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**LIBERTY
UNIVERSITY**
Lynchburg, VA

INTRODUCTION

**Bruce K. Bell, Dean
School of Business**

The first two volumes of the *Liberty Business Review* have been met with enthusiastic and positive comments from readers, and we are pleased to offer this latest issue, which touches on a number of serious issues, to include teaching Business in an online environment, Economic Value Added as a financial concept, globalization, and the strategy of imposing trade embargoes.

Bruce Bell teaches in the MBA program at Liberty University, an online program that seeks to build a sense of community among its students. Uniquely, because of its purpose as a distinctively evangelical Christian university, Liberty desires to build that sense of community in a spiritual dimension. While that is accomplished by many brick and mortar universities throughout the country, how is it accomplished in an online setting? Using the literature and analysis of student submissions through several classes of an online course, Bell explores this issue and offers recommendations for future online instructors who wish to develop that same type of spiritual community.

Eric Klinger recently graduated from Liberty University with a Business Finance degree, recognized as the outstanding graduate in Finance for 2005. In an article examining Economic Value Added (EVA), Klinger contrasts Generally Accepted Accounting Practices (GAAP) with EVA, arguing that GAAP alone does not necessarily measure the true financial strength of an organization. He concludes that EVA is an effective management tool that adds value to the organization.

Another article that explores Economic Value Added is **Ryan Robertson's** work on the need for EVA to be used in concert with Balanced Scorecard and Activity-Based Costing. He argues that management must be trained in using these performance tools to receive the greatest benefit from EVA. Moreover, Robertson asserts that while EVA is not a perfect tool, it must be implemented in full as a management function and not simply as a financial calculation.

Brian Satterlee, Victor Myburgh, Joe Norris, Stephanie Philbert, and Jerry Roper evaluate globalization as a modern reality, seeking to analyze the advantages and disadvantages of globalization and then suggesting its future and the Christian's response to it. The authors acknowledge that globalization is essential in international management, and they admit to the numerous advantages and occasional disadvantages it brings. Among the future scenarios they present are ones that face global terrorism as a threat to companies that are seen as threats to national interests overseas. Finally, their view of how the church should respond to globalization is both thought-provoking and challenging, as is the topic they explore.

Lastly, **Tiffany Halford, Kimberly Hawksworth, Jamie Martin, Ronnie Moore, and Ellen Morrison** examine trade embargoes and their implications to U.S. interests throughout the world. Examples they explore include the trade embargo of Cuba and North Korea, looking at the implications of those embargoes for U.S. companies,

the authoritarian regimes involved, the civilian populations in the embargoed country, and the image of the United States as a superpower. The authors recommend great caution in imposing embargoes and suggest several alternatives to trade embargoes.

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

Building Spiritual Community in an Online Graduate Course at a Christian University

by

Bruce K. Bell, Ph.D.

When students gather in a traditional classroom, there is a degree of community that gradually develops among the students. Facing the challenges of tests, team projects, written assignments, and oral presentations, students get to know one another as they interact with the professor and fellow students. Such groups may be termed a *community* in that they are social organizations created by people who share common goals, values, and practices (Grabe & Grabe, 2000). At a deeper level, however, spiritual community is often developed among Christian students as they pray with and for one another and as they share heart-felt needs with one another. When those same students take distance learning courses through online delivery, however, such a sense of community is often lost. How may students develop and share this spiritual community while in an online environment? Is this goal of building spiritual relationships even possible in an online environment? How can a Christian university hold to its traditional goal of integrating faith into the academic discipline (Holmes, 1987) while servicing students at a distance? Finally, how might this development of spiritual community occur among graduate students, the majority of whom are professional men and women who may not know one another and who may never have met one another?

Since most researchers acknowledge that social interactions improve meaningful learning (Curtis,

2004; Falvo & Solloway, 2004; Palloff & Pratt, 1999), the importance of knowing how to develop those social interactions and creating a sense of spiritual community appears critical to the effective delivery of online courses at a Christian university.

This paper will explore these and other issues, seeking to examine how a sense of spiritual community can be built and strengthened during a single online graduate course. In addition to sharing examples of how the author has incorporated certain principles into his MBA course in executive communication at a major Christian university, a number of applications for other online instructors and learners will be explored.

Literature Review

Distance learning is a growing phenomenon in education today, with nontraditional students constituting a large part of the distance education population. Working adults who wish to complete undergraduate degrees or begin earning graduate degrees play a significant role in the growth of distance education course offerings (Palloff & Pratt, 2001; Rudestam & Read, 2002). Moreover, the courses that are offered through distance learning are almost entirely delivered through online media (White & Weight, 2000), although some courses are still delivered through video or audio. According to Palloff and Pratt (1999), many educational institutions

have decided to offer distance education courses, hoping to attract those nontraditional students as well as traditional students who appreciate the convenience and scheduling flexibility afforded by distance learning courses.

Learner-Centered Instruction

Among the greatest perceived advantages of online education is that instruction is learner-centered and not instructor-centered (Palloff & Pratt, 2003), and according to some researchers (Newby, Stepich, Lehman, & Russell, 2000), learner-centered instruction permits greater insight by the student into problems and possible solutions. The learner takes greater ownership of the course material and engages proactively with the instructor, course content, technology, and his or her peers in what Palloff and Pratt (1999) call a “web of learning.” Moreover, that web of learning encourages transformative learning that

moves a participant from student to reflective practitioner. It begins with the practice of acquiring knowledge. . . . They enter the online environment and begin to form new relationships, which deepen as students post material to the course site and are acknowledged for their ideas and their participation. (p. 131)

Learner-centered or learner-focused education changes the paradigm of traditional education, since instructors must become facilitators and encouragers, rather than the source of knowledge and wisdom. Zhu (1998) argues that the instructor’s role has changed from one of “knowledge

dispenser” to a “guide on the side, who attended to students’ learning needs and guided them to achieve their own learning goals. The instructors were the mentors and facilitators of students’ learning” (p. 255). This may be unsettling to some in academic circles who never shifted from the traditional classroom setting to the online environment. While instructors remain the content experts in their discipline, they need to guide and assist the student toward learning and allow the student to discover knowledge on his or her own. Nevertheless, while learner-centered education focuses attention on the student, that student is never alone. As stated above, the web of learning involves other students. In fact the best-designed assignments in an online environment are those that facilitate meaningful cooperation and collaboration among students.

The instructor in an online class moves to the side and allows student expertise to emerge. . . . [Students] need to be encouraged and empowered to take charge of the formation of the learning community to interact with one another—not just the instructor—and to receive feedback on how well (or not) this is occurring. (Palloff & Pratt, 2003, pp. 126,127)

In the online classroom, then, it is relationships with others—instructor and peers—that lead to knowledge (Palloff & Pratt, 1999), and that new view of education creates a demand for enhanced understanding of others in the online classroom setting.

Whereas traditional classrooms might have some degree of social

interaction, it is of lesser importance to the instructor or, for that matter, to the students. The instructor is viewed as the expert who is present to impart knowledge, and any social interaction is incidental to learning. In fact, “how students interact socially [in the traditional classroom] is not a concern” (Palloff & Pratt, 1999, p. 15). On the other hand, since online education is learner-focused, “students are called on to engage in a continuous dialogue with other members of their class....[creating] a surprisingly intimate learning environment” (Stevens-Long & Crowell, 2002). Beaubien (2002) agrees that fostering relationships is essential in online learning and seeks to develop a warm and inviting tone at the beginning of his courses to enhance collaborative learning and to allow a sense of community to develop. According to Grabe and Grabe (2000), virtual learning communities, that is, communities of learners who are defined by their common interests and expertise and who interact with one another online, permit students to participate “in the practices of a discipline or profession” (p. 57).

Since recent research supports the value of building community among the participants of online courses (Curtis, 2004; Falvo, 2004), it is especially surprising that Zhang (2004) does not address this critical component when he discusses the components and structures of graduate online courses. Among the key factors in web course design cited in his study are information resources, course organization, course structure, course navigation, and content representation. While each of those components is important, he may have neglected one of the most important ingredients, and that is the social interaction that enhances the learner-

centered approach of online courses. Zhang highlights “the ability to provide human-machine interaction through interactive demonstrations” (p. 32), but ignores the more important human to human interaction that helps to develop genuine learning communities.

Such learning communities appear to be ideally suited for the working adults who are classified nontraditional students and especially graduate students who are often full-time workers and who are earning degrees online. Additionally, graduate students may be ideal candidates for participation in a learning community, since they frequently bring extensive work experience as well as a greater desire to earn an advanced degree. Research supports the concept of graduate students as good candidates for online courses, since the most successful students in online distance education voluntarily seek advanced education, are older, more highly motivated, and more serious about their studies (Palloff & Pratt, 2001), and that description portrays the typical graduate student. In fact, Falvo and Solloway (2004) specifically address graduate students in their study on constructing community in a graduate course, stating that both students and teachers need to change their approach to interaction and involvement in the learning environment, noting the importance of the sociocultural context of the online learning environment. In other words, online graduate students need to be part of a learning community that trusts and respects one another in order to be part of an effective web of learning. “The creation of a learning community supports and encourages knowledge acquisition. . . . The power of a learning community . . . supports the intellectual

as well as personal growth and development of its members” (Palloff & Pratt, 1999, p. 163). The instructor’s role, especially in graduate courses, is to create an environment that encourages learning from peers who may share experiences that enhance professional growth.

Asynchronous Delivery

A factor that needs serious consideration in assessing online courses and their role in developing community is whether to offer such courses in a synchronous format or in an asynchronous format. According to Palloff and Pratt (1999), synchronous courses permit students to communicate at the same time, for example, in a chat room where all students are typing at the same time. Asynchronous courses, on the other hand, call for students to communicate “at any time and at irregular intervals” (p. 189), where the predominant mode of communication is e-mail and discussion boards. Curtis (2004) argues that asynchronous delivery made it “difficult to provide social interaction that I considered crucial for deep meaningful learning” (p. 143). Consequently, he incorporated chat room discussion groups that permitted peers to interact for group discussions and learning. Authentic social interaction, he posited, needed to be guided by a common goal, and his conclusion is that the common goal could best be realized through synchronous communication.

That conclusion, though, is not supported by other research that finds the value of asynchronous communication, particularly in the discussion board, where learners are able to interact with the instructor and—perhaps more importantly—with their

peers (Palloff & Pratt, 2002). Hudson (2002) agrees that critical thinking is fundamental to serious graduate work, and such critical thinking is difficult, if not impossible, to develop in a synchronous environment. Rather, the value of deliberate consideration permitted by an asynchronous communication is far more helpful in creating serious dialogue. His term for students’ commitment to dialogue seriously with one another is “covenant,” a word that carries a uniquely biblical connotation. According to Hudson,

The notion of covenant applies well to online critical dialogue; it suggests a convocation that people enter, not based on a formal contract, explicit rules of debate, or elaborate preparation, but simply arising from a “coming together” with a simple, clearly understood purpose in mind. *Covenant* also has the connotation of making a promise that reflects on one’s conduct and way of being, both as a person and as a member of a gathering or community. The word *covenant* is also a legal term, but that is not its intended meaning here. The objective here is not something compelled but rather something inviting. The “promise” of critical dialogue is something both simple and radical because it needs to serve both for moment-to-moment behavior and as a reflection of self-development, identity, and life purpose. (p. 70)

Such a covenant that encourages critical dialogue can hardly be entered into

without the reflection permitted in asynchronous course delivery.

Contrary to the concerns expressed by Curtis (2004), Palloff and Pratt (1999) find that intimacy, trust, and all phases of group development were realized with minimal to no “human” interaction, and relationships formed in the asynchronous environment were both strong and lasting. They conclude that participants in asynchronous courses have the luxury of more time to develop their responses and, hence, more time to build quality into their academic work. When students are dispersed across multiple time zones, synchronous communication becomes problematic, whereas in asynchronous communication “postings can occur at the convenience of the participants, allowing them time to read, process, and respond” (p. 48).

Spiritual Community

Finally, Palloff and Pratt (1999; 2003) are among the few who have recognized the unique characteristics of the spiritual component in online education, acknowledging the importance of allowing students to express their religious beliefs in the conduct of the course. Moreover, religiously-based institutions of higher learning are expected to incorporate religious practice into online courses through “rituals, prayer circles, and references to religious material” (2003, p. 46). In addition, they point out that participants’ attempts at connecting with their peers in the online arena will cause spiritual issues to emerge, “as these are core issues in the formation of community” (1999, p. 38). While these researchers address the issue of religion and spirituality in online courses, they

do so from the secular context where students might raise the issues as important to them personally. When a student in one class “began to quote from the Bible to support his posts in a class,” their suggestion was to “accept and accommodate this as a dimension of the spirituality of the medium and the online group” (1999, p. 42). In the Christian university, however, such integration of faith and learning is not peripheral, nor should it be necessary to “accommodate” such integration. Rather, that should be a part of the essential purpose of the institution and therefore of each course.

December (1997) sees in computer-mediated communication (CMC), a term that refers to the basic type of communication in text-based online courses, a perspective that goes beyond the technological, social, or cultural elements of the community of learning. He highlights the significant role that spirituality may play in the online learning experience. A similar view is offered by Henderson (1997), who acknowledges that “computer networks can strengthen and enhance community” (para. 12), but his paraphrase of Scripture—“In the beginning was the Web”—is both fatuous and irreverent. Equally disconcerting is his position as self-proclaimed pastor of the First Church of Cyberspace. Nevertheless, the topic of online spirituality is beginning to emerge as a force within the online community.

How, then, might graduate students at a Christian university be encouraged to develop spiritual community with other learners? As has been demonstrated, that question is not a casual one in an online learning

environment. Consequently, this study will explore how spiritual community was built in one online graduate course at a Christian university.

Method

This descriptive, qualitative study examines several unique issues and challenges in developing *community* in an online graduate course at a Christian university. Of specific interest is developing a sense of trust and respect in the area of *spiritual community*. If it is true that “our spirituality helps to increase our level of openness and awareness” (Palloff & Pratt, 1999, p. 42), then developing that spiritual community is essential to the most effective learning as students feel greater bonds of interaction and openness with one another. Consequently, an analysis of various discussion boards that seek to develop this spiritual community will demonstrate that enhanced learning may result from a greater sense of connection through religious and spiritual elements.

Two sections of an online graduate course in Executive Communication were selected for this analysis, with 48 largely nontraditional MBA students taking the eight-week, asynchronous course. None of the students had ever engaged in face-to-face interaction in this course, since the specific program does not require nor provide for any face-to-face meetings or synchronous communication during the conduct of the course. Areas of analysis included textual data in two primary areas of the discussion boards, including the instructor and student introductions and the voluntary discussion board entitled “Prayers, Praises, and Devotions.” Following the

recommendations of Palloff and Pratt (1999), the instructor for this course sought to facilitate “the personal and social aspects of the online community in order for the class to be a successful learning experience” (p. 76), largely through a personal introduction and sharing his personal testimony about how he came to faith. That testimony was designed as a model to encourage the students to share on a similar level. In the “Prayers, Praises, and Devotions” discussion board, the attempt was to have an area for spiritual encouragement and reinforcement of spiritual principles that could be integrated into the course material. This area is termed in other courses a “Cyberspace Sandbox” (Palloff and Pratt, 1999, p. 76) and is specifically designed to be a community space.

Instructor and Student Introductions

Having graduated with an undergraduate degree in English from Pennsylvania State University in 1969, I earned a Master of Arts Degree in English from that same institution in 1971 and went on to teach as a full-time instructor of English at the U.S. Military Academy Preparatory School and as an adjunct instructor at the U.S. Military Academy at West Point, University of Maryland (Tehran campus), Mount Saint Mary College in Newburgh, New York, and St. Thomas Aquinas College in Peekskill, New York. Beginning doctoral work in 1997, I earned my Ph.D. in Applied Management and Decision Sciences from Walden University in 2000.

My wife Barbara and I live in Forest, Virginia. We have two sons: Stephen, who teaches English at Azusa Pacific University in Southern California, and Andrew, who lives with his wife Casey in San Diego and works in medical resourcing.

Growing up in Philadelphia, Pennsylvania, I received Christ as my Savior and Lord at the age of eight, after a faithful Sunday School teacher shared the gospel. I recognized that I was a sinner and in need of a Savior. Consequently, after church one Sunday morning, I returned home and prayed to receive Jesus Christ. Since that day I have sought to live as a Christian, obediently studying God's Word the Bible and doing all that God has commanded in the Bible. Throughout my adult life I have taught Sunday School and Young Life, served as a deacon and elder in the local church, and been involved in Christian education and Christian ministry. My greatest passion is to see God glorified in the lives of men and women who love and serve Christ Jesus.

This lengthy portion of the instructor's introduction was designed specifically to encourage students to share their faith experience as well, although nothing in the course instructions required students to add such an element. Rather, the syllabus simply required that students to "go to the Discussion Board and send a message of introduction . . . I look forward to the time we will spend

together, and I look forward to getting to know each of you better as together we learn about Effective Executive Communication."

Some students in these two sections chose to remain cautious at first, keeping their introductions rather formal. While the students were frequently at ease talking about their family, many chose not to discuss religion or spirituality. Several of these introductions will illustrate this sense of distance, formality, and perhaps even discomfiture with discussing their faith at this stage of the class. All postings are reproduced exactly as they were submitted:

Current Forum: Introducing Myself--Bruce K. Bell, Instructor

Read 33 times

Date: Tue Nov 2, 2004 10:52 am

Author: Hunter, Craig

Subject: Craig Hunter

[Remove](#)

Hello everyone,

My name is Craig Hunter. I am married with one son. We currently live in Florida and I am a 1LT in the Florida Army National Guard. I received my commission in 2000 through Officer Candidate School. I am currently on active duty with the Army National Guard working on the states counterdrug program. The pursuit of a masters degree is something that I have been looking forward to for about a year and finally my schedule has allowed me the time to work on it. I really feel that I can learn important communication techniques that will assist me in my career as an officer. I am perusing my masters degree for career advancement in the military and also to increase my qualifications for civilian jobs after retirement.

Craig

[Reply](#)

Current Forum: Introducing Myself--Bruce K. Bell, Instructor Read 28 times

Date: Wed Nov 3, 2004 3:11 pm

Author: Kumar, Anita

Subject: Anita Kumar

[Remove](#)

Hello Everyone,

My name is Anita Kumar. I am married to my dear husband Prem and we live in Lynchburg, Va. I have a Bachelor's degree in Business Management from West Chester University, in PA. I teach part-time for Principles of Management, Economics, and Computer Applications at the National College of Business and Technology, located in Lynchburg. My goal is to complete the MBA program from Liberty University and then teach full time as a profession. BUSI 550 is my second online course. I am looking forward to communicating with other students and learning from Dr. Bell.

Anita

[Reply](#)

Current Forum: Introducing Myself--Bruce K. Bell, Instructor Read 29 times

Date: Wed Nov 3, 2004 5:59 pm

Author: DiLallo, Matthew Mark

Subject: Matthew DiLallo

[Remove](#)

Hello,

My name is Matthew and I am excited to be a part of this class. This is one of my final three MBA classes, I am also taking BUSI 601 and BUSI 690 this semester. I can see the finish line and my excitement builds daily.

I currently live in Lynchburg and work in a

[Reply](#)

Current Forum: Introducing Myself--Bruce K. Bell, Instructor Read 29 times

Date: Wed Nov 3, 2004 7:51 pm

Author: Garcia, John R.

