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Liberty

Business

Review



God is at Work - One Degree at a Time



Vol. VII June 2009 Number 1

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INTRODUCTION

Dr. Bruce Bell

Liberty University's School of Business has just completed another extremely busy and successful academic year, culminating in the graduation of over 750 men and women, of whom 308 were from the graduate programs in Accounting, Management, and the MBA. Graduation at Liberty is always an exciting time, seeing the happy graduates ready to face the challenges of a fulfilling career.

We are pleased to introduce this 7th edition of the *Liberty Business Review,* an online journal of Liberty's School of Business. This journal presents academically mature articles from a Christian perspective and with a commitment to scholarly excellence.

Always offered without charge, this journal and its 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.

Dr. Phil Gilmore is a faculty member in Liberty's Accounting Department. He acknowledges that much of the Bible uses language familiar to the Accounting profession such as, "Abraham believed God, and it was counted [credited] unto him for righteousness" (Rom. 4:3). Employing a user friendly spreadsheet (unlike most articles presented for publication), he explores the relation between the accounting discipline and the Scriptures.

Another faculty member at Liberty University is **Dr. Edward M. Moore**, who examines the mixed methods research design, especially in business research. His conclusion is that employing both qualitative and quantitative research designs and methods together provide a richer and more reliable research study.

Jackie Browder is instructor of Business and Management at Fort Valley State University, part of the university system of Georgia. She studies the controversial topic of school choice initiatives in Georgia House Bill 1133. As a professional educator, she is interested in magnet schools and school vouchers, public and private schools and considers how the Georgia House Bill might affect primary and secondary schooling within that state.

Creating organizational vision is a role assigned the leader, and both Christian and secular writers cite leadership vision as central to the leader's responsibilities. **Tracy Price** looks at vision, considering the insufficiency of human wisdom and argues that the foundation for Christian leaders should remain biblical truth. She proposes a new definition of organizational leadership based on biblical principles. Vice President of Finance and Operations for a major Central Virginia nonprofit, Price is a Certified Public Accountant who holds a Bachelor of Arts in Accounting from North Carolina State University and an MBA-Leadership Concentration from Liberty. She is active in several initiatives that foster community involvement and leadership.

Dr. David Duby, chair of the Management Department at Liberty University, teaches Moral Business Leadership in the School of Business. Recognizing the role of leadership in organizations, he acknowledges

that leadership is not easily attained, nor is effective leadership maintained without great difficulty. Considering some of the great leaders in history, he begins with Jesus' call to serve, arguing the type of servant-leadership that is somewhat at odds with Robert Greenleaf's naturalistic worldview. Dr. Duby examines the foundation for biblical servant leadership, Christ's model not to be served but to serve.

Michael Frady retired from the FBI and worked with numerous boards of nonprofit organizations, giving him a unique insight into why many nonprofits fail. Earning his Master of Science Degree in Management, Frady recognizes that many nonprofits organizations have boards of directors that have little or no training in the operation of a business. The role of the founder is also examined critically, urging nonprofits to look to the future in order to endure.

Finally, **David Pemberton** analyzes the Asian financial crisis of 1997 to create a case study regarding Thailand's recovery from the crisis specifically and the role of free trade agreements in general. His conclusion, backed by serious critical analysis, empirical studies, applications of economic theory, and free trade agreement success in other countries, is that Thailand's recovery could have been accelerated by a greater, more aggressive use of those free trade agreements. Pemberton graduated *summa cum laude* from Liberty University in 2007 with his B.S. in Religion: Biblical Studies. He will finish his M.B.A. in International Business this fall. Exercising his specialization in Southeast Asian studies, he is currently working as the project director for the Virginia based nonprofit Reaching and Impacting Nations.

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.

ACCOUNTING PRINCIPLES AND SCRIPTURAL PRECEIPTS

By: Dr. Phil Gilmore

ABSTRACT

Accounting is the language of business. As such it has terminology which is similar to a foreign language. It is the purpose of this paper to discuss the intercept of accounting and the Christian World View as delineated in scripture. Unless otherwise indicated, all verses are from the King James Version (KJV) of scripture.

INTRODUCTION

Accounting is the language of business. As such it has terminology which is similar to a foreign language. It is the purpose of this paper to discuss the intercept of accounting and the Christian World View as delineated in scripture. Unless otherwise indicated, all verses are from the King James Version (KJV) of scripture. The Webster definition is the closest one to the accounting/finance terminology. On as few, the definition may be different from that found in scripture.

Accounting Term	Scripture Reference & Verse	Webster's Definition	Insight
ACCOUNT	Philippians 4:17 – Not because I desire a gift: but I desire fruit that may abound to your account.	A statement of income and expenditures; a bill for work done or services rendered.	A business transaction is first recorded chronically in the book of original entry – the journal. The amount is placed in either the debit or credit column according to accounting rules. In double entry accounting system the debits must equal the credits. The amounts are then posted (transcribed) to the general ledger-book of final entry. In the biblical reference, the apostle Paul is saying that the contributions of the local church would be credited to their general ledger account.
ACCOUNTING	Hebrews 11:19 – By faith Abrahamaccounting that God was able to raise him up [Isaac], even from the dead; from whence also he received him in a figure.	The profession of an accountant, the recording and interpreting of e.g. a company's finances to allow it to determine its profit or loss.	This is a play on words. The Bible verse is saying that Abraham believed God, who asked him to sacrifice Isaac, trusting that He would raise Isaac from the dead. Abraham had the faith that this would happen since Isaac was to be the answer to God's promise to make of Abraham a great nation. Accountants can practice their profession as managerial, financial, and/or tax accountants, but must obtain the license as a CPA to audit a companies financial statements.
ASSET	II Samuel 4:11 – How much more, when wicked men have slain a righteous person in his own house upon his bed?	 Anything one owns or any quality one has that is of value or use. The total property of a person, firm, or institution, esp. that part which can be used to pay debts. The positive items on a balance sheet. 	An asset is something that is owned by a company or individual. Accounting students must know the accounting equation where the term asset is used. This is, that assets = liabilities plus owner's equity. Liabilities and owner's equity are claims on the assets owned. In the verse, the "house" and "bed" are both assets and a wicked man is a follower of Satan, while the righteous person seeks to know and do the will of God.
ATTEST	(NKJV) Acts 2:22 – Men of Israel, hear these words: Jesus of	To bear witness to, esp. by signing (a statement); to	God the Father, confirms or verifies that Jesus, is not only a man but also God the Son. In accounting, only Certified

	Nazareth, a Man attested by God to you by miracles, wonders, and signs which God did through Him in your midst, as you yourselves also know	confirm as authentic	Public Accountants are licensed to perform the attest (by auditing) function for both public and private companies. That is, the CPAs attest that the four basic financial statements are presented fairly in their opinion by numerous and audit procedures. The four statements are Balance Sheet, Income Statement, Statement of Change in Owners'
			Equity and Statement of Cash Flows.
BANKER	Matthew 25:27 – So you ought to have deposited my money with the bankers, and at my coming I would have received back my own with interest.	A person conducting the business of a bank (a place where money is kept and paid out, lent, borrowed, issued or exchanged).	Nearly all businesses have one or more bank accounts to facilitate their business. The verse from scripture identifies the professionals who conduct the banking functions. Checking accounts are used to receive revenue and make payments by checks or fund transfer. Although these accounts may require a user charge, they may also earn interest on their balances. Other bank accounts such as savings, certificates of deposit, and money market accounts usually pay higher interest rates since they are deposited for a longer period of time.
BILL	Luke 16:6 – And he [the debtor] said, An hundred measures of oil. And he [the steward] said unto him, Take thy bill, and sit down quickly, and write fifty.	An account for goods sold or services rendered.	A bill is also referred to as an invoice. Before a business pays an invoice, it should be matched for agreement with the purchase order and receiving report (to verify the product is exactly that for which it is being charged). This Bible verse is part of a parable about three unscrupulous individuals: the master, his unjust steward and each customer. The attention is focused on the steward or chief executive officer of corporation. He is responsible for all the business affairs of the company and acts on behalf of the stockholders. When the steward was charged with wasting goods, he decided to make deals with the customers so he would be accepted into their homes when discharged by his boss (the rich master). In Luke 16:8, the master congratulates the steward for his cunning and Jesus says that unfortunately the children of the world are more astute at handling money than the righteous.
BOND	(NIV) Acts 17:9 – Then they made	1) A document issued by	A company may make use of both types of bonds defined to

	Jason and the others post bond and let them go.	a government or a company recording money borrowed and the promise to pay it back with interest to the holder. 2) An insurance policy covering losses as the result of some contingency out of his control.	the left. The first is an investment when money is lent to another, or borrowed for terms of 5 to 30 years or more. A bond certificate is evidence of the transaction and may be held in street name by a broker as a registered bond, or as a bearer bond with interest coupons attached. The second; for insurance coverage for possible fraud by employees handling cash and/or negotiable securities.
BORROW	Matthew 5:42 – Give to him that asketh thee, and from him that would borrow of thee turn not thou away.	To take (something) on the understanding that it will be returned later.	In this passage from the sermon on the mount, Christ is setting a higher standard for His followers than is characterized by the majority of banks and other lenders. He wants Christians to be benevolent and kind to the poor or others in need. The particulars of the loan referred to in Matthew is unknown, but in a business transaction, the cost of borrowing usually is to pay interest as well as the principal, either over the term of the debt and/or at maturity. The interest is calculated by the formula I=PRT (where I is the interest paid; P is the principal borrowed, R is the annual interest rate, and T is the time in years the loan is outstanding.
BUILDING	Ezra 5:4 – Then said we [the opposition to the rebuilding of the temple] unto them after this manner, What are the names of the men that make this building?	A permanent construction (house, factory, etc.)	A building is a necessary asset for most organizations. Sometimes it is purchased outright for cash, with a mortgage loan or bonds, or leased. If the company is a manufacturer it will need different types of buildings than if it deals in a service. Buildings are classified on the balance sheet in the category of Property, Plant and Equipment. The cost of these assets are depreciated over their estimated useful lives. In the scripture portion, the enemies of the Jewish people wanted to stop Haggai and Zechariah from leading God's chosen people in the temple reconstruction. But these two

			men answered the question of who authorized the rebuilding project [Ezra 5:2 & 3] with their own question. In essence, they replied, you aren't part of this project, so beat it.
BUSINESS	Proverbs 22:29 – Seest thou a man diligent in his business? He shall stand before mean men.	 One's regular employment, profession, occupation. The activity of buying and selling, trade. 	The New International Version (NIV) of the text reads, "Do you see a man who excels in his work? He will stand before Kings; He will not stand before unknown men." But we'll look at "business." A business can be carried out as a sole proprietorship, partnership, or corporation. Each type has its own advantages, as well as, disadvantages. The majority of companies are of the first and second type, but corporations can raise much more capital and they don't have the disadvantage of unlimited liability. The major disadvantage of corporations is that its income is taxed twice-first at the corporate level then as a dividend to stockholders.
BUY	Genesis 43:2 – And it came to pass, when they [Jacob's family] had eaten up the corn which they had brought out of Egypt, their father said unto them, "Go again, buy us a little food."	To acquire by paying money, purchase.	The buying and selling of a service or product is the main purpose of retail dealers. A manufacturer, on the other hand, buys raw materials and combines labor and factory overhead with it to produce goods. Joseph, a type of Christ, was sold for 20 pieces of silver to the Midianites; and later to Potiphar, a captain of the Egyptian guard. As is well known, Joseph ultimately became the second in command in Egypt just below Pharaoh, and was put in charge of the food inventory. It was from him that Joseph's brothers had to buy their corn (Genesis 41-45) to survive.
COIN	Luke 15:8 – Or what woman, having ten silver coins (\$4.40), if she loses one coin, does not light a lamp, sweep the house, and search carefully until she finds it?	A piece of metal money.	A company and individuals use many coins to facilitate transactions. At a minimum, coins are found in the petty cash fund. This fund may be called "imprested" because it is always reimbursed to the amount for which it was established (as long as it isn't increased or decreased). The verse above is taken from the chapter in Luke in which Jesus talks about three loses: The lost sheep, coin, and son. The Life Application Study Bible [LASB], has this to say about the lost coin. "Palestinian women received ten silver coins as a

			wedding gift. Besides their monetary value, these coins held sentimental value like that of a wedding ring, and to lose one would be extremely distressing. Just as a woman would rejoice at finding her lost coin or ring, so the angels would rejoice over a repentant sinner. Each individual is precious to God." (LASB, p. 2178)
COST	Luke 14:28 – For which of you, intending to build a tower, sitteth not down first and counteth the cost, whether he has sufficient [enough money] to finish it?	The price paid or to be paid for something.	In managerial accounting, costs can be defined from a number of view -points. For example, there are product costs (direct materials, direct labor, and factory overhead) and period costs (primarily selling, general and administrative). Costs may also be variable (which increase proportionately as sales or production increase) or fixed (that is, they may remain constant over the relevant range of sales or production.) The passage in Luke 14:28-30 is intended by Jesus to set the cost of being His follower or disciple high, and telling people to consider if they are willing to pay this price before starting the journey of following Him. "Following Christ does not mean a trouble-free life. We must carefully count the cost of becoming Christ's disciples so we will know what we are getting into and won't be tempted later to turn back." (LASB p. 2176 & 2177)
CREDITOR	II Kings 4:1 – Now there cried a certain woman of the wife of the sonssaying the creditor is come to take unto him my two sons to be bondmen.	 Someone to whom a debt is owing, The right-hand side of an account. 	Let's look at the second definition first. Many beginning students in Principles of Accounting find it difficult to understand a simple concept. That is, that debits are always on the left hand side of an account and credits are always on the right. Another procedure to memorize is that in double entry accounting, debits must always equal the credits for the general ledger (books) to be "in balance." So if one starts with the books in balance, and always adds debits amounts equal to credit amounts, then the result will also be in balance (the debits will always equal the credits). The first definition from Webster, states that a creditor is someone who has lent money to another (the debtor). So the debtor

			owes money borrowed back to the creditor (usually with interest).
CURRENCY	Genesis 23:16 – And Abraham weighted out the silver for Ephron which he had named in the hearing of the sons of Heth, four hundred shekels of silver, currency of the merchants.	The coins, notes [e.g. dollar bills] or other tokens in circulation as a means of exchange.	In this verse, Abraham purchased a field from Ephron to bury Sarah, his wife, in the cave in it. One gets a little glimpse into the bargaining procedure of that day as follows. "Four hundred shekels of silver was a high price for the piece of property Abraham bought. The Hittites weren't thrilled about foreigners buying their property, so Abraham had little bargaining leverage. The custom of the day was to ask double the fair market value of the land, fully expecting the buyer to offer half the stated price. Abraham, however, did not bargain. He simply paid the initial price. He was not trying to take anything he didn't deserve."
DEAL	Ruth 1:8 – And Naomi said unto her two daughters-in-law [widows, Ruth and Orpah], Go, return each to her mother's house: the Lord deal kindly with you, as ye have dealt with the dead, and with me.	1) To engage in buying and selling some commodity, 2) To make a business transaction, have business relations.	A business transaction is what triggers an accounting entry in the books of a company. In a small organization, the entry is recorded in the general journal and then posted in the general ledger. John Maxwell, an expert on leadership, has this to say about Ruth. "Why did God in His providence preserve the Book of Ruth? Perhaps He did so because Ruth would take an honored place in the messianic family line. God moves throughout this book as the divine director of events – orchestrating a plan to graft young Ruth into the family tree of David and leading ultimately to Jesus [Matthew 1:5]. God accomplishes His work and leadership through all the joys and tragedies of life. As a phenomenal leader, God brokered the resources and circumstances of this time in Israel's history to pull off what he intended." (Maxwell, p. 308)
DEBT	II Kings 4:7 – Then she [the widow] came and told the man of God [Elisha]. And he said, Go sell the oil and pay debt, and live thou and thy children off the rest.	Something, esp. money, owed to another.	A debt, in accounting lingo, is a liability. It is a current liability if it is due within one year or the normal operating cycle of the company, whichever is longer. If it is due beyond this time frame, it is a long term liability. The former liability is used in calculating a dollar amount and the latter, a ratio:

			working capital and the current ratio. Working Capital=Current Assets-Current Liabilities; and the Current Ratio=Current Assets/Current Liabilities. The more working capital a company has, the easier it is for it to operate the business; and a greater the current ratio makes the firm more liquid. As a rule of thumb, it should be greater than 2 to 1.
DEBTOR(S)	Luke 7:41 – There was a certain creditor which had two debtors: the one owed five hundred pence, and the other fifty.	1) A person who owes money or service 2) (Bookkeeping) the left hand side of an account	A debtor is the opposite of a creditor (See "Creditor" defined earlier). A pence was worth a laborer's daily wage. Therefore, the first debtor owed about a year and one-half's wages—while the second owed about two month's wages. Jesus said that a creditor forgave two debtors. Then he asked Simon which debtor would feel the most love toward the creditor. The answer, of course, is the one who was forgiven the most. The application Jesus makes to Peter and the sinful woman is that both have been forgiven, but that the one who has a greater amount to have been forgiven will appreciate that forgiveness most.
DEED	Colossians 3:17 – And whatsoever ye do in word or deed, do all in the name of the Lord Jesus, giving thanks to God, and the Father by him.	A sealed written or printed agreement containing some transfer or other contract. (law)	A deed (a pun) is evidence of ownership. In the majority of cases, this is true for both land and the buildings situated on the land (in the legal or accounting sense). But here is what the Apostle Paul is saying in the verse above, however, "do you want a norm for Christian conduct[Not a lot of little rules]? 'Do all in the name of Jesus Christ giving thanksMy friend, whatever you do—at your place of employment, in the home, and in all relationships with others—can you say, 'I'm doing this in the name of Jesus Christ'? If you can say that, if you are doing it in His name; then go ahead do it.'" (McGee p. 360).
DEPOSITED	Matthew 25:27 – So you ought to have deposited my money with the bankers, and at my coming I would have received back my own with	Something entrusted for safekeeping, esp. money [put] in a bank.	A deposit in a bank account is an increase in cash in the bank. The deposit may be to a check, savings, or to a certificate of deposit. The latter two usually earn interest income. In double entry accounting lingo, when the bank account is

EQUIPMENT	Isaiah 10:28 – He [the Assyrian] has come to Aiath, he has passed Migron; At Michmash he has attended to his equipment. (NKJV)	What is needed or is provided to carryout a particular purpose or function.	increased, the cash account is debited and another account is credited; such as revenue or capital. The verse quoted above is taken from the parable of the talents. "The exchangers [bankers] were people who were in the habit of borrowing money, or receiving it on deposit at a low rate of interest to be loaned to others at higher interest. They commonly sat by the tables in the temple, with money ready to exchange or loan. This money was left with the servantat least to have loaned it to the exchangers that his master might have received some benefit from it." (Barnes, p. 121) Since the servant didn't do this, he was harshly judged. The point of the parable is that God wants us to be faithful with the talents he has given us for His glory. In business, equipment is needed to carry out the mission of the organization (some type of buying, and/or manufacturing, and selling). It is an asset and appears on the balance sheet in a section commonly called, Property, Plant, and Equipment, or Fixed Assets. When an asset of this type is purchases for cash, the equipment account is debited (increased) and cash credited (decreased). The cost of the item is expensed over its estimated useful lift (maybe 2-20 years) by depreciating it by using methods such as straight line, double declining balance, MACRS, etc. Examples of equipment are furniture, fixtures, drill presses, fork-lifts, mixers, conveyors, copiers, and computers.
GAIN	James 4:13 – God to now, ye that say, Today or tomorrow we will go into such a city, and continue there a year, and buy and sell, and get gain	To obtain a profit.	A gain in the accounting/income tax sense is most often associated with the excess of the selling price of a stock or bond over its cost. A long term gain (i.e. the asset sold has been owned for over a year) is taxed at a more favorable tax rate than a short term gain (i.e. the asset has been held for a year or less prior to sale). The apostle James, in the text, isn't forbidding planning; but planning for the future without God's guidance. It is good to have goals, but goals achieved

	1	T	
			without God's help will always leave one disappointed.
			There is no point in making plans as though God does not
			exist, because the future is in His hands. "Plan ahead, but
			hold your plans loosely. Put God's desires at the center of
			your planning; He will never disappoint you." (LASB p. 2672)
GOLD	Acts 3:6 – Then Peter said, Silver	 A yellow, malleable, 	Gold is both a medium of exchange and a precious metal. It
	and gold have I none; but such as I	ductile metallic	is first mentioned in scripture in Genesis 2:11 as a commodity
	have give I thee; In the name of	element that occurs	in the garden of Eden, and in the New Testament it was given
	Jesus Christ of Nazareth rise up and	naturally in the	to the child Jesus by the wise men. Gold backs the value of
	walk.	combined state.	the bank notes in our wallets. Both Solomon and the temple
		2) Coins minted from the	which he built had plenty of it. J. Vernon McGee writes this
		metal.	colorful story regarding the account of the lame man in Acts
			3:6. "one of the early saints of the church of Romewalked
			in on the pope as he was counting money. Realizing that he
			had walked in on something which was private, he started to
			walk out. The pope said to him, 'No longer can the church
			say, Silver and gold have I none'. As the saintly man
			continued walking out he said, 'Neither can the church say to
			the impotent man, "Rise and walk". (McGee, Vol. 4, p. 523)
HOUSE	II Corinthians 5:1 – For we know	A building for a person or	A house is the largest asset owned by the majority of
	that if our earthly house of this	family to live in.	Americans; it is also security for the largest amount of debt.
	tabernacle [tent] were dissolved,		A few years ago, homeowner had to pay capital gains tax on
	we have a building of God, an		the sale of their residences if they didn't reinvest the proceed
	house not made with hands,		in a home of greater value. Today the amount of gain
	eternal in the heavens.		generally needs to be more than \$250,000 for an individual
			(\$500,000 for a couple filing jointly) for a gain to be taxable
			and there isn't any requirement that it be reinvested in
			another house. (2008 CCH US Master Tax Guide, P. 545) The
			referenced verse is written by the apostle Paul to the
			Corinthians. He uses a metaphor of the "tent" for the
			physical body. "The imagery was quite natural for that time
			because many people were nomadic tent dwellers, and Paul
			as a tentmaker [Acts 13:3] knew much about tents

			characteristicsPaul's point is that like a temporary tent, man's earthly existence is fragile, insecure, and lowly." (MacArthur, p. 1770) This body will some day be exchanged for a heavenly, eternal one.
INHERITANCE	Numbers 36:2 – And they [the brothers of Zelophehad] said, The Lord commanded my lord to give the land for an inheritance by lot to the children of Israel.	To receive (something previously in another's possession) as if by legacy or money or property.	The U.S. government not only has an income, social security, excise, and gasoline taxes, but also an estate or inheritance tax. This latter tax is levied on the property of the deceased and doesn't affect estates of under \$2 million. This exclusion is expected to rise to \$3.5 million in 2009, but may not if the congress legislates otherwise. The passage in Numbers 36:1-9 has to do with estate planning in biblical times. Zelophehad had no sons but did have five daughters. By marriage, however, the property of a deceased would go to the tribe of the husband. Therefore, God instructed (through Moses) to have the daughters marry within their clan and tribe so that each tribe would retain its property. So this was done.
INTEREST	Luke 19:23 – Why then did you not	A premium paid for the use of	In accrual accounting, in which it is necessary to make
	put money in the bank, that at my coming I might have collected it with interest?	capital (i.e. a loan)	adjusting entries at the end of the accounting period to match revenue with related expenses; it is usually necessary to make interest accruals when money has been borrowed or lent. For example, if a person or company loans money, they usually receive interest income based on the formula I=PRT (i.e. interest=the principal (amount loaned) times the annual percentage rate (as a faction or decimal) times the time (as a faction of a year). The above scripture verse is near the end of a story Jesus told about a business man who gave three of his assistants some money to manage for him while he was away on a trip. The two who invested the funds and earned more, received praise and given authority over a greater amount. The one that didn't was rebuked and lost his job. The point of this account is a question for all of us. "How are you doing with what God has entrusted you to do?

