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Liberty Business Review

Introduction
Dr. Bruce Bell.....Page 2

**The New York Stock Exchange:
Generally Accepted Accounting Principles vs. International Financial Reporting
Standards**
Heather Bolling.....Page 3

**Economic Value Added:
The Accurate Method of Company Valuation and June Compensation
for Management**
Brett Kimball.....Page 11

**MBTI and Career Assessment:
A Study of College Students' Personality Types and Their Career Selection**
Christina Dobson.....Page 18

**Of Men and Women:
How Communication Differences Impact Women in the Business World**
Alyssa Buted.....Page 25

**The Intersection of Vision, Personality, Communication, and Administrative
Organization:
Why Former President Ronald Wilson Reagan Was Such an Effective Leader**
Lindsey Hoban.....Page 29

The Christian's Value-Added Proposition in the Marketplace of Ideas
Dr. Darin Gerdes.....Page 38

C.S. Lewis Is Right
Robert C. Cannada.....Page 51

Afterword
Dr. Bruce Bell.....Page 52

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Liberty University—*Changing Lives One Degree At A Time*
Vol. IV August 2006 Number 1

Introduction

Bruce K. Bell

Welcome to the latest edition of the *Liberty Business Review*, an online journal of Liberty University's School of Business. This journal is designed to present academically mature articles by students and faculty in Business and Economics at Liberty University and other institutions of higher learning. The purpose of the *Liberty Business Review* is to examine issues of Business and Economics from a Christian perspective and with a commitment to scholarly excellence.

This online journal is designed to be offered without charge, and articles are selected for superior academic quality and integration of the biblical worldview into the academic discipline. Additionally, articles may analyze best practices in the teaching of Business and Economics within the Christian setting, contributing to the theory and practice of principled business in this country and around the globe.

Heather Bolling, a May 2006 graduate of Liberty University's Accounting degree program, examines the New York Stock Exchange and questions whether international companies doing business on the NYSE should be required to report financial statements in compliance with Generally Accepted Accounting Practices (GAAP) or the International Accounting Standards Board (IASB). Sensing a degree of confusion and discrepancy that currently exists, she argues for a requirement that all companies doing business in American markets, especially on the NYSE, be required to follow GAAP.

Another recent graduate from Liberty University with a Business Finance degree, **Brett Kimball**, also examines Generally Accepted Accounting Practices (GAAP), concluding that the conservative nature of those guidelines often causes underestimates of the value of a company. Implementing Economic Value Added (EVA), Kimball asserts, will serve as a deterrent to corrupt practices and dishonest reporting, while promoting accuracy, accountability, and honesty in all organizational valuation.

Undergraduate business students are surveyed according to personality types in a research study by **Christina Dobson**, a May 2006 graduate in Management. Sampling 45 juniors and seniors, she analyzed the correlation between personality type, academic major, and reasons for choosing that major, concluding that a substantial correlation does exist between personality type and academic major or intended career. Further, she recommends a longitudinal study to explore satisfaction with students' chosen careers.

Alyssa Buted analyzes communication differences between men and women in the workplace, concluding that much of those differences are nonverbal and that women's behavior frequently perpetuates a stereotype of women as subordinate to men. Understanding differences in workplace communication and adapting to those differences will help in overcoming stereotypes while enhancing women's opportunities for advancement. Ms. Buted also includes a biblical perspective on communication differences that concludes that men and women may serve complementary roles that create harmony and should extend to the

workplace.

Lindsey Hoban graduated from the School of Business with a Finance specialization, and her senior honors thesis was an examination of President Ronald Reagan's leadership style, specifically related to his vision, personality, communication skills, and administrative organization. She concludes that President Reagan was an effective leader who made a profound impact on both domestic and foreign policy.

If the Christian is to contribute to the body of academic literature, or to the broader intellectual discussion in his field, he or she must do more than simply engage in a program of research. So concludes **Darin Gerdes**, professor of Business and Organizational Leadership at Liberty University. He argues that Christian scholars must carefully filter their assumptions and be careful to discern between spiritual wisdom and worldly wisdom. His paper is an interdisciplinary exploration of the Christian's role in scholarly discourse and examines such theories as Maslow's Hierarchy of Needs and MacGregor's Theory X and Theory Y in light of the biblical worldview.

Lastly, **Robert Cannada** reviews C. S. Lewis' *The Poison of Subjectivism*, seeing the truth of Lewis' call to return to objective values. Cannada takes that proposition and applies it to the United States and the Declaration of Independence, warning that removing an objective moral law will lead to a loss of individual freedoms for all Americans.

The faculty of the Liberty University School of Business is pleased to offer this current volume of the *Liberty Business Review*, and we are eager to hear your comments on these articles.

The New York Stock Exchange: Generally Accepted Accounting Principles Versus International Financial Reporting Standards

By

Heather Bolling

A Senior Thesis submitted in
the Honors Program
Liberty University
Spring Semester 2006

Due to the large growth of international business transactions and the number of international companies, acceptable accounting principles and guidelines are among the most controversial issues being debated in the business arena (Tarca, 2004). As Dye and Sunder (2001) discuss in *Why Not Allow FASB and IASB Standards to Compete in the U.S.?*, the world's economy has greatly changed over the last twenty-five years. The United States' economy, including capital markets and U.S.-based multinational corporations, is still the largest in the world. While it continues to rapidly grow, foreign economies are becoming more influential and powerful: "Faster growth in other parts of the world elevates the relative importance of other economies, their capital markets, and corporations outside the U.S." (Dye, 2001, p. 258). In order for the United States to cooperate and compete with these foreign economies, its home practices and regulations must be examined in relation to those being enforced in other countries. Foreign policies and regulations are often times greatly different than those enforced in the United States.

The New York Stock Exchange

The New York Stock Exchange (NYSE) is one of the largest stock markets in the world. Being so influential, it greatly contributes to the growth of the American economy. As of 2003, Americans held \$12 trillion of both domestic and non-U.S. equities. This amounts to approximately 38% of all the market capital of the world's major exchanges (Thain, 2004b). With listings of 474 non-US companies from 51 different countries (Stuckey, 2003), numerous concerns for the NYSE's future success exist when dealing with the controversy of appropriate accounting standards requirements.

The combined global market capitalization of the NYSE is approximately \$4.3 trillion (Stuckey, 2003). John A. Thain (2004b), CEO of the New York Stock Exchange, brings forth an important point that many Americans seem to lose sight of and forget. The United States' capital markets are the most liquid in the world. Although the United States is the engine of global capitalism, "no birthright dictates that we (the U.S.) will remain so" (Thain, ¶ 3).

Due to its worldwide popularity and international use, strict standards have been put into place to make listing and investing opportunities easier and more informative. Current Securities and Exchange Commission (SEC) regulations require any

company listing their shares on the NYSE to abide by the United States' financial laws. In its Listed Company Manual (2002), the NYSE clearly explains the requirements necessary in annual reports in Section 203.01. The manual states, "The Exchange requires that companies publish at least once a year and distribute to shareholders an annual report containing financial statements of the company and its consolidated subsidiaries prepared in conformity with generally accepted accounting principles" (¶ 1). The number of days the annual report must be reported after the close of each fiscal year varies for both domestic and non-US companies (New York Stock Exchange, 2002).

Companies have two options to fulfill this requirement. An annual report can be distributed to their shareholders or the Form 10-K (Form 20-F for non-US issuers) that is filed with the Securities and Exchange Commission can be distributed to shareholders. Whichever option is chosen, two copies of that document, along with the date the documents were sent to shareholders, must be sent to the NYSE (New York Stock Exchange, 2002).

With the various sets of accounting standards that exist, it is no wonder that most foreign countries do not abide by a set of standards equivalent to those of the United States. For any foreign companies choosing to perform business operations and transactions within the United States economy, having to comply with possibly two different sets of standards is oftentimes very time consuming and costly. Not only must foreign companies wanting to do business in the United States pay people to format and report their financial information in compliance with their home country's regulations, they must also report that same information in compliance with American laws.

It is also not a surprise that the number of new listings of foreign companies on the United States' financial markets have decreased rather than increased in the past few years. The New York Stock Exchange has suffered immensely from this sharp decline.

Between 1996 and 2000, an average of 50 non-U.S. companies listed on the NYSE per year. However, from 2002 to 2004, that number has decreased to half, dropping to only 25 a year. The European equities, with 19 companies listed on the NYSE in 2002, contributed to this decline the most. After withdrawing their companies' listings from the NYSE, the number of European countries remaining was only six. Along with these statistics, in 2004, only one new European country listed with the NYSE (Thain, 2004b).

The number of both domestic and foreign listings with the U.S. markets tells quite a lot about the concern of both local and foreign investors. As Thain (2004b) states, "Listings are an important barometer of foreign interest in the U.S. economy" (¶ 8). Along with the growth that comes with every listing, more prospective jobs open and individuals have more chances for U.S.-directed investment (Thain, 2004b).

Not only is the New York Stock Exchange suffering from a decrease in the number of foreign investors, but many small U.S. companies are choosing to list with foreign stock markets. American businesses are attracted to outside securities markets for a number of reasons: "Often, potential issuers are lured by what they see as more flexible regulatory regimes. But foreign markets also appeal to some companies because their customer bases might be abroad or foreign investors have a greater interest in its particular industry" (Shaw, 2005, ¶ 2).

Foreign markets see their opportunity to gain from this

XL TechGroup decided to go public to raise money in order to continue operations. The company considered various methods of doing this, including listing on a U.S. market, and in under a year, the company had a market cap of \$300 million. However, listing on an American market was not the best decision for the company: "The company chose not to list in the United States because its business model would cause it to incorrectly be viewed as a regulated investment corporation. Under the Investment Company Act of 1940, that would trigger different reporting requirements" (Shaw, 2005, ¶ 6).

Of course, the main reason the company chose AIM instead of a U.S. market was the strenuous rules and regulations of the Sarbanes-Oxley Act and the Securities and Exchange Act. The requirements of AIM and the United Kingdom (U.K.) federal government were not as "all-encompassing and detailed" as those of the United States. According to Shaw (2005), the U.K. did not "require for admission a minimum market cap, a trading record, minimum shares in public hands, or prior shareholder approval for transactions" (¶ 11). Rather than the burdensome quarterly and annual filings required for a U.S. listing, AIM only requires ongoing disclosures semi-annually (Shaw, 2005).

Contributing Factors to Controversy

A variation of factors contributes to the current accounting controversy. According to Hoyle, Schaefer, and Douplik (2004), "A survey of the relevant literature identified the following five items as commonly accepted factors influencing a country's financial reporting practices: (1) legal system, (2) taxation, (3) providers of financing, (4) inflation, and (5) political and economic ties" (p. 531). Legal systems enforced by governments around the world greatly differ from one another. With the accounting profession influencing the creation of new accounting rules, one could see how such a controversy could arise when having to consider the various opinions and views of accounting professionals.

Methods of taxation are another major difference throughout business communities. Some countries allow their published financial statements to form the basis for taxation. Yet, others permit such statements to be altered, in a variety of ways, for tax purposes. This in turn, allows companies to send the government one financial statement and the stockholders another; often times, the final values on these statements vary. Investors are frequently interested in different outcomes, as well. "There also can be a difference in orientation, with stockholders more interested in profit (emphasis on the income statement) and banks more interested in solvency and liquidity (emphasis on the balance sheet," says Hoyle et al. (2004, p. 532).

Perhaps the greatest contributing factors are political and economic ties. Accounting is not a strictly domestic concept. Hoyle et al. (2004) define accounting as, "a technology that can be borrowed relatively easily from or imposed on another country" (p. 533). When the first American settlers were creating their new government and laws, some concepts and ideas were borrowed from the existing British government. Being that many of the early American settlers came from England, a country with a well-developed and highly influential government, some traditional principles were instilled in them and came out through their participation in the creation of a new regime. Just like the English borrowed ideas from the British administration, others

countries borrow accounting principles from better developed, successful sets of standards: "More recently, economic ties with the United States have had an impact on accounting in Canada, Mexico, and Israel" (Hoyle et al., 2004, p. 533).

Of course, one cannot mention an accounting or financial issue these days without mentioning the Sarbanes-Oxley Act (SOX) of 2002. Due to the notorious scandals of Enron and other corporate businesses in the early 2000s, the public's confidence in the capital markets was damaged. Similar to the necessity of the creation of the Securities and Exchange Commission, this piece of legislation was passed in hopes of restoring the public's damaged assurance in the stock markets (Hoyle et al., 2004).

The passing of the Sarbanes-Oxley act is another determining factor in whether foreign companies choose to list their stock and securities on United States markets. According to Thain (2004a), since the adoption of SOX, companies must now have solid governance structures and all relevant details of companies must be disclosed and documented. These changes allow individuals to understand possible risks and make more informed decisions. However, these improvements have come at a high cost. Because of the additional expenses that companies incur and the time and effort senior-management must provide to comply with the new rules, many cross-border, international companies are faced with financial problems. All financial statements, records, and reports have to be processed and completed following the guidelines of the IASB's IFRS and the FASB's GAAP standards.

Due to the diversity of these factors, a number of questions are formed when discussing international and cross-border transactions. Many security markets, both domestic and abroad, are in the midst of this ongoing battle, specifically the New York Stock Exchange, to name one. Those markets involved in this struggle are being forced to face, and answer, some very important questions. For example, "Whose sets of standards are correct?" and "What should be done about it?" As one can see, companies are confused and unsure of what to do when faced with the decision of where and how to list their shares. Should the New York Stock Exchange require international businesses to follow the Generally Accepted Accounting Principles (GAAP) of the United States, or should they be allowed to only comply with the standards created by the International Accounting Standards Board? Or should companies choosing to do business in the United States, through the New York Stock Exchange, have permission to choose which set of guidelines they would like to follow?

Governing Agencies

Before the available options for possible solutions to this worldwide accounting disagreement can be confronted, the world's major governing financial agencies need to be introduced. For the United States, two major organizations – the Securities and Exchange Commission and the Financial Accounting Standards Board – are active in the creation and enforcement of accounting and financial principles. The International Accounting Standards Board (IASB) also plays an important role in international accounting regulations.

The Securities and Exchange Commission (SEC)

Following the Great Crash of 1929, Congress created the Securities and Exchange Commission and gave the members the task of enforcing The Securities Act of 1933 and the Securities Exchange Act of 1934. The SEC was also given the responsibility of promoting stability in the markets and restoring the public's trust in the capital market system (Securities and Exchange Commission, 2005). The mission of the SEC is "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation" (Securities and Exchange Commission, 2005, ¶ 1). The SEC is determined to provide the necessary capital formation needed to sustain economic growth.

A simple and straightforward concept is used to carry out the laws and the rules that govern in the U.S. securities industry: "all investors, whether large institutions or private individuals, should have access to certain basic facts about an investment prior to buying it, and so long as they hold it" (Securities and Exchange Commission, 2005, ¶ 6). In order for the SEC to follow this concept, public companies are required to provide meaningful financial information to the public. This way, investors may use the information provided to make a more informed decision when buying, selling, or holding a security (Securities and Exchange Commission).

The SEC is the primary overseer of the securities markets within the United States and often times works closely with Congress and other federal departments, the self-regulatory organization (e.g. the stock exchanges), and private sector organizations. This organization deals with all areas of the business world, not only the financial aspects, but the political and ethical aspects, as well. The Chairman of the SEC and several other key government administrators, including the Chairman of the Federal Reserve and the Secretary of the Treasury, participate in the President's Working Group on Financial Markets.

Although the SEC has legal authority to establish accounting and reporting standards, it often relies on another source for such principles: "Throughout its (SEC) history, however, the Commission's policy has been to rely on the private sector for this function to the extent that the private sector demonstrates ability to fulfill the responsibility in the public interest" (Financial Accounting Standards Board, 2006, ¶ 2). The organization that the SEC depends on for standards is the Financial Accounting Standards Board (FASB). This private sector organization has established standards of financial accounting and reporting since 1973. The SEC recognizes FASB as being authoritative in its issuances and standard setting. The system of regulations and principles created, established, and continually improved by FASB is known as the United States Generally Accepted Accounting Principles (U.S. GAAP) (Financial Accounting Standards Board, 2006).

International Accounting Standards Board (IASB)

In order to present possible solutions, the history and development of International Financial Reporting Standards (IFRS) needs to be presented. Having been around since 1973, the Board of the International Accounting Standards Committee (IASC) has had a great amount of influence in the financial world: "IASC was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and

Ireland, and the United States" (International Accounting Standards Board, 2006, ¶ 2). However, in 2001, a restructuring of the already present IASC took place, and out of this reorganization, the International Accounting Standards Board (IASB) was born (International Accounting Standards Board, 2006).

The statements and rules issued by the IASC, between 1973 and 2001, are referred to as International Accounting Standards (IAS). However, when the restructure took place in 2001, the IASB decided its standards and regulations were to be called the International Financial Reporting Standards (IFRS). In April 2001, the IASB announced that the international accounting standards established by the IASC were going to be adopted and included in the newly formed IFRS (International Accounting Standards Board, 2006).

Trial and Error Transition

On January 1, 2005, more than 7000 European companies adopted the IFRS system of accounting, replacing more than 25 different accounting regimes that were being used. Despite the complexity of the transition, the switch to IFRS was for the most part very smooth. Knowledge of the upcoming changes in advance helped security markets deal with the changeover of methods in a more effective manner. However, some ripples occurred when new methods caused end of the year amounts that were not as high as normal. For example, under IFRS, the 2005 pre-tax profit for Lloyds TSB, a British bank, was 8% lower than was expected: "Deutsche Telekom's profit in 2004 was two-thirds lower under the new rules than under the old rules, while Alcatel's and Telecom Italia's were more than twice as high" (So Far, So Good, 2005, ¶ 3).

Profits are not the only numbers that have been affected by this transition. Dresdner Kleinwort Wasserstein, an investment bank, conducted a study and found that net debt is on average 16% higher under IFRS. The already struggling Italian carmaker Fiat was hit much harder by the transition to IFRS. The company saw its debt double, going from 8 million euro to 16 million (So Far, So Good, 2005).

Perhaps the most shocking outcome of the transition is the insufficient consistency and comparability of the standards. With the new regulations, numbers are being estimated for things that have no fair market values, including employee stock options. Also, companies now have more leeway when choosing how to apply IFRS (So Far, So Good, 2005). Regardless of the good that has come from the transition, a great deal of work is still needed to be done before an acceptable worldwide system of accounting standards can be created.

Although young in nature, the IASB is continually becoming more popular and more widespread. The U.S. GAAP system has had tremendous success over the last few years. The Financial Accounting Standards Board (FASB) has greatly changed over the last 30 years, becoming more popularly used by international companies (Financial Accounting Standards Board, 2004). The use of these guidelines is becoming more widely recognized and implemented. With GAAP being the primary set of standards accepted in the United States accounting arena and IFRS being the most common set approved for use between foreign companies, a complex problem has arisen in the international business world.

In order to perform international business and trade transactions, companies often times have to present their financial information to markets and investors in each country where one of their markets exists. This presentation of information oftentimes causes mass confusion concerning which standards and principles should be followed and what existing laws have to be obeyed.

Conflicting Systems

Two of the most popular sets of standards presently being used in capital markets are the United States' Generally Accepted Accounting Principles (GAAP), created by the Financial Accounting Standards Board (FASB), and the International Financial Reporting Standards (IFRS), set up by the International Accounting Standards Board (IASB): "Although significantly different, they are both a comprehensive body of accounting principles whose main aim is to protect investors" (McDermott, Will & Emery, 2004, ¶ 2). Chairman of the FASB, Ed Jenkins, claims that GAAP is more comprehensive than the international standards (The Impossible Dream, 2002).

Many view these two systems as being on the opposite sides of the accounting spectrum. Don Cruickshank (2002), the Chairman of the London Stock Exchange, explained this analysis very well in a speech given on the U.S. and EU capital market issues. The U.K. accounting model is viewed as being a principles-based approach, where the U.S.' model is more rules-based. Each country, that is the U.S. and the United Kingdom, has its own ruling agency, the SEC and the Financial Services Authority (FSA). The FSA's regulations are made up of four statutory objectives and six principles: "Yes it's backed up by the rule book, but it creates a flexible and adaptable approach that allows timely decisions" (Cruickshank, 2002, ¶ 61). The SEC, on the other hand, functions under a different system of regulations. Its regulations include tens of thousands pages of accounting rules, including more than 800 pages on special purpose vehicles alone.

"A company's decision to use 'international' accounting standards (defined as both US GAAP and IFRS in the article) will be affected by the institutional framework (the body of accounting law, rules and accepted practices as well as the institutions that formulate, administer, and enforce these requirements) of its home country" (Tarca, 2004, p. 62). Due to the evolution of institutional frameworks in each country, a change has occurred in response to the demands for greater comparability in reporting. Initiatives have been taken to harmonize and join the varying standards at all levels of reporting, ranging from national, regional, and international levels (Tarca, 2004). What does this mean for companies, both domestic and foreign, participating in cross-border business transactions in foreign stock exchanges?

Companies, other than those in the United States, oftentimes choose to report their financial information using either the IFRS or their own country's version of GAAP. Business associates worldwide are greatly concerned with the numerous differences that exist between the various common sets of standards (Tarca, 2004). As reported in *Forbes* magazine, "Forbes International 500 companies adhere to no fewer than 26 different accounting standards, none quite the same as the U.S. generally accepted accounting principles (GAAP)" (Maiello, 2002, p. 166). In order to attract foreign investors, many securities markets allow alternate standards to be followed: "The stock exchanges in London, Paris, Frankfurt, Tokyo and Australia accept financial

statements prepared according to domestic GAAP and other selected GAAP, including U.S. GAAP" (Tarca, p. 64). Although the stock exchanges of the countries included in Tarca's study may require that further information be offered by foreign listed firms, they (the stock exchanges) do not call for reconciliation to the stock exchange's national GAAP as mandated by the SEC (Tarca, 2004). Nonetheless, a problem arises when businesses do not use GAAP.

According to Maiello (2002), Novartis, a Swiss drug making company, had greatly varied incomes in 2001. Due to its listing on the NYSE, Novartis has to calculate both a GAAP and an IFRS income. Its earnings according to the IFRS were \$4.1 billion, while its GAAP earnings were \$2.8 billion. These varying income earnings cause confusion for Novartis' investors and the company's market standings. This difference can be supported by information contained in an article by Harris (1999).

A study conducted by Esther Ortiz (2005) showed that the majority of European countries listed on the NYSE favor using the United States' GAAP system. However, a number of foreign and international companies choose to follow those principles created and upheld by the International Accounting Standards Board (IASB). Dumontier (1998) researched reasons why foreign markets choose to comply with the IASB's IFRS. For example, over the past 10 years, Germany's reporting standards have significantly changed: "Since 1993, an increasing number of listed German companies have been publishing their consolidated financial statements in accordance with either IFRS or US GAAP. In 1998, this was approved as a substitute for the consolidated German GAAP financial statements of listed companies" (Weißenberger, 2004, p. 169). With this option being made available to businesses within the country, a larger problem is posed for international business.

Harmonization Efforts

Numerous efforts to harmonize varying standards or regulations have been and are being attempted. The Norwalk Agreement, between the United States' standard setting agency and the international governing agency is an ongoing example of such efforts. One of the most current and successful unifications is the European Union (EU).

The Norwalk Agreement

In September 2001, the U.S. FASB and the IASB met to discuss the possibility of merging both the U.S. GAAP and IFRS standards. Bob Herz, the new chairman of the FASB and previous member of the IASB, is quoted as having said, "It is the right thing to do, and now is the right time to do it" (Walton, 2004, ¶ 2). The second meeting was held just a few days later at the headquarters of the FASB in Norwalk, Connecticut. An important agreement was reached at this meeting, beginning a joint effort that would greatly impact the financial world. This union provides a much needed hope for the possibility of a harmonization between the two boards' principles and standards (Tomaszewski, 2004).

The FASB and IASB agreed to “make their existing standards fully compatible as soon as is practicable and to coordinate their future work programmes to ensure that once achieved, compatibility is maintained” (Walton, 2004, ¶ 3). As Gornik-Tomaszewski (2003) states, “The FASB and the IASB acknowledged their commitment to the development of high-quality accounting standards suitable for both domestic and cross-border financial reporting” (p. 39). The Norwalk Agreement, so named after the place of the meeting, was published and stated a four part purpose (Financial Accounting Standards Board, 2005).

The focus of the Norwalk Agreement was to remove as many of differences that existed for European and other companies who have or wanted to have listings in the United States. At the time of this convergence effort, EU Commissioner Frits Bolkestein said that the move “towards a single set of high-quality, best of breed, principles-based financial reporting standards, which would dramatically improve the efficiency of global capital markets: costs would decrease, comparability would improve and corporate governance would be enhanced” (Walton, 2004, ¶ 5). Along with this project, any variations of standards that exist are expected to be resolved: “The FASB and IASB pledged to make their existing financial reporting standards fully compatible as soon as practicable” (Gornik-Tomaszewski, 2003, p. 39).

The majority of the financial community is in favor of a convergence of the two standards. In order to reduce the confusion and difficulties that most cross-border businesses face, a solution to these problems must be found. Having seen the difficulties that occur while trying to upkeep and maintain two separate sets of books, the NYSE CEO, John Thain (2004a) states, “For the sake of all companies running global businesses, let us (the NYSE and Economic Club of New York City) push for convergence of FASB and IASB standards” (¶ 78). Sir David Tweedie, Chairman of the IASB, acknowledges the rocky road ahead, but supports the convergence efforts undertaken by the IASB and the United States FASB. Tweedie remarks, “By drawing on the best of U.S. GAAP, IFRSs and other national standards, the world’s capital markets will have a set of global accounting standards that investors can trust” (Financial Accounting Standards Board, 2002, ¶ 4).

Not only are financial leaders all around the world excited for a possible convergence, they are hopeful that such a merger will come about easily and rapidly. As Maiello (2002) states, “Jones (vice chairman of the International Accounting Standards Board) predicts that IAS will become so popular that by 2010 the world – including the United States – will use one standard, even if there are a few names for it” (p. 166). Sir David Tweedie is recorded as saying that after the completion of the implementation of the Norwalk Agreement, problems between IFRS and US GAAP will be irrelevant. The two sets of standards will have converged to the point where they no longer have any significant differences (House, 2004).

