity converges to a limit which is dependent on the coupons paid by the securities.
3. How to determine the rate at which the relative yield sensitivity converges to its limiting value.

The model derived in this paper provides the investor with a tool which determines the number of futures contracts needed to fully hedge an investment. The rate at which the relative yield sensitivity converges to its limiting value, as interest rates change, tell the investor how frequently the hedge must be adjusted to cover the interest rate risk. Thus it can be seen that the formulas which were derived in this paper are somewhat analogous to a traveler about to embark upon a trip. They not only tell him of his destination but the condition of the road to his destination.

#### ACKNOWLEDGEMENT

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Table 1

TABLE 1 BOND DERIVATIVES AND RELATIVE YIELD SENSITIVITY			
Interest Rate	Derivative of 10%/25 Year Bond	Derivative of 8%/25 Year Bond	Relative Yield Sensitivity Column 2 / Column 3
.02	-3785.935	-3327.538	1.137759
.04	-2552.935	-2222.693	1.148578
.06	-1764.209	-1521.272	1.159693
.08	-1249.846	-1067.478	1.17084
.10	-907.7042	-768.116	1.181728
.12	-675.4788	-566.6434	1.19207
.14	-514.6015	-428.2559	1.201622
.16	-400.8409	-331.2181	1.210202
.18	-318.7424	-261.7554	1.217711
.20	-258.2988	-211.0068	1.224126
.22	-212.9297	-173.1857	1.229488
.24	-178.2406	-144.4546	1.233887
.26	-151.2508	-122.229	1.237438
.28	-129.9065	-104.7409	1.240266
.30	-112.7705	-90.76147	1.242493

APPENDIX

The ratio of the instantaneous rate of change of the value of the cash instrument to the instantaneous rate of change of the cheapest to deliver bond or note can be reduced to equation (10) by the following procedure:

$$\frac{dT_c/dr}{dT_z/dV} = \frac{-n_1Fr^2 + C_1n_1r - C_1(1+r)^{(n_1+1)} + C_1(1+r)}{r^2(1+r)^{(n_1+1)}} \div \frac{-n_1Fr^2 + C_2n_2r - C_2(1+r)^{(n_2+1)} + C_2(1+r)}{r^2(1+r)^{(n_2+1)}}$$

$$= \left[ \frac{-n_1Fr^2 + C_1n_1r - C_1(1+r)^{(n_1+1)} + C_1(1+r)}{-n_2Fr^2 + C_2n_2r - C_2(1+r)^{(n_2+1)} + C_2(1+r)} \right] \left[ \frac{(1+r)^{(n_2+1)}}{(1+r)^{(n_1+1)}} \right]$$

$$= \left[ \frac{-n_1Fr^2 + C_1n_1r - C_1(1+r)^{(n_1+1)} + C_1(1+r)}{-n_2Fr^2 + C_2n_2r - C_2(1+r)^{(n_2+1)} + C_2(1+r)} \right] \left[ \frac{1}{(1+r)^{(n_1-n_2)}} \right] \left[ \frac{r^{-(n_1+1)}}{r^{-(n_1+1)}} \right]$$

$$= \frac{\frac{-n_1F}{r^{(n_1-1)}} + \frac{C_1n_1}{r^{n_1}} - C_1\left(1 + \frac{1}{r}\right)^{(n_1+1)} + C_1\left(\frac{1}{r^{(n_1+1)}} + \frac{1}{r^{n_1}}\right)}{\left[-n_2Fr^2 + C_2n_2r - C_2(1+r)^{(n_2+1)} + C_2(1+r)\right] \frac{1}{\left(\frac{1}{r} + 1\right)^1} \frac{1}{r^{(n_1-n_2)}} \frac{1}{r^{(n_1-n_2)}} \left(\frac{1}{r^{(-n_1-1)}}\right)}$$

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bond

$$\begin{aligned}
 & \frac{-n_1 F}{r^{(n_1-1)}} + \frac{C_1 n_1}{r^{n_1}} - C_1 \left(1 + \frac{1}{r}\right)^{(n_1+1)} + C_1 \left(\frac{1}{r^{(n_1+1)}} + \frac{1}{r^{n_1}}\right) \\
 = & \frac{\left[ -n_2 F r^2 + C_2 n_2 r - C_2 (1+r)^{(n_2+1)} + C_2 (1+r) \right] (1+\frac{1}{r})^{(n_1-n_2)} r^{(n_2+1)}}{r} \\
 & \frac{-n_1 F}{r^{(n_1-1)}} + \frac{C_1 n_1}{r^{n_1}} - C_1 \left(1 + \frac{1}{r}\right)^{(n_1+1)} + C_1 \left(\frac{1}{r^{(n_1+1)}} + \frac{1}{r^{n_1}}\right) \\
 = & \frac{\left[ \frac{-n_1 F}{r^{(n_2-1)}} + \frac{C_2 n_2}{r^{n_2}} - C_2 \left(1 + \frac{1}{r}\right)^{(n_2+1)} + C_2 \left(\frac{1}{r^{(n_2+1)}} + \frac{1}{r^{n_2}}\right) \right] \left(1 + \frac{1}{r}\right)^{(n_1-n_2)}}{r}
 \end{aligned}$$

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AN ANALYSIS OF CRITERIA UTILIZED FOR EVALUATION OF  
STUDENT ORAL PRESENTATIONS IN BUSINESS COMMUNICATIONS

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ABSTRACT

*Business communication typically is associated with writing and reading as well as speaking and listening. Research on the opinions of executive and college graduates reveals that the ability to communicate effectively in business is ranked at the top of the skills necessary for job success. Good oral communicators learn by observing others who speak well and by evaluating and improving their own performance each time they make a presentation. The focus of this research was to survey faculty in the field of business communications and ascertain the specific criteria and rankings utilized in evaluating student oral presentations. The following research question guided the study: What are the criteria that business communication faculty utilize in rating student oral presentations?*

INTRODUCTION

Written and oral communication are essential in business (Bell, 1994). The authors of Workforce 2000 predict that, by the year 2000, 41 percent of new jobs will require high-level skills in reasoning, mathematics, and communicating (Johnson & Parker, 1987). Oral communication, because it is used extensively, is critical to the success of a business (Harcourt, Krizan, & Merrier, 1995). Brenda Barnes (as cited in Harcourt, Kirzan, & Merrier, 1995), Chief Operating Officer at Pepsi Co. stated,

Business success is dependent on the ability to communicate orally. It's the way we share and build ideas, the way products are sold, and the way leadership is exercised. Effective oral communication is more than a necessary business skill--it's a competitive advantage (p. 540).

At some point in students' academic or professional lives, they are likely to be called on to give a speech or presentation. Demographic trends suggest that the current generation of college students will face even tougher competition in obtaining jobs and vying for top corporate positions. Those with outstanding communication skills will have an advantage (Bovee & Thill, 1995).

Every student who is enrolled in Business and Interpersonal Communications at Indiana University of PA must complete a minimum of two oral presentations. The course is part of the business core taught by the Department of Office

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Systems and Business Education. The Office Systems and Business Education Department agrees with authors in the field on the importance of students being able to communicate orally. So much so, that if a student is not present on his or her assigned date for an oral, the student fails the entire course. An oral presentation cannot be avoided.

Each oral presentation should be evaluated for its effectiveness in achieving its intended objectives (Chandler, 1995). Each business communications faculty member uses his/her own criteria or checklist for evaluating student oral presentations. The intended focus of this research was to survey national leaders in the field of business communications and ascertain the specific criteria and rankings utilized in evaluating student oral presentations. The following research questions guided the study:

- A. What are the criteria that business communication faculty utilize in rating student oral presentations?
- B. Which criteria criterion should be heavily weighted, moderately weighted, somewhat weighted, or no given weight in determining a final grade for a student oral presentation?

The following primary null hypothesis was established for testing:

- H01. There will be no tested differences between the topics utilized in evaluating student oral presentations in business communications by members of the Association of Business Communication.