LAND	Acts E.2 But Dotor said Ananias	The solid surface of the earth	In husinoss, land is usually nurchased or leased to sarry out
LAND	Acts 5:3 – But Peter said, Ananias, why hath Satan filled thine heart to	where it is not covered with	In business, land is usually purchased or leased to carry out the necessary functions of the company. Land is an asset;
	·		· · · · · · · · · · · · · · · · · · ·
	lie to the Holy Ghost, and to keep	water.	therefore, it appears on a company's balance sheet under
	back part of the price of the land?		the title of "Property, Plant and Equipment." If it is
			purchased as a long term investment, and not needed
			currently for production, purchasing and/or sales, it is placed
			under yet another asset section called, "Long Term Assets."
			The question in Acts 5:3 was asked by Peter to Ananias. The
			whole church enjoyed unity and generosity, and it all started
			at the top. The example of the apostles spread a spirit of
			generosity to the whole church. Unfortunately, a couple of
			pretenders, Ananias and Sapphira, sold some land and gave
			part of the proceeds to the apostles, reporting that they had
			given all the money to the church. God revealed their
			deception to Peter and he called them on it. Their sin was
			not lack of generosity, but lack of honesty. They lied about
			what they had done. The results for both of the couple was
			instant loss of life.
LAWYER	Titus 3:13 – Bring Zenas the lawyer	Someone qualified to practice	When land is purchased, it is usually a lawyer that is engaged
	and Apollos on their journey	law as an attorney, advocate,	to prepare the deed. It is a "source document" for the
	diligently, that nothing be wanting	etc.	transaction which is recorded in the general journal by the
	[needed] unto them.		accountant. In scripture, nothing more is known about Zenas
			other than that which is recorded here in Titus 3:13. That is,
			he was a lawyer and an expert in the Biblical laws of the Old
			Testament. He probably wasn't an attorney in the modern
			sense of the word. Apollos was also well qualified in the laws
			of Moses and more is learned about him in Acts, Chapter 28.
			Paul felt that both men would be a help to the church and
			the journey upon which they had embarked.
LIABILITY	Matthew 18:24 – And when he [an	To have an obligation to pay	A liability is shown on the balance sheet because it is due
	employer] had begun to reckon	or repay (money etc.) in	either currently or in the long term for a product or service
	one, was brought unto him, which	return for money etc. that one	which was purchased earlier, or for a loan. The passage
	owed him.	has received.	above is taken from the parable about unforgiveness. The
	1		and the same of the paradic about amorphic less. The

			Lord taught that like a man who owes a large amount of debt to his employer, so we have a large liability to the Lord of the universe. But God completely forgives our sin debt by the salvation provided by His Son, Jesus Christ, if we place our trust in Him. Because of God's forgiveness of our huge debt of sin, we also should forgive anyone who may owe us (which may seem like a lot to us) but is insignificant in God's eyes.
LOAN	I Samuel 2:20 – And Eli [the priest] blessed Elkanah and his wife [Hannah], and said, The Lord give thee seed of this woman for the loan which is lent to the Lord	Something lent, usually money, on condition that it is returned, with or without interest	Hannah, though up in years prayed to God for a son. She so much wanted one that she made a vow in I Samuel 1:11, that if given one, she would return him to the Lord all the days of his life. God granted her the request and she followed through with her promise as well. Many times God is unseen when we think everything is going wrong. But by faith, if we trust Him, He never forsakes us. In Hannah's case He also blessed her with five additional children. (LASB, p. 531). Samuel was such a blessing, particularly in contrast to Eli's sons, that it is said of him, that he "grewin favor both with the Lord, and also with men." (I Samuel 2:26). In fact, this isn't said of any other man or woman in scripture—only Jesus.
LOSS	Philippians 3:7 – But what things were gain to me, those I counted loss for Christ.	Excess of cost over selling price, to sell at a loss or the amount of this.	As mentioned earlier, one of the four basic financial statements is the Income Statement. If sales exceed expenses (including income taxes), there is a net income; if the opposite is the case, there's a net loss. The net income or loss also appears in the Statement of Change in Owners' Equity. The loss ties together the beginning and ending balances of capital (or retained earnings), along with additional capital investment or withdrawal (dividends). The apostle Paul, in Philippians 3:4-7, outlines his pedigree and credentials which were as good as or better than his counter parts in the Jewish religion. But all of these things (gains) he counted as losses as far as Christ was concerned.
MERCHANTS	Revelation 18:3And the	1) A person who directs	In Principles of Accounting I & II, students study definitions,

	marchants of the corth are wayed	large coale trade see	basic associating incurred entries adjusting entries posting to
	merchants of the earth are waxed	large-scale trade, esp.	basic accounting, journal entries, adjusting entries, posting to
	rich through the abundance of her	with a foreign country	the general ledger, and preparation of financial statements
	[Babylon] delicacies.	2) A retailer	for service companies. Then in about Chapter 4, the focus is
			changed to merchandise entities (a little more advanced). In
			this study they are introduced to the buying and selling of
			goods (products). Here is what the Life Application Study
			Bible says about this verse above and the one that proceeds
			it. "Merchants in the Roman empire grew rich by exploiting
			the sinful pleasure of their society. Many business people
			today do the same thing. Businesses and governments are
			often based on greed, money, and powerChristians are
			warned to stay free from the lure of money, status, and the
			good life. We are to live according to the values Christ
			exemplified: service, giving, self-sacrifice, obedience, and
			truth." (LASB, p. 2763)
MONEY	I Timothy 6:10 – For the love of	Anything that serves as a	Someone has said that money is the root of all evil. But
	money is the root of all evil: which	medium of exchange for	money is amoral; it is neither a curse or a blessing. It is,
	while some coveted after, they	goods and services, in the	however, the "love" of money which is the root of all kinds of
	have erred from the faith, and	form of tokens which have a	evil. The apostle Paul reminds us that the most fundamental
	pierced themselves through with	value established by a	step to take to help us from sliding into a love relationship
	many sorrows.	commonly recognized	with money, is to be content with our financial condition
		authority, e.g. the government	(Philippians 4:11). "Probably by nature, he had a mind as
		of a country.	prone to impatience as others, but he had been in
			circumstances fitted to produce a different state of feeling.
			He had ample experience (II Corinthians 11:26), and in his life
			of trials, he had acquired invaluable lessons on the subject.
			He had had abundant time for reflection, and he had found
			that there was grace enough in the gospel to enable him to
			bear trials with resignation." (Barnes, p. 1049)
MORTGAGE	Nehemiah 5:3 – Some also there	A conditional conveyance of	When the term "house" was discussed earlier, it was said
	were that said, We have mortgaged	land, a house etc. as security	that a dwelling is the largest asset an average person or
	our lands, vineyards, and houses,	for a loan. The property	couple owns in a life time. It can now be added that the
	that we might buy corn, because of	remains in the possession, of	related mortgage is the largest debt. If a residence or office

	the dearth.	the borrower but may be claimed by the lender if the loan and interest are not paid according to the agreed terms.	building is purchased costing \$250,000, and it is situated on land costing \$50,000, and the buyer gets a bank mortgage loan of \$270,000 paying the seller \$30,000 in cash, the general journal entry would be as follows. The account Building would be debited for \$250,000 and Land \$50,000; the two accounts to be credited are Mortgage payable for \$270,000 and Cash for \$30,000. The principle payments due within one year are a current liability and the balance due is a long term liability.
OWNER	Acts 27:11 – Nevertheless the centurion believed the master and the owner of the ship [an asset], more than those things which were spoken by Paul.	To have, possess, be the proprietor of, he owns the house and land.	The eleventh verse, is part of the account of Paul's voyage to Rome as a prisoner. If the entity owing the ship was a sole proprietorship and the owner began the company with \$5MM cash; the general journal entry would be a debit to "Cash" and a credit to "Capital, last name". If the next transaction is to buy a ship for \$4MM, the accountant would debit, "Ship" and credit "Cash" for the same amount. If the entity is a partnership, there would be at least two "Capital, last name" accounts. If the organization is a corporation, it could have from one to thousands of owners, each with one or more shares of stock. In each of the three cases, the entry to buy the ship would be identical.
PLEDGE	Deuteronomy 24:11 – Stay outside [the house] and let the man to whom you are making the loan bring the pledge [as is security for the loan] out to you.	Something of value left as security for a loan or as a guarantee that an obligation will be met.	See "SECURITY"
PREFERRED	Daniel 6:3 – Then this Daniel was preferred above the presidents and princes, because an excellent spirit was in him; and the King thought to set him over the whole realm.	(law) To give priority to (a creditor) (e.g.) a corporation's stock which has first claim on the distribution of assets and on the payment of a specified dividend (e.g. preferred stock).	In Daniel 6:3 we are told that Daniel was preferred. He was first (above the 120 princes and also above the other two presidents); he was faithful (He continued to pray even after the law was made to forbid it); and he was faultless (Even his enemies had to admit he did no wrong except for worshipping God). In accounting, there are regular bonds and stock, and preferred bonds and stock. The preferred

			issues have advantages, as the name implies, over the non preferred.
PROFIT	Matthew 16:26 – For what is a man profited, if he shall gain the whole world, and loses his own soul? Or what shall a man give in exchange for his soul?	An excess of income over expenditure, esp. in a particular transactions or over a period of time.	Some accountants call the Income Statement a P & L (i.e. profit and loss statement). This report shows the excess of revenue over expenditure of a company during the time period indicated in the statement heading. The period is usually one to twelve months. "When we don't know Christ, we make choices as though this life were all we have. In reality, this life is just the introduction to eternity. How we live this brief span, however, determines our eternal state. What we accumulate on earth has no value in purchasing eternal life. Even the highest social or civic honors cannot earn us entrance into heaven[One should always] evaluate all that happens from an eternal perspective" (LASB pp. 1999-2000)
RECONCILED	II Corinthians 5:20 – Now then we are ambassadors for Christ, as though God did beseech you by us: we pray you in Christ's stead, be ye reconciled to God.	Reached a compromise agreement about (differences).	The accounting form of the word used here is reconciliation and usually refers to a bank reconciliation. That is, the bank account per the bank statement normally doesn't agree with that of the company's general ledger for "Cash". Two reasons why include that there are outstanding checks which haven't been charged to the bank records and deposits in transit which have been added to the "Cash" per the company's books, but not to the checking account per the bank. In like fashion, one needs to be a reconciled to God since He is holy and man is sinful. This reconciliation is only possible because God sent Christ to die, be buried, and rise again, and we need to accept His work for us.
REPORT	Philippians 4:8 – Finally brethren whatsoever things are true, whatsoever things are honestwhatsoever things are of good reportif there be any praise, think on these things.	Something reported, esp. a formal account of what has been said, seen or done.	These are various reports in accounting; some have already been mentioned—(See Attest). Others are used in managerial accounting such as the "Schedule of Factory Overhead Costs" and the "Manufacturing Statement" (showing the direct materials, direct labor, and factory overhead costs). The above verse says that there are a

			number of things that we need to read, study, and meditate
			_
			on in the Bible if we are going to be Christ like. The world
			system, uses billboards, television, movies, books, and
			magazines, etc. to make us ungodly. The Bible and prayer
_			bring us back to a life of virtue and praise.
REVENUES	Proverbs 16:8 – Better is a little	Items of income collectively	Revenue's are the first line(s) of the Income Statement—one
	with righteousness than great		of the four fundamental financial statements. Expenses are
	revenues without right.		subtracted from revenues to arrive at net income. Net
			income also appears in the Statement of Change in Owner's
			Equity. The scripture has more to say about righteous living
			even though one may have little and why this is preferred
			over wicked living with much of this worlds goods. Note that
			it's not wealth alone that is criticized, but wickedness
			combined with it. Here are some verses to ponder. "My fruit
			is better than gold, yea, than fine gold; and my revenue than
			choice silver" (Prov. 8:19). "Better is little with the fear of
			the Lord than great treasure and trouble there with." "A
			little that a righteous man hath is better than the riches of
			many wicked." The New Testament also speaks about being
			godly with little means. "But godliness with contentment is
			great gain." (I Timothy 6:6)
SECURITY	Deuteronomy 24:6 (NIV) – Do not	1) A bond, stock	See "PLEDGE" discussed earlier. In the world of finance,
SECORITI	take a pair of millstones—not even	certificate etc. given as	bonds are sold at a premium (above the face amount), par
	the upper one—as security for a	evidence of debt or of	value (at face amount), or a discount (below the face
	debt [KJV note "secure some	property.	amount). A "bond indenture" is the legal contract between
	collateral"] because that would be		the seller and investor of the bond. The bonds pay interest—
	-	2) Something given or	
	taking a man's livelihood as	pledged as a	normally every six months—which is an expense to the issuer
	security.	guarantee, esp. for the	and income to the investors. The scripture verse to the left
		payment of a debt.	recognizes that it takes two millstones to grind grain. A
			lender of money shouldn't take one of them as security for a
			loan since the borrower could no longer provide income for
			himself and his family.
SELL	Genesis 25:31 – And Jacob said [to	To dispose of ownership of	(See "BUY") When a purchase of goods or services is

	Esau his brother], sell me this day thy birthright.	(goods, property, or rights) to another or others in exchange for money.	recorded in the books of the buyer, the opposite transaction is made in the general or sales journal of the entity selling the product or service. In addition to a sales account, with a normal credit balance, there are two related "contra" accounts with normal debit balances—"sales discount" and "sales returns and allowances". The verse above is part of a sales transaction made between Esau (the seller) and Jacob (the buyer). Esau came in from the field one day, very hungry and tired, and asked Jacob for some food. Jacob said he would give him some if Esau would sell him his birthright. The birthright gave the owner a double inheritance, and the office of leadership and priest of the family. Esau didn't want these positions so he readily sold his rights to Jacob.
SILVER	II Kings 6:25 – And there was a great famine in Samaria; and behold, they [the army of Syria] besieged it until an ass's head was sold for fourscore pieces of silver	 A white, stable, malleable, ductile, usually monovalent (rarely bivalent) metallic element. Coins minted from this metal or from an alloy resembling this. 	Also see "GOLD." Silver coins (such as silver dollars) are collectibles and silver, as a metal, is traded on the Chicago Mercantile Exchange. Joseph, a type of Christ, was sold for 20 pieces silver and Christ himself was betrayed for 30 pieces. The scripture in II Kings 6:25-29 is part of the history of Israel when they, because of turning from God's leadership, suffered a severe famine when surrounded by Aram. It is during this time that a donkey's head was sold for an outrageous price and people were even eating their children. What a cost for sinning against God.
SUPPLIES	I Samuel 17:22– And David left his supplies ["carriage" in KJV] in the hand of the supply keeper, ran to the army, and came and greeted his brothers. (NKJV)	Stock or stores available	When the term "supplies" is used alone in accounting it normally refers to the inventory of office products and/or goods to be used in production as part of manufactured items. "Supplies expense," however, refers to the supplies that have been used during the accounting period for their intended purpose. These are shown on the Income Statement as expenses. The above verse is part of the account in scripture about David's defeat of Goliath (I Samuel 17:19-58). David is able to accomplish this and did it with faith and confidence in Jehovah, and one stone and his sling.

			"For whatsoever is born of God [David] over cometh the world [Goliath]: and this is the victory that overcometh the world, even our faith." (I John 5:4)
TALENT	Matthew 18:24 – And when he [a certain King] had begun to reckon, one was brought unto him, which owed him ten thousand talents [or a huge amount]	Any of several units of weight or money of account used in Greece, Syria, Palestine and Babylon.	In Matthew 18:24 we view part of the introduction of the parable about the unmerciful servant. The King (God), forgives the servant (a sinner) who owed an infinite amount of money (sin) that he could never repay. After being forgiven, however, the servant doesn't forgive a fellow servant of a very small debt, but casts him into prison. The point of the story is that since God thru His Son, Jesus has forgiven us a large sin debt, we should likewise forgive anything our brother may do to us.
TAX	Matthew 9:9 – As Jesus passed on from there, He saw a man named Matthew sitting at the tax office. [NKJV]	A charge, on a person's income or property, direct tax on the price of goods sold, indirect tax made by a government to collect revenue.	An accountant records in the general or specialized cash receipts journal, the collection of many types of taxes. These include sales, income, social security, unemployment, personal property, etc. The soon to be disciple of Christ, Matthew, collected taxes in a booth by the roadway. He was despised by the Jews because, as a tax collector, he overcharged for his own benefit taxes due the country. Also he represented Rome by being in this occupation. Here are three lessons one can learn about this account. 1) Jesus accepted people from every walk of life to serve Him. 2) Matthew was given a new life in which he could still use his God given abilities for record keeping and attention to detail, and 3) after salvation, this disciple brought others to Christ.
TRADERS	Chronicles 9:13 & 14 – The weight of the gold that Solomon received yearly was 666 talents brought in by merchants and traders. (NIV) **	 The business of distribution, selling, and exchange Any branch of such business Persons engaged in a field of commerce A deal, a purchase and 	Another scripture passage which uses the term trading is Luke 19:15 which says,then he commanded these servants to be called unto him, to whom he had given the money, that he might know how much every man had gained by trading. A couple of professions that deal with trading are stock brokers and commodity traders. But the most common are wholesalers and retailers of products.

		sale	
TREASURER	Acts 8:27 – And he [Philip] arose and went: and, behold, a man of Ethiopia, an eunuch of great authority unto Cadace queen of the Ethiopians, who had the charge of all her treasure, and had come to Jerusalem for to worship.	 Anything very valuable (hist) A store of money, jewels etc. An official in charge of the finances of a government, society, etc. 	In some smaller businesses one individual is both the controller (the chief accountant) and treasurer (in charge of negotiable assets such as money). It is best (i.e. better internal control), however, to have two people in charge of these two responsibilities. In the above verse, Philip was led to present the gospel message to the treasurer of Ethiopia. And each follower of Christ should also "be ready always to give an answer to every man that asketh you a reason of the hope that is in you with meekness and fear." (I Peter 3:15)
WAGES	Luke 3:14 – And the soldiers likewise demanded of Him (Jesus), saying, And what shall we do? And he said unto thembe content with your wages.	A reward received by nonprofessional workers, usually in the form of a weekly payment of an agreed sum calculated either according to the hours worked (including over time) or according to the work done (piece work).	A related term to "wage" is "salary," but it isn't found in the King James Version of the Bible. A salary is more for professionals and it is paid weekly, bi-weekly, or semimonthly. Accountants make journal entries to record both wages and salaries. Furthermore, this includes a debt (increase) to the Wage account, and a credit (increase) to taxes payable, employee insurances, pension accounts, etc, and to cash or wages payable.
WHEAT	Judges 6:11and he [Joash's] son Gideon threshed wheat by the winepress, to hide it from the Midianites.	1) One of various grasses of the genus Triticum 2) The grain yielded from these, which is processed into flour or meal	Mention has already been made of the metal commodities of gold and silver. In finance, wheat futures are also traded on the Chicago Mercantile Exchange and the accountant records these transactions in the books of the company. The scripture reference above is part of the account of Gideon and the Midianites. He was so afraid of them that he hid his wheat from them. However, God calls Gideon a "mighty man of valour" and sends him to win a great victory of Israel's enemy. As a provision that God be given the credit for the miracle, the Lord reduced the size of Israel's army from 32,000 to 300.

Conclusion

A distinctive of some religious, private, schools of higher education is that they teach from a biblical world view. This is very clearly seen in the advertisements for students and employees. But what exactly does this phrase mean? The answer is discussed and debated by constituents of these colleges and universities. Even In this paper, no attempt is made to give the one and only true definition, but rather to shed some light on it from an accountant's point of view. It is also hopeful this work will generate interest from other schools and department to consider its meaning for them.