With the United States’ FASB working alongside the IASB, many of the differences that cause problems between cross-border financial reporting will undeniably be resolved. The convergence of these standards will dismiss many of the concerns and costs that are involved in the current foreign trade market. By applying the same set of standards to accounting transactions, countries all over the planet will be able to more easily conduct international business. Currently, several companies use a combination of the International Accounting Standards and the stan-

dards created by their home countries (Taylor, 1999).

Although efforts are being made to converge US GAAP and other international standards, many controversies and differences are yet to be solved. As of recently, the International Accounting Standards’ reputation is that of being more lenient than those of GAAP. This looseness allows more leeway in how companies add up and report their financial figures. Therefore, companies using IAS rules are given an unfair advantage, because their bottom lines are most times higher than those using other standards, say the United States generally accepted accounting standards (Trombly, 2000).

Alfred Popken, a director in the New York-based PricewaterhouseCoopers’ global capital markets group, claims that the United States has the strictest standards in all of the accounting world. According to Popken, the International Accounting Standards will likely not gain the endorsement of the SEC until they become as tough and comprehensive as the standards in the United States. However, the pressure for an international, cross-border set of standards is steadily increasing, and since the IAS is backed by the International Organization of Securities Commissions, the popularity of the convergence efforts is rapidly growing (Trombly, 2000).

Despite the lack of support and uneasy feelings toward the labors of the Norwalk Agreement, the convergence brings about numerous solutions to the questions posed earlier in this paper. The scope of the Norwalk Agreement is the differences between the US Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS). These differences are planned on being resolved in a relatively short time by selecting the most effective standard between the two sets of principles (Gornik-Tomaszewski, 2003). Having a set of standards that companies world-wide can implement will cause fewer problems in international business operations (Analysts and investors, 2004). Even the chief accountant for the Securities and Exchange Commission (SEC) describes the Norwalk Agreement’s effort for convergence as being “very good” (Nicolaisen, 2004).

The European Union (EU)

The European Union (EU) serves as a great example of a successful harmonization. The creation of free movement of persons, goods and services, and capital across member countries is one of the purposes of the EU. In order to form a common capital market, this organization has tried to synchronize financial reporting standards of all the EU member nations. The EU issued directives that must be integrated into the accounting principles of member nations (Hoyle et al., 2004).

However, in 1995, the EU Commission decided that no new directives would be issued. Instead, the EU was to work with the International Accounting Standards Committee to create a “broader international harmonization of accounting standards” (Hoyle et al., 2004, p. 539). Agreeing to participate in this partnership has helped the EU members to make their principles and regulations more compatible. The EU directives helped minimize the differences among the member nations’ standards and have frequently served as an accounting model for other countries in search of a basic framework of accounting (Hoyle et al., 2004).

In hopes of acceptance as members of the EU, Hungary, Poland, and the Czech and Slovak Republics rewrote their existing Soviet style accounting regulations. Using the previously issued EU directives, these countries succeeded in forming a more market-oriented system. On May 1, 2004, these countries and/or republics were granted admission into the European Union (Hoyle et al., 2004).

Currently, only a few countries in the EU use the International Accounting Standard (IAS). David Cairns, who currently advises companies on the switch to IAS, knows a lot when it comes to the various negative and positive aspects of using the IAS. By comparing the German automaker Volkswagen's (VW) 2000 financial results under IAS and those under the existing German accounting rules, Cairns realized that VW had a ten percent boost in net income under IAS. This increase was due to a rule that allows VW to capitalize development costs for new cars. Also, under a different principle, the company could treat car leases as receivables and gain an eighteen percent increase in profits (Maiello, 2002).

Attractiveness of United States Capital Markets

As Darla C. Stuckey (2003), corporate secretary for the NYSE states in her letter to Jonathan G. Katz, secretary for the Securities and Exchange Commission (SEC), "Historically, we (the NYSE) have shared with the SEC the common purpose of ensuring that the U.S. capital markets remain attractive to companies around the world" (§ 4). As a product of this objective, domestic investors are presented opportunities to invest in foreign companies through U.S. markets (Stuckey).

Regardless of the success of the NYSE, a problem still exists in maintaining the desired attractiveness of the United States' capital markets. Foreign companies having to change their financial reporting methods to meet the requirements of the United States' GAAP in order to be listed on US markets are apt to lose interest more quickly (Stuckey, 2003). John A. Thain (2004b), in a letter to the editor of *The Wall Street Journal*, discusses conversations he has had with leaders of NYSE-listed companies, as well as executives from abroad hoping to do business in the United States. In reference to these conversations, Thain (2004b) states, "I continue to hear a refrain. They are saying, 'The pendulum has swung too far. The costs of compliance are too high. The risks of litigation are too great.' And thus, 'We'll avoid the risks. We'll defer our decisions. We'll delay our investments'" (§ 7).

The recent lack of foreign listings can be linked to the declining need to participate in U.S. markets. For example, one such cause is that the Sarbanes-Oxley act takes time, effort, and resources to carry out its regulations. When the cost of complying with our market guidelines increases, the profit usually earned by non-U.S. companies from listing in the U.S. markets decreases. For some European firms, the cost of incorporating the new, complex regulations from the Sarbanes-Oxley Act could increase current accounting costs by 100%. In turn, the growth opportunities being sought by these foreign companies are no longer as appealing as they once were (Thain, 2004b).

Of course the NYSE and the SEC have realized a need for accommodating home country practices for foreign investors and issuers. Stuckey (2003) mentions in her letter the fact that the SEC will accept U.S. GAAP-reconciled financial statements rather than require a full restatement of all accounts from home

country standards to U.S. GAAP. Also, in place of Form 8-K required by the Exchange Act of 1934 of domestic companies, the SEC will allow home country interim reporting practices.

The NYSE and SEC do see a need to make the requirements for cross-border companies to list on domestic markets more lenient. The Sarbanes-Oxley Act of 2002 caused many non-U.S. companies to complain about the requirements being a noteworthy departure from existing reliance on home country regulations. In response to the apprehensions voiced by non-U.S. companies, the SEC has been willing and open to listen to the concerns. The SEC has also attempted to present possible adjustments for non-U.S. companies in the rulemaking of the Sarbanes-Oxley Act (Stuckey, 2003).

Efforts made by the SEC in meeting with foreign regulators, advisors, and companies to discuss those home country requirements that may conflict with the well-known and highly influential Sarbanes-Oxley Act have been noted and acknowledged by the New York Stock Exchange. One such meeting was the Roundtable on Auditor Independence held on December 17, 2002, in Washington, D.C. In support of the SEC, the NYSE sent representatives to attend on its behalf and keep the exchange leaders updated on current concerns. Other participants, including European, South American, and Asian representatives, discussed in great detail both the negative and positive aspects of how their home country regulations effected the requirements for auditor independence proposed in the Sarbanes-Oxley Act. Panelists from the United Kingdom, Japan and France presented requirements in foreign jurisdictions equivalent to those of the SEC in hopes of eliminating duplicate and/or confusing regulations (Stuckey, 2003).

Conclusion

Should companies doing business on the NYSE be required to follow one specific set of standards? In the event of the convergence of US GAAP and IFRS, this question will automatically be answered. If the two sets become alike in most of their standards, then by following the US GAAP standards, a company will ultimately be following the IFRS. The similarity of the two sets of guidelines will allow less of an opportunity for problems and differences to arise.

The American government is not the only organization that is now requiring that participants in any of their markets conform to their domestic regulations and law. The European Parliament has ruled that as of January 1, 2006, any company with public shares in European markets must consolidate all of its financial statements and reports with the International Accounting Standards. This ruling impacts more than 7000 foreign companies who were previously using their own home country sets of standards. The Australian authorities have carried out a similar action in fulfilling their commitment to create some type of sanity in the dealings of accounting principles (Cruikshank, 2002).

What should be done about the option of a choice until the Norwalk Agreement has been implemented in all cross-border countries? By doing business in an American exchange market, a company is agreeing to follow the rules that currently exist in this country. Since the accounting principles in the United States are part of the financial laws of the country, companies choosing to do business and offer investment opportunities through the NYSE should be required, by law, to follow the current rules.

Until a global solution for this problem can be found and fully implemented, the United States should maintain the Securities and Exchange Commission's current requirement. Although costly and time consuming, foreign businesses desiring to do business on American capital markets, specifically the New York Stock Exchange, should be required to follow the generally accepted accounting principles of the United States. By doing business in an American exchange market, a company is agreeing to follow the rules that currently exist in this country. Since the accounting principles in the United States are part of the financial laws of the country, companies choosing to do business and offer investment opportunities through the NYSE should be required, by law, to follow the current rules.

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Economic Value Added: The Accurate Method of Company Valuation and June Compensation for Management

By

Brett Kimball

Turmoil in corporate accounting in recent years has been rampant. Scandals and corruption have led President Bush to create an oversight board in order to regulate accounting and reporting procedures. These new procedures seek to stop dishonest practices such as exaggerating returns and other measures that mislead investors. However, many respectable managers have been implementing “creative accounting” methods which distort their company’s true performance. To most, there seems to be nothing wrong, as long as company executives remain within the confines of the law. Bending accounting rules may not be strictly illegal, but it distorts profits and returns at the very least.

Greed and dishonesty cannot be blamed in themselves for these actions since they have always been present in business. The underlying problem is that bookkeeping has become disconnected from value. In addition, there is a great separation between the ownership and control of publicly held companies. The authors of the book, “The EVA Challenge” write, “although numerous shareholders own a public corporation, control over its operations is in the hands of professional managers, who typically hold relatively few shares and whose interests often diverge from those of the silent majority of shareholders” (Stern & Shiely, 2001, p. 2).

Managers that act in the interests of shareholders are exercising what is known as “corporate governance” (Young & O’Byrne, 2001, p. 35). However, they often have a greater concern for their own financial interests. Some managers of Enron and Tyco are just two recent examples (Stewart, 2006, p. 2). The result is a conflict of interest that reduces shareholder value.

Although shareholders lack the information held by management, shareholders attempt to examine performance by observing financial figures that accountants use. Net profit after taxes (NPAT) and earnings per share (EPS) are scrutinized most since they are thought to be the best indicators of company performance (Martin & Petty, 2000, p. 136). Using these “bottom line” figures is a misleading method since accounting reports distort true economic performance. This is not to say accountants are usually dishonest, but rather they must abide by the conservative reporting measures outlined by Generally Accepted Accounting Principles (GAAP). The conservative nature of these guidelines often underestimates the value of a company. This is no surprise, as companies began (and continue) to report quarterly to lenders who are mainly focused on the down-side of risk. Accordingly, accountants report the value of assets in the case of default on debt payments (Stern & Shiely, 2001, p. 8). However, shareholders are not concerned with the reported book value as lenders are, but rather are interested in a company’s market value.

Adjustments to Financial Statements

The following two sections concern required changes necessary to the income statements and balance sheets. These changes will allow for a more accurate valuation of a company. It is important to remember that these changes will only be made to *internal reports* used by management, not public filings that

follow GAAP.

The Income Statement

Traditionally, accountants expense research and development (R&D). This means that outlays for R&D are deducted from revenue, even though the benefits are often recognized in the following years (Stewart, 2002, p. 5). Expensing R&D yields an understated profit for the year which lowers tax liability. Allocation requirements of R&D vary by company, but those that require massive amounts of R&D include high-tech firms and pharmaceutical companies. Expensing R&D for these companies severely underestimates their net profit and EPS.

Marketing and advertising outlays are also expensed. This practice may seem logical to those who view the effects of advertising to be brief. However, marketing and advertising efforts have lasting effects that build brand value (Stern & Shiely, 2001, p. 4). It is true that estimating the duration of marketing and advertising effects is not exact. However, even a rough estimation of the duration is superior to expensing a large outlay at a single time. For example, soft drink and fast-food companies are just two of the many industries that aim at building recognition and acceptance in the years ahead of the outlays. The same method of expensing applies to quality improvement programs and training personnel, which are large expenditures for companies in the insurance and banking industries (Freeman, 2006, p. 60).

A logical solution to the expensing of the budgets mentioned would include counting them as investments instead. This requires capitalizing the outlays on the balance sheet as an asset and writing it off over its useful life. This can be done in all three categories mentioned: R&D, marketing and advertising, and employee training programs.

The Balance Sheet

GAAP also underestimates value stated on the balance sheet. For instance, an asset such as a building is valued at either its original cost less depreciation, or its market value. The lower value of the two is listed. Also, the market usually rises with time which will therefore understate the value of an asset. For example, a \$25 million manufacturing plant bought in the past may now be valued at \$35 million but would be carried on the balance sheet as \$15 million because of the \$10 million written off for depreciation. This methodology understates value and tax liability once again.

“Pooling” two companies together versus purchasing is another problem with the balance sheet. A company may purchase another by means of buying it outright with cash or by purchasing the shares of the desired company. Pooling the two companies simply involves putting the assets of both companies onto one balance sheet. This action does not record a purchase premium so that neither company’s earnings are affected. On the contrary, purchasing a company with cash may adversely affect earnings if the purchase price is higher than the “fair” asset value (Stewart, 2002, p. 8). This excess amount is listed on the balance sheet as “goodwill” and is amortized for up to 40 years.

For each of these years, the amortized expense depresses net income. Although pooling and purchasing have the same intent and end result, purchases are inappropriately penalized.

It is important to note that GAAP procedures must be followed for legal reporting purposes. However, these adjustments are to be made on internal management reports, which are used to make useful decisions in light of *economic reality*.

Manipulations in Accounting

The distortions of accounting procedures are not the only problem created for shareholders. Calculations are easily manipulated. Profits can be boosted by cutting back expenses like marketing and advertising even when this decision is determined to be disadvantageous for the company. Another method involves managers persuading their customers (often retailers) to purchase additional inventory. Often, retailers agree because of the lengthened or more lenient credit terms offered as incentives. Sales are conveniently recorded on the shipping date just before the end of the period (Young & O'Byrne, 2001, p. 98). Despite improving the results of managers and customers, there is no real value added to the company or its shareholders. Only the bonus of the manager is increased since it is tied to a rise in EPS.

SEC chairman, Arthur Levett Jr. addresses other earning schemes that artificially boost EPS. Management may overstate restructuring expenses, which often includes such costs as shutting down a factory and paying severance pay to laid-off employees.

This is often overlooked since it is a one-time cost that is not carefully estimated by others (qtd. in Stern & Shiely, 2001, p. 25). Mergers and acquisitions may also be manipulated as a corporation may call the majority of the price "in process research and development" (Stern & Shiely, p. 26). This amount can be written off instantly, which serves to understate earnings.

Chairman of Berkshire Hathaway, Warren Buffet, has also expressed his opinion of corporate executives that mislead their shareholders. In his company's 1999 annual report he states,

Many major companies still play things straight, but a significant and growing number of otherwise high grade managers- CEOs you would be happy to have as spouses for your children or trustees under your will- have come to the view that it's okay to manipulate earnings to satisfy what they believe are Wall Street's desires. Indeed, many CEOs think this kind of manipulation is not only okay, but actually their duty. (Berkshire Hathaway, 1999, p. 12)

Manipulating games initiated by executives will be difficult to stop so long as bonuses are paid in direct proportion to EPS increases. Recognizing this problem, participants in favor of corporate governance have sought to promote using other earnings measurements. The most common measurements are Return on Equity (ROE), Return on Investment (ROI), and Return on Net Assets (RONA). These indicators include figures from the balance sheet which make them better than EPS, but they can also be manipulated. ROE, if not improved by performance can be increased by management opting to buy back shares in order to reduce the number of shares outstanding (Stern 13). ROI is simple, but can be used in a manipulative manner. The amount gained from an investment (in the

numerator of the equation) may be revenue or another figure such as net income. Dividing these figures by the initial outlay of the project or investment will yield completely different answers.

Likewise, RONA can be boosted at the end of the period by quickly selling off assets. With fewer assets, management will be able to state a higher return on net assets. Managers with bonuses tied to increasing RONA also have the incentive to deny a wise acquisition since adding a large asset to the total would reduce the overall return (Stewart, 2002, p. 12).

Traditionally, the level of compensation paid to executives increases with the size of the company. Few question this reasoning since larger companies carry larger responsibilities. However, growing larger does not ensure greater wealth for shareholders; better management does (Stern & Shiely, 2001, p. 27). Therefore, a method is needed that can stop the manipulation of financial reports. A measuring stick is necessary to accurately assess the value of an enterprise as well as management's true performance. This method must be difficult for management to manipulate, and meaningful to shareholders. Once a company is accurately valued and performance is gauged correctly, proper incentives can be put into place which will reward managers who serve the interests of the shareholders.

The desire for such a method is not new. Adolf Berle Jr. and Gardiner Means, to Columbia University professors in the 1930's, addressed the need to align the goals of managers with shareholder goals in their book, *The Modern Corporation and Private Property* (ref. in Stern & Shiely, 2001, p. 2). The basic concept of measuring true profit for shareholders has been referred to as *economic profit* (Martin & Petty, 2000, p. 80). Finding a reliable way to determine economic profit has been a problem facing managers ever since it was identified. Economic Value Added, known as EVA, was introduced by Stern Stewart & Co. in 1989. The goal of EVA is simple: Align the interests of management with the interests of shareholders. Today, there are over one hundred companies that focus on raising a single EVA figure in order to benefit themselves, the enterprise, and most importantly the shareholders (Grant, 2003, p. 9).

The Missing Link: Cost of Capital

When investors decide to place their funds in a company, they expect a given rate of return that is above the nearly risk-free rate offered by government securities. However, traditionally both managers and accountants have treated this equity capital as free, which fails to place any value on the funds that shareholders have invested into a business. This is not only inaccurate, but an example of poor stewardship of the resources given to an enterprise (New International Version, Mt. 25.14-30). Failure to consider a cost of capital often leads to reporting a profit despite actually cutting shareholder value (Yoong, 2005, p. 2). By accounting for economic profit, corporate performance is measured by subtracting the total cost of resources associated with generating revenue, which includes equity capital (Stern & Shiely, 2001, p. 18). The basic formula follows:

$$\text{Economic Profit} = \text{Accounting Profit} - \text{The Cost of Equity}$$

The cost of capital is an opportunity cost which is the return that shareholders expect given a level of risk. The firm must deliver this return at the very least in order to return an *economic* profit to the investor. The expected rate of return depends on the level of risk and usually varies 2 to 7 percent above the risk-free returns of government securities (Ka-Neng, 2003, p. 2). Economic profit is often significantly lower than the accounting profit. A company may have an accounting profit of \$10 million, but if it ties up \$100 million on its balance sheet, it will actually report an economic loss of \$2 million if its cost of capital is 12% as shown below:

$$\text{Economic Profit} = \text{Accounting Profit} - (\text{Cost of Equity} \% \times \text{Equity Capital}) - \$2 \text{ Million} = \$10 \text{ Million} - (12\% \times \$100 \text{ Million})$$

As shown, economic profit is a superior indicator than accounting profit because it measures how efficient a company is at using the resources of shareholders. Neglecting the cost of capital has greatly misinformed investors for years. In 2001, combined net income of 1,000 of the largest companies in the U.S. totaled \$96 billion while the cost of the capital (figured at 10% of book equity) was over three times that amount (Stewart, 2002, p. 5).

Solving this problem requires a simple change: earnings should be charged with a debit (for the cost of equity) and this charge can be added back by crediting book equity.

Measuring the cost of equity is not exact nor is it easy because the true cost of funds cannot be known precisely: It is a forward-looking expectation that cannot be known (Gray, 2006, p. 9). Research conducted by Fama and French (1997), two leading experts on the quantification of uncertainty, suggests that the cost of the equity portion of funds stems from the risk premium ($R_m - R_f$) and the risk loading beta, which are both estimated with error (Fama 155). Therefore, estimating the cost of equity will have a margin of error. In a study that followed, Fama and French reported that there is at least a 3% error interval around the mean given a 95% confidence level (p. 180).

Three percent is a substantial range of error. However, even if the cost is not perfectly assigned (i.e. 10% when actual cost is 7% or 13%) it is superior to the complete neglect of this cost used by traditional accounting practices.

Capital Misallocation

Investment decisions are also poorly affected by traditional accounting methods. Management is more inclined to finance an investment project through debt rather than equity financing in order to report higher EPS and ROE (Stern & Shievy, 2001, p. 4). This is because traditional accounting only requires the interest portion of the loan to be covered and both earnings and returns will be reported. The investment would have to yield a much greater return if it is financed with the issue of stock. Therefore, managers are rewarded for increasing the level of debt financing, which may be a misallocation of capital, instead of increasing actual returns. Enron became an example of this when it announced, "We are laser-focused on earnings-per-share" (Enron Corporation, 2001, p. 2). Its actions were followed by rapidly increasing debt financing to dangerously high levels in order to boost EPS. The underlying problem is that managers are motivated to trade wise allocation of capital for a *seemingly* better financial report.

Description of EVA

As a solution, financing costs should be subtracted after operating results are figured. Dividing Net Operating Profit After Tax (NOPAT) by the firm's total debt and equity yields the true operating results without regard to how the debt is financed. This method is therefore a better indicator than ROE. Once financing costs are removed from NOPAT, the weighted average cost of capital can be subtracted from NOPAT. The following formula yields the EVA:

$$\text{EVA} = \text{NOPAT} - (\% \text{ Capital} \times \$ \text{ Total Cost of Capital})$$

For example, if a firm has a total capital of \$1 Billion (from lenders and investors) and their cost of capital is figured at 9%, their capital charge of \$90 million (\$1 billion x 9%) represents the minimum NOPAT required to break even in economic profit. This means that interest has been paid on debt after taxes and meets the 9% return that shareholders demand. From this point, actual NOPAT should be compared to the NOPAT break even point or "threshold" (Grant, 2003, p. 17). If it is greater than the threshold, wealth has been created for shareholders. If it is lower, then wealth has been destroyed.

Once a company determines the NOPAT figure to be accurate, it must look to the other parts of the formula. As mentioned earlier, figuring the cost of capital (required rate of return) demanded by shareholders is not precise. This percentage must compensate investors for the perceived amount of risk they are undertaking. This rate, made of two parts, varies by industry and type of business. The first part called cost of debt capital is equal to the after-tax interest rate of the company's borrowings (Roztocki, 2003, p. 16). The other part called cost of equity capital begins with the risk-free rate of long-term government securities which is typically 6% (Ka-Neng, 2003, p. 3). The equity risk premium, which varies on the type of project is added. This portion usually varies from as low as 1% (i.e. grocery chain) to 7% (i.e. a film production company) (Stern & Shiely, 2001, p. 19). Combining the debt and equity portions of the cost of capital brings the majority of businesses to a 7% to 13% cost of capital.

Before calculating EVA, it is important to ensure that NOPAT is figured correctly. If the traditional net profit bottom line were used, the economic profit would be understated. This is because from the shareholder's point of view there are a number of current expenses that should be placed as assets on the balance sheet (Stern & Shiely, 2001, p. 32). EVA experts have identified over 150 accounting "anomalies," which are placements that can distort true results. However, most companies only require 5 to 10 adjustments to make their NOPAT accurate (Stewart, 2002, p. 18). The handful of changes made must be identified and explained to management so that they can be understood and their decisions can now better serve the interests of the shareholders.

Pitfalls of Poor Incentive Plans

Whether or not employers and employees like to admit it, one of the best ways to motivate workers is through monetary bonuses. An effectively designed incentive plan will encourage workers to use assets carefully, invest in the right projects, to seize new opportunities, and most of all to deliver performance that adds value (Martin & Petty, 2000, p. 161).

Ultimately, incentives should aim to make employees better stewards of the resources given to them, something all companies desire from their workers.

Managers must be warned of the potential harm incentive plans can have. Poor incentive plans can have a negative result in an enterprise if they are not first carefully designed. Jack Welch, former CEO of General Electric, stresses the absolute importance of properly designed incentive plans (qtd. in "Enron Signals the End" 14).

A common mistake made in incentive design is to base bonuses on a measure that gives the wrong signal. An example, outlined by Bennett Stewart III, Of Stern Stewart & Co. is rewarding solely on such measurements as sales, earnings, or market share (Stewart, "How to Structure," 2002, p. 3). These may be strong indicators, but managing from an indicator that is easily manipulated may narrow the focus of management to the extent of ignoring other important measures. Being unable to associate daily decisions to achieving bonuses is another pitfall faced by many companies (Young & O'Byrne, 2001, p. 350). Another mistake, according to Stern & Shiely (2001), is rewarding managers for meeting budget goals. It is not that meeting budget goals is negative in itself, but rather managers will be motivated to set minimal goals in order to be rewarded a bonus every time (p. 14).

Short-term (a year or less) focused incentives without long-term incentives leaves little motivation to invest in long-term projects. Short-sighted goals also tempt management to manipulate accounting measures like EPS (Stewart, 2002, p. 16). A prime example of short-sighted goals that led to corruption can be found in the Enron case. Their annual report admitted their obsession with short-term results (Enron annual report 2000 3).

Using EVA to create the optimal incentive plan:

A tailored approach must be taken for EVA implementation. Such factors as organizational structure, business strategy, risk tolerance, and company culture are major factors to consider when designing the plan (Young & O'Byrne, 2001, p. 85). The most important consideration is to make every employee think and act like an owner. This consideration of course is simple in theory, but difficult in implementing. To demonstrate, the following principles to be discussed are taught by EVA experts such as Bennett Stewart III and Joel Stern who have successfully trained fortune 500 companies such as The Coca-Cola Company and Eli Lilly and Company.

Improvement- Unlike traditional bonuses, EVA incentives are not only paid to top management, but to every employee who is improving EVA from the previous period. Improvement in EVA therefore "levels the playing field" whereby, "Talented managers and employees can be just as motivated to join tough businesses that need to be turned around and restructured as to join the best business" (Stewart, "How to Structure," 2002, p. 10).

Improvement bonuses are always in reach, which can even be attained by managers who feel as though their stock price has reached its high. This solves the problem of managers who leave small companies once they have matured to search for gains at another firm.

