From the desk of the Editor-in-Chief . . .


All articles that appear in this volume of the Mustang Journal of Business and Ethics have been recommended for publication by the Reviewers/Advisory Editors, using a double, blind peer review process. I express a personal thanks to the Reviewers/Advisory Editors for all their hard work and dedication to the Journal. Without their work, the publication of this Journal would be impossible.

I wish to express my sincere thanks and appreciation for all the support, encouragement, assistance and advice throughout this year. I would like to further express appreciation to Will Mawer of Southeastern Oklahoma State University, for his efforts in coordinating the entire process. The publishing of this journal is an intense educational experience which I continue to enjoy.

Congratulations to all our authors. I extend a hearty invitation to submit your manuscripts for future issues of Mustang Journals.

To further the objectives of Mustang Journals, Inc., all comments, critiques, or criticisms would be greatly appreciated.

Again, thanks to all the authors for allowing me the opportunity to serve you as editor-in-chief of the Journal.

M.P. (Marty) Ludlum
Editor-in-Chief
Mustang Journal of Business and Ethics
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Dallas, Texas on October 24-25-26, 2013

Held at the DoubleTree by Hilton, Near the Galleria!

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The scope of this journal is the discussion of current controversies and trends in all fields of accounting and finance, both teaching and practice, in both the domestic and international sphere.

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THE WORKPLACE:
INTEGRATING CORPORATE SOCIAL RESPONSIBILITY

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Abstract

Today’s work environment is embracing values as a core element of an organization’s underpinning. Corporate social responsibility in the past focused more on philanthropy, legal and regulatory compliance. However, the term now encompasses workplace issues including forced labor, child labor, harassment, discrimination, unfair wages and unsafe work. This paper will discuss a corporate social responsibility and workplace model which will serve as a basis for implementing corporate social responsibility activities in an iterative, systematic manner.

I. INTRODUCTION

Today’s work environment is embracing values as a core element of an organization’s underpinning. “Conventional wisdom- and opinion leaders such as the Dalai Lama and the Late Basil Cardinal Hume- believe that the decade of greed is evolving into an era in which many people are seeking the meaning of life” (Driscoll & Hoffman, 2009, p. ). The social, economic and environmental activities of an organization not only impact employees but also other stakeholders including customers, suppliers, and the local community (Bowie 1991; Social Performance Map, n.d.). Thus, an organization’s rationale for infusing ethics and values in the organization is because of diversity in the workplace, globalization, virtual work, strategic alliances, teamwork and social media. The coined word that is used to discuss the strategy of integrating ethics and values within the workplace is corporate social responsibility. This paper presents a systematic approach to executing corporate social responsible activities using a framework, an approach, and a decision analysis methodology. The model is supported by information related to the Columbia Sportswear Company. “Columbia Sportswear Company is a global leader in the design, sourcing, marketing and distribution of active outdoor apparel and footwear, with an international reputation for quality, performance, functionality and value” (Standards of Manufacturing Practices, n.d.). Part II of this paper will provide an understanding of Corporate Social Responsibility (CSR). Part III will discuss corporate social responsibility and the workplace model to serve as a basis for conducting business in the workplace. Part IV will discuss the conclusion.
II. UNDERSTANDING CORPORATE SOCIAL RESPONSIBILITY

McElhaney (2009) defined corporate social responsibility as “a business strategy that is integrated with core business objectives and core competencies of the firm, and from the outset is designed to create business value and positive social change, and is embedded in day-to-day business culture and operations” (p. 31). Bowie (1991) posits that organizations are charged with helping resolve the social problems in the world today. Bowie (1991) further asserts that most of the important social issues impact the livelihood of the stakeholders (including employees). For example, these problems include issues with drug and alcohol abuse, quality of education, decline in ethical work conduct, and the breakdown of the family structure due to the lack of work-life balance. Most of the social issues mentioned above are outputs directly related to the performance of employees. The outputs are symptoms of social issues on and off the job.

Discoll and Hoffman (2009) state that “a business without values is a business at risk” (p. 10). The authors believe that these companies are at risk because with the lack of values and ethical behaviors, organizations may experience declining reputations, depressing stock prices, an eroding customer-base, and harder opportunities to recruit talented employees. Thus, some organizations have already embraced the need to develop a corporate social responsibility strategic plan and others are seeing first-hand the need to develop a plan. For example, the CR Magazine (2012) reported that, “most companies expect to expand their CR [Corporate Responsibility] programs over the next three-years – many of the smallest are almost as likely as the largest to do so” (p. 19). Additionally, there is a growing level of support for corporate social activities. For example, the CR Magazine further reported that “CEO valuation of CR is rising with 86% of respondents saying their CEOs believe CR is important versus 81% in 2010” (p. 16) and “both the percentage of companies that have formal programs and the percentage of companies that have lead CR roles are up between 2010 and 2011” (p. 15).