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Mixed Methods Research Designs:

An Exciting and Viable Alternative for Business Research

by

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Abstract

In this paper, the author provides solid scientific rationale for the use of mixed method designs in business research. The discussion begins with an analysis of fixed, flexible, and mixed method designs, including their foundation in scientific principles, research paradigms, and methodological approaches. The discussion continues with an evaluation of qualitative and quantitative methods used in research designs, relating the choice of methods to the purpose of the study and the objectives of the design. The author concludes by demonstrating the logical flow from research paradigm to research design to the selection of research methods, demonstrating the clear advantages of mixed method designs in business research.

Introduction

Despite the historical dominance of fixed designs in business research (Robson, 2002), it is clear that the use of mixed methods designs offers an attractive alternative to more traditional and often rigid methodologies. In this paper, the author explores and evaluates the theoretical basis for increased recognition and acceptance of mixed method research designs in this field of study. The discussion begins with a comparative analysis of fixed, flexible, and mixed method designs in the terms their foundation in accepted scientific research principles, differentiating the methods and showing how they support specific research paradigms and methodological approaches. Next, the discussion turns to an evaluation of the suitability of quantitative and qualitative methods in the creation of relevant business knowledge, focusing on the selection of research method based upon the purpose of the study, the objectives of the design, and choices based upon the relative importance of factors including objectivity, generalizability, and isolation of researcher and research subject. Finally, the discussion concludes with a summary of relevant findings and conclusions regarding the origins, characteristics, and use of research designs and methods.

Scientific Foundations of Research Designs

Fixed, flexible, and mixed methods offer researcher three different research designs. Robson (2002) explains that the term fixed refers to the fact that the study design is fixed or determined prior to the collection of research data and is associated with quantitative research methods, while flexible refers to the fact that in this type of research the design is not fixed, often emerging as the process of data collection occurs, and is

associated with qualitative research methods. By comparison, mixed method designs include both fixed and flexible components and are associated with a mix of both quantitative and qualitative research methods (Rocco, Bliss, Gallagher, & Perez-Prado, 2003).

Social science paradigms form the scientific foundation for research and represent a theory of science and ultimate assumptions shared by an accepted group of researchers. Arbnor and Bjerke (1997) explain that these ultimate assumptions include the researcher's conception of reality, conception of science, scientific ideals, as well as ethics and aesthetics. Methodological approaches to research derive from the social science paradigms and form the basis for both the research design and selection of methods (Arbnor & Bjerke). Therefore, it is necessary to develop an understanding of both the relevant social science paradigms and methodological approaches in order to establish the basis for the selection of research designs and research methods (Crossan, 2003).

Social Science Paradigms

The dominant social science paradigms in business research are positivist/post-positivist, interpretivist/constructivist and critical theorist/post-modernist, with the fundamental difference found in the researcher's view of the world (Gephart, 1999). Arbnor and Bjerke (1997) expand on this by adding that the researcher's concept of reality and the type of knowledge being pursued also vary across the spectrum of social science paradigms. As the researcher moves from the positivist and post-positivist paradigms towards the interpretivist/constructivist and critical theorist/post-modernist paradigms, their view of reality shifts from objective and rationalistic to subjective and relativistic, and their research objective shifts from explaining reality to understanding reality (Arbnor & Bjerke).

The positivist/post-positivist sees an objective world that the researcher can model based upon knowledge, while the interpretivist/constructivist sees an inter-subjective world that the researcher can represent with a social construction of reality (Gephart, 1999) The critical theorist/post-modernist on the other hand sees a material world that the researcher can only attempt to know objectively by removing ideological bias (Gephart). Robson (2002) provides a more simplified view based upon broad commonality and applicability and reduces the range of relevant social science paradigms to positivism, post-positivism, and constructivism.

Because a positivist sees the world as objective, the researcher will search for facts that help explain the world through the exploration of cause and effect relationships between the facts and organizational actions (Gephart, 1999). This has led positivists to develop and rely on fixed designs using experimental and quantitative methods in order to gather these relevant facts, with the research grounded in existing knowledge (Robson, 2002). The post-positivist paradigm, a shift from the positivist paradigm, represents researchers who also view the world as objective but search for facts that explain and understand the world and believe that the relevant facts might not only be deterministic, but also probabilistic (Gephart). It is the inclusion of a probabilistic component that has lead post-positivists to develop and rely on mixed designs using qualitative and quantitative methods rather than a strict reliance on quantitative and experimental

methods found in the positivist paradigm (Crossan, 2003). Importantly, post-positivists acknowledge their probable impact on the study and work to maintain objectivity (Robson).

In contrast to the positivist or post-positivist, the constructivist researcher views the world as an intersubjective, and works to represent the world through a social construction of reality made up of concepts and actors (Gephart, 1999). This means that the researcher is concerned with patterns and meanings and tries to develop an understanding of the individual's view of the world as well as examine how objective realities are created (Gephart). Constructivists in this sense have developed and rely heavily on flexible designs using qualitative methods for data gathering which include interviews, ethnography, and textual analysis (Robson, 2002).

It is important to examine the shift in paradigm from positivist to post-positivist as it represents a fundamental change in the ultimate assumptions and beliefs of a large body of social science researchers. Kuhn (1996) explains that the creation of knowledge is marked by revolutionary changes where entire views of reality are displaced by new ones due to a new discovery, leading to a shift in paradigm. In this sense, Kuhn asserts that new paradigms share two characteristics; (a) an "achievement that is sufficiently unprecedented enough to attract an enduring group of adherents away from competing modes of scientific activity", and (b) "sufficiently open-ended to leave all sorts of problems for the redefined group of practitioners to resolve" (p. 10). In this context, the shift in paradigm from positivist to post-positivist has provided an appealing social science paradigm with a range of mixed research designs that can be used to explain and understand complex systems where strict cause and effect relationships are difficult to determine due to the synergistic relationship of the various factors.

Methodological Approaches and Research Designs

Arbnor and Bjerke (1997) explore three methodological approaches derived from the social science paradigms as being useful in creating business knowledge including the analytical approach, the systems approach, and the actors approach. The fundamental differences can be found in the conception of reality, the impact of the researcher and participants in the generation of knowledge, and the goal of the research (Arbnor & Bjerke). Based upon the methodological approach taken, the researcher can develop a fixed, flexible, or mixed method research design based upon quantitative and qualitative methods (Crossan, 2003).

The analytical approach is used to describe an objective reality that consists of the sum of its parts, where the knowledge generated is independent of the individuals involved or the observers and researchers using this approach attempt to provide descriptions and explanations of reality that are general in nature and unqualified (Arbnor & Bjerke, 1997). It is this objective of the analytical approach that leads to the use of fixed research designs using quantitative methods. As Cooper and Schindler (2003) explain, fixed designs are well suited to a study where the researcher is attempting to describe, explain, or predict rather than attempting to understand or interpret. In this sense, fixed designs are often viewed as theory testing designs rather than theory building designs (Cooper & Schindler). Arbnor and Bjerke support this view in clarifying that in the

analytical approach the researcher seeks to explain reality through the discovery of causal relations and as a result, the broader theory of reality is improved through the addition of verified hypothesis.

A key benefit of the analytical approach using fixed research designs and quantitative methods is the ability to build on existing theories when studying new problems. This ever growing foundation of knowledge frees the researcher to focus on the development of new knowledge without having to prove the validity of the foundation. A key vulnerability of the analytical approach is the inability to consider that complex systems can develop where the whole is not simply the sum of its parts (Arbnor & Bjerke, 1997).

The actors approach is used to describe a socially constructed reality where the actors being studied and the view of reality being generated in effect create each other, and knowledge generated is dependent on the individuals being studied as well as the observer (Arbnor & Bjerke, 1997). Researchers using this approach attempt to provide an understanding of reality that provides conceptual meaning based upon how the individuals perceive and act in their reality (Arbnor & Bjerke). It is this shift in purpose from explanation to understanding that leads to the selection of flexible research designs using qualitative methods. As Cooper and Schindler (2003) explain, flexible designs are well suited to a study where the researcher is attempting to understand or interpret rather than attempting to describe, explain, or predict. In this sense, flexible designs are often viewed as theory building designs rather than theory testing designs (Cooper & Schindler). Arbnor and Bjerke reinforce this by clarifying that researchers using the actors approach seek to understand reality and describe the constantly changing relations between the actors and their reality. As a result, the understanding of the interactions of the socially constructed reality is improved and communicated through the use of descriptive language.

Researchers using the actors approach can benefit from using general contributions from previous researchers as a starting point but they will need to develop their skill over time. A key benefit of the actors approach using flexible research designs is the ability to develop new theories when studying new problems. A key vulnerability of the actors approach lies in its use of descriptive language to describe reality rather than verifiable and quantifiable facts, which can lead to misunderstandings or misinterpretations (Arbnor & Bjerke, 1997).

The systems approach in contrast to the analytical approach also describes an objective reality, but in this case one that consists of a whole that is not simply the sum of its parts and where the knowledge generated is dependent on the system being observed (Arbnor & Bjerke, 1997). Arbnor and Bjerke further explain that researchers using this approach are attempting to provide descriptions of reality that consist of representations of the system studied and that are less general in nature.

Scandura and Williams (2000) found a significant rise in the use of a systems approach and mixed methods in a review of field studies conducted from 1985 through 1997. Their analysis showed this approach offered lower generality, precision, and control in favor of higher contextual realism. Simply put, with a growing understanding of the complexity of society from the organizational view, there is a realization of the limitations of the summative nature of the analytical approach using quantitative methods (Mohrman, Gibson

& Mohrman, 2001). Through the systems approach the researcher seeks to explain as well as understand reality through the discovery of producer and product relations, and as a result, their resulting view of reality is improved through the explanation and understanding of behavior of the systems studied (Arbnor & Bjerke, 1997). It is this dual purpose of explanation and understanding that leads to the use of mixed method designs using a combination of quantitative and qualitative methods that can be used for developing and testing theory in a single study (Robson, 2002).

Similar to the analytical approach, the systems approach using mixed research designs allows a researcher to draw analogies from the results of similar studies conducted in the past in order to develop new knowledge. A key benefit of the systems approach is that it incorporates the concept of synergy where the whole can be more than the simple sum of its components. A key vulnerability of the systems approach is the inability to draw simple cause and effect relationships (Arbnor & Bjerke, 1997).

Summary

From the preceding discussion it is possible to synthesize a comprehensive view of fixed, flexible, and mixed method research designs based upon their scientific foundations in the social science paradigms and methodological approaches. Researchers following a positivist paradigm will use the analytical methodological approach and will design a fixed study using quantitative methods in order to explain an objective and rational reality (Arbnor & Bjerke, 1997; Gephart, 1999; Robson, 2002). Importantly, the resulting knowledge generated with the analytical approach will be independent of the individuals involved and the observers (Arbnor & Bjerke). On the other hand, researchers following a constructivist paradigm will use the actors methodological approach and will design a flexible study using qualitative methods in order to understand a subjective and relativistic reality (Gephart; Robson). In contrast to the analytical approach, in the actors approach the knowledge generated is dependent on the individuals being studied as well as the observer (Arbnor & Bjerke).

Researchers following a post-positivistic paradigm, however, will use the systems methodological approach to explain and understand an objective and rational reality where the relevant facts might not only be deterministic, but also probabilistic (Gephart, 1999). The resulting mixed methods design will use a combination of quantitative and qualitative methods, and the knowledge generated will be dependent on the system being studied (Arbnor & Bjerke, 1997; Crossan, 2003). The researcher in this case views the system as being more than simply the sum of its parts. Pragmatically, the post-positivist acknowledges the probability that their involvement could impact the study and works to maintain objectivity (Robson, 2002).

Arbnor and Bjerke (1997) explain that the post-positivistic paradigm with its associated system methodological approach and mixed method design offers a tremendous amount of power and flexibility to the researcher when working to explain and understand the complex systems found in business today. It is this power and flexibility that explains the shift towards a systems approach, making it the dominant point of view in business practice and business theory research (Arbnor & Bjerke). Now, with the scientific foundation of fixed, flexible, and mixed method designs established it is possible to examine the suitability of their associated quantitative and qualitative methods to the creation of business knowledge.

Suitability for Creating Business Knowledge

The suitability of fixed, flexible, and mixed method research designs using quantitative and qualitative methods for creating business knowledge can be evaluated from several perspectives. Before making the choice of design and method, the researcher must understand the purpose of the research and then the objectives of the research design in supporting the study (Crossan, 2003). As part of the design process and method selection, the researcher will also make choices about the relative importance of factors including objectivity, generalizability, and isolation of researcher and research subject (Robson, 2002). McGrath (1982) summarizes this dilemma in his discussion of the three way trade off that all researchers must make. In his view, all research designs will result in either more or less generalizability to the population which affects external validity, precision in measurement and control of the behavioral variables which affects internal and construct validity, and realism of context (McGrath). Cook and Campbell (1976) support this contention and stress the importance of the trade off in internal, external, and construct validity as critical aspects when selecting research methods.

Purpose of the Study

Meaningful research requires a guiding statement that gives direction and purpose to the study and can be provided by either a hypothesis or a research question (Cooper & Schindler, 2003). This choice is guided by the researcher's ability to make a prediction about the study before it is conducted based upon a theory. As Robson (2002) explains, in situations where the researcher is able to make a prediction before data are gathered, a hypothesis that can be tested with a fixed design using quantitative methods is the best fit. Cooper and Schindler support this view by explaining that when a statement is made about concepts or phenomena can be observed by the researcher and can be found to be true or false using quantitative methods, it is considered a hypothesis.

On the other hand, in situations where the researcher is unable to make a prediction until after or as part of the data gathering process, a research question that can be answered with a flexible design using qualitative methods is the best fit (Robson, 2002). Cooper and Schindler (2003) support this view by explaining that the research question is a question that best states the objective of the research study and is not formatted to solicit a true or false answer. Once posed, research questions are initially fine-tuned during a review of the literature and discussions with experts, and the process of refining the research question continues during the data gathering phase until the question has been fully answered or a different question has presented itself as the actual core question (Cooper & Schindler). It is this evolving nature of the research that forms the basis for the use of the term flexible when describing the research design (Robson).

A powerful alternative to these two very different and potentially rigid methods of conducting research is offered by mixing hypotheses and research questions. Recognizing both the advantages and limitations of each, many researchers are taking a pragmatic approach that combines both (Robson, 2002). The benefits of this approach are far reaching. For example, a single study could use a research question that is investigated using qualitative methods to develop a hypothesis that could then be investigated using quantitative methods

(Amaratunga, Baldry, Sarshar, & Newton, 2002). From the other perspective, a hypothesis investigated by a quantitative method such as a survey could be used as the basis for selecting participants for a research question that could then be investigated using qualitative methods (Robson).

Objectives of the Research Design

With the purpose of the research established, the researcher can turn their attention to the construction of a research design using fixed, flexible, or mixed methods. Researchers will create a fixed designs using quantitative methods if they are attempting to describe, explain, or predict as well as precisely measure something through answering questions such as how much, how often, how many, and who (Cooper & Schindler 2003). On the other hand, a flexible design using quantitative methods will be created if the researcher is attempting to understand or interpret through a detailed description developed by answering question such as why (Cooper & Schindler). In this sense, Cooper and Schindler clarify that fixed designs are often viewed as theory testing designs while flexible designs are often viewed as theory building designs. Robson (2002) cautions that regardless of the design selected, the goal of research is to produce results that are believable and trustworthy which includes factors such as objectivity, reliability, validity, and generalizability.

Fixed designs using quantitative methods are advantageous to the researcher because of their ability to produce results that can be generalized, which means that they can go beyond individual characteristics to identify characteristics of a larger population (Robson, 2002). Also, with much of the data from fixed designs being in the form of numerical data, proven statistical techniques can be applied to data analysis which helps avoid confusion between facts and judgments (Cooper & Schindler, 2003). By providing separation between the researcher and the participants, fixed designs improve objectivity because they reduce the likelihood of researcher influence on the study (Robson). The primary weakness of fixed designs, however, is their inability to measure the complexity and details of individual behavior (Robson).

Flexible designs using qualitative methods are advantageous to the researcher because of their ability to help clarify the research question through the research process (Robson, 2002). In this sense, flexible designs are well suited to exploring situations where the researcher does not fully understand theories or the nature of relationships and allows the researcher to develop a deeper level of understanding (Cooper & Schindler, 2003). This understanding is further improved through direct participation and involvement with the participants, which allows the researcher to evaluate and form insights (Cooper & Schindler). Further, qualitative or non-numeric data have the advantage of providing richer, fuller, and more real descriptions when contrasted with quantitative data (Robson).

The primary weakness of flexible designs is the prevalent view that qualitative data are open to bias and human error during data collection and interpretation, making the process less objective (Cooper & Schindler, 2003). Coghlan and Brannick (2001) support this caution and highlight the need for researchers using flexible methods to minimize their impact on the research in order to maintain the highest level of objectivity possible. Another weakness of flexible designs is the inability to apply proven statistical methods to data

analysis, and the researcher must bear in mind that design choices regarding data analysis can affect the types of conclusions that can be drawn (Sackett & Larsen, 1990). Robson (2002), however, minimizes the impact of these issues by explaining that it is now "respectable and acceptable in virtually all areas of social research" to use designs based upon qualitative methods (p. 163).

Mixed method designs offer a wide range of exciting possibilities to the researcher by combining both quantitative and qualitative methods, allowing the researcher to determine the optimal balance of objectivity, generalizability, and isolation for the proposed study. As an example, in order to allow triangulation of results, a researcher can use the results of a qualitative method to test the results of a quantitative method, thereby improving the range of data as well as credibility of the study (Crossan, 2003). Also, to improve the credibility and statistical generalizability of qualitative studies, a researcher can organize qualitative data into numerical form through categorizing and grouping, and once in this form apply quantitative methods of data display and statistical analysis (Mingers, 2001; Robson, 2002).

At a higher level of integration, a researcher can take advantage of the strengths of one type of method to offset the weaknesses of the other by applying them concurrently in order to develop a deeper understanding and better explanation of reality than would otherwise be possible. In general terms, fixed designs are better suited to exploring social structure, and flexible designs are better suited to exploring social process (Amaratunga et al., 2002). By using both methods concurrently a researcher can develop a higher fidelity view of reality that includes both social structure and process. Similarly, researchers can facilitate better interpretation by using the ability of fixed methods to establish relationships together with the ability of flexible methods to explain relationships (Rocco et al., 2003). In this same light, researchers can take advantage of fixed methods and their focus on small scale or micro aspects of social life as well as flexible methods and their focus on large scale or macro aspects of social life to form a more complete and integrated view (Robson, 2002). Finally, recognizing that fixed methods will have a more researcher-focused perspective and flexible methods will have a more participant-focused perspective, a mixed method design can integrate both aspects (Robson). It is this higher level of integration of quantitative and qualitative methods that truly demonstrates the power of mixed method designs as well as the systems methodological approach where they originated.

Summary

From the preceding discussion it is clear that fixed, flexible, and mixed method research designs using quantitative and qualitative methods are all suitable for creating business knowledge. As illustrated, selection of methods including quantitative, qualitative, or a combination of both is the final step in creating a research study. The researcher must first understand the purpose of the research and the objectives of the research design as well as make choices based upon the relative importance of factors including objectivity, generalizability, and isolation of researcher and research subject.

If the researcher is able to make a prediction about the outcome of the study and can formulate a true or false question as a hypothesis, a fixed design using quantitative methods is suitable for the study and will provide

the researcher with a higher level of objectivity, generalizability, and isolation from the research subject (Cooper & Schindler, 2003; Robson, 2002). On the other hand, if the researcher is unable to make a prediction and can only form an open ended research question, a flexible design using qualitative methods is suitable for the study and will provide the researcher with a lower level of objectivity, generalizability, and isolation from the research subject (Cooper & Schindler; Robson).

Mixed method designs offer a wide range of possibilities to the researcher by combining both quantitative and qualitative methods in ways that allow the strengths of one method to overcome the weaknesses of the other, allowing the researcher to determine the optimal balance of objectivity, generalizability, and isolation from the research subject (Crossan, 2003; Mingers, 2001; Robson, 2002). In this sense, the real strength of the mixed method design is found in designs that use both types of methods concurrently rather than simply sequentially, and it is this higher level of integration and synergy of methods that allows the researcher to develop a deeper level of explanation and understanding (Robson).

Conclusion

This discussion began with a comparative analysis of fixed, flexible, and mixed method designs in the terms their foundation in accepted scientific research principles. The positivist, constructivist, and post-positivistic paradigm paradigms were found to be the foundation for the fixed, flexible, and mixed research designs respectively. The analysis further showed that the knowledge generated by fixed designs can be considered independent of the individuals involved or the observers, while in flexible designs it is dependent on the individuals being studied as well as the observer. In contrast, knowledge generated in the systems approach was found to be dependent on the system being studied, the researcher viewed the system as being more than simply the sum of its parts, and the researcher recognized and took steps to mitigate the probability that they will impact the study.

Following the comparative analysis of research designs, the suitability of qualitative and quantitative methods for the creation of relevant business knowledge was evaluated. While both methods were found to be suitable, the choice should be guided by the purpose of the study, the objectives of the design, and the relative importance of factors including objectivity, generalizability, and isolation of researcher and research subject. In this sense, quantitative methods will provide the researcher with a higher level of objectivity, generalizability, and isolation from the research subject while qualitative methods will provide a deeper level of understanding at the expense of a lower level of objectivity, generalizability, and isolation from the research subject.

In contrast to the more rigid quantitative or qualitative methods, mixed method designs using both quantitative and qualitative methods allow the researcher to determine the optimal balance of objectivity, generalizability, and isolation from the research subject that will still allow him or her to meet the objectives of the study. The balance that is achieved through the integration of methods demonstrates the power and necessity of mixed method designs as well as the systems approach. Through this comparative analysis of research designs and the evaluation of research methods, this discussion supports the author's contention

that mixed method designs deserve increased recognition and acceptance, despite the historical dominance of fixed designs in the field of business research.