#### LITERATURE REVIEW

Business communication typically is associated with writing and reading as well as speaking and listening. Research on the opinions of executive and college graduates reveals that the ability to communicate effectively in business is ranked at the top of the skills necessary for job success (Chandler, 1995; Harcourt, Krizan, & Merrier, 1995; Locker, 1995). Harcourt, Krizan, and Merrier (1995) offer:

The higher the responsibility level to which individuals progress in an organization, the more time they spend communicating. Upper-level executives in many businesses or nonprofit organizations will spend up to 95 percent of working time communicating--speaking, listening, writing, reading. While some persons may spend as little as 10 percent of their work time communicating, it is estimated that an average of 60 percent of employee time is spent in some form of communication (p. 7).

Good oral communicators learn by observing others who speak well and by evaluating and improving their own performance each time they make a presentation. The study of oral communication will be invaluable to current students and as future employees of organizations for which they may work. Chandler (1995) stated:



Oral communication skills are becoming more important in the business world. The opportunities to orally present your point of view or those of the company for which you work are numerous. As occupations become more people oriented and less paper and number oriented, the need for people with good oral communication skills is increasing (p. 4).

A review of major business communication textbooks in the field (Bell, 1994; Boone & Kurtz, 1994; Bovee & Thill, 1995; Chandler, 1995; Locker, 1995; Lesikar, Pettit, & Flatley, 1993) provided the major criteria for assessment when evaluating student oral presentations. Voice quality (tone, volume, rate), body language, posture, movement, gestures, personal appearance, eye contact, facial expressions, visual and audio aids, audience response, and multimedia technology use are some of the major criteria that reach consensus among the authors for evaluation of oral presentations. A Likert scale was developed listing each topic and its importance. It is within this context that this research study was undertaken.

Using a Likert scale is common in survey research. Babbie (1990) stated:

When using a Likert scale, the researcher is interested in determining the extent to which respondents hold a particular attitude or perspective. If he is able to summarize the attitude in a fairly brief statement, he will often present that statement and ask respondents whether they agree or disagree with it. Renis Likert has greatly formalized the procedure of the "Likert" scale (p. 140).

Sturges (1990) offers his support of using scales of this nature in business communication research:

Business communication theory incorporating attitudes and opinions of communication senders and receivers has been built on research gathered through techniques such as self-administered survey questionnaires or data-gatherer administered instruments using Likert scales or semantic differential scales for measurement (p. 17).

A Likert scale, originally developed by Renis Likert, was developed and utilized in this study.

#### INSTRUMENTATION

One research instrument was utilized for the collection of data in this study. A Likert scale was developed to determine the criteria used in oral presentation. The population sample for the study was taken from a stratified random sample taken from the directory/membership list of faculty and practitioners who belong to the Association of Business Communication, 1994-1995. Criteria for evaluation of student oral presentations in business communications were obtained from this particular sample.

Collection of data was accomplished through the use of survey method based on Dillman's Total Design Method (1978). After the creation of the Likert scale, a survey packet consisting of a cover letter outlining the project and the Likert scale was mailed to the sample. One follow-up procedure was implemented in an attempt to increase response rates.

Data for scores from the Likert scale were hand-scored and calculated. Through the use of the Statistical Package for the Social Sciences for Windows (SPSS+ for Microcomputers, release 4.0), statistical tests were performed on the data from the scale. Descriptive and comparative analyses were made.

## RESULTS

### Demographics

A total of 99 surveys were returned for a response rate of 55%. Of the 99 surveyed, 57 (57.6%) were males, 36 (36.4%) were females, and 6 (6.1%) did not respond. Ninety-one (91.9%) were over the age of 40. The only other age category reported was faculty between 35-39 at 4 (4.0%). Thirty (30.3%) indicated they were full professors, 30 (30.3%) indicated they were associate professors, 17 (17.2%) indicated they were assistant professors, and 10 (10.1%) reported they were instructors. Seventy (70.7%) of the participants teach at a four-year public college or university while 18 (18.2%) indicated they teach at a four-year private college or university. Four (4.0%) of the respondents teach at the community college.

Eighty-nine (89.9%) of the sample reported they have been teaching business communications for over five years. Ninety-one (91.9%) of the sample indicated they have been teaching for over five years.

### Oral presentation criteria

The oral presentation topics rating scale asked faculty to assign various degrees of importance to 37 possible grading criteria used in evaluating students' informational, oral presentations. Seven criteria were selected by the faculty as measures that should be heavily weighted when evaluating an oral presentation. Each criterion with its respective percentage is reported as follows: main points, 71.4%; introduction/opener, 62.4%; eye contact, 57.6%; conclusions, 56.5%; visual aids/presentation aids, 54.6%; summary and preview, both 51.8%.

Thirteen criteria were selected by the faculty as measures that should be moderately weighted when evaluating an oral presentation. Each criterion with its respective percentage is reported as follows: examples/illustrations, 57.6%; posture, 57.1%; rate and gestures, 54.1%; voice quality and poise were reported as 55.3%; delivery style and pronunciation, 52.9%; repetition, 52.4%; verbal signposts and distracting habits, 51.8%; and diction/articulation and facial expressions, 50.6%.

At the other end of the weighted scale, 57.9% indicated they gave no weight to a planning outline. Speaking notes, 45.9%, and humor, 35.3% were also measures faculty would give no weight to in grading student oral presentations.

In grouping the two categories of heavily and moderately weighted factors some interesting results were found. Five criteria were selected by nearly 90% of the respondents as being heavily or moderately weighted into the final grade for student oral presentations. Visual aids/presentation aids, summary, introduction/opener, main points, and conclusions appeared to be important measures to include when grading an oral presentation.

Six criteria were selected by nearly 80% of the respondents as being heavily or moderately weighted into the final grade for student oral presentations. These criteria included transitions, body language, preview, verbal signposts, delivery style, and examples/illustrations.

Twelve criteria were selected by nearly 70% of the respondents as being heavily or moderately weighted into the final grade for a student oral presentation. The criteria selected were voice quality, diction/articulation, rate, volume, gestures, posture, facial expressions, movement, professional appearance, eye contact, enthusiasm, and poise.

In grouping the two categories of slightly weighted and no weight factors some interesting results are found. Six criteria are worth highlighting. The measure accompanied by the percentage indicated is reported as follows: planning outline, 76%; speaking notes, 70%, response to audience feedback, 50%; audience participation and word pictures 45%.

#### DISCUSSION

The ability to communicate well is often cited by companies as one of the skills desired most in employees (Bovee & Thill, 1995). Poor communicators are not able to relate well to others and find their career paths blocked. At some point in students' careers they will likely be called on to give a speech or presentation (Arnold, 1992). In reviewing the results of rankings of criteria used in evaluating student oral presentations, faculty participants have chosen specific criteria they feel should be heavily weighted or moderately weighted in grading such presentations.

It is apparent that faculty believe that student oral presentations should include main points and an introduction/opener. Numerous business communication professionals (Lesikar, Pettit, & Flatley, 1993; Ober, 1995) have agreed that having main points and an introduction/opener are critical parts of an effective oral presentation. The body is the heart of the speech or presentation and should receive the most speaking time. The introduction/opener of an oral presentation is designed to prepare listeners to receive the message. The purpose of the opening is to capture the interest of the audience. The first 30 seconds are crucial as the audience will be observing every detail of the speaker--dress, posture, facial expressions, voice qualities and they will be

making preliminary judgments.

Eye contact, conclusions, and visual aids/presentation aids were also ranked as weighing heavily in determining grade for oral presentations. The point in making eye contact is to establish one-on-one contact with individual members of the audience. In one study, speakers who looked more at the audience during a seven-minute informative speech were judged to be better informed, more experienced, more honest, and friendlier than speakers who delivered the same information with less eye contact (Locker, 1995). After the main points in a speech it is customary to have a conclusions section. Faculty agreed on this point as well. Conclusions help listeners remember important information. This is the last chance to drive home your main points. Visual aids/presentation aids are highly effective attention-holding tools. They can be used to capture and keep an audience's attention throughout a presentation (Galle, Nelson, Luse, & Villere, 1996). Visual aids clarify points, improve comprehension, and aid retention. Some authorities suggest that people acquire 85 percent of knowledge visually (Guffey, 1997).