Corporate social responsibility “goes beyond philanthropy and legal/regulatory compliance to address the manner companies manage their economic, social, and environmental impact as well as stakeholder relationships in all key spheres of influence” (Social Performance Map, n.d.). In order to move beyond the traditional aspects of corporate social responsibility activities, the authors recommend using an evolving, structured process in order to implement the programs.

In figure 1, presented below, the authors discuss corporate social responsibility and the workplace model to serve as a basis for conducting business in the workplace with an emphasis on employees and other supporting stakeholders. The model includes four areas of focus which are listed below.

Four areas of focus:
1. Harm Avoidance Framework
2. Stakeholder Approach
4. Columbia Sportswear Company used as an application of the aforementioned framework, approach, and methodology.
**FIGURE 1: CORPORATE SOCIAL RESPONSIBILITY AND THE WORKPLACE MODEL**

FRAMEWORK

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<th>Harm Avoidance</th>
<th>Stakeholder</th>
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<td>(For example, protection against forced labor, child labor, harassment, discrimination, unfair wages, and unsafe work environments)</td>
<td>(For example, employees, suppliers, customers, and communities)</td>
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APPROACH

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DEcISION ANALYSIS PROCESS APPLICATION (COLUMBIA SPORTSWEAR COMPANY)

- Standards of Manufacturing Practices
- ILO/IFC Partnership
- Independent External Monitoring (IEM) Process

**Extracted and Adapted From:**
III. CORPORATE SOCIAL RESPONSIBILITY AND THE WORKPLACE MODEL

*Corporate Social Responsibility and the Workplace Model* includes considering what strategic framework, approach and process organizations should use in administering the corporate social responsibility plan. “Organizations need strategic tools to create business opportunities, mitigate both internal and external threats to the organization and its future development and proactively manage reputation risk” (Story & Price, 2006, p. 39). For example, Columbia Sportswear Company reports that their “Corporate Responsibility “mission is to promote and inspire responsible business practices from product creation to consumer” (Standards of Manufacturing Practices, n.d.). Additionally, Columbia Sportswear Company has developed *Standards of Manufacturing Practices* to “facilitate decent and humane working conditions and promote ethical business practices at third-party manufacturing facilities around the world” (Standards of Manufacturing Practices, n.d.). The Standards of Manufacturing Practices serve as a basis for making corporate social responsibility decisions. Thus, the framework for administering the *Corporate Social Responsibility and the Workplace Model* includes not only, harm avoidance and stakeholder approach but also, a risk management process (*Decision Analysis*) that is the overarching plan for execution.

A. HARM AVOIDANCE FRAMEWORK AND STAKEHOLDER APPROACH

_Harm avoidance_ framework focuses on reducing economic loss, bad work environments, political sabotage, human rights abuse and environmental hazards. The harm avoidance framework to corporate social responsibility is aligned with the _stakeholder approach_. The _stakeholder approach_ to corporate social responsibility is inclusive of considering all parties that are impacted by economic, labor, corruption, human rights, and environmental issues including “employees, customers, suppliers, communities, and other group that has a stake in the corporation (Cross & Miller, 2001, p. 116). For example, Columbia Sportswear Company seeks to achieve this result when it strives to “facilitate decent and humane working conditions and promote ethical business practices at third-party manufacturing facilities around the world” (Standards of Manufacturing Practices, n.d.).

B. DECISION ANALYSIS PROCESS AND APPLICATION

The decision analysis process presented herein is an iterative process that is based on an emergent recognition of risks that includes feedback and contributions to the process by various internal and external stakeholders including project team members (Project Management Institute, 2009). Risk, as defined within the corporate social responsibility framework, is “almost any uncertain event associated with the work” (Kendrick, 2009, p. 2). The uncertain event is focused on the probability and the likelihood of not designing, executing and monitoring a corporate social responsibility plan (Kerzner & Saladis, 2006). Thus, the structure and ongoing management of a project is essential. More specifically, Tom Kendrick (2008) reported that initiatives fail for one of three of the following reasons: the scope of the initiative is impossible to complete; the initiative is over constrained; or the initiative is mismanaged. Likewise, Virine and Trumper (2008) discuss risk management within the context of decision analysis project which needs to include risk analysis to ensure the project is managed properly. Virine and
Trumper (2008) report that decisions “are made based more on the results of analysis and less on the intuition of the decision maker. The decision analysis approach entails a logical analysis of a correctly structured problem, identification of creative alternatives based on reliable information, implementation of the selected alternative, and an evaluation of the results” (Virine & Trumper, 2008, p. 8).