Common Concentration- A single measure that is not easy to manipulate allows for a central and simple focus for all employees. Traditionally, companies reward production teams differently than sales teams. Vying for different goals can lead to

cross-functional disagreement, which fosters poor cooperation. Multiple goals can cause confusion, as juggling 10 measures is difficult. For instance, an analogy of determining the best basketball team is made by Bennett Stewart III: Adding blocks, rebounds, field goal percentage, free throws, and penalties together will not objectively tell which team is the best. The best team is determined by the highest score. Likewise, EVA is the single measure of score for an enterprise (Stewart, "How to Structure," 2002, p. 18).

Substantial Incentive- The bonus opportunity must be large enough to motivate managers to make the most value-creating decisions, even the difficult ones. Bonuses tied to creating value must be more attractive than pleasing the sources of both internal and external pressure. Misallocating capital in order to reach budget goals is a typical example of internal pressure, while external pressure may be felt by investor expectations. As mentioned earlier, a substantial incentive is best tied to increasing EVA. The following is a simplified example that highlights the effectiveness of an EVA incentive plan:

Sales	\$100,000,000	
Costs (including taxes)	<u>(80,000,000)</u>	
NOPAT	<u>20,000,000</u>	
Capital	150,000,000	
X cost of capital	10%	
Capital Charge	<u>(15,000,000)</u>	
EVA	5,000,000	
EVA (previous year)	<u>4,000,000</u>	
Increase in EVA	\$1,000,000	+25%

In the example above, management subtracted a \$15,000,000 capital charge from the \$20,000,000 of net operating profit after taxes (NOPAT) to get a positive EVA number of 5,000,000. Management has determined an EVA expected growth rate of 25%. A "bonus pool" has also been determined for every employee that meets the targeted EVA growth rate. In this case, EVA is increased by 25% (reached an EVA of \$5 million which is increased from \$4 million the previous year) which meets the targeted growth rate. This incentive plan can prove to be generous as each deserving employee will receive a 100% of their specified cash bonus for achieving the goal. Higher level managers will have a greater bonus pool than lower level employees (i.e. \$20,000 vs. \$2,000).

Unlimited bonus- Most companies limit the bonus amount to a ceiling of 1.5 times the target bonus (Stewart, "How to Structure," 2002, p. 13). Bonuses must be uncapped as Fortune magazine executive editor Geoffrey Colvin (2001) states, "When a company caps bonuses, something is wrong. Somehow, leadership, organization, measurement, decision-making, and incentives are not aligned with shareholder value."

If they were, limiting bonuses would be foolish” (p. 16). EVA can promise unlimited bonus potential since there is no limit on how much value that can be added. Bonuses will continually rise as long as economic profit continues to increase. In the previous example, if a functional unit of a company achieved twice the bonus (in this case, raising EVA by 50% in a period) they would receive twice the specified cash bonus.

Sustainability- The board of directors must take precautions so as to ensure that EVA figures can be maintained. As a solution, holding back or “banking” large bonuses can be done. Up to half the bonus is paid in the first year, and the remaining portion is paid annually over the following years. Banking bonuses maintains a high level of motivation as managers may lose them if performance levels decline. This approach incorporates the benefits of using traditional stock options that can decrease in similar penalties.

Definitive- An accurate assessment of manager performance can only be done when expectations and goals are clearly communicated. Ambiguous goals and bonuses that are difficult to estimate will hinder a manager’s motivation. Stern Stewart & Co. (2005) has discovered that a successful approach is to develop a formula that rewards improvement in EVA as a percentage. Such implementation has attributed managerial success for The Coca-Cola Co. and Oppenheimer Capital (Stern & Shiely, 2001, p. 33).

Community- Community is the final principle outlined by Stern & Stewart & Co.’s EVA incentive program. Every employee must have EVA incentive potential. Bonus plan structures must all have similarities as this promotes high morale and the common quest to create value for shareholders.

Incentive Implementation Cases: Diageo PLC and Guidant Corp.

EVA encourages accountability: It organizes a system whereby each individual knows what is expected of them, what job needs to be done by when, and how the results will be measured. Teams are made to work together to make decisions. For example, John McGrath, CEO of Diageo PLC, a leading consumer goods company, established a “global peer group” of 19 direct competitors, with top competitors like Gillette and Nestle in the mix. McGrath made it clear that bonus maximization was in reach for excellent performance. Using a Long Term Incentive Program (L-TIP) he outlined the benefits. Fifth place ensures 100% of the agreed upon bonus. Fourth place wins 125%, and the top three spots are rewarded with 150% of the bonus. Fifth to tenth place offered a smaller, sliding scale bonus that fell from 100% gradually. If Diageo failed to make the top ten, the executives would receive no bonus. McGrath could confidently implement this type of incentive program since 90% of shareholders approved it at the annual general meeting. (<http://www.eva.com/action/diageo.php>)

Critics of long-term incentive programs argue that bonuses may still be rewarded to companies that have performed poorly despite beating some competitors. Diageo and other L-TIP implementers have acknowledged this as a legitimate argument, but claim that fallout may be avoided with the proper safeguards: Under EVA valuation standards, bonuses will never be paid if wealth is not created for shareholders. Above this, the remuneration committee must agree that economic profit is growing at an acceptable rate before bonuses are awarded (Stewart,

“How to Structure,” 2002, p. 8).

In regard to the remuneration (or finance) committee, it must be acknowledged that corruption can still exist if these members have ulterior motives. Enron’s committee was partly composed of “old friends” of the executives as well as members who were permissive in corrupt practices that served their own interests (“Enron Signals the End 4). Members that do not have a previous interest in the firm should be selected to safeguard against dishonest practice.

Guidant Corp, a medical device company, also implements an effective EVA-based incentive program. Chairman James Cornelius was seeking to motivate managers to be top-performers in 1995. He decided to contract with the Stern Stewart team to develop EVA performance targets. In addition, every manager was given stock options in efforts to align their own success to the success of the company. Managers set performance bonuses with time frames that were responded to with an unprecedented level of product innovation.

In four years time, Guidant Corp multiplied their share price ten times and added \$105 million in *EVA profits* (Cornelius 7). When asked to comment on the effectiveness of EVA implementation, Cornelius responded,

I’m convinced these results are largely because of EVA and because our people have stock ownership in the company. They keep looking for ways to improve our business because at the end of the day a significant share of their annual cash bonuses are tied to EVA improvement and to holdings of Guidant stock in their benefit and retirement plans. They can see and share in the results of their own efforts. (3)

Corruption Cases: Enron and Tyco

Case #1: Enron Corp.

As noted earlier, management bonuses at top companies are often tied to an earnings figure such as earnings-per-share. Managers of Enron are a prime example of being motivated to raise EPS in a manipulative way. The demise of Enron can very much be linked to their “laser focus on earnings-per-share” (Enron 2000 annual report 2). There were a number of ways in which the executives of Enron manipulated EPS. The “superficial attraction” to increasing EPS may be attributed to a commonly used formula to estimate stock prices:

$$\text{Price} = \text{EPS} \times \text{P/E}$$

This methodology tells an investor that a company that delivers \$5 in EPS and trades for 20 times its earnings (P/E) will be worth \$100 per share. With so many investors watching EPS and management incentives linked to it, there is no wonder that there is pressure to raise it. Raising EPS to \$6 will boost the stock price to \$120 per share. The appeal of using a stock price formula is in its simplicity. However, it makes the incorrect assumption that the P/E ratio will remain the same. In reality, P/E ratios can and do change due to such factors as new strategy implementation and investment allocations (Young & O’Byrne, 2001, p. 134).

Over-investing capital is one of the surest ways to boost EPS. Financing projects with debt capital usually only requires the 4 or 5% return to meet the cost of capital (Stewart, "Enron Signals the End," 2002, p. 2). However, equity capital, (capital from shareholders) requires a much higher return; often 10 to 12% (Copeland, Koller, & Murrin, 2005, p. 176). In an effort to maximize EPS, Enron poured billions of dollars into low-return investments that averaged a 7% return on capital (Stewart, "Enron Signals the End," 2002, p. 5). Since the return was much lower than the cost of capital, Enron was setting itself up for failure.

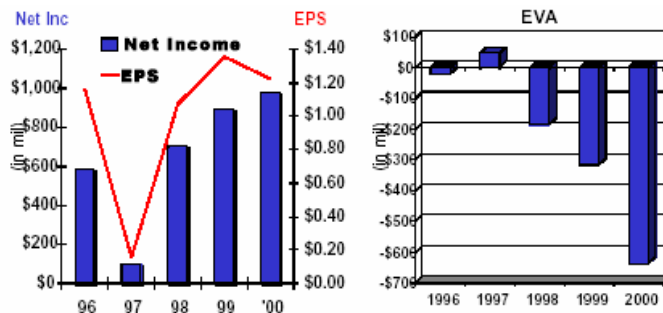
Over-leveraging the balance sheet was another method used by the executives of Enron. Heavy debt financing is the obvious course of action for managers who are frantically trying to boost EPS. In Enron's case, debt-financing was employed far beyond cautious levels. Lenders and investors caught on and were suddenly unwilling to provide the fast financing required for Enron to deliver their expected EPS figure (Stewart, "Enron Signals the End," 2002, p. 7).

The problem with management in many companies is executives being given a single focus to raise earnings. A single earnings figure will lead to disaster as it did with Enron. Boosting EPS, if not through genuine performance will always tempt managers to borrow too much and offer too few new shares in order to raise reported earnings as high as possible. As Bennett Stewart noted, "EPS is the opium of the executive suite; it is the Don Juan of corporate value. As Enron discovered, worshipping at the EPS altar can lift a top team to a prominent pedestal in the short run but drag them down to a fiery grave in the longer term" (Stewart, "How to Structure," 2002, p. 7).

EVA methodology raises expectations for management. An enterprise can misallocate or over-invest capital, increase sales, and even increase EPS and still reduce EVA. However, since EVA measures the wealth created for shareholders, a positive EVA will mean increased EPS (Grant 27). The beauty of EVA above its simplicity is that it places pressure on management to add real value. Managers may only receive a bonus once the determined cost of capital (debt and equity mix) has been returned to lenders and investors.

If the managers of Enron were utilizing an EVA incentive plan, they would not have been rewarded for their highest years of EPS gains (1998-2000). In fact, their dishonest efforts of over-investing and over-leveraging would never have been acceptable. The meager 7% rate of return would not have met the 10 or 12% required return needed to accept the increased leverage for the investment projects (Stewart, "Enron Signals the End," 2002, p. 5). Enron CFO, Andrew Fastow, would not have been able to fuel his bonus since he was not returning the cost of the capital borrowed from shareholders.

As the chart below indicates (Stewart, "Enron Signals the End," 2002, p. 6) the three highest years of reported EPS returned the largest bonuses to Enron executives. However, EVA valuation would not have paid a single dollar in bonuses since it grew increasingly negative. Managers who destroy EVA are not rewarded since they have not met the demands of shareholders. EVA is indeed, a tool that holds management accountable to creating wealth for shareholders first.



Had raising EVA been the focus for management in the beginning, the temptation to manipulate a single figure like EPS would not have existed. Misallocating investor capital and over-leveraging the balance sheet would be avoided as they would be judged as an unsatisfactory investment. EVA cannot be manipulated nearly as easily because it incorporates the expectations of overall economic performance.

Case #2: Tyco International

The American-based conglomerate, Tyco International, is another example of a company engaged in corruption that could have been deterred in part by EVA valuation and compensation methods. Although there were numerous instances of corruption, the largest practices will be discussed.

CEO Kazlowski was accused of purchasing multi-million dollar items for himself with company debt, which allowed him to avoid paying income tax. The conglomerate itself raised suspicion as it paid CFO Mark Swartz \$170 million over a three year period (Colvin, 2001, p. 16). Much of the earnings were in bonus dollars fueled by rapid acquisitions. These acquisitions were financed by stock that was used to over-leverage the growing conglomerate. Earnings increased annually by 20% during the early nineties, which fattened the pockets of executives whose bonuses were tied to earnings. While the executives increased their wealth, the funds of shareholders were being used against themselves. Earnings were pushed by the \$27 billion of capital debt from lenders and investors (Stewart, "Enron Signals the End," 2002, p. 7).

As with the Enron example, the pressure to run earnings up, this time through over-valued acquisitions, would not have existed with EVA valuation and compensation. The 20% annual returns would not have been deemed satisfactory given the level of capital required to do so.

As SEC Commissioner Harvey Pitt said, "There is no true number in accounting, and if there were, auditors would be the last to find it." (qtd. in Stewart, "Accounting is Broken," 2002, p. 8). Accounting manipulation and fraud would not hold to the scrutiny of EVA. Economic profit cannot be manipulated; it must be substantiated through the delivery of an actual return. Increased earnings are simply not enough.

Conclusion

The Goals of EVA: Accuracy, Accountability, Honesty

The introduction described the problem of corrupt practices and dishonest reporting. Dishonest motives still lead to corrupt practice and therefore EVA implementation in itself cannot rid corporate America of such harm. Instead, it serves as a deterrent in the three ways that were discussed in the previous sections.

First, managers and the finance committee are held accountable to shareholders and lenders. EVA requires more than a net profit, but a relevant *economic profit* in which success begins once value is added to shareholders. The proper adjustments are made to internal financial statements which serve to accurately gauge performance.

Second, the temptation to manipulate figures is discouraged since compensation is no longer tied to earnings. Incentives are based on increasing EVA, which requires returning the cost of capital used. Actions to misallocate capital, avoid long-term investments, and over-leverage the balance sheet are discouraged simply because they will not increase management's bonus. Instead, incentives are linked directly to rewarding shareholders.

Third and most of all, EVA promotes honesty. True performance is measured instead of profit and earnings by traditional accounting standards. Therefore, the relevant economic results are gauged. Managers are not rewarded for manipulating particular figures, but rather have an incentive to raise a number that can only be done through honest results.

The End Results

A tailored EVA plan is one that incorporates every employee from top managers down to the manual laborers in a factory. Unity among all employees encourages every individual to think and act as if they owned the company. Since valuation is accurate and compensation is tied to increasing value, cross-functional teams are able to cooperate in efforts that are rewarded simultaneously. Resources are used efficiently with an expected level of return in mind. Bonus earnings are unlimited and motivation is based on honest results. Shareholders benefit in equal measure from EVA implementation as the money that they have invested is put to use in a manner that meets their expectations.

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MBTI and Career Assessment: A Study of College Students' Personality Types and Their Career Selection

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Abstract

This study seeks to test whether a substantial correlation exists between the majors that students choose at Liberty University and the personality-based careers that are suggested by the consulting firm, BSM Consulting. A random sampling of 45 juniors and seniors responded to a survey that asked for their Myers-Brigg personality types, their majors, and brief reasons for their choices of major. Based on these findings an analysis was conducted through the statistics software SPSS, and on the assumption that students choose majors that are reflective of their intended career, a substantial correlation is found that links a student's chosen major with those suggested by BSM Consulting.

Introduction

The Myers-Briggs Type Indicator (MBTI) is a personality assessment widely used by institutions varying from college classrooms and counseling centers to top-level companies. It is based on the idea and study of type preferences developed by Carl Jung. He wrote the book *Psychological Types* in the early 1920s, which was discovered by Katharine Briggs a couple of decades later. She, along with her daughter Isabel Briggs-Myers, passionately pursued the understanding of the sixteen personality types, and their study resulted in the development of the MBTI. In October of 2003, Myers-Briggs celebrated its 60th anniversary and "it's said to be still the most popular and widely used personality-assessment tool of its kind in the world, with about 2.5 million tests given each year" (Shuit, 2003, p. 72). In fact, according to the publishers of the MBTI, 89% of Fortune 100 companies use the test in one form or another (Shuit, 2003). It has become a valuable asset in counseling, career development, and personal use.

The more one knows about himself and his natural preferences, the better he will be able to make decisions on what skills to develop, how to handle his strengths and weaknesses, and also what careers he will most likely enjoy and in which he will be successful. Once in a career, one can also use the assessment in creating a better work environment: "Both critics and supporters say that the indicator endures because it does a good job of pointing up differences between people, offers individuals a revealing glimpse of themselves and is a valuable asset in team-building, improving communication and resolving personality-based conflict" (Shuit, 2003, p. 72). While it is extremely beneficial to know how to improve the work environment in which a person is already involved, it is even better to get involved in a work environment that is the best fit for oneself from the beginning.

It is assumed that colleges specifically prepare students for careers based on the majors they choose. However, many

students do not know what career field would create the best fit with their personalities. They lack the experience and tools to have realistic views of what they are both good at as well as what they will truly enjoy. Therefore, students often become involved in a trial and error process of jumping from major to major until they find one in which they think they want to be involved. This process could be greatly condensed if students were first made aware of their personality types and then given options of careers that have been known to be a good fit with others of the same type. This will clearly not be the deciding factor in their career selections because "to expect the MBTI instrument to provide all the answers to a career search is improbable and unrealistic. It can be only part of the puzzle in finding life work" (MBTI Manuel, 1998, p. 286). However, the MBTI assessment test can be an important step in the process and. Several firms have conducted research on the MBTI. One such firm used in this study is BSM Consulting. They have done research and analysis based on personality types to help guide students in the right direction. Use of the MBTI to "help people find meaningful and productive work was one of Isabel B. Myers' original motivations in the development of the instrument" (MBTI Manuel, 1998, p. 285). If her desires have been met in the proper development and analysis of the MBTI, then students should be able to use these resources to gain counseling in the direction of a major and thus a career.

Because people with different personalities have different expectations of and reactions to their surroundings, these differing preferences manifest themselves in the ambitions they hold for their futures to include career choices. Personalities analyzed by the MBTI are based upon Jung's four dichotomies which, in turn, make up a person's personality type. The four pairs of differences and opposites are as follows: extroversion or introversion, sensing or intuition, thinking or feeling, and perceiving or judging. There are sixteen possible personality types and they are decided by which of the four dichotomies an individual prefers. Studies have been conducted that match a person's MBTI result with one's corresponding career. One such study has been done by BSM Consulting. In their research they have stated that certain personality types have a tendency to gravitate to particular sets of careers. Their web page, www.personalitypage.com/careers.html, which matches types with careers, states the following:

Research has shown that many of the different Personality Types tend to have distinct preferences in their choice of careers. We have incorporated observations of each type's character traits which affect career choice along with some suggestions for possible directions. We have also included lists of actual careers which the various types have chosen in their lives. (¶ 1)

Scrolling down the page, one will find sixteen links representing the sixteen Myers-Brigg personality types. Clicking on one of the individual types will then bring up a page that has a brief description of that type, a list of traits that that type of person will generally possess, and last a list of possible career paths.

Purpose

The purpose of this study is to determine whether a substantial correlation exists between BSM Consulting's Myers-

Brigg Type based careers and a student's intended major. This study will seek to test the assumption that students choose majors, perhaps unconsciously, that are reflective of the careers that they intend to pursue and that would be a good fit with their personality types. It should also be made clear that this study is not being done under the assumption that any MBTI research could result in a conclusion that creates limitations on what career a man or woman can or cannot do or should or should not do. Skeptics would point out that humans have been created with a free will and are free to make the choices that they deem best. Such critics are wary of using the MBTI as a career decision predictor: "Personality tests can offer one additional data point but shouldn't determine the outcome of decisions" (Hsu, 2004, p. 69). No two people are the same, so it would seem unlikely that the four preference sets of the MBTI could adequately summarize the whole of a person's personality. To the extent that these cautions are valid, one would expect to find a group of people who will not be seeking after the conventional careers suggested by this firm. BSM Consulting (2006) also makes a statement that substantiates this caution:

This material is provided for your reference, and is intended to be an informational guide. It does not comprise a complete analysis of ideal careers for individuals, and does not guarantee success or failure at any occupation. As we know, individuals vary greatly. However, we certainly encourage personal self-knowledge and research in your quest to live up to your fullest, and for this reason we provide you with this information. (¶ 2)

Based on research of the consulting firm and the effect of one's personality on their career ambitions and choices, and keeping the above critiques in mind, the hypothesis is that there will be a substantial correlation between BSM Consulting's career paths and a student's major.

Method

The study for this research was done within the student body of Liberty University. A random sampling of 300 third and fourth year students was first selected through the Registrar's office of the University. Then a survey was emailed to each potential participant with questions regarding their personality types and intended majors. Within this first group, 23 students followed the directions on the survey, filled it out, and sent it back. Due to the small number of respondents, another random sampling of three hundred third and fourth year university students was chosen, and they were sent the same survey. Out of this group, 22 students responded, resulting in a total of 45 students to use in the processing of this analysis.

Instrument

The instrument for this research was a survey sent out to each of the 600 students. It begins with a brief summary of the purpose of the survey and directions for how to fill it out. That is followed by a paragraph describing the usefulness of the Myers-Briggs and how it can be helpful in learning more about oneself. The next section includes the hyperlink to <http://www.humanmetrics.com/cgi-win/JTypes2.asp>, where the students could discover their personality types after filling out their responses to 72 questions. After filling out the personality type

inventories and being provided their four letter types, they are asked to give their genders, majors, and a brief answer on the reasons for choosing their majors. The last question was asked in order to gain insight on what they plan to do with their major, knowing that there is a chance that it might be different than what would normally be assumed. A copy of the survey can be found in Appendix A.

Basis of Data and Analysis

The data retrieved from this survey was organized in Excel and the statistics were analyzed through SPSS, the statistics program used by the Departments of Psychology and Marketing at Liberty University. In this program, the Chi-Square Test was used as the determinant as to whether there was a substantial correlation between the career paths of BSM Consulting and a student's intended major.

Carl Jung's Theory of Psychological Types

The genius and innovation of Carl Jung was born from a time of differences, conflict, and oppositions. This time of trial in his life, however, led to the study and confirmation of the different forms of consciousness and operation within varied individuals (Spoto, 1995). He began to confirm that within *each* individual there was the problem of differences as well as opposites (Spoto, 1995). Through his studies and findings he developed the theory of personality types, which he pulled together into the book *Psychological Types* in 1921. Although his theories are widely circulated today, inspiring a following of people who use his work to explore individual lives and group activities (Spoto, 1995), his work was not widely recognized until decades after he had written his book.

Creation of the MBTI

The creation of the Myer-Briggs Type Indicator is a story based upon the passion, drive, and perseverance of two women, Katharine Briggs and her daughter Isabel Briggs-Myers. The beginning of the quest can be isolated to a particular incident—Isabel's bringing a young man home with her over Christmas vacation. As Katharine began to interact with Isabel and her boyfriend, she began to understand that marriage was in the air. The frustrating part for her was that, though this young man was soon to be a part of their family, she didn't understand him at all. He was very different from both her and her daughter in personality. This inspired the beginning of Katharine's research into human personality types. She started out by studying many varied biographies; she also attempted to gain insights by watching the people around her. Through a persevering time of researching, she developed her own typological study, arriving at four different types: meditative, spontaneous, executive, and sociable. However, as she was in this process of development, she stumbled across *Psychological Types* by Carl Jung. To her, this was both an inspiration and a revelation. She used to book as a basis to develop varied typological projects which in turn led to the creation of the MBTI. However, it was her daughter who spent a large part of her life marketing the indicator, spurred on by the belief that typology could increase the effectiveness of teamwork during World War II (Spoto, 1995). Not only has her effort achieved an increase in effective team work, but it has given many people assistance as

Typology

Carl Jung's Typology, which is the basis of the Myers-Brigg Type Indicator, is comprised of sixteen possible personality types. These are determined by a person's preferred manner in which he responds to different aspects of life. Each pair is considered a dichotomy, which is "division into two usually contradictory parts or opinions" (www.dictionary.com). However, within each dichotomy there is neither a right nor a wrong, but simply a matter of preference: "The MBTI elicits a person's preference for one of each choice in four pairs of opposites, but equally healthy, ways of using our minds... Indeed type theory asserts that all eight parts are necessary to adaptively conduct our lives" (Quenk, N.L., 2004, p. 8). In discovering a person's preference, one can learn how to best build one's strengths and understand the world around him.

The first dichotomy is extroversion and introversion. It is defined as the "direction of libido or orientation of interest" (Spoto, 1995, p. 28). It is the dichotomy that crosses all ranks of society, transcends cultural and historical conditions, and is considered gender neutral; it is a part of a person's 'Biology' and relates to the way in which organisms survive or exist in nature (p. 29). Those who prefer extroversion gather their energy from the world around them. They see the "object," or environment, as both valuable and fascinating and maintain open relationships with the world (p. 30). They are naturally pulled into the busy activities that the world offers and prefer to be involved in doing many things at once. While they are driven by a desire to influence others, they are also very easily influenced by their environments. They often appear confident, accessible, and expansive. Those who prefer introversion, however, are quite the opposite. They relate to the world around them by looking within themselves. They have more of an abstract mindset as they see the "objects" within the environment as "draining energy away from the important, subjective world" (p. 30-31). They place considerable value on solidarity and quiet as they are more independent and may feel pressure from the outside world. They are also very idea-oriented and oftentimes appear lost in thought, somewhat unapproachable, or reserved.

Both extroversion and introversion are positive aspects of persons' personalities. Very few people could consider themselves exclusively one or the other, as most see within themselves both types to some degree and consider them as valuable aspects of their personalities (Spoto, 1995). However, whichever type to which a person is more naturally inclined is considered his first of four types. He will be more comfortable and successful when he is able to act on his preference. When the opposite occurs and introverts are forced to be extroverted and visa versa or extroverts are prevented from being introverted and extroverts are prevented from being extroverted, "these individuals run the risks of future neuroses due to what [Jung] calls a 'falsification of type'" (p. 33). Each person has some degree of both types, for to Jung it was the idea of opposites that produces harmony. Jung "would suggest that life is made up everywhere of pairs of opposites which are at once irreconcilable as well as inseparable... the 'poles' of opposites are best perceived as moving through a natural process of transformation and change of one into another" (p. 36).

The second of the four dichotomies is sensing and intuition. Sensing is "perception via conscious sensory activity" (Spoto, 1995, p. 46). In other words, sensing is perceiving

the outside world through the five senses. Those with this preference are "interested in reality as it is presented to them" (p. 46). They want to be able to look back and remember the tangible evidence that were present in those facts and details. They are more reluctant to change because their senses are already inundated with the world around them, and they are not able to imagine the future with certainty. Intuition, however, is "conscious perception via the unconscious" (p. 46). It is more of what people label the "gut feeling." It is the function that "mediates perceptions in an unconscious way... a kind of instinctive apprehension, no matter of what contents" (p. 47). Those with this preference are not as apprehensive about change because they are more adept in using their imaginations and dreams to discover what could be possible. They bring the advantage of differing and alternative perspectives that may not have otherwise been presented from someone who prefers sensing. Intuition "runs free and mixes in with everything that is hidden, invisible, or behind the scenes and senses" (p. 47). This preference is one that leans on the "gut-feeling" as opposed to the evidence in the environment.