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A Comparison of School Choice Initiatives to Georgia House Bill 1133

by

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School Choice is a controversial issue whose implementation has been approached by a variety of legislation. This paper will discus Georgia House Bill 1133, which was passed and signed into law in 2008. The Georgia HB 1133 allows tax deductions for private school scholarships. The resulting taxpayer funding of private schools could be considered a form of school choice. This paper compares the plan to other traditional forms of school choice, such as voucher plans.

Introduction

A variety of plans have attempted to meet the needs of those that desire school choice for their children, while easing the concerns of those that fear school choice will drain financial resources from public school systems. School choice initiatives may restrict a student to choosing only a public school within a district, or may provide vouchers to allow a student to attend private schools, or governmental schools in other counties. Magnet schools may be established within a public school system, with enrollment limited to the most gifted of students. Recently, the State of Georgia enacted a intriguingly different plan called Georgia House Bill 1133.

Traditional School Choice Initiatives

School choice initiatives are alternatives to mandatory public school assignments. The desire by students and parents for school choice is driven by a variety of motives. Some families want their children to attend a school which emphasizes a certain religion or culture. Other families seek schools which teach values and ethics of a higher standard than is perceived to exist within the general public school population. A desire for a safer educational environment may drive some from unsafe schools. Others are solely driven by educational goals, and seek schools with higher standardized test scores.

According to Zhang and Cowen, "centering on solving the problem of achievement gap, school choice has been a popular reform approach since the 1980s to improve public school quality and give parents more freedom in choosing schools for their children" (2009, p. 24). Governments may push reform to identify academically poor schools, and to raise test scores. As an incentive for poorly performing schools to improve, parents may be allowed to transfer their children within the governmental school system. The U.S. Department of Education offers guidance in allowing governmental school choice to students who attend poor schools.

When schools do not meet State targets for improving the achievement of all students, parents need to have options, including the option to send their child to another school. Title I, Part A of the *Elementary and*

Secondary Education Act of 1965 (ESEA) as amended by the No Child Left Behind Act of 2001 (NCLB), responds to that need by giving parents of students enrolled in Title I schools that have been identified for school improvement, corrective action, restructuring (because they have not met State achievement targets) the opportunity to transfer their children to a public school that has not been so identified. (2008, p.1)

Allowing parents to chose schools outside of their zoning district is controversial. Zhang and Cowen observe that "in comparison to their urban and suburban peers, students who live in rural areas have very limited accessibility in exercising their legitimate public school choice because of the remote locations of rural communities, within which scarce educational resources are available" (2009, p.24). To avoid discrimination against low-income students, school systems would need to provide transportation services across school districts, which would increase educational expenses.

Even more controversy exists for a voucher system of school choice, which allows students to attend private schools, and to be reimbursed by the government. According to Walsh, "critics of school choice argue that cream-skimming will worsen outcomes for those left behind in public schools" (2009, p. 227). "The "cream-skimming" critique of school choice argues that high-ability families currently provide positive externalities for their public schools, and that these families would disproportionately use school choice to flee to private or suburban schools. Those left behind, deprived of bright peers and involved parents, would be worse off" (Walsh, 2009, p. 227). Private schools might also be reluctant to accept low-achieving or special needs students, preferring to let the financial burden of those students to remain with the governmental school system.

Overall, the most compelling argument against school vouchers might be financial. According to Foster, "perhaps the most important concern about school choice is the effect it has on government schools. Many people acknowledge that school choice helps the students who use it, but are worried that it will make government schools worse by draining money" (2008, p.42). Foster further notes that these concerns are partly driven by trade unions which "protect their gravy train by including myths about the virtues of a government monopoly over education and the evils that market forces would unleash if they were applied to schools" (2009, p.42).

Georgia HB 1133: Income Tax Credit for Qualified Education Expenses

One of the newest versions of taxpayer support of private schools is represented by Georgia House Bill 1133, which was signed into law in 2008 (GA General Assembly, 2008, HB 1133). The bill provides for student scholarship organizations (SSOs), which are charitable organizations whose purpose is to collect funds for scholarships to private schools. One such organization, the Georgia Student Scholarship Organizations notes that it "facilitates tax credit contributions from Georgia taxpayers and distributes those funds to qualified applicants in the form of Student Scholarships" (2009, p.1). According to the Georgia Department of Education, "SSOs will provide student scholarships to parents that will help cover the cost of a private school education for their children in the state of Georgia" (2009, p.1). For a school to be qualified for receipt of the scholarship funds it must meet certain governmental criteria including: accreditation, adherence to the

provisions of the Civil Rights Act of 1961, and satisfaction of the Georgia State Law requirements for private schools (Georgia Department of Education, 2009, p.1).

The taxpayer begins the process by completing Georgia Form IT-QEE-TP1 (Georgia Department of Revenue, 2009, p.1). This form is a taxpayer declaration of intent to contribute to an SSO. According to the Georgia Department of Revenue, "before making a contribution to a student scholarship organization, the taxpayer must notify the Department of Revenue of the amount that the taxpayer intends to contribute to the student scholarship organization" (2009, p.1). The reason that the taxpayer must seek pre-approval is that "the total amount of credits granted to all taxpayers per calendar year cannot exceed \$50 million" and that "amounts are allowed on a first come, first served basis" (Georgia Department of Revenue, 2009, p.1). After receiving the pre-approval, the taxpayer would then make the donation, and complete Georgia Form IT-QEE-SS01 (Georgia Department of Revenue, 2009, p.1).

Georgia House Bill 1133 states that "'qualified education expense' means the expenditure of funds by the taxpayer during the tax year for which a credit under this Code section is claimed and allowed to a student scholarship organization" (2009, p.1). Anticipating increased donations, many organizations have published more readable tax savings explanations on private school and SSOs websites. According to the Georgia Student Scholarship Organization, "the total amount donated to Georgia Student Scholarship Organization can be used as a dollar for dollar credit towards any income tax due to the State of Georgia. The donor can take a charitable contribution deduction on their federal return and a tax credit on their state return" (2009, p.1). Savannah Country Day School claims that "you will receive a tax credit on your state income taxes and a charitable contribution deduction on your federal incomes taxes for the amount donated" (2009, p.1).

The State of Georgia does place a few restrictions on the donations. Donations are limited to \$1,000 per individual, or \$2,500 per couple (Georgia General Assembly, 2009, p.1). While individual tax returns will differ, several charities state that it is possible for a taxpayer to use the qualified education expense to reduce their Georgia tax liability, claim a charitable deduction for Federal taxes, and reduce their tax burden by an amount larger than their donation to an SSO. Savannah Country Day School reports that it is "excited about the law as it has financial benefits both for you and Savannah Country Day" (2009, p.1).

A Comparison of HB 1133 to Traditional School Choice Vouchers

In both the traditional school choice voucher programs, and in Georgia HB 1133, taxpayer funds are used to fund private schools. While the funds from Georgia HB 1133 do not directly subsidize private schools, the reduction of tax liability would decrease the tax revenue for the State of Georgia. In a traditional school choice program, the tax revenue would be collected, then distributed to the private school or parents of the student. In the Georgia HB 1133 version, the tax revenue is instead waived, or redirected, but is eventually received by a private school. Perhaps, it is politically easier for State of Georgia to justify spending tax dollars that were owed, but never received, than to write a check directly to a private school. An obvious disadvantage of this method to the taxpayer is that a contribution must be made months before the accompanying tax benefit will be received.

One difference between the plans is the inability of a parent to use the taxpayer savings to benefit their own child. HB 1133 specifies that "the tax credit shall not be allowed if the taxpayer designates the taxpayer's qualified education expense for the direct benefit of any dependent of the taxpayer (Georgia General Assembly, 2009, p.1). The increased availability of scholarships will, however, allow financially stressed families the option of private school attendance.

Conclusion

Georgia HB 1133 is a compromise between those who desire a system of direct voucher reimbursement to private schools, and those who prefer governmental funding to be limited to public schools. Of course, any donated scholarship funds provided to a private school will benefit parents indirectly. By choosing a tax reduction which is earned through a charitable donation, families are simply choosing how their tax funds will benefit society. The compromise of Georgia HR 1133 is that families must make that donation for the good of the society and the nameless underprivileged, instead of for their own personal gain.



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Leadership Vision

Examining Assertions from a Biblical Perspective

Tracy Price

Abstract

This paper examines the assertions of secular and Christian authors regarding leadership vision. Inconsistencies in applying scriptural principles are noted and discussed. The author proposes that much of the literature begins with man's sufficiency. In contrast, Scripture maintains that man is dependent on God for guidance. The author posits that these two foundations produce very different results, and Christian leaders must therefore begin with biblical truths. A new definition of leadership vision is proposed based on such biblical principles.

Introduction

It is difficult to find a leadership book that does not address the need for vision. Visionary ability is synonymous with leadership, and many authors insist one cannot lead without it (Bennis, 1991; Greenleaf, 1996). Bennis and Nanus (1985) asserted that vision is the only ability that separates leaders from non-leaders. The emphasis on vision is well-founded. Companies run by visionary leaders are more flexible and responsive to market changes (Berson & Avolio, 2004). In recent studies, vision-driven firms were found to be twice as profitable as the S&P 500, offered stock that grew three times as fast as other firms, and earned 17.69 percent more (Thompson, Strickland, & Gamble, 2007). Visionary leadership enhances performance.

Because vision is a vital leadership quality, it is important to understand its purposes and how to develop it. Secular authors rely on social science theory to explain how leaders synthesize organizational, stakeholder, and environmental demands (Bennis & Nanus 1985; Murphy & Ensher, 2008). Christian authors, in addition, insist that vision must also be godly (Eims, 1975; Ford, 1991; Hybels, 2002; Maxwell, 1999). Some Christian works closely follow secular literature. However, other Christian authors reject secular thought as being man-centered and unbiblical (Barna, 1992; Blackaby, Brandt, & Skinner, 1997; Eims; Ford). This paper examines both secular and Christian literature from a biblical perspective and proposes ten principles upon which Christian vision must be based.

What is Vision?

A vision is a picture of a desirable future that inspires constituents to achieve organizational goals, often at the cost of personal sacrifice (Bennis & Nanus, 1985; Kotter, 1996; Kouzes & Posner, 2003). *Vision* is the ability to perceive such an image (Conger & Kanungo, 1998). Effective vision motivates and sets direction. It aligns personal motives with organizational goals by ensuring constituents' needs are best fulfilled through organizational achievement (Filley & House, 1969; Weber, 1947). Great vision promises intrinsic rewards, confers status, and inspires unity and collective identity (Bennis & Nanus; Conger & Kanungo). Vision also guides an organization. It must be specific, directional, flexible, and believable (Thompson, Strickland, & Gamble, 2007). It must challenge established ways of thinking yet provide an easily understandable framework for setting direction and coordinating efforts (Kotter; Kouzes & Posner).

Vision and Leadership

Vision is primarily the leader's responsibility and is closely associated with charismatic leadership (Berson, Shamir, Avolio, & Popper, 2001; Conger & Kanungo, 1998; Hamburger, 2000). Charismatic leaders are characterized by exceptional ability, confidence, and influence (Bass, 1974; Weber, 1947). These leaders align their visions with causes that constituents admire and use framing to idealize the future image while relaying the insufficiency of the current state (Conger & Kanungo). They create a desired persona and inspire confidence in themselves and their vision through impression management (Bass, 1974). Language, metaphor, and story telling communicate and romanticize the vision (Kouzes & Posner, 2003; Mintzberg, 1989; Murphy & Ensher, 2008). Visionary leadership incorporates the key charismatic qualities of salesmanship, exemplification, and ingratiation (Hamburger; Sosik, Avolio, & Jung, 2002).

Creating the Vision

Leaders create vision through synthesis of personal and organizational aspirations, environmental demands, and constituent ideals (Bennis & Nanus 1985; Murphy & Ensher, 2008). Visionary leaders possess strong conceptual skills and a keen sense of the environment (Conger & Kanungo, 1998; Northouse, 2007). Introspection is also a key visionary skill (Greenleaf, 1996; Thompson et al., 2007). However, the leader is rarely the sole source of vision. Kouzes and Posner (2003) advocated a shared vision with one's constituents. Visionary leaders choose from available ideas, perfect and integrate the best, revise them to fit the organization, and legitimize them through impression management (Bennis & Nanus, 1985).

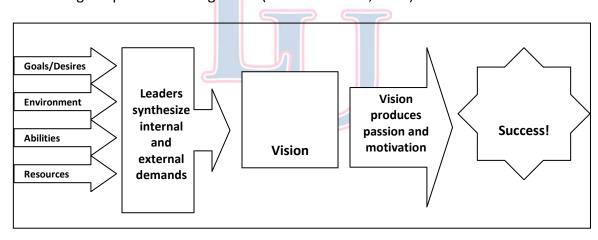


Figure 1: Creating the Vision

The level of constituent input reflects both the leader's need for control and the relationship between leader and followers. Personalized leaders prefer a larger-than-life image, authoritarian control, and high social distance from constituents (Bass, 1974; Murphy & Ensher, 2008; Weber, 1947). Such leaders are likely to generate visions through introspection and seek compliance rather than constituent buy-in (Heard, 2007; Yukl, 1999).

On the other hand, socialized leaders seek to serve and build shared vision (Bass, 1974; Conger & Kanungo, 1998). They are avid listeners, encouraging constituent input to create buy-in, increase shared knowledge, empower others, and integrate personal and organizational goals (Bennis & Nanus, 1985, Conger & Kanungo; Filley & House, 1969, McGregor, 2006, Weber, 1947). These leaders facilitate vision generation by setting direction, pace, and bounds while managing conflicts (Heard, 2007).

Many contemporary authors favor the socialized approach (Bennis, 1999; Heard, 2007). Some advocate a guiding coalition who create vision from shared goals, concerns, desires, and experiences (Kotter, 1996; Kouzes & Posner, 2003). Others propose that the leader take a more personalized approach. Greenleaf (1996) asserted that vision comes from the conscious and subconscious levels of the primary leader's psyche. Bennis (1991) proposed five questions to help leaders formulate vision. Often, the effectiveness of personalized or socialized methods depends on contextual factors such as distance, constituent ability, and task interaction (Bryman, 1986; Murphy & Ensher, 2008). Regardless of approach, the leader holds primary responsibility for vision, and this responsibility cannot be delegated (Bennis & Nanus, 1985; McGregor, 2006; Murphy & Ensher, 2008).

Vision in Christian Literature

Christian leadership authors define vision in much the same manner as secular authors. Vision is a hopeful view of the future that motivates and guides constituents (Blanchard & Hodges, 2006; Hybels, 2002; Maxwell, 1993). It aligns organizational and personal goals, meets constituents' needs, and allows them to achieve their dreams (Hybels; Maxwell, 1999). A vision should be challenging and compelling yet easily communicated (Maxwell, 1993; Warren, 1995). Vision defines leadership and is the leader's most powerful tool (Blanchard & Hodges; Hybels; Maxwell, 1993; Maxwell, 1999).

However, the charismatic element of vision is debated among Christian authors. Some assert that God supernaturally endows the leader with ability to synthesize vision from personal abilities, desires, environmental demands, resources, predictions of the future, and God's will (Hybels, 2002; Maxwell, 1993; Maxwell, 1999). Followers, looking to the leader for direction and inspiration, are motivated to achieve the intrinsic rewards promised by the vision's higher purpose (Hybels; Maxwell, 1993). Other authors insist that God alone is leader, and vision is revealed rather than created (Barna, 1992; Blackaby, Brandt, & Skinner, 1997; Warren, 1995). Vision that centers on God's work does not depend on man's desires and abilities (Blackaby & Blackaby, 2001; Ford, 1991). God empowers His people to fulfill His mission, not to achieve personal satisfaction or leadership status (Eims, 1975; Ford).

In practice, however, there is little distinction between the two schools of thought. Most Christian authors advocate introspection and observation of the environment as the first steps in formulating a vision (Barna, 1992; Ford, 1991; Maxwell, 1993). Authors in both camps argue that the distinction between biblical and worldly vision is whether it relates to a business or a ministry (Barna, 1992; Hybels, 2002). They assert that God's work involves serving others, and visions involving commerce or profitability glorify the leader rather than God. Other authors make no distinction, implying that business vision may also be biblical (Maxwell, 1999).

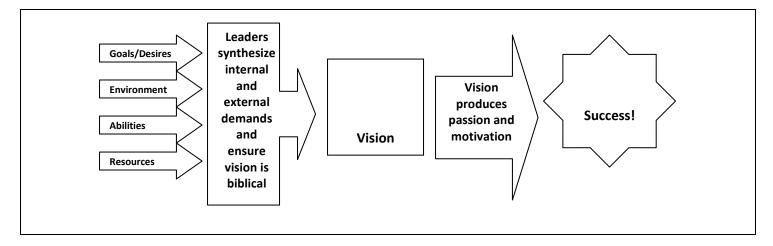


Figure 2: Christian Leadership Vision

Christian authors seem to disagree on the spiritual elements of vision. Examining the underlying principles of leadership vision from a biblical perspective should eliminate much confusion. Most Christian authors assert that scripture is divinely inspired and the basis for Christian thought (Blackaby, Brandt, & Skinner, 1997; Ford, 1991; Hybels, 2002). The Bible, along with accepted theological writings, should be a useful tool for determining the nature of biblical vision.

Biblical and Theological Review of Vision Assertions

The Biblical Definition

Leadership authors define vision as a positive image of some desirable future that motivates constituents and directs change (Berson et al., 2001; Blanchard & Hodges, 2006; Hybels, 2002; Kotter, 1996; Maxwell, 1993). In scriptural accounts, vision does indeed direct change efforts. Peter's vision of the sheet lowered from heaven directed and motivated him to reach out to gentile believers (Acts 11:5-10, New International Version). This vision also revealed a positive future state, challenged conventional thinking, and created profound change.

However, visions in the Bible are not always positive. In fact, they often produce terror and dread. Samuel envisioned great judgment against Eli and his family (1 Sam. 3:10-16). Isaiah's body was racked in pain at the vision of Babylon's iniquity (Isa. 21:2-4). Daniel fell on his face in awe at the appearance of the man in linen (Dan. 10:7-9). Biblical visions are not always of a positive future.

Furthermore, in the Bible, alignment and unity of purpose depend on the spiritual condition of the follower. Pharaoh's heart was hardened against Moses' vision, and the Hebrews' motivation wavered with their faith (Ex. 3: 19-20; 14:10-12; 16:20; 32:1). God's prophets were often persecuted (Matt. 5:12). Christ was a visionary, but He was also crucified (Matt.20:19). God's Word is hated by sinful man, and His vision is as likely to cause dissension as unity (John 3: 19; Matt. 10: 22). Leadership authors rarely address this principle.

The Visionary Leader

Vision is associated with charisma, the quality that sets the leader apart and inspires confidence (Berson et al., 2001; Conger & Kanungo, 1998; Hamburger, 2000). However, when God gifts followers with visionary ability, it is not for their own glory (2 Cor. 12: 1-10). A leader's purpose is to point the way to God, not to influence others to follow the leader. In the Bible, God gives vision to those who are weak and ill equipped so He will be glorified instead of the visionary (1 Cor. 1:27; Eims, 1975). Moses was slow in speech (Ex. 4:10). David, the least of his brothers, was the one God chose to be king (1 Sam. 16:6-13).

God's Work

Business can be a ministry, and business-related vision can be biblical. All work directed by God and performed for His glory has eternal consequences (Col. 6:23-24; Maritain 1938). God is concerned with every aspect of earthly life, including business, where the Christian acts as ambassador to the unsaved and edifier to the brethren (Maritain). Furthermore, it is possible for a believer to engage in ministry that is not God's will (Ford, 1991). God can choose to work through the follower in many environments (Falwell, 2005).

The Source of Biblical Vision

Visions in the Bible are not manufactured; they are revealed. For instance, the word *vision* is used 102 times in the New International Version. Every reference to authentic vision describes direct revelation. Visions from man's inner voice, feelings, desires, or reason are false visions and not from God (Ezek. 13:6-7; Jer. 14:14; Jer. 23:16; Lam. 2:14).

Furthermore, only God is omniscient, so limiting vision to what man can conceive falls short of God's best (1 Cor. 1:20; Barna, 1992; Blackaby & King, 1994; Chambers, 1992; Ford, 1991; Job 42:3). Man cannot predict the future or fully understand what to do (Eccl. 7:13-14; Falwell, 2005; Ford, 1991; Prov. 20:24). According to Blackaby & King (1994), one may be tempted to base one's decisions on a calling. However, God does not reveal His purpose for one's entire life, and focusing on current understanding may mean missing the next assignment.

Leaders must not detract from God's truth to gain influence or avoid dissension. "This is what the LORD Almighty says: 'Do not listen to what the prophets are prophesying to you; they fill you with false hopes. They speak visions from their own minds, not from the mouth of the LORD'" (Jer. 23:16). In this passage, Israel has strayed from God and adopted pagan lifestyles. Rather than risk public outcry, the prophets told constituents what they wanted to hear. "But if they had stood in my council, they would have proclaimed my words to my people and would have turned them from their evil ways and from their evil deeds" (Jer. 23:22).

The Roots of Secular Literature

Most secular leadership literature is based on social science, which largely ignores or denies God's existence (Blackaby, Brandt, & Skinner, 1997). For the Christian, all wisdom begins with the fear of God (Prov. 1:7). The two schools of thought conflict on a fundamental level. Therefore, leadership theory that relies on the sufficiency of leaders or teams denies an essential biblical principle that man relies on God for guidance.