The last two criteria that over 50% of the faculty rated as heavily weighted were summary and preview. A summary extends a message to a broader context. Speakers should personalize their messages and end with a call for action. Boone and Kurtz (1994) and Timm and Stead (1996) concur that a summary is especially useful to capture ideas, summarize main points, and restate a central theme. On the other hand, previews are designed to tell the listener what a speaker intends to say before it is said. These verbal signposts are important if the point being introduced is long and complex.

Thirteen criteria were selected by the faculty as measures that should be moderately weighted when evaluating an oral presentation. Rate, voice quality, pronunciation, and diction/ articulation are important components to an oral presentation. Speakers should vary the rate of speech to make delivery more interesting (Boone & Kurtz, 1994). A hard fact of communication is that some voices are more pleasant than others (Lesikar, Pettit, & Flatley, 1993). Articulation (process of determining the clarity of and distinctiveness of vocal sounds) and pronunciation (formation of the proper sounds to create words) can cause errors in a speech. Studies indicate that people who speak with lower voice tones at a slightly faster than average rate, articulate clearly, and pronounce correctly are perceived as being more credible (Bovee & Thill, 1995). Nonverbal language such as posture, poise, gestures, and facial expressions is especially important in public speaking because it conveys an overall impression of the speaker's competence and credibility. Some researchers in the field of business communication (Guffey, 1997; Timm & Stead, 1996) concur that successful communicators recognize the power of nonverbal messages. The total impact of any message is probably most affected by the blending of nonverbal and verbal communication (Graham, Unrue, & Jennings, 1991).

Verbal signposts and the use of repetition are important elements in evaluating oral presentations. Verbal signposts are brief statements that give listeners clues to the organization and structure of a speech. Repeating a key

thought not only provides listeners with time to understand but communicates the value that is placed on that thought. Students exhibiting distracting habits or choosing an inappropriate delivery styles will affect their grade since faculty rated these as moderately weighted. Playing with jewelry, hands in pockets, and overuse of "hms" and "uhs" are examples of behavior that detract from oral presentations. The importance of delivery style is mentioned in numerous business communication books (Adler & Elmhorst, 1996; Bovee & Thill, 1995; Ober, 1995). Inexperienced speakers often feel that they must memorize an entire presentation to be effective. There are many choices in terms of style. According to these authors, delivery refers not only to a method of speaking but to your voice quality and body language. Choosing the best method of delivery will make presentations more effective. Examples and illustrations are often used to support main ideas, provide clarification of a topic, and provide insight.

Humor and speaking notes were viewed as unimportant components of the oral presentation. These findings conflict with the existing body of literature. The use of humor, if relevant and appropriate, is always welcomed by a group (Galle, Nelson, Luse, & Villere, 1996). Humor is one of the most effective ways to capture audience attention because it establishes an immediate bond between speaker and audience (Boone & Kurtz, 1994). Other authors often suggest caution when employing humor. Adler and Elmhorst (1996) offer:

Violating the standards of what your listeners find acceptable can antagonize your audience and destroy your credibility. Humor can be especially tricky. The joke you find clever and amusing may offend your audience (p. 296).

Some speakers use humor in the introduction opener to interest the audience and establish rapport. However, as Locker (1995) stated, an inappropriate joke can turn the audience against the speaker (p. 506).

The importance of speaking notes is well known. These are abbreviated key-word outlines designed to guide a speaker's actual delivery. They usually are short and simple. Since most faculty who are grading an oral presentation really don't see the speaking notes during the oral, one can see why this criterion received no weight in grading.

Competent oral communication skills are essential to personal success in the field of business (Forham & Grabbin, 1996, p. 96). Calls for improved oral communication skills continue to come from industry (Stevens, 1996). Educators have long recognized the need for improving students' oral communication abilities. The results of the study provide information on what faculty feel are important criteria to evaluate oral presentations. For the most part, these criteria mirror what business communication researchers and authors purport. The results provide some implications for business communication instructors.

### IMPLICATIONS

As instructors of business communication, a major task is to teach students how to develop strategies and techniques that facilitate effective communication (Wolff, 1996). Research emphasizes the need for excellent communication skills in the work place (Barton & Kirsch, 1990; Nellerroe, 1992; Waner, 1995). In most business positions, oral communication is used at least as often as, if not more than, written communication (Zimmer, Camp, & Francis-Dombeck, 1995). The implications of the study will be beneficial to business communication faculty.

Business communication faculty can share this information with their students to further emphasize the importance of oral communication skills. Arnold (1992) stated:

Regardless of the field one is in or the career you choose, your chances of being hired by an organization are better if you possess strong communication skills. Out of 120 job descriptions appearing in an issue of the National Business Employment Weekly (published by The Wall Street Journal) almost every listing included the requirement: The persons we seek must have strong oral and written communication skills. From chief financial officer, from senior sales rep to pet buyer, these positions will be filled by people who can communicate well (p. 15).

Oral communication skills are of critical importance to the student for success on the job. A survey of 1,000 personnel managers in the United States identified the top three skills for job performance involved communication (Adler & Elmhorst, 1996). Oral communication skills were ranked number 1 (Curtis, Stephens, & Winsor, 1989).

Novice business communication faculty can use the selected criteria for creation of an oral presentation rating scale. Although the sample size is small, the results are congruent with the literature in the field. Current business communication faculty can use this information to assign or reassign grading weights. Although each faculty member evaluates different aspects when a student is orally presenting, this information could provide some concrete guidelines when assigning weight to various criteria. And for those business communication faculty who have been using the same oral presentation rating sheet for years, this information could be used to update their scales. Times change. Speaking notes may have been important twenty years ago, but today, based on the results of the study and the review of literature, speaking notes should only receive cursory consideration.

The use of humor in an oral presentation must be understood by students. Conflicting views exist based on the review of literature concerning the appropriateness and use of humor in an oral presentation. Faculty participants in this study felt that no weight should be given to this criterion, yet the literature states that the use of appropriate humor during an oral presentation is welcomed by business audiences. The business communication instructor needs to carefully explain the pitfalls and perils of using humor.

### SUMMARY

Information from this study will expand the current body of knowledge on oral presentations in business communication. Communicating orally is both challenging and rewarding. Because most business communication is oral, students' future success in business depends primarily on their ability to communicate orally (Harcourt, Krizan, & Merrier, 1995). An understanding of the dynamics of oral communication is necessary if a student is to be effective in the workplace.

Most successful people recognize the role communication skills have played in their career. In a survey of college graduates in a wide variety of fields, conducted by Goldhaber (1993), most respondents said that communication was vital to their job success. Most, in fact, said that communication skills were more important than the major subject they had studied in college. In another study of business school alumni completed by Bednar and Olney (1987), oral communication skills were judged as "mandatory" or "very important" by 100 percent of the respondents.

When grading and providing feedback to students concerning their oral presentation, it is important that the faculty member be straightforward and direct concerning the strengths and weaknesses of the presentation. Students should highlight their strengths and improve their weaknesses. Making an effective oral presentation can help a student get promoted, make a sale, or even get a bank loan (Locker, 1995). In the workplace, these future business people must be able to communicate orally. As employees rise in an organization, high level skills, including the ability to speak and write well, determine how fast and how far they may go (DiGaetani, 1982). As Cochenour (as cited in Di Gaetani, 1982), an administrator at Allstate Insurance points out, if an employee wants to stay at entry level...they really don't have to write much. If an employee wants promotions, on the other hand, writing becomes important. If employees want to get into management positions, they are going to have to speak in front of groups.

The ability to orally communicate effectively is important for every business worker. Faculty members who prepare this future businessperson to communicate effectively through oral presentations have done their job well.