The third of the dichotomies is thinking and feeling. Thinking involves more of the head as one seeks to evaluate and analyze through "ordering and judging to reach an objective and logical conclusion" (Spoto, 1995, p. 44). Those who prefer feeling, however, seek to evaluate and analyze through their hearts by attaching proper and personal values. Feeling is a "kind of judgment, different from intellectual judgment in that its aim is not to establish conceptual relations but to set up a subjective criterion of acceptance or rejection" (p. 44). A common misconception about people with this preference is that they are high strung and emotional, but that is not the meaning behind the feeling type. The difference in their criteria for forming judgments is that it is personal rather than impersonal, and subjective rather than objective. These people value harmony and relationships and are relatively trusting; an important need for them is both to receive and provide appreciation. They "generally have aptitude... for knowing what matters most to themselves and to other people and can be very adept at handling interpersonal situations and problems" (p. 44).

Those who prefer the thinking function analyze their surroundings more objectively. They bring "contents of ideation into conceptual connection with one another" (Spoto, 1995, p. 45). They are the fact seekers who depend on logic in their process of reasoning and their search for the truth. They find themselves setting aside their own personal values and feelings and instead rely on principles to guide them through the matter at hand. They have a tendency to be impersonal and are often labeled as being argumentative and critical (p. 45).

The last of the dichotomies is that of judging versus perceiving. These preferences refer to one's "attitude towards the external world, and how [one] live[s] [their life] on a day-to-day basis" (BSM Consulting, 2006). Those who prefer to use the judging function like to have matters concise, scheduled, and settled. They have a tendency to be more organized because of their choices to think and plan ahead rather than wait last minute to figure things out. They like to have matters settled and closed as opposed to leaving things open ended. Those with the perceiving preference, on the other hand, are more spontaneous in their plans. Instead of making plans far ahead of time they prefer to wait and see what else might come along. They live day to day and in the present as opposed to in the schedules of the future.

They also have a tendency to leave things open-ended as opposed to the judgers' response of focusing on settling matters (BSM Consulting, 2006). Each Myers-Brigg personality type consist of these four dichotomies, making up the total of sixteen types. A table with all the types is as follows:

ISTJ	ISFJ	INFJ	INTJ
ISTP	ISFP	INFP	INTP
ESTP	ESFP	ENFP	ENTP
ESTJ	ESFJ	ENFJ	ENTJ

Resulting Data

The data received from the 45 students who responded to the survey was organized into five different sections using Excel. The first section includes each of the respondent's four preferences, the second section includes the percentage of participants that identified their combination of these four letters, the third identified gender, the fourth was their major, and the fifth was a brief description of why they chose their major (as shown in Appendix B).

To determine whether a student was involved in a major that coincided with the careers suggested by BSM Consulting, a comparison was conducted using their major and career description and that particular type's suggested careers according to BSM. The three areas make up the possible categories into which each student will fall are as follows: *suggested*, *potential*, and *neither*. For example, if a student were majoring in Social Science with a teacher licensure and BSM Consulting's analysis of that type suggested a career in teaching, he would be considered to be within his *suggested* career. However, not all of the stated majors give a clear direction of the specific careers graduates will pursue. For example, if a student is majoring in English and does not specify what he plans to do with it, and BSM Consulting suggests that that particular type get involved in teaching, then his major would be considered as a *potential* match. There are also those who are clearly not majoring in something that will lead them into one of the careers that is suggested by the consulting firm for that personality type. In this case they are considered to be in *neither* the suggested nor the potential field.

While *potential* was considered during the analysis that was conducted of the data, it does not affect whether the result is a substantial correlation based on the statistics program SPSS. The only deciding factor for this analysis will be on how many students are majoring in a degree that is clearly leading them into one of the suggested careers.

Survey Results

On the following page is a table of the results received from all 45 surveys. Because the percentages of each type and the student's gender ended up being irrelevant in the analysis of this data, it has been deleted from the following table. However, a chart complete with all of the elements can be found in Appendix B.

The fourth column of the table indicates the major that each student has chosen. Majors that fall within the *suggested* category are both italicized and underlined. Those that fall within the *potential* category are only italicized, and then those that fall within the *neither* category are neither underlined nor italicized.

SPSS Results

This information from the following table was then inserted into the program SPSS. The analysis derived from this program can also be found in the tables and charts on the following pages.

The most important table displayed by SPSS in this instance is the Chi-Square Test Table. It is the table that summarizes the data most concisely and determines whether a substantial correlation exists between the determinants which it was given including the student's personality type and major. In order for a substantial correlation to exist, the Pearson Chi-Square must produce a .050 or higher.

Organization Table

S	T-	P	Major	Reason for choosing major
E-I	N	F-J	Major	radio airwaves
E	N	F	Communications	clergy
E	N	F	<u>Biblical Studies</u>	manager
E	N	F	<u>Sports Mgmt</u>	psychologist/counselor
E	N	F	<u>Psychology</u>	teacher
E	N	F	<u>Social Science with teacher licensure</u>	teacher
E	N	F	<u>Elementary Education</u>	bible teacher
E	N	F	<u>Elementary Education</u>	writer
E	N	F	<u>Religion</u>	
E	N	F	<u>English</u>	
E	N	T	<u>Social Science</u>	
E	S	F	<u>Nursing</u>	
E	S	F	<u>Nursing</u>	
E	S	F	<u>Nursing</u>	
E	S	F	Business	sales rep
E	S	F	<u>Elementary Education</u>	orphanage
E	S	F	<u>special education</u>	
E	S	F	<u>international business</u>	
E	S	F	<u>Psychology</u>	counselor
E	S	F	<u>Psychology</u>	
E	S	F	<u>Elementary Education</u>	
E	S	F	<u>Graphic Design</u>	
E	S	F	<u>Advertising</u>	sales rep
E	S	T	<u>Elementary Education</u>	teacher
E	S	T	computer science	
E	S	T	Accounting	FBI
E	S	T	Nursing	
I	N	F	Biology	veterinarian/ med doctor
I	N	F	<u>Elementary Education</u>	teacher
I	N	F	Business Finance	
I	N	F	<u>Religion</u>	
I	N	F	Nursing	
I	N	T	English	
I	N	T	math	
I	N	T	Nursing	
I	N	T	youth ministry	
I	N	T	history	
I	S	F	Public Relations, Communications	
I	S	F	Accounting	bookkeeper
I	S	F	Elementary Education	child care/early childhood dvmt
I	S	F	Elementary Education	child care/early childhood dvmt
I	S	F	Psychology	counselor
I	S	F	Religion: women's ministry	missionary
I	S	T	Communications: Graphic design	
I	S	T	Elementary Education	
I	S	F	family and child development	

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	33.889 ^a	22	.050
Likelihood Ratio	36.936	22	.024
Linear-by-Linear Association	.398	1	.528
N of Valid Cases	45		

a. 35 cells (97.2%) have expected count less than 5. The minimum expected count is .22.

The above is the Chi-Square Test Table resulting from the data inserted into SPSS. The first row of this analysis states the following: $X^2(22; N=45)=33.89, P=.05$. The $P=.05$ represents the section of the chart that determines whether the necessary probability was reached for there to be a significant connection between the categories of this study. Therefore, the analysis shows that *there is a significant relationship between a student's personality type and his or her major* based on the career paths of BSM Consulting.

The details describing how this conclusion was reached can be seen in the PersonalityType*Major Crosstabulation table on the following page. The first column in this table represents twelve of the sixteen personality types. None of the students that responded to the email survey had the other four personality types and thus they were taken out of the table and analysis. The first row in each of the twelve personality types represents the actual number of students that fit into that category. In the far right column one can see the total number of students that have that particular personality type and then in the three columns to the left of it, one can see how many students of the total amount fit into each of the categories representing *Neither, Suggested, or Potential*. The second row under each of the personality types represents the percentage of students within that type that fit within each of the three categories. Last, the third row represents the percentage of the total number of students that fit into that type and category.

The very last row in the table represents the total number within each of the above stated categories. Of the 45 students that responded to the survey, eleven of them, 24.4%, were clearly not involved in a major that would lead them into a career that was suggested through BSM Consulting. Ten of them, 22.2%, were working toward their degrees in majors that held the potential to lead them into a career that was suggested by BSM Consulting. Finally, of the 45 students, 24 of them, 53.3%, were clearly involved in majors that would lead them into careers that were suggested by BSM Consulting.

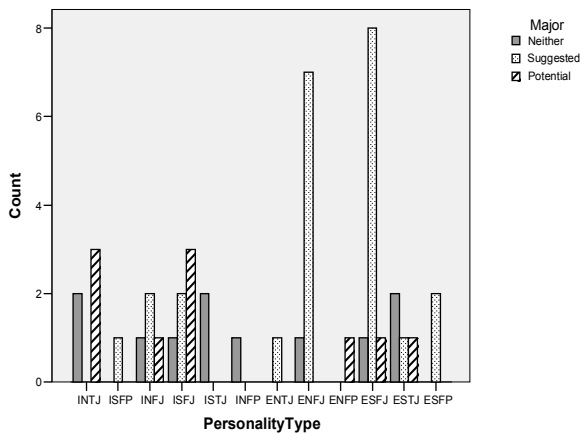
One might suggest that since only a little over half of the respondents were involved in majors that would lead them into their suggested careers, there is no definite basis that these suggestions are actually legitimate in being used for career counseling. However, it must be remembered that only 24.4% of the overall students were definitely *not* in their suggested majors. The other 22.2% were involved in majors that could possibly lead them into a career suggested by BSM Consulting.

PersonalityType * Major Crosstabulation

PersonalityType		Major			Total
		Neither	Suggested	Potential	
INTJ	Count	2	0	3	5
	% within PersonalityType	40.0%	.0%	60.0%	100.0%
	% of Total	4.4%	.0%	6.7%	11.1%
ISFP	Count	0	1	0	1
	% within PersonalityType	.0%	100.0%	.0%	100.0%
	% of Total	.0%	2.2%	.0%	2.2%
INFJ	Count	1	2	1	4
	% within PersonalityType	25.0%	50.0%	25.0%	100.0%
	% of Total	2.2%	4.4%	2.2%	8.9%
ISFJ	Count	1	2	3	6
	% within PersonalityType	16.7%	33.3%	50.0%	100.0%
	% of Total	2.2%	4.4%	6.7%	13.3%
ISTJ	Count	2	0	0	2
	% within PersonalityType	100.0%	.0%	.0%	100.0%
	% of Total	4.4%	.0%	.0%	4.4%
INFP	Count	1	0	0	1
	% within PersonalityType	100.0%	.0%	.0%	100.0%
	% of Total	2.2%	.0%	.0%	2.2%
ENTJ	Count	0	1	0	1
	% within PersonalityType	.0%	100.0%	.0%	100.0%
	% of Total	.0%	2.2%	.0%	2.2%
ENFJ	Count	1	7	0	8
	% within PersonalityType	12.5%	87.5%	.0%	100.0%
	% of Total	2.2%	15.6%	.0%	17.8%
ENFP	Count	0	0	1	1
	% within PersonalityType	.0%	.0%	100.0%	100.0%
	% of Total	.0%	.0%	2.2%	2.2%
ESFJ	Count	1	8	1	10
	% within PersonalityType	10.0%	80.0%	10.0%	100.0%
	% of Total	2.2%	17.8%	2.2%	22.2%
ESTJ	Count	2	1	1	4
	% within PersonalityType	50.0%	25.0%	25.0%	100.0%
	% of Total	4.4%	2.2%	2.2%	8.9%
ESFP	Count	0	2	0	2
	% within PersonalityType	.0%	100.0%	.0%	100.0%
	% of Total	.0%	4.4%	.0%	4.4%
Total	Count	11	24	10	45
	% within PersonalityType	24.4%	53.3%	22.2%	100.0%
	% of Total	24.4%	53.3%	22.2%	100.0%

Of the twelve personality types that were used in the analysis of this data, this study will look more in depth into the two types that had the greatest percentage of students who were involved in suggested majors and the two types that had the least percentage of students who were involved in suggested majors. In order to get a clearer overall picture of these four types, one can look at the bar chart that is displayed below. The two types that have the greatest number and percentage of students that fit into the category of *suggested* majors are ENFJ and ESFJ. The two types that have the smallest number of students in the *suggested* category and the greatest percentages of students in the *neither* category are ISTJ and INFP.

Bar Chart



The ENFJ and the ESFJ personality types have in common three of their four preferences. They are both extroverted personalities with the feeling and judging preference. BSM Consulting's personalitypage.com has a large section on career paths. Within each of these career paths, there is both a brief description of each personality type along with the list of suggested careers (as stated above). Based on the descriptions that are on these pages, those with an ENFJ personality type are very outgoing and good with people. Their interest in others is normally genuine, and harmony with them is of great importance. They are very strong in the areas of structure and organization; however, they do not appreciate objective and impersonal logic. They tend to be very creative and imaginative, which explains why they like variety. They are also very sensitive in regards to criticism from others and feel the need to be validated by others. Generally, in order to thrive it is important with people of this type to be in a supportive environment that presents new challenges often. Seven out of eight of the students who had this personality type fit into the *suggested* category.

According to the same source, those with the ESFJ personality type also enjoy being around people. They are very warm-hearted and caring for those around them, and they find much of their satisfaction in helping others which helps to make them good team members. Peace, harmony, and security are very important to them as well. They are very practical and down-to-earth people who are good at giving the practical type of care. Like the ENFJ, they also have a need to be validated and approved by others. Along with the personable side of those with ESFJ, they have a very organizational side. They enjoy being in creating structure and order and tend to work well with routine tasks. They like to live in the present as opposed to dreaming about the future, and they enjoy making and keeping schedules. Eight of the ten students that have this personality type fit into the *suggested* category.

Both of these personality types are very outgoing and comfortable working with larger groups of people. They tend to be focused on the people and environment around them and how they can get involved. Therefore, the careers that are suggested for them by BSM Consulting are careers that are focused on the needs of others and are greatly dependent on being around a lot of people. Because of this, the career fields that they would go into are much more general and in which it is easier to get involved.

Of the two personality types that scored least in the *suggested* category and most in the *neither* category, the only similarity that they had in regards to the four preferences was that they were both introverts. Those with the ISTJ personality types are similar to the ESFJs in that they are both practical and down-to-earth, and they place great value on security and peaceful living. This is where most of the similarities stop, however. ISTJs are not in tune with the feelings of those around them, and they make most of their decisions based on objective logic and rational thinking. They are very focused on facts that can be observed through the senses. Once they take in these facts, they store them internally. They are family minded people who have high standards for themselves as well as those who are close to them. They are natural leaders who can do just about anything if they set their minds to it. Of the two students who have this personality type both of them were in the *neither* category.

The other type that has the smallest percentage in the *suggested* category is INFP. These are introverted people who,

while genuinely interested in individuals, prefer to work alone as opposed to working in teams. They have a very strong value system and are very “others-minded.” While they may not be social butterflies, they appreciate and long for deep, meaningful relationships and are loyal. They are both creative and inspirational as they are growth- and future-minded. They generally have good written communication skills, and they are viewed as complicated and complex. They have the desire to be known and appreciated for who they are. Only one of the students who responded to the survey has this personality type and he/she falls into the *neither* category.

Both of these personality types are introverts. While they are genuinely interested and caring towards others and relationships, they are not as energized through their environment. Also, as stated in the above paragraph, they have a tendency to be more complex. While one of the above types was natural leaders and the others were growth- and future oriented, it makes sense why it would be harder to limit them to a particular type of career. They might have more of a tendency to follow a path that most others have not done before.

Conclusion

The analysis of the gathered information confirmed the hypothesis of this study. There is a substantial correlation and relationship between the personality type that a student has and the major/ career in which he or she is involved based on the information given by BSM Consulting. This study was conducted only on students from Liberty University, but it is a study to be considered for others in the future. Based on the analysis, 53.3% of the time students will be working toward a major that will lead them into a career that is suggested by this consulting firm based on the student’s personality type. Since there is a significant relationship, students could be made aware of this research as they enter into college. It would help students to be made more aware of themselves and why they are the way they are. It would also give some direction as to what careers would be a good fit with their personalities, so that they are not walking into college without any idea about what their options are. This would minimize the number of students that fall into the *neither* and *potential* category, and it would increase the number of students who fall into the *suggested* category. Then the students who would still be in the *neither* category could choose majors knowingly and with the awareness that it is what they really want to do, despite their conventionally suggested majors, as opposed to being in the *neither* category due to ignorance. BSM Consulting’s career paths can be seen as a guide in the process of students’ choosing both their majors and their careers based on the substantial correlation found in this study.

Based on these findings, it is recommended that it be mandatory for Liberty University students to take the Myers-Brigg Type Indicator upon enrollment into the University and be made aware of the suggested careers based on their individual personality types which will be analyzed by professionals. With this guidance they will be able to make educated decisions on their college choices in the following years. CASAS, the Center for Academic Support and Advisement Services at Liberty University, should consider using the information found in this study to conduct further study.

Through more longitudinal and in-depth study, a range

of conclusions can be reached on the impact that the present findings can have in the future. A longitudinal study should be conducted of college graduates that will analyze the assumption that students choose majors that are reflective of their intended careers. Upon graduation from the university, students could respond to this study with their MBTI personality type and their major. Ten years later, these same graduates should be interviewed or surveyed in regards to their present career and their satisfaction within their career field. With these conclusions and recommendations, students will receive clear and confident direction for future in regards to their college major and career choices.

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Of Men and Women: How Communication Differences Im-

pact Women in the Business World

By

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Honors Petition for BUSI 300-001

Abstract

Communication differences between men and women affect every aspect of life, including the workplace. Because of these differences which are mostly seen in nonverbal communication, women have a difficult time climbing the corporate ladder. They are stereotyped and often are prevented from reaching their full potential. Women's natural behavior in communication perpetuates their expected roles as subordinates. This limits their abilities to be seen as equals in the business world. To reduce the effects of stereotypes and improve women's positions in the workplace, men and women must understand their differences in communication and work to adapt to the different styles of each gender.

The Significance of Communication

Men and women are so different. Books like *Men are from Mars, Women are from Venus* by Dr. John Gray try to divulge to its readers the mysteries of the opposite sex. What are their actual differences, and why has so much time been devoted to studying them? These differences play very important roles in the lives of all men and women and have defined their roles in relation to each other and to society. One of the major differences between men and women is their separate ways of communicating. Communication is important to human life because it influences behavior, creates boundaries, inspires action, and forms relationships. The differences in communication and the ways of interpreting communicated messages have created norms that are seen in the workplace; these norms often negatively impact women. This paper will show that because of the inherent and developed differences in communication between men and women, barriers have been formed in the workplace that prevent complete equality between them.

Statistics of Women in Business

Currently, women's positions in the business world have been improving. According to the Bureau of Labor Statistic's web site, women have increased their presence in the workforce from 43 percent to 59 percent between 1970 and 2004 (Women in the Labor Force: A Databook Updated and Available on the Internet, 2005, para. 2). They have also increased their earnings as a percentage of men's by 18 points since 1979 to a total of approximately 80 percent. In addition to this, perhaps the most impressive statistic reveals the following: "Women held half of all management, professional, and related occupations as of the year 2004" (Women in the Labor Force: A Databook Updated and Available on the Internet, para. 2). However, beside all these positive improvements for women, studies show that women still

experience the glass-ceiling effect. Career advisor Armando Gomez (2005), author for the Power & Money section of the website AskMen.com, a website that averages 5 million readers per month, analyzed the situation and found, "Although half of the American population thinks that women are treated fairly in the workplace, the female community simply does not agree, as executive positions are still difficult to strive for" (para. 1). Many factors contribute to this problem faced by women. One factor is the lack of mentoring opportunities available to women compared with the amount available to men. This discrepancy makes it more difficult for women to climb the corporate ladder (Kalbfleisch & Cody, 1995, p. 5). Another factor, one that will be discussed extensively in this paper, is precedence. Because it has always been assumed that positions of authority should be occupied by men and that positions of subordination should be occupied by women, the task of overcoming this mentality has been particularly arduous for women (Gomez, para. 8). Not only is it a challenge for women to achieve high status in the workplace, but also they are not recognized and rewarded equally with men in the same positions (Remland & Tannen, 2000, p. 332).

The Importance of Nonverbal Communication

The status of business women compared with business men can be traced to the different ways they communicate. Both verbal and nonverbal communication affect perceptions of the men and women communicators. Verbal communication includes both the spoken and written word, while nonverbal communication includes those types of communicators such as gestures, facial expressions, voice intonations, and posture (Allis, 2004, para. 2-3). In many ways, nonverbal communication skills are more important to employees than are verbal skills. This is so because anyone can learn to become an effective oral communicator, or an expert writer. These areas of communication are standardized, and have little to do with the status of men and women. Nonverbal communication, on the other hand, has everything to do with status. Nonverbal qualities explain a big part of women's status in the business world. Studies have consistently found that men communicate dominance nonverbally while women communicate submission (Remland & Tannen, 2000, p. 40). Women seem to use nonverbal communication more to create and build relationships, while men use nonverbal communication to transmit their superiority to others: "Women's nonverbal behavior is used to make personal connections, while men's nonverbal communication tends to parallel behaviors associated with dominance and power" (Siennicki, 2000, para. 1). Nonverbal communication sends a message of either authority or subordination to the audience. Martin Remland and Deborah Tannen (2000) supports this idea in the following statement: "Numerous scientific studies demonstrate that we form all sorts of negative impressions of individuals simply because those individuals in some way communicate a low-status identity" (p. 335). Women's communication style does not transmit authority, and thus, they seal their assumed fates as subordinates even more firmly.

Nonverbal Communication: Body Language

There are several specific aspects of nonverbal communication that cause men and women to come across as dominant and submissive, respectively. The first of these is body language. Not surprisingly, the physical space used by men communicates dominance, while that used by women communicates submission (Glass, 1992, para. 1). A man takes up more space than does a woman, and he tends to be bolder in his gestures toward another person; he is more likely to invade another's personal space in his interactions with that person than is a woman. In addition, a man's reclined listening position gives off an air of authority. This is unlike a woman, who leans toward the speaker when listening (Glass, para. 1). A woman's body language seems to invite the other person toward her, showing her vulnerability. A man, on the other hand, uses body language that keeps the other person from coming too close. Once again, this demonstrates authority and dominance (Glass, para. 1). Both men and women recognize that it is easier to approach a woman, who is naturally the less powerful of the two sexes; this fact perpetuates the assumption of a man's dominance and a woman's submission (Glass, para. 1). Nancy Henley says, "That women's personal space is smaller than men's, that is, that both men and women are observed in greater proximity to women than they are to men, is commonly observed in studies of interpersonal spacing" (Kalbfleisch & Cody, 1995, p. 35). Therefore, because of the differences in body language displayed by men and women, men are seen as the more dominant of the two sexes, making it difficult for women to climb the corporate ladder.

Nonverbal Communication: Eye Contact

Next, the use of eye contact is important to the communication of dominance or submission. Says Henley: "Those with greater social power, expert power, or reward power...showed greater visual dominance behavior" (Kalbfleisch & Cody, 1995, p. 39). Once again, this use of nonverbal communication is relational for women and an expression of superiority for men. Women use eye contact more frequently than do men, and maintain eye contact in order to hold the attention of the persons with whom they are conversing. Men, on the other hand, use eye contact to challenge the authority of the speaker (Siennicki, 2000, para. 4). Like body language, visual communication causes women to appear submissive and men to appear dominant, limiting women's advancement in the corporate world.

Nonverbal Communication: Physical Features

Physical features also communicate dominance and submission. Women have an obvious disadvantage here. It is hard to deny that in any physically strenuous competition between two people, the one with the larger physical stature is more likely to win. A larger stature communicates strength and intimidation (Remland & Tannen, 2000, p. 320). Examples are found in the playground bully, who is the biggest individual in the school, the star of the basketball team, who is tallest, and the most powerful, who is the strongest. Because men are generally taller and stronger than women, they are traditionally given the role of leader. Additionally, both men and women find it harder to take

instructions from someone smaller and weaker, whether it is a man or a woman. While to some, this status-definer may seem irrelevant, it is only too true: "Height conveys status" (Remland & Tannen, 2000, p. 320). This personal characteristic is a nonverbal communicator that keeps women from breaking through the glass ceiling.

The Roots of Nonverbal Communication

The sex differences in nonverbal communication are firmly entrenched in the personalities and expectations of men and women (Eakins & Eakins, 1978, p. 17). Children grow up learning what they should and should not value (Kelley, 2005, para. 7). Those childhood lessons form their mental models about life, shape their personalities, and form their communication behaviors. Men and women are taught two very different lessons, which are exhibited in the goals they form: "Women pursue more communal goals in which they engage in more status-neutralizing activities, whereas men pursue more competitive, individualistic goals in which they engage in more status-assertive activities" (Kalbfleisch & Cody, 1995, p. 312).

Personality Reflected in Communication

Men are taught to value excellence. They are taught to be the best, to be powerful, to be anything but weak, to be tough, to be aggressive, and to be independent (Eldredge & Eldredge, 2005, p. 17). These lessons affect the way men relate to the rest of society, showing through every venue of communication their superiority. However, women are taught to value relationships (Eakins et al, 1978, p. 19). They are taught to be sensitive and caring in order to be liked. Women also feel that acceptance is based on beauty (Eldredge & Eldredge, 2005, p. 10). Therefore, for women, each aspect of communication seeks to project beauty; it is used as an attempt to gain the admiration of the other. Also, women have found that they are more easily accepted if they fit into the mold of what society expects women to be—meek, submissive, and obedient. Thus, women have learned to communicate submission through their nonverbal behaviors: "If a woman talks in ways expected of women, she is more likely to be liked than respected...It is particularly ironic that the risk of losing likability is greater for women in authority, since evidence indicates that so many women care so much about whether or not they are liked" (Remland & Tannen, 2000, p. 330).