The processes for risk management as defined by Virine and Trumper (2008) include: decision framing; modeling the situation; quantitative analysis; and implementation, monitoring and review. The processes within the risk management methodology will be discussed in the following subsections of the paper by using examples from Columbia Sportswear Company. The aforementioned company states that they “value ethical, sustainable manufacturing practices and are committed to assuring that the partners” (Corporate Responsibility-Social, n.d.) they do business with share the same values.

1. Decision Framing

Decision framing or structuring the corporate social responsibility activities includes: identifying threats or opportunities, evaluating the business environment, identifying success criteria, identifying uncertainties and alternatives (Virine & Trumper, 2008). During the decision framing process, the organization needs to identify the external and internal factors that may impact the execution of the corporate social responsibility activities. More specifically, some of the potential issues that should be considered during decision framing include: resource availability; cost of labor, materials and supplies; competition; financial situations; business processes and practices; organizational performance; legal and regulatory issues; customer relations; environmental factors and resources (Virine & Trumper, 2008). For example, Columbia Sportswear Company states that Standards of Manufacturing Practices (SMP) is the core of their social responsibility program and include standards related to the following: forced labor, harassment or abuse, freedom of association, hours of work, environment, child labor, nondiscrimination, wages and benefits, health and safety, and ethical conduct. (Corporate Responsibility- Social, n.d.).

“This past December, Columbia Sportswear was featured globally on CNBC in a short film about HERproject produced by Responsible Business Television (RBTV). The film highlights the need for health education for female factory workers in developing countries and illustrates how HERproject addresses these needs by providing workplace programs that link women’s health to business value. The film was included in a broadcast of several short RBTV films on CNBC Asia, CNBC Europe and CNBC USA” (The Columbia Approach, n.d.). Other examples of the decision framing strategies for the aforementioned categories include: training of specialists and internal supply chain management staff on SMP issues; use of industry partners to support resources; member of the International Labour Organization/International Finance Corporation (ILO/IFC) Partnership, member of the Outdoor Industry Association (OIA) that develops tools and techniques to facilitate workplace conditions; member of the American Apparel & Footwear Association to learn and share manufacturing best practices; and member of the Fair Labor Association (Corporate Responsibility- Social, n.d.)
In summary, the decision framing process within Columbia Sportswear Company includes the execution of corporate social responsibility practices and processes including health programs, training, partnerships and memberships to develop tools and techniques to facilitate workplace issues and learn industry best practices.

2. Modeling the Situation

Modeling the situation includes identifying the schedule for the corporate social responsibility activities and quantifying the uncertainties identified in the decision framing phase of the methodology. For example, one approach to quantifying the uncertainties may be listing the uncertainties and categorizing them as high (pessimistic), medium (expected), and low (optimistic) (Virine & Trumper, 2008). Columbia Sportswear Company has listed the areas of focus for their program as identified by the SMP including: forced labor, harassment or abuse, freedom of association, hours of work, environment, child labor, nondiscrimination, wages and benefits, health and safety, and ethical conduct. (Corporate Responsibility- Social, n.d.). The authors suggest that Columbia Sportswear Company may have identified the aforementioned uncertainties within their industry as high (pessimistic) and as such planned for the mitigation and removal of the behaviors that are aligned with the categories. Also, the schedule for the SMP implementation is ongoing and includes a cycle of activities to support the associated inactions and mitigations.

3. Quantitative Analysis

Virine and Trumper (2008) report that the quantitative analysis process of the methodology includes determining what is important, quantifying risks associated with the initiative, determining the value of the information. The quantitative risk analysis as reported per PMI includes “the process of numerically analyzing the effect of identified risks on overall project objectives” (PMI Global Standard, 2008, p. 273). Thus, Columbia Sportswear Company has specific areas of importance that are targeted within the SMP categories “to facilitate decent and humane working conditions and promote ethical business practices at third-party manufacturing facilities around the world” (Standards of Manufacturing Practices, n.d.). For example, in the health and safety; wages and benefits; and environment categories: (a) “suppliers must comply with applicable laws and regulations regarding working condition, including housing and cafeteria requirements, and must provide a safe and health working environment of reduce work-related injuries and illnesses and promote the general health of employees”; (b) “supplier must pay each employee at least the legal wage and applicable premium rate for overtime, and must provide all legally mandated benefits”; and (c) “supplier must comply with applicable environmental laws, must maintain a written environmental policy, and must implement a system to minimize or eliminate negative impacts of its practices on the environment” (Standards of Manufacturing Practices, n.d.).