Furthermore, the idea that reason alone is sufficient to interpret reality and determine one's destiny is the crux of humanist thought (Duncan, 1981; Kurtz, 1973; Olds, 1978; Schaeffer, 1982). For humanists, man is inherently good and must seek self-actualization (Duncan, 1980; Olds, 1978). Salvation is in individual and collective human endeavor (Olds). Meaning can be found in harnessing the power of thought, morality, and service to others (Kurtz; Olds). Unfortunately, many of these themes resonate in Christian literature, which asserts that vision can be synthesized through human reason and serves to enable leaders and constituents to reach their dreams (Hybels, 2002; Maxwell, 1999).

Humanistic objectives and faith are not mutually exclusive. Although secular humanism denies God, Christian humanism uses religious language and symbolism to supplement reason with comfort and emotional zeal (Olds, 1978; Schaeffer, 1982). According to Christian humanists, true religion brings joy, so God blesses human efforts at self-actualization and achievement (Duncan, 1980). God and Jesus exemplify the human ideal with respect to morality, love of others, and personality (Kurtz, 1973; Olds). These assertions reduce God from sovereign to enabler.

Perhaps unknowingly, many Christian leadership authors echo these ideas. Maxwell (1999) asserted, "Although it's true that your vision must come from within, you shouldn't let it be confined by your limited capabilities. A truly valuable vision must have God in it" (p. 153). Hybels (2002) posited that God-given vision's purpose is to focus constituents so they can fulfill their dreams. These assertions sound biblical, but true God-given vision comes from God and centers on His work, His glory, and the joy that comes from serving Him. Many Christians may find themselves misled by such ideas.

Why Christians are Confused

Most cultures value a hero who is fearless, perceptive, and strong (Carlyle, 1897; Norman, 1969). The visionary leader is a contemporary representation of such a hero (Hamburger, 2000). However, certain groups are more accepting than others (Bass, 1974). Religious and patriotic constituents seek meaning in causes greater than themselves and are generally receptive to the charismatic element of leadership vision (Filley & House, 1969). However, this search for meaning and salvation is man's innate longing for Christ (Maritain, 1938). Human leaders and their visions are poor substitutes.

Further confusion stems from the language used in most leadership literature. Terms such as *vision*, *charisma*, *prophets*, *stewardship*, and *mission* have religious connotations (Kouzes & Posner, 2004). In the Bible, these terms reflect God's nature and man's servitude (Schaeffer, 1982). In business literature, they imply qualities desirable in a leader. For instance, in the Bible, God often guides believers through dreams (Dan. 2:45; Gen. 28: 12-13; Matt. 2:13). This fact does not mean, as some literature suggests, that leaders should follow their dreams or use them as the basis for organizational vision (Barna, 1992; Chambers, 1992). Authors equivocate when they use Scripture to validate the secular meanings of these words. Less obviously, Maxwell (1999) referred to one's inner voice as the source of vision. To a Christian, this inner voice may sound like the Holy Spirit. However, the Spirit is God's voice, not man's (1 Cor. 2:16).

For these reasons, some Christian literature is confusing. Heroic themes resonate with most Christians. Many humanist principles in the literature sound biblical (Maritain, 1938), and Christian leaders often feel the pressure to be relevant and powerful (Ford, 1991). Authors use biblical language and take Scripture out of context to support the idea that the leader is wise, good, and sufficient. Many Christian leaders may mistakenly accept ideas that are not scripturally sound.

Toward a Biblical Vision Theory

Perhaps these authors attempt to blend biblical principles with leadership best practices (Hybels, 2002). However, leadership theory based on the sufficiency of man is fundamentally at odds with Christian doctrine, which clearly demonstrates man's dependence on God (Barna, 1992; Blackaby, Brandt, & Skinner, 1997; Schaeffer, 1982). The two worldviews produce different outcomes. Therefore, literature that tries to accommodate both secular and Christian ideas is often fundamentally dualistic. Christian theory must be based on biblical principles such as the following:

- 1. Man is created by God in His image (Gen. 1:26). However, sin creates a barrier between God and man. Salvation in Christ is the only way to remove this barrier (Rom. 6:23).
- 2. God is omniscient. Man is not. Man therefore depends on God's wisdom for guidance. One cannot predict the future or fully understand one's destiny (Prov. 20:24).
- 3. Man is God's primary tool for accomplishing His work on earth (Matt. 5:13-14). A submitted follower is God's witness to the unsaved, edifier to the brethren, and the means by which God's will is accomplished on earth.
- 4. God speaks to believers through prayer, Scripture, circumstances, and wise counsel. He has also given man the Holy Spirit for guidance and discernment. All evidence must be weighed and validated by the Holy Spirit (1 Cor. 2:10-11; Blackaby & Blackaby, 2004; Falwell, 2005).
- 5. Man is created with free will to accept or reject God's vision. Reliance on one's own sufficiency or seeking to fulfill one's own desires preempts God's vision (1 Sam. 15:26; Prov. 28:26). God may deny the follower and withdraw His favor in such circumstances.
- 6. Vision must be worked out over time. God rarely reveals His plans in entirety. Rather, He requires His people to follow Him step by step in faith and active engagement in seeking His will and fulfilling His mission (Blackaby & Blackaby, 2004; Falwell, 2005).

- 7. God equips those whom He calls with the ability to fulfill His vision (Gen. 4:12; Judges 6:12).
- 8. The process of submission, vision, and equipping produces sanctification and faith in the follower (James 1:2-4). The follower becomes transformed into the image of Christ, and as faith grows, vision becomes clearer and stronger over time.
- 9. At times, crises may occur that challenge the believer's faith. These crises require conscious decision to follow God's will, to act, and to believe (Acts 26: 15-20; Blackaby & King, 1994; Gen. 15: 1-5). However, God is always faithful to give His wisdom and guidance (James 1:5; Matt. 7:7-11).
- 10. Christians are to engage in earthly matters to reach sinners for Christ (Matt. 28:19-20). Any God-directed work that brings His witness to the unsaved is a ministry, and any experience that touches the believer is part of the sanctification process (1 Cor. 9:22; Rom. 8:28). Therefore, God's vision may be applicable to ministry, industry, family, community, or any other institution (Maritain, 1938).

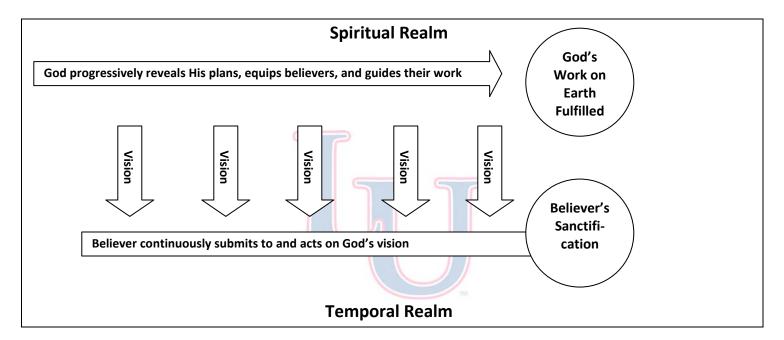


Figure 3: Biblical Vision

Based on such principles, biblical vision can be defined as follows: It is God's guiding wisdom applied to the temporal world. Biblical vision is vital to leadership as God defines it—one's dependence on God and fitness for use in fulfilling His work on earth. Biblical vision is received rather than manufactured by the leader or constituents yet must be worked out in obedience. Biblical vision grows in strength and clarity as the leader's faith grows. Over time, vision stretches one's faith from the known and familiar to the miraculous. Therefore, vision's purpose is twofold. It accomplishes God's work on earth and results in the believer's ever-increasing sanctification.

Rather than applying secular literature to Christian leadership, this definition begins and ends with biblical truths. However, it is not complete. Further study of vision and other related factors such as the role of the church, servant-leadership, power, motivation, and the interplay of the spiritual and temporal realms should result in a more complete assertion. Christians have much work to do in establishing biblical leadership principles. Understanding the fundamental assumptions of secular literature is useful. Most vital is examining leadership literature through a biblical lens (Acts 17:11; 2 Tim. 3:16-17). Biblical thought filters all existing ideas through Scripture. This work is the heart of Christian leadership studies.

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The Greatest Commandment: The Foundation for Biblical Servant Leadership

by

David Duby

The Greatest Commandment: The Foundation for Biblical Servant Leadership

"The servant-leader is servant first...It begins with the natural feeling that one wants to serve, to serve first." (Greenleaf, 1977, p. 13).

"For even the Son of Man did not come to be served, but to serve, and to give His life a ransom for many" (Mark 10:45, NASB).

Introduction

In 1977, Robert Greenleaf published his reflections on his journey into the nature of power and greatness. Greenleaf's reflections presented a rather optimistic model of leadership that he believed could be achieved—that leaders, through their service, could legitimize their power and help build a serving society. Yet to do so, leaders had to model principles that, at least at the outset, seemed counterintuitive to many peoples' concept of leadership. These principles emanated from a desire to serve which, according to Greenleaf, was inherent in the leader. For Greenleaf (1977), "The servant-leader is servant first...It begins with the natural feeling that one wants to serve" (p. 13).

For Christians, the concept of serving others—even from a leadership position—is not new. Jesus called us to serve (Matt. 20:26, John 12:26), demonstrated service (Matt. 20:28, Phil. 2:7, John 13:3-17), and reminded us of God's command to serve (Luke 4:8). The Bible is replete with examples of leaders who sought to serve others (e.g., Joseph, Moses, Peter, and Paul). Thus it is not difficult to see why the concept of servant leadership continues to resonate with Christian leaders today. What may be more difficult is for believers to remember the importance of *who* is to be the primary recipient of our service. For Greenleaf, the call to "serve first" assumes service to others, the people the leader leads, and proceeds from Greenleaf's naturalistic worldview. Christians rooted in the biblical worldview, however, must understand that the Greatest Commandment outlines the order of our service—that order being God first, then others. This paper will examine how the Greatest Commandment serves as the foundation for demonstrating biblical servant leadership.

The Christian and Servant Leadership

Even as Greenleaf defined the servant leader as one who has a desire to serve, to "serve first," he knew that the words *serve* and *lead* were overused and even carried negative connotations (1977). With the recent proliferation of the concept of servant leadership in academia, the marketplace, and the church,

perhaps the phrase itself is overused and, if not a negative term, is one whose meaning is suspect. Yet as Greenleaf noted, though the words *serve* and *lead* were overused, they are nonetheless good words. Thus, although the phrase *servant leadership* may be overused—or wrongly used—the phrase is nonetheless a good phrase since it identifies a concept that is good and biblical.

Biblical servant leadership is good since it espouses a crucial concept for Christians who would lead—that leadership and service are not separate and contradictory terms, but are two sides of the same coin. Blanchard and Hodges (2005) posit, "Servant leadership is a concrete expression of a daily commitment to live out the Word of God and the will of God and thereby advance the kingdom of God" (p. 194). For Blanchard and Hodges, servant leadership is not an option; it is a mandate for the believer.

The earliest call for believers to both lead and serve can be traced back to the first chapter of Genesis. In Genesis 1:27 we read, "God created man in His own image, in the image of God He created him; male and female He created them" (NASB). As image-bearers of God, Adam and Eve were then given a command: "Be fruitful and multiply, and fill the earth, and subdue it; and rule over the fish of the sea and over the birds of the sky and over every living thing that moves on the earth" (Genesis 1:28).

These two verses relate profound truth for Christians called to lead. Finch (2007) believes that Genesis 1:27 carries the implicit message to serve others, since serving others "is the only response commensurate with God's work in creation, in which God imprinted the divine image on Eve and Adam and, through them, on every human being" (p. 204). This understanding—that we are all image-bearers of God—is critical to rightly implementing the command of Genesis 1:28, in which Adam and Eve were told to rule over the earth that God created.

Stevens (2006) observes that by this command to rule, Adam and Eve were given the role of stewards who had "the wonderful role of representing the absent monarch's interests" (p. 6). As stewards, followers of God act as trustees that are to develop and to serve the "unfolding kingdom" of creation (Roels, 1990, p. 27). Further, Roels contends that if one believes that his or her business plays an important role in God's kingdom, then an important concern is to best determine *how* to be God's steward in such business endeavors. This concern leads many to search for the best ways to both serve and lead in their business, and thus the continued allure of servant leadership as the biblical answer to fulfilling the role of a steward.

Stevens (2006) calls the Genesis mandate to both serve and lead the cultural commission of God that, like the Great Commission of Christ, is incumbent upon all believers to undertake (p. 82). But does this call necessarily equal a call to servant leadership? Though Finch (2007) observed that servant leadership resonates with people who are not necessarily connected to any religious tradition (p. 203), Reinke (2004) posits that servant leadership is "highly consistent with Judeo-Christian philosophical traditions and teachings" (p. 34). Yet *Chewning (2000) cautions* against assuming a biblical call for such a paradigm, suggesting instead that the Christian should focus on the aspect of service rather than leadership. "Christ did not come to mentor *leadership*...He came to serve, not to be served" (p. 15). Niewold (2007) also warns Christians against uncritically adopting Greenleaf's version of servant leadership. "Here is a Christianized humanism suited to the modern autonomous self unfamiliar with, and even hostile to, such essential soteriological categories as transcendent holiness, sin, personal moral corruption, repentance, conversion, and even mission dei" (p. 126).

Interestingly, when Greenleaf (1996) first published his thoughts on servant leadership, he understood that its central tenets were at best counterintuitive and must weather inevitable criticism. He wrote, "Criticism has its place, but as a total preoccupation it is sterile...if too many potential builders are taken in by a complete absorption with dissecting the wrong and by a zeal for instant perfection, then the movement so many of us want to see will be set back" (p. 11). Yet he also understood the need for his ideas to be analyzed and expounded upon as new information became available and new analysis conducted. Far more than just

adopting contemporary theory on a particular leadership practice, the Christian in business must take all such theories captive to the obedience of Christ and see if such ideas are good, virtuous ideas (II Cor. 10:5; Phil. 4:8).

With this in mind, let's begin with the very foundation of Greenleaf's (1977) servant leadership—that the "servant-leader is servant first" (p. 13). Few Christians would argue that Christians are not called to serve—this was the very essence of Christ, and again relates to the powerful attractions to Greenleaf's central tenet that the servant-leader is to serve. For Christians, the issue is not service, but *who* is to be the foremost recipient of our service as stewards of God. Despite Greenleaf's definition, the call to serve others is not the foundational call of the Christian servant leader. The foundational call for Christians is to serve God first.

Seeking the Kingdom: The Greatest Commandment

Jesus said, "But seek first His kingdom and His righteousness, and all these things will be added to you" (Matt. 6 33). Jesus spent the entirety of his public ministry teaching and showing the way of the kingdom while living the righteousness of God. Thus the exhortation to seek the Father's kingdom first is exemplified in the life of Christ in word and deed. For Jesus, seeking the kingdom was not merely living a moral life of perceived holiness before God—think of his stinging rebukes of the Pharisees. Seeking the kingdom was first and foremost submission to his Father's will, a will that included obedience unto death, "even the death of the cross" (Phil. 2:8).

It is worth noting that there were times when Jesus seemingly refused service to others in order to be obedient to the Father. Jesus delayed his healing of Lazarus so that God would be glorified (John 11). Jesus withdrew himself from the crowds to be alone with the Father (Luke 5:16). Jesus refused those who would proclaim him political messiah so that he could become their spiritual Messiah—just as the Father had required (John 6:15). In short, Jesus was a servant to his Father first in order to better serve those he came to save. Scripture reinforces this idea for believers who seek to be servant leaders—our service to others is complete when it is first and foremost rooted in loving service to God.

A lawyer, well versed in matters of covenant and Mosaic law, once asked Jesus a question: "Which is the greatest commandment?" (Matt. 22:36). His question hearkened back to the teachings of Deuteronomy—a book Jesus knew quite well. Jesus readily answered, "To love the Lord with all of your heart, with all your soul, and with all your mind. This is the first and greatest commandment" (Matt. 22:37-38). Then Jesus added, "And the second is like it: You shall love your neighbor as yourself. In these rest all of the law" (Matt. 22:39). This was life in the kingdom of God. This is what it meant to seek the kingdom *first*. Love God, then love each other. Scripture gives us numerous examples of how we demonstrate our love for God. Deuteronomy 10:12 states we are to "love Him, and to serve the Lord your God with all your heart and with all your soul." Here, love is couched in service. Deuteronomy 11:1 adds that when we love God, we will keep His charge, His statues, His ordinances, and His commandments. And His command is that we love and serve others. This is how we show the Father we love Him—by keeping these commands (John 14:21, 23). Love and serve God first to better love and serve each other. It is by being rooted in this truth—and understanding the critical order in which Jesus encapsulated the commandments of God—that our service to others can be blessed and sustained.

Again, Jesus lived and modeled the truth he taught. He is the perfect role model of servant leadership (Blanchard & Hodges, 2005). Stevens (2006), for example, noted that although one of Jesus' messianic titles is "the servant," his service was rooted in his obedience to the will of the Father (p. 52). Similarly, Stark (2005) posits that everything Jesus did related to what the Father was doing, that Jesus' activity flowed as the Father directed. This is biblical servant leadership. As Borek, Lovett, and Towns (2005) remind us, "Jesus both taught

and modeled the principles of servant leadership throughout His public ministry and private mentoring" (p. 210).

Thus Jesus serves as the consummate example of the Greatest Commandment displayed in its purest form. He understood the importance of the Greatest Commandment when, faced with the agony of the cross, he prayed, "Nevertheless, not my will, but yours be done" (Luke 22:42). Jesus served the Father first, and through this selfless act of placing himself fully in the Father's will came the most unimaginably powerful act of service to others—redemption. So the ministry of Jesus was fulfilled by living the Greatest Commandment and was far more that just service to others—it was first and foremost service to God and his purposes (Stevens, 2006).

Other biblical figures relate this important truth. Moses, for example, can be rightly viewed as one of history's godliest servant leaders. But his life was not always marked by such humble service to God. Consider Moses' role in delivering the children of Israel from Egyptian bondage. The events that led to his leadership role were sparked by Moses' slaying of an Egyptian taskmaster (Exodus 2:11). Acts chapter 7 provides a rich context to better understand the actions of Moses when he killed this Egyptian. We often view Moses' action as the reactive, violent response of a Hebrew defending his enslaved countryman. But the author of Acts states that Moses "supposed his brethren would have understood how that God by his hand would deliver them: but they understood not" (Acts 7:25). Moses was beginning to assume the mantle of leadership and, at least in his eyes, to serve his brethren by initiating deliverance. The only problem was that Moses' initial plan for serving the Hebrews was not rooted in the Greatest Commandment. Once it was, Israel received her deliverance—not by the natural hand of Moses but by the supernatural hand of Moses' God.

Sometimes loving and serving God first might seem counterproductive to the command to love and serve others. For instance, when faced with a royal command to pray only to Cyrus, the prophet Daniel chose to continue his prayer time with God. The consequence of his decision was terrible—Daniel was sentenced to death. For the Jews living in Babylon, Daniel's fate not only meant the death of a fellow Hebrew, it also meant that their small displaced community would lose a high-ranking member's position of influence. Servant leadership absent the Greatest Commandment might surmise that the best way to serve others would be to retain one's position of power by adapting to the king's edict. Such an action, however, would forego God's miraculous deliverance of Daniel—an act which moved the great Persian king to proclaim Daniel's God the "living God" and ensured that the Jews were free to worship Him (Daniel 6:25-27).

Thus, once a person demonstrates the love demanded by the Greatest Commandment, service to others can then be truly understood. As Rahner (1983) stated, "The human being attains his or her fulfillment in one single, total act of his or her existence: in the love of God for his own sake" (p. 70). Rahner also noted that love of God and neighbor were in a type of mutual relationship, that love of one's neighbor was an achievement of obeying the Greatest Commandment. Serving others demonstrates our love for others, yet our love for others must first emanate from our total and preeminent love for God.

<u>Loving God Sustains our Service for Others</u>

Greenleaf (1996) believes that the average person faces a dilemma when facing a decision that has ethical implications. The dilemma is not that the person lacks an ethical code or desire to make the moral choice, but rather that the person lacks the strength required for such a choice. Greenleaf defines strength as "the ability to see enough choices of aims, to choose the right aim, and to pursue that aim responsibly over a long period of time" (p. 27). Thus strength is the ability to not only choose the right thing; it is also the ability to see that choice through.

Servant leadership that is rooted in a deep and genuine love for God provides the wisdom and strength needed to give our lives in service to others. Leadership can be an emotionally draining and physically exhausting work. Working with fallen people in a fallen world can create difficulties that weary the heart. The psalmist noted, "My flesh and my heart may fail, but God is the strength of my heart and my portion forever" (Psalm 73: 26). Strength of heart is not provided in service to others—it comes only from the Lord and provides the strength needed to endure while practicing true servant leadership.

Drawing upon the leadership of Nehemiah, Boice (1996) noted that while some Christian leaders put their relationships with others first, the first priority of Nehemiah was to serve the Lord and seek Him in prayer. Boice believed Nehemiah sought God first since only God "could accomplish what needed to be accomplished" (p. 202). In our roles as servant leaders, our objectives can sometimes seem no less daunting. As we seek to advance the kingdom in the midst of a subjective and relative culture, we too need the strength of God to accomplish His work. God is not only the strength of our hearts; he is also the strength of our hands. Nehemiah prayed, "For they all made us afraid, saying, Their hands shall be weakened from the work, that it be not done. Now therefore, O God, strengthen my hands" (Nehemiah 9:6). Thus seeking the Father first provides the strength needed to effectively serve, strength that not only encourages the heart, but also sustains our service to others.