Perceptions of Women's Role

These communicative behaviors of men and women, both learned and inherent, negatively contribute to business women. Detrimental expectations of women are also perpetuated in the Christian church. Stasi and John Eldredge (2005), in her book *Captivating*, says, "The church has been part of the problem. Its message to women has been primarily, 'You are here to serve. That's why God created you: to serve'" (p. 6). This message confuses women, and causes frustration. A woman wishing to be something more than a humble, docile servant, perhaps the CEO of a major corporation, is looked down upon and seen as a threat. She battles fitting into the specified mold of a woman in favor of doing what she really wants. This is all reflected in a woman's speech pattern and nonverbal communication. Because women

value people's favor so much, their speech will reflect this; they are more tactful than men and try to use appealing language, much different from men's: "Less than one-half as much of the women's talk as the men's showed antagonism or tended to lower another's status" (Eakins & Eakins, 1978, p. 33). These expectations of women are combined with the natural characteristics of girls, seen in their desire to be rescued by Prince Charming, who is, undoubtedly, a man (Russo, 1999, p. 96). Inherent yearnings such as these contribute to the dominance of men, allowing persistence of the long-held belief that men should be in positions of higher authority.

A Biblical Perspective of Communication of Men and Women

All these seem to point out that males should, indeed, be dominant. However, this does not fit in well with our ever-changing culture. How are women to reconcile the fact that they are to emanate obedience in communication, behavior, and status with their strides toward equality with men? Biblically, the roles of men and women are not meant to clash. Furthermore, the desired roles of men and women are not meant to clash. Men generally are the leaders, and, therefore, communicate their leadership position better than do women. They desire to be leaders, protectors, and fighters (Eldredge & Eldredge, 2005, p. 17). Women's personalities generally seek the position of follower; this is due to the fact that women want to feel needed and cherished (Eldredge & Eldredge, 2005, p. 10). This inherent tendency is explained by Stasi and John Eldredge, who state that a woman is to be the "ezer kenegdo," the helper: "When God creates Eve, he calls her an ezer kenegdo" (p. 31). Both verbal and nonverbal communication of women stems from that inborn trait of "helper" (Eldredge & Eldredge, 2005, p. 31). The two separate role definitions of men and women are meant to work together to create harmony that should extend even to the workplace: "Now—can you see how the desires of a man's heart and the desires of a woman's heart were at least *meant* to fit beautifully together?" (Eldredge & Eldredge, 2005, p. 18) However, while there is nothing in the Bible against women leaders (Deborah was a judge over Israel), this is no excuse to deny women upper-level business positions.

Effects of the Stereotypes

The question is brought up of whether or not anything can be done to change communication between men and women, thus increasing women's chances for equality in the business world. The most important change needed is related to the expectations spoken of previously. These predetermined ideals for women are most harmful to women's status and affect their communicative power. Because men communicate dominance, what they speak about is more likely to be accepted as authoritative. Furthermore, because of their dominant behavior in nonverbal communication, men are assumed to be in higher positions of authority than are women who deliver the exact same message. Burgoon and Dillman, contributing authors in Kalbfleisch and Cody's (1995) book *Gender, Power, and Communication in Human Relationships* agree.

Where gender differences exist, they may take more the form of intensifying or deintensifying a preexisting message, with male's

behavior being given more of a dominance slant and females' behaviors being given more of a solidarity or intimacy slant, in keeping with gender stereotypes. (p. 78)

Once again, perceptions and expectations are at work here and directly influence each other. The expectations of dominance in men cause listeners to perceive men as dominant, whereas the expectations of submission in women cause listeners to perceive women as submissive.

Steps toward Change

Rhonda Kelley (2005) offers a few suggestions for breaking the blockade formed by communication differences. First, she states that is important for men and women to become aware of their own communication styles: "Self-evaluation is an important first step in improving gender communication" (para. 18). Next, obviously, men and women must understand the ways communication differs between the sexes. However, perhaps the most important thing to remember is not to criticize people for their communication styles. Says Kelley, "Different is simply different" (para. 30). Differences extend to the stereotyping of men and women based on and reflected in their communication, and, as has been shown, often punishes women by barring them from higher organizational positions.

Conclusion

It has been shown that the communication differences between men and women hinder women's abilities to advance very far in the corporate world. Because women display submissive nonverbal communicative behavior, they are often expected to take positions of submission. However, men, because they display dominant communicative behavior, are expected to be in positions of authority. The barrier women face in the business world is difficult to break through; indeed, it seems almost impossible. Steps can and must be taken if equality between men and women is to be reflected in positions and pay. While it is normal for men to be considered leaders, it is time that women are also recognized as people with leadership skills. Submissive communicative behavior does not have to mean submissive business positions.

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The Intersection of Vision, Personality, Communication, and Administrative Organization: Why Former President Ronald Wilson Reagan Was Such an Effective Leader

Lindsey Hoban

Abstract

Ronald Reagan's background, vision, personality, communication style, and choice of administrative organization are examined to understand why he was so effective at achieving his top four initiatives: limiting government spending, cutting taxes, increasing defense spending, and winning the Cold War. Ronald Reagan was selected because of his popularity as a two-term president in recent history. He was well-known for his energy, ability to inspire others, and polished communication skills. Ultimately, it is argued that Ronald Reagan was effective for the following reasons: his focus on the broader picture, strong commitment to clear moral principles, ability to simplify his message, and pragmatic approach to policy-making.

Introduction

The greatness of a leader is measured by results. Whether a person is the head coach of a major league baseball team, CEO of a Fortune 500 company, or executive director of an international non-profit organization, superior leadership is always reflected in the outcomes achieved. Delineating presidential greatness is no different; as Ronald Reagan's former political advisor Edwin Meese (1992) argued, "[e]very president brings to the White House his own unique management style, the product of his personality, background, and experience. And each style has its strengths as well as its points of vulnerability. The test of a management style is the results" (pp. 21-22).

Leadership style, personality, and other attributes of former President Ronald Wilson Reagan will be examined to demonstrate how his personal attributes and leadership style made him an effective president. Reagan's personality, his vision for America, and his ability to communicate that vision helped him to both connect with the average American and mobilize his staff to enthusiastically support his initiatives. The combination of leadership style and attributes such as simplicity of vision and sincerity in communicating his vision to the American people enabled him to successfully achieve his main priorities: strengthening the economy, bolstering national defense, and defeating communism.

Ronald Wilson Reagan

Road to the Presidency

Reagan's journey to the presidency was atypical of modern American presidents. He was born into a poor family and entered politics only after failing as a Hollywood actor, coming not from a family lineage of politicians or lawyers but from common Americans struggling for financial survival.

Early hardships in Reagan's life greatly influenced his leadership style. Born on February 6, 1911 in the small Illinois town of Tampico, he suffered emotional pain as a young boy with an alcoholic father trying to numb the anguish of financial hardship. Through personal experience and vivid story-telling of such

hardships in his campaigning, Reagan was able to connect with the average American citizen. He also experienced poverty first-hand. To pay for college tuition, Reagan played sports; to pay for meals, he washed dishes (Gibbs, 2004). Reagan had personal acquaintance with the lifestyle, the stress, the frequent moving, and the uncertainty surrounding a life of economic difficulties. Frequent moving, as a result of such difficulties, made Reagan accustomed to building new friendships. However, with each move he became increasingly reluctant to attach himself to his new companions, which later manifested itself in his friendly but impersonal relations with the members of his staff. Reagan's mother was a deeply committed Christian who led her family by example. She actively involved herself in their church, taking on roles from choir director to cradle roll nursery leader (Kengor, 2004). She also instilled into her children strong biblical principles; Reagan reflected this upbringing in later years, refusing to compromise his moral values (Kengor, 2004). As Michael Reagan (2004), the son of President Reagan wrote, "[a]s president of the United States, Ronald Reagan possessed an inner moral compass that was more certain and accurate than the advice from the brightest minds at State and the NSA" (p. 25). His son also credited the president's foreign policy success to his moral values. It was Reagan's "moral conviction, his clear sense of right and wrong that—more than any other factor in history—brought about the end of the Soviet empire and the end of the Cold War" (Reagan, 2004, p. 25). Ronald Reagan himself stated at the Republican National Convention in 1984,

[p]olitics and morality are inseparable. And as morality's foundation is religion, religion and politics are necessarily related. We need religion as a guide. We need it because we are imperfect, and our government needs the church, because only those humble enough to admit they're sinners can bring to democracy the tolerance it requires in order to survive. (Reagan, 2004, p. 143)

After graduating from Eureka College in 1932, Reagan began working as a sports announcer; this public speaking job enabled him to send money to his parents during the Great Depression. By 1937, Reagan had begun his acting career, acting first in motion pictures and later in television programs. During World War II, Reagan used his acting ability making military training films (World Almanac, 2005).

Reagan's acting experience gave him a strong advantage over his political opponents. He was comfortable in front of a camera and accustomed to the spotlight. He was also proficient in using the medium of television, effective at both verbal and nonverbal communication, including posture, hand placement, and eye contact. Reagan's critique of his opponents following a 1980 debate among candidates for the Republican presidential nomination demonstrated his public speaking proficiency. Reagan stated,

Notice that none of them knows what to do with their arms and hands. It's one of the hardest things to do right when you're making a speech. The only way to look natural on a stage is to hold your hands and arms in a way that does not feel natural...just let your arms hang by your side, straight down. Then you uncurl your fin-

gers so that they just cup your thumb. It feels uncomfortable, but you look relaxed. . . . It's something I learned a long time ago in Hollywood. (Anderson, 1988, p. 58)

Aside from inculcating Reagan with knowledge on how to stand and speak, acting prepared Reagan for a career in politics by teaching the value of genuineness and resistance to harsh criticism. "Acting—a genuine dramatic or comedic performance—is about finding the truth within, about summoning and revealing. . . convictions with utter genuineness" (Reagan, 2004, p. 1). Each role Reagan performed highlighted a different portion of his personality. Whether "the Gipper," a famous football player, or a soldier in a training movie, Reagan was always acting out a part of himself. In politics, this allowed him to retain an image of sincerity in anything from giving a large public address to speaking at a small White House conference (Reagan, 2004, p. 97). In a conversation with speechwriter Landon Parvin in 1988, the President stated:

[s]ome of my critics over the years have said that I became president because I was an actor who knew how to give a good speech. I suppose that's not too far wrong. Because an actor knows two important things—to be honest in what he's doing and to be in touch with the audience. That's not bad advice for a politician either. My actor's instinct simply told me to speak the truth as I saw it and felt it. (Reagan, 2004, pp. 3-4)

Acting also taught Reagan how to handle harsh media criticism. According to his son, Reagan "never complained about the relentless attacks against him and Nancy throughout his years in office" (Reagan, 2004, p. 2). In fact, "[b]y the time he got to the White House, Ronald Reagan had a very thick skin regarding the many unfair and downright stupid things that were written and said in the press" (Reagan, 2004, p. 2).

As his acting career slowed, Reagan transitioned from movie production to politics (Jeansonne, 2004). Elected as governor of California in 1966, he quickly found strength from his faith. "It is inconceivable to me," Reagan said minutes after his 1967 governor inaugural address, "that anyone could accept this delegated authority without asking God's help" (Kengor, 2004, p. 116). Reagan's tenure as governor gave him experience transforming a communicated vision into political reality. Despite working with a partisan democratic legislature, Reagan successfully engineered and pushed through contentious welfare reform with a team of less than ten staff members (Hobbs, 1975). His governorship also gave him a network of connections and staff members that would assist him when elected president, including key advisors Edwin Meese and Michael Deaver (Hobbs, 1975).

Before entering the presidential race of 1980, Reagan was keenly aware of the political climate surrounding incumbent President Jimmy Carter and knew how to capitalize on it. The question "[a]re you better off today than you were four years ago" (Burrell, 2003, ¶ 4)? resounded with the public, highlighting Carter's failures from his poor handling of the neutron bomb decision to double-digit inflation (National Review, 1978). Carter was prudish, and his lack of discretion had isolated the American people. Though he was well-intentioned, Carter lacked the ability to efficiently execute political strategies and naïvely believed

a good policy would sell itself. Carter was obsessed with the details; he even organized the White House tennis schedule. Administratively, Carter made the mistake of not appointing a chief of staff during his first two and a half years as president; instead cabinet advisors answered to him directly (Sloan, 1999). Referring to his predecessor, Ronald Reagan stated, "[t]he problem with Carter is that he tries to do everything at once and he tries to do too much of it himself. If we win we are going to set priorities and do things one at a time" (Anderson, 1988, pp. 56-57). Once elected, Reagan remained true to those words.

After Carter's single unsuccessful term as president, Americans wanted a candidate who was optimistic. The public wanted a leader who they could relate to and who could make legislative progress. As University of Wisconsin History Professor Glen Jeansonne wrote,

The election of 1980 was largely a revolt against the pessimism that had shrouded Jimmy Carter's America rather than the promise of an unknown future. Reagan understood that Americans were disillusioned after decades of national trauma, of Vietnam and Watergate, followed by stagflation, unemployment, international competition for jobs and the humiliating hostage crisis in Iran. (2004, ¶7)

On January 20, 1981, Reagan was inaugurated as the 40th President of the United States, winning a large percent of the popular vote.

During his first few weeks in the White House, Reagan celebrated his 70th birthday (World Almanac, 2005). Reagan's age brought along with it great wisdom which had been gleaned from experience. His age also revealed the true intensity of his personality. Rather than attempting to hide the fact that he was turning 69 at the beginning of the primary season, Reagan commemorated his birthday with an ostentatious party, cleverly short-circuiting any potential offense the press could generate against him for being too old because "he was celebrating his age" (Reagan, 2004, p. 6)!

A New Vision

Reagan's vision for America was simple and oft repeated: limit government intervention, cut taxes, increase defense spending, and defeat communism. During his presidency, this vision never changed, and Americans came to rely upon his steadfastness. Grounding this consistency of vision, Reagan's fundamental worldview remained the same for his entire career. Valuing moral principles, freedom, equal opportunity, and personal responsibility, his worldview was deeply rooted in American history, enabling citizens to understand it with ease. As he stated at the Ecumenical Prayer Breakfast in 1984, "[w]ithout God there is a coarsening of the society. And without God, democracy will not and cannot long endure. If we ever forget that we're one nation under God, then we will be a nation gone under" (Reagan, 2004, pp. 77-78).

Though Reagan was a very optimistic leader, he believed that the world contained clear good and evil and that people were capable of both. This belief was demonstrated most evidently by the powerful rhetoric Reagan used when referencing communism and the Soviet Union. For instance in 1983, Reagan remarked,

I believe that communism is another sad, bizarre chapter in human history whose last pages even now are being written. I believe this because the source of our strength in the quest for human freedom is not material, but spiritual. And because it knows no limitation, it must terrify and ultimately triumph over those who would enslave their fellow man. (Ryan, 1995, p. 42)

Reagan unequivocally believed that communism was evil. “When faced with what he saw as a dark force of history—Soviet communism—Reagan met it with not only his political but his spiritual beliefs” (Kengor, 2004, p. xii). Historians acknowledge the Cold War as “the great ideological struggle of the twentieth century, but to many—including those jailed in the USSR for religious reasons—it also represented the great struggle for faith in the twentieth century” (Kengor, 2004, p. xii). The reason communism represented such an assault on faith was because it was founded on atheism and was so intensely hostile to freedom of speech and religion. Reagan believed that if people saw communism’s true appearance, they too would be convinced of its horror. “How do you tell a Communist?” Reagan joked in 1987. “Well, it’s someone who reads Marx and Lenin. And how do you tell an anti-communist? It’s someone who understands Marx and Lenin” (Reagan, 2004, p. 38). Reagan had familiarized himself with these writings and, thus, knew the implications of these ideas on world peace and universal freedom.

In a quest to expand freedom domestically, Reagan advocated a reduction in the amount of government intervention in the lives of private citizens. Reagan trusted and supported the common person. As he saw it, “[y]ou can’t be for big government, big taxes, and big bureaucracy and still be for the little guy” (Reagan, 2004, p. 29). He prized individual liberty and limited government control in the private sector. He valued freedom above equality. Overemphasis on equality of persons, he believed, guaranteed centralized control as demonstrated by the Soviet Union. Equal opportunity, on the other hand, gave each individual the chance to be successful, granting everyone the right to pursue happiness. Reagan applied this idea by supporting legislation that limited bureaucratic control and cut taxes.

Finally, Reagan believed that freedom and equal opportunity required citizens to take personal responsibility for their well being instead of relying on government handouts (Lammers & Genovese, 2000). Remaining confident in the abilities of the average citizen, he wanted the government to serve as an institution of last resort and at the 1992 National Charity Awards Dinner, Reagan stated, “[t]his is the backbone of our country: Americans helping themselves, and each other. Reaching out and finding solutions—solutions that governments and huge institutions can’t find” (Ryan, 1995, p. 15). Reagan’s insistence on personal responsibility had a profound impact on the American political consciousness; so much so that its emphasis remained even after the cessation of Reagan’s presidency.

Regardless of the audience before him, Reagan remained unmistakably clear about his stance on political issues. Consistency and straightforwardness in the portrayal of his vision made it easy for people to follow his leadership. The simplicity and centrality of his vision provided clarity to Reagan’s overarching principles among hundreds of individual proposals. This accessible vision served as a dynamic tool for rallying public support for critical policy proposals such as tax cuts and defense

pending increases.

The Impact of Personality on Leadership Style

Eternal optimism and self-confidence typified Reagan’s personality. He sincerely believed that good would conquer evil, that peace would be restored, and that everything would work out for the best in the denouement (Jeanson, 2004). His aplomb propelled him forward even when progress connoted disapproval from his own party base. Reagan’s resilience in the face of heavy criticism gave him the nickname “Teflon president” (Jones, 2004). No media accusation stuck to him because of his optimism, public popularity, success in dealing with Congress, and extensive delegation of White House responsibility (deflecting any negative responsibility).

Self-confidence not only made Reagan resilient, it also helped him avoid petty politics when criticized by others. Instead of seeking revenge upon those who ran against him in the election, Reagan turned former enemies into friends. In stark contrast, Reagan’s radical supporters had a strict litmus test to determine who could be deemed loyal enough to join them. Though conservatives declared George H. W. Bush too moderate on critical issues, Reagan appointed him Vice-President of the United States because of his extensive political leadership experience, even though Bush ran against him in the election (Sloan, 1999, p. 72).

Reagan’s enthusiasm and fervor motivated his staff and the public at large to embrace his vision for America. Although Reagan was the oldest man ever to become president, he displayed a youthful vigor not present in the Oval Office since the death of John F. Kennedy (Nelson, 2004). Enthusiasm propelled his administration to continue striving for solutions, pressing forward to beat enormous obstacles, including bipartisan politics and heavy bureaucratic resistance to budget cuts. Hope and stamina not only helped him win elections, they gave him momentum to be successful as a policymaker. Reagan’s political advisor, Edwin Meese (1992), described him as “a tough and decisive leader, one of the best I have ever known or seen in action. He had a friendly and nonconfrontational manner, but it was coupled with resolve and strength” (p. 14).

Reagan also had a great sense of humor. His greatest demonstration of this humor was in his response to the assassination attempt on March 30, 1981. Reagan explained to his wife Nancy, “Honey, I forgot to duck” (Reagan, 2004, p. 20). To the doctors at the hospital operating on him, Reagan remarked, “I just hope you’re Republicans” (Noonan, 1995, p. 204). To White House aid, Michael Deaver, he joked “I really screwed up the schedule” (Reagan, 2004, p. 20). When his staff surrounded his bedside for a meeting, Reagan declared “I knew it would be too much to hope that we could skip a staff meeting” (Reagan, 2004, p. 22). The assassination attempt not only revealed Reagan’s innate humor, it also renewed his faith in God. The bullet came within a fraction of an inch of killing the newly elected president. As Reagan’s son explains,

So many things went miraculously right that day: The Secret Service agent protecting [him] quickly decided to take him to the hospital (when he arrived, doctors could not detect any blood pressure); the explosive-tipped bullet failed to explode; doctors just happened to be attending a staff meeting at the hospital when [Reagan] was

brought in—so all the institution’s finest medical minds were on hand; the doctors found the bullet after hours of exploration—and just as they were ready to give up looking for it. (Reagan, 2004, pp. 74-75)

Even when his life was threatened in an assassination attempt, he remained calm and determined to press ahead. “While recovering in the hospital, Reagan told his daughter Maureen that he felt God had spared him for a reason, and that he would devote the rest of his time on earth to whatever it was God intended him to do” (Kengor, 2004, p. 199).

In everyday circumstances, his humor frequently deflected criticism. When age was brought up before an election debate as an issue that might hinder Reagan’s abilities to lead, the President remarked he would not raise the issue of his “opponent’s youth and inexperience” (Reagan, 2004, p. 7). Reagan’s disarming wit enabled him to frame the differences between himself and Mondale. Humor also allowed him to retain Carter’s moral thunder without looking impersonal or aloof. Reagan connected with the American people as a friendly, fellow human being; not a hypocrite attempting to pass judgment.

Finally, Reagan’s laid-back approach to life had tremendous implications for his leadership style. Reagan himself once remarked, “it’s true hard work never killed anybody, but I figure, why take the chance” (Jones, 2004, ¶21)? Reagan recognized the importance of level-headedness when it came to making good decisions. He believed a workaholic is too worn down and busy to conceptualize the broader picture and decipher the very important from the extraordinarily important (Anderson, 1988). When interacting with his staff, Reagan’s laid-back style surfaced in his approach to important meetings and lack of attention to detail. During cabinet meetings, as leader of the world’s most powerful country, Reagan made jokes and popped jelly beans. Comedy reduced stress and helped Reagan not take himself too seriously. Reagan was reluctant to be consumed by excessive details and paperwork. In fact, Reagan purposefully avoided details (Economist, 2004). In stark contrast to Carter, Reagan communicated his vision then delegated most of the responsibility to his assistants. Proper delegation made Reagan an effective leader. In contrast,

Carter could tick off a list of inconsequential details about some aspect or other of a federal policy, but seemed to have little idea where he wanted to lead the country. Reagan did not immerse himself in details, but he had a true vision of what he wanted to accomplish. . . . Reagan’s approach was to establish his goals, state them clearly to his staff, and rely on them to handle the details. (Meese, 1992, p. 22)

For this reason, Reagan relied heavily on the reporting given by his staff. Those at the top of his hierarchical organizational structure had tremendous influence over him. While Reagan’s staff frequently became frustrated by his ignorance of detail, Reagan’s laid-back style ultimately worked for his advantage by enabling him to make sure his administration was always pointed in the right direction (Sloan, 1999).

The Great Communicator

According to Noel Tichy, director of the University of Michigan Global Leadership Program, “Successful leaders take a simple message and repeat it endlessly” (Jones, 2004, ¶18). Reagan reiterated his simplistic message again and again. A powerful, clear vision articulated by the former actor made him a dynamic speaker commonly referred to as “The Great Communicator.”

Political strategist and pollster Dick Wirthlin describes Reagan’s method of communication as “[p]ersuade through reason; motivate through emotion” (Hannaford, 2004, ¶1). Arguments were grounded in analysis that could be debated and defended. Since Reagan knew a good idea would not automatically be adopted by others, he conveyed his vision with genuine passion and excitement. The combination of substance and style distinguished him from his predecessors and enabled him to communicate his values and beliefs effectively to a broad audience by capturing their interest and attention. In his farewell address to the White House, referencing his famous title, Reagan humbly stated “I wasn’t a great communicator, but I communicated great things, and they didn’t spring full bloom from my brow, they came from the heart of a great nation” (BBC News, 2004, ¶27). While Reagan was a polished communicator, there is some truth to the idea that it was his message that captured attention. Even when the most eloquent of communicators speaks, people cease to listen if the message is worthless. Reagan effectively struck a balance between substance and style that maximized his effectiveness.

Reagan conveyed a sense of purpose, security, hope, and respect while personally connecting with the American people using four techniques: storytelling, focusing on the listeners, being straight forward with the audience, and stressing the importance of moral values. First, Reagan was a born story-teller whose words comforted and reassured listeners. “He told stories with a twinkle in his eye, and people found his tales down-to-earth and humanizing. The American people did not want a rocket scientist for president, they wanted someone like them” (Jeansonne, 2004, ¶10). Storytelling conveyed hope in a simple, almost child-like way. Audiences could also more easily remember stories than a list of facts or political jargon. Second, Reagan’s focused on his audience. A famous plaque on the President’s desk explained “[t]here’s no limit to what a man can do or where he can go if he doesn’t mind who gets the credit” (Hannaford, 2004, ¶11). When speaking, Reagan’s attention was on the feelings and emotions of others. He tried to see the world from their perspective. Empathy gave his addresses an air of confidence while conveying a sense of compassion and understanding.

Third, Reagan was straight-forward whether delivering good or bad news. For instance, he was very open about the danger surrounding the Soviet Union’s nuclear weapons capabilities and about the destructive power of communism on individual liberty. “Let us be frank. Evil still stalks the planet,” Reagan stated. “And wherever there are forces that would destroy the human spirit and diminish human potential, they must be recognized, and they must be countered” (Reagan, 2004, p. 102). This speaking quality helped him gain the trust of listeners who wanted the truth, not a softened, subdued version of reality.

Finally, the President's words were emboldened by moral values that gave purpose and meaning to policies. In his very first press conference, Reagan explicitly stated that the leaders of the Soviet Union "reserve unto themselves the right to commit any crime—to lie, to cheat [to attain] world revolution and a one-world socialist or communist state" (Beschloss, 2004, ¶3). Early in Reagan's presidency, the whole world knew he intended to be the global leader in spreading freedom to communist countries. He was a man of deep religious and moral conviction who stood on principle rather than shifting opinion polls.

Reagan also mastered the balance of moral backbone and pragmatic compromise. While Reagan firmly adhered to moral principles, he was flexible enough to compromise on policy details. "Overall, Reagan was rigid on some occasions, and flexible on others. He clearly had a philosophy, but he was flexible enough to modify it when necessary" (Devine, 1991, p. 79). Reagan's staff was the main facilitator of compromise. His assistants negotiated while Reagan refrained from referencing compromise in public. When it came to raising taxes, Reagan's staff had to drag him into it against his firm opposition (Walsh, 1995). Even after increasing taxes, Reagan's public addresses focused on the importance of keeping taxes low to fuel economic growth and offer citizens more power in financial decision-making.