Subject: John Garcia

[Remove](#)

Hello Class, this is class #6 (B-550) and #7 (B-520) for me and I can hardly imagine that it is going to be past the mid-point by the end of the year. When I started in January '04, the two-year program seemed eternal. It now seems likely that I will survive. This is my second class with Dr. Bell. My wife of 29 years, Christy, teaches special education in a local elementary school and we have two children. (I think that Christy should receive some type of "paper" as she has to listen to/endure almost everything that happens in my classes.) Our daughter is completing her graduate degree in special education while she teaches and our son plays euphonium in the Air Force Band of Liberty in Hanscom

Reply

Current Forum: Introducing
Myself--Bruce K. Bell, Instructor Read 34 times
Date: Thu Nov 4, 2004 3:40 pm
Author: Markham, Timothy Edwin
Subject: Hi, from Tim Markham Remove

Hi. my name is Tim Markham. I live in Nampa Idaho, Just outside of Boise, with Cari my wife my 2 year old son. I have a BBA in Managment from Boise State in 96. I have worked mostly in Finance and Banking in Seattle and now in Boise for the last 8 years. I have been wanted to get my MBA, and am happy and thank God to have helped me to find Liberty U. I think it will really help in my own growth and my job growth. I look forward to working with you all. Tim.

Reply

Current Forum: Introducing
Myself--Bruce K. Bell, Instructor Read 25 times
Date: Thu Nov 4, 2004 4:59 pm
Author: Smith, Terry Maurice
Subject: Terry Smith

On the other hand, some students recognized the early value of developing spiritual community, and their introductions were somewhat more transparent in their spirituality and religious in their tone, commenting on church attendance and other faith-based information. In one instance, for example, a student attributed his success to "God's grace."

Current Forum: Introducing
Myself--Bruce K. Bell, Instructor Read 27 times
Date: Fri Nov 5, 2004 11:04 am
Author: Bowman, Kellie Ann
Subject: Kellie Bowman Remove

Hi,
My name is Kellie Bowman, I am 31 years old. I have two children. My daughter is Kaylie (8), and my son is Kendall (6). My husband, Grant and I pastor a church in the beautiful town of Danville, Kentucky. Our family moved here 20 months ago from Texas, and we already love the state, the climate, etc. The scenery is just beautiful, and we pastor a great church. My

husband and I are full-time staff members at the church, and I am taking these classes to help me in my responsibilities at the church. I have already learned so much in my previous classes. I am looking forward to working with each of you.

Kellie Bowman

Read 21
times

Current Forum: Introducing
Myself--Bruce K. Bell, Instructor
Date: Sun Nov 7, 2004 9:16 pm
Author: Hudson, Jeffrey Walter
Subject: Jeff Hudson Intro

Remove

I originally began working on a masters degree in Math and Math Education while teaching high school in Kentucky. However, after completing 18 credits and starting a family, I moved away from that University without completing the degree. God moved me, my wife Lesa and twin 9-year old sons, Thomas and Daniel to Alabama in October of last year from NC where we had been for 3-years. Prior to that we were from Somerset and Berea, Kentucky - Go CATS!!

I decided to change educational direction and pursue a Business degree. I completed 9 credit hours at the University of North Carolina at Greensboro, then this will be my 6th course at Liberty in the MBA program. Naturally the UNC-G hours did not transfer. I chose to leave UNC-G when I had serious disagreements with the liberal curriculum being presented. My pastor at the time introduced me to the distance learning program at Liberty, where I have been able to continue pursuing the MBA.

I am in the Supplier Development group at Rheem Manufacturing, in the Water Heater division. I perform Quality System Audits, working with current and prospective suppliers at improving their systems so they may become an approved supplier to Rheem. The position involves quite a bit of travel and communication skills. I am

hoping to improve those communication skills with this course.

Lesia and I are co-leaders of a new Sunday school class being developed at our church, targeting single parents. Demographic studies have shown that 50% of all households within 5 miles of us are headed by a single person. Today was the first meeting, with one participant in attendance. If anyone has experience or suggestions to share, they would be appreciated. We would love to help children associated with single parent homes to grow up in a Godly home.

I look forward to working with everyone in this class. My ultimate goal for this course would be to improve communication skills needed for spreading the Gospel.

Jeff.

Read 29
times

Current Forum: Introducing
Myself--Bruce K. Bell, Instructor
Date: Sat Sep 11, 2004 8:13 pm
Author: Bennett, Cynthia
Subject: Introduction

Remove

Hello, everyone. My name is Cyndi Bennett. I live in Charlotte, North Carolina. I've been married for 17 years and have three children (Craig - 14, Joshua - 11, Kierstyn - 6).

I work for Bank of America as a Change Analyst within Technology & Operations. I do management reporting as part of the Change Performance and Decision Support Group. I am Greenbelt certified in Six Sigma and would like to pursue my master black belt.

My two youngest children are homeschooled by my mother-in-law, who lives with us. My oldest son attends a small Christian school at our church. The school has gone through some struggles in the past three years, having had a 30% decrease in enrollment. I have been given the opportunity to work on some program

development to help the new administrator grow the school. Most of the business education I have received has been on the job. The Lord made it evident to me that I needed more education in order to do the job He had for me to do. I am really looking forward to being able to immediately utilize the things I am learning.

I am willing to accept any suggestions from any of you that have experience in what I am getting myself into with the school.

Humbly,

Cyndi Bennett

Current Forum: Introducing
Myself--Bruce K. Bell, Instructor

Read 36
times

Date: Sat Sep 11, 2004 10:15 pm

Author: Warren, James Harold

Subject: Introduction from Hal

[Remove](#)

Hal's Somewhat Brief Biography

I am Christian male living in Hampton, VA with my only wife of 23 years and our five children (four boys 20, 17, 12, 10 and one girl 14). Christian parents raised me with my father becoming a Southern Baptist Minister at the age of 35; consequently, I am a PK (i.e. preacher's kid). I was saved at the age of seven in Vacation Bible School and have served since then as Sunday School Teacher, Men's Ministry Leader and Deacon. Presently I serve the Lord as a teacher via a para-church organization that helps men to live Christ centered lives. My home church is Liberty Baptist in Hampton, VA.

I have worked at Dominion's Surry (Nuclear) Power Station for twenty years in the following positions: Electrical/I&C Design Engineer (0.25 years – yes, just started!), Lead Senior Reactor Operator Continuing Training Instructor (7 years), Lead Instrumentation and Control Instructor (11 years), Instrument and Control Technician (2 years). Prior to this I was an Instrumentation and Control Technician at Nile Mile Unit 2 near Oswego, N.Y. (1 year)

and was Lead Petty Officer of the Nuclear Electrical Power Division onboard the U.S.S. Dwight D. Eisenhower (6 years). I received a BS in Electronics and Instrumentation Technology in 2003. It took me 24 years between raising a family, work, serving the Lord and night school! However, now I am on a roll and desire to complete this MBA program, finish up the last few courses for a BS in Nuclear Engineering Technology, and complete the requirements for Professional Engineer Certification over the next few years - then I will consider a Ph.D.

This is my second course in the MBA program and I look forward to it with enthusiasm. Leadership is a passion of mine and becoming a better leader is the main reason for me desiring to earn an MBA. I chose Liberty University because of its Bible centered high ethical standards. Furthermore, I believe this is the Lord's will for my life. In life, I may not always know where I am going but I do know whom I am following: The Great Shepherd – our Lord Jesus Christ.

Current Forum: Introducing
Myself--Bruce K. Bell, Instructor

Read 22
times

Date: Sun Sep 12, 2004 5:36 pm

Author: Wood, Joshua Thomas

Subject: Introduction

[Remove](#)

Hello All,

My name's Josh Wood and I am a Christian saved by Grace. Aside from that, everything else pales!

I graduated from the US Air Force Academy back in 2000 with a BS in aeronautical engineering. I am a pilot in the Air Force flying F-16s and I am currently stationed at Cannon AFB, which is located in the tropical paradise of Clovis, NM. I have been married for 3 years to the best thing aside from Salvation that God has given me- my wife Bonnie. I have two cats and a dog and they can be quite a handful at times. This is my second online

course from Liberty as I have just completed Dr. Lilley's Executive Leadership and Management.

The reason for my pursuit of an MBA deals primarily with my job in the military. As an officer, the last 4 years have provided me with many opportunities for leadership. A common misconception in the military is that pilots do not lead, or are not in charge, of anyone except themselves. However, upon my arrival to Cannon I was placed in a very diverse group of people and circumstances, which forced me to develop and utilize various leadership abilities. My boss at the time challenged me to pursue an advanced degree. After researching the various options, I realized I could not stand to study more engineering, and I recognized that aside from the training I received from the military, I knew very little concerning practical leadership theories and models... thus the reason for my desire to earn the MBA. In the military or in the "civilian" work sector, having an understanding of leadership and management will greatly benefit anyone in any type of work environment. Therefore, I am pursuing my degree with hopes that it will enrich my understanding of the working environment and that I will be able to apply that information to become a better leader or manager.

Well, that's my reason for being in this course. I truly look forward to the interaction and the learning I am sure we will all be able to experience.

God Bless and take care.

Josh

Jsh 1:8-9

Current Forum: Introducing Myself--Bruce K. Bell, Instructor
Date: Tue Sep 14, 2004 11:05 am
Author: Johnson, Donald L.
Subject: Hi There

Read 19
times

Remove

Hi There,

My name is Don Johnson and this is my first class in the Liberty MBA program. I'm currently a missionary with SEND International, working in our central offices in Farmington, Michigan. SEND is an evangelical, faith mission with about 550 full-time missionaries in 20 countries. I currently work in our Short-term Missions Dept. as the SEND Teams Director. I coordinate short-term teams from churches and colleges heading to work with our career missionaries on the field. We have a campus recruiter for our mission that visits Liberty U. regularly--sometime I'd like to join him on one of his trips there.

I worked in construction and radio broadcasting before completing a BA and MA in Bible from Columbia International University in Columbia, SC. After graduating we went to Alaska to work in missionary radio with SEND and I served as a station manager for several years. We ended up living in five different locations within the state of Alaska. When the Soviet Union broke up our mission launched an outreach into Far East Russia using Alaska as a base of operations and my wife and I were heavily involved in that effort. From there we were transferred to our current home in Michigan back in 2001. I have made several trips to Russia and other countries in the former Soviet Union in the past 8 years, and hope to visit some of our Asia fields in the next year or two.

My wife and I just celebrated our 30th wedding anniversary. We have one adult son and one grandson, who just turned 4. They live in Oregon, so we make trips to west coast as often as we can.

I'm excited about starting work on an MBA because of the potential benefit that training can have on the work of SEND. Ever since being appointed as a missionary I've been in some level of administration, even though I've had no formal training in that area. In fact, within our whole administrative office structure, only our mission treasurer has any management

training. The rest of us have our degrees in Bible, Theology, Inter-cultural studies, etc. When I suggested to our executive staff that I'd like to pursue an MBA they all agreed that it would be a benefit for our whole organization.

I'm looking forward to interacting with others in this class! And if anyone is thinking about taking a short-term missions trip, let me know! :}

Serving Him and you,

Don Johnson

Current Forum: Introducing Myself--Bruce K. Bell, Instructor
Date: Tue Sep 14, 2004 6:24 pm
Author: Warren, James Harold
Subject: Re: Introduction from Hal

Read 12 times

[Remove](#)

Yes, I agree. I believe Paul called all the things done in his strength dung. That I might know Him, the Power of His Resurrection and the fellowship of His suffering, conformed to His death to self that the resurrection of Christ will occur in me!

Hal

Current Forum: Introducing Myself--Bruce K. Bell, Instructor
Date: Sun Sep 19, 2004 8:02 pm
Author: Beji, Angella Marie
Subject: Re: Introduction

Read 12 times

[Remove](#)

Hi Josh,
I graduated from OCS (Officer Candidate School) in January 2003. I am now serving in the Army as a Transportation Officer. I agree that the MBA course is very valuable to help us to be better leaders. Many times we are surrounded by others who do not know Christ and God has placed us in that

situation so we can lead others to him. We can always use more christian leaders in the military. When we study in this atmosphere it helps us to make godly decisions in the workplace despite all pressures from the world.

Angie Beji

The important aspect in all these postings is that at the very beginning of the course, these students were invited to begin connecting with one another at a level beyond simply expressing their professional goals and academic aspirations. As MBA students, they each had a number of such goals, but as students at a Christian university, many recognized that a degree of safety existed and felt the confidence to share religious experiences with one another. As Palloff and Pratt (1999) comment, introductions to online classes can begin the process of creating social community, and since spiritual matters "are core issues in the formation of community" (p. 38), they can help to provide an environment that provides the connection, interdependence, intimacy, and safety of a spiritual community. Palloff and Pratt (2001) point out that the instructor must provide a model for students to follow, a model that is continued into a community space they call the Cyberspace Sandbox, but that the MBA Executive Communication course calls, "Prayers, Praises, and Devotionals."

Prayers, Praises, and Devotionals

[Prayers, Praises, and Devotionals](#)

[Modify](#)

[Remove](#)

Participation in this Discussion Board is entirely voluntary.

This area is designed to serve as YOUR Discussion Board. If you have any prayer requests, or any praises to share, or wish to share a devotional or any spiritual insights that come to mind as you study this course, then post them here. Also, feel free to respond to any posting in this area.

God Bless!

The instructor initiated a discussion board that was intended to serve as an area where online graduate students at the Christian university could share with one another on a purely religious or spiritual level. Where the faculty and student introductions provided the opportunity to share faith commitment in addition to academic goals, this discussion board was almost exclusively used by learners for personal items that called for prayer or constituted an item for which the individual was grateful to God. “Groups need to be given a space in which they can connect with each other on a social level and begin to know each other as people apart from the task that brings them together” (Palloff and Pratt, 2001, p. 137). White (2000) similarly says that the instructor should “help develop the whole student by establishing a positive and supportive overall emotional climate” (p. 7), although he avoids any mention of perhaps the deepest human connection—the spiritual. Since the participants in an online course may be said to be in a *covenant* with one another (Hudson, 2002), a place where such important topics may be discussed should be available, especially in a Christian

university that seeks to integrate spiritual community into the academic discipline.

As with the introductions, the instructor initially sought to model the use of this discussion board, although he chose not to post many entries, permitting the students to “own” this board.

Current Forum: Prayers, Praises, and Devotionals Read 20 times
Date: Wed Sep 15, 2004 8:02 am
Author: Bell, Bruce K.
Subject: See You at the Pole—2004

[Remove](#)

I just came in from a moving start to the day, as several thousand Liberty residential undergraduate students met outside DeMoss Hall, our major academic building, to pray. Large groups of students stood with others from their state (there were also large contingents of international students and Canadian students), praying for family members, their high schools back home, and the nation.

What a moving and inspirational way to start the day, and I am grateful that the Lord has given me the privilege of serving Him in this place. I am equally grateful that He has provided me this opportunity to meet with you in virtual education that may help change your career opportunities.

Have a blessed day.

Bruce Bell

[Reply](#)

Current Forum: Prayers, Praises, and Devotionals Read 16 times
Date: Wed Sep 15, 2004 9:43 am
Author: Bennett, Cynthia <cbennett2@liberty.edu>
Subject: Re: See You at the Pole--2004

[Remove](#)

Prayer is such a powerful tool. Our pastor tells us: "When man works, man works, but when man prays, God works." We have seen the Lord answer so much prayer in our school when we started a Parent-Teacher Prayer (PTP) meeting on Thursday mornings before school starts. We now have two PTP meetings on Thursdays (7:15 a.m. and 8:00 a.m.). I truly believe in the power of prayer. I participate in the 24-hour day of prayer at Liberty in 1986 as we prayed that the Lord would spare Dean Brewer from cancer and it was the most powerful exhibition of God's power that I had ever seen to that point. I have since seen Him do many miraculous things and I count it a privilege to pray. We currently have an e-mail chain called "Knee-mail" where we lift one another up electronically. It's good to hear that while many changes have happened at Liberty over the years since I've been there, the belief in the power of prayer remains.

Thank you for sharing that wonderfully encouraging testimony.

Cyndi Bennett

The students generally appeared pleased to have the opportunity to gather around this common theme of spiritual community. Among the topics shared by these students were health needs and family issues, although a number of prayer requests dealt with several devastating hurricanes that had hit close to several students during one of the two semesters being studied:

Current Forum: Prayers, Praises, and Devotionals Read 39 times
Date: Wed Sep 15, 2004 10:33 am
Author: Hallbauer, Bruce L.
Subject: Urgent Prayer request

[Remove](#)

Please pray for those in the path of Ivan, especially in the Mobile, AL and Pensacola, FL area. I live 13 miles ne of Pensacola.

Thanks
Bruce

[Reply](#)

Current Forum: Prayers, Praises, and Devotionals Read 24 times
Date: Wed Sep 15, 2004 11:18 am
Author: Bell, Bruce K.
Subject: Re: Urgent Prayer request

[Remove](#)

I join in our colleague's call for God's intervention to minimize the adverse effects of this fierce storm. Specifically, I ask that all of us pray for Bruce and his family as they brace for the hurricane that is predicted to hit very close to them. We look forward to any updates from you, Bruce.

[Reply](#)

Current Forum: Prayers, Praises, and Devotionals Read 17 times
Date: Wed Sep 15, 2004 2:33 pm
Author: Whaley, Gerald Thomas
Subject: Re: Urgent Prayer request

[Remove](#)

I have prayed for you and your family.

Please let us know how you are after this is over.

Jerry

[Reply](#)

Current Forum: Prayers, Praises, and Devotionals Read 20 times
Date: Wed Sep 15, 2004 7:13 pm
Author: Warren, James Harold
Subject: Re: Urgent Prayer request

[Remove](#)

I am in prayer for the area of Mobile.

My parents left Mobile early today and are now in Huntsville. However, my sister and her family are in Mobile. Her husband did not want to leave and she chose to submit to him. Humility proceeds honor.

Some verses for the storm from my older brother:

Who has gathered the wind in his fists . . .

He is a shield to those who put their Trust in Him!

Proverbs 30: 4-5

You who still the noise of the seas,
the noise of the wave . . .

Psalms

65: 7

For He commands & raises the stormy wind . . .

He calms the storm so that waves are still. Then they are glad

because they are quiet. So He gives them to desired haven.

Psalms 107:

20, 25, 28-30

O Lord God of Hosts, Who is mighty like you, O Lord? Your faithfulness also surrounds You.

You rule the ragging of the sea, when it waves rise, You will still them.

Psalms

89: 8, 9

Why are you fearful, O you of little faith? Then He arose and rebuked the winds and sea and there was Great Calm!

Matthew 8: 26

Verily, verily, I say unto you, He that believeth on

I am in prayer for the area of Mobile.

My parents left Mobile early today and are now in Huntsville. However, my sister and her family are in Mobile. Her husband did not want to leave and she chose to submit to him. Humility proceeds honor.

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Proverbs 30: 4-5

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the noise of the wave . . .