Some of the suggested tools used to effectuate quantitative analysis include sensitivity analysis, decision trees (Virine & Trumper, 2008) interviewing, expert judgment, expected monetary value, decision trees and modeling and simulation PMI Global Standard, 2008). The tools can be implemented using partnerships in order to produce collaborative units that include subject
matter expertise. For example, Columbia Sportswear Company is a partner with ILO/IFC Partnership and enacts the Better Work program. The ILO part of the partnership is charged with improving “both compliance with labor standards and competitiveness in global supply chains. Better Work Program involves the development of both global tools and country-level projects, with a focus on scalable and sustainable solutions that build cooperation between governments, employers’ and workers’ organizations and internal buyers”. The IFC arm of the partnership “brings to Better Work its credibility, investment, networks and expertise in private-sector development. The IFC’s contributions include the experiences in the development and implementation of social and environmental standards, and it ability to scale up sustainable programmes” (Corporate Social Responsibility and Standards of Workplace Practices, n.d.).

One of the tools utilized during the Better Work activities includes questionnaires that are executed for each factory assessment. The questionnaires are completed by Advisors who are trained in approximately 45 days prior to conducting questionnaires. Furthermore, the Advisors are required to sign the Better Work ethics policy and adhere to the principles and the factories are provided written communication of assessment visits so they will be aware of the Better Work processes (Corporate Social Responsibility and Standards of Workplace Practices, n.d.). However, the actual factory visits are not announced.

4. Implementation, Monitoring and Review

After the company has executed the previous process steps – decision framing, quantitative analysis and modeling the situation- the organization needs to track performance constantly and analyze all potential issues and opportunities to determine the impact to the overall initiative (Virine & Trumper, 2008). Risk response implementation, monitoring and review include implementing the best alternative, monitoring the status of the program and review of the SMP action plans to respond to negative and positive risks (Virine & Trumper, 2008).

More specifically, risk monitoring “the process of implementing risk response plans, tracking identified risks, monitoring residual risks, identifying new risks, and evaluating risk process effectiveness throughout the project” (PMI Global Standard, 2008, p. 273). Some of the tools used to implement, monitor and review include: updated project plans, audits, variance and trend analysis, performance reviews, status reports and status meetings (PMI Global Standard, 2008). More specifically, the ILO/IFC Partnerships, including Columbia Sportswear Company, utilizes enterprise performance, economic development and human development performance indicators to monitor the effectives of the Better Work Program. Examples of enterprise performance indicators include: labour standards compliance rates, improved in compliance over time, worker turnover, labour-audit cost saved, production capacity, and relationship with buyers (Assessing the Impact of Better Work, n.d.). Examples of economic development indicators include: export growth by value and volume, employment and wages (Assessing the Impact of Better Work, n.d.). Human Development indicators include: worker household income; worker remittances; educational attainment; and mental, physical and reproductive health.

In Figure 2 below, the ILO/IFC Partnership is denoted. The figure includes an evolving process of implementation of the assessment tool; analysis, review and monitoring of the captured data; and response and sharing of the assessment data. As a member of the ILO/IFC partnership
Columbia Sportswear Company uses the model in Figure 2 to ensure integrity in the execution of the corporate social responsibility related activities.

![Figure 2: Quality Process at ILO/IFC Partnerships (after the factory visits)](http://www.betterwork.org/EN/aboutbetterwork/Pages/EnsuringIntegrity.aspx)

The part of Columbia Sportswear Company that deals with collegiate apparel and equipment is monitored by Fair Labor Association’s Independent External Monitoring (IEM) process and public reporting. The aforementioned part of Columbia also deals with issues related to grievance systems and migrant labor.

### IV. CONCLUSION

Story and Price (2006) suggest that for entities to be successful in the current economic and social climate state that leadership teams have to balance the idea of being socially responsible with being financially stable. One of the avenues suggested by Story and Price (2006) is to integrate corporate social responsibility with the risk management process focusing on the various levels of integration. After organizations integrate corporate social responsibility and risk management, the benefits of integration may include but not limited to: higher levels of
motivation; awareness of the processes and procedures to achieve company goals improved business techniques; and better company image (Story & Price, 2006). As noted in Table 1 below, listing data to support the importance of corporate social responsibility, the categories not only support external stakeholders but internal stakeholders and the associated issues related to the workplace.

The model presented herein can be used by organizations to execute their corporate social responsibility strategies including harm avoidance and the stakeholder approach combined with the decision analysis methodology to drive results in the workplace.