As previously stated, the former President's extensive experience as a movie actor gave him a colossal strategic advantage. He could relate to a television audience he could not see. He knew how to effectively use verbal and nonverbal communication to capture and hold an audience's interest. With a photographic mind, he memorized speeches and executed them with polished delivery. Speaking of Ronald Reagan's communication style, Mary Stuckey, a professor of communication and political science, stated:

His rhetoric was short, sharp, and thematic. His delivery was designed specifically for television and was full of word pictures designed to complement the visuals of the television. His style is best characterized as conversational, even chatty. In keeping with the apparent intimacy of the television medium, Reagan spoke to the electorate in a friendly, informal fashion, reducing the formal distance between himself and his audience. (Lammers & Genovese, 2000, pp. 111-112)

While Reagan felt very comfortable in front of television cameras, he relied heavily on canned presentations. Reagan was not good at impromptu speaking; he was exceptional only when the speech had been internalized through extensive rehearsal (Hannaford, 2004). When speaking extemporaneously or involved in unstructured speaking engagements, he made mistakes, got flustered, and grew weary. He even on occasion forgot the names of his staff members. Reagan needed structure to stay focused and alert. At one particular unstructured event with the Pope, Reagan fell asleep (Jeanson, 2004). To manage his weakness, Reagan relied on a teleprompter for important speeches. For others, he used four-by-six inch cards that slid easily into his pocket. The cards contained his own short-hand of abbreviated words and symbols which allowed him to speak with rigor and precision (Anderson, 1988). The administration used press conferences infrequently to cut down on the number of

situations in which he would be required to speak spontaneously.

Administrative Leadership Style

Delegation and diversity marked Reagan's administrative style. Because of Reagan's laid-back personality and great dislike for details, much of his work was delegated to the White House staff. Reagan's assistants were diverse in political ideology. All were "Republicans", but some were radical conservatives; others were moderates.

In stark contrast to Carter who organized the White House tennis schedule, President Reagan delegated a vast majority of political responsibility to his staff. Reagan selected people he trusted, conveyed his vision, and left them the responsibility of policy formation and implementation. Although Reagan preferred to receive information in person rather than in writing, his first term treasury secretary Donald Regan recalls that the President never set up a one-on-one discussion with him (Lammers & Genovese, 2000). When it came to tax proposals, budget director David Stockman remembered Reagan as a president who refused to get into the specifics, resulting in administrative confusion that misled the President (Greenstein, 2000). Some have even gone as far as to describe the President as intuitively strong but intellectually lazy (Sloan, 1999).

Reagan's neglect of detail did however have its advantages. Some analysts credit his successes to a lack of interest in the specifics of policymaking. "Ronald Reagan's strongest point was his ability to concentrate on essentials, to set priorities" (Devine, 1991, p. 80). Neglect of detail allowed him to look at policies from a broader perspective, not get bogged down in the minutia of policy creation, and keep his mind free from unnecessary clutter (Sloan, 1999). Reagan understood delegation of authority and responsibility was the only practical way to achieve success in the complexity of Washington politics. For other analysts, Reagan's other strengths overcame his lack of attention to detail. Former domestic policy advisor Martin Anderson attributes success in spite of administrative confusion to four things: Reagan's ability to set overarching goals and priorities, his flexibility and tact as a leader, his strong negotiating skills, and his ability to make prompt decisions (Greenstein, 2000).

Neglect of detail did have disadvantages. Lack of attention to specifics only fueled existing tension that resulted from diversity of political ideology within Reagan's staff. A void of specific instructions combined with opposing staff political ideologies created frustration, confusion, and infighting. Because Reagan did not explain what he desired in detail, staff members were left to interpret what they thought he wanted (Greenstein, 2000).

In the White House staff, there were two main opposing political ideologies held by the conservatives and the pragmatists. Conservatives were far to the right politically. They were idealists who wanted to see rapid change in social, economic, and foreign policy and felt this was their time—having been out of the White House for so long. Moral standing was their focal point. While conservatives provided direction, they typically lacked federal government experience. Although conservatives were frequently angered by Reagan's decision making and political appointments, they never deserted him. Examples of such appointments include George H. W. Bush for Vice-President because he was a moderate and Sandra Day O'Connor for Supreme Court Justice because of her stance on abortion (Sloan, 1999). While conservatives strongly disapproved of Reagan's choices

for these high-level appointments, Reagan could always rally their support when he needed it. Conservatives did not have a choice; there was no conservative icon who could replace Reagan. Denying conservatives absolute control gave the President greater flexibility in leadership. He reaped the benefits of radical conservative enthusiasm while allowing himself to be influenced by a more balanced team of advisors which included Vice-President George H. W. Bush and Chief of Staff James Baker (Sloan, 1999).

On the other hand, pragmatists were Republicans with a moderate political ideology. They were softer on social issues like abortion, more open to using international organizations and treaties to handle foreign policy crisis, and were more supportive of social welfare programs. Pragmatists were known for their willingness to compromise. Because pragmatists were generally more experienced in policymaking, they were frequently chosen for high level positions. During his eight years as president, Reagan appointed four chiefs of staff; not one was a conservative. The total number of conservatives in the President's staff also remained a minority and the group had trouble gaining strength among other staff members because of stringent loyalty tests (Sloan 1999).

Reagan used a hierarchal structure to organize his staff. A traditional structure includes hierarchal levels of influence in which a group of assistants report to a manager, who in turn reports to a director and so forth. At the top of his organizational structure, Reagan had a troika. "The innovative aspect of the Reagan White House structure in the first term was the creation of a troika consisting of White House Chief of Staff Baker, Deputy Chief of Staff Deaver, and Counselor Meese. This troika was very different from the conventional White House organization, which forced all aides under one hierarchy headed by a single, powerful chief of staff" (Devine, 1991, p. 29). Each leader had a strong personal relationship with Reagan. James Baker was chosen because he controlled White House operations. Michael Deaver attended because he was in charge of the President's schedule and communications; he focused on protecting Reagan's public image. Edwin Meese was selected because of his extensive political knowledge. The three men met every morning for breakfast at 7:30 am to discuss the day's agenda, current events, and future planning (Devine, 1991). The three men accompanied Reagan to special events throughout the day. Despite cooperation as a group, Baker surfaced as the leader. He had a staff of 300 assistants; Deaver had 40 assistants and Meese had 25. Baker, as head of operations, commanded the Legislative Strategy Group (LSG) that "made the final policy agreements with Congress" (Devine, 1991, p. 31). Therefore, Baker had the final say on policy proposals. While Meese had large influence in the President's cabinet, the cabinet itself remained uninfluential. Even though the creation of the troika was a step away from the traditional hierarchal structure, it ultimately became hierarchal because of power delegation in the White House. As previously stated Reagan's neglect of detail made him heavily reliant on his staff. Whoever among Reagan's staff had the greatest amount of power had tremendous influence because they controlled policy details. The hierarchy frustrated conservatives because Baker was a pragmatist; therefore, details did not always match Reagan's overarching conservative vision.

Realization of Reagan's Vision

"Pennsylvania Avenue is a two-way street" (Reagan,

2004, p. 39) read Ronald Reagan's campaign stump in 1980. He had a big vision and one large obstacle—a democratic congress. Reagan used various tactics to overcome party opposition. "In 1980, Reagan defined his principles clearly and placed them before the public for acceptance or rejection in the election. When he won, Reagan took this public endorsement to Congress and was effective in getting his program approved. . . . He rarely used his veto powers to confront Congress on basic principles" (Devine, 1991, p. 79). Reagan structured his campaign so when citizens voted for him, they were also voting for specific legislative change. When Reagan won the election overwhelmingly, it gave the new president a substantial amount of momentum going into his first term. Hence, Reagan did not waste any time in turning his campaign vision into public policy. "President Reagan knew what to do when his opportunity knocked. His very first act as president, even before he left the Capitol after his inauguration, was to put a total freeze on federal employment" (Devine, 1991, p. 5). "You don't fix bad policies by rearranging or replacing one bureaucrat with another. You have to replace bad ideas with good ones" (Reagan, 2004, p. 27), Ronald Reagan stated in a televised national address in 1976.

Before Reagan's first term even began, he had a transition team in place to reduce the size of the federal government. October 1 was set as the clear deadline for implementing Reagan's bureaucratic reforms. While civil service unions pressed to delay it, the White House pushed even harder, knowing a delay would be lethal to the reform proposal. The administration was successful. By October 1, 1981, the administration "had implemented the new performance appraisal system by delivering performance standards and elements of individual jobs to 1.7 million federal employees, and . . . implemented the bonus-for-performance and merit-pay-for-performance systems for over a hundred thousand executives and managers" (Devine, 1991, p. 6).

For a Republican, Reagan was highly action-oriented. During his first year in office, Reagan and his staff created 223 proposals, a large number more frequently associated with Democrat administrations (Lammers & Genovese, 2000). Reagan's action-oriented personality was also demonstrated by his focus on missile and nuclear weapon reduction. Treaties and deterrence were not enough. Diplomatic action had to be taken to reduce the probability of a nuclear war between the United States and the Soviet Union (Anderson, 1988).

As far as meeting specific economic policy objectives, Reagan's budget proposal was approved before Congress and the bureaucracy realized what had fully taken place (Devine, 1991). The Omnibus Budget Reconciliation Act of 1981 lowered spending levels by \$37 billion dollars; cuts were made mainly on federal grants to state governments and on assistance programs for the working-poor. Reagan's new budget successfully cut nearly every domestic agency's budget by 5%; some individual cuts even surpassed 15% (Devine, 1991). The new budget signaled to government agencies that steady increases in funding had ceased. By 1986, entitlements had stabilized and controllable domestic spending had decreased from 4.8% of GNP to 3.8% (Devine, 1991). Bureaucracy cuts not only helped the economy directly by increasing resource efficiency, they helped indirectly as well. Program cuts signaled to private businesses the value of reevaluating costs to maximize efficiency. Reagan's economic changes resulted in a "1980s shakeout [that] helped prime the economy for its leap into the high-productivity, technology-fueled boom of the next decade" (Gibbs, 2004, ¶34). Eliminating unnecessary

costs in the private sector was essential to avoid losing competitively in the global market. Not only was Reagan successful at cutting bureaucratic spending early on, he also persuaded Congress to cut taxes. Reagan proposed the Economic Recovery Tax Act (ERTA), which included various levels of tax breaks for individuals and businesses. The bill included a 23% income tax cut. Because of inflation, worker incomes kept moving into higher tax brackets while purchasing power declined (Devine, 1991). ERTA initially did not have enough Congressional support to pass. In response to waning support, Reagan appealed to the public, asking them to bid their legislators to support the tax cuts. The public response was overwhelming and Reagan was able to reassert his position of political influence over Congress (Lammers & Genovese, 2000). Later, Reagan successfully restructured the tax system so that the highest marginal tax rate was at 33% instead of 70% with only four graduated rates, which lowered taxes and simplified the system (Devine, 1991).

Reagan's third main objective was to build up national defense forces. "Following its bitter humiliation in Vietnam, America retreated militarily while the Soviet Union advanced. . . . In January 1981, Ronald Reagan took charge and immediately reversed America's military decline" (Reagan, 2004, pp. 50-51). In a world of Soviet nuclear capabilities, the threat of Mutually Assured Destruction (MAD) appeared the most effective way to deter military conflict. Reagan believed that treaties had their place in international relations. However, Reagan believed these agreements were signed out of a country's self-interest. Once it was in a country's self-interest to break the treaty, the nation would do so.

Until the time of Reagan, communists firmly held to the Brezhnev Doctrine conveyed by leader Leonid Brezhnev in 1968 (National Review, 2003). The belief "stated simply that once a country went Communist, it would stay Communist. In other words, the Soviet empire would continue to advance and gain territory, but it would never lose any to the capitalist West" (D'Souza, 2003, ¶3). While Carter was in office, communism and socialism flourished in the east. During the six years leading up to Reagan's presidency,

[w]hile the United States wallowed in post-Vietnam angst, 10 countries had fallen into the Soviet orbit: South Vietnam, Cambodia, Laos, South Yemen, Angola, Mozambique, Ethiopia, Nicaragua, Grenada and Afghanistan. Never had the Soviets lost an inch of real estate to the West. (D'Souza, 2003, ¶3)

Reagan aimed to reverse this alarming trend. Building up a missile defense system, he believed, would deter the Soviet Union from pre-emptive strike and the challenge of U.S. force would weaken the communist regime. The U.S. had the technological capability to create such a system that could shield the country in the event of an attack but presidential leadership was required to draw attention to the important endeavor (Anderson, 1988). Reagan once again used public backing to get his agenda proposal by using the platform of the Republican National Convention to highlight the importance of missile defense. While in office, Reagan successfully met this goal. He built up U.S. missile defenses and restored 580 major ships to the Navy (Noonan, 1995). The technological advances were more rapid than scientists anticipated. "The Soviets remained angry and fearful, but

within three years they began to seriously discuss nuclear arms reduction, just as Reagan predicted. Reagan finally had the catalyst that could give shape and form to his nuclear weapons defense strategy" (Anderson, 1988, p. 77).

Defense spending became the launch pad from which to diplomatically pressure Gorbachev. "There are some who've forgotten why we have a military," Reagan once stated, "It's not to promote war. It's to be prepared for peace" (Reagan, 2004, p. 53). According to Anderson (1988), "[i]f the United States had not (1) poured hundreds of billions of dollars into increased defense spending and (2) raced forward with research and development of a state-of-the-art missile defense system, there would have been no summit between Reagan and Gorbachev in Geneva in 1985" (p. 78). In 1986, at the second summit meeting between the two leaders they came close to an agreement that would reduce their nuclear arsenal. Talks had gone so well that Reagan "stayed an extra day to keep the momentum going. But then . . . came the deal-breaker. . . . Everything hinged, Gorbachev declared, on the United States stopping research and production of the Strategic Defense Initiative (SDI)" (Reagan, 2004, p. 105). Even after explaining that it had always been Reagan's plan to share SDI with the Soviets, Gorbachev refused to change his condition for cooperation. Despite the impending impasse, Reagan refused to give up the critical SDI program. "... [H]istory has shown that Ronald Reagan was wise to stand tall against Soviet pressure. America's commitment to SDI forced the Soviets into a crash research program of their own—and that was one of the factors that bankrupted and collapsed the evil empire" (Reagan, 2004, p. 106).

Military superiority was not the only thing Reagan used when interacting with Gorbachev. He used diplomatic pressure which eventually produced mutual respect and friendship (Smith, 2005). While attempting to build a relationship with Gorbachev, Reagan solidified his tough stance. In 1987, Reagan spoke the famous words, "Mr. Gorbachev, tear down this Wall" (Joffe, 2004, ¶1)! These words were exclaimed against the advice of Reagan's high-level staff members who believed the phrase would make the Soviets mad. The administration should instead remain on Gorbachev's "good side" (Reagan, 2004, p. 24). "Well," Reagan replied, "that wall is an insult to the civilized world. I think it's time we got mad and Mr. Gorbachev tried to get on our good side" (Reagan, 2004, pp. 24-25). Within days of Reagan's famous speech, "the CIA reported that Gorbachev was meeting with his advisers on how to begin dismantling the Berlin Wall as a gesture of peace and goodwill" (Reagan, 2004, p. 25). The Berlin Wall fell two years later; it was the first time in history that a major world power crumbled without a war. Even though the wall fell shortly after his second-term ended, Reagan's diplomatic efforts are credited for the fall of the Soviet Union. Indeed, "[t]he president's tough talk and tough actions reversed a decade of U.S. military decline. . . . The Evil Empire collapsed, a victory Ronald Reagan achieved without committing America to war" (Reagan, 2004, p. 51).

Conclusion

While the greatness of a leader dictates the level of success, the results themselves come about from a combination of factors. An intersection of vision, personality, communication, and administrative organization made Reagan an effective president with a profound impact on domestic and foreign policy. From restructuring the tax code to slashing wasteful government spending to winning the Cold War, Reagan met each one of the main objectives he articulated before his election in 1980. The interrelationships between the factors made him a dynamic communicator conveying a powerful vision with an administrative staff capable of handling the details. Reagan portrayed a clear vision for the future and repeated it often so Americans knew where he stood on issues and his staff could make delegated decisions on policy specifics. The President's personality—his optimism, self-confidence, enthusiasm, sense of humor, and laid-back approach made him a calming influence to assistants while offering momentum to proposals and hope to the American people.

Overall, Reagan was effective at achieving his vision by focusing on a limited agenda. He started with the most imperative economic proposals and purposefully held off on more controversial social issues until he had greater momentum. Even with Reagan's intense focus, convincing Congresspersons to vote on a particular economic proposal was still very challenging considering the balance Reagan was attempting to achieve—restrain inflation while expanding economic growth. In response to Congressional opposition, Reagan and his staff met with key legislators individually to discuss economic policy (Lammers & Genovese, 2000). These meetings allowed the administration to address more specific concerns, reach agreements, and persuade of the legislation's importance and of its broad public support. Success and influence over Senators, Representatives, and foreign leaders were achieved by cultivating personal relationships with key individuals. As one commentator stated, "Reagan's agenda did not pass because Tip O'Neill wanted him to succeed. It passed because Reagan's staff identified rank-and-file Democratic members of Congress who supported tax cuts, spending restraint, and the defense buildup" (National Review, 2000, ¶3).

Quality, clarity, consistency, and repetition of vision made it possible for Reagan to stay focused on the larger picture rather than become bogged down in the details of policy-making. Having a clear vision enabled Reagan to properly prioritize and delegate. According to Anderson (1988), "the hardest thing for a president to do is to let go of something that is very important and urgent so that he can attend to something that is vitally important" (p. 58). Reagan mastered that skill. A strong economy and defense infrastructure are essential to the prosperity of a nation and preservation of freedom (Anderson, 1988). A clear vision had to be set in order for delegation to be successful. Conveying a clear set of objectives and principles allowed staff members to make detailed decisions that boosted the economy and defense infrastructure. Delegation allowed Reagan to focus on the broader picture and not lose sight of what was most important—freedom. The intersection of clear vision, inspiring personality, effective communication style, and delegation of responsibility among the White House staff made Reagan successful at transforming his vision of lowering taxes, decreasing wasteful bureaucratic spending, increasing defense spending, and defeating communism into reality.

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The Christian's Value-Added Proposition in the Marketplace of Ideas

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Abstract

If the Christian is to contribute to the body of academic literature, or to the broader intellectual discussion in his field, he or she must do more than simply engage in a program of research. Christian scholars must carefully filter their assumptions and be careful to discern between spiritual wisdom and worldly wisdom. This paper is an interdisciplinary review of theology, philosophy, logic, political economy, psychology, and business literature in pursuit of the Christian's value-added proposition in the marketplace of ideas.

To engage in meaningful scholarship, Christians ought to bring a distinctive viewpoint to the marketplace of ideas. Unlike their peers, Christians, at the point of conversion are not only justified, but they begin a process of sanctification. Theologically speaking, we have the "whole armor of God" at our disposal (Ephesians 6:1, NIV), we have put away the "old self" and put on the new (Ephesians 4:24; Colossians 3:10) and with the Apostle Paul we can say "I have been crucified with Christ and I no longer live, but Christ lives in me" (Galatians 3:20).

Theological Implications

A fundamental shift has occurred. We are not only justified for the next life, but empowered for this one. This shift should affect every area of our lives. As it relates to our scholarship, we now have the "mind of Christ" (I Corinthians 2:15-17). That is, we have received an upgraded thoughtware operating system, but this additional insight is only useful if it is properly installed—and we actually run the program by, "tak[ing] captive every thought to make it obedient to Christ" (II Corinthians 10:5). Otherwise, we revert to a default setting—the old man (Romans 6:6; Ephesians 4:22; Colossians 3:9) and we squander our ability to be salt and light (Matthew 5:13).

There should be no disparity between our personal faith and our academic scholarship. If God's Word is true in regard to our personal salvation, how much more can His Word be depended upon for principles of life and guidance (Proverbs 3:5-6; II Peter 2:13). If the Christian truly is to be an influence in the marketplace of ideas, the critical error—the one to which the Christian must not succumb—is the separation of church and the state of our scholarship (Matthew 5:13). If we allow duality or compartmentalization, we are admitting that we are trying to hold two opposing positions simultaneously. This untenable position betrays our lack of belief in one idea or the other.

Logical Non-Contradiction

The theory of non-contradiction states that one cannot hold two opposing ideas simultaneously. For example, 2+2 cannot equal 4 and equal 5 at the same time. Neither can we logically

embrace the principles of this world and the principles of God: "Either he will hate the one and love the other, or he will be devoted to the one and despise the other" (Matthew 6:24). What is true personally is also true professionally.

Moreover, competition exists between these principles—they cannot be harmonized. The principles of this world claim (like the principles of God) to be liberating when, biblically speaking, these principles lead to sin, slavery, and even death (James 1:13-15).

The Doctrine of Sin

Every worldview contains certain elements that answer specific questions: Where did I come from? Where am I going? What is wrong with the world? How will this wrong be resolved? Here we want to deal with the question of that which is wrong with the world. The biblical answer to this question is sin—individual and corporate.

Problems that you face may stem from sin that you have personally committed, or someone else's sin acted upon you. The problem may even be a result of original sin and the fall of man (Genesis 3:16-19; Romans 5:12). Nevertheless, sin is the only right answer (Romans 6:23). The root problem with the world is not a polluted environment, poverty, crime, parental upbringing, low self-esteem, or a failure to self-actualize. All other answers replace sin as the cause of our problems. Essentially, it is calling God a liar. This is strong language, but it is what we do when we seek alternative answers to this question.

Liberty vs. Slavery

Scripture uses the metaphor of slavery to describe our condition in this life. Biblically speaking, we are slaves to sin. "Don't you know that when you offer yourselves to someone to obey him as slaves, you are slaves to the one whom you obey—whether you are slaves to sin, which leads to death, or to obedience, which leads to righteousness?" (Romans 6:16).

The principles of this world claim that there is freedom in certain sins. The freedom to lie, steal, etc., is a contradiction in terms. In reality we are bound by the sins we commit. We cannot help but sin: "Jesus replied, "I tell you the truth, everyone who sins is a slave to sin" (John 8:34). We remain slaves to sin until we are redeemed, that is, until we are purchased by God from the power of sin. "But thanks be to God that, though you used to be slaves to sin, you wholeheartedly obeyed the form of teaching to which you were entrusted. You have been set free from sin and have become slaves to righteousness" (Romans 6:17-18). At this point, we are under new management.

We have become slaves to righteousness. "Therefore, there is now no condemnation for those who are in Christ Jesus, because through Christ Jesus the law of the Spirit of life set me free from the law of sin and death" (Romans 8:1-2). The power of sin has been broken.

Additional slavery language used to describe the principles of this world is particularly compelling:

So also, when we were children, we were in slavery under the basic principles of the world.
([Galatians 4:3](#))

But now that you know God—or rather are known by God—how is it that you are turning back to

those weak and miserable principles? Do you wish to be enslaved by them all over again? ([Galatians 4:9](#))

See to it that no one takes you captive through hollow and deceptive philosophy, which depends on human tradition and the basic principles of this world rather than on Christ. ([Colossians 2:8](#))

Since you died with Christ to the basic principles of this world, why, as though you still belonged to it, do you submit to its rules. ([Colossians 2:20](#))

This is not to say that all wisdom apart from Scripture is flawed or invalid. All truth is God's truth, after all. However, when there is a conflict between the Scripture and worldly wisdom, we must not back away and choose duality or compartmentalization. We are confronting those worldly principles that lead to slavery and to death. "But now that you have been set free from sin and have become slaves to God, the benefit you reap leads to holiness, and the result is eternal life. For the wages of sin is death, but the gift of God is eternal life in Christ Jesus our Lord." (Romans 6:22-24).

By way of analogy, let's examine the contrast between the basic principles of this world, and the principles of God's kingdom through the lens of pop culture: Some years ago, Whitney Houston (1985) sang:

Because the greatest love of all, Is happening to me
I found the greatest love of all Inside of me
The greatest love of all Is easy to achieve
Learning to love yourself, It is the greatest love of all
[italics added]

While these lyrics sound warm and fuzzy, such reasoning stands in direct opposition to biblical principles. In contrast, Christ, told his disciples, "Greater love has no one than this, that he lay down his life for his friends" (John 15:13). Either we believe Whitney Houston's number-one hit-single, or we believe Christ. We cannot maintain both.

Understandably, this appears to be a silly example and one of no real consequence. Yet, it illustrates the point perfectly. We must choose what to believe: the conventional wisdom of our culture or God's Word. The application of this reasoning may seem benign when we deal with a song on the radio, but it has stunning implications for our professional scholarship.

Wisdom vs. Foolishness

The secular academic and the Christian can agree that "wisdom is supreme" (Proverbs 4:7) though they hold very different definitions of what exactly constitutes wisdom. God's wisdom will protect and guard you.

[It] will save you from the ways of wicked men, from men whose words are perverse, who leave the straight paths to walk in dark ways, who delight in doing wrong and rejoice in the perverseness of evil, whose paths are crooked and who are devious in their ways. (Proverbs 2:11-15)

It is more valuable than gold or silver (Proverbs 16:16).

The Scripture discusses two types of wisdom—God's wisdom (or spiritual wisdom) and worldly wisdom (or foolishness). Spiritual wisdom begins with the knowledge of God and

his view of the issues ([Psalm 111:10](#); Proverbs 1:7; Proverbs 9:10). One test of spiritual wisdom is that it is in harmony with Scripture.

Christ claimed that "wisdom is proved by her actions" (Matthew 11:19; Luke 7:35). That is, spiritual wisdom results in good fruit: "But the wisdom that comes from heaven is first of all pure; then peace-loving, considerate, submissive, full of mercy and good fruit, impartial and sincere. Peacemakers who sow in peace raise a harvest of righteousness" (James 3:17-18).