Psalms

65: 7

As noted by Palloff and Pratt (2003), the appropriateness of quoting Scripture in an online course at “religiously affiliated institutions” (p. 45) is not a concern, and even at other institutions “it is important to accept and accommodate this as a dimension of the spirituality of the medium and the online group” (Palloff and Pratt, 1999, p. 42). In fact, the student above who quoted Scripture extensively was well received, if not emulated, by many other students. The hurricane aftermath provided additional opportunities for these students’ spiritual community to deepen and solidify:

Current Forum: Prayers, Praises, and Devotionals

Read 16 times

Date: Sat Sep 18, 2004 7:57 am

Author: Warren, James Harold

Subject: Re: Urgent Prayer request

[Remove](#)

My sister and her family in Mobile did not suffer any damage and their power was restored within two hours - to God be the Glory for the Great things He has done! Our prayers were effective. However, this is not the norm as most are without power at this time. My parents left the area the day before the storm and stayed with my older brother in Huntsville. My older brother had an apple tree broken in half but other than that no other damage.

When the Hurricane came through our area (Virginia) last year we were without power for three days which was short compared to most who went 1-2 weeks. However, the Lord used this time to open doors to our neighbors for ministry. Without A/C people open the doors and windows and come outside. We and many of our church family were able to share the love of God via food and ice. Ice after several days in the heat was received like gold! My oldest son works at Chic-fil-a where the Operator is a Christian. He gave away chicken and ice which we gas grilled to serve our neighbors. The first day we feed others out of our freezer, the second day we feed others from Chic-fil-a, the third day Power was resurrected! So why did God allow the hurricane to come through? The answer is always the same: to reveal and glorify His Son Jesus Christ so that the lost may be saved. His heart beats for the lost.

Hal

P.S. Pray for the Christians in the areas without power to be empowered for witnessing during this brief moment of receiptivity. After the power is restored life quickly returns to normal - windows and hearts are again closed.

[Reply](#)

Current Forum: Prayers, Praises, and Devotionals

Read 14 times

Date: Wed Sep 22, 2004 1:23 pm

Author: Hallbauer, Bruce L.

Subject: Praise for our safety!

[Remove](#)

I would like to thank the Lord for his mercy during Ivan. My home and business were virtually untouched during and after the storm. Others around the area were not so fortunate. Continue praying for those needing bare necessities, such as water, ice, and food. I have restored power and phone at the office, but only power at my home. Thanks everyone for your prayers.

Gratefully,
Bruce Hallbauer

[Reply](#)

Current Forum: Prayers, Praises, and Devotionals

Read 14 times

Date: Wed Sep 22, 2004 1:28 pm

Author: Hallbauer, Bruce L.

Subject: Re: Pray for Bruce's area

[Remove](#)

Thank you Travis for your prayers. I now fully understand what it is like to be in your situation. Even the small victories become major blessings when one is trying to recover. We fortunately were in a relatively quiet zone. A few miles on either side of us was devastated by those small spin off tornadoes. Had power yesterday but no home phone yet. The gulf coast area is hard to get around as everthing is connected by bridges. WE live about four miles from the I-10 bridge that collapsed. Thanks again for your prayers. Sincerely,
Bruce Hallbauer

Current Forum: Prayers, Praises, and Devotionals

Read 11 times

Date: Fri Sep 24, 2004 8:42 pm

Author: Plummer, Travis

Subject: Pray for those in Jeanne's path

[Remove](#)

Hurricane Jeanne is projected to hit the same area that Frances did. Please ask God to help those with tarps for roofs, because so many homes will be even

Reply

Current Forum: Prayers, Praises, and Devotionals Read 11 times
Date: Sat Sep 25, 2004 11:11 am
Author: Bell, Bruce K.
Subject: Re: Pray for those in Jeanne's path

Remove

Travis & others,

My wife and I are praying for all those in the path of this hurricane that lives and property will be spared and that Christ's church will be recognized for doing all that it can to assist the victims in any way possible.

Bruce Bell

Reply

Current Forum: Prayers, Praises, and Devotionals Read 10 times
Date: Sun Sep 26, 2004 10:30 pm
Author: Hallbauer, Bruce L. <blhallbauer@liberty.edu>
Subject: Re: Pray for those in Jeanne's path

Remove

Travis, We are praying for you in this serious time. May the Lord be Glorified even through tragedy. Looks like the power and tree trucks are heading out of Pensacola going your way. Help is on the way.

Bruce

Current Forum: Prayers, Praises, and Devotionals Read 16 times
Date: Fri Nov 19, 2004 6:22 pm
Author: DiLallo, Matthew Mark
Subject: Pray for a friend

Remove

Dear Classmates,

A friend of mine just called me to inform me that her best friend, Heather, has cancer. I think she said it was Lymphoma. They are starting chemo on Monday. The friend that called me, Sarah, was really taking this hard and she is at the point of giving up as she is working 40 hours, going to school full time and now this. Please keep both of them in your prayers. Heather's fiance is in Iraq now but, I think he is coming home to be with her. I felt so helpless on the phone, she lives six hours away so all I can do is pray and ask others to join me. Thanks.

Matthew

Reply

Current Forum: Prayers, Praises, and Devotionals Read 18 times
Date: Fri Nov 19, 2004 6:29 pm
Author: DiLallo, Matthew Mark
Subject: Re: Thanksgiving 2004

Remove

I am so thankful that God has given me the ability and the means to work on an MBA. I am thankful that He has been directing my life and continues to work in me. I have amazingly supportive parents and a great group of godly friends. I have been truly blessed in this life, and I am truly thankful for all God will continue to do in my life. I am eternally grateful for the cross and the forgiveness. Finally, I am thankful that with my education I can begin to be the leader I was created to be in the business world and use my life as a

--

Not only does this specific spiritual community discussion board provide opportunity for students to share religiously-themed items, but community is developed when other students respond as shown above, with promises to pray for another student and his or her family. In fact, experience in the classroom suggests that some students are more transparent with prayer requests in an online setting than in a face-to-face environment. A student who may choose not to share a painful loss in a classroom feels the freedom, occasionally, to ask others for their support in an online discussion board.

Current Forum: Prayers, Praises, and Devotionals Read 7 times

Date: Fri Dec 10, 2004 3:40 pm

Author: Burris, Megan Susan

Subject: Prayer request Remove

Hi friends - My sister Robin is about 3 months pregnant, and during her routine check up this week, was informed that a heartbeat could not be found. The baby had died. The loss was eased with the information that the baby had developed numerous cysts around the brain and fluid sacs in the chest cavity. I prayed for healing with the initial report that something might be wrong with the baby...only to discover that the Lord did answer by healing the baby in heaven. I would appreciate your prayers for Robin, her husband Darren and their girls, Elly and Madison. Thanks so much!

Blessings,

Megan Reply

Current Forum: Prayers, Praises, and Devotionals Read 7 times

Date: Sat Dec 11, 2004 12:39 pm

Author: Bell, Bruce K.

Subject: Re: Prayer request

[Remove](#)

Megan

You can be assured that my wife and I are praying for Robin and Darren and their children, as well as for you at this time of loss. I especially like your statement that the Lord has healed the baby in heaven.

Warmest regards,

Bruce Bell

[Reply](#)

Current Forum: Prayers, Praises, and Devotionals Read 12 times

Date: Fri Oct 1, 2004 1:03 am

Author: Robinson, Tracy A. <tarobinson2@liberty.edu>

Subject: Re: A Praise The Lord

[Remove](#)

That is a wonderful example of how AWESOME our God is! God is able to do ALL things. Not just some. But ALL. We all need a fresh anointing occasionally and this story was exactly what my spirit needed. Thanks for sharing the faith.

Be Blessed.

Current Forum: Prayers, Praises, and Devotionals Read 14 times

Date: Thu Sep 30, 2004 11:28 am

Author: Whaley, Gerald Thomas

Subject: A Praise The Lord

[Remove](#)

I work at a hospital in Knoxville. Yesterday I was looking at some scope film that was two days old, I could see the tumor, even though I am not clinical the nurse did not have to point it out to me, it was large. The patient was told that she had two choices, remove it or treatment. She was scheduled for surgery yesterday morning and they redone the scope to see if there were changes in size and etc.. I seem those pictures as well, and the tumor was gone. I went to speak with the lady and she told me her church and husband had prayed for her. She was giving all the credit where it was due, to Jesus Christ our Lord. She was released to go home that very day.

We hear so much we need to pray for, but from time to time we need to hear the good news to lift us up. With permission from the patient I am allowed to tell this story.

Current Forum: Prayers, Praises, and Devotionals Read 20 times

Date: Sat Oct 9, 2004 6:30 pm

Author: Marcucci, Lisa

Subject: Trish Krivosh

[Remove](#)

Please pray for our classmate Trish Krivosh. She lost her dad in April of pancreas cancer and lost her father-in-law yesterday to lung cancer. Praise God that both accepted Christ just days before they passed. Their family could really use prayer right now. Thank you.

[Reply](#)

Current Forum: Prayers, Praises, and Devotionals Read 15 times

Date: Sat Oct 9, 2004 8:58 pm

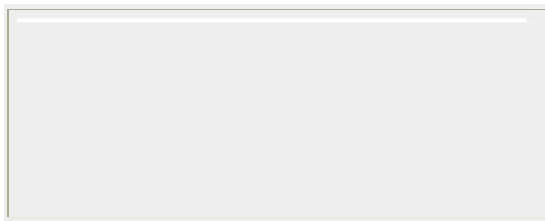
Author: Bell, Bruce K.

Subject: Re: Trish Krivosh

[Remove](#)

Trish,

I'm so sorry to hear of your loss, and know



Current Forum: Prayers,
Praises, and Devotionals

Read 14
times

Date: Wed Oct 27, 2004 10:11 am

Author: Krivosh, Patricia Ann

Subject: Prayer is needed for my family

Remove

My family has a hard year, my father was diagnosis of cancer on April 2nd and died April 27th, my father in law, my dad's friend, was diagnosis of cancer on April 9th and died October 8th. As if this was enough, my mother in law was just told she has breast cancer. And my husband and I just found out I was pregnant with our second child. We plan on waiting a few weeks more before we tell our families, so that they can continue to grieve and surround my mother in law with all the attention and love she needs right now.

I just feel so out of sorts and of course emotional, please just put my family in prayer because I really feel so far away from God right now when I have the faith to know he is right here with me. I just want to surround ourselves with as much prayer as I can.

Thank you each very much. Trish Krivosh

Spiritual community has been built when students seek to “surround ourselves with as much prayer as I can” and choose their online classmates to find that protective surrounding. This analysis suggests that the development of spiritual community was initiated from the very beginning of the online course with intimate introductions that were comprehensive, to include spiritual

goals and experiences. “Meaning is created in the interaction among people—not in the words alone—and that online communication is more than electronic verbal images. It includes all the human qualities of attitudes, feelings, and emotions” (White, 2000, p. 2). Clearly, students in these two classes that have been examined appear to have created that meaning and have built that sense of spiritual community.

Conclusion

In this qualitative study of building spiritual community in one graduate-level online course at a Christian university, the approach has been to analyze postings on the course discussion boards from both the instructor and the students to see if and how that community could be developed. The evidence suggests that spiritual issues among all learners are indeed core to the sense of community and do build strong bonds of intimacy and connection. Moreover, since the students in these two courses had never engaged in face-to-face interaction with one another, it does appear that asynchronous computer-mediated communication is well-suited to this kind of community building. Several points about building this community should be highlighted:

First, development of this community is primarily instructor-initiated. The instructor must take the lead in providing opportunities for students to engage with one another, ideally even before the start of the first class lesson. “The instructor can be the first to welcome students as they enter the class, once again providing a model for other students to follow” (Palloff &

Pratt, 2001, p. 122). Because of the unique characteristics of the *spiritual community*, the instructor may go beyond sharing simply academic achievements or professional accomplishments and should share a word of religious testimony. This serves as a pattern or prototype introduction that initiates the deepening connection among the learners. Moreover, creating a community space where students may share intimate prayer requests or items of praise or simply thoughts about how the Lord is working in their lives may envelope the students in a warm and accepting community that supersedes simply a learning community.

Second, spiritual community development is essentially student-owned. While the instructor models how spiritual community might be built through introductions and occasional postings in the Prayers, Praises, and Devotionals discussion board, those areas are for students and their connection with one another. Because online education is primarily learner-focused (Palloff & Pratt, 2003), it is appropriate to permit learners to own a major segment of their learning community development, and analysis of the student postings in their Prayers, Praises, and Devotionals discussion board suggests that students did connect with one another spiritually without the intrusion of the instructor.

Finally, tools for building spiritual community are community shared. Every member of the learning community had equal access to and an equal voice in both the introductions and prayer discussion board. One of the advantages of asynchronous computer-mediated communication is that the

individual can take a longer time to think about his or her posting (Palloff & Pratt, 1999). In the intimacy of expressing a deeply felt spiritual need such as the death of a loved one or a health crisis of a close friend, time and the written form may be easier for many students than spontaneous oral delivery. Experience in the classroom suggests that sharing such details in a face-to-face contact is frequently a daunting challenge for many students.

Future research is needed to determine the extent to which spiritual community does influence the assimilation of course content. While it has been claimed (Palloff & Pratt, 1999) that transformative learning begins with forming new relationships and deepens into a web of learning, there is no evidence currently available that supports the enhanced learning that takes place as the result of building a spiritual community, whether at a Christian university or any other institution of higher learning. Additional studies might also explore the extent to which learners remain committed to one another throughout other courses they take together. Does the connection that forms in one course translate across semesters to other courses taken with the same cohort of students?

Since all evidence suggests that online enrollments will continue to increase (Allen & Seaman, 2004), it is wise for Christian universities that are uniquely designed for spiritual growth to assess how well they are developing intentional spiritual community among their online students. Especially for graduate students who may rarely if ever go to a face-to-face meeting with instructors or other students, such

spiritual community may be particularly satisfying and potentially significant.

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Economic Value Added

By Eric Klinger

A common misconception in today's business world is that the company's financial standing is accurately portrayed by the standard accounting measures such as profits, earnings per share, return on equity, and stock price. These measures portray what is referred to as the accounting reality of the business. The true reality of a company's success or failure, is not measured by the accounting reality, but rather is exhibited in the amount of intrinsic value being added to the company. The intrinsic value being added or destroyed represents the economic reality which is the true measure of a company's performance. The problem with accounting as a performance measure is that under GAAP, the numbers can be easily manipulated in order to make a company appear more profitable than it really is. This presents a number of problems; the first problem is that it is misleading to the company's shareholders as it misrepresents the company's financial standing. Secondly, overstating a company's profitability may create a sense of complacency among managers that keeps the managers from looking for further opportunities to add value to the company.

Economic reality focuses on value rather than profits. A more accurate representation of the financial standing of the company is shown when value is emphasized rather than accounting measures. Stern Stewart & Company developed the Economic Value Added based financial

management system in order to help train managers to place emphasis on increasing economic profit and value rather than focusing on accounting measures of performance. Economic Value Added is the financial performance measure that comes closer than any other to capturing the true economic profit of an enterprise. EVA also is the performance measure most directly linked to the creation of shareholder wealth over time.¹

The EVA financial management system began to gain widespread success in the 1990s. Today there are many large corporations including Coca-Cola, General Electric, and AT&T who turned to EVA to enhance their economic success in the industry.² Based on case studies of companies who have implemented EVA as a performance measure, it can be determined that EVA provides a more accurate representation of the financial condition of a company than do performance measures focused around accounting measures.

Economic Value Added distinguishes itself by recognizing the cost of capital when making investment decisions. The cost of capital is often overlooked and failure to account for this leads to overstated profitability. When a manager fails to account for the cost of capital associated with each investment decision, he/she may choose an investment that fails to earn an acceptable rate of return above the cost

¹ www.sternstewart.com

² www.investopedia.com

of capital. When this occurs, wealth has actually been destroyed and the manager may believe that he/she has made a decision that has added profitability to the company. EVA recognizes the cost of capital and therefore knows what the minimum rate of return is and will only make investment decisions that will earn above the minimum rate of return. The following statement summarizes how value is added or destroyed based on the cost of capital:

EVA will increase if new capital can be invested in projects that will earn more than the full cost of capital and if capital can be diverted or liquidated from business activities that do not provide adequate returns. It will be reduced if management fritters away funds on projects that earn less than the cost of capital or passes over projects likely to earn more than the cost of capital.³

The standard capital budgeting rule suggest that a company accept all investments that have a positive net present value and reject all investments that have a negative net present value. An investment will have a positive net present value if it earns above the minimum rate of return and will be negative if it earns below the minimum rate of return. Therefore we see that EVA is consistent with the standard capital budgeting rule in making investment decisions.⁴

³ The Quest for Value: pg 3

⁴ The Quest for Value: pg 3

Calculating Economic Value Added

In developing the management based system, Stern Stewart & Company derived the following formulas to calculate EVA:

$$\text{Economic Value Added} = \text{NOPAT} - [\text{Capital} \times \text{Cost of Capital}]^5$$

or

$\text{Economic Value Added} = (\text{rate of return} - \text{cost of capital}) \times \text{capital}^6$
In computing this formula the *rate of return* is simply the minimum return that the manager will accept for a specific investment. The *cost of capital* is then determined for the project and subtracted from the *rate of return*. The capital refers to the economic book value of the total capital committed to the business. The following is an example for solving for EVA:⁷

Example

NOPAT=\$250

Capital=\$1000

Rate of return(r) =25% Cost of Capital(c*) =15%

**Therefore: EVA= (r-c*) x capital
\$100= (25%-15%) x \$1000**

The formula for calculating EVA appears to be simple and it is simple, once the cost of capital is determined for the investment. This leads us to one of the downsides of the EVA system; the cost of capital is very difficult to determine accurately and in fact it is somewhat subjective when determined. Therefore, in order to better understand how EVA is calculated it is important to take a closer look at the how the cost of capital is determined.

⁵ www.sternstewart.com

⁶ The Quest for Value: pg 137

⁷ The Quest for Value: pg 137-8

Cost of Capital

“Each year in the United States, corporations undertake more than \$500 billion in capital spending.”⁸ Cost of capital may be defined as the rate of return that a firm must earn on the projects in which it invests to maintain its market value and attract funds.⁹

Recognizing cost of capital as an expense is important, because it establishes a connection in the mind of the manager between the costs associated with capital investments and the effect that the costs have on shareholder value. It will lead managers to make better investment decisions and choose only those that will yield a return higher than the minimum rate.

Calculating the cost of capital, however, presents a major difficulty in determining the economic value added to a company. According to Stern Stewart & Company there are actually four costs of capital. These four costs include: the cost of capital for business risk, the cost of borrowing, the cost of equity, and the weighted average cost of capital. “The *cost of capital for business risk* is the required return for investors to compensate for the cyclicity of NOPAT.”¹⁰ The *cost of borrowing* is the required return for the risk in meeting principle payments and the interest for debt. The *cost of equity* is the return investors need to allow compensate for changes in bottom-line profits. Or more simply, it is to compensate for the risk investors have in the business. There is a direct relationship between the risk and the cost of capital; the higher the risk, the higher the cost of equity. *The*

weighted average cost of capital is the cost of debt and equity. This is the predominate and most important cost of capital measure according to Stern Stewart.¹¹ As the most important factor for the cost of capital it is worth placing an extended emphasis on the weighted average cost of capital.