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## REDUCING FEAR: JOB SECURITY AND TQM/CQI

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## ABSTRACT

*Successful implementation of total quality management/continuous quality improvement programs is heavily dependent upon the active and open involvement of workers at all levels of the organizations. For workers fearful that suggestions for improvement will lead to possible negative reactions from higher management, participation can be greatly stunted. The authors explore whether steps to reduce fear have been taken in organizations that have implemented continuous quality improvement programs and make suggestions for additional actions designed to further reduce fear generated by the introduction of quality initiatives.*

## INTRODUCTION

In his oft-cited book, Out of the Crisis, W. Edwards Deming (1986) argues that no one can put in his/her best performance unless he/she feels secure, unafraid to express ideas and to ask questions. Deming includes the elimination of fear as one of his 14 Points for transforming organizations. One of the many factors that produces fear in organizations is the fear of job loss. If organizations are serious about adopting Deming's 14 points and implementing total quality management/continuous quality improvement (TQM/CQI), it seems logical that these same organizations would take steps to reduce fear, including increasing job security. Thus, the focus of this paper is on job security in organizations that have implemented or embraced TQM/CQI. Specifically, is job security provided and in what form?

## THE ROLE OF FEAR IN TQM/CQI

While there are many who have participated in the development of total quality management and continuous quality improvement, it is generally believed that the three major contributors are: W. Edwards Deming, Joseph M. Juran and Philip B. Crosby. The philosophies and ideas of these three total quality pioneers have been well publicized in recent literature. Perhaps more than

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anyone, Deming has become the best known, with many considering him to be the founder of the modern quality movement. His philosophy may be summarized by his 14 Points or principles of transformation that describe what is necessary for a business to survive and remain competitive (Deming, 1986). Anderson et al (1994) noted that many of the 14 Points are interdependent. Given that, one could argue that for an organization to be successful it must embrace and implement all 14 Points. Deming (1981/1982), himself, issued his own caveat, that if top management failed to take action on any of the 14 Points it would diminish the efforts on the other points. Thus, his approach may be classified as "all or nothing."

Included among Deming's 14 Points is the advice to "drive out fear so that everyone may work effectively" (Deming, 1986; Gitlow & Gitlow, 1987). Inherent in this principle is the belief that workers at all levels must commit to a total quality approach and willingly and freely contribute to the improvement of the organization. This means that participants must necessarily feel free to identify aspects of operations or management which reduce quality in order that they may receive attention and be improved. Clearly, workers who perceive that their identification of such deficiencies would lead to negative sanctions by their superiors are not likely to identify the things that may need the most attention for quality improvement. Hence, Deming would argue that fear of reprisal must be eliminated in order for TQM to be effective. While the authors recognize that successful TQM/CQI implementation involves more than driving out fear, the researchers are limiting the scope of this study to a closer look at the issue of fear in organizations.

In the workplace, many factors may give rise to fear. For example, it may emanate from a general feeling of powerlessness (Gitlow & Gitlow, 1987). Specific organizational elements that may contribute to fear include: a lack of job security, possible physical harm, negative performance appraisals, failings in training, poor supervision, not knowing the job, failing to meet quotas, being blamed for problems in the system, and others (Gitlow & Gitlow, 1987). These workplace insecurities are not conducive to effective teamwork, nor do they support the organization's quest for quality.

Juran's approach centered on developing and improving three major quality processes: quality planning, quality control, and quality improvement (Juran, 1986). While there is some overlap in the teachings of Juran and Deming, Juran goes beyond Deming and spells out a rather detailed program for quality improvement so the organization could "break through" to unprecedented levels of performance. Both of these quality gurus recognize the importance of top management commitment, the use of statistics and quality control techniques and tools, and the need for massive training. However, unlike Deming, Juran argues that "fear can bring out the best in people" and it is not necessary for managers to drive out fear (Main, 1986).

Crosby is best known for his zero defects approach to quality and prevention. His Basic Elements of Improvement include determination, education, and implementation (Crosby, 1979). His approach is more behaviorally-oriented than

either Deming or Juran. Crosby's list of 14 Steps to Quality Improvement calls for encouraging employees to come forward and tell management about obstacles they have in trying to meet quality goals. But he stops short in specifically addressing the issue of fear.

### HYPOTHESIS

Given the differences in the philosophies of Deming, Juran, and Crosby, it seems logical to assume that organizations implementing the Deming approach to quality improvement would take the steps necessary to drive out fear including increasing job security in the organization. In such a situation, employees with greater job security would be more likely to come forward and tell management about problems they are having in terms of performing various tasks. Therefore, the following hypothesis is posed:

- H1: Organizations that have implemented the Deming model are more likely to provide job security than organizations that have implemented some other TQM/CQI model.

### DATA AND METHODOLOGY

The data for this study were derived from a larger study dealing with TQM/CQI. The National Association of Health Care Quality (NAHQ) provided the researchers with a list of members whose primary responsibility was serving as the TQM/CQI director and/or facilitator for their health services organization. From this list, a random stratified sample by state consisting of 998 National Association of Health Care Quality (NAHQ) members was selected for this study. Out of 998 questionnaires mailed, 241 were returned for a response rate of 24.1%.

Out of 241 respondents, 95% indicated that their organizations had already implemented a TQM/CQI program. The average age of the programs was 3.7 years. Over 90% of the respondents without a program indicated that their organizations were about to implement one.

The respondents were asked which TQM strategist their organization followed: W. Edwards Deming, Joseph Juran, Philip Crosby, or others. The Deming approach to TQM/CQI was utilized by 57.1%, or 133, of the respondents, while 8.2%, 19, followed the Juran model and 1.3%, 3, the Crosby approach. Another 33.5%, or 70, used some other consultant's model or a combination of Deming, Juran and/or Crosby. In response to the question, "Does your organization provide any measure of job security to its regular employees?," 112, or 46.7%, of the respondents indicated that, in fact, they did. These measures included the following: lifetime employment, a no layoff policy, work sharing, ombudsperson, a management grievance committee, impartial binding arbitration, and others. (See Table 1.)

## RESULTS

To test the hypothesis that those organizations that have implemented the Deming model are more likely to provide job security than organizations who have implemented some other TQM/CQI model the Chi-Square test was used. At the .05 level, no significant differences among the different approaches were found. (See Table 2.)

Given that it may take time to successfully implement all of Deming's 14 Points, the researchers tested the hypothesis that organizations with older TQM (Deming) programs will be more likely to have instituted job security measures than those organizations with newer Deming programs. Once again, using the Chi-Square test no significant differences were found.

Inasmuch as Juran did not believe that it was necessary to drive out all fear, the researchers thought that a specific comparison of "Deming organizations" versus "Juran organizations" would reveal significant differences in terms of whether or not some form of job security was offered by those health services organizations. Although the percentage, 48.1%, of "Deming organizations" offering job security was much higher than "Juran organizations," 26.3%, the chi-square test results showed no significant differences at the .05 level. Since the Juran group was small ( $n=19$ ), the differences among the frequencies would have to be very large in order to be considered significant.

From the results, it can be seen that there has been little conscious attempt to reduce fear in organizations trying to implement TQM/CQI programs. While respondents may have responded somewhat differently if they were asked if they tried to reduce the fear of reprisal specifically associated with their TQM/CQI program, in general, there is no more job security in health services organizations which claim to follow the principles of Deming than there is in those health services organizations which follow Juran, Crosby, or some other consultants' model.

## DISCUSSION

Although a slight majority of the organizations in this study apparently have not yet implemented some form of job security for their organizational members, it is still important for those organizations to recognize that enhancing job security may activate and sustain organizational commitment, a critical prerequisite for a successful TQM/CQI effort. Previous research shows that organizational commitment and job involvement usually strengthen with a sense a job security and participation in decision making (Steers, 1977). The lack of commitment will likely contribute to lower levels of organizational effectiveness (Mowday, Porter & Steers, 1982).

A quality organization must foster an open, supportive, problem-solving climate to be effective (Deming, 1986). Such a climate will nurture commitment and individual behaviors that are essential to the success of TQM/CQI (Stone & Eddy, 1996). The success of a quality-oriented organization often depends upon the extent to which individuals are (1) committed to quality goals, (2) willing

to use their knowledge to improve organizational processes, and (3) apt to engage in innovative behaviors that will contribute to continuous learning and improvement (Stone & Eddy, 1996).

Similar to other employee involvement programs, excellent labor-management relations, characterized by mutual trust and respect, are a necessary, although not sufficient, condition for TQM/CQI to be successful. To that end, reducing employee concerns or fears about their future with the organization may go a long way to fostering the kind of work environment that will support willing and active participation from the workforce.