**Table 1: Importance of CSR Programs (Source: Story & Price, 2006)**

<table>
<thead>
<tr>
<th>Importance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved Risk Management</td>
<td>14%</td>
</tr>
<tr>
<td>Enhanced Company Image</td>
<td>14%</td>
</tr>
<tr>
<td>Ethical Reasons</td>
<td>14%</td>
</tr>
<tr>
<td>Improved Company Culture</td>
<td>12%</td>
</tr>
<tr>
<td>Response to Change</td>
<td>11%</td>
</tr>
<tr>
<td>Reduced Employee Turnover</td>
<td>11%</td>
</tr>
<tr>
<td>Legal Compliance</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
<tr>
<td>Cost Improvements</td>
<td>7%</td>
</tr>
</tbody>
</table>
REFERENCES


Ensuring Integrity (n,d.). Retrieved from http://www.betterwork.org/EN/aboutbetterwork/Pages/EnsuringIntegrity.aspx


ANALYZING THE RELATIONSHIP BETWEEN AGE AND ETHICAL PERCEPTION IN COLLEGE OF BUSINESS FACULTY AND STUDENTS

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Abstract

This research examined the current ethical perception and some possible antecedents of it of business students and faculty in business colleges in the southern United States. These students are future business professionals whose skills, abilities and character will greatly affect the economic and ethical face of business beginning in the next few years and for years to come. The faculty are training the students for that opportunity. Four hundred seventy faculty and three hundred sixty student responses were included in the final analyses. This research has given a number of significant findings that should assist in understanding the relationship between age, religious orientation, race and ethical perception. The relationship between ethical perception and age is mediated by race and moderated by religious orientation for both faculty and students.

Keywords: business ethics, ethical perception, religious orientation, academic integrity, student ethics, faculty ethics

Introduction

Ethics or morals have been a philosophical topic for much of human history. The oldest religious texts from various religions espouse ethical laws or codes of conduct. Philosophers from the 5th century B.C. forward have left their ethical beliefs in written form for further consideration and debate. From Socrates to more current ethicists like Ross and Dewey, debate abounds about what is ethical and how ethics should be taught or if it can be taught.
Though age is a common demographic variable used in many research studies, several questions related to ethical perception remain unanswered. Results in previous literature are confusing, at best. Some find a significant positive relationship between age and ethical perception, others a negative relationship; yet, others found no relationship at all. Many studies were conducted over a decade ago. Have perceptions related to age changed since that time? Does race or religious orientation mediate or moderate this relationship? This study proposes to examine these questions.

The major question of this research is: Do significant differences in ethical perception exist between business school faculty and business school students as determined by age? In studying this relationship more closely, do race and/or religious orientation moderate or mediate the age-ethical perception relationship? As shown in the literature review section, these two variables have long been used to study human behavior in general and ethics in particular but rarely as mediators or moderators. Due to conflicting findings in previous studies, this research proposes that the relationship of race and/or religious orientation on ethical perception may not be direct but indirect.

Considering religious orientation as a predictor of ethical perception has long been accepted and understood (Vitell, et al, 2009; Burton, Talpade & Haynes, 2011; Ford & Richardson, 1994). Knowing exactly how that affects ethics education or later ethical behavior in business is less clear. Discussion of this topic is given in the conclusion and future research sections of this research.

Race is far more difficult to defend as a predictor or causal variable in behavior studies. To begin with, the very definition of race is debated in multiple disciplines (Chandler, D., 2010; Winker, M.A., 2006; Sommers, S.R. & Norton, M.I., 2008; Tate, IV, W.F., 2005). Race and ethnicity have been used interchangeably in the literature but the concept of race is not new. Basically, race is descriptive of differences in human groups (race and ethnicity, 2012). In this study, as in numerous occasions when one completes governmental documents or otherwise, each respondent chooses the category in which they feel they belong and best describes them. So whether differences are biological or cultural is still to be deciphered; but, research has shown race to be an indicative variable and therefore, logical to study.

Literature Review

A study in 1993 found that “the public’s image of university professors… placed [them] significantly lower than doctors, dentists, pharmacists, and clergy and on the par with lawyers” (McKay et al., 2007, p. 108). “In 2003, AACSB made it clear that schools would establish ethical standards for administrators, faculty, and students in the form of codes of conduct and procedures for handling allegations of misconduct” (Stone, Joseph, Phelps, & Berken, 2006, p. 31). Trevino and McCabe (1994) argued that “business ethics education may be most successful if students become part of an ‘honorable’ business school community where real ethical issues are openly and regularly discussed” (p. 406). However, “student cynicism can result if ethics is taught in classrooms but is not practiced in running the school” (p. 408). “Students expect faculty and administrators to practice what they preach” (p. 410).

The AACSB (“Ethics education in business schools," 2004) report on ethics education said this process “requires reflection on underlying values… Research indicates that people around the world tend to identify a similar set of values, suggesting that people from different cultures generally agree that honesty, fairness, and respect for
human life are important.” Guttman (2006) summed up “the purpose of ethics is to acquire mental powers that will enable one to overcome fleeting instincts and passions by means of preferring the general good over the bad, and [to] develop the self to a level at which the decision to be moral or ethical will come from the heart and soul and does not have to be imposed by any outside power.”