Weighted Average Cost of Capital

Under the weighted average cost of capital method, the cost of each type of capital employed is assigned a specific weight which is determined based upon the percentage of the specific type of capital in relation to the total capital base as a whole. In computing EVA the weighted average cost of capital is used in determining the cost of debt and the cost of equity. The cost of debt is the rate a company would pay to receive new long-term debt capital. Stern Stewart & Company believes that the most appropriate indicator for the cost of debt is the yield to maturity on the firm’s outstanding and publicly traded debt.¹²

The cost of equity is more difficult to determine and it the cost of debt. The cost of equity is an opportunity cost, because it is equal to the return an investor could make from an alternative decision.¹³ The simple fact that the cost of equity is an opportunity cost makes determining the cost of capital difficult, because it is not a specific and easily determined number. Since the opportunity cost is not observable but rather a determination of what the result of an alternative decision

⁸ Case Studies in Finance: pg 153

⁹ Principles of Managerial Finance: pg G-4

¹⁰ The Quest for Value: pg 432

¹¹ The Quest for Value: pgs 432-433

¹² The Quest for Value: pg 434

¹³ The Quest for Value: pg 434

would be, it is possible that the cost of equity may be incorrectly determined and this would throw off the cost of capital.

There are a few things that are important to remember when calculating costs under the weighted average cost of capital approach. Capital costs should be current costs that reflect the current situation of the market. One should not factor in sunk costs that have already occurred and cannot be changed. Secondly, when assigning a weight to each cost, one must make sure that the weights are current market rates and not rates obtained from historical evidence. Thirdly, when calculating the cost of debt, one needs to calculate the cost of debt after the corporate tax. Calculating the cost of debt after the corporate tax will better reflect the benefits of the tax deductibility of interest.¹⁴

Assigning the cost of capital to investment decisions is a distinguishing characteristic of the Economic Value Added system. To reiterate what I stated earlier, the cost of capital is vital to accurately portraying the economic profitability of the company. Failure to assign a cost to the capital is a major reason why so many companies appear to be making a profit when in reality they are destroying value. In the following statement from the Harvard Business Review, Peter Drucker comments on the importance of earning above the cost of capital and discusses how many managers are misinformed about the true financial status of the company:

Until a business returns a profit that is greater than its cost of capital, it operates at a loss. Never

mind that it pays taxes as if it had a genuine profit. The enterprise still returns less to the economy than it devours in resources...Until then it does not create wealth; it destroys it." EVA corrects this error by explicitly recognizing that when managers employ capital they must pay for it, just as if it were a wage.¹⁵

Therefore, if a manager accounts for the cost of capital and learns to make investment decisions that earn above the cost of capital, he/she will begin to increase EVA.

Increasing Economic Value Added

According to the Stern Stewart & Company, there are three ways in which a company can add value to its operations. Stern Stewart & Company believes that its Economic Value Added system is effective, because it is able to touch on all three areas that add value. So far, I have only focused on one of the ways in which to add value; investing in projects that return more capital than the cost of obtaining the new capital. A second way in which to add value is to improve the rate of return on the existing capital base. If successful, a higher return means that operating profits are increasing at a higher rate than the increased rate of capital. This produces a higher yield of cash inflows and adds value to the company. The final way to improve EVA is to liquidate capital from operations that are earning less than the

¹⁴ Case Studies in Finance: pg 155

¹⁵ www.sternstewart.com

required rate of return.¹⁶ If implemented correctly, the EVA management system will teach managers to scrap the investments that are earning less than the minimum rate of return and look for more attractive investments. Stern Stewart & Company believe there are several additional key drivers that will lead to an increase in EVA. The additional key drivers are listed below:¹⁷

Key Drivers to Increasing Economic Value Added

Grow Sales

- grow sales without adding capacity
- increase market share
- new markets
- brand recognition
- grow sales by investing in superior return opportunities
- new acquisitions
- new contracts/projects

Control Costs

- selling, general & administrative
- operating expenses
- taxes
- employee Productivity
- outsourcing
- safety
- risk management

Manage Assets

- Equipment Optimization
- Manufacturing Capacity Optimization
- Accounts Receivable Management
- Inventory Management
- Sell Underperforming Assets
- Utilize Idle Assets

Stern Stewart's Four M's of EVA

One of the leading components of the Economic Value Added concept is its ability to be used as a successful management tool. EVA is not solely a formula for determining the economic value of the company, but rather it is a management framework to be implemented into every department within the organization. In developing the management system, Stern Stewart & Company comprised the four M's of EVA. The four M's include: measurement, management, motivation, and mindset.

Measurement

Stern Stewart claims that the initial step to EVA is the measurement process and making the proper adjustments in the accounting figures to better determine the economic reality of the company. The adjustments to GAAP are different for companies in different industries but common adjustments need to be made in the areas of research and development, operating leases, and restructuring charges.¹⁸ Under that accounting standards set by GAAP, it is not very difficult for to manipulate numbers around. There are also certain standards that do not accurately portray the economic reality of the company. A typical adjustment that must be made is to capitalize rather than expense research and development. Accounting standards state that a company is to expense research and development and one can see the effect this may have on a pharmaceutical company that budgets high for research and development. Research and development will most

¹⁶ The Quest for Value: pg 137

¹⁷ EVALuation: Vol.5 Issue 1

¹⁸ EVALuation: Volume 5 Issue 1

likely pay off in the future and by expensing R&D, GAAP is failing to account for the future benefits. I discuss later the adjustment for research and development as this is a major problem that exists under accounting standards and a correct adjustment should lead to increased EVA.

Management

The management component of the implementation process is designed to promote better decision making across the board in evaluating and carrying out investment decisions. One of the benefits of the management component is that effective training of Economic Value Added principles will lead to unity in every department within the company. All managers will use EVA as a performance measure and it will get everyone on the same page. The training will also look at past experience to help portray how using EVA will help promote better decision making.

Motivation

What I believe to be the most important aspect of the Economic Value Added financial management system is the motivation it offers managers in every department within the company. EVA provides opportunity for all managers to earn unlimited bonuses based on his/her ability to add value to the company. The EVA bonus structure directly links the manager's compensation to the creation of shareholder wealth.¹⁹ Therefore, the more the manager is able to improve shareholder wealth, the larger the bonus that he/she will earn. In turn, this gets

managers at all levels of the company to think and act like the owners of the company and will derive more profitability out of managers throughout the organization. With the opportunity to earn an uncapped bonus, the employee is highly motivated and will work hard to discover investment opportunities that will earn a high return above the cost of capital.

Mindset

"In order to transition employees into a mindset of value creation, a significant effort is made on training and communications. Training of key staff on EVA concepts and corporate finance topics creates a foundation for better understanding. The continued communication of the EVA philosophy and its successful application then builds on this foundation and maintains the momentum of these ideas."²⁰ To reiterate, creating unity across company lines can have nothing but a positive impact on the company. With all managers being trained to understand how EVA works and how to make better decisions, and with everyone seeking the same end goal, the company as a whole is more likely to reach the ultimate goal of increasing shareholder wealth.

EVA vs. GAAP

The number one goal of any publicly traded company is to increase shareholder wealth. The problem in today's business world is that most owners and managers believe that shareholder wealth is increased when profits increase, or earnings per share increase, etc. The problem with using

¹⁹ EVAulation: Vol. 5 Issue 1

²⁰ EVAulation: Vol: 5 Issue 1

GAAP to evaluate the financial strength of the company is that accounting measures do not always exhibit the economic reality of the company. Accountants are able to use the standards and methods of GAAP to easily manipulate the figures and even when manipulation is not intended, certain measures such as earnings per share, profits, and dividends paid simply do not matter in determining the financial position of the company. In taking a closer look at some of the shortcomings of GAAP it should become apparent that GAAP is unreliable as a performance measure and that Economic Value Added principles need to be implemented to correctly identify the value of the company.

Research and Development

United States corporations spend over \$100 billion dollars annually in research and development. Under the standards set by GAAP, accountants must treat research and development as an expense and managers need to immediately expense the outlays.²¹ The problem with this method is that it fails to account for the positive future benefit that the research and development will bring to the company. In referring back to the pharmaceutical company example, this company will reap significant rewards for the large amounts of capital invested in research and development of products. Without this research and development the company would fail to develop the new products that lead to large amounts of cash inflow. While GAAP fails to recognize this aspect of research and development, EVA does not. Under the principles of EVA,

²¹ Economic Value Added: pg 167-68

managers will adjust research and development and capitalize it and add it to the balance sheet as an asset.²² In doing so, research and development is treated as a capital expenditure rather than an expense. When research and development is treated as an expense, the operating expenses of the company are well overstated. When the operating expenses are overstated, the profit of the company will be understated and therefore the company's financial position is incorrect and shareholders have a misconception about the company's performance. When research and development is treated as a capital expenditure, the cost of capital will increase but the NOPAT will increase and therefore more value is being added into the company.

Earnings per Share

One of the most widespread evaluation measures of performance comes from measuring Earnings per Share. According to Stern Stewart & Company, this is a useless measure of performance, because earnings per share itself are useless. There is a major problem, according to Stern Stewart & Company when the focus is only on earnings. When the focus is on earnings, any investment will look good so long as the return is more than the after-tax rate of borrowing additional debt. Prospective investments also look better at the operating level. The problem is that managers are more likely to invest too aggressively, because bonuses are typically strictly in regard to operating profit without considering the cost of debt.²³

²² Economic Value Added: pg 167-68

²³ Economic Value Added: pg 69

A second problem with Earnings per Share is that it can easily be altered by accounting methods. One area in which accounting methods falter in EPS is that accounting presumes that P/E multiples never change. According to Stern Stewart & Company, P/E multiples change frequently when there are acquisitions, changes in financial structure, and new investment opportunities. Since P/E multiples adjust to changes in quality of a company's earnings then EPS becomes a very unreliable measure of value.²⁴

Recognizing that Earnings per Share is a poor indicator of value in the company will lead to future benefits and profitability within the organization. When managers begin to stop looking at what investment opportunities will do to affect earnings but rather begin to look at seeking a return above and beyond the incremental cost of capital to invest in the project, then the manager will begin to add economic value to the company and in turn accomplish the number one objective which is to increase shareholder wealth. Using EVA will move the manager away from thinking about earnings and will get him/her to invest in projects that will return a higher yield than the cost of capital.

A quick example provided by Stern Stewart & Company will better exhibit the failure of EPS as a performance measure.

Suppose an acquisition occurs in which a company with a high P/E multiple buys a company with a low P/E ratio by exchanging shares. Fewer of the high P/E shares will need to be retired to retire all outstanding low P/E shares. This will increase the buyer's EPS every time. Consider now that the

low P/E firm buys the high multiple firm. A greater number of low-multiple shares will need to be issued to retire all the high-multiple shares. This will lead to a decline in the EPS of the buyer every time. Therefore, Earnings per Share will be different regardless of who buys whom in the acquisition. EPS will differ; however, the company will be the same regardless of who acquires whom. The assets, prospects, earnings, and value will not change and so we can see a major problem with using EPS as a performance measure. It is simply an unreliable and a poor indicator of success or failure within a company.²⁵

Dividends

The next misconception worth addressing is the relationship between the amount of dividends a company distributes and how that represents the financial condition of the company. Stern Stewart & Company argues against the common belief that paying dividends is an important function of the business. What does appear to matter is the company's ability to pay dividends but actually paying dividends is a no-no according to the developers of EVA. It is a good thing that a company has the ability to pay dividends. But Stern Stewart makes the following statement in regard to the actual distribution of dividends:

In the economic model, paying dividends is an admission of failure-management's failure-to find enough attractive investment opportunities to use all available cash...By paying

²⁴ (Quest 22)

²⁵ The Quest for Value: pg 35

dividends, management has less money available to fund growth²⁶

The claim being made here is that it would be more beneficial from a value standpoint for the company to take the money used to pay dividends and invest the capital in investments that will further increase the intrinsic value of the company. Stern Stewart & Company claims that the company receives no benefit from paying dividends and that it will benefit both the company and the shareholders more not to pay or receive a dividend. The company will be able to increase the value of the company and therefore, the shareholder's value will increase and the shareholder will not have to pay taxes on the dividends received.

Bonus Structure

One of the most attractive features of the EVA management system is the bonus structure made available to managers throughout the company. "The real key to the success of the EVA framework lies in using improvement in EVA in a unique type of incentive compensation plan that fires the imagination and initiative of managers and workers."²⁷ According to Stern Stewart, there are three essential goals in the bonus system. The first goal is to link performance incentives more closely to improving shareholder wealth. The second goal is to provide a single focus for operations management, capital budgeting, planning, performance measurement, and incentive compensation. The final primary goal of

this system is to instill a sense of ownership to the managers which will encourage a high level of performance where the managers take the initiative to create and add value to the company.²⁸

Before looking at how the EVA bonus structure actually works, I believe it would be beneficial to discuss the typical reward system and then show how the EVA bonus structure is superior to the original system. Typically, bonuses have often been awarded for meeting pre-determined budgets or performance expectations. A majority of companies will offer bonuses based off of earnings per share, return on equity, or return on assets.²⁹ One of the problems that arise out of these performance measures is that the incentive is not directly tied to adding value into the company and improving shareholder wealth.

The Economic Value Added bonus structure, on the other hand, ties performance incentives to improving shareholder wealth. There is no cap to the amount of bonus that a manager can make. The more value that the manager adds to the company through sound decision making, the more bonus he/she will earn. This unlimited potential leads to aggressive decision making and managers that are constantly looking to add value to the company. There is one safety measure, however, on the part of the company. The bonus structure does include a penalty for failure to perform at a high level. The company protects itself through what is called a bonus bank. The bonus given is based upon a level of performance but is not paid in full at the end of each year. Rather, a percentage is placed on reserve and is

²⁶ The Quest for Value: pg 43

²⁷ Economic Value Added: pg 93

²⁸ Economic Value Added: pg 106

²⁹ Economic Value Added: pg 97

subject to performance in subsequent years. If the manager continues to add value to the company then he/she will earn the deferred bonuses. If however, a manager begins to struggle and he/she is subject to the loss of the deferred bonuses. One of the major advantages of this system is that it will tend to separate the highly effective managers from those less effective. The bonus system will tend to significantly benefit those managers who are constantly adding value to the company, but those who are struggling each year may seek a different mode of employment. So it is likely that under this system, the managers will be skilled and highly effective.

The bonus structure under Economic Value Added is also very beneficial in the budget preparation process. There are many advantages to EVA that will make the budget preparation process much easier and more effective. First, this system removes incentives from the profit planning process at the beginning of the year. This removes negotiation between managers and owners in determining an acceptable annual performance standard. Managers and owners do not need to negotiate under EVA, because one is compensated based on a percentage of EVA that he/she adds to the company. Without the negotiation factor to worry about, EVA promotes faster planning and the budgets are driven by a more aggressive strategy.³⁰

By far the most important advantage to this system is that it promotes constant attention towards adding value to the company. Under the conventional system, in which bonuses are paid on a standard level of

performance, managers may manipulate their decisions in order for personal benefit. These decisions may or may not be the best decision for the company. For example, if a manager knows that he/she will not be able to meet a specific measure of performance that was determined at the beginning of the year, then why should that manager work to come close to the specified goal? Rather, he/she may concentrate the losses and this will most likely reduce the budget for the following year and make it easier to make budget in the future. On the other hand, if things are going well and a manager has reached their performance target for the year, then why work hard to add more value to the company? Deferring profits will make it more likely that a manager will reach his performance target in the next year and receive a bonus in that year as well.³¹ Also, if a manager decides to sandbag the rest of a successful year, it is more likely that the budget performance standards for the following year will be lower than one's ability and so the manager will more than likely under-perform from a value standpoint in future years. In either case, the manager under the conventional method will more than likely pass up many opportunities to make investment decisions that will prove beneficial for the company as a whole. Under EVA, managers are motivated and benefited for adding value to the company because incentive targets are not predetermined at the beginning of the year.

Making Managers into Owners

³⁰ Economic Value Added: pgs 112-113

³¹ The Quest for Value: pg 234

The discussion of the behavior of managers to seek personal gain even though it may be under-performing to their ability is the opposite behavior that an owner of the company would like to see. A benefit with the Economic Value Added financial management system is that it turns managers of all levels within the organization into owners. Managers learn to think like the owner by constantly looking to increase shareholder wealth. The motivation to under-perform or sandbag profits is removed under EVA and it is actually penalized rather than rewarded. With all managers thinking and acting like owners, all should be producing to their utmost potential and this should increase the intrinsic value of the company.

Companies who Utilize Economic Value Added

Economic Value Added as a performance measure and management system began to really jumpstart itself in the mid-1990s. There are now well over 300 companies that have adopted EVA as their management structure and some major companies that are using EVA include: Coca-Cola, Best Buy, and Sprint.³² There are several examples of companies that at one point were struggling financially and upon adoption of EVA principles the company began to turn around their performance once the system was implemented into the daily operations of the business.

Coca-Cola adopted the EVA concept in 1983. Prior to adopting EVA, the company was mediocre at best in the area of wealth creation. Chief Executive Officer, Robert Goizueta, decided to incorporate the EVA management tool

into the company and by year-end 1994, Coca-Cola had become the world leader in wealth creation.³³ So in an eleven year span, the company went from mediocre to the global leader in wealth creation.

A second example of successful implementation of EVA principles and the effect it had on wealth creation is from the Briggs and Stratton Corporation. The company experienced stagnant wealth creation during the 1980s. The company had high operating costs and was using Earnings per Share as their measurement standard. In 1989, the company chose to scrap EPS as a measurement standard and incorporated EVA into the structure of the company. The company had immediate success, increasing 28% within the first four years of using EVA. The following table also summarizes the improvements in the return on capital and subsequently the positive effect it had on economic value added:³⁴

<u>Year</u>	<u>Return on Capital Economic Value Added</u>
1989	1.2% \$ -58 Million
1992	11.2% \$ 2 Million
1994	20.2% \$ 38 Million

The final example I wish to look at is with the Harsco Corporation. Harsco used Stern Stewart to implement EVA into their \$2 billion dollar industrial services company. Implementation of EVA began in 2001 for Harsco and it led to an immediate benefit. First off, it was able to

³² www.sternstewart.com

³³ Economic Value Added: pg 3-4

³⁴ Source: EVA 27-31

concentrate its management on one plan and goal and this made expansion internationally easier as the same management tool was used throughout all of its operations. It also led to an immediate financial benefit as well. Total return on shares increased 22.7% in the first three years after implementation. This is against a 35.8% decline in the S&P 500 index. What may stand out even more is that compared to other companies in the industry, Harsco operated at a much higher level of success. The industry average return decreased 10.9% during the same period of time.³⁵

Weaknesses of Economic Value Added

Every system no matter how successful it may seem does contain a few weaknesses that need to be improved upon. The first weakness is that it is very difficult to calculate a required rate of return that includes all of the capital costs.³⁶ There are so many factors that can be attributed to capital that it is difficult to pinpoint the rate of return to an accurate figure. It also is a somewhat abstract figure, because the cost of equity is abstract. There is no observable figure that accurately concludes the opportunity cost, so therefore the cost of capital is more of an estimate.