A study by Emery, Summers and Surak (1996) found that organizational climate played a significant role in the sustainability of TQM/CQI implementation in the aerospace industry. Their study gives support to the idea that learning, change and innovation are best accomplished where there is a high-level of trust, employee commitment and perceived fairness in the application of policies. As Hackman and Wageman (1995) state, "TQM is prolearning, with a vengeance." While employees may inherently want to learn and develop, their inclination to do so is fragile and may be undermined by systemic forces that create fear and defensiveness (Hackman & Wageman, 1995). If TQM/CQI is implemented correctly fear may be reduced, but organizations may increase the probability of a successful TQM/CQI implementation by providing a higher degree of job security. To the extent that job security enhances trust, commitment and perceived fairness, organizations should aggressively cultivate policies and programs which will develop and support these items.

Choi and Behling (1997) argue that in the 1990s the orientation of top managers may be a source of TQM/CQI problems. Managers who embrace a developmental orientation, which entails going beyond satisfying their current customers and transforming their companies into one of the best, are more likely to move to a substantially higher level of quality performance than those organizations whose top managers' orientation to TQM/CQI are more defensive or tactical in nature. The developmental orientation includes making employee education a key component of the company. Once again, employee learning is more likely to take place and be beneficial to the organization when trust and commitment are high.

The authors recognize that there are numerous factors that contribute to a successful TQM/CQI implementation, including commitment by top management, commitment of resources, and the development of a supportive infrastructure that will bring to fruition the core principles of TQM/CQI. This infrastructure typically is comprised of leadership, strategic planning, data and information management, process management, supplier management, and human resources management. Other factors such as the orientation to TQM/CQI and the quality of the training delivered to employees are also relevant. Thus, enhancing job security so as to reduce fear in organizations and subsequently improve trust and employee commitment in the organization represents one piece of the puzzle.

Many employers resist the implementation of job security measures because they want to maintain or increase flexibility of managing the workforce in such

areas as reallocating resources and the ability to dismiss employees who are not performing up to standard or expectation. But if as Deming and Juran argued, most problems are not employee caused, but rather are due to system deficiencies and other management controlled areas, flexibility as it relates to the workforce can be preserved. Employers should still be able to redirect the efforts of the workforce and move people around as well as terminate non-performing or chronically low performing employees while simultaneously providing greater job security. Buckley and Weitzel (1988) state that employers still have rights to terminate an employee who is demonstrably unacceptable, that is, incompetent, lazy, uncooperative, or abusive to other employees. In addition, employers' rights to dismiss employees for economic reasons are usually upheld (Buckley & Weitzel, 1988).

Recently, some TQM/CQI organizations have had to cut back, downsize, or right size. This includes such companies as AT&T, IBM, and GM, whose divisions have won prestigious quality awards (e.g. the Malcolm Baldrige National Quality Award). Of course, winning an award does not guarantee competitiveness in the market, nor does it always result in higher profits. Nonetheless, for TQM/CQI to be effective, organizations must be able to overcome these setbacks.

Quality circles, the precursor to TQM/CQI, ran into similar implementation difficulties. When quality circle teams made suggestions to improve quality and productivity, and the implementation of those suggestions resulted in a loss of positions, transfers, or layoffs, participants often turned a cold shoulder to further involvement in quality circle activities.

The atmosphere that job insecurity produces is detrimental to an employee's "mental health" and may decrease productivity in the organization. As Atchinson (1991) notes if American industry is going to pursue employee empowerment, then job security is a necessity. Organizations often lose a huge investment in human resources when downsizing, given the substantial outlays for training employees. Additionally, those employees who still have jobs feel guilty and fear that they will be next (Bolt, 1983). Finally, job security is important because of the freedom it affords employees to contribute to a culture that supports innovation, flexibility, and acceptance of change, important elements in achieving a commitment to quality (Blackburn & Rosen, 1993).

An important question is how far does one go in reducing fear and increasing job security. Borrowing from the stress management literature, we know that optimum performance is achieved at moderate levels of stress (Weiman, 1977). This may also be true of fear. Moderate levels of fear may be associated with optimal levels of performance. If this is true, lifetime employment may not be the best approach. Yet, establishing a mechanism for due process may at least lead to the perception that the organization respects its human resources and intends to treat them fairly.

#### Job Security Options

Managers need to lead the effort to reduce fear in their organizations, but it will be primarily accomplished through their actions (Gitlow & Gitlow, 1987).



Treating all employees fairly and with respect is a start. However, management can increase the probability that TQM/CQI will be successful by providing enhanced job security or protection to its employees.

Organizations may wish to consider the concept of lifetime employment to allay fear. While lifetime employment does provide workers with security, it does not provide the necessary philosophical base and the methods to pursue neverending quality improvement. Moreover, lifetime employment is probably unrealistic for most organizations. But, providing job security for certain lengths of time to long-standing employees may be a way to increase job security and simultaneously, reduce fear. For example, employees with 10 years of service and an exemplary work record could be guaranteed employment for the next 5 years or guaranteed a weekly or yearly minimum number of work hours for a selected period of time. At Motorola, employees with a ten-year record of successful job performance become "service club" members, which virtually guarantees future job security (Blackburn & Rosen, 1993). This idea does not go as far as lifetime employment which may breed mediocrity, but does provide a certain level of comfort and contributes to an organizational culture that is supportive of TQM/CQI.

Providing increased job security through due process procedures will likely not drive out all fear within the organization, but it may reduce the amount of perceived fear and thus permit employees to more openly discuss their concerns with managers without fear of retaliation. Employers would still maintain the right to dismiss employees for economic reasons. In the face of intense competition or a general downturn of the economy, due process procedures will not prevent an organization from downsizing or rightsizing its workforce, but it may contribute to the type of organizational culture necessary to support a successful TQM/CQI effort. If an employee believes that he/she has been unfairly discharged he/she will have an opportunity to have their case heard. Corporate due process is a means for insuring employee justice. It may take the form of a panel, board, or committee or other tribunal that considers both sides of an employee complaint and renders a decision. In addition, due process can also take the form of objective investigators who examine both sides of a complaint and resolve it (Ewing, 1989). If an employer has legitimate reasons for terminating an employee, the due process procedure should only serve to validate it.

Due process procedures may also help ward off law suits filed by former employees (Seeley, 1992). A well-designed due process system may boost morale, foster employee loyalty, and contribute to an atmosphere of trust and confidence in management (Seeley, 1992).

Another option is the use of an ombudsperson who attempts to act as a mediator between management and the employee. It is a type of grievance procedure which typically involves the appointment of a person within the organization to listen to and assist employees with their problems and complaints. The focus is on identifying the root causes of the problem and seeks to find a reasonable solution acceptable to both management and the employee. Normally, the ombudsperson is hired by management with the salary and benefits

being paid for by the company.

Organizations may also want to consider providing due process through a peer review panel consisting of co-workers and managers. In fact, it may be argued that involving employees in the decision-making process is a means of encouraging them to accept grievance decisions. Boisseau and Caras (1983) note that non-managerial employees are as capable as managers in making appropriate grievance decisions provided that they are properly trained in grievance resolution techniques.

Some companies have taken a different approach to job security. The 1994 Malcolm Baldrige National Quality Award winner, Wainright Industries, does not guarantee lifetime employment or job security, but emphasizes employee training and development which makes their employees highly employable and marketable even if the company should suffer from financial misfortunes (Evans & Lindsay, 1996). Additionally, the company allows any employee to peruse its financial books. Wainright eliminated timeclocks for all hourly workers and placed all associates on a salary basis.

#### SUGGESTIONS FOR FUTURE RESEARCH

Given the limitations of this study, it may be useful to examine the relationship between job security and TQM/CQI in other contexts and industries. To what extent do differences in job security relate to the success of TQM/CQI organizations? If there are differences between organizations that provide job security and those that do not, the question arises as to what type of job security was provided. For example, lifetime employment and "tenure" provide the highest degree of job security, but are employees with such guarantees motivated to actively participate in the TQM/CQI effort or are they too complacent or secure in their current positions to really care? What about the role of fear? If what Juran argues, that fear brings out the best in people, is true, the type of job security provided and the level of fear tolerated become critical issues.