Ethical Perception and Age

A variable that receives much study in the behavioral science literature is age. There have been mixed findings when examining the relationship between ethical perception and age. Though age is simple enough to collect data on, not everyone of the same age has the same cognitive moral development (CMD) or other situational or demographic similarities. Some studies have questioned whether age or cognitive development is more important, but others have found the relationship between the two to be highly positively correlated (Gephart, Harrison, & Trevino, 2007; Rest, 1986). This study uses the biological years of life to examine the relationship with ethical perception; however, possible mediating or moderating effects of race and religiousness are also studied.

Four meta-analytical studies completed between 1998 and 2005 found very mixed results in the relationship between ethical perception and age (Ford & Richardson, 1994; Loe, Ferrell & Mansfield, 2000; O’Fallon & Butterfield, 2005; Borkowski & Ugras, 1998). A summary of the findings of each is found in Table 1. Individual research has verified the difficulty of determining the effect of age on ethical perception. Research on faculty’s ethical perception mostly indicates older faculty to have higher ethical perception than younger faculty (Bodkin & Stevenson, 2007; Klein et al., 2007; Silver & Valentine, 2000). Student’s ethical perception findings showed mostly a positive relationship between age and ethical perception (Silver & Valentine, 2000; Klein, et al., 2007; Comer & Vega, 2008; Rakovski & Levy, 2007; Desplaces, Melchar, Beauvais & Bosco, 2007) though a few found no significant relationship (Cagle & Baucus, 2006; Joseph, Berry & Deshpande, 2009).

Whether age is actually the mitigating circumstance or other changes in the culture during the past three or four decades have had more of an effect on those who are younger is yet to be decided. The consensus in those who have studied the effect of age on ethical perception is that ethical perception increases with age.
Table 1
Literature Summary of Age-Ethical Perception

<table>
<thead>
<tr>
<th>Age/EP Significance</th>
<th>Yes-Positively</th>
<th>Yes-Negatively</th>
<th>None</th>
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</thead>
<tbody>
<tr>
<td>Meta- and Other Populations</td>
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<tr>
<td>Ford &amp; Richardson, 1994 (2)</td>
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<tr>
<td>Loe, Ferrell &amp; Mansfield, 2000 (most)</td>
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<td>O’Fallon &amp; Butterfield, 2005 (6)</td>
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<td>Borkowski &amp; Ugras, 1998</td>
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<td>Serwinek, 1992</td>
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<td>Fernando, Dharmage &amp; Almeida, 2008</td>
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<tr>
<td>Ford &amp; Richardson, 1994 (1)</td>
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<tr>
<td>O’Fallon &amp; Butterfield, 2005 (5)</td>
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<td>Loe, Ferrell &amp; Mansfield, 2000 (few)</td>
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<tr>
<td>O’Fallon &amp; Butterfield, 2005 (8)</td>
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<tr>
<td>Faculty</td>
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<td>Robie &amp; Kidwell, 2003</td>
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<td></td>
<td>Taylor &amp; Strickland, 2002</td>
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<tr>
<td>Narayanasamy, Shetty &amp; Lama, 2008</td>
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<tr>
<td>Adkins &amp; Radtke, 2004</td>
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<tr>
<td>Students</td>
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<td>Silver &amp; Valentine, 2000</td>
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<td>Klein, et al., 2007</td>
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<td>Bodkin &amp; Stevenson, 2007</td>
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<td>Gerlich, Turner &amp; Gopalan, 2007</td>
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<td>Comer &amp; Vega, 2008</td>
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<tr>
<td>Rakovski &amp; Levy, 2007</td>
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<tr>
<td>Desplaces, et al., 2007</td>
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<td>Waples, et al., 2009</td>
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<td>Adkins &amp; Radtke, 2004</td>
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<td>Cagle &amp; Baucus, 2006</td>
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<tr>
<td>Nguyen, et al., 2008</td>
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<tr>
<td>Joseph, Berry &amp; Deshpande, 2009</td>
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<tr>
<td>Gupta, Cunningham &amp; Arya, 2009</td>
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</tbody>
</table>

Ethical Perception and Race

In spite of the enormous amount of research concerning ethical perception, race is often a neglected variable. Race and ethnicity have been used interchangeably in the literature but the concept of race is not new. Basically, race is descriptive of differences in human groups (race and ethnicity, 2012). In this study, as in numerous occasions when one completes governmental documents or otherwise, each respondent chooses the category in which they feel they belong and best describes them. So whether differences are biological or cultural is still to be deciphered; but, research has shown race to be an indicative variable and therefore, logical to study.

The few studies that examined race or nationality offered very mixed results. More importantly, no studies found during literature review for this study considered race as a mediator. This research adds to the body of literature by examining how race relates to ethical perception of both business faculty and business students as well as whether race mediates the relationship between ethical perception of each and their age.