A second weakness with EVA is that it really cannot be applied to private companies. It deals with the cost of equity for shareholders rather than debt capital, and without shareholders it is difficult to apply EVA to the company.³⁷

A third weakness, according to some critics is that it can easily be manipulated as well. As I mentioned before, there are many adjustments to GAAP that can be made and there is no set standard of adjustments. The adjustments vary from industry to industry and companies are allowed to pick and choose among the many adjustments. Since there is no specific standard for choosing adjustments, it brings into question the reliability of EVA as well.³⁸

Personal Analysis of Economic Value Added

My personal overall assessment of Economic Value Added is that it is an effective management tool that promotes adding value to the company, and that it will add value to the company. If for no other reason, I do support the implementation of economic value added principles, because of its ability to turn the mindset of managers into the mindset of an owner. I believe this is by far the most important aspect of EVA. No one can deny that the sole motivating force behind the actions of a manager or employee is to better himself/herself. This is most often achieved through making decisions that better the company as a whole and in turn better the individual manager as well. However, there are instances where a manager may make a decision that will better his/her personal position but hinders the benefit to the company. Successful implementation of EVA principles will keep this from occurring by placing the benefits to the company and the individual on the same line. I firmly believe in compensation structures that are part salary and part

³⁵ EVALuation: Vol. 5 Issue 1

³⁶ Economic Value Added: pg xii

³⁷ www.valuebasedmanagement.com

³⁸ Economic Value Added: pg 166

commission. The EVA bonus structure resembles a part-commission base pay structure in that it provides the manager the opportunity to decide what he/she is going to make. In addition, the bonus structure does not carry a cap so there is no limit to the amount of bonus a manager can make. With no limit to the bonus available to the employee the level of intensity and productivity stemming from each employee should greatly increase.

I also support Economic Value Added because the concepts do not simply apply to high-level managers but yet it applies to low-level managers as well. I believe this is important to creating a sense of unity in the organization and I also believe that it leads to a high level of motivation for the low-line manager. EVA empowers its employees and instills a level of value and self-worth to the company. This is most important to the lower-level managers and employees as the company will utilize their talents and abilities more effectively as they become more productive in their work as they seek the bonuses made available to them.

One area of concern that must be addressed in regard to the unlimited bonus structure is the ethical actions of a company's employees. One of the benefits argued for in using EVA is that it allows its managers to be more aggressive in the decision making process. EVA allows for managers to make decisions that will increase value to the company that GAAP would suggest would decrease value to the company. It is without question that the combination of empowered managers with high bonus potential will lead to an aggressive and active pursuit of investment opportunities. My concern

comes from belief that the bonus structure may lead managers to become reckless and make poor decisions in an attempt to be too successful too fast. If one is able to make many investments and each earn above the cost of capital than the more aggressive the better. However, this is unlikely to occur. I feel that many managers when they begin to have a small level of success may become too aggressive.

An example to illustrate my concern is the game of poker. The professional poker player when he begins to have success and becomes the chip leader will begin to play conservative and pick the correct hands in which he/she can utilize his size advantage and skill to win the hand. By making sure to pick the right hands to play, with the lead and knowledge, he/she wins nearly one hundred percent of the hands he/she plays. On the other hand, when the amateur begins to earn success and become the chip leader, he/she often will play recklessly; entering and betting on hands that he/she should otherwise fold. Very quickly this player loses the advantage that he/she has earned, because they played too many hands.

Keeping the poker example in mind, it is important that when empowering the lower-level manager (the amateur) to become more aggressive in its decision making, that the experience manager (the professional) instill the importance of being aggressive but not being overconfident in one's ability to turn an investment into a success based on a little success in the past.

As I grow in my study of finance and accounting, I have become disgusted to discover the ease at which companies are able to manipulate GAAP in order to

improve the portrayal of the company's financial standing. GAAP is an inadequate system to provide a set of guidelines for stating financial information. Evidence that GAAP needs to be either completely done away with or experience a significant restructuring process is seen in that the Financial Accounting Standards Board has issued over 100 rules since 1973. This suggests that the system is too complex and has accounting reality farther away from economic reality.³⁹ I believe that Economic Value Added goes a long way towards improving the problems with GAAP, but I do not believe that it solves the problem completely. This is one area in which I am not yet convinced that EVA necessarily works. As I mentioned before, there are many adjustments in GAAP that can be made using EVA. If managers are allowed to pick and choose which adjustments to make, then what is to keep them from choosing the adjustments that will make EVA look higher than it might really be?

The evidence shown from many implementations of the EVA financial management system suggests that this system promotes an increased focus on increasing the intrinsic value of the company and provides a more accurate representation of the true intrinsic value of the company. "The evidence suggests that firms possess enormous amounts of hidden value and untapped performance that is released when EVA incentives are carried down throughout the organization even to the shop floor, and make all employees partners in creating sustainable improvements in EVA."⁴⁰ This represents employee capitalism and allows for managers to seek personal

benefit, because the goals of the individual fall right in line with the goals of the company and that goal is to increase shareholder wealth. Therefore in conclusion, I recommend that all companies seek to move away from using accounting reality to assess their financial performance and adopt the principles set forth under EVA in order to provide a more effective management system and promote employees to be more efficient in increasing shareholder wealth.

³⁹ Economic Value Added: pg 161

⁴⁰ Economic Value Added

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The Need for Adoption of Economic Value Added into Corporate Strategy

Ryan Robertson

Abstract

The demands of an ever-changing business world and the expectations of investors have forced companies to focus on the creation of shareholder value. Economic Value Added (EVA) is a measure of economic wealth creation that was introduced by Stern, Stewart, & Co. in 1982. If used properly, EVA can help managers evaluate how various costs affect financial performance, and it can assist them in making good

decisions. By itself, EVA is just one metric among a large number of performance tools used by management. However, when it is used with the effective Balanced Scorecard and Activity-Based Costing, EVA can become a valuable resource for management's decision-making. Management must be trained to use these three performance tools cohesively in order for the implementation of EVA to be effective.

Introduction

The business world has become an ever-changing entity over the last few years. There is a need for strong and effective corporate leadership to deal with the constant changes in the marketplace. Shareholders are becoming more educated and are demanding better performance from corporate executives. A drive for efficiency has been created by recent developments, leading to increased investments in technology, the elimination of jobs, restructuring, and higher quality products and customer service. This has led to an increased need for more sophisticated financial and non-financial information that measures performance (Abdeen & Haight, 2002): "When managers are making decisions it's vital that they act in ways that increase per-share intrinsic value and avoid moves that decrease it. This principle may seem obvious but we

constantly see it violated" (Pettit & Ahmad, 2000, p. 1). In a recent Berkshire Hathaway annual report, Warren Buffett observed that many managers were too concerned with market share, earnings growth, and returns on capital at the expense of concentrating on increasing value for the shareholder.

One of the newer techniques created to measure performance is Economic Value Added (EVA). EVA is a measure of economic wealth creation and was introduced in 1982 by Stern, Stewart & Company. Large companies including AT&T, Coca-Cola, and Eli Lilly quickly adopted EVA. It soon surpassed other popular valuation metrics as companies began to match executive compensation plans with corporate shareholder returns. This was possible, due to the strong correlation that EVA has with wealth creation (Sullivan & Needy, 2000).

Although EVA can be used to measure economic wealth creation, its effects will be diluted unless it is used within the context of corporate strategy. A company can decide to input numbers into the EVA equation, but that is not enough. A company must fully insert EVA into the corporate culture in order to change the organization's behavior. Employees and stockholders mutually benefit when the organization's decisions are focused on creating stockholder wealth. Stockholders will experience a rise in the price of their shares, while employees will see their compensation rise alongside the company's value.

There are a variety of tools available for performance measurement and management that can be used simultaneously in order to gain the full advantage of EVA. Activity-based costing (ABC) is a cost management system that is used to improve the quality of product and customer costing. Companies are replacing traditional cost accounting systems with ABC systems to provide an accurate cost for each service and product. In addition to cost information, a broad view of the company is needed to translate a business strategy into objectives. A management tool, the Balanced Scorecard, achieves this by providing managers with a framework to track the many factors that influence performance (Shinder & McDowell, 1999).

EVA, when used effectively, can help managers understand how costs obtained through ABC can influence financial performance. At the same time, EVA can evaluate whether or not managers have created a successful strategy. The implementation of EVA into a company's strategy can be quite complicated. There are a number of

steps that a company must follow to ensure that EVA will be effective, and this paper will explore these steps.

What is EVA?

Economic Value Added shows managers whether they are earning an adequate return on their investments. It is a measure of profit less the cost of all capital employed (Pettit, 2000). EVA measures the value that is added to a company. Value is added when there is an expectation of increased future free cashflows. Free cashflow can be defined as the amount of cashflow (Net Operating Profit After Taxes + Non Cash Charges) that is expected to remain after all investments have been made. Free cashflow is used to pay off the principal on loans, pay dividends to shareholders, and buy back shares to increase stock price (Young & O'Byrne, 2001).

EVA captures revenue, cost, and the cost of capital in the following equation: $EVA = \text{Net Operating Profit After Tax} - \text{Capital Employed} \times \text{Cost of Capital}$ (Pettit, Dower, Pichler, & Perez, 2001). It is necessary to understand each aspect of the EVA equation and be able to observe its impact on the result. Net operating profit after tax (NOPAT) is used to measure past management decisions. Generally accepted accounting principles (GAAP) are used to calculate NOPAT for income statement purposes. In order to be applicable in EVA calculations, NOPAT measured for accounting purposes must be adjusted in order to correct any accounting misrepresentations of investment and income. Accounting adjustments are made for a variety of reasons. For example, GAAP requires that employee training costs be reported

as an expense in the period in which the training occurred. While this is acceptable for accounting purposes, for economic purposes the employee training costs should be capitalized and amortized over the years in which they are expected to provide a benefit (Abdeen & Haight, 2002).

There is not an accepted group of adjustments for EVA purposes. It must be recognized that a company using EVA should hold to the same types of adjustments from year to year. If a company is allowed flexibility with its adjustments, EVA loses its accuracy and continuity. Furthermore, an EVA standard for adjustments needs to be created by Stern Stewart & Co in order to create comparability. Among the accounting adjustments made to NOPAT for EVA purposes are eliminating non-cash charges such as amortization and depreciation, amortizing investments in intellectual capital, eliminating accruals for bad debts and warranties, expensing research and development, and recognizing off-balance-sheet debt (Young & O'Byrne, 2001).

The second aspect of the EVA equation that must be understood is the concept of capital employed, or invested capital. Capital employed is the "sum of all the firm's financing, apart from short-term, non-interest bearing liabilities, such as accounts payable, accrued wages, and accrued taxes" (Young & O'Byrne, 2001, p. 43).

Finally, one must understand the aspect of cost of capital. Without cost of capital it is impossible to know if a company has created value. The cost of capital is the rate of return a capital provider would expect to return if he or she invested assets elsewhere, and is the most difficult component of EVA to estimate (Abdeen & Haight, 2000).

There are a couple of assumptions that are made in the calculation of the cost of capital. When a company calculates the cost of capital, it assumes that the business risk will remain unchanged.

The company also assumes that its financial risk will remain the same. The company must ensure that its ability to meet required financing costs will stay unchanged (Gitman, 2003). Many companies operate as if equity finance is free, but this could not be further from the truth (Tatcher, 1998). The cost of equity finance is complicated and difficult to calculate because there is not a stated rate as there is for debt finance. Due to the higher level of risk involved in equity investments compared with debt finance, companies must pay a risk premium to investors. A problem appears in determining how high to set the risk premium (Young et al., 2000).

The complexities involved with determining the risk premium for equity finance leads managers to comprehend investor requirements by observing capital market behavior. The Capital Asset Pricing Model (CAPM) aids managers by calculating how capital markets price risky assets. CAPM can be summarized as:

$E(R) = R_f + \text{beta} [E(R_m) - R_f]$. $E(R)$ is the expected return on any risky asset. R_f is the return on a risk-free asset such as a government bond. $E(R_m)$ is the expected return on the stock market. Beta is a measure of systematic risk and is defined as the volatility of a company's stock price compared with the volatility of the stock market. The higher the beta, the higher the company risk premium. The problem with this model, however, is that it is primarily based on investors' expectations regarding the market (Young & O'Byrne, 2001). Calculating the cost of

capital is made more difficult when one brings tax into the equation. Interest on debt is deductible, and an adjustment must be made to properly calculate the cost of debt. If a firm's yield to maturity on its corporate debt is 6% and its marginal tax rate is 30%, the after-tax cost of debt is 4.2% ($6\% \times (1 - 0.3)$) (Abdeen & Haight, 2000). Companies have varying capital structures, with companies having a high percentage of debt financing while others have a high percentage of equity financing. Weighted-Average Cost of Capital is an equation that includes the varying level of debt and equity in a company's capital and averages them. It is calculated as follows: $WACC = \text{debt}/\text{total financing} (\text{cost of debt}) (1 - \text{tax rate}) + \text{Equity}/\text{Total Financing} (\text{Cost of Equity})$.

The Advantages and Disadvantages of EVA

In order to gain the full benefits of EVA analysis, it is vital to understand the advantages and disadvantages associated with the measurement tool. The major advantage of EVA is the alignment of employee behavior with stockholder value generation. The company is motivated to act in the best interests of its shareholders (Stephens, 1997). Everyone wins when a company creates value. The stock price is likely to rise as demand for the valued stock rises. The company may decide that it can afford to pay higher dividends to its shareholders and significant value added can justify higher employee compensation.

While a great deal of information is circulated concerning the advantages of EVA, less attention has been paid toward the disadvantages of the measurement tool. Critics point to the complexity involved in calculating

various components of EVA. Over 160 accounting adjustments to GAAP must be made in order to calculate Net Operating Profit After Tax. In addition, seven tests must be applied to each adjustment to decide if it is warranted. Managers can use the accounting adjustments to manipulate the EVA results to enhance their performance evaluation. Moreover, critics fear that if EVA is used as a single performance measure, managers could stop doing long-term planning and focus only on short-term performance (Keys, Azamhuzjaev, & Mackey, 1999). There is a danger involved when managers make decisions that benefit them in the present while they ignore those decisions that affect the company in the long-term. Managers cannot exclusively place their focus on the immediate implications in the market when they make their decisions.

While it is an effective measure of value added, EVA is not perfect. It must be used in the context of a broader corporate strategy in order to realize all of its benefits.

EVA Within Business Strategy

At this point in the study, EVA has been viewed by itself as a single measure used to evaluate overall value creation. When it is viewed alone, the equation does not accomplish much more than estimating the amount of value created within a period of time. In order to gain the full benefits of EVA, it must be implemented into corporate strategy. EVA can be used as a tool to show the effectiveness of a corporation's strategy. If little value is added to the company, the message is sent stating that the company needs to refocus and reallocate its assets. A company's

strategy should focus on maximizing shareholder wealth through the creation of value. This is one of the basic doctrines of capitalism (Pettit, 2000).

In order to understand EVA's effectiveness within corporate strategy, one must be able to define corporate strategy. It must first be realized that a firm cannot be all things to all people. If a firm is focused on too many factors, it will be unable to generate maximum value for the shareholder. According to Michael Porter (1985), there are three generic strategies, or value disciplines, that a company can adopt. The Cost Leadership strategy focuses on operational excellence as it sets out to become the low-cost producer in its industry. EVA is extremely important in a Cost Leadership strategy because low-cost producers must find and utilize every possible source of cost advantage. The Differentiation strategy focuses on innovation and commercialization as companies strive to be the leader in an industry along some elements that are valued by buyers. Companies who follow a Differentiation strategy must continuously choose activities that make them different from their competitors. Companies who follow a Focused strategy choose a segment of an industry and strive to be the leader by focusing on cost or on differentiation. An organization must decide which of the three value disciplines to adopt as its main focus, and organizations who achieve leadership in both cost and differentiation are very successful (Porter, 1985). Much of this decision is based upon the industry in which the company operates. After adopting its primary value discipline, a firm must also take care not to ignore the other disciplines. It must focus on performing adequately within the other disciplines in

fear of ignoring vital value-driving strategies (Stern, Shiely, & Ross, 2001).

A company must form an organizational structure around its strategy. According to James Brickley, Clifford Smith, and Jerold Zimmerman, a company's organizational structure can be divided into three components that can be characterized as "the assignment of decision rights within the company, the methods rewarding individuals, and the structure of systems to evaluate the performance of both individuals and business units" (Stern et al., 2001, pp. 42-43). A firm's organization must be divided into sub-units named EVA centers, that is, investment centers where EVA is used as a performance measure. A company may decide to designate expense centers, revenue centers, cost centers, profit centers, and investment centers. The upper management of the company must then surrender a large portion of decision rights to the managers responsible for each EVA center, managers who must ensure that each employee is comfortable in using the EVA system in daily work activities. In order to be effective, EVA must be used from the bottom of an organization to the top. By allowing every employee to be involved in EVA decision-making, a company will help its workers to perceive themselves as important to the company's success (Stern et al., 2001).

EVA and Financial Strategy

According to EVA founder, Bennett Stewart, companies can be fuzzy when it comes to their financial management. They show a lack of clarity, cohesion, effectiveness, and accountability. They use too many measures in order to track their success (Stewart, 2004). It should be apparent

by now that a company can turn to EVA to measure its success in the creation of value. A rise in EVA signals that value has been created for the shareholder. Thus, a company should focus on activities that increase EVA. One of the ways that a company can increase its EVA is through the improvement of returns on existing capital. The company does not need to invest new capital but can focus on raising prices, increasing volume, and lowering costs (Pettit, 2000). If the returns surpass the cost of capital, additional capital can be invested to build the business. The company can also shed some of its unprofitable investments. This can be done by selling unproductive operations, outsourcing unproductive activities, or spinning off subsidiaries so they do not reduce the value of the company (Pettit, 2001).

Another way that a business can increase its EVA is to benefit from the tax advantages of debt and substitute it for equity. An advantage of the aggressive use of debt is the increased accountability that it requires. A company that is obliged to repay debt must avoid investing too much in unprofitable acquisitions and activities. While it is important to leverage investments, a company must avoid acquiring too much debt as a percentage of capital.

Finally, a company can concentrate on reducing the business and operating risk associated with a company (Harvey, 2002). This involves undertaking corporate governance activities that improve the business environment.

The EVA Management System

The most efficient way to undertake corporate governance is through a corporate management system that involves various incentives, measures, tools, and controls that support decision-making. Many companies' corporate management systems are inefficient at best, and they destroy value while skewing value's relationship with performance. Some of the problems concerning traditional management systems include short-term bonus plans, a high number of performance measures, and a lack of the integration of incentive, budgeting, and planning. Justin Pettit (2000) effectively summarized the problem when he wrote, "Being less correlated to shareholder wealth, these (performance) measures are therefore more likely to lead to incongruent decision making" (p. 9).

EVA, as a single measure, has the ability to realign the internal organization of a company by refocusing everyone's attention to the creation of shareholder value. An EVA management system is set up to reward the value-creating activities of employees. By aligning salary and bonus compensation with the level of value created within a given period, a company will ensure that its employees focus on developing strong value-creating activities. Additionally, the EVA system must establish strong relations between strategic thinking, budget and strategic planning, daily operations, employee compensation, and shareholder wealth. Thus, if a company creates this top-bottom link within a company, employees will begin to act and think as though they were the company's owners (Pettit, 2000).

A company can formulate a great strategy to create value, but that strategy will fail if the company's workers are

not encouraged to embrace the new philosophy. Supporters of EVA point to traditional competitive pay practices stating that they are misunderstood and misdirected (Pettit, 1998). It is essential to understand the mistakes of traditional competitive pay practices and how EVA-based incentives solve the problem.