An in-depth examination of specific attempts to reduce fear by organizations with successful TQM/CQI programs may prove to be insightful. In addition to enhancing job security, how else do organizations try to reduce fear? Deming recognized that fear could manifest itself in numerous ways, some of which may not be directly related to job security.

Finally, given the growing importance of due process in the management process, are organizations that provide due process procedures perceived as having greater job security? This then brings us back to the question as to whether or not employees of organizations which provide greater job security have a higher level of commitment to TQM/CQI and higher levels of success (goal attainment) than those organizations that do not.

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Tables 1 and 2

Table 1.

Forms of Job Security

Forms of Job Security	FREQUENCY	%*
Lifetime Employment	8	3.3
No Layoff Policy	22	9.2
Work Sharing	25	10.4
Ombudsperson	3	1.3
Management Grievance Committee	73	30.4
Impartial Binding Arbitration	18	7.5
Other Forms	31	12.9

\*The percent figure totals to more than 46.7% because some respondents used more than one technique for increasing job security.

Table 2.

Results of Chi-Square Test  
for  
TQM/CQI Approach and Job Security

TQM/CQI APPROACH	JOB SECURITY PROVIDED	
	YES	NO
Deming	64	69
All Others	47	53

Chi-square = 0.029



REVISITING THE INDUSTRIAL SALESFORCE ROLES  
IN AN ERA OF LONG TERM RELATIONSHIPS

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ABSTRACT

*The theoretical conceptualization of the industrial and organizational salesforce roles has remained relatively invariant even though the operating environment has changed tremendously. These roles were developed with the competitive view of buyer-seller markets with little or no emphasis on long term relationship management, which has become necessary due the changes in these markets. Long term relationships, however, replace competitive markets by "domesticated" markets, which operate under different rules. This requires a fresh look at these roles. This work examines the developments in the industrial and organizational world, the relationship paradigm, the conceptualization of salesforce roles over the past three decades and their adequacy in the era of long term relationships. Implications for new conceptualization of roles are also discussed.*

INTRODUCTION

The Industrial and organizational salespersons play extremely important roles in selling their firms' offerings to industrial buyers. As described in Moncrief's (1986) taxonomy, these roles are, seller of products, order handler, service provider, information manager, participation in conferences or meetings, facilitator in management of new sales personnel, entertainment of buyers, and establishing of relationship with distributors. As we scan the salesforce literature over the last three decades, the above set of roles remains practically invariant. These roles were developed with a competitive view of the buyer-seller market in which exchanges between buying and selling firms are carried out under the autonomous decision processes of firms and the market forces guide the allocation of resources and rewards to them through "invisible hand" (Arndt 1979; Dwyer, Schurr, & Oh, 1987). In short, under the competitive view of the buyer-seller market, sales people compete with buyers for the yields of their transactions. In these roles little or no emphasis was placed on the management of long term relationships with buyers (Marks, 1997). The competitive

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view of the buyer-seller market is due to the historical grounding of the marketing theory and practice in the assumptions of open competitive markets.

Over the past two decades, the industrial and organizational (hereafter I&O) firms have experienced a gradual emergence of an era of long term buyer-seller relationships. More and more firms have been opting for long term relationships to obtain advantages of synergy such as lower operational costs, reduction in redundant activities, faster product development, preferential treatments from partners, and better working relationships with channel members (Anderson & Narus, 1990; Frazier, Spekman, & O'Neal, 1989; Kamath & Liker, 1994; Hennart, 1988).

Long term relationships, however, replace the competitive markets with "domesticated" markets--inter-organizational cooperative frameworks (Arndt, 1979). Transactions in the domesticated markets are conducted within agreed rules. This change in the nature of the buyer-seller market is a fundamental change in the assumptions of the market. The theoretical conceptualization of salesforce roles with the competitive view of the buyer-seller market may be inadequate in the domesticated buyer-seller market as it operates under a different mechanism. A casual mentioning of this problem can be traced in the works of Futrell (1991), Marks (1997), and Sengupta, Krapfel, & Pusateri (1997). However, a serious discussion is warranted on this issue as it has substantive implications for new roles for the salesforce, its selection, training, and management. The primary purpose of this paper, therefore, is to revisit the traditional conceptualization of the I&O salesforce roles. In this context, we examine the developments in the industrial and organizational world, the relationship paradigm, the salesforce roles over the last three decades and their adequacy in an era of long term relationships. Implications for the conceptualization of new roles are also discussed.

#### CHANGES IN THE INDUSTRIAL AND ORGANIZATIONAL ENVIRONMENT

Producers of goods and services, wholesalers, retailers, government units (Federal, State, and Local), and nonprofit organizations comprise the I&O environment. Generally speaking, these firms buy and/or sell finished, or intermediate products from one another to ultimately satisfy the demands of final consumers--consumers of finished products. As noted by many scholars, since nineteen eighties, these firms have experienced several monumental changes in their operating environments. First, I&O buyers have become more knowledgeable and demanding than ever before (Anderson & Rosenbloom, 1982; Filipczak, Geber, & Thompson, 1991). That is, buyers have become more savvy in seeking and obtaining value for their money. They are now more willing to compare alternative sources of products and services they purchase. Cost controls have become central to their purchases (Dobler, Lee, & Burt, 1984). Second, because of the winds of globalization, there is more intense competition among I&O suppliers (Achrol, 1991; Anderson & Rosenbloom, 1982; Jackson, 1985). An increasing number of foreign companies are becoming alternative sources of supply for industrial products from around the world thereby creating more product choices for the buyers. The pace of competition has been accelerated partly



because of rapid advancements in global adoption of cyber space and the attendant information technologies. As is well known, these technologies provide information superhighway for simultaneous business interactions among multiple buyers and sellers worldwide. Third, I&O buyers have developed higher expectations about the quality of purchases, i.e., more and more buyers are becoming attentive to enhancement of quality and performance of the products over time. In other words, they are treating more and more industrial purchases as long term investments. Last but not the least, there is an increased pressure on the I&O firms from consumers to introduce new products faster than ever before (Dyer, 1996; Kamath & Liker, 1994), which in turn, push their suppliers for more innovations.

In order to cope with these changes, more and more I&O selling firms resorted to building long term business relationships with their buyers (Anderson & Narus, 1990; Johnston & Lawrence, 1988). Such arrangements have been growing in number at about 30 percent yearly since 1985 (Sherman, 1992). That is, customer retention became the top priority of I&O selling firms. In doing so, they were not only lowering their production and marketing costs and reaping greater profits but also becoming effective global competitors through synergies of relationships. In a survey jointly sponsored by the Sales & Marketing Management and Personnel Corporation of America, O'Connell & Keenan (1990) observed that firms focussing on addressing the needs of their existing customers experienced much higher profits and their cost of sales were 10% less than those who did not. The literature provides numerous examples of firm-specific successes through long term relationships. One that stands out is of Nippondenso. Starting as a small firm manufacturing automobile parts, it has emerged as a global supplier of those parts by working closely with international automobile giant Toyota (Kamath & Liker, 1994). In order to establish long term relationships with their key buyers, I&O selling firms started structuring and their training their salesforce (Main, 1985; Trumfio, 1995; Zatz, 1992). The moorings of such changes can be traced back to the work of Jackson (1985).

Long term relationships have provided tremendous benefits to I&O buyers as well. For example, by switching over from adversarial to closer relationships with its suppliers, Chrysler was not only able to reduce its cost of new vehicle development by 20% to 40% but also its development time from 234 weeks to 160 weeks. It is being touted as an American Keiretsu (Dyer, 1996). In their recent study, Noordewier, John, & Nevin (1990) found that industrial buyers could significantly reduce their acquisition costs of repetitively used items by working closely with their suppliers. Building of long term relationships has not only been confined to the U.S. firms, similar cooperative tunes have been played among I&O firms in Europe as well. For example, in a recent study conducted by the IMP (Industrial Marketing and Purchase) group of Europe on 878 industrial buyers and sellers from 318 European firms, it was found that the extant buyer-seller relationship has become more cooperative than the traditional adversarial relationship (Wilson, 1995). In short, the changes in the operating environments of I&O firms engineered the emergence of an era of long term mutually beneficial business relationships and this trend is unabated.