Conclusion

This discussion began with Greenleaf's (1977) notion that a servant leader "is servant first" (p. 13). Though Greenleaf based his theory on naturalistic assumptions, the basic tenet of leading by serving is rightfully significant to Christians who are commanded to be stewards and serve the image-bearers of God. However, Christians must understand who is to be the primary recipient of their devotion and service. For Christians, service is first and foremost given to God, and is rooted in loving fulfillment of the Greatest Commandment. Jesus modeled this critical truth, and other biblical figures reinforce this important order. Through obedience to the order of the Greatest Commandment, Christians can look to the Lord to provide the strength needed to lovingly serve others and demonstrate true biblical servant leadership.

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Why Nonprofits Fail

by

Michael S. Frady

Abstract

One of the fastest growing segments of the US economy is the nonprofit organization sector. "Between 1977 and 2001, the national employment growth rate for nonprofit organizations (2.8%) was significantly higher than business (1.8%) and government (1.6%)" (Trautmann, Maher, & Motley, 2006 p. 271). However, unlike for-profit corporations, nonprofits have no standardized reporting requirements. Financial reporting is done only to the satisfaction of customers/donors. Boards of Directors, who operate nonprofits, may have little to no training in the operation of a business. When the members are educated or experienced in business operations, many nonprofits do no specific training of roles or responsibilities. Nonprofit organizations have no shareholders to appease with a profit or dividends, so often the founder sets the tone and direction of the organization based on a single vision. Nonprofits are necessary and extremely productive in the communities; however, they must look past today's crisis to tomorrow's opportunities in order to endure.

Introduction

The United States of America was founded on capitalistic economic principles. Supply and demand are the driving forces behind the markets, where entrepreneurs create businesses out of opportunities. The generation of profits and the hope of wealth became the dream of many, thereby influencing the decisions of owners, partners, and boards of directors. The inability to generate a profit was the death knell for the company.

During the nineteenth century, this started to change. Charities began to conduct business, collect donations, and provide services to the community. A prime example is the Salvation Army which was founded in England by General William Booth. The Salvation Army began collecting donations and conducting business without any directed regulations as to financial reporting or other accountability. Through the guidance of General Booth, the Salvation Army self-regulated the accountability of funds (Howson, 2005). But many other organizations did not take the same approach. The United States Congress passed Title 26 US Code, Section 501 to help regulate the formation of this new corporation the "Nonprofit" or "Not-for-profit" and provide exemptions from Federal Income Tax. This law has encouraged the formation of corporations whose driver is not profits, but assistance to the community or public issues.

What does failure mean to a nonprofit?

Since nonprofits are not looking at achieving profits for distribution to shareholders, what determines if a nonprofit fails? First one should agree that the failure of a nonprofit organization does not necessarily result in the closure of the corporation. Therefore, a nonprofit can fail to meet the needs of the community or customer, can fail by continuing to expend funds on a project no longer needed or wanted by the customers, or can fail by expending limited donations foolishly. While the nonprofit may continue to exist, due to lax accountability rules in the past, the benefits to the customers or public issue may be nonexistent.

While most corporations are busy watching the "bottom line" of the income statement to determine if a profit exists, nonprofits operate by the "double bottom line" concept, whereby the financial resources received and expended are compared as well as the benefits provided are measured against the needs of the community being served (Young, Ramsey, & Ramsey, 2005). A deficit in either category can mean the nonprofit failed to meet expectations.

Failure to meet expectations can be caused by various actions taken by the nonprofit during the course of the year. These actions can be failure to plan, failure to set realistic goals and objectives, failure to have donation acceptance guidelines, failure to conduct client needs assessments, or failure to have trained staff and/or directors. Too often any of these failures may result in the continuation of services beyond their needed life-span. Directors have pet projects which are continued or adopted without regard to actual needs or cost (Fram & Pearse, 1996). The result is a deficit at the "double bottom line."

Another failure at the "double bottom line" is expending the limited donations foolishly. Too often, directors will offer free services or products to the nonprofit, only to later realize the actual costs to implement or maintain the "free" product or service is exorbitant (Fram & Pearse, 1996). Salaries of CEOs or founders are often significantly out of line with the value provided (O'Connell, 1992). While salaries of staff may be in line with others, the balance between volunteers and hired employees must be maintained. There is often considerable value received from volunteers, which most nonprofits could not afford to pay for the level of expertise possessed by the volunteers (Hull, personal communication, April 2008,).

So why do nonprofit organizations fail? They fail because they are most often singularly focused on today. Nonprofits are created to address a critical current need in their communities or in society. Those who endure are those who plan for tomorrow, constantly analyze their services, provide direction and training for the board of directors, and actively seek donations through various forms of fund raising. Those who only live for today, may not exist tomorrow.

Comparison of Nonprofit and For-profit organizations

To understand the management of a nonprofit, one must first understand the additional management issues not experienced by for-profit managers. According to Peter Drucker, nonprofit managers have five exclusive responsibilities:

First, nonprofits, by definition lacked a bottom line such as profits, sales, or market share as measures of performance. Second, such organizations faced the problem of concentrating on a single purpose and avoiding pressures to increase their reach beyond their objective and competence. Third, these institutions tended to equate success with budget size – in Drucker's estimation, a substitute for

performance measurement. Fourth, nonprofits served a multitude on constituents, some with a vested interest in preserving ineffective but still desired activities. Fifth, such organizations tended toward righteousness (or moralism), which prompted them to view their goals from an absolute perspective rather than an economic (or cost-benefit) one. (Gazell, 2000, p. 50).

If management is not prepared to address these nonprofit specific issues, problem will develop and the success of the organization may be in jeopardy.

Financial Accountability

The Code of Federal Regulations (CFR) Title 26 USC Sec 501 provides tax relief and outlines filing exemptions for nonprofit organizations. Those nonprofits (except 501c (3), churches) that receive more than \$25,000 in revenue annually must file a tax return for information purposes. All for-profit organizations must file a tax return, regardless if a profit is realized or not.

Since for-profit corporations have shareholders, an annual audit of financial position is required by the Sarbanes-Oxley Act of 2002 (soxlaw.com, 2008). This law requires various issues to be address in the reporting documents. There are penalties associated with incorrect or incomplete compliance with Sarbanes-Oxley. While there is currently an on-going discussion about nonprofit accountability, no such law currently exists for nonprofit financial reporting.

<u>Legal Requirements</u>

Whether the purpose of a proposed business is to earn a profit or to be "nonprofit," the businesses still must follow the laws of the state in which the business seeks to be incorporated. "Individual states have the power to promulgate laws relating to the creation, organization and dissolution of corporations" (law.cornell.edu, 2008). The stockholders of the corporation are the actual owners. The Cornell Law web site provides the following information about corporations:

The law treats a corporation as a legal "person" that has standing to sue and be sued, distinct from its stockholders. The legal independence of a corporation prevents shareholders from being personally liable for corporate debts. It also allows stockholders to sue the corporation through a derivative suit and makes ownership in the company (shares) easily transferable. The legal "person" status of corporations gives the business perpetual life; deaths of officials or stockholders do not alter the corporation's structure (law.cornell.edu. 2008)

Therefore, both nonprofits and for-profit corporations share a common organizational structure. However, the similarities between the two as to stockholder meetings and information to stockholders may vary considerably, with nonprofits being much less structured.

Why Nonprofits fail to meet expectations

Strategic Planning

In order to understand nonprofits, one must look at the reason most nonprofits are created initially. Either an individual or a group of people determined that a need within the community existed for which no government assistance or corporation was addressing or planning to address. This individual or group began the process to incorporate a nonprofit organization to address the perceived need. The need was immediate and the individuals were passionate about addressing the problem. The organization received approval for a 501(c) corporation and began to address the immediate needs of the community or society. The director and board of directors are singularly- focused on the immediate need. Staff is insufficient to address the problems and funds are not available. The founders work tirelessly to address the issues, while trying to recruit help and donors. The director and the board see strides being made to address the immediate problems. The director still views himself or herself as only "treading water." Little by little the situations are improving. Failure to plan long term

Then new problems begin to arise. The management team has been "consumed with enjoying a present pleasure instead of a future one. In other words, they live in the moment and develop organizational initiatives for the moment" (Santora & Sarros, 2008). Santora and Sarros write that organizations follow a "Six-Phase Life Cycle Model" which starts with Introduction, Growth, Maturity, Revival, Decline, and Death. While not all follow the exact paths as others and the time within each of the phases may vary, each organization will proceed through the model. The survivability of the organization is contingent upon the planning and vision of the director and the board of directors.

Guy and Hitchcock (2000) write that "[Peter Drucker] says that nonprofits start with mission rather than profit as a motive and this starting point leads to a clearer understanding of what the organization is about" (p. 37). Without the proper planning and clear delineation of goals and objectives in furtherance of the stated mission, informed decisions cannot be made when donations or grants are less than anticipated. Young, Ramsey, and Ramsey (2005) provide the results of the National Center on Nonprofit Enterprise analysis, whereby, managers are encouraged to:

adopt a decision-making framework to address the following questions:

- (1) To what extent does mission require the organization to survive and grow over time?
- (2) How does each potential activity or program undertaken by the organization contribute to mission and/or to net revenues?
- (3) What economic choices must be made for each such activity and how do alternative choices affect the activity's mission and financial impact? And
- (4) What combination of activities leads to the largest overall impact on mission? (p.4)

Without a plan of where the organization is going, the organization cannot know if it has been successful reaching the goal. Managers who fail to plan for the future find decreasing donations, expectations

of customers not being met, and continual turnover of staff who fail to see where the organization is heading. Clear goals, objectives, and strategies or how to achieve the goals must be developed. Those without a map never stray far from where they start.

<u>Failure to set goals and objectives</u>

All organizations establish some form of goal for the coming year. Some want to be the best at what they do, some want to have the largest budget, and some want to be the largest organization. All in all, everyone has a goal. The step by step objectives of how the goal will be achieved is another matter. Strategies as to opportunities for achieving the goals are not considered. Without proper goals and objectives, an organization cannot accurately measure the impact of its work. Drucker's views on nonprofits as stated by Guy and Hitchcock (2000) are that just "as with business, nonprofit managers need to think through their specific function, purpose, and mission in order to derive clear objectives and goals that can be used to set priorities and standardize performance measurements" (p. 36). Buckmaster (1999) agrees that "outcome measurement requires that goals and objectives be clarified [and that] measures be linked to such goals" (p. 190). Organizations that do not have measurable goals and objectives fail to survive long term. Funders want to be assured that the donations are being utilized as directed and that the funding is having the desired impact.

Failure to conduct performance reviews

The goals and objectives which are established in the strategic planning or Management by Objective processes are useless if a performance review is not conducted. To state goals and then to not measure progress can lead to eventual failure. The nonprofit organizations must first ensure that reliable and valid data and data collection procedures are established. The information collected must be meaningful, both near term and long term. The US Government passed the Government Performance and Results Act (GRPA, 1993) whereby, "organizations funded by [the U. S.] federal government must set program outcome goals and publicly report on progress toward achieving these goals" (Buckmaster, 1999, p.186). This is an important first step in the standardization of reporting for nonprofits. Donors have long sought assurances of oversight programmatically and financially to ensure effectiveness and efficiency of the programs. "Drucker feels that nonprofits should also focus their attention on customers and evaluate performance in terms of customer satisfaction" (Guy & Hitchcock, 2000, p. 36). Customer satisfaction is the ultimate yardstick to measure success.

Another area for improvement by nonprofits is "benchmarking." Benchmarking is the comparison of one organization against peers or the perceived best of like organizations. This benchmarking can highlight areas of improvement based on others or areas where other operations might be copied. Tyler (2005) stated that "not only is there a need to achieve high performance but also a strong incentive search for continuous improvement in efficiency: nonprofit organizations almost inevitably face a lack of available resources to meet the community need" (p. 220). This performance evaluation is an easy and simple means to begin the establishment of goals and objectives. The nonprofit wants to achieve the same level of success as its peers and wants to know how they are doing it. Yet benchmarking rarely happens in a nonprofit organization. Why? Tyler believes there are three principal reasons:

- 1) "nonprofit culture
- 2) lack of industry and funder pressure; and
- 3) lack of targeted information on benchmarking for the nonprofit sector" (p. 225).

Organizational Issues

Hiring and recruiting problems

Nonprofits are different from the normal for-profit organization, because just as the for-profit is examining the bottom line to ensure it is making money, all the staff are hired employees, some of whom are there only for a payday. Nonprofits have the luxury of having unpaid volunteers also assisting within the organization. As far as paid staff at most nonprofits, they are generally paid less than at a comparable job at a for-profit company. Often the employee will take less in salary, due to the passion the individual has for the cause for which the nonprofit was established. However, this often results in a high turnover rate at the nonprofit, since passion does not always last forever. Shannon Steen, executive director of Good Shepherd Housing, stated that "some nonprofits in the social services area become training grounds for government programs" (Steen, personal communication, April 2008). Some nonprofits who develop higher turnover rates, do not know how to evaluate the causes and often blame the loss of employees on "external factors that were largely beyond their control...victims of the economy, involved in fierce competition for staff from a lower wage pool, or competing for young professionals who would not command high starting salaries" (Block, 2004, p. 61). The managers can become one of the factors for a high turnover rate. Some managers believe that employees who do not remain long on the job are un-loyal, and therefore, little to no training is offered to new hires. The management attitude that the new hires will leave just as the others, so why provide them with more than the basic instruction and that there is definitely no need for career guidance, exacerbates the problem. Everything is tailored for today and not long term. This becomes the culture of the organization. Block (2004) believes that "inconsistent treatment of personnel can lead to cultural depression" (p. 63). Nonprofit organizations who cannot maintain continuity of staff have a difficult time meeting its expectations, delivering service, or surviving into the future.

Volunteers and employee issues

Personnel for a nonprofit are a mix of paid employees and unpaid volunteers. According to Cynthia Hull, Executive Director of United Community Ministries, "a well managed volunteer based program is critical" (Hull, personal communication, April 2008). As stated before, most nonprofits could not afford to pay for the level of expertise brought to the organization by the volunteers. Most have had successful careers and are now returning something back to the community. The paid staff is generally lower salaried employees who sometimes resent the volunteers out of fear that the volunteers will take their jobs. If funding becomes short, some nonprofits wrongfully look to reduce paid staff and replace with volunteers.

Hull (personal communication, April 2008) pointed out the fallacy of that position:

Paid employees are on a schedule and are generally dependable because the job is their livelihood. Volunteers may not be as dependable, since they are not being paid; they view the nonprofit work as something extra they do when they are available. Therefore, when operating a store front operation it is critical to have some paid staff.

The volunteers may be older and have greater health concerns, than the younger paid staff, who might resent the absences of the volunteer staff. However, all staff either volunteer or paid must be evaluated and rated by the same standard. Hull (personal communication, April 2008) states that "it is important that managers maintain high work expectations for both paid and volunteer workers." Nonprofits that cannot manage their human resources will not survive into the future.

Board of Directors and CEO issues

The nonprofit organization has a management structure much the same as a for-profit business. The only difference is to whom the management team must report. The for-profit companies prepare voluminous reports as required by the Sarbanes-Oxley Act for the benefit of shareholders, debtors, and the government. The nonprofit only has to satisfy the donors, be it private or public, that the organization is meeting expectations and remains financially stable.

So who actually directs the nonprofit? The Chief Executive Officer (CEO) generally directs the day to day operations of the organization and administers any plan formulated by the Board of Directors (BoD). The CEO or Executive Director reports to the Board of Directors who "are responsible for advanced management functions such as strategic planning, financial budgeting and management, goal setting...evaluation of the executive director, communications campaigns, legal oversight, and general group management" (Reynolds, 2006, p. 2). The BoD can choose to fulfill their duties, delegate to the CEO, or neglect their duties entirely. Either the first or second option can result in a successful operation; however, the third option generally results in problems or closure.

Most organizations want individuals who are "at least interested in if not passionate about – the organization's mission" (Reynolds, 2006, p. 2). What problems can result from passionate BoD members? The problem exists for many small organizations that have passionate individuals on the BoD, who may be parents or relatives of the children/people being helped directly by the nonprofit. These individuals while passionate have no experience governing or managing an organization, no experience in fundraising, and little or no experience planning either operations or finances. They often have a biased view of the assistance to be provided, thereby, not fulfilling their obligations of objective analyses of the operation. As Lewis, French, and Steane (1997) write

These organizations are exhorted to undertake strategic planning, quality assurances, and to streamline their budgeting practices in the same way as public and private sector organizations. Many people [in nonprofit] organizations do not have the necessary background and skills to enable them to effectively carry out these tasks. (p. 278)

The CEO is usually left to guide the operation and the administration of the organization. The nonprofit then is guided by a single point of view of the issues and no debate occurs as to the merits of options.

On the other hand, the BoD candidates may be the right people with the right skills for the organization. The only thing lacking is a delineated set of tasks and responsibilities for each member. Block

(2004) outlines a perfect case study of a BoD in Colorado, where performance was suffering from inattentive members. The members of the BoD had poor attendance at meetings often only staying a short while before leaving, which then resulted in no actions occurring because of a lack of a quorum. Block refers to this problem as "Recruitment Disorientation" where he states "a board member who is unaware of performance expectations that are held by other board members or by the executive director of the nonprofit organization may unwittingly appear to be irresponsible in failing to fulfill certain (unspoken) obligations" (p. 41). Block states that "many hundreds of board members all over the U. S. reported accepting invitations to become board members without any understanding of the level of commitment they were making" (p. 41). How can a BoD function when some or most of the members have never been informed as to what are the expectations for their participation? These nonprofits slip into the decline phase, not due to inability but out of poor communications within the BoD.

Are the problems only with the BoD? No, the CEO may be the cause of the problems within the organization also. Santora and Santora (2001) write that the turnover at the executive director or CEO position is high. This constant movement of the CEO causes problems with mission achievement and organizational stability. "Therefore, nonprofit organizations must plan for executive succession to reduce some of the tension associated with the departure of a CEO/Executive Director" (Santora & Santora, 2001, p. 107). Most nonprofits do not do succession planning, since most do not even do operational strategic planning. So when the CEO departs most small nonprofits appear to lose focus, such as a ship losing its rudder.

A local nonprofit was guided artfully be the same individual for a number of years. The individual was the face of the organization. The organization did well after the resignation of its long time executive director. However, some in the community worried about the future of the organization, as well as questions about the new leadership. Only through the strong new Executive Director and the BoD were concerns allayed.

In most cases, instead of planning, the BoD becomes reactive and begins a search for a new CEO. In some small nonprofits, the search starts often within. The interviews commence and candidates are screened. Just like numerous small business and even some large organizations, the individuals who apply are generally not former executive directors, they may be assistant directors or supervisory staff. They are selected for the position not based on potential, but mostly because they were the best at their former jobs. The former jobs may have nothing or very little to do with leading an organization. They are expected to learn on the job; however, Trautmann, Maher, and Motley (2006) state that "J. F. Bolt interviewed hundreds of corporate leaders...and on-the-job experiences and real-life learning have not been sufficient in producing effective future leaders" (p. 270). So how can a nonprofit corporation meet expectations when the executive director and/or other management staff do not possess the skill set to effectively lead the organization?

<u>Lack of Commitment to the Organizational Culture</u>

Every organization has its own culture. Lewis, French, and Steane (1997) write that "some authors see culture as basic assumptions held by organization members, most prefer to view it as a combination of assumptions, feelings, beliefs, values and behavior" (p. 276). Culture can influence performance within an organization. Often the culture of the organization is such that certain actions are taken only in specific ways. When new directors begin to make instant changes in structure or operational functions, often the core staff and/or donors do not back the decisions. Loss of support from either can be overcome, with some difficulty, but loss of both could be fatal to the organization or to the director.

Financial Issues

One problem that nonprofits and for-profit organizations share is financial issues. Both organizations are susceptible to embezzlement or fraud, continuation of outdated or unnecessary programs or products after their life cycles, ineffective audits or financial mismanagement, and salary in excess of benefit added to corporation. All of these are signs of problems within the organization, and need further discussion.

Lack of accountability

Unlike for-profit organizations which are required to perform specific reporting by the Sarbanes-Oxley Act, nonprofits have little to no standardized reporting requirements. Donors may require some type of annual report as to the status of donations or the benefits derived by the recipients. Therefore, little financial accounting is performed. Title 26 US Code Sec 501 does not require nonprofit organizations with less than \$25,000 in annual revenue to file an income tax return with the Internal Revenue Service. Those small nonprofits generally prepare no annual report.

Reports occasionally appear in the newspaper and on the evening news about some CEO stealing from a nonprofit. The CEOs are living lavishly at the expense of the individuals who were to be served. Rodrique (1998) offers the following as evidence of poor accountability and managerial mismanagement:

United Way of America chief executive William Aramony drew a seven-year prison term in 1995 for misuse of charity funds. While PTL minister Jim Bakker...drew a 45-year prison term in 1989, after revelations he used church funds [for] a fleet of Mercedes and Rolls-Royce autos. (p. 51)

It is not always the managers who embezzle the funds from small nonprofits. A local nonprofit organization, incorporated to support a local high school program, also suffered a loss of funding because of poor accountability and oversight. The organization discovered that the treasurer, a parent of one of the students, had embezzled all the money in the bank accounts, totaling approximately \$50,000. This money had been earned by the students and parents and was to be used to cover the expenses of the students and the program in future years. When reports were not provided routinely, as well as any copies of bank statements, the BoD should have become uneasy. However, since the treasurer was a parent and known to the BoD of the organization, there was a level of trust given to the individual. The breakdown in internal controls and standardized financial reporting costs the organization both money and some trust in the community. Donors were more cautious about donating to the organization, worried that the money might not be controlled again. Only because the organization was a school support organization were they able to survive, for others it would have meant closure. If management does not take a firm stand on financial reporting, thefts and embezzlements occur.

National Baptist Convention USA President Henry J. Lyons diverted more than \$1 million to a secret bank account. The act would have gone unnoticed if his wife had not found a deed for a house he had bought with another woman for \$700,000. He also later confessed to keeping more than \$200,000 intended for burnt-out Black churches in the South (Rodrique, 1998). Fortunately, the National Baptist Convention was large enough to absorb the loss of money; however, the organization failed to meet its fiduciary responsibilities to those who donated and entrusted their money with them.