Many employees do not understand the intricacies of the bonus formula in their company and are unable to link their daily activities to compensation. Another common error attributed to employee compensation is the collection of payouts among top management. Employees are not motivated to work when they see that the compensation is heavily focused toward higher management. EVA, when correctly used as the main input for bonus calculations, encourages the company's workers to perform better. Without the acknowledgement and the hard work of employees, a company's strategy will fail miserably. In a report written by Bennett Stewart (2002), it is stated that there are nine principles that provide guidance for the design of a successful EVA incentive plan.

Among the nine principles that Stewart introduces is the principle of improvement, stating that bonuses should not be paid from EVA, but from the increase in EVA. A company may have a negative EVA, but improve it so that it is less negative the next year. This should be rewarded in the same manner as a positive EVA that is made more positive. Another important principle is that of concentration, which states that the bonus should focus on one measure only. One measure across the entire company will encourage different departments to work together, creating a spirit of unity within the corporation.

The principle of materiality states that the bonus must be large enough to make employees work hard and make difficult, value-adding decisions. To take advantage of the effect of EVA incentive programs on employees, companies have created reports to simulate how large a bonus can be earned if a proposed new investment is successful. Managers are more focused on results when they see the effect that the results will have on their income (Stewart, 2002).

EVA and Productivity

Productivity is difficult to estimate for the long-term because it must be matched to consumer demand. The higher the consumer demand, the lower the amount of productivity needed to achieve a specific financial outcome. For example, a company may desire to earn sales of \$30,000 for a certain product. If each product is sold for \$1, at least 30,000 products must be produced to reach the sales goal. If demand for the product increases and the product begins to sell for \$2, less productivity is required as only 15,000 products must be produced. Assuming constant demand, a company must focus on several factors to increase productivity: innovation, technology, and investment in human capital. If a company centers its attention on these factors, it can accomplish one of four outcomes. There can be an increase in output per work-hour, an increase in quality, a decrease in cost, or a decrease in errors and defects. If a company achieves any of these outcomes, it has increased productivity (Ray, 2001).

If a firm does not increase productivity, it will fail at every level. If a firm increases productivity, it will increase the quality perceived and

ultimately the price paid by the consumer. According to Ray (2001), this creates value for the shareholder. When a company searches for added value within its organization, the value will be found where productivity has increased.

EVA and Activity-Based Costing

While driven solely on performance, a strategy based on EVA must still depend on accurate cost information. Though EVA allows managers to understand the impact of their decision on the creation of value, they must still understand the cost and capital impact of their choice. Activity-Based Costing (ABC) is a cost management system that is replacing Traditional Cost Accounting (TCA). In the past, companies did not receive the correct cost information from TCA, as it was based on incorrect cost drivers. The business environment changed, and there was a need for cost accounting to adjust. As defined earlier, ABC is a cost management system that provides a cost for each service or product by considering each activity needed for production (Shinder & McDowell, 1999).

ABC in itself is not perfect. Companies who have adopted ABC seem to focus most of their efforts on reducing costs. In addition, ABC does not take the capital factor into the calculation of costs. Some researchers have suggested that EVA be combined with ABC because of EVA's emphasis on capital (Roztocki, 2000). This combination would help solve the costing inefficiencies of both EVA and ABC. This is a great example of how EVA solves many of the problems within a company's framework.

Experts have created an Integrated ABC-and-EVA Information System to trace the three types of costs within a company: direct, overhead, and capital (Roztocki, 2001). The integrated system is more concerned with using EVA to increase the reliability of cost information. Ratios are calculated to determine the cost of capital used in a company in relation to the amount of total cost that the company uses. The CT-Ratio aids management in deciding whether it should implement an Integrated ABC-and-EVA System. It is calculated by dividing capital cost by total cost. If the ratio is high (<0.5), the company will benefit from integrating EVA into its ABC system (Roztocki, 2000). The integrated system is a great example of the variety of uses that EVA has within a company's strategy and infrastructure. A strategy that depends on EVA and ABC can rely heavily on the cost information it receives for decision purposes.

EVA and the Balanced Scorecard

Another corporate strategy tool that is becoming very popular in business circles is the Balanced Scorecard. This tool identifies a number of financial and non-financial measures to provide a broad view of the business while monitoring and evaluating performance. The Scorecard is a collection of data that helps managers understand performance while balancing their focus between past, current, and future performance. The Balanced Scorecard divides the company's vision and strategy into four broad categories: financial performance, customers, internal processes, and learning and growth. Each category is divided into several measures, permitting

management to then manage each measure to determine if the company is balanced in its performance while implementing its vision and strategy (Shinder & McDowell, 1999).

While it is an excellent tool for measuring the factors that affect performance, the balanced scorecard does not have a measurement for accountability. There is not currently a quantitative feature that scores how well the qualitative measures have been implemented. Users of the Balanced Scorecard have turned to EVA to measure whether they have balanced the measures on the Scorecard properly. In the same way that EVA and ABC assist each other in corporate strategy, EVA and the Balanced Scorecard assist each other in measuring profitability and the creation of value. Within strategy, EVA is viewed as a lagging indicator because it evaluates how well the company performed after the fact. In order to create future EVA, leading indicators must be understood. Measures on the Balanced Scorecard should track the leading indicators of EVA and should include customer satisfaction, employee morale, and inventory cycle time. If a company is performing well on the various measures on the scorecard, it is most likely that EVA will increase in the future (Young & O'Byrne, 2001).

A company can create a dynamic strategy if it efficiently uses Activity-Based Costing, the Balanced Scorecard, and Economic Value Added. EVA acts as a link between decisions, information, and performance measures. These tools are complementary, giving managers the cost information, decision frameworks, performance measures, and rewards that motivate them to create value for the shareholder (Shinder & McDowell, 1999).

Value Drivers

EVA can work easily in an independent, stand-alone business unit. As a company becomes more complicated and more communication is needed, a great deal of work must be done in order for transfer prices and overhead to be accounted for. If a company continuously changes its transfer pricing policies, an increase in EVA may be a result of the ever-changing policies rather than an increase in a company's performance. Therefore, the executives of a company must make every attempt to ensure that policies do not change on a regular basis. Middle and lower management must make every attempt to increase the value of the business unit in which they operate (Young & O'Byrne, 2001).

While most investment decisions are made by upper management, the actions of every employee can affect EVA. It is necessary to divide EVA into several components, or value drivers, that can be more easily managed by middle and lower management. One of these components is working capital. An increase in working capital will result in a higher EVA for the company. Middle and lower management can make key decisions that increase working capital by increasing inventory turnover. By increasing inventory turnover, a company can increase the cashflow with which it can make capital investments. Management can also increase the inflow of cash by improving its collection of receivables. By reducing the time necessary to collect a receivable, a company can quickly collect cash with which it can make investments.

Inventory turnover and the average receivable collection period are both lagged indicators of value creation, and as such they cannot be totally relied upon to give an accurate picture of present financial performance. Thus, a company must rely also on the Balanced Scorecard to track all value drivers of a nonfinancial nature. Certain nonfinancial activities within a company can be known to increase value added. If a company improves its receivables collection while sacrificing customer satisfaction, sales will decrease and little value will be added in the long-run. Therefore it is essential for companies to continually monitor nonfinancial indicators that can be used to monitor and reward success within the company (Young & O'Byrne, 2001).

EVA Implementation

The benefits of EVA have been discussed, and it is apparent that it is an effective business tool. Consequently, although many companies are adopting EVA as part of their corporate strategy, it is important to understand that managers cannot throw EVA into corporate culture, policy, and strategy and expect it to be successful. A lengthy implementation process must take place in order for EVA to be effective.

The decision to use EVA comes from within the firm at the highest level, the board. If a company's board does not understand EVA and does not believe it will benefit the company, implementation should be abandoned. The implementation is destined for failure if the shareholders' representatives do not approve of EVA. It is the responsibility of a company's chief executive officer and chief financial officer to convince the board of

EVA's potential to add value to the company. Thus, the company's top executives must be the largest supporters of the measure within the company. Once the board gives approval of EVA implementation, the executive branch of the company must appoint a project leader who will be responsible for organizing the implementation process. In many firms, the person responsible for the implementation is the individual who suggested the use of EVA (McLaren, 1999).

A company cannot embrace EVA half-heartedly. A great deal of investment is needed in order for the measure to be employed correctly. It is recommended that a company hire external consultants to assist in the implementation process. A variety of tools are offered by Stern Stewart & Co. to assist companies in the implementation process, specifically the Four M's of the EVA Management System, which can be used by companies that are in the process of incorporating EVA into their corporate strategy. The first tool is Measurement (M1). Companies must develop the EVA measure by making key adjustments to GAAP to convert financial statements from an accounting framework to an economic framework. Recommended adjustments vary among industries, but the intent is to better capture the economic performance of the measured items. The information systems that a company uses must be reliable in order for the EVA measures to be effective. The EVA measure that a company uses must be consistent, straightforward, and efficient (Singer & Millar, 2003).

The second tool that Stern Stewart & Co. recommends in the implementation process is the

Management (M2) phase. This segment introduces EVA in order to improve organizational decision-making. During this step, management will review past, current, and future decisions, develop spreadsheet tools to assist in decision-making, and discover ways to improve a variety of processes within the company. Many companies elect to create a manual that lists and explains the various tools that will be used for EVA purposes. This manual serves to standardize decision-making across the company (Singer & Millar, 2003).

The third tool in the implementation process is Motivation (M3). During this process, incentives must be linked to the creation of shareholder value. Through this program, managers will be rewarded if they create shareholder value. The use of EVA as a performance metric guarantees that decisions will be made toward a common goal.

The final tool in the implementation of EVA is Mindset (M4). Many companies undergo a number of training sessions to develop a mindset in managers that focuses on increasing shareholder value. Managers who make key financial decisions must be educated to the point where they can in turn educate those around them. A number of employees are designated as experts and go through a number of training sessions to learn the details involved with EVA. When there is a question that arises concerning EVA, employees contact EVA experts to find an answer. A variety of other training sessions are offered to non-financial employees so they can understand how EVA operates and how it affects their decisions (Singer & Millar, 2003).

Employee Investment in EVA

Companies that have recently adopted EVA into their corporate strategy have developed creative implementation schemes. Sirona, a German dental equipment manufacturer, has encouraged its employees to invest in the adoption of EVA. Employees can allocate a portion of their salary as an investment. If the company achieves its EVA target, employees will receive their investment back with additional bonuses. If the company fails to reach its EVA target, employees will receive only a fraction of their original investment, if anything. Approximately 87% of Sirona's employees have decided to invest in EVA, trusting that their fellow employees will work to create value and earn themselves a return on their investment. In the first few months of the initiative, Sirona reported a much-needed drop in inventory. Franz Scherer, the head of the management board, stated that before EVA was implemented there was an extremely high number of staffing requests. When managers adopted EVA and looked toward an EVA-based bonus, staffing requests decreased dramatically. EVA eliminated a great deal of inefficiency because Sirona's employees invested in it (Pollock, 1999).

Requirements for Success

In their book, *The EVA Challenge*, Stern, Shiely, and Ross (2001) list six requirements that must be met in order for EVA to be successful. They write that a company must first have an efficient strategy and organizational structure for EVA to

boost performance. If a company has a useless strategy, EVA will not fix all of the organizational problems. Furthermore, EVA will not be able to measure performance effectively if the company's priorities are skewed. Second, EVA must be implemented in full in order for it to be valuable. If a company does not strategize with EVA, the measurement will serve only as a scholarly exercise. If a company insists on operating with legacy systems, EVA will not work. Third, the adopting company must implement an EVA-based incentive program. The program should aim to reach as far down in the company as possible in order for the majority of workers to be encouraged to add value to the company.

The fourth requirement that Stern et al. (2001) suggest is a comprehensive training program that will equip the various levels of the company to use EVA. A company's management can fully understand EVA, but there will be no success if its employees are ignorant of the measurement tool's features. Moreover, the company's CEO must fully support the use of EVA. If the workers do not see the CEO taking a strong stand for the new measurement system, they will not support it. Finally, the CFO and controller of the organization must also support the implementation of EVA. It is believed that the CFO and controller have the most difficult job in the EVA adoption process, since they are responsible for both the accounting and economic measurements within the company.

Conclusion

EVA is quickly becoming the measurement tool of choice among corporations striving to improve their

performance. An understanding of EVA and its place within a corporation's strategy is vital in order to receive the full benefits that the measurement offers. EVA measures the amount of value added to an organization. It measures a company's profits against its use of capital. A company can use EVA to improve both its day-to-day and overall performance. In order to receive the full benefits of EVA, a company must have an effective business strategy in place. That strategy must be focused on a specific value discipline.

Companies using the performance measure will divide the organization into sub-units named EVA centers, where each center is given the ability to make important decisions that can add value for shareholders. A financial strategy that centers on EVA organizes on the capital structure to benefit from leverage. If a company's returns surpass its cost of capital, additional capital can be invested to build the business. If certain investments prove to be unprofitable, they can be discarded. Management can become more efficient with the use of EVA, as managers must realign the internal organization of a company by refocusing everyone's attention to the creation of value. Employees are encouraged to adopt EVA with incentives that are tied to the measure. Many companies offer bonuses that are tied to the amount of value that is created within a given period.

There are a variety of tools that complement EVA within corporate strategy. Activity-Based Costing provides a cost for each service or product by considering each activity needed for production. ABC does not account for capital costs within a company. EVA, when used with ABC,

gives management reliable cost information for decision purposes. The Balanced Scorecard is a management tool that tracks both financial and non-financial data to help management understand performance while balancing their focus between the past, present, and future. EVA aids users of the Balanced Scorecard by allowing them to measure whether they have balanced the measures on the Scorecard properly.

A variety of tools is offered to help companies train their employees in a quick and efficient manner.

Companies must make key adjustments to GAAP to convert financial statements from an accounting framework to an economic framework. Pollock (1999) points out that specific firms are beginning to encourage their employees to invest a portion of their own portfolio in the EVA process because it ensures that employees will be working intensely

to create value so that they make a return on their investment.

There are a number of requirements that must be met for EVA to be successful. Companies need to implement EVA in full; if the tool is not used for management purposes, it serves only as a financial calculation. CEOs and CFOs must act as EVA's largest supporters within the company, since they are responsible for the company-wide implementation and success of the standard (Stern et al., 2001).

As EVA is becoming more popular, it is vital that companies understand how to use it effectively. EVA is not a perfect corporate finance tool, but its favorable treatment of leverage and cash flow encourages companies to concentrate on beneficial investment decisions. The possibilities seem limitless for companies that successfully implement this powerful tool.

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Perspectives on Globalization

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Abstract

Globalization can be defined in many ways. At a top political and economic level, it is the process of denationalization of markets, politics, and legal systems - in other words: the rise of the so-called global economy. The consequences of this restructuring on local economies, human welfare, and environment are the subject of an open debate among international organizations, governmental institutions and the academic world (*Introduction to Globalization*, 2004). This paper seeks to evaluate globalization from four perspectives: its advantages; its disadvantages; how Christians should approach it; and its future.

Arguments for Globalization

Globalization is a worthy endeavor when conducted ethically. It can however lead to disaster for the people and for the organization if the firm exclusively desires to increase the bottom line. This portion of the paper will discuss the advantages of globalization. Three discussion points have been defined to present the arguments for globalization. First, why should a country wish to allow alien organizations to enter its borders and begin to utilize their labor force and resources or compete with its native corporations? Second, what are the

economic advantages of globalization in a real world sense? Finally, how are the people in the host nation protected legally from immoral organizations?

Historically, the Roman Empire's version of globalization began with conquering weaker nations then taking their assets to make Rome stronger. Rome would then use the assets acquired through conquest to continue its invasion by conquering the next nation in line until domination of the known world had been accomplished. Today the idea of globalization is much different and is generally not conducted in total by a foreign government but by the host nation allowing foreign business to enter its territories. According to Maria Livanos Cattau, "Globalization can be described as the increasing interdependence of the national economies of both advanced and developing countries. Such economic integration occurs when countries open themselves to expanding flows of trade, capital, labor and ideas with the rest of the world" (2005).

A number of trade alliances have been created by several governments to allow their countries to exercise free trade. One such trade agreement is NAFTA or the North American Free Trade Agreement; another is the EU or European Union. The EU has taken their trade agreement further by adopting one currency for all participating nations. One currency will allow a multinational corporation easier access

into the host country. According to a World Bank study (Dollar and Kraay, 2001), globalization is generally beneficial. It shows that within individual countries over time and across countries, globalization leads to faster growth and poverty reduction in poor countries. It points out that while non-globalizers grew faster than globalizers during the 1960s and 1970s, the positions reversed, rather dramatically, during the last two decades (Haque, 2004).

In general, countries that enter into a free trade agreement open their borders to firms which wish to become, or are already multinational. This agreement also allows corporations to trade freely from one country to the next. In turn, the respective organization adds to the gross national product of the host country, establishes industry, and invests in the local communities' infrastructure and many times in educating not only the current workforce but also the future workforce. For example, from 1980 to 1998, world child labor rates (the percentage of children between the ages of ten and fourteen) tumbled from 20 to 13 percent. Child labor rates dropped from 27 to 10 percent in East Asia and the Pacific, from 13 to 9 percent in Latin America and the Caribbean, and from 14 to 5 percent in the Middle East and North Africa. Interestingly, regions lacking multinational corporations had the worst child labor rates and the smallest reductions: Sub-Saharan Africa and South Asia's child labor rates dropped from 35 to 30 percent and from 23 to 16 percent, respectively (Quinlivan, 2000).

Initially, opening the countries' borders to free trade may seem counter productive; instead it is an economically sound idea. Three primary issues will

need to be addressed in relation to the economic benefits of globalization. First, what is the benefit of an open market? Second, how will the competition affect the agreeing nation's economy? Finally, will critical jobs be siphoned from developed countries?

Often the immediate effects of multinational corporations establishing business in developing countries can literally change an area's economy overnight. This change, caused by economic advantage, is due to globalization. However, some critics of globalization prefer governmental aid and foreign governmental involvement instead of corporate investment and corporate involvement in the development of the host nation. Trade agreements like NAFTA require participating governments to "make trade rules fairer so that developing countries can compete equally in the global economy generating more income in those countries. Economists estimate that with fairer global trade rules, African countries could earn six times what they receive in assistance from wealthy countries every year. And if all developing countries' share of world trade increased by just one percent, their income growth would lift 128 million people out of poverty" (Russell, 2005).

Changing trade rules encourage competition between countries and within certain industries. The changes will sometimes cause nations with certain advantages, such as the abundance of natural resources, to face competition that did not exist before. As income for a product or service may increase in one country, it may decrease in another, creating competition for the product. However, instead of this cause and effect being destructive, natural competition is a catalyst for better

products at lower prices. According to Quinlivan, “Competition is not destructive; it has compelled multinational corporations to provide the world with an immense diversity of high-quality and low-priced products. Competition, given free trade, delivers mutually beneficial gains from exchange and sparks the collaborative effort of all nations to produce commodities efficiently. As a consequence, competition improves world welfare while dampening the spirit of nationalism and, thus, promoting world peace” (2000).

The ability for one country to produce goods or services at lower prices will not cause an entire industry to relocate to the lowest cost area of production; factors other than wages must be addressed. According to Quinlivan, “Multinationals are not siphoning jobs from high- to low-wage countries; in fact, they tend to preserve high-wage jobs in developed countries; in 1998, 75 percent of foreign direct investment went to developed countries. Besides, labor costs alone do not determine where multinational corporations base their affiliates; other variables—such as political stability, infrastructure, education levels, future market potential, taxes, and governmental regulations—are more decisive” (2000). Globalization does not create job siphons from one country to the next. While some jobs may move from developed countries to developing countries, the natural security and stability of developed countries will continue to encourage investment and new job markets will continue to appear throughout the developed country.