On the theoretical frontier, though belatedly, an increasing number of marketing scholars have started suggesting that long term cooperation rather than confrontation between I&O buyers and sellers (hitherto the norm) is a win-win situation for both. For example, long term business-to-business relationship with a buyer may provide a seller a preferential treatment, stable outlet for its products, lower marketing costs, lesser duplicative efforts, and an outpost for future endeavors. Likewise, it may give the buyer a preferential treatment for its orders, better quality, and lower procurement costs (Arndt, 1979; Ganesan, 1994; Kamath & Liker, 1994; Noordewier, John, & Nevin, 1990; Wilson, 1995). Also, developing such relationships is considered to be the need of the hour given the changed marketing environment. Summing up, both the academic and managerial worlds have recognized the dawning and continuance of an era of long term relationships. Buyer-seller relationship is being regarded as an important determinant of a firm's long term success in the business world. It can become a strong source of competitive advantage (Day & Wensley, 1983; Ganesan, 1994). How marketing and other business scholars conceptualize this relationship is described next.

#### INDUSTRIAL AND ORGANIZATIONAL BUYER-SELLER RELATIONSHIP

I&O buyers and sellers form long term relationships to achieve their strategic objectives considered otherwise costlier or unattainable independently. Examples of such objectives include cheaper and faster development of new products (Kamath & Liker, 1994), better quality management (Frazier, Spekman, & O'Neal, 1989), faster entry into new markets (Hennart, 1988), better inventory management (Noordewier, John, & Nevin, 1990), and better working partnerships with channel members (Anderson & Narus, 1990). Such a relationship may take the form of a vertical or horizontal integration, joint product development, co-marketing alliance, strategic alliance, long term associations, franchising, and joint venture (Arndt, 1979; Bucklin & Sengupta, 1993; Kamath & Liker, 1994; Varadraján & Rajratnam, 1986).

Resources are essential for the start, functioning, as well as sustaining of a long term relationship (Jackson, 1985; Morgan & Hunt, 1994). Both, the buyer and seller have to commit resources appropriate to the relationship to achieve their goals. For example, a seller may have to invest in time and effort of its sales personnel, tailor product and services, plants and equipments and other lasting assets to cater to the needs of a specific buyer. Likewise, a buyer may have to invest in seller's product and services, training its people to use the seller's products, change its operating procedures, and in plants and assets. In fact, a buyer-seller relationship is an evolving pair of commitments and larger commitments create higher switching costs and hence greater deterrence to the breaking of the relationship (Jackson, 1985).

Commitment of resources to a relationship is not without certain costs to the participating firms. One of the costs is the opportunity-cost resulting from not pursuing other alternatives. Also, firms in a relationship have to sacrifice their autonomy i.e., certain degrees of freedom are lost (Arndt, 1983; Ganesan, 1994). It may also increase a firm's vulnerability to financial, performance,

or other risks over time (Jackson, 1985). Therefore, resource commitment to a relationship, by itself may not be sufficient to provide stability to that relationship. It may rather increase the dependence of a firm on its partner and the firm may be looking out for ways to escape from the dependence thereby rendering the relationship unstable (Ganesan, 1994). However, if the resource commitment is based upon trust, the relationship can survive greater stress and show greater adaptability in responding to unforeseen circumstances (Williamson, 1985). Therefore, commitment and trust are essential for the survival of a productive buyer-seller relationship. These two are the main pillars of a long term buyer-seller relationship. Morgan & Hunt (1994) characterize them as key mediating variables of a long term buyer-seller relationship.

What is the impact of long term relationships on the traditional buyer-seller markets? The following paragraph describes this. Because of its strong historical links with the discipline of Economics, the marketing theory and practice has been predominantly grounded in the competitive market paradigm of buyers and sellers (Arndt, 1979; 1983). As is well known from the principles of Economics, in a competitive market, exchanges between buying and selling firms are carried out under the autonomous decision processes of those firms and the market forces guide the allocation of resources and rewards to them through "invisible hand." The exchanges taking place under competitive environment are *ad hoc* and are called *transactional* exchanges i.e., they have distinct beginning, short duration, and sharp ending (Dwyer, Schurr, & Oh, 1987). Long term buyer-seller relationships replace this traditionally competitive buyer-seller market by a "domesticated market." It is an inter-organizational system in which there is no invisible hand operating. Instead, a framework is used to guide the efficient functioning of the inter-organizational cooperation and the allocation of resources and rewards between the buyer and the seller. Under such a framework, exchanges between the buyer and seller are conducted according to the negotiated rules. Such exchanges are called as *relational* exchanges; exchanges that are ongoing, have history and future in contrast to the exchanges taking place under competitive environment (Dwyer, Schurr, & Oh 1987). In simple words, in a long term relationship, a buyer and a seller behave like a team and compete with other teams of buyers and sellers in the markets for finished products rather than competing with each other.

Summing up, a long term buyer-seller relationship is a cooperative structure developed to achieve their goals and objectives considered unattainable or costlier to achieve independently. It is an alternative to the competitive market. The framework of the structure guides the allocation of resources and rewards to the parties. Trust and commitment of the parties are extremely important for the efficient functioning of the relationship.

#### TRADITIONAL CONCEPTUALIZATION OF I&O SALESFORCE ROLES

Over time, the roles of industrial and organizational sales force have been described in a number of seminal works. Table 1 depicts the roles listed in these works. As early as in ninety sixties, for example, Christian (1962), lists these roles as sizing up of buyers, selling of products, following up personally

or through mail, and closing the sale. Belasco (1966) describes that a salesperson may occupy the role of a persuader, serviceman, information-gatherer, problem-definer, advocate, information-reporter, coordinator, scheduler, display-arranger, and customer ego-builder. Seventies did not produce new revelations in these roles but provided their better and systematic articulations. For example, Walker, Churchill, & Ford (1975) and Donnelly & Ivancevich (1975) articulated the roles of industrial salespersons in terms of expectations of people within their company, and those in other companies they deal with. While, the expectations within the firm include establishing of better coordination with other departments and personnel, those outside the firm entail satisfying the needs of a diverse range of customers. Their work generated a heavily researched stream on role conflict, role ambiguity, and salesforce satisfaction.

In the eighties, Moncrief (1986) produced a taxonomy of salesforce roles according to which, an I&O sales person is the: (1) Seller of the firm's products--performing of activities pertaining to selling of firm's products. This includes activities such as prospecting, selecting the buyer, and making sales presentations, (2) Order handler--performing of activities like writing up, handling, and expediting the execution of orders, (3) Service provider--depending on the type of buyer, this role may include providing of technical service--help in installation and maintenance of the product at the buyer's place and may train their personnel on operating and safety issues--as well as other services pertaining to the stocking, inventory taking etc., at the buyer's end, (4) Information manager-- providing feedback pertaining to the product from the customer to the concerned personnel in his/her firm, (5) Participant in conferences/meetings--includes activities like attending and/or arranging of sales-related trade shows, conferences, (6) Facilitator in management of new sales personnel--includes activities pertaining to the recruitment, training of new members of the sales force, and helping in planning in sales activities, (7) Entertainer of buyers--role pertaining to the enhancement of personal relationships with the buyers and may include activities like hosting dinners or drinks for the clients, (8) Establisher of relationship with distributors--includes activities such as selling to, collecting past accounts, and keeping on good terms with the distributors.

Similar Patterns of roles are described in the works of nineties. For example, Anderson (1992, p. 321) provides a list of fifteen roles ranging from prospecting to servicing the customer. Likewise Buskirk & Buskirk (1992, p. 54-55) lists seventeen such roles ranging from locating the prospect, making sales presentations... to expediting the order. The only difference between these listings of roles and those of Belasco or Moncrief is that of the degree of delineation. Futrell's (1993, p.25-27) list of roles places greater emphasis on customer-service than those of Anderson and Buskirk & Buskirk. The list includes roles such as (1) providing solutions to customers' problems, (2) serving the customers, (3) selling to current and new customers, (4) helping customers use product after purchase, (5) helping customer to sell products to their customers, (6) build goodwill with customers, and (7) provide company with market information. As one gleans through these lists of roles developed over the past three decades, two things can be inferred. One, the traditional

conceptualization of the salesforce roles has remained relatively invariant over time. The only difference between the roles of the sixties, seventies, and nineties, is that they have been articulated in better and more systematic ways over time. Two, there is an increased emphasis on customer service.