In another example of lack of accountability:

Cape Coral Hospital in Florida was sold after directors suddenly discovered that it was losing \$1 million a month. For years those directors had ignored signs of trouble, and never had their curiosity raised by high-living executives who resisted financial disclosure requests. (Rodrique, 1998, p. 54)

When the BoD does not fulfill their obligations, then financial oversight is neglected and issues are bound to occur. The simplest review of financial reports and statements are often enough to catch variations. However, because of the non-standard and lax reporting requirements it is easier to divert or embezzle funding from an inattentive nonprofit.

Ineffective audits

While corporate audits can be ineffective in both nonprofits and for-profit, e.g., Enron, poor audits do occur more often in nonprofit organizations. The lack "of regulation translates into the absence of any auditing or performance evaluation of the nonprofit organizations, which are free to set their own, private agendas" (Barros & Nunes, 2007, p. 815). The manner in which most nonprofits conduct business with donations in lieu of sales, presents auditors with a difficult task. Rodrique (1998) explains that nonprofits "lack many of the checks and balances built into private businesses. Donors are giving to the agencies, not buying from them. They have no reason to demand value for their money as a customer would" (p.52). The results can be problematic to the nonprofit.

The GAO conducted an audit of Arlington Community Action Program, Inc. (ACAP) to "determine whether the costs claimed for the Head Start program were allowable under the terms of the grant, applicable Federal regulations, and Office of Management and Budget guidance. The GAO audit disallowed \$342,004 and set aside \$178,032 for further review" (Office of Inspector General, 2005, p. 2 & 4). The nonprofit believed the charges to be valid based on its independent audit.

Nonprofits also have a problem acquiring and retaining administrative staff. Steen (Personal communication, April 2008) stated that nonprofits have smaller administrative staffs since donors do not want to pay for overhead costs. The lack of administrative staff cause reporting to be less than desirable, which results in audits being less complete. Since most nonprofits do not receive funding based on a billing system, but through direct (individuals) or indirect (United Way, grants) there are no invoices for an auditor to balance against bank statements/deposits (Rodrique, 1998). Many small nonprofits have no formal audits conducted on a routine basis, since they cannot afford to pay for the service, it may be performed by a member of the nonprofit. Hopefully, the individual is knowledgeable in financial auditing; otherwise, the nonprofit may be enjoying a false sense of security.

No analyses of services

Most nonprofits are suffering from a loss of donations, as the economy worsen. If the nonprofit has been proactive and conducted a planning session and prioritized services, the decisions when donations do not meet the expectations are easier. Lee Mizell (2005) states many organizations are moving towards the concept of sustainability, which "is doing 'what works' – and discontinuing programs that don't achieve their goals" (p. 1). However, often, smaller nonprofits do not plan past the current year, so when donations are less, they take no action.

A nonprofit organization in Fairfax County, Virginia found itself in this exact situation. During a period of prosperity, the nonprofit had branched into new areas of service, expanded its corporate offices from a lease of \$1,000 per month to \$10,000 per month, and hired additional staff and managers. The donations were sufficient to cover the increased expenses for awhile. Then the economic downturn happened and receipts decreased. The nonprofit did not reduce service levels (some could not be reduced because of contractual obligations) nor did they alert the county government in a timely manner of the pending financial issue. The BoD began to use the corporate reserves to cover the monthly operating costs, until the corporation could no longer pay the rent. The landlord threatened to evict the nonprofit. All the while, the nonprofit attempted to maintain the level of service. Finally when it sought help from the county government, it was late in the budget process and the nonprofit drew extensive criticism for the delays. The nonprofit was bailed out financially, but the county required a complete overhaul of the operation (Salmon, 2007). Well meaning acts caused the demise of a once striving nonprofit, because of the inaction of the BoD when issues arose.

Programs Not Needed

Once an organization starts a program, it becomes difficult to change direction. Some nonprofit organizations do not have a policy about donation acceptance. If a donor wishes to fund a specific project, some organizations will agree. This may not be in line with the mission, but the BoD often believes that it might lead to other program funding. However, usually the nonprofit does not have the extra funding to devote to un-needed programs. Often board members or executives will propose a program which should not be adopted even if there are no initial costs. The costs to implement or sustain far exceed the capabilities of the nonprofit (Fram & Pearse, 1996).

Salaries

One area where a nonprofit may be most vulnerable is salaries. The salaries of the CEOs/Executive Directors are often viewed as being out of line with the value added to the organization. The Government Accounting Office conducted reviews of nonprofit organizations. "Of 673 executive pay packages reviewed, 100 earned more than \$200,000. Many executives also profited from for-profit firms that were related to their nonprofit employer. GAO found ...that pay ranged up to \$711,000" (Rodrique, 1998, p.53). While this is not necessarily the case for community nonprofits, donors are now looking at the percentage of each dollar spent on administrative costs. Donations are being directed to those with lower percentages.

Nonprofits must realize the perception of the people being served, when executive salaries are high. "In social welfare operations that deal with the most vulnerable in our society, to provide such essentials as food, shelter, and job placement, benefits are scant to non-existent" (O'Connell, 1992, p. 34).

As O'Connell (1992) eloquently summarizes the issue, "Salaries are a means to that end (service), and the extremes of them must never be allowed to become the end of the means" (p. 34).

Fund Raising

Fundphobia

Block (2004) defines fundphobia as "the fear of asking people to make financial contributions to a nonprofit organization" (p. 121). Block (2004) cites an excellent case study of the Tri-State Children's Chorale where the BoD did not want to conduct fund raising activities. Some of the members were simply writing checks to sustain the organization at the minimal level. Eventually, the nonprofit began to suffer and closure was possible.

It is interesting to discuss fund raising with members of boards to hear the varied approaches to the issue. One former BoD member of a local small nonprofit made the comment that "he does not beg." To some writing a check is much easier and simpler than asking corporations, governments, or individuals for assistance.

"Fundraising is a business ... however; [fundraisers] may not have the luxury of a first or second failure before achieving success" (Simon, 1997, p. 108). What some nonprofits have difficulty understanding is that to fundraise, often the nonprofit must expend funds. These funds may have to come from operational accounts, since donors usually do not specify funds for fundraising only purposes. As the old adage states, it takes money to make money. If a nonprofit is hesitant to expend funds and time to make money, it is often an opportunity lost. Fear of the unknown or fear to take a risk often prevents many successful ventures.

Complacency with fund raising

Some organizations become complacent with their fund raising efforts. They have been successful with various private donors or corporations in the past and they discontinue the search for new sources of revenue. When those donors of the past begin to reduce their contributions, the nonprofits take little or no actions fully expecting a return to the norms of the past. The case study of the Tri-State Children's Chorale by Block (2004) which was previously discussed shows the complacency which can infect a BoD. The BoD did not attempt to fundraise outside, instead choosing to write checks for the operational costs. When this occurs the operations are limited by the resources of the BoD donors and expectations of the customers are generally not met.

Simon (1997) provides an example of fundraising events where the University of Nevada Las Vegas held an annual picnic for donors which raised thousands of dollars. "However, because volunteers felt they were spending too much time and energy on picnics they ended. [The volunteers] wanted to do something different" (p.110). Even though the picnics were profitable, the volunteers dictated the efforts and the BoD did not pursue the issue.

Shoemaker (2007) points to another side of complacency, "when that initial core leadership relaxes too much, they take with them their aspirational leadership – that is, their ability to inspire action, evangelize their mission, and connect with potential donors on a peer level" (p. 2). The new staff does not have the ability or knowledge to function at the previous level, so they hesitate and donations decline. *Lack of commitment of Board of Directors*

Although generally not an issue with nonprofits, occasionally the BoD will relegate all operations and administrative matters to the executive director. This includes fund raising. Hull (personal communication,

April 2008) stated that all BoD members are expected to donate, based on their ability to do so, and to fundraise. If the BoD is not informed of this requirement in the beginning, the likelihood of all members participating is not a given. Shoemaker (2007) writes that "the last five years have taught us that international nonprofit networks more often fail when they are too loosely directed in their early years" (p. 2). This loose direction results in poor fund raising and lack of commitment of management personnel.

Founder's Syndrome

"My company"

When a nonprofit is founded, it is generally due to the vision of an individual who works tirelessly to meet all the legal requirements, obtain funding, and works directly with clients. This individual, known as the founder, is usually the CEO or Executive Director of the newly formed nonprofit corporation. The founder often hand picks the members to sit on the Founding Board of Directors, based on their agreement with the founder and the specific mission. The founder views this as "My Company." The founder often sets the compensation package for the BoD to sign-off and determines the early goals and objectives for the BoD. Everything early in the process is informal and decisions are made ad hoc.

The nonprofit enters the growth period and the members of the BoD may change, but the CEO or founder does not because it is "My Company." The founder becomes the face of the organization and it is the founder's vision to which the company marches. All is well as long as the BoD realizes that it is the founder's company.

Another case study provided by Alford, who provides consulting services for nonprofit organizations, examines a foundation which provides educational assistance to low income students. The original benefactors wanted to provide for educational needs for college and university students at certain religious supported institutions. When the nonprofit foundation was created the founders did not want to operate the nonprofit, instead leaning on their former pastor for assistance in organizing and establishing the corporation. When established, the founders hired the pastor's son, fresh from college, to run the foundation. The BoD was established with the presidents of the participating colleges. The new executive director had great skill as a visionary, but little skill for administrative processes. Therefore, the executive director hired staff members to a two year term only, thereby constantly recycling and training staff. The executive director began to treat the foundation office complex as his personal dwelling and his family utilized the space and grounds as their own to the dismay of the staff.

The foundation is successful; however, there are no fundraising issues (original endowment is sufficient), the foundation conducts no strategic planning, there is no accountability of assets or performance, and the BoD has a conflict of interest because each of the board member's institutions directly benefits from their decisions regarding the grants being bestowed. All the while, the staff is paid exceptionally low salaries and the CEO and newly hired administrative officers are paid large salaries. When the founder died, the CEO stated that the foundation would need to buckle down on the money, so all staff members would take turns cleaning the bathrooms. Needless to say this was not accepted well by the underpaid staff (with no job security) (Alford, personal communications, April 2008).

The question is whether this nonprofit is failing. If one looks at the potential that this organization could do as compared to what is being accomplished, one would have to answer yes. However, if one wants strict adherence to the original vision, one would probably take the opposing point of view.

Differences with the BoD

So what happens when the BoD starts to take back responsibility for the operational goals and objectives by creating a strategic plan which is counter to the position of the Founder (CEO)? There are problems. Block (2004) provides an excellent case study of ROWW and a founder who has problems with a BoD who desires to make changes. The BoD wants to conduct performance reviews of the CEO (founder) in order to set the compensation for the next year. The CEO disagrees and three of the eight members of the BoD (all family members of the CEO) walk out. Since a quorum is not present, no actions can occur. The CEO tells the BoD that no further actions are possible until they resign. A legal battle ensues. The CEO and the family BoD members are no longer affiliated with the nonprofit. The nonprofit came close to closure.

Strict adherence to original vision

Adherence to the original vision can be a negative when the mission changes, but it can also be a negative when deviations are made from a valid vision or mission. However, change to address a new mission is appropriate when the original mission is complete. "The classic case of a nonprofit deciding to continue operations once the mission was achieved is the March of Dimes, which adopted a new mission to address birth defects once polio was cured" (Young, Ramsey, & Ramsey, 2005, p. 11).

Block (2004) provides a case study of a nonprofit, which was founded by a woman to ensure affordable housing within the community. She created a successful nonprofit, however, she began to develop an anti-development personal agenda. She began demonstrating against development issues. This ran counterproductive to the wishes of the BoD, who wanted to build relationships with the developers in hopes the developers would also build some affordable housing units. The BoD directed the CEO to cease demonstrating. The CEO then threatened the individuals on the BoD with demonstrations at their businesses if they did not resign. The BoD sought to restrict the actions of the CEO. After numerous sessions the CEO realized that the original vision and mission was still relevant.

When an organization fails to realize that the original mission has been completed or is no longer needed and continues business as usual, the nonprofit is failing. Either closure of the nonprofit or a redirection as with the March of Dimes is essential. While most nonprofits do not complete their missions, occasionally some facet of their mission may not be necessary any longer. To continue this either because some donor is providing directed donations, or because it is a pet project of the CEO or BoD is not meeting the priority needs of the community customers.

Family members on the Board

While it is legal to have family members on the BoD of a nonprofit, it at times is not wise. Family members generally are supportive of other family member positions and thus the CEO has a clear path to make the ultimate decisions. As evidenced in the case study of ROWW, the family members stood with the father (CEO) and left the meeting. Family members on the BoD only perpetuates the "My company" mentality

of the CEO. The presence of family members on the BoD may often time cause concern by donors of the credibility of the BoD and whether the proper oversight of the programs is being conducted. While legal, it can lead to problems.

Cultural Issues

Mergers and Partnerships

Some governmental agencies are finding it difficult to provide all services to the client base and have sought out partnerships with nonprofit organizations. The nonprofit provides the manpower and the government provides the funding. However, this partnership has two potential problems. The governmental funding is often seed money and the nonprofit is expected to continue after the seed money is not provided. Secondly, the nonprofit mentality of loose accountability and reporting is often counter to the government expectations especially in light of the GRPA 1993. The nonprofit may find it difficult to function within the governmental guidelines and to develop a sufficient funding stream for the future. If the BoD does not conduct adequate long term planning for those eventualities, it is doomed.

Mergers and partnerships between agencies are difficult due to cultural differences within the nonprofits, sometimes based on the lack of standardization of administrative matters and sometimes based on mission-realities. Joint ventures seldom occur and if they do they are not long lived (Alford, personal communication, April 2008).

Cultural changes of clients

As the communities around us change, so do the cultures of the neighborhoods. The days of community picnics and helping the neighbor with household tasks during troubles, are gone or fading fast. Nonprofits have to be ever vigilant to the changes within the clients being served in order to keep pace with the needs. In many communities where little or no assistance was needed, the homeless problems have begun to increase and affordable housing is now the issue. In other neighborhoods, the population is aging and where before after school programs were needed, now Meals on Wheels is the need. The neighborhoods are also changing their ethnic mix in some areas. The accepted assistance is different in some of the ethnic cultures than in others. Nonprofits need to be aware of those changes and move quickly to keep pace. Nonprofits that are "asleep at the switch" are bound to develop problems and eventually fail.

Solutions to Improve Performance

<u>Improved Financials</u>

Those small nonprofits that are currently not following standard accounting principles should start. The day of unaccountability by nonprofits is nearing an end. With the advent of GPRA 1993, the day is coming when standardized reports will be required for all nonprofits regardless of funding income source.

As far as improving income streams, an article in Nonprofit World titled "Nonprofits can improve by changing focus" (2006) states that:

Topics cited as "most important" to nonprofit executives and their board members are:

- 1. expanding the current donor base (77%)
- 2. recruiting high-impact board members (61%)
- 3. increasing donations form current donors (40%)
- 4. attracting and retaining skilled staff (37%)
- 5. increasing donor loyalty and retention (33%) (p. 1)

All of these areas are intended to improve the financial and income position of the nonprofit organization.

Improved Human Resources Programs

The lifeblood of any organization is the people who work and manage the operations. Any organization which is languishing should first look to the people to see if training or morale could be improved. Nonprofits are no different. If the BoD does not know what their specific or individual responsibilities are, how can they be successful? If new hires are never trained, due to management's indifference, how will loyalty and longevity be improved. Without an inner examination of the human resources climate, no improvements will happen spontaneously.

<u>Performance expectations</u>

The first area that should be addressed is performance expectations. This should be across the organization from the CEO to the staff to the volunteers. If expectations are not spelled out, one cannot know where the deficiencies are. Once expectations and areas for improvement have been identified, a training program should be developed. This allows management to evaluate talent and reassign as necessary to ensure that each individual is in an area where he or she has the optimum opportunity to succeed.

Encourage continued employment/address turnover

Nonprofits have limited resources to expend on non-operational areas. If one assumes that staff time is overhead then it creates an even bigger issue; donors examine overhead rates as compared to the total expended revenue. So if staff members are continually resigning, the nonprofit is in a continuous hiring cycle. The costs for advertising, lost productivity time, manager's conducting interviews, and training of new staff are large compared to an organization with a stable workforce. While many small nonprofits can barely make payroll at times, long range planning for operational needs, staffing plans for both volunteer and paid

employees, and cash flow analyses can often help to reduce the angst of the managers. The turnover of staff is a drain on the ability of the nonprofit to meet mission, efforts should be made to address the core problems.

Address Management Issues

An informed BoD is critical to the success of the nonprofit. Most new BoD members are excited about the opportunity to serve and most are highly productive business people who are driven to succeed in their daily lives. Do not stifle this excellence by expecting them to know what their responsibilities and duties are starting day one. An established "Board Orientation" should be held before they start. Some agencies may want to provide this orientation to prospective candidates before they commit.

A well functioning BoD and CEO are essential. Lewis, French, and Steane (1997) confirm this when they state: "In nonprofit organizations in particular working in an environment where there is need to present a coherent, united front when applying for government grants or in gaining community support...excessive conflict paralyzes an organization's ability to function" (p. 275).

Confront Organizational Issues

Organizations should plan to be in existence in the future. This means that they should also plan how to get there. Goals and objectives must be prepared and then performance evaluated against them. "Management must think of itself not as producing products but as providing customer-creating value satisfactions" (Murray & Carter, 2005, p. 422).

The organizational structure should be reviewed after a number of years to determine if it is the most efficient. During periods of rapid growth, often new divisions or programs are created to address the issues of the times; later those issues may not be as pressing and management oversight or guidance may be reduced, thereby reducing overhead. This is not an easy exercise. The current staff may be reluctant to honestly state their position is no longer needed, but it is a necessary exercise. The Soroptimist International of the Americas (SIA) conducted such an organizational review. The SIA have been in existence for over 80 years and have experienced constant growth. The organization governance was becoming too cumbersome with directors, so the SIA began to restructure so the "board would represent the organization's diverse culture and geography" (Changing direction, 1995, p. 25). Organizational structure should be lean but representative of the individuals and programs of the nonprofit.

Another area of improvement is addressing the cultural climates within the organization. With the ever-changing ethnicity of this nation, cultural differences must be embraced. Not everyone is the same and should not be treated similarly. What made this nation great are people with ideas and viewpoints which created the great exchange of concepts and visions. These should be encouraged within the organization.

Lastly, the needs in the community must continue to be reexamined. Local community leaders refused to believe that homeless people existed in one of the affluent areas within the county. Only after they saw first hand did the county begin to take action to assist these individuals. The nonprofits in the area were the driving force to make the county leaders re-examine the customer base in the county.

Conclusion

Hines (2004) writes that "nonprofits represent almost 6 percent of all organizations in the USA, include 7.1 percent of all paid and voluntary employment, and have combined revenues of \$665 billion" (p. 302). Nonprofits are now an integral part of the economic fabric of this nation. Nonprofits are expected to assist with the social welfare programs that the governments can not or will not address. Therefore, the nonprofits must be the most productive and best managed, because unlike for-profits there livelihood is based on perceptions. Donors are not buying a piece of the nonprofit, they are giving to a cause that they believe the particular nonprofit can improve. If that perception adversely changes, the donors will find another nonprofit to receive their money.

Nonprofits have little to no standardized reporting requirements, so the onus is on the BoD to ensure the financial stability of the organization. As Alford (2008) stated, many nonprofit managers do not like the financial aspects since that is more aligned with for-profit corporate America, whom some do not like. However, if the BoD is not adhering to its financial oversight requirements, fraud and embezzlement is easily accomplished.

Any organization that has a large volunteer workforce must also maintain some paid workers. This balance between paid and volunteer is essential. The training programs must be devised and intended for all employees and all performance evaluations and expectations must be uniform. If the organization continually points out the differences in paid and volunteers, the rift will continue to grow wider. Nonprofits must work as a team in order to be successful.

So what does failure mean? The failure of a nonprofit organization does not necessarily mean the closure of the corporation. A nonprofit can fail to meet the needs of the community or customer, can continue to expend funds on a project no longer needed or wanted by the customers, or can expend limited donations foolishly. A nonprofit can fail because it did not consider the possibilities or problems of tomorrow, because it was to singularly focused on today. The nonprofit can fail because of lack of training. A nonprofit can fail because all of us, who support them with our time and talents, never ask what they were doing with our resources. While the public does not own the nonprofit, it is a community treasure that must be safeguarded and provided guidance and oversight. No one knows when one might need a nonprofit to provide a service or help. The hope is that it is still functional if that day comes.

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FTAs and Thailand's Recovery from the 1997 Asian Financial Crisis

David Pemberton

Abstract

The context of the Asian Financial Crisis of 1997 crisis offers a good case study for examining today's most popular form of trade liberalization, Free Trade Agreements (FTAs). The first part of this article will explain the liberalization of Thai trade policy that led up to 1997. The second part will examine the strategies used in Thailand's recovery from the crisis including its minimal use of FTAs. The third and final portion of the paper will argue that a greater use of FTAs could have accelerated Thailand's recovery. Arguments are based on empirical studies, applications of economic theory, and comparisons of FTA success in other countries.

The Role of FTAs in Thailand's Recovery from the 1997 Asian Financial Crisis Introduction

Western economists have long held Asia under the academic microscope. They do so in hopes that examining the variables that have enabled the region to sustain impressive growth will yield insights into economic theory and its application. This article focuses that microscope on Thailand before and after the Asian financial crisis of 1997 and examines the effects of various recovery techniques in restoring investor confidence and GDP growth to a country dependent on foreign direct investment (FDI). The main recovery strategy used was a tightening of fiscal policy in order to slow the market. However, this may not have been the best solution for rejuvenating Thailand's injured economy. Instead, free trade agreements (FTAs), a more liberal approach, could have helped return lost FDI and thereby increase GDP quicker than the tightened fiscal policy approach.