Globalization can be beneficial to all participants; in both developed countries and developing countries,

globalization creates healthy competition thus reducing the cost of goods while increasing the quality. In developing countries, globalization has allowed for economic booms bringing those countries out of extreme poverty. The down side to globalization is, at times a corporation may try to take short cuts in safety or environmentally in a developing country, which would not be allowed in a parent-developed country. What then keeps immoral corporations from jumping from one country to the next in an effort to avoid prosecution for violating the host nation’s laws? Additionally what keeps the same corporations from keeping its corporate headquarters in one country while moving operations that are heavily regulated in the mother country to another with less regulation? Legal redress must be able to be accomplished through international law.

According to Saman Zia-Zarifi, international law presents several distinct avenues for approaching multinational corporations. They are “Applying international norms directly to companies at an international level; Applying international norms indirectly to companies by holding their home or other host states responsible for failing to address illegal corporate activity, and Applying international norms directly to companies at a domestic level” (2000).

International law is only one avenue which is being adjusted to address issues relating to the new global environment. Many multinational corporations are concerned about doing the right things. With the availability of information over the internet, and in the media, bad public relations can be more detrimental to an organization than sanctions or other legal proceedings. In efforts to reduce the amount of bad

publicity and global response against the corporation, many organizations are very careful to ensure their business practices are above reproach. Quinlivan states “Multinational corporations have also advanced several programs (The Global Environmental Management Initiative and the Global Sullivan Principles, among others) to establish industry codes dedicated to achieving high levels of social responsibility. A United Nations survey of multinational corporations revealed that the primary reason multinational corporations do not invest in certain countries is the presence of extortion and bribery; not surprisingly, the main source of the corruption is governmental officials. Both the International Chamber of Commerce and the International Organization of Employers have established social codes and standards that attempt to establish principles for responsible environmental management” (2000).

Many examples exist of organizations working with local and national governments in order to improve the area in which they are operating. Numerous developing countries participating in free trade agreements, thus becoming part of the global economy, have experienced growth and stability. The developed countries participating in those agreements have also experienced growth and have enjoyed the benefits of larger markets. Globalization is critical to continued success in the current world environment. Without the expansion of markets, economic growth will stagnate and eventually decline. Corporations must continually strive to operate ethically and morally in order to develop strong sustained growth. As the number of international and global organizations

grow so will the jurisdiction of the world court, thus giving more authority to international policy makers. In order for organizations to continue to operate on a global basis they will have to monitor themselves in order to avoid sanctions, and possibly prosecution, in their homeland and abroad. Understanding the concerns of globalization and implementing strategies to address those concerns will allow the global organization to continue to grow, and benefit not only the organization, but the countries in which the organization operates.

Arguments against Globalization

Globalization arguably began with the first voyages of discovery to new lands. Explorers of old probably set out with the goal of discovering new lands so that they could be exploited in some way, to provide new raw materials, or simply to expand their present territory. Some of these “new” lands were uninhabited but many were home to indigenous people or outside nations who had already laid claim to them—fertile ground for conflict. Unless it soon became evident to both parties that they could mutually benefit from a trade arrangement, they would usually fight over the local resources (land, food, materials, privacy, etc.). Many of these encounters probably resulted in successful conclusions, but our task in this section is to uncover the darker side of globalization.

New technologies such as computers, fiber optics, satellites, jet aircraft, and other mass transportation, empower people to communicate and travel over great distances with ease. Raw materials, which were once inaccessible, can now be utilized, and in

the quest for higher profits, companies are able to position themselves to take advantage of lower labor costs and low overheads. Countries, which buy into the free trade doctrine, have removed obstacles such as tariff barriers and customs holdups to allow the free flow of goods and information across their borders. Our world is becoming highly interconnected, and a worldwide culture, which transcends language and cultural differences, is emerging.

Four main themes condemning globalization emerge from the literature:

- 1 Offshore outsourcing and unemployment
- 2 Obliteration of indigenous peoples, and violation of human rights
- 3 The hidden corporate agenda
- 4 Environmental destruction

These issues arise repeatedly. It is the average person, the citizen, the individual, who suffers the effects of globalization. This same individual raises a ruckus at protest rallies, strikes, and demonstrations. Globalization is suddenly an issue that is getting lots of attention—and this despite attempts by corporate controlled media and world governments to suppress anything that is not pro-globalization.

Christopher Koch (2003) is of the opinion that offshore outsourcing is going to devastate developed nations, including the United States. The current trend among many large corporations, in a variety of service industries, is to outsource firstly the lower functions, but more recently some higher functions such as systems architecture and R&D. Initially only the big companies were outsourcing big jobs. Today the offshore outsourcing facilitators have matured to

where the coordination expenses for very small projects are becoming cost effective and therefore attractive to smaller US companies. Many may be leaping before they look. Stephanie Overby (2003) describes the many hidden costs that can eat away all the money 'saved' on offshore outsourcing. One example of hidden costs would be the expense/time involved in traveling to and from the foreign country to select a vendor/partner. Once the vendor is selected, there are huge costs involved with knowledge transfer and overcoming communication and cultural differences. In-house employees spend time training foreign employees for anywhere from three to twelve months. During this time, trainer and trainee must be paid to train rather than produce a product, which does not add to the immediate bottom line of the firm. Layoffs take their toll in severance and retention bonuses, morale may suffer, and employees may leave before sharing their knowledge with their replacements. A potential liability arises if the outsourced former employee decides to bring legal action against the company. Further, if the skill level of the offshore employees is not up to par the vendor may incur the additional expense of hiring more staff to make up for the inadequacies. Finally, the whole operation must be managed by a parent company on the other side of the world, in a different time zone, with a different culture—a managerial challenge at best. The result is that even if the company doing the outsourcing is able to make it work, it often ends up saving very little (or no) money.

Opposition to globalization in the United States was veiled by the prosperous economic times of the 90s. When the manufacturing sector was impacted by NAFTA and other free

trade agreements, those who lost jobs in manufacturing were absorbed into the service sector. There is no new sector to absorb white collar workers, whose functions were outsourced to India or China, as well as those taken by foreigner workers on H-1B or L-1 visas. The United States currently is experiencing job loss in the service sector, as well (Koch, 2003).

According to Matthew Slaughter, Dartmouth College's associate professor of Business Administration, work in the service industries will move overseas very fast because it is only dependent on a phone line. There is no bulky raw material to transport or factories to build. The research company Gartner estimates that one in ten information technology (IT) jobs and one in twenty jobs at non-IT companies in the USA have already moved offshore. Companies such as G.E., P&G, Cigna, ING, Citibank, American Express, Prudential, and DaimlerChrysler are all trying to increase profitability by using offshore outsourcing. This trend appears to be profitable the corporate executives and the shareholders, but the opposite for the thousands of workers who are now jobless.

The threat of offshore outsourcing has weakened the bargaining power of labor unions. The deliberate weakening of labor unions, which represent the individual against the corporate giant, is perceived as an attack on democracy (Herman 1999). Corporations have somehow advanced the idea that globalization is analogous with freedom and those that oppose it are unpatriotic, narrow-minded, and stand in the way of progress. The possibility that cross-border trade may be damaging economically to the weaker countries is swept under the mat. The sales pitch is

that this trading activity is strengthening bonds between countries. The result is that people do not speak out against globalization for fear of being perceived as resistant to some kind of international goodwill. They somehow are deterred from championing the causes of nationalism and protectionism which stand in the way of corporate exploitation of their fragile economies (Herman, 1999).

Globalization may negatively impact the environment, in particular, global warming. Pollution affects isolated areas, but global warming is truly a planetary problem which has much more serious consequences. The literature on this topic is exhaustive and mostly non-conclusive. However, one consensus is that we do have a huge problem (Union of Concerned Scientists, 2005). Scientists repeatedly have warned world governments, but very little is being done to ameliorate this problem. Some nations have refused to support the Kyoto accord, which requires signatory nations to reduce greenhouse-gas emissions to below 1990 levels by 2012 (Boulder Daily Camera, 2004).

Potential effects of global warming include: rising sea-levels, increasingly severe droughts and floods, failing crops, starvation in ever-increasing numbers, and the whole world will suffer together. The burning of fossil fuels to power industry and automobiles is the leading cause of greenhouse gas emissions. Energy production/consumption and business are so entangled that you could not have one without the other. Greenhouse gases are produced directly by any activity which actually produces energy (coal burning power stations), but also indirectly by any activity which

consumes energy (manufacturing) (Union of Concerned Scientists, 2005). Many corporations tend to pollute rather than spend money on cleaner technology. This problem is compounded when they operate in countries with lax pollution controls. Indeed, they may seek to locate in a particular country specifically for this money saving reason.

A common thread between most arguments against globalization is that they are written by or for people who have, or will be, negatively impacted by some aspect of globalization. The articles are emotionally driven because they are written by those who suffer, or have a strong passion for their particular cause. On the other hand, those who have seen positive results of globalization have written in favor of globalization. Another common thread becomes obvious in the literature—it is impossible for any one person to grasp the entire picture! Each person writes about their own area of expertise. Only God can truly understand every subtlety and implication of the interaction between nations, business, and the environment, when viewed in a global context.

The Church and the Challenge of Globalization

In light of the previous discussion of the advantages and disadvantages of globalization, how should Christians approach this issue? According to John Edminston in *The Church and the Challenge of Globalization* (2002), “Preaching sermons against globalization to one hundred little old ladies will not change anything.” He articulates that the issue needs to be taken to those who are

prepared to listen to such a message. Global issues also require a global response—the Church must be able to coordinate its message internationally.

Edminston (2002) lists a number of ways for Christians to respond in an ethical and godly manner: (1) public protest and use of the media; (2) litigation; (3) dialogue with decision makers; and (4) making ethical investments. If a globalization issue is reported in the local newspaper, he recommends writing a letter to the editor that is succinct and powerful. Such letters are then sometimes picked up by regional media, and then by national media. Writing sensible press releases, and holding press conferences that are credible, can present an opposing view that the media will likely want to cover. A protest with a decent size interdenominational crowd can also be a productive way to call attention to a global issue.

In the area of litigation, “A well-publicized court case about an obvious injustice can do a great deal to change public awareness and influence government legislation.” He also recommends making suggestions to decision-makers during times of change or when they have just attained office. They are usually more open to ideas during that time. If an appointment is granted, it is best to arrive with a well-prepared, concise handout. This leaflet should state what is wanted, why it is wanted, how it can be done, and how you can help it to be done (Edminston, 2002).

Regarding ethical investments, funds are set up that do not invest in tobacco, alcohol, or the arms trade. Other funds take note of firms that are abusive in their approach to globalization. “If churches and wealthy

Christians disinvested in stocks of ruthless corporations and did not engage in currency speculation as part of their portfolio then the market would quickly respond” (Edminston, 2002).

In *Asia and the Pacific: The Impact and Sustainability of Globalization*, Pastor Peter A. Sulyok (2001) says “One of the roles of the church in the midst of globalization is to search out the signs and listen for the voices that indicate what is going on and then to provide critical analysis for interpretation.” He articulates that globalization offers new, complex, and challenging issues for the church. It forces Christians to “lift up Christ’s gospel in a holistic way that offers salvation in all its fullness and empowers the church and all its members to embody salvation in costly witness.”

Pastor Sulyok states that people of faith reject the claims that globalization runs by its own free market laws. He says, “No socioeconomic system is ever beyond the need of international standards for human rights or beyond regulation and correction.” He goes on to maintain that the church plays a prophetic role when it denounces life-killing policies and practices and brings diverse groups of people together to share in dialog in order to learn and move into action (Sulyok, 2001).

Quoting other writers that have studied the Asia-Pacific region, Pastor Sulyok seeks to give a clearer understanding of globalization and how the church should respond. Jae Woong Ahn predicts the transformation of the ecumenical movement. Victor Hsu says that globalization challenges church partners in the East and West to bear a joint witness to justice in shaping a society that takes seriously both human dignity and freedom. Seong-Wong Park

says there is the challenge of fostering a new awareness in the worldwide Christian community that evil can be confronted, so that life can be sustainable for all. Philip Wickeri claims the time is ripe for the church to look at the threat and possibilities that globalization presents and then engage the powers (Sulyok, 2001).

Clarence J. Dias indicates churches might consider new solidarity initiatives and linkages with its Asian partners - especially if suffering is caused by a transnational corporation’s actions. Liberato C. Bautista states there is value in international standard-setting. James P. Muldoon Jr. articulates that all sides of the Pacific need to work toward a consensus to build formal multilateral instruments for human security. Andrew Wells-Dang hopes that through responsible negotiation and leadership we can move beyond the current state of insecurity (Sulyok, 2001).

Pastor Sulyok quotes other authors to assist the church in advocating the following goals: a deeper and more authentic community among peoples of the world; a richer and more just development for every corner of the earth; and a more sustainable future for all. His article provides a good understanding of the issue of Christians and globalization. At a minimum, he hopes it will lead to some form of repentance. This repentance would lead to faithfulness, and faithfulness demands accountability in a witness that makes a difference (Sulyok, 2001).

The Future of Globalization

With the changing roles of United States, there has been much cause for concern on what will come of globalization. Globalization has been a

benefit for many small and large organizations throughout the United States, Europe and Asian countries. Terrorism has increased, mostly noted as beginning with the September 11 attacks in New York. Struggles for independence and domination in Middle Eastern countries as well as others may map out what will take place in the future.

The future is difficult to predict. The National Intelligence Council (2020 Project) has developed several scenarios concerning future of globalization. Many factors may have a strong effect such as outsourcing, low labor costs, religion, and terrorism. The most common scenario is the rise of India and China, which will then outperform the western civilizations. India and China have an advantage of lower labor costs. Many organizations are outsourcing work to these underdeveloped countries for cheaper overhead. This in return is giving them more power. Asian countries will soon have the advantage because of "A combination of sustained high economic growth, expanding military capabilities, and large populations will be at the root of the expected rise in economic and political power" for both India and China (NIC, 2004). "China's gross national product will exceed that of individual Western economic powers except US. India's GNP will have overtaken or be on the threshold of overtaking European economies" (Rajghatta, 2005). It is expected that Asian countries will work closer with India as there economy grows to build a stronger geopolitical pull. India will also strengthen ties with surrounding nations.

Another scenario, known as the "Pax Americana" (NIC 2004), shows the

United States in more of a leadership role. With the EU unifying all of Europe, a New Europe is formed. This New Europe becomes more cooperative with the United States. It is said that the US will be the leader but will have the aid of Europe for security. Europe will work together with the United States to tear down terrorism by the Middle East. There may be slight power struggles between Asia, China, Europe and the US but in the end, all will strive for nationalism, and give the leadership role to the US. If this were to take place, there are also possible problems with Japan working to rise politically and economically causing conflict with Asia. Though the United States is seen as a leader there is still a possibility of many power struggles between the different nations with unforeseen turn of events as a result, causing stability to be uncertain.

A "New Caliphate" dominating the world is one more scenario. Islamic religion will spread throughout the nations (NIC, 2004). Traditional Christian religions will fall and others will work to build an interfaith. This potential regime could cause an outbreak of civil wars across the world putting this scenario of our future in a whirlwind of chaos. This scenario does not have to be a huge success to cause challenges in religious cultures. This could also create a new realm of terrorist attacks by those against this "New Caliphate" (NIC, 2004).

The final scenario is the "Fear Cycle" (NIC, 2004). Countries will be advancing in nuclear, biological and chemical weapons programs. Many corporate businesses become engulfed with fear due to the up rise in terrorist attacks. In order to deter the hindrance of international commerce, there is the possibility of a growth in illegal activity.

In spite of the many agreements that have been established between nations, there is still much opposition. Terrorism is a catastrophic threat. If terrorists continue with action that attacks the market, the trend for globalization will decrease. “The Western elite will not let this happen easily. As always, they will lobby the United States government to use force against such global insurrections. Use of force could successfully limit any serious opposition to globalization. However, such use of force could also hasten the backlash against globalization. Any time overt force is used, it exposes the ruthlessness of the global elite” (Pulcifer, 2002). “The key factors that spawned international terrorism show no sign of abating over the next 15 years” (Mannion, 2005). As technology continues to develop, terrorists may use their e-commerce capabilities to gain access to biological weapons. If they are able to acquire these biological or nuclear devices, there will be a greater threat of mass destruction.

Conclusion

In conclusion, globalization is a very important issue for international management. As presented in this paper, it has many advantages and many disadvantages. Add to this a Christian worldview, and many of these rewards and shortcomings become better focused. The future could hold a number of different scenarios in the globalization arena. Having a firm foundation in God’s sovereign plan will help the Christian manager face these issues with wisdom.

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Embargoes and Their Implications

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Embargoes and Their Implications

Imposing an embargo upon another country has been a political and economic strategy employed by many countries throughout the world. The objectives of this paper are to define and state the purpose of an embargo, provide specific examples of various types of embargoes imposed by the U.S. upon other countries, state the effects of embargoes, discuss their implications, as well as, possible alternatives.

The Definition and Purpose of an Embargo

The term embargo is defined as “an order designed to stop the movement of goods. An embargo issued by the government of one country, may restrict or suspend trade between that country and another nation” (Beebe 2005). Webster calls an embargo a government order prohibiting the movement of merchant ships into or out of its ports. (Webster 1984) A prohibition of this sort is called a ban on goods or all trade with foreign nations.

The primary purpose for imposing such an embargo upon another country is to serve as a response to an unprincipled action or unresolved disagreement between countries. The next section provides examples of various types of embargoes, such as economic embargoes, embargoes placed upon goods or services, and arms embargoes, imposed by the U.S. upon three countries, Cuba, China and North Korea, as well as the history and purpose behind these embargoes.

Trade and Travel Embargoes upon Cuba

The embargoes against Cuba provide examples of embargoes on trade and travel. These unilateral economic sanctions imposed by the U.S. against the Cuban government led by Fidel Castro began in July 1960. By February 1962, an almost total embargo on Cuban trade and travel had been imposed. Although the initial sanctions were triggered by expropriation of U.S. property, the embargo became linked to national security interests as Soviet military facilities were established in Cuba. The 39-year experience with economic sanctions against Cuba can be divided into two phases: the Cold War era (1960-1989) and the post-Cold War era (1990-1999).

During the Cold War era, the Ford and Carter administrations attempted to normalize relations with Cuba. These initiatives failed to produce results due to the unresponsiveness of Castro. This three-decade embargo constituted a Cold War stalemate where U.S.-Cuba relations were stable after the Missile Crisis of 1962. The Soviet Union committed massive financial support to the Castro regime, which ensured reasonable prosperity within Cuba. Cuban officials rarely referred to the U.S. embargo except to brag that it had little or no effect on their regime (Preeg 1999). Over time, Soviet goods replaced U.S. made goods that were no longer available. Cuba was able to trade freely with Western European, Latin American, and Asian countries. The only clearly positive result from the Cuban embargo was the substantial financial burden it

placed on the Soviet Union, which contributed to its financial collapse.