Previous meta-analytical literature addressed research based on nationality but not on race specifically. Some of these studies found significant differences (Ford & Richardson, 1994; Loe, Ferrell & Mansfield, 2000; O’Fallon & Butterfield, 2005) others showed no significant relationship (Borkowski & Ugras, 1998). A number of individual research projects have found no significant relationship between race and ethical perception (Silver & Valentine, 2000; Cartwright, 2006; Joseph, Berry & Deshpande, 2009; Gerlich, Turner & Gopalan, 2007; Adkins & Radtke, 2004; Narayanasamy, Shetty, & Lama, 2008) while a few found race or culture to positively relate to ethical perception.
(Simga-Mugan, Daly, Onkal & Kavut, 2005; Lopez, Rechner & Olson-Buchanan, 2005). Table 2 summarizes the literature findings regarding race and ethical perception.

Because few empirical business studies have included race as a variable while other disciplines view this as common, this study does include race as self-reported. The few studies including race have very mixed results, so the current researchers wanted to test whether this variable might mediate or moderate the relationship between age and ethical perception rather than directly predict ethical perception. This study examines race as a mediator and as a moderator.

Table 2
Literature Summary of Race-Ethical Perception Literature

<table>
<thead>
<tr>
<th>Race/EP Significance</th>
<th>Yes</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Meta- and Other Populations</strong></td>
<td>Simga-Mugan, Daly, Onkal &amp; Kavut, 2005 Lopez, Rechner &amp; Olson-Buchanan, 2005</td>
<td>Starusko, 2009</td>
</tr>
<tr>
<td><strong>Faculty</strong></td>
<td>Adkins &amp; Radtke, 2004 Narayanasamy, Shetty, &amp; Lama, 2008</td>
<td></td>
</tr>
</tbody>
</table>

Ethical Perception and Religious Orientation

Previous academic literature has examined religiousness as related to ethical perception only scantily and then with very mixed results. Religious orientation has been found in different studies to positively and negatively correlate to ethical perception or behavior. Religiousness as defined in this study is “the personal importance of religion in the lives of individuals” (S.R. Davis, 2006). Many studies have measured religiousness by the denomination one affiliates with or the regularity of attendance of religious services; however, more successful studies measured the strength of religious belief with questions related to ones’ devotion (ie. ones’ belief in prayer, study of the religious literature or effect on daily life).

Meta-analytical research literature has found very differing results related to religion and ethical perception. Positive, negative and no significant findings were reported by these authors (Ford & Richardson, 1994; Lo, Ferrell & Mansfield, 2000; O’Fallon & Butterfield, 2005; Brown & Choong, 2005). A number of studies have shown religious orientation to be positively related to ethical perception (Wong, 2008; Marta, Heiss & DeLurgio, 2008; Siu, Dickinson & Lee, 2000; Misiewicz, 2007; Dean & Beggs, 2006; Porco, 2003) while Fernando, Dharmage & Almeida (2008) found no significant relationship.

Tang and Chen (2008) examined the mediating effects of love of money and Machiavellianism as they related to unethical behavior. Machiavellianism was found to mediate the relationship between love of money and unethical behavior (Tang & Chen, 2008). Interestingly, in their study the terms mediator and moderator were interchanged
in the paper, just as Baron and Kenny (1986) had warned authors against (Tang & Chen, 2008). Though the authors reported “moderators” there were no interaction terms examined and the study clearly was examining mediators (Tang & Chen, 2008). The usefulness of studying moderators and mediators in ethical studies has been shown in previous literature. Religious orientation has been found in different studies to positively and negatively correlate to ethical perception or behavior. Sierra and Hyman (2008) studied ethical antecedents of cheating and found evidence of mediation. They recommended religiosity be examined in future studies as an additional ethical antecedent of unethical behavior (Sierra & Hyman, 2008). This study hopes to accomplish this and examines how religious orientation may mediate or moderate the relationship between ethical perception and age. No study was found that studies the mediating effects this research will conduct, namely: mediating effects of race or religious orientation on the relationship between ethical perception and age. Table 3 summarizes the religious orientation-ethical perception literature.

Table 3
Summary of Religious Orientation-Ethical Perception Literature

<table>
<thead>
<tr>
<th>Religious Orientation/EP Significance</th>
<th>Yes-Positively</th>
<th>Yes-Negatively</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jewe, 2008 (Intrinsic)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Whether age is actually the mitigating circumstance or the vast changes in the culture during the past three or four decades has had more of an effect on those who are younger is yet to be decided, but the consensus in those who have studied the effect of age on ethical perception is:

Null Proposal: Ethical perception will decrease with age. Neither race nor religious orientation with mediate or moderate the relationship between race and ethical perception.