#### TRADITIONAL ROLES AND THE LONG TERM RELATIONSHIPS

As is clear from the traditional conceptualization, the I&O salesforce roles are primarily structured within the limits of initiating a contact with a prospective buyer to completing the sales transaction with usual follow ups to see whether the buyer is satisfied or not with the firm's offering. Services are rendered to enhance the success of the transaction completed. The focus of these roles is to enable a selling firm to effectively manage its sales transaction with the buyer. The underlying reason being the greater the seller's control over the transaction, the greater is the say in price-setting, allocation of shelf-space etc., and hence greater the profit from the transaction (Anderson & Gatignon, 1986). In this regard, use of coercive or noncoercive power is not unusual to influence sales transactions (Etgar, 1976; Nevin, 1974). Likewise, from buyer's point of view, the greater the control over the purchase transaction the greater would be the say in price setting, advertising support etc. In short, under the traditional view, firms follow policies to maximize their individual interests which, in the buyer-seller market translates into sellers following policies to compete with buyers for the benefits of exchanges. This is precisely what the competitive view of the buyer-seller market is. This is not surprising given that the marketing theory and practice has been predominantly grounded in the competitive buyer-seller paradigm (Arndt, 1979). That is why, in these roles, there is little or no concern for establishing and managing long term cooperation with the buyer rather, buyer cooperation is assumed to emerge from the extent of its dependence on the seller.

As described earlier, with the changes in the I&O operating environments, more and more I&O sellers opted for long term relationships with their buyers. These are cooperative structures in which buyers and sellers act as teams to compete with other buyer-seller teams for the consumer dollars. They play by the agreed rules of cooperation to tap benefits from markets for their finished products rather than following individual policies as in the case of competitive markets. Individual policies are considered to lead to mutually destructive outcomes whether in pricing, or in consistency in supply or product quality (Rice, 1994). The framework of the cooperative structure guides the allocation of resources and rewards to the parties. These frameworks are approved by the top managements of the buying and selling firms (Gummesson, 1987). Trust and commitment of the parties are extremely important for the efficient functioning of the relationship. For a selling firm, obviously, managing a buyer-seller cooperative structure is the primary responsibility of its sales force (Arndt, 1979). Being the boundary spanning personnel, of their firm, they may have to find appropriate long term buyers, participate in developing the framework of cooperation, and monitor it for the efficient functioning of the structure. They would be acting as relationship managers. The traditional conceptualization of the I&O salesforce roles does not provide any such role that is necessary for the

management of a long term relationship. Though rightfully developed with the competitive view of buyer-seller markets, the traditional roles are inadequate in addressing the requirements of the domesticated markets. Because of their specificity to the context of sales transactions, they may still be useful as a subset of relationship-based roles. A new conceptualization of roles that will adequately cover the relationship management is, therefore, necessary for the industrial and organizational salesforce. Such a conceptualization will have to be grounded in the relationship-based perspective.

### IMPLICATIONS

An era of long term buyer-seller relationships has set in. Marketing and management scholars have recognized it. This is clear from several publications in marketing and trade journals. An entire issue of the *Journal of the Academy of Marketing Science* (Volume 23 Number 4, 1995) and the May issue of the *Journal of Business Research* (1997) was devoted to this topic. In these works, sellers are advised to place greater emphasis upon the cultivation of long term relationships with their buyers in order to successfully cope with the changed conditions (Anderson, 1995; Berry, 1983, 1995; Bitner, 1995; Hutt, 1995; Wilson, 1995). The increased emphasis on the long term view of buyer-seller relationship has direct implications for industrial and organizational salesforce. In these firms (as compared to those catering products to end users), sales personnel play extremely important roles in selling their firms' offerings to industrial buyers. Undoubtedly, the traditional roles are relevant for those buyers and sellers who still pursue *ad hoc* type of transactions. However, these roles are inadequate in the context of long term relationship management because long term relationships operate under a set of rules that are completely alien to the competitive environment. Although, a number of publications on the business-to-business relationship interaction process have trickled in over the last five years, still the literature reveals the absence of a sound theoretical conceptualization of I&O salesforce roles appropriate for long term relationships. In part, this gaping hole is due to a late recognition of the emergence of an era of long term relationships and its consequences by the academic business researchers.

What are the new roles sales personnel in the I&O markets would have to play in establishing and maintaining long term relationships of their firms with the buyers in the newly emerged buyer-dominated markets? Based upon the works of Anderson (1995), Arndt (1979), Dwyer, Schurr, & Oh (1987), Frazier (1984), Hutt (1995), Morgan & Hunt (1994), and Wilson (1995), these role may include search for trusting and commitment-oriented partners, courting of candidates, negotiations for terms of exchange, and the degree and kind of formalization of interorganizational network. Also, adequate attention has to be accorded to the maintenance and/or dissolution of interorganizational system. Another important implication is that the new roles have direct bearing on the sales force management--recruitment, training, and motivation of sales personnel to guide them in the performance of new roles. It is possible that there may be truncation or enlargement in the set of salesforce roles.

Despite the recognition of an era of long term relationships in the I&O environment, to our knowledge, the adequacy of the traditional conceptualization of salesforce roles has seldom been questioned systematically. Through, this work, we hope to bring this inherent inadequacy to the views of the concerned scholars and progress toward the development of a relationship-based theoretically sound and managerially useful conceptualization of salesforce roles. It is hoped that this work will open up new avenues for research on important issues such as salesforce role ambiguity, turnover, training, recruiting, and management in the context of long term relationships.

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TABLE 1

TRADITIONAL CONCEPTUALIZATION OF I&O SALESFORCE ROLES

Time Frame	Roles Conceptualized	Author(s)
1960s	<p>Sizing up of buyers, Selling of products, Following up personally or through mail, Closing the sale.</p> <p>Persuader, Serviceman, Information-gatherer, Problem-definer, Customer advocate, Information-reporter, Scheduler Coordinator, Display-arranger, Customer ego-builder.</p>	<p>Christian (1960)</p> <p>Belasco (1966)</p>
1970s	<p>Articulation of roles of salespersons in terms of expectations of people within their company, and those in other firms they deal with. This includes coordination with other departments and personnel in the firm and satisfying the needs of a diverse range of customers.</p>	<p>Walker, Churchill, &amp; Ford (1975); Donnelly &amp; Ivancevich (1975)</p>
1980s	<p>Seller of Products, Order handler, Service provider, Information manager, Participant in conferences/meetings, Facilitator in management of new sales personnel, Entertainer of buyers, and Establisher of relationship with distributors.</p>	<p>Moncrief (1986)</p>
1990s	<p>Take orders from customers, Make prospect and customer calls regularly, Maintain a list of prospects, Analyze prospect potential within the territory, Demonstrate products, Inform prospects and customers of sales promotions, Maintain records of customer purchases, Take customer inventory, Maintain records of prospect calls, Make emergency deliveries to customers when necessary, Make minor repair and adjustments to equipment, Collect accounts receivable, Gather credit information, Prepare sales forecasts, and Assist in inventory taking.</p> <p>Locate prospects, Interview buyers, Make sales presentations, Work at trade shows, Obtain orders, Negotiate deals, Provide technical assistance to customers, Educate or train customers, Perform credit duties, Deliver goods, Manage a territory, Do repair work, Marketing research, Gather information about competitors, Field complaints, and Expedite orders.</p> <p>Provide solutions to customers' problems, Serve customers, Help customers use products after purchase, Build goodwill with customers, and Provide company with market information.</p>	<p>Anderson (1992)</p> <p>Buskirk &amp; Buskirk (1992)</p> <p>Futrell (1993)</p>