Worldly wisdom begins with man and often conflicts with the Scripture. Worldly wisdom is also proved by its actions:

Who is wise and understanding among you?
Let him show it by his good life, by deeds done in the humility that comes from wisdom. But if you harbor bitter envy and selfish ambition in your hearts, do not boast about it or deny the truth. Such "wisdom" does not come down from heaven but is earthly, unspiritual, of the devil. For where you have envy and selfish ambition, there you find disorder and every evil practice.
(James 3:13-16)

Note the difference between human wisdom and spiritual wisdom in the following passage:

For Christ did not send me to baptize, but to preach the gospel—not with words of human wisdom, lest the cross of Christ be emptied of its power. For the message of the cross is foolishness to those who are perishing, but to us who are being saved it is the power of God. For it is written:

"I will destroy the wisdom of the wise;
the intelligence of the intelligent I will frustrate."
(I Corinthians 17-19)

It appears that God has a dim view of human wisdom, at least human wisdom uninformed by spiritual wisdom. The Apostle Paul concludes this passage:

Where is the wise man? Where is the scholar?
Where is the philosopher of this age? Has not God made foolish the wisdom of the world?...For the foolishness of God is wiser than man's wisdom, and the weakness of God is stronger than man's strength.... But God chose the foolish things of the world to shame the wise; God chose the weak things of the world to shame the strong. (I Corinthians 1:20, 25 & 27)

In God's economy, God's foolishness is wiser than man's wisdom. From a biblical point of view, Princeton University's founding statement: "Cursed is all learning that is contrary to the Cross of Christ" was truly profound (Christian Leadership University, ¶38). Worldly wisdom bears rotten fruit. It is naturally cursed from the start.

If spiritual wisdom begins with God, it only stands to

reason that that wisdom that begins without him is flawed from its inception. We will see numerous examples of such faulty thinking that was doomed from its inception. Furthermore, there is a god-sized arrogance to human wisdom. You may have felt this condescending attitude when an atheist scoffed at your views on creation or the concept of sin. The wise of this world see spiritual wisdom as utter foolishness: "The man without the Spirit does not accept the things that come from the Spirit of God, for they are foolishness to him, and he cannot understand them, because they are spiritually discerned. (I Corinthians 2:14).

Spiritual wisdom is not against the march of progress of human understanding; only that which stands contrary to the cross of Christ. Ignoring God or his direction is in reality the height of folly. Becoming wise by the standards of this world is foolishness in God's economy:

Do not deceive yourselves. If any one of you thinks he is wise by the standards of this age, he should become a "fool" so that he may become wise. For the wisdom of this world is foolishness in God's sight. As it is written: "He catches the wise in their craftiness" and again, "The Lord knows that the thoughts of the wise are futile." So then, no more boasting about men! (I Corinthians 3:18-21)

A Simple Test of Wisdom

To summarize: God views the wisdom of the world as foolishness. The wise of this world see spiritual wisdom as useless, foolish, and obnoxious: "We are to God the aroma of Christ among those who are being saved and those who are perishing. To the one we are the smell of death; to the other, the fragrance of life (II Corinthians 2: 15-16).

It is only natural that such disparate values collide. To illustrate what is happening here, examine the two parallel lines below—one is perfectly straight and the other curves back and forth (Figure 1). From the vantage point of the straight line, the curved line properly appears curved. However, from the vantage point of the curved line, the straight line appears curved as long as it operates under the assumption that it is actually the straight line. In fact, the straight line looks most corrupt precisely at the point of its own greatest corruption.

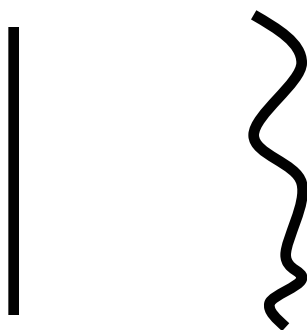


Figure 1: Perceptions of Wisdom and Foolishness

This is the difference between spiritual wisdom in human wisdom. We find biblical support for this concept in Romans 1:

The wrath of God is being revealed from heaven against all the godlessness and wickedness of men who suppress the truth by their wickedness, since what may be known about God is plain to them, because God has made it plain to them. For since the creation of the world God's invisible qualities—his eternal power and divine nature—have been clearly seen, being understood from what has been made, so that men are without excuse. For although they knew God, they neither glorified him as God nor gave thanks to him, but their thinking became futile and their foolish hearts were darkened. Although they claimed to be wise, they became fools....Furthermore, since they did not think it worthwhile to retain the knowledge of God, he gave them over to a depraved mind, to do what ought not to be done. They have become filled with every kind of wickedness, evil, greed and depravity. They are full of envy, murder, strife, deceit and malice. They are gossips, slanderers, God-haters, insolent, arrogant and boastful; they invent ways of doing evil; they disobey their parents; they are senseless, faithless, heartless, ruthless. Although they know God's righteous decree that those who do such things deserve death, they not only continue to do these very things but also approve of those who practice them. (Romans 1:21-22; 28-32)

This passage is illuminating. It is a virtual play-by-play of the process by which one delves into worldly wisdom. Notice first that they suppress the truth of God's existence (v. 18). The effect of this denial is that, "their thinking became futile and their foolish hearts were darkened" (v. 21). They claimed to be wise as they reached the height of their folly (v. 23). As they denied God, He gave them over to their depravity and they reaped the consequences of their actions (v. 28-31). And if this were not enough, they approve of others who do the same. How do we test whether we are dealing with spiritual or worldly wisdom? Spiritual wisdom a) begins with God, b) is consistent with that which Scripture teaches, and c) yields a harvest of righteousness. In contrast, worldly wisdom (that which God considers foolishness) a) begins without God b) is in conflict to that which the Scripture teaches to be true, and c) will ultimately yield a bitter crop.

False wisdom

False wisdom comes in many forms. It may be overt or covert. Overt forms are easier to detect for the same reason that child molestation is clearly heinous, but the moral implications of a little white lie may be contested.

Below we will examine various types of false wisdom as it relates to political economy, psychology, and the business literature. In each category, we will view overt examples of false wisdom first. Then we will look a little bit deeper at the covert examples.

Implications for Political Economy

Marxism and Communism are overt attacks on Christi-

anity. They are competing theories of how the world works. In contrast, Humanism and unfettered Capitalism are covert. The errors contained within them are more difficult to detect. Communism, based on Marxism, with atheism as a major plank of its platform, was a major competitor of the free market before the implosion of the Soviet Union in 1991.

Marxism

Marx & Engels (1848) maintained that the evil in the world is caused by the bourgeoisie (the rich) exploiting the proletariat (the workers). The Bourgeoisie could easily exploit the proletariat because they owned the means of production or capital.

If the problem with the world truly was the exploitation of the poor by the rich, the solution was to take private property from the rich so they could not continue to exploit the poor. Essentially, to Marx's mind, the rich were evil *because* they were rich, and the poor were good because they were not rich.

But the American Founding Fathers had a different perspective. While it was true that the rich would oppress the poor and the strong would oppress the weak, it was also true that the weak would oppress the strong if they had the power to do so. On the floor of the Constitutional Convention, Alexander Hamilton observed:

In every community where industry is encouraged, there will be a division of it into the few & the many. Hence separate interests will arrive. There will be debtors & creditors &c. Give all power to the many, they will oppress the few. Give all power to the few, they will oppress the many. Both therefore ought to have the power, that each may defend itself against the other. (Madison, 1787/1987, p. 116)

Marx looked to the external environment for the cause of evil because he had no category for sin. He had no category for sin because as an atheist he had no category for God. Marxism clearly embodies the three fundamental elements of worldly wisdom noted above.

Capitalism

Recognizing the fundamental flaw in Marxism does not automatically mean that Capitalism is correct. Capitalism also has its problems. Unfettered capitalism lends itself to abuses by the powerful. Titans of industry would make Marx's one-sided thesis proud:

In the 1860s, for example, Cornelius Vanderbilt, a fabulous genius of shipping and commerce, found that his own business associates were threatening his interests—a not too uncommon occurrence. He wrote them a letter: Gentlemen:
You have undertaken to ruin me. I will not sue you, for law takes too long. I will ruin you.

Sincerely,

CORNELIUS VAN DERBILT

And he did. "What do I care about the law? Hain't I got the power?" asked the Commodore. Later J. Pierpont Morgan was to voice much the same sentiment, if in a slightly more polished form. When his associate, Judge Gary, on a rare occasion ventured a legal caveat, Morgan exploded: "Well, I don't know as I want a lawyer to tell me what I cannot do. I hire him to tell me how to do what I want to do." (Heilbroner, 1961, pp. 182-183)

Witness the modern abuses of Arthur Anderson, Enron, WorldCom, and Tyco. Corporate scandals abound. Experience has validated the Apostle Paul who wrote:

People who want to get rich fall into temptation and a trap and into many foolish and harmful desires that plunge men into ruin and destruction. For the love of money is a root of all kinds of evil. Some people, eager for money, have wandered from the faith and pierced themselves with many griefs. (I Timothy 6:10)

Capitalism has also brought us other negative consequences as direct results of system externalities. This has real consequences for Christian scholarship. For example, as we teach marketing, we need to recognize that the ethical line may not be where the textbook says it is.

It appears that, to some degree, our economy is largely based on breaking the 10th Commandment: "You shall not covet your neighbor's house. You shall not covet your neighbor's wife, or his manservant or maidservant, his ox or donkey, or anything that belongs to your neighbor" (Exodus 20:17). Too often marketing executives deal in greed. Keeping up with the Joneses has become a national pastime.

Sex sells products through advertisement or by increasing the sexual content of the programs to increase ratings, which in turn, garners greater advertisement dollars. The Kaiser Family Foundation's *Sex on TV4* (2005) report found:

In 2004-2005, 70% of the composite week sample of nearly 1,000 programs included some sexual content, either talk about sex or portrayals of sexual behavior. The programs that contained sexual content averaged 5.0 scenes per hour that involved sexual themes or topics. In purely statistical terms, this means that the base programs that convey sexual messages have increased by exactly 25%, while at the same time the amount of scenes with sexual topics in those shows has risen 56% since 1997-1998. These factors are multiplicative. Indeed, the total number of sexual scenes identified in our sample has nearly doubled (96% increase) since the study began while the number of programs examined has remained virtually identical over time. (p. 58).

Without regard to who might be harmed, the actress who illicitly trades in her sexual appeal, intentionally arousing men to sell a product—for example, deodorant—(through the television show or the ads themselves) demonstrates worldly wisdom. The average child sees 20,000 commercials per year (American Academy of Pediatrics, 2006). It would seem that the best producers and marketing managers will wear the largest millstones (Matthew 18:6; Mark 9:42). Many more cases of deodorant have

been sold. And, many more males sink one degree lower toward moral slavery in the process. The ancient Romans required actresses to hold prostitution licenses. It may be useful to ask ourselves, if this actress is not a prostitute in fact, is she one in degree?

Unfettered capitalism has other problems too. Perfect competition does not exist as we are constrained by bounded rationality, and although free market advocates conclude that individuals will make the best choice for them, their so-called optimal choices are often less than optimal (from an absolute point of view). Otherwise, no one would be an alcoholic, on drugs, or in jail.

Clearly unrestrained capitalism is not that which the Christian should be defending in the marketplace of ideas. This would transform the Christian *Conservative* into a *Libertarian* who has no greater standard than the freedom of autonomous man. The Libertarian, with his absolute commitment to freedom fails to recognize that boundaries provide liberty in the same way that a stop sign or traffic light provides the greatest degree of liberty and safety simultaneously. To violate the stop sign would increase your freedom at the expense of another's safety.

Unrestrained capitalism too meets the standard of worldly wisdom: a) begins without God, b) is in conflict to that which the Scripture teaches to be true, and c) will ultimately yield a bitter crop.

The reader ought not to infer from the above paragraphs that the author of this article is an anti-capitalist. One would be hard-pressed to find a greater advocate of the free market. But the free market must operate within boundaries.

Capitalism is not evil in and of itself (*mala en se*) as Marx would have you believe. Nor is it pure and noble when it is unrestrained. The genius of capitalism is the degree to which it works in conjunction with the fallen nature of man. Adam Smith's (1976) famous statement from *the Wealth of Nations* makes the case succinctly: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, *but from their regard to their own interest*" (Smith, Book I, Chapter 2). That is, man's self-love or self-interest compels him to cooperate in a free market where the rules or boundaries prevent him from simply taking from others.

Capitalism must operate within the rule of law or its collapses. Witness what bribery has done to otherwise capitalistic systems in Central and South America. But the law is only a minimum ethical standard. Like political democracy itself, Capitalism works best when the people are most moral. While President, John Adams wrote:

We have no government armed with power of contending with human passions unbridled by morality or religion. Avarice, ambition, revenge, or gallantry, would break the strongest cords of our Constitution as a whale goes through a net. Our Constitution is made only for a moral and religious people. It is wholly inadequate to the government of any other. (Adams, as cited by Levenick & Novak, 2005, ¶ 15)

The same reasoning can be applied to capitalism. From a biblical point of view, capitalism is a moral system when legitimate boundaries allow individuals to produce and trade while

preventing abuses and guarding the rights and dignity of man. The Scripture assumes a free market. The commandment, "You shall not steal" (Exodus 20:15) presupposes private property. The enforcement of just weights and measures ([Leviticus 19:36](#); [Deuteronomy 25:13](#); Proverbs 11:1; [Proverbs 20:10](#)) presupposes free trade. As a system then, capitalism is legitimate. But we must make sure that when we, as Christians, talk about capitalism, we do not equivocate a biblical free market with unfettered capitalism.

Implications for Psychology and the Business Literature

As mentioned previously, it is easier to see the flaws in overt attacks on biblical Christianity (e.g. Marxism and Atheism). It is more difficult to see covert invasions of lies wrapped in truth. We will see this same trend playing out as review the management literature for the humanistic assumptions that lie at the core of major motivational theories.

Psychology

Modern psychologists are noted for elaborate, prescriptive theories that contain the first fundamental flaw—they ignore God. In doing so, they act as one using a compass without the benefit of knowing their starting point. Neither the map nor the azimuth will be of any value if you begin in the wrong place. By beginning with autonomous man, they bypass the spiritual dimension and the concept of sin. Therefore, something else must be the cause of our problems.

A brief review of the major psychologists—Sigmund Freud, Carl Jung, Carl Rogers, and Albert Ellis—demonstrate overt hostility to spiritual wisdom. Freud discovered the "talking cure" as he tried to help neurotics overcome their problems. He is considered the founding father of the psychological movement. Freud's (1923) structural theory, (including the id, ego, and super-ego) created an entire self-contained system or worldview that explained life, problems and even a solution, perpetual psychoanalysis, apart from God.

Jung (1934–1954), a breakaway disciple of Freud, whose concepts of archetypes, the shadow, and the collective unconscious formed the groundwork for the Meyers-Briggs Type Indicator, likewise began without God. To Jung, the problem with the world was not sin, but a lack of harmony between the individual and the archetypes in the world. His solution was individuation (or psychoanalysis that leads to growth).

Rogers (1951) was an associate of Abraham Maslow and the founder of the Humanist School of Psychology. He received the Humanist of the Year Award from the American Humanist Association in 1964. Rogers's fundamental error was a belief that the answer to life's problems lie inside the person. He presupposed that what the individual needs was subjective truth found inside oneself, not objective revelation.

Albert Ellis, a signer of the Humanist Manifesto II and founder of the Rational-Emotive Behavior Therapy (R.E.B.T.) fundamentally wrote with crisp and compelling logic just like the Apostle Paul. However, as a humanist and atheist, he started with the wrong starting point—autonomous man. He believed man's basic problem was not sin, but blame or self-condemnation (Anderson, 1992, p. 45).

Again, the reader should not conclude from this brief analysis that the author is anti-psychology any more than you may have believed earlier that he was an anti-capitalist. Ironi-

cally, a Bachelor's degree in Psychology provided much of the insight and motivation for this article.

Psychology in the Business Literature

Why does it matter what the major psychologists believe? Modern management not only shares many of these assumptions, but has canonized many psychological theories. Below is a brief list of major Humanist theories that the average business student would be taught while pursuing an undergraduate or graduate degree.

The carrot, the stick, and the donkey. The carrot and the stick is a metaphor for the use of incentives and punishment. The imagery here is that of a man sitting on a donkey holding a carrot out in front of him on a string tied to a stick causing a donkey to move forward as he endlessly pursues the carrot. The stick, in contrast, is there to beat the donkey if he refuses to pursue the carrot.

The carrot and the stick are interesting for a few reasons. First, there something manipulative about the carrot and stick. One party is master and the other slave. This is all right as long as we are only talking about a donkey, but this is just a metaphor for human relations. The danger of the carrot and stick is that we assume that what applies to the donkey applies to people. We will soon see how we got to this place in our reasoning.

The philosopher and two masters. It also suggests two just ways to deal with people—pain and pleasure. Jeremy Bentham (1789/1907), the utilitarian philosopher wrote:

Nature has placed mankind under the governance of two sovereign masters, *pain and pleasure*. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand the standard of right and wrong, on the other the chain of causes and effects, are fastened to their throne. They govern us in all we do, in all we say, in all we think: every effort we can make to throw off our subjection, will serve but to demonstrate and confirm it. In words a man may pretend to abjure their empire: but in reality he will remain subject to it all the while (p. 15)

Bentham's philosophy is clearly out of line with a biblical perspective. While pain and pleasure undeniably affect our lives, they do not govern us in a sense that we are *determined* by these "two sovereign masters." Yet, Bentham's philosophy would be given scientific sanction over the next two centuries by the discipline of psychology.

Pavlov and his dog. A college student today would have a difficult time escaping Ivan Pavlov and his drooling dog. Pavlov won a Nobel Prize in 1904 for groundbreaking research. He found that if you rang a bell before you gave a dog food, after some conditioning the dog would salivate just because he heard the bell, thus tying stimulus to response. Pavlov concluded that animals could be conditioned. But the greater implication of his research was that people could also be conditioned like animals. A naturalistic worldview (one that posits a material universe where no God exists) makes this leap quite naturally. Note the language of the Nobel foundation discussing his achievements:

Pavlov transformed Sechenov's theoretical attempt to discover the reflex mechanisms of psychic activity into an experimentally *proven theory of conditioned reflexes*.

As guiding principles of *materialistic teaching* on the laws governing the activity of living organisms, Pavlov deduced three principles for the theory of reflexes: the principle of *determinism*, the principle of analysis and synthesis, and the principle of structure. (Nobel.org, n.d., ¶ 11-12) [italics added]

While Pavlov is important for his place in history, the subtle message is that humans are basically the same as animals, and furthermore, they can be manipulated as such. Stephen Covey (1989) answered this implied charge:

Genetic determinism basically says your grandparents did it to you. That's why you have such a temper. Your grandparents had short tempers and it's in your DNA. It just goes through the generations and you inherited it. In addition, you're Irish, and that's the nature of Irish people.

Psychic determinism basically says your parents did it to you. Your upbringing, your childhood experiences essentially laid out your personal tendencies and your character structure or in that's why you're afraid to be in front of a group. It's the way your parents brought you up. You feel terribly guilty if you make a mistake because you "remember" deep inside the emotional scripting when you are very vulnerable and tender and dependent. You "remember" the emotional punishment, the rejection, the comparison with somebody else when you didn't perform as well as expected.

Environmental determinism basically says your boss is doing it to you—or your spouse, or that bratty teenager, or your economic situation, or national policies. Someone or something in your environment is responsible for your situation.

Each of these maps is based on the stimulus/response theory we most often think of in connection with Pavlov's experiments with dogs. The basic idea is that we are conditioned to respond in a particular way to a particular stimulus. (pp. 67-78).

Skinner and his lab rats. Pavlov admittedly receives less press in business school textbooks than in basic psychology classes. Yet, if Pavlov is overlooked, B.F. Skinner is routinely discussed and his findings are assumed to be gospel truth. Skinner, was a Harvard professor, signer of the Humanist Manifesto II, and recipient of the *Humanist of the Year* award in 1972.

Skinner is the father of Behaviorism. His concepts of positive and negative reinforcement, classical conditioning and operant and conditioning permeate management textbooks. Like Pavlov, Skinner worked with animals and extrapolated his findings to human beings. If lab rats (or pigeons) can be conditioned

to do or not to do something, so can people. The assumption here is that people are more highly evolved animals.

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Skinner's worldview excluded God and assumed that the material world was all that exists. With this in mind, he wrote books such as *Beyond Freedom and Dignity* (1971) in which he would write passages that illustrate his complete faith in behavioral conditioning and the determinism that follows as a logical conclusion: "A person who has been punished is not thereby simply less inclined to behave in a given way; at best, he learns how to avoid punishment" (Skinner, 1971, p. 76).

A Christian response. The troubling thing about Skinner's theory is how easily it is embraced. Even a management textbook from a Christian University, written by the professor (now the Dean of the Business School) found little criticism for Skinner. Before explaining Skinner's core concepts as though they were valid and true, these were the harshest words he could muster:

Many Christians shy away from behavior modification because of the manipulation which goes on. However, most motivation theories result in manipulation of some sort. The key issue in manipulation is the agenda of the behaviorist and the amount of knowledge given to the employee. Good motivators know that success comes from finding intrinsic motivation of the employee (that which works internal to the employee) and helping the employee receive internal rewards. (Winston, 1995, p. 183)

Most textbooks cover Skinner's classical and operant conditioning as prescriptive. Few even scratched the surface of the assumptions that support Skinner's reasoning. Again, one of the few thinkers who has challenged this reasoning is Stephen Covey (1989) who wrote:

The deterministic paradigm comes primarily from the study of animals—rats, monkeys, pigeons, dogs—and neurotic and psychotic people. While this may meet certain criteria of some researchers because it seems measurable and predictable, the history of mankind and our own self-awareness tells us that this man doesn't describe the territory at all! Our unique human endowments lift us above the animal world. The extent to which we exercise and develop these endowments and powers is to fulfill our uniquely human potential. Between stimulus and response is our greatest power—the freedom to choose. (p. 70)

Nature or nurture? Take an introductory Psychology 101 course (and later organizational behavior courses business departments) and you are inevitably asked, "What causes you to

do what you do: nature or nurture?" In fact, this question is so common, that a Google search pulls up 10,600,000 English pages for the phrase "nature or nurture." The problem is that this is a loaded question. It assumes that either nature or nurture *causes* you to do a thing. It presupposes that you are caused. It may be:

Nature

Nurture

Both

None of the above

My vote is for none of the above. As Covey points out, the assumption here is that stimulus causes response, but as humans we have a free will that can intervene. Taking this line of reasoning one step deeper, the stimulus-response theory would eliminate sin as a cause of problems in the world, trading sin for the stimuli of the environment.

Skinner paints an entirely different picture of man and man's condition in this world from that which is found in Scripture. Instead of sin, the problem with the world is a hostile environment acting upon the individual. This stimulus-response theory undermines human choice, the doctrine of sin, supernatural power, and the need for a savior. It effectively undermines all of Christian theology. And we blindly accept Skinner's underlying assumptions as we embrace classical and operant conditioning.

Steven Covey is a Mormon. Where is the Evangelical community? Why have they not answered these claims? Shame on the Church for failing to be prepared with an answer (1 Peter 3:15). Shame on Christian professors for not examining their own assumptions, and uncritically passing on their approval of these theories to their students. While Skinner is such a fundamental part of the literature that we cannot ignore him, we must not pass along his fundamentally flawed concepts as though they were truth.

While writing this article, the author randomly gathered seven textbooks from his shelves in management, organizational behavior, and leadership. He was not surprised as he skimmed the texts to find that of the seven, all of them discussed Skinner's concepts of classical or operant conditioning. All of them also included Maslow's *Hierarchy of Needs* (See Appendix A). While this is not a scientific sample, this is such a common experience that a controlled scientific study would likely bear out phenomenally high rates of inclusion of Skinner and Maslow.

Maslow and self-actualized man. Maslow (1943, 1954, 1970) introduced a pioneering theory to psychology, and subsequently to the business literature. He was the founder of the Third Force school of Psychology (the first and second forces being Behavioral and Freudian psychoanalytic approaches respectively). The Third force was a humanistic approach that claimed to account for the whole person.

Maslow did further the thinking of his time. Though he was a humanist, he was not as quick as Skinner to confuse man with animal. To develop his theory of self-actualization, he studied achievers, not the neurotic. In the 1943 article that introduced the Hierarchy of Needs he wrote: "Motivation theory should be human-centered rather than animal-centered" (Maslow, 1943, p. 371). This was an improvement over Skinner, but the fatal flaw (beginning with autonomous man rather than God) permeates his

research.

Maslow's Hierarchy of Needs (Figure 2), including physiological needs, safety needs, the belonging needs, esteem needs, and self-actualization needs, are arranged in a pyramid. According to Maslow, one cannot move to the higher strata until the lower needs have been filled beginning with physiological needs and moving upward.

Maslow's Hierarchy of Needs

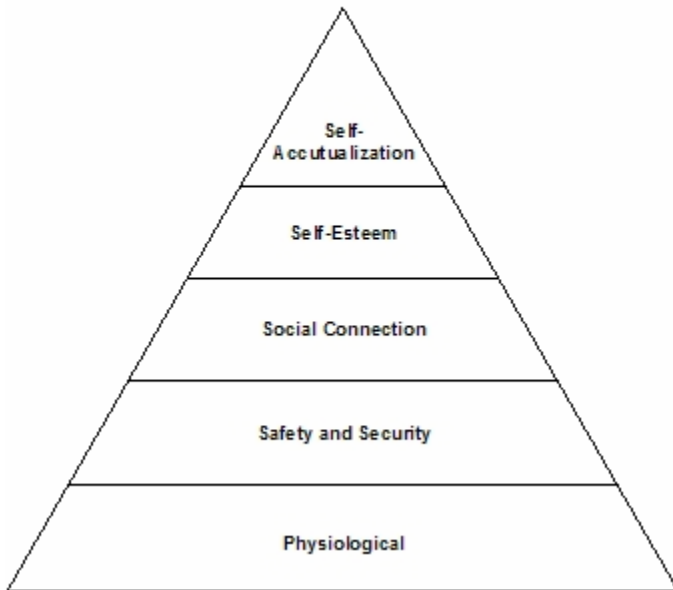


Figure 2: Maslow's Hierarchy of Needs (Source: www.Vmmg.net)

From a practical viewpoint, this concept appears problematic. Assuming this order to be correct, certainly people have abandoned physiological or safety needs for esteem or self-actualization. Missionaries that packed their belongings in coffins when they went to Africa knowing that they would never return are a case in point (Sutton, n.d., ¶ 5).