All of this changed with the collapse of the Soviet Union in 1991. Russian economic support dropped from \$6 billion in 1989 to almost zero in 1992. Cuban imports declined from \$8.1 billion to \$2.3 billion. Food shortages and blackouts from lack of imported oil were common. There was a widespread shutdown of industrial and agricultural production as well as contraction of the investment center. The Cuban economy, in effect, began living off its assets. This new situation called for a revision of U.S. policy towards Cuba.

The first change in U.S. policy came in 1992 with the Cuban Democracy Act or the Torricelli Act. Its principle provisions prohibited subsidiaries of American companies from trading with Cuba and restricted ships that traded with Cuba from docking in U.S. ports. It also provided provisions that supported the U.S. president taking steps to improve relations with Cuba. This legislation tried to accomplish two things. First, it tried to tighten the embargo in order to intensify the economic crisis in Cuba. The U.S. hoped such changes would force the regime to commit to democratic elections or risk upheaval. Secondly, it attempted to open dialogue with the Castro government to offer a step-by-step relaxation of the embargo in return for economic reforms within Cuba.

The second change in U.S. policy came in 1996 with the passage of the Libertad Act or the Helms-Burton Act. Title I of the act strengthened existing sanctions. Title II eliminated the authority of the president to negotiate an easing of the embargo. Title III allowed U.S. citizens and companies to file federal lawsuits against foreign

companies that had taken control of their former properties in Cuba. This included current U.S. citizens who were Cuban citizens when their property was expropriated. Title IV denied foreign citizens, who are corporate officials of companies in control of expropriated properties, entry in to the U.S. This controversial act was condemned by the United Nations as “affecting the sovereignty and legitimate interests of other states” (Preeg 1999). The European Union brought a complaint against the U.S. with the WTO charging the U.S. with “a secondary boycott against European and other companies for trading or investing in Cuba” (Preeg 1999).

U.S. policy regarding Cuba changed again in 1998 after a papal visit to Cuba. The Pope criticized the embargo as primarily hurting the Cuban people. As a result, President Clinton resumed direct flights to Cuba and eased restrictions on dollar remittances to Cuba by Cuban-Americans. That same year Senator Dodd and Senator Torres initiated a proposal to lift the embargo on U.S. exports of food and medicine to Cuba. In 2000, the Trade Sanctions Reform and Export Enhancement Act loosened the restrictions on the sale of certain agricultural commodities, medicine, and medical devices to Cuba on a cash-in-advance basis. Since then, Cuba has become the U.S.’s 21st largest agricultural export market. As of today, all other sanctions against Cuba remain in place.

Arms Embargo on China

Another type of embargo is an arms embargo. Currently the U.S. has an

arms embargo imposed upon China. It stems from a crisis that occurred June 3-4, 1989 at Tiananmen Square.

According to unclassified document of telegraph text sent to the United States Department of States and released to the public on 7/23/90, thousands of people, including students, teachers, protestors, etc., were murdered and wounded. This stemmed from student protestors and urban workers having hunger strikes throughout major cities in China calling for reforms against the growing inflation and government corruption. After the demonstration obtained massive followers, the government called for a crackdown by the chairman of the Central Military Commission declaring martial law. What ensued after that as described in state Documents 30-35 was a horrific chronology of developments from 3 p.m. on June 3 to shortly after noon on June 4. A final note states "Sporadic killing continued at least through Wednesday, June 6."

On June 5, 1989, President George H. W. Bush announced the imposition of a package of sanctions on China, to include "suspension of all government-to-government sales and commercial exports of weapons," (Zhang 2001) and the "suspension of visits between U.S. and Chinese military leaders" (Zhang 2001). The U.S. explored the impact of the crisis on China's domestic and foreign policy and measured the international reaction to the crackdown. Among the judgments reached was that the situation in China would remain unsettled "at least until Deng Xiaoping (Military Chairman) and other party elders die" (Bruderlien 1998).

In a slightly more conciliatory gesture during his U.S. tour, President Zhu Rongji told reporters that, "The episode in 1989 [happened] because they wanted

democracy but they didn't want the rule of law. That's why it happened" (Zhang 2001). Zhu, who served as mayor of Shanghai in 1989, was credited with peacefully resolving the demonstrations there. As a result, he became the first senior Chinese leader to acknowledge the democratic aspirations of the demonstrators. (Zhang 2001).

Embargo on Trade and Financial Dealings with North Korea

The embargo against Korea has been ongoing for five decades and dates back to the Korean War. It is an example of an embargo upon trade and financial dealings between North Korea and all U.S. citizens no matter where they are located and all controlled affiliates of U.S. organizations in the world. The only exception to this embargo is for humanitarian goods.

In exchange for promises not to produce nuclear weapons, North Korea received food and fuel supplies from the U.S. and China. This aid quickly came to a halt when it was divulged that North Korea was indeed secretly developing nuclear weapons. International food aid was essential in meeting citizen's basic food needs; however, it is believed that the population received little food; rather it was given to the military to gain allegiance.

Although outsiders are allowed into North Korea, the government has the ever present 'government minders' who watch visitors outside tour areas. A one hundred dollar value restriction is put upon visitors buying goods in Korea. These goods may be brought into the United States if used strictly for personal use. Imports into the U.S. of goods or services of North Korean origin are not

allowed without prior authorization from the Office of Foreign Assets Control.

Generally, no U.S. citizen may have any type of dealings with North Korean assets, either governmental or private; nor may they have any monetary dealings with the exception of fiscal transactions relevant to authorized activities, including licensed trade or travel related contracts.

U.S. financial institutions are limited in their scope of funds transfers if the transaction is prohibited. Unblocking of funds has specific case-by-case exceptions unless funds are to be released to any individual controlled by the Government of North Korea, a person located in North Korea, or an entity organized under North Korean laws.

North Korea promised to extend its moratorium on long-range missile testing. As a reciprocal goodwill gesture following a number of discussions between North Korea and the U.S., on June 19, 2000 the U.S. officially lifted certain economic sanctions against North Korea. This was pre-empted by a meeting between North and South Korean leaders to begin the process of reconciliation and resolution of each country's differences. Restrictions were eased on some key trade, non-military, and financial transactions, as well as travel activities. All this is contingent on North Korea keeping its promise not to test long-range missiles.

Some measures continue as North Korea remains a terrorism-supporting state. Restrictions will remain on U.S. foreign aid and military assistance to North Korea.

Thus far, various types of embargoes, including their purpose and history in three countries, have been discussed. In

the next section, some effects of embargoes will be presented.

Effects of Embargoes

Embargoes have multi-level effects upon both the sanctioner and the country on which the sanction is imposed. A common effect of an embargo is the loss of diplomatic and trade relations between two countries' governments.

With the Cuban embargo, the primary effect has been to strengthen Cuba's support of its totalitarianism and strengthen its dislike of the U.S. Even when sanctions on medicine and food were lifted, trade was impossible due to the banning of commercial or U.S. government credit. In cash-strapped countries, a ban on credit develops into a ban on trade.

Another effect of the U.S./Cuban embargo has been to cause significant burdens on the Cuban health care system. Problems include patients going without essential drugs and physicians performing procedures without sufficient equipment.

This crisis has compromised the country's already weak economic resources. Increased shipping costs of medical equipment have slowed the flow of medical supplies, food, medicine, and in particular, gasoline for ambulances. Cuban companies import these supplies from other countries at great expense.

Adverse effects of embargoes such as increased shipping costs have been further heightened by food shortages that have contributed to malnutrition, even among pregnant women, which leads to low birth weight babies. One estimate stated daily caloric intake fell 33% between 1989 and 1993 (<http://homepage.eircom.net/~csg/aawh2.htm>). Water quality has dropped due to lack of availability of chemicals and parts for the water supply system. This

means safe drinking water is cut back, which causes a rise in morbidity and mortality from water-borne diseases, such as viral hepatitis, dysenteries, and typhoid fever.

U.S. pharmaceuticals are developers of most major new drugs. However, Cuban physicians can only get less than 50 % of new medicines available in the world market. Routine medical supplies are in short availability or even absent from some clinics, partly due to the embargo.

Additional effects of embargoes include costs imposed on targeted states. Overall, embargo imposed costs include direct costs, indirect costs, capital effects, and foregone potential. Direct costs, such as a rise in transport expenses, are obvious. The country will need to find new suppliers from more distant countries. Export revenues loss is another example of a direct cost. Specifically, the sugar market in Cuba was lost, as well as American tourism to Cuba. Indirect costs result in a decrease in the general economy because of disrupted normal outward trading. Drivers here include export sales and the needful link between imported products critical to continue domestic industry processes. Also included are negative monetary forces. Inflation will increase when unable to obtain imports. The financial market becomes displaced, balance of payments difficulty occurs, and currency convertibility problems arise.

Capital effects involve capital stock that is left intact but is essentially rendered economically useless. In Cuba, the first decade of sanctions caused the annual growth rate to fall a couple points due to capital effects alone.

Foregone potential includes future revenues and future benefits, such as

scale economies which become unworkable due to sanctions. Cuba's American tourist industry would have probably continued growing; however, due to the embargo, that industry disappeared. An example is the Arab boycott of Israel because it discouraged foreign investment inflows, which is yet another significant foregone potential.

The same type of costs is imposed on American businesses. Direct costs include current earnings lost when target state sales are suspended. Indirect costs include lost sales which lead to lower production runs, loss of scale economies, or higher fixed average costs. Of course with the absence of U.S. competition, foreign suppliers can charge higher prices in target states and garner higher returns. Corporate foregone potential costs are often significant when similar to the burdens imposed on target countries. The effects of embargoes are varied. Certainly trade relations, a great dislike of the country imposing embargoes, loss of economic resources, and revenue costs head the list.

In the following section, the implications of embargoes will be discussed.

Implications of Embargoes

The theory behind economic sanctions is that economic pressure on civilians will translate into pressure on its government to change. However, in regimes where political decision-making is not democratic, there is simply no pathway through which civilian pressure can bring about change in the government. Civilian hardship can easily be translated into political advantage by a ruling regime. The targeted government, especially if it has a strong grip on the media, will push its citizens

to unite behind it in defiance of the foreign States. Sanctions can be used by the targeted government as a scapegoat for its problems and give leaders fuel for political extremism.

According to Sanctions: Don't Love Them or Hate Them, Make Them Work, sanctions, if done right, can be a useful diplomatic tool. Regardless of the type of sanction used, a few basic rules must be followed. First, sanctions need to be supported by the vast majority of potential suppliers. If the sanctioned country can easily get substitute goods, the sanction is nearly useless. Secondly, banned goods cannot be easily available internally; otherwise the sanction won't cause enough hardship to modify behavior. Lastly, the cost of the sanction must be greater than the cost of the policy change.

According to Beyond Unilateral Economic Sanctions, sanctions can be effective under the following conditions:

- The targeted country is small, weak, unstable, and highly dependent on the sanctioner.
- The target has good relations with the sanctioner.
- The target suffers high costs from the sanction while the sanctioner endures low and sustainable costs.
- The change demanded of the target state is a modest one.
- The sanctions are multilateral.
- The sanctions are financial in nature.

- The sanctions are proportional to the offense.
- The sanctions are imposed quickly and given time to work.
- The sanctions include humanitarian exceptions such as food and medicine.
- The sanctioner avoids secondary boycotts that can inflict costs on allies.
- The sanctions are flexible and can be modified or terminated when appropriate.
- The sanctions can be backed by force or credible threat of force.

M.S. Daoudi and M.S. Dajani, the authors of Economic Sanctions Ideals and Experience, make several conclusions regarding the effectiveness of embargoes. First, under the proper conditions, economic sanctions can be a formidable weapon, which seriously interferes with the prosperity of the target nation and the comfort of its population. Secondly, policy makers must consider sources of supplies being withheld, the availability of substitutes or close alternatives, domestic backlash, and the key components of the target's dependence on foreign trade.

The third condition for sanctions to be effective is that the sanctioner must adopt realistic expectations. The ousting of a tyrannical leader is almost never realistic. Fourth, sometimes it is more effective to hint at sanctions than to actually impose them. Fifth, the initiator of a total economic sanction must be aware of the price paid in economic, political, and human terms. Sixth the

application of economic sanctions causes friction and may result in enmity. Seventh, the use of economic sanctions may erode the trading position of the sanctioning nation.

In his book, Feeling Good or Doing Good With Economic Sanctions, Ernest Preeg, concluded that during the 1990s, unilateral economic sanctions failed to achieve their foreign policy objectives while causing substantially adverse effects on various U.S. interests. The record for sanctions directed at human rights/democratization shows a total failure to produce any results while targeted sanctions for national security objectives produced a positive result in one case. The basic reason why unilateral sanctions are ineffective is that the objective is to change the oppressive behavior of a totalitarian government, which constitutes a direct threat to its survival. These governments are not prepared to make this kind of concession in response to the relatively small economic impact of the sanction. Another reason given for the failure of economic sanctions is that targeted sanctions are extremely difficult and complicated to administer.

Joseph Gavin, author of Economic Sanctions: Foreign Policy Levers or Signals, believes that economic sanctions are more likely to be costly signals than effective economic weapons. For one, there exists a hierarchy of national policy where economic concerns are secondary to national security. Because of this, governments that wish to remain in power must be able to demonstrate that they are not vulnerable to pressure from other countries. That is why economic sanctions have sometimes strengthened the resolve of the target government regardless of the hardship. In the same

vein, the U.S. sometimes oversteps its boundaries by imposing extraterritorial sanctions. Nations do not tolerate this kind of challenge to their sovereignty. Secondly, in today's global economy, sanctions rarely have a significant economic impact. It is nearly impossible to get all nations to enforce a sanctions policy. Those who do not agree with the policy become suppliers to the sanctioned nation. Third, Gavin points out that the indiscriminate use of sanctions is another factor that limits their effectiveness. In most cases, the sanctions hurt the population of the country that they intended to help.

There is a no small debate around the interpretation of successes and failures of sanctions regimes. (Losman 2005) However, even the most optimistic debaters agree that only about a third of all sanctions have even partial success, while others have asserted a five percent success rate, and a dismal two percent success rate for sanctions against "authoritarian regimes" (McCormick 2000). In addition, financial sanctions alone have a greater success rate than trade sanctions or combined trade and financial sanctions (<http://www.usaengage.org/archives/studies/foreignpolicy.html>). Finally, if the purpose of the sanctions is beyond merely the "destabilization of the regime," an aim that all Security Council sanctions ostensibly share, researchers have shown that the severity of sanctions is statistically insignificant in determining their success. Furthermore, the longer a sanctions regime stays in place, the lower its success. Researchers also demonstrated that when the economic elite is targeted, there is a significant increase in success. (<http://www.usaengage.org/archives/studies/foreignpolicy.html>)

In conclusion, economic sanctions must be judged by their success in achieving specifically stated objectives. This is not an easy task since objectives can be multiple, muddled, or variable (Gavin 2). Even if the desired result does occur, it is hard to determine if the sanction was actually the cause. Therefore, it is hard to say one way or the other whether sanctions are truly effective.

Since there will continue to be varied research that supports either the effectiveness or ineffectiveness of embargoes, an exploration of alternatives to embargoes might prove helpful.

Alternatives to Embargoes

Although the effectiveness of embargoes or sanctions is often questionable, "there are few good alternatives to sanctions in the post-Cold War world" (Wright 2001). However, several possible alternatives to traditional embargoes do exist. These include exercising diplomacy between countries, imposing tariffs on imports, or exercising import quotas, partial or total boycotts, working through the World Trade Organization to address problems at the worldwide level, and/or international free trade. At the opposite end of the spectrum is the ultimate alternative to an embargo, which is military force.

The least aversive method of dealing with a dispute between countries is by exercising diplomacy. The purpose of diplomacy is to seek "maximum national advantage without using force and preferably without causing resentment" (Britannica 2005). If this alternative to instituting sanctions does not prove fruitful, then it

becomes necessary to try other measures to resolve the problem.

Another possible alternative to an embargo is exerting political and/or economic pressure upon another country by instituting a tariff or import quota upon the opposing country. A tariff is defined as "a tax levied on imports" (Hill 2002). An import quota, "is a direct restriction on the quantity of some good that may be imported into a country." (Hill 2002). Tariffs and import quotas are less punitive than a full embargo, but they also restrict free trade between the imposing country and the country upon which pressure is being exerted. A downside to imposing a tariff or import quota is, in addition to negatively affecting the country on which such measures are imposed, these policies also have an adverse affect upon the imposing country's economy. For example, a study concluded that during the 1980s, tariffs "cost American consumers about \$32 billion per year in the form of higher prices" (Hill 2002).

Kulesa and Starck (1998) cite trade boycotts as an alternative to sanctions. Partial or total boycotts, "entail a ban on the import of all or some goods from the target country as part of a collective endeavor to safeguard peace." (Kulesa 1998). Kulesa and Starck state that boycotts differ from embargoes because boycotts, "block the export of goods from U.N. member states to the country against which the sanctions are directed" (Kulesa 1998). Boycotts are more beneficial than embargoes because "boycotts are considerably less damaging, both economically and in terms of human rights, than blanket economic sanctions - the weightiest gun in the sanctions arsenal" (Kulesa 1998).

If opposing countries are unable to resolve their dispute through diplomacy

and require a third entity to help mediate a resolution between them, then they could bring their dispute to the World Trade Organization (WTO) as an alternative to imposing an embargo. Its responsibilities include “arbitrating trade disputes and monitoring the trade policies of member countries” (Hill 2002). If the issue reaches beyond the borders of the two countries, then exerting group pressure from multiple countries could precipitate multilateral sanctions. Such sanctions are, at least theoretically, more effective than unilateral sanctions.

One of the least restrictive alternatives to embargoes is promoting international free trade. Some strategists believe that, “limiting trade with countries such as China where human rights abuses are widespread makes matter worse, not better” (Hill 2002). The supporting reason for this argument is, “Growing bilateral trade raises the income levels of both countries, and as a state becomes richer, so its people begin to demand- and generally receive – better treatment with regard to their human rights” (Hill 2002). An example of support for this idea was seen in 1997 when former President Clinton “announced he would grant MFN [most favored nation] status to China and in doing so argued that trade and human rights issues should be decoupled” (Hill 2002).

The last alternative to an embargo is one, which would be sought only after all other options have been fully explored. This unpopular alternative is military force or war, which represents, “a struggle or competition between opposing forces or for a particular end” (Webster 2005). It is also defined as, “a state of usually open and declared armed

hostile conflict between states or nations” (Webster, 2005).

Summary/Conclusion

Not all differences and problems in international affairs can be solved through negotiations or can be solved at all. Some disputes are not negotiable and can only be solved through the use of force or prolonged patience until the existing leadership disappears or situations change.

In his 2000 Millennium Report, the Secretary-General recognized that economic sanctions directed against authoritarian regimes cause the people to suffer, not the political elites whose behaviour triggered the sanctions in the first place. He said, “perversely those in power often benefit from such sanctions by their ability to control and profit from black market activity, and by exploiting them as a pretext for eliminating domestic sources of political opposition” (Bebe 2005).

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Afterword

Having read these articles from the third volume of the *Liberty Business Review*, you may wish to comment on one or more of these articles. We encourage reader feedback, and we invite any thoughtful readers to submit articles for possible future publication. Articles should be scholarly and written in APA style, approximately 15-25 pages double spaced, and worthy of publication in a peer-reviewed journal. Articles may be sent electronically to bkbell@liberty.edu or to bsatterlee@liberty.edu or in hard copy to the following address:
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We look forward to hearing again from many of you.