Contextual Overview

Prior to the Second World War, Thailand was one of the world's poorest countries. However, it was the only Asian country to succeed in deterring British colonization. In order to protect itself, Thailand had put in place strict protectionist policies across all governmental activity. The National Identity Board was opened within the Office of the Prime Minister in order to oversee much of this protectionist agenda. At the close of the war in 1945, Thailand realized its need to liberalize trade policies. Since then, Thailand has evolved in a continuing process of trade liberalization. This process brought significant growth to the country's economy. Eventually, Thailand transformed into the world's fastest growing economy. The growth bubble would finally burst in the late 1990s creating the Asian Financial Crisis of 1997. Trade liberalization continued after the crisis and has culminated in Thailand's latest and most liberalized trade strategy, bilateral FTAs.

In order to properly interpret the role of FTAs in Thailand's recovery from the Asian Financial Crisis, one must understand how the country's rise from poverty during the past 60 years has reshaped the Thai

economy. This transition has taken place alongside five distinct stages of liberalization: (1) Stagnant economy: 1800s – 1940s (2) Industrialization: 1940s – 1980s (3) Global integration through multilateralism: 1980s – early 1996 (4) Crisis: 1997, and (5) Recovery and FTAs: 1998 – present. Progress was significant but slow from the 1930s to the 1980s until the economy finally took off in a boom period from the 1980s to 1997. The boom ended with the onslaught of the Asian Financial Crisis of 1997. When the financial crisis hit, it forced Thailand into a much more rapid reengineering of its trade policy. Thailand has recently increased its experimentation with FTAs as a tool for expanding the market for its exports and continuing their recovery. Tracing the flow of Thai economic liberalization through the four distinct stages leading up to recovery will lay a foundation for evaluating the positive role FTAs are currently having in the Thai economy and the role they could have had in the post-1997 recovery.

Stagnant Economy: 1800s - 1940s

As the rest of the world began recovering from the Second World War, Thailand struggled as one of the world's poorest countries (Warr, 1999). Its economy had stagnated over a hundred years prior (Manorungsan, 1989), and few expected anything different from the next hundred (Ingram, 1971). Despite the bleak economic outlook, foreign investors soon began to uncover Thailand's strengths: a secure political situation, a stable currency, and a cheap labor force. The first of those advantages, a stable political system, is the primary requirement for foreign investors who hope to expand in developing countries (Satterlee & Robinson, 2008). Since most developing countries have unstable political governments that result in excessive risks to investors, countries with stable governments provide the greatest environment for foreign direct investment (FDI). Thailand's potential for FDI was improved by the fact that it had experienced only one major political upheaval in the 400 years. The most significant conflict, the bloodless coup of 1932, was a relatively uncomplicated advancement of governmental policy from an absolute to a constitutional monarchy and bore no resemblance to the radical takeovers or violent regime changes typical of unstable countries (People, 2008). The stable political climate resulted in Thailand's stable currency. Currencies that are not experiencing rapid inflation or chaotic fluctuations are another key foundation that attracts foreign investors (Satterlee & Robinson). Also, the baht was originally tied to the dollar which increased the stability even more (Urata, 1994). When investors started to realize that Thailand had these two fundamentals in place, they were able to start leveraging Thailand's third strength, its cheap labor force. Recognition of these three beneficial aspects of Thailand's economy paved the way for the industrialization of the next 30 years.

Industrialization: 1940s – 1980s

Thailand's periods of industrialization and economic boom provide valuable context for understanding the subsequent periods of crisis and recovery (Warr, 1999). In the late 1950s, Thailand began its first experiments in mobilizing its cheap labor force. Immediately thereafter, Thailand began seeing reduced instances of poverty and an increase in real GNP. From 1958 to 1996, Thailand would not experience a single year of negative growth (Warr). Thailand would report an average GNP growth per person of over 5% between

1965 and 1996 (World Bank, 1998). This adjustment in critical success factors ushered in a new era for the Thai economy. The benefits of the newly utilized labor force continued to accelerate the influx of foreign and local private investments. These investors quickly transformed Thailand into one of the fastest growing economies in the world at the time.

The start of Thailand's industrialization may seem like the upward turning point in the country's economic history, but Nobel Prize winner Paul Krugman (1994) would most likely mark this as the point at which economic disaster became immanent (Krugman). In his article "The Myth of Asia's Miracle," Krugman offers a scathing warning about the viability of the economic success of the growing Asian economies. His premise: "Economic growth that is based on expansion of inputs, rather than on growth in output per unit of input, is inevitably subject to diminishing returns" (Krugman). During Thailand's period of industrialization, the country was experiencing growth through expanding its inputs as it assembled, trained, and educated its workforce. However, as Krugman predicts, after a nation's workforce inputs have been expanded to maximum capacity, businesses have difficulty finding new inputs to sustain their incredible gains. Unfortunately, instead of redirecting efforts to increasing efficiency, Thailand continued to focus on input expansion.

The Boom and Multilateralism: 1980s – 1996

Thailand's mass industrialization led to a quick development in its manufacturing sector. As that sector grew, Thailand attempted to ensure adequate demand for the exports it was creating (Upendra, Ratanakomut, & Mallikamas, 2002). However, tariffs on Thai products were as high as 45% in many developed countries (Chirathivat & Mallikamas, 2004). In order to expand the market for its exports Thailand entered into its largest multilateral trade agreement in July of 1982 when it entered the General Agreement on Tariffs and Trade (GATT). Entering just after the close of the 102-country Tokyo Round, Thailand benefitted from the \$190 billion of non-tariff based concessions of the round (Nagai, 2002). Four years later, in 1986, Thailand was an active negotiator in the GATT's most ambitious round of negotiations to date, the Uruguay Round. This round took over seven and one half years to negotiate and culminated in the creation of the WTO, involved 123 signatory countries, and administered the largest tariff release structure in history. Highlights for Thailand were a 10 year schedule to reduce average agricultural tariffs by 24% and a 5 year, January 1, 1995-2000, schedule to reduce tariffs on industrial products by 40% (World Trade Organization, 2008).

The Crisis: 1997

Thailand's industrialization required a liberalization of the country's financial system. In 1990 Thailand accepted Article VIII obligations of the International Monetary Fund (IMF) which required the lifting of all controls on foreign-exchange transactions of current accounts. Thailand also opened its own Bangkok International Banking Facility (BIBF) to open capital accounts and encourage foreign institutions to operate in Thailand (Siamwalla, 2000). Thailand therefore continued to loosen most exchange and control regulation, further liberalizing the financial structure of the country. However, in the midst of this foundational change, several financial administrations including the Bank of Thailand and the Ministry of Commerce began neglecting their strict oversight of the transition.

By this time, Thailand was already experiencing rapid growth, and the new IMF and BIBF policies accelerated that growth even more. With foreign money now available at low interest rates, in addition to the already low fixed-exchange rate of the baht, borrowers calculated their cost of capital at enticingly reduced rates. While most of the capital went toward mobilizing the labor force, investors were also pursuing gains in the real estate market. The growth of the 1980s created a shortage of office space, and investors continued to build at a rate that would satisfy previous growth indicators. As Krugman (1994) predicts, any investment boom stimulated by FDI in input expansion such as labor and real estate can create a dangerously thin boom bubble. When the world market slowed slightly in the mid 1990s, Thailand experienced an incredible stress on its now overbuilt manufacturing and real estate sectors. Unfortunately, the growth could not sustain itself and Krugman's hypothesis proved true.

Compounded with the stretching of the financial bubble, the suspicion that major Thai financial institutions were inflating balance sheets created an additional wariness over the economic situation. The stresses in the market were resulting in many non-performing loans. The already shaky balance sheets of the banks would soon be further damaged by the abrupt depreciation of the once-fixed baht.

The decision to float the baht came as yet another step in the liberalization of the Thai economy. It also marks the July 2, 1997 date designated as the beginning of Asian Financial Crisis. The crisis had been looming for months and even years, but it was this event that marked the halt of all growth and the beginning of widespread public distrust in the Thai economy. The currency immediately and rapidly depreciated (Siamwalla, 2000), and panic began to spread outward to many of the nearby Asian powerhouses.

As is expected in a rapid growth and FDI-fueled market, most Thai corporations and financial institutions were overleveraged. As the crisis spread, the government was inundated with the bankruptcies of these firms. Since there was no accountability throughout the boom to develop the country's bankruptcy laws, Thailand did not have the capacity to handle these bankruptcies. Creditors were forced to liquidate debtors' assets when they claimed insolvency (Siamwalla, 2000). By August of 1997, the Prime Minister of Thailand had suspended the operation of 58 finance companies only to eventually permanently close 56 of them. These suspensions would have the positive effect of balancing the inefficiency of the financial market, but in the midst of the crisis, the suspensions only spread fear. Shrinking markets, doubt in the communications of financial institutions, rapidly depreciating currency, and a lack of protective bankruptcy policy created the most damaging effect of the crisis: lack of investor confidence.

Recovery and FTAs: 1998 - Present

In order to understand the recovery of the Thai economy, one must understand both problem and its scope. The problem was a loss of investor confidence. The scope requires a proper perspective of the numbers reported after the crisis. During the 40 years prior to the crisis, Thailand averaged a yearly GNP growth of 6.7% (Siamwalla, 2000). Compared to the 2.4% growth of the world's low and middle-income countries (World Bank, 1998), Thailand had a much higher benchmark to gauge its recovery. In addition, in 1998, during the hardest part of the crisis, Thailand's real GDP dropped 14% compared to its highest point two years earlier in

1996. However, even with this decline, GDP never declined below its 1993 level, and at its lowest it was still seven times the per capita real GDP of 1951 (Warr, 2007). Since the recovery, Thailand has been able to produce a moderate real GDP growth of 5% per annum. Because this rate is below Thailand's stable growth rates of the past, it took the country six years to regain a per capita real GDP level equal to 1996. This scope of recovery is notable in light of the fact that FDI and private domestic investments still have not completely recovered (Warr), but it is not as fast as it could have been had the country immediately recaptured its previous amounts of FDI.

By August of 1997, Thailand had begun working on a recovery strategy with the IMF to determine how the program would help contain the crisis and administer an expedient Thai recovery. The IMF pursued swift action and took control of the recovery by offering Thailand \$17 billion of loans raised from various sources. The IMF also hoped to restore investor confidence by promising to function as Thailand's fiscal overseer. With the IMF seeking control in the situation, the program initiated a reengineering strategy within its area of expertise and jurisdiction, fiscal policy. Article IV of the IMF states its prerogative for (1) general oversight of the international monetary system to ensure its effective functioning, and (2) firm surveillance over member-countries exchange-rate policies (Mussa, 1997). The crisis wreaked such great havoc on the balance sheets of the financial and corporate sector that the IMF decided a restrictive governing presence in this area would help restore investor confidence. They believed that this was a proven technique to use because it was the same policy they initiated in response to the 1994 meltdown of the Mexican peso. In that situation, as in the Asian Financial Crisis, the IMF imposed increases in taxes and interest in order to slow, or even halt, economic growth. The theory was that a slowdown would allow Mexico, or in this case Thailand, a pause to establish new policy, restore fiscal balance, and reorganize corporate and market structure (Mussa, 1997).

As a result of the tight fiscal policy in Thailand, GDP growth in 1998 was 5%. Therefore, the IMF was successful in achieving their goal of economic growth. However, if the growth rate of 6.7% prior to the crisis is seen as the opportunity cost then Thailand still suffered a 1.7% decline. Therefore, tight fiscal policy did not accomplish the goal of restoring Thailand to its pre-crisis vigor. The IMF may not have been the right body to take leadership in directing the recovery. Understanding the context of the crisis, the problem created by the crisis, and the scope of the real solution now allow for a competent examination of whether FTAs, a more liberal recovery method than tight fiscal policy, could have accelerated the recovery.

The Argument for FTAs

The Controversy: Tight Fiscal Policy or Open Market

To confront the Asian Financial Crisis of 1997, the IMF reused a technique in it had already used in Mexico. However, the situations were different enough that tight fiscal policy may not have been the best approach in Thailand. Rather, the success of liberal FTAs throughout the world has demonstrated the utility of deregulation and may indicate that the IMF should not have imposed such strict regulation in Thailand. In fact,

the evidence shows that an open market FTA method, rather than a closed-market fiscal method could have helped Thailand recover more quickly and more extensively. The original IMF policy instituted in Mexico was a response to over-consumption, fiscal imbalance, and a long battle with climbing inflation rates. The Asian crisis resulted from over-investment, imbalanced corporate structure, and an inefficient financial market (Pyun, 1999). Tight fiscal policy was a good strategy for stabilizing Mexico's chaotic economy, but was not as effective in Thailand's historically stable political economic environment.

Because the fundamental problem facing the Thai economy was distrust from foreign and private domestic investors, and because credit shortages only worsen in a slowing market, Thailand needed to stimulate the flow of credit. In financial terms, distrust means investors could either achieve similar profits at lower risk or earn higher rates of profit for the given amount of risk involved through other investments. As a result of the crisis, the market risk premium of investing in Thailand had risen dramatically. Therefore, in order to produce returns in proportion to the market risk, the country needed to find ways to increase investor profits. Thailand did not need a pause to regain its footing. It needed to retain enough capital in its markets to ward off a complete credit implosion.

Controversies still exist concerning the fiscal vs. open-market responses to Thailand's collapse. The view in favor of a strict fiscal policy holds that lowered interest rates would have made defending the Thai currency in already delicate sectors increasingly difficult. Proponents would argue that even if open policy led to a recovery in the credit markets, it would create a currency crisis. The conclusion is that this currency crisis would neutralize the gains of the credit recovery (Leightner, 2002). This view brings a valid point insofar as it warns of currency dangers. However, it is the view of this article that FTAs could have increased investor participation in the market without lowering interest rates by increasing profits through eliminating tariff costs. The FTA position is evidentially supported by an analysis using linear programming techniques. The analysis used these techniques to create best-practice frontiers for all of the companies on the stock exchange of Thailand in the first two quarters of 1996 and 1998. The average of each sector was evaluated to find average efficiency, slack incidence, and marginal products which emerge from the frontier analysis and how they varied from 1996 to 1998. The results display strong evidence that the declining availability of credit after 1997 hurt every sector of the Thai economy (Leightner).

WTO, ASEAN, and FTAs

Due to a loss of interest in the painfully slow GATT and WTO negotiations and the weaknesses of the ASEAN integrations (Sally, 2007), the Thai government had already started to consider bilateral FTAs in the years leading up to the Asian Financial Crisis of 1997 (Nagai, 2002). At the signing of the Asian Free Trade Agreement (AFTA) and the initiation of the Common Effective Preferential Tariff (CEPT) in 1992, Thailand's 40% tariff rate was the highest of the ASEAN-6 members (Chirathivat & Mallikamas, 2004). The results of the GATT, CEPT, and AFTA in reducing this tariff restriction were in line with Thailand's national interests, but results did not move as strongly or quickly as the nation desired. Thailand is currently experimenting with FTAs as a means of increasing control and expediency in negotiation. As Thailand has become aware of the

advantages of FTAs over the WTO and ASEAN it has accordingly pulled resources and negotiators away from its multilateral agreements to further its FTA interests.

To illustrate the effectiveness of FTAs in producing quick results, India is a key example. The negotiations for the Thailand-India FTA began in December 2002 and were completed in October 2003 after only four rounds of negotiations. In the agreement established a schedule that required an incremental reduction of trade-in-goods tariffs to completion by 2010 with a view to accelerate the process (Thailand-India Free Trade Agreement, 2008). More financial institutions were declaring insolvency every week in the months following the floating of the baht. Speed was exactly what a post-crisis Thailand needed. It may seem that since FTAs have a schedule for completion that the solution is not short-term. However, if an agreement has been made to reduce tariffs over a definite period of time, it gives investors confidence in the future. Therefore, since investor confidence is the root problem created by crisis, FTAs encourage a recovery directed at the most significant issues. Investors that place their confidence in FTA schedules are encouraged to move back to Thailand while the post-crisis market is cheap in order to reap the gains that will come when the tariff schedule is complete. The country is starting to realize that FTAs negotiations are a quick way to achieve its goals as it continues to lose even more interest in the "snail-like movement of the Doha Round" (Sally, 2007). All the benefits of FTAs that Thailand is now realizing could potentially have accelerated its recovery from the crisis of the late 1990s.

The Thai government had begun to consider FTAs before the crisis. It saw the potential for regional FTAs through organizations like ASEAN and sought to apply those principles to bilateral FTAs. However, Thailand never addressed them as significant options until shortly after the Thaksin government came into power in 2001 (Sally, 2007). Since that time, Thailand has been second only to Singapore among Asian Leaders in the pursuit of FTAs. Thailand has 9 agreements either in force or under negotiation as well as 11 regional FTAs either in force or under negotiation.

A study published in the *ASEAN Economic Bulletin* found five areas in which Thai FTAs have and will continue to benefit the country's international trade (Chirathivat & Mallikamas, 2004):

- 1) Thai exports to FTA partners will dramatically increase. The study suggests that each bilateral FTA Thailand is pursuing could increase export trade by at least 33.3% in some countries and as much as 113.9% in others.
- 2) The value of imports from FTA partners will increase the value of goods to the local Thai market. The study suggests that each bilateral FTA Thailand is pursuing could increase import trade at least 13.9% in some countries and as much as 63.3% in others.
- 3) FTAs like ASEAN-China will open export markets previously not available to Thailand. For example, high tariffs imposed by China previously encouraged Thailand to bypass the country's large market and deal with the US and the EU. Without the tariff and non-tariff barriers traditionally imposed by China, Thailand will be free to utilize the large market there.
- 4) FTAs will increase export value to non-FTA partner countries. The increased volume of trade will help Thailand to improve its economies of scale and thereby increase price competitiveness for all Thai products being exported.
- 5) Resultant from all FTAs, volume of Thai trade will increase in the global market.

Despite all the advantages, several possible challenges remain for integrating a trade framework based strongly on FTAs. As a developing country with limited power in negotiation, Thailand runs the risk of getting caught in a "hub and spokes" style of trade (Wannacott, 1996). Thailand cannot compete on the "hub" level with major traders like the US, Japan, and China, so it might be pressured into a "spoke" type relationship where it benefits larger countries more than it benefits itself. Because Thailand has been in this precarious position since even before the crisis, it will take an increased level of negotiating resources to maintain a competitive position as it competes amongst the trade giants. Since FTAs use significantly more resources than multilateral trade organizations, this strategy would have been and will continue to be a cumbersome to follow in the midst of the financial struggle caused by the crisis. However, the combination of these challenges does not outweigh the benefits of increasing trade by up to 114% and reopening a trustworthy market to investors.

Conclusion

The problem facing Thailand in the wake of the 1997 Asian Financial Crisis was a lack of investor confidence resulting in decreased capital investment and the collapse of highly-leveraged industries. Instead of instituting a national strategy for stimulating the markets by liberalizing trade, Thailand allowed the IMF to take control of the situation through a \$17 billion loan and tight fiscal policies. The policies did have their desired effect, a slow steady economy, but that effect might not have been what Thailand needed. The crisis, caused by over-investment, imbalanced corporate structure, and inefficient financial market did not need strategies that subdued inflation rates and balanced consumption. Thailand needed to avoid a credit catastrophe. Slowing the market only discouraged investment and slowed the flow of credit.

With its economy rapidly losing capital during and after the crisis, Thailand needed to find a way to balance its risk and return profits to wary investors. Since the country was in a state of crisis, it was not in a position to contain its risk factors. Therefore, the country needed to find ways to maximize the rates of return it could offer to investors to offset its high market-risk premium. Lowered interest rates increased the risk of deepening the currency crisis that followed the float and subsequent depreciation of the Baht. With risk control and lowered interest as unviable options, the best remaining option for increasing profits to investors would have been lowering production costs.

Thailand first began trying to lower the costs of production through trade liberalization in the 1950s. However, membership in cumbersome trade organizations slowed the country's efforts to liberalize. Thailand needed a quicker, more individualized instrument for attacking the crisis. In response, Thailand began considering FTAs as a viable policy option as early as 1996. However, it did not begin actively pursuing them until 2002. Once it did open FTA agreements, Thailand immediately saw an increase in trade flow and investor confidence. Had Thailand opened FTA negotiations earlier, it could have offered investors a brighter outlook for the future in the midst of its crisis. Firms could have then translated the favorable figures offered by the FTAs into theoretical increase in trade volume that would have come as a result of the more competitive tariff-

free pricing. Based on these calculations, investors could have had the confidence needed to reopen lines of capital investment in Thailand. All the major players in the world economy are now choosing to invest significant resources in their FTA strategies. While Thailand was on the front end of this movement, it did not enter the movement soon enough to aid in the initial recovery from the 1997 Asian Financial Crisis.

The crisis had naturally made financial markets more efficient and balanced corporate structure through the bankruptcies of the weakest firms. Therefore, if Thailand would have been able to reopen its markets with an expeditious and effective FTA strategy in the immediate wake of the 1997 crisis, it could have been able to address all three major problems created by the crisis: credit shortage, currency crisis, and lack of investor confidence. This conclusion is supported by Thailand's growing reliance on FTAs over the last six years. During those six years, Thailand has overcome market risk and credit shortages by using FTAs to lower production costs and increase investor profits. Had Thailand applied an FTA based strategy in response to Asian Financial Crisis of 1997, it could have experienced a quicker recovery.



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Afterword

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Liberty University's School of Business invites comment on any of these articles, and we look forward to publishing reader response. 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 (this is preferred) or in hard copy to the following address:

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We hope you have enjoyed and benefited from the information and ideas in this issue of the *Liberty Business Review*, and we look forward to hearing again from many of you.