But there is something else about the Hierarchy of Needs that's troubling. Maslow received the *Humanist of the Year Award* in 1967 like Rogers before him (1964) and Ellis (1971) and Skinner after him (1972). When we examine Maslow's assumptions, we find that like the other psychologists, he leaves no room for the supernatural realm. His Hierarchy of Needs is more difficult to diagnose than Skinner's behavioral conditioning because his error is more one of omission than commission. He omits a spiritual dimension or anything beyond this life. This is a perfectly reasonable conclusion when one begins without God. And this is clearly contradictory to Scriptural teaching.

Maybe the Hierarchy should begin with man's most essential need—salvation (Matthew 6:33; John 3:6-8). Or maybe the Hierarchy should conclude not with self-actualization, but death to self—to be “crucified with Christ” (Galatians 2:20), or to “put on the new self” (Colossians 3:10), or to “be transformed by the renewing of your mind” (Romans 12:2). But surely our goal, from a scriptural point of view, is not to self-actualize.

One alternative is produced by Andrew Pfeiffer (1998) of Andrews University. It is offered not as *the* alternative, but an alternative. Pfeiffer would invert the pyramid (Figure 3), letting all rest on Christ, and then let Christ permeate every area of life:

With Christ at the base of our new hierarchy,

we turn the world upside down and we balance all our needs on Him and not on ourselves. Although the balancing point of this Christian hierarchy is smaller than the levels that follow, I am suggesting that Christ is not limited to the tip of the triangle's point, but rather, due to the dotted lines in the diagram below, is integrated into all the other areas of needs.

In this "transcendent hierarchy" there are two features that need to be addressed. The first feature is the use of dotted lines to divide each need from the other. This is done deliberately to show how all these needs are intertwined and connected to one another and how all are dependent upon Jesus Christ. As a Christian, one believes that Christ is actively and intimately involved in the needs and concerns of daily life. The second feature is the arrows pointing upward and downward for each need. This signifies the sliding or changing of importance that each need has during various times in a person's existence. For example, we all have heard stories of parents who were willing to die for their children. The parent placed far less importance on their own physiological and safety needs and far more importance on their love and belonging needs. The starving artist is another example of someone who places a greater importance on aesthetic needs than other needs. (pp. 272-273)

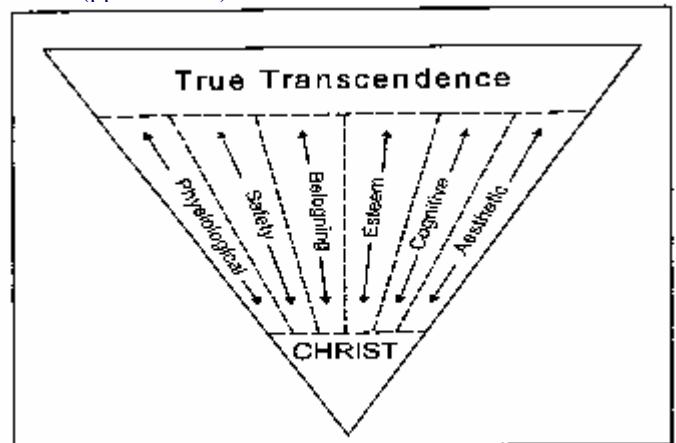


Figure 3. Christian Hierarchy of Needs

McGregor's Theory X and Theory Y. Douglass

McGregor was a Management professor at MIT's Sloan School of Management. His ideas are a logical outgrowth or application of Maslow's Third Force Psychology. According to McGregor (1960), there two basic theories of leadership. Theory X and Theory Y. Theory X assumes:

1. The average human being has an inherent dislike of work and will avoid it if he can
2. Because of this human characteristic of dislike of work, most people must be coerced, controlled, directed, threatened with punishment to get them to put forth adequate effort toward the

achievement of organizational objectives.
3. *The average human being prefers to be directed, wishes to avoid all responsibility, has relatively little ambition, wants security above all.* (p. 33-34)

In contrast, McGregor writes of theory Y:

1. *The expenditure of physical and mental effort in work is as natural as play or rest. The average human being does not inherently dislike work. Depending upon controllable conditions, work may be a source of satisfaction (and will be voluntarily performed) or a source of punishment (and will be avoided if possible).*
2. *External control and the threat of punishment are not the only means for bringing about effort toward organizational objectives. Man will exercise self-direction and self-control in the service of objectives to which he is committed.*
3. *Commitment to objectives is a function of the rewards associated with their achievement. The most significant of such rewards, e.g., (the satisfaction of ego and self-actualization needs, can be direct products of effort directed toward organizational objectives.*
4. *The average human being learns, under proper conditions, not only to accept but to seek responsibility. Avoidance of responsibility, lack of ambition, and emphasis on security are generally consequences of experience, not inherent human characteristics.*
5. *The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.*
6. *Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.* (pp. 47-48)

Essentially, managers who adopted Theory X held a low view (maybe too low) of human nature, while those who held Theory Y held a high (maybe utopian) view of human nature. An astute observer will note the striking parallels between Maslow's Hierarchy of Needs and Theory X and Theory Y. Theory X roughly correlates with the lower strata and Theory Y relates to the upper strata. An entire body of academic literature has sprung up castigating managers who are Theory X and heaping lavish praise on the Theory Y managers. Again we need to check our assumptions.

If you recall the example of "nature or nurture," above you will recall that there may be more than one answer.

It may be:

Theory X

Theory Y

All of the above

None of the above

McGregor has unfortunately set up false alternatives. In logic, this is known as Bifurcation or the black and white fallacy. McGregor theorized that there were only two options—Theory X and Theory Y. But there may be more alternatives. There may be degrees to which both are true. For example, if a student said, "If I don't get in A then I failed," this would be an example of setting up false alternatives. He or she may have received a B, C, or D. The same reasoning applies to Theory X and Theory Y.

From a biblical perspective there is some truth to both. As Professor of Counseling Fernando Garzon (2006) explained,

No theory does justice to the image of God and man's fallen nature. If you run your business as though your theory of man is that he is *all* good or *all* depraved, it is going to be skewed. You must have an accurate theory. When you have an accurate view of people, any theory can be passed through that filter.

According to Scripture, humans were made in God's image (Genesis 1:26) so they exhibit some of the natural abilities described in Theory Y—the desire for challenge, ability to learn, imagination and creativity. However, they are also fallen and depraved and as a consequence may very well dislike work, shun responsibility, and seek security. The astute Christian will recall that work predated the fall: "The LORD God took the man and put him in the Garden of Eden to work it and take care of it," and it was not until after the fall that work became "toil...by the sweat of your brow" (Genesis 3:17-19). This concept alone holds stunning implications for the Theory X/Theory Y debate.

Nevertheless, to those who have no category for the fall of man (and this only makes sense if we presuppose that no God exists), Theory Y is quite popular. Many organizations pride themselves on being a Theory Y organization. Yet few of them realize when they betray their own assumptions. For example, for all of eBay's talk about Theory Y, including their slogan: "People are good," they act as though they do not really believe their own press releases.

If people really are basically good, why do we need passwords to get in? Why is there a security center? Why do we need to leave feedback? Feedback creates a track record so that the potential buyer or seller can convince an otherwise skeptical consumer that he is trustworthy. Yet, if people are basically good this should not be necessary. In the official eBay *Chatter* Newsletter entitled: *How eBay Works With Law Enforcement Around the World to Fight Crime* we learn all about the eBay police:

So what happens when eBay finds that someone has violated our policies and the law of the land? Enter eBay's Fraud Investigations Team. Part of the Trust & Safety operation, the Fraud Investigations Team works proactively with law enforcement and government agencies

throughout the world to apprehend and prosecute outlaws and criminals. (Steer, 2006, ¶ 3)

Why have police if people are basically good? If passwords, feedback, and the eBay police are not enough to convince you that people are not basically good, the experience of being Phished should be enough to convince you. eBay's own *Security and Resolutions Center* claims:

Spoof emails can be a major problem for unsuspecting Internet users. Claiming to be sent by well-known companies, these emails ask consumers to reply with personal information, such as their credit card number, social security number or account password. These deceptive emails are called "Spoof Emails" because they fake the appearance of a popular Web site or company in an attempt to commit identity theft. Also known as "hoax" or "phishing" emails, this practice is occurring more and more frequently throughout the online world. (eBay, 2006, ¶ 1-2).

The greater problem, however, is the assumptions that we embrace when we uncritically welcome the application of Theory Y. The belief that people are basically good denies man's fall into sin. This in turn undermines creation and the need for a savior and other fundamental Christian Doctrine.

Self-esteem. There was a time where thinking through Christian constructs was the norm. The philosopher and theologian Francis A. Schaeffer (1976/1982) calls this the Christian consensus. The Christian consensus has largely been usurped by evolutionary and psychological language. Sin, and its logical consequent guilt, have been replaced by "self-esteem." The notion of self-esteem is largely a modern phenomenon. A good deal of academic and popular literature tends to view a lack of self-esteem as the great problem in the world. A Google search pulls up 35,600,000 English pages for "Self-esteem." Ward (1996) writes: "The origins of the concept of self-esteem can be traced to the advent of self-psychology in the late nineteenth and early twentieth centuries" (¶ 17).

Self-esteem is a difficult concept because there are so many definitions. An average management textbook definition is "the degree to which individuals feel good about themselves and their capabilities" (Jones & George, 2003, p. 79).

The basic premise is that people who have high self-esteem believe in themselves, feel that they are worthy, and therefore, are more desirable. On the other hand people with low self-esteem have low estimates of their own abilities, feel unworthy, and are less apt to achieve. Ward (1996) explains: "Since it first entered the discourse of the human sciences in the late nineteenth century, self-esteem has become one of the more important and prolific concepts in psychological research, psychotherapy, and popular discussions of the self and self-help" (¶ 1).

Popular business texts have embraced this philosophy as well. Blanchard and Johnson (1982) touted the self esteem mantra in the business world in their runaway best seller *The One-Minute Manager*. They wrote, "People who feel good about themselves produce good results" (p. 19). In fairness to Blanchard, he revised the statement in a subsequent book to read,

"People who produce good results feel good about themselves" (Blanchard & Lorimer, 1984, p. 16).

While this may be true, there are a number of concepts that seem troublesome. Listening to some proponents of self-esteem, you would think that self-esteem is more important than actually doing anything to merit it. Still others believe that how you feel about yourself is more important than what is right or wrong (e.g., the well-adjusted criminal).

If what we really need is greater self-esteem, sin, as a category, is useless. Without sin, there was no fall of man. With no fall, there is no creator and need for a savior. It is yet another back door approach that undermines Christianity. When one buys the conclusions of the self-esteem proponents, the assumptions are free.

The concept of self-esteem is like the concept of liberty. Different people and inject different meanings into the same word. The word liberty, for example, means one thing to the conservative (maximum freedom within boundaries), another to the Libertarian (freedom from boundaries) and yet another to the Liberal (freedom to do a thing—empowered by the state if necessary).

Self-esteem is a valid concept if it is defined as the Scripture to defines it. Yet biblical self-esteem has a different starting point and end result than the self-esteem discussed by modern psychology. Modern psychology begins with autonomous man and ends with self-actualization.

In contrast, biblical self-esteem begins with man made in the image of God (Genesis 1:26), was made "a little lower than the angels," and was crowned "with glory and honor" (Hebrews 2:7). This is the primary reason for man's worth, and this foundation has far-reaching implications for life, business, public policy, etc.

Do we just need to "[learn] to love ourselves," as Whitney Houston sang in 1985? Loving ourselves is nothing to be applauded. It is our natural state. The Scripture indicates that we naturally love ourselves:

In this same way, husbands ought to love their wives as their own bodies. He who loves his wife loves himself. After all, no one ever hated his own body, but he feeds and cares for it, just as Christ does the church (Ephesians 5:28-29) Transcending our love for ourselves, on the other hand, to "lay down our lives for our brothers," is admirable (I John 3:16; John 15:13).

While we naturally love ourselves, the apostle Paul commands: "Do not think of yourself more highly than you ought, but rather think of yourself with sober judgment, in accordance with the measure of faith God has given you" (Romans 12:3), and "Do nothing out of selfish ambition or vain conceit, but in humility consider others better than yourselves" (Philippians 2:3).

There is a certain humility that comes with biblical self-esteem (James 4:10). Such humility has been borne out by the business literature to be a powerful mark of confident leaders. Collins (2001) was surprised by this finding since the pervasive current of conventional wisdom would lead us to believe that great leaders would be, in Collins's term, *I-centric* (p. 27). With no

better term for what he actually found, he dubbed extraordinary leaders who were full of humility Level 5 leaders. Collins defines a Level 5 leader as “an individual who blends extreme personal humility with intense professional will,” and, “Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company” (p. 21)

Perhaps biblical self-esteem is better understood as having *God's esteem*. The end result of biblical self-esteem, or *God's esteem*, is completeness in Christ (Colossians 2:9-10), and empowerment for meaningful outreach to others (Mark 16:15; I Corinthians 10:24; Philippians 2:4). It is internal fulfillment that allows us to serve others with the right motives—not for self-aggrandizement, but for God's glory. It is that power that caused General William Booth, the founder of the Salvation Army, as a nearly blind invalid to write this speech to the convention he could not physically attend:

Dear Delegates of the Salvation Army Convention:

OTHERS!

Signed,
General Booth.

Conclusions

This paper began by expressing the need for Christians to discern between worldly wisdom and spiritual wisdom, tracing theological constructs necessary for the development of the Christian's thinking. A simple test of spiritual wisdom is that the theory must include God (or at least it must not undermine God's existence), and be consistent with the Scripture, and it would therefore produce good results. In contrast, worldly wisdom would begin apart from God (and in many cases explain away the need for God), would be in conflict with the Scripture, and would ultimately yield a bitter crop.

We have seen how overt frontal attacks on Christianity—Marxism, Freudianism, Behaviorism—each proudly bear the mark of worldly wisdom. We have also seen covert attempts to undermine a biblical worldview, not by that which was stated as much as by that which was omitted or implied in the assumptions (e.g. unfettered capitalism, Maslow's Hierarchy of Needs, the concept of self-esteem).

Simple concepts that seem so innocuous lead us down a slippery slope to Hell, not just figuratively. As we engage the world with our scholarship we must be careful to use sound logic. We must not deny the existence of sin, confuse slavery with liberty, or exchange spiritual wisdom for foolishness.

Beginning without God and/or denying the existence of sin is the first fundamental error made by the Marxist and the founding fathers of psychology.

We cannot simply accept the conventional wisdom we find in the textbooks. The carrot and stick approach assumes behaviorism. Behaviorism presupposes a materialistic universe and determinism in regard to man's free will. Determinism removes sin as a concept, the creator, and need for a savior. Subscribing to innocuous-looking surface concepts such as positive reinforcement implicitly validates their underlying assumptions. These assumptions are often directly in contrast to a biblical worldview.

Theory X and Theory Y ought to be examined more carefully. A “both-and” rather than “either-or” solution may be appropriate. Some concepts that appear harmless, such as the Hierarchy of Needs, contain assumptions based on omission that can undermine a biblical worldview. Other concepts, such as self-esteem, used similar language to project entirely different meaning.

One objection at this point may be that Skinner, Maslow, McGregor, etc., are all well-established theories routinely cited in peer-reviewed journals. Of course they are established and reestablished by peers who share their humanistic assumptions. On the other hand, Christian students who are seeking to see the world from a biblical point of view ought to rigorously analyze that which is set before them. Otherwise they will uncritically embrace error.

Christian teachers likewise must fully integrate biblical thought into learning and teaching. To fail to do so is negligence at best and heresy at worst. Teachers have a higher standard to uphold. “Not many of you should presume to be teachers, my brothers, because you know that we who teach will be judged more strictly” (James 3:1). To fail to integrate that which we teach or profess is to openly declare lies.

As Christians, we will meaningfully contribute to academic scholarship or the greater marketplace of ideas only if we understand our own assumptions well enough to distinguish between spiritual wisdom and worldly wisdom. This discernment, more than any other factor, will allow the Christian to be salt and light where conventional wisdom often so leads to darkness. Therefore, with the Apostle Paul, let us conclude:

And this is my prayer: that your love may abound more and more in knowledge and depth of insight, so that you may be able to discern what is best and may be pure and blameless until the day of Christ, filled with the fruit of righteousness that comes through Jesus Christ—to the glory and praise of God. (Philippians 1:9-11)

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Endnotes

¹Lest you think that the author was cherry-picking to prove a point, the management and organizational behavior texts were truly random. The Leadership text was only screened to ensure that it contained a chapter on motivation (to be comparable to the Management and OB texts).

²In the revised edition (1970) of the Hierarchy Maslow would add cognitive and aesthetic needs just below self-actualization.

³Pfeiffer is a Seventh Day Adventist. Nevertheless, he was the best source the author could find to refute Maslow. Where are the Evangelical scholars?

⁴Author's note: My wife reminded me as we discussed this article that the term "God's esteem" or "God esteem" is a term she coined as we discussed this topic some time ago. While it is likely that others have independently used this term, here I want to give her full credit for my use of this concept.

C. S. LEWIS IS RIGHT

By

Robert C. Cannada

Abstract

C. S. Lewis is right—Americans will lose their individual “freedoms” (including their freedom of religion) if they have a government that does not recognize and honor the “objective moral laws” or truths referenced in the Declaration of Independence—in fact, he states the result will be, “we perish.” If the members of the government of our nation are not subject to the objective moral laws or truths as set forth in the Declaration, then the members of the government have the power to change the ethos or guiding policies of our nation.

Introduction

One of the essays of C.S. Lewis, *The Poison of Subjectivism* from Christian Reflection by C.S. Lewis, contains a statement that has been featured in the May/June issue of *Liberty Magazine*. That statement is as follows:

The very idea of freedom presupposes some objective moral law which overarches rulers and ruled alike. Subjectivism about values is eternally incompatible with democracy. We, and our rulers, are of one kind only so long as we are subject to one law. But if there is no Law of Nature, the ethos of any society is the creation of its rulers, educators and conditioners; and every creator stands above and outside his own creation.

Immediately after making the above statement, C.S. Lewis continues as follows:

Unless we return to the crude and nursery-like belief in objective values, we perish. If we do, we may live...

Lewis is saying, in effect, that unless the members of the government of the United States of America and its people recognize and honor the fact that they are subject to objective moral laws and truths referenced in the Declaration, those in power will make their own laws to serve as the only moral standard that will be enforced by the government. This will lead to the destruction of individual freedom. “We perish.” Freedom presupposes an unchanging and unchangeable objective moral standard to which the government of the nation and the people of the nation are subject. Our Founders boldly adhered to this philosophy of government as the basis of freedom and set it forth in the Declaration of Independence.

Is Lewis right in his statement to the effect that a democracy cannot survive if the government of that nation does not recognize and honor objective moral

laws and truths? He states, “Subjectivism about values is eternally incompatible with democracy.” If C. S. Lewis is “right” then the question must be faced: Does the government of the United States of America recognize and honor any objective moral laws and truths? If the government does recognize and honor objective moral laws and truths then what are they and what is their source?

Truths Set Forth in the Statement of C.S. Lewis

There are several “truths” in this statement by Lewis that Americans must recognize and honor including the following:

1. The concept or idea of “freedom” of the individual (including the freedom of religion) presupposes and assumes that there are some objective moral laws or truths which overreach both the people and their government. Both the people and their government are subject to those objective moral laws or truths.
2. If our government does not recognize and honor the existence of the Laws of Nature, the Laws of Nature’s God, the Creator, and the Truths set forth in the Declaration of Independence, then those in power (the government) will assume that they have the power to create the ethos, the guiding policies, of this nation, the United States of America.

The Concept of Separation of Church and State

The Founders of the United States of America were determined that there would be a complete separation of Church and State in the new nation. This did not, of course, preclude or involve the recognition and honoring of objective moral laws and truths. The question is presented, therefore, as to what is meant by the expression “separation of church and State.” It is submitted that this expression means that there is a jurisdictional separation between the government of a nation and any particular religion. The government is to operate in one sphere and is to have no legal or civil authority to control or exercise any authority within a particular religion. On the other hand, no particular religion is to have any civil or legal authority within the organization of the government.

This was a principle that was recognized and honored in the formation of the new nation and its government. Each and every person was to enjoy the “freedom of religion”—this was an “unalienable right.”

Objective Moral Laws or Truths

Since, in the new nation, there was to be a complete separation of the government from any particular religion, the question had to be faced as to what “objective moral laws or truths, if any, to which the members of the government and the people were to be

subject and by which they were to be governed. The Founders addressed that question in the Declaration of Independence and set forth in clear and simple language certain moral laws and truths to which the “rulers and ruled alike” would be subject—moral laws or truths that overreach both the people and the members of the government.

The Relationship Between Religious “Freedom” and Objective Moral Laws Must Be Understood

If our “rulers” ignore the Declaration of Independence and look only to the Constitution, then there is no “objective moral law” or truth to which they are subject. If our government can ignore and completely disregard the moral law or truth contained in the “Laws of Nature and of Nature’s God” as referenced in the Declaration of Independence then, in actuality, the ethos or guiding policies for the nation called the United States of America is created by its government—its rulers, educators and conditioners. Thus, the guiding policies are a creation of the government. It is a nation that neither recognizes nor has (it is not subject to) any objective moral laws or truths. Under these circumstances, those creating the ethos of the government are, in effect, above or outside of the nation and they have the power to change the ethos or guiding policies of the government at any time that they see fit. If this is the situation in our nation, then the people will ultimately lose their “religious freedom.” In order for the people to retain their “religious freedom,” the government of the nation must recognize and honor objective “moral laws” and truths that the government did not create and to which the government is subject.

The Statement of C. S. Lewis Applies to the United States of America and its Government

The statement of C.S. Lewis applies to any nation and its government and clearly applies to the United States of America and its government. Insofar as the government of the United States of America is concerned, the *only* document in its Organic Laws containing a reference to unchanging and unchangeable “moral laws and truths” is the Declaration of Independence—the original Organic Law of our nation. The Constitution simply does not refer to nor describe any moral laws or truths. Therefore, unless that document, the Declaration of Independence, is recognized and honored by the members of our government then the ethos, the guiding policies, of the nation called the United States of America is and will be subject to change by the government or some branch of the government. This is not the nation created by our Founding Fathers in the Organic Laws of our nation and the people must do whatever is necessary to cause the members of our government, including the members of the Supreme Court, to recognize and honor the objective moral laws and truths set forth and referenced in the Declaration of Independence.

The Constitution

Some twelve years after the enactment of the Declaration of Independence, our Founders enacted the Constitution and on December 15, 1791 approved the First Amendment to the Constitution which provides specifically “Congress shall make no law respecting an establishment of religion or prohibiting the free exercise thereof...” thus, placing in the Constitution the concept that was clearly present in the Declaration of Independence. The government was to be kept free and clear of any particular religion, on the one hand, and, on the other hand, the government was to do nothing to prohibit the free exercise of religion by Americans. This Amendment simply affirmed the concepts set forth in the Declaration of Independence pertaining to “objective moral laws and truths.” Those “moral laws or truths” do not involve any particular religion but are essential for the protection of the individual freedom of Americans—including the freedom of religion. In fact, as indicated by Lewis, *in a democracy, the government must recognize and honor objective moral laws and truths and reject the concept of subjectivism. If it does not, it will perish.*

Conclusion

The logic that C.S. Lewis expressed in his essay certainly is applicable to the nation known as the United States of America and its government—it is applicable to the “rulers and ruled.” His logic is inescapable. If the government of this nation, the United States of America, does not recognize and honor the moral laws and truths set forth in the Declaration of Independence then ultimately Americans will lose their “freedom”—their individual and personal “freedom”—including their freedom of religion. “We perish.”

This must be understood by all Americans.

If the “freedom” of Americans and the Form of Government for the nation as set forth in the Declaration are to be protected then the objective moral laws and truths set forth and referenced in the Declaration of Independence must be recognized and honored by the members of the government, including the members of the Supreme Court. The members of the government of our nation and the people of our nation, under the Form of Government established by the Declaration of Independence, are *under* the moral laws and Truths set forth or referenced in the Declaration of Independence—they are *not over* these moral laws and Truths. This truth so clearly set forth in the Declaration of Independence is expressed by Lewis as follows: “Subjectivism about values is eternally incompatible with democracy.” For a democracy to survive and not perish, it must recognize and honor objective moral laws or truths to which the government is subject, laws and truths that are not created by the government and cannot be changed by the government. Our Founding Fathers recognized and approved of this concept and proclaimed in the Declara-

tion, “We hold these Truths to be self-evident...” The members of our government of the United States of America must recognize and honor those “Truths.”

Applicants must have graduated from accredited institutions, earned a 3.0 grade point average (on a 4.0 scale), and possess basic computer literacy. Interested applicants should contact Kyle Falce at kafalce@liberty.edu or (434) 592-3525.

We hope you have enjoyed and benefited from some of the information and ideas in this issue of the *Liberty Business Review*.

Liberty Business Review (Vol. IV)

Afterword

Bruce K. Bell

You may wish to comment on one or more of these articles, and we look forward to publishing reader responses. Additionally, we invite any thoughtful readers to submit articles for possible future publication. Articles should be scholarly and written in APA style, approximately 15-25 pages double spaced, and worthy of publication in a peer-reviewed journal. Articles may be sent electronically to bkbell@liberty.edu or to bsatterlee@liberty.edu or in hard copy to the following address:

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We look forward to hearing again from many of you.

Moreover, many readers of this journal may be considering earning a Master of Business Administration degree, and we invite you to explore the Liberty University MBA degree program. Fully accredited by the Southern Association of Colleges and Schools (SACS) and the Transnational Association of Christian Colleges and Schools (TRACS), Liberty’s MBA is 45 hours and includes specializations in Accounting, International Business, Human Resource Management, and Organizational Leadership. For those desiring a master’s degree without the intensity of the MBA, a 30-hour Master of Science in Management degree is available without the above concentrations.

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