Figure 1 displays a graphical depiction of how this hypothesis was investigated.
Methodology

The focus of this research is to examine the ethical perception of business school faculty and students, both separately and comparatively. Studying characteristics of each group increases understanding for the future of ethics education as well as business organizations and leaders. Adding to the body of knowledge concerning how race and religiousness are related to ethical perception is the first goal. A survey instrument was developed to obtain the ethical perception of business faculty and business students as related to race, religiousness and other demographics. Approval for conducting a survey involving human subjects was obtained from the Institutional Review Board.

Ethical perception of college faculty and students has been previously measured using several different scales. For this study, the most appropriate survey was originally used by Keith-Spiegel, Tabachnick and Allen (1993). The survey consists of a list of academic behaviors and asks respondents to rate the appropriateness of each on a 7-point Likert scale. The scale has been used successfully with both faculty and students in previous research (P. Keith-Spiegel, Tabachnick, Whitley Jr, & Washburn, 1998; P. C. Keith-Spiegel et al., 1993; Kuther, 2003).

Intrinsic versus extrinsic religious orientation has long been measured using Allport and Ross’ 1967 Religious Orientation Scale (T. L. Davis, Kerr, & Kurpius, 2003; Watson, Ghorbani et al., 2002; Watson, Jones, & Morris, 2002). Oakes (2000) described “intrinsically oriented [as] dominated by faith in transcendence, altruism, compassion, and love for others, whereas the worldview of the extrinsically oriented revolves using… religious practice as a means to achieve personal and social goals that lie outside the teachings of religion” (p. 113). This scale as revised by Gorsuch and McPherson (1989) is used to measure religious orientation.

Approximately twenty-seven hundred randomly chosen business faculty members, in AACSB-accredited Colleges of Business in the southeastern United States, were sent an email requesting their participation in an online survey for this research. Options included: being removed from the email list, requesting results, doing nothing or clicking a link connecting them to the online survey. Less than one percent requested to be removed and a similar number requested results be sent to them when the findings were completed. Five hundred twenty-two faculty members started the online survey and four hundred seventy completed the required responses, giving about a twenty percent response rate for faculty members.

Student surveys were collected randomly among classes at four southeastern AACSB-accredited business colleges. Faculty either gave a paper survey or an online link to students with a request to complete the survey and the option to withdraw at any time. No significant differences existed between those using a paper survey or an online survey. After incomplete surveys were removed and random removal to obtain the needed demographics, three hundred sixty student responses were used in this analysis.
Statistical Analyses

Both the ethical perception scale and religious orientation scale have been shown repeatedly to be valid in previous study ((P. Keith-Spiegel, Tabachnick, Whitley Jr, & Washburn, 1998; P. C. Keith-Spiegel et al., 1993; Kuther, 2003; Gorsuch & McPherson, 1989). Validity was indicated in this study by factor loading and reliability was determined using Cronbach’s Alpha and regression analyses. Mediating and moderating relationships were examined using the method set forth by Baron and Kenny (1986) and further explained by Getz and Volkema (2001).

Student age in this survey is similar to those in the population. The largest age group is 18-21 in both the sample and population. Students over the age of 30 make up just over 20% of the sample, while approximately 23% of the population is over 30. Professors in both the sample and population are most frequently in the 46-64 years age range. The frequency distribution of the race of students and faculty in this study acceptably matches the actual racial makeup of faculty and students from nces.gov.

Table 4 (following) presents the items, means, and standard deviations for the Ethical Perception construct using the faculty and student data sets. Items EP1 through EP21 were measured on a 7-point Likert scale with a “1” representing “never acceptable” and a “7” representing “always acceptable”. Scores below four indicate the respondent sees the behavior as rarely or seldom acceptable (more unethical). Therefore, low scores indicate a higher ethical perception on this scale. An independent-sample t-test to examine the difference in between the means of students and faculty did not indicate a significant difference in ethical perception (t=-.149, p=.882) and correlation indicates the two are significantly correlated (correlation=.880, p=.005). Mean for faculty = 1.8545 with standard deviation of .59661; mean for students = 1.8163 with standard deviation of .68270. Levene’s Test for Equality of Variances indicates variances for faculty and students do differ significantly from each other, making it necessary to use the un-equal variance test which gives the above results. This would indicate that no significant difference in ethical perception of faculty and students was found in this study.

<table>
<thead>
<tr>
<th>Ethical Perception Items</th>
<th>Students</th>
<th>Faculty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std.</td>
</tr>
<tr>
<td>Professors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Ignoring evidence of cheating</td>
<td>1.500</td>
<td>1.097</td>
</tr>
<tr>
<td>2. Telling a student “I’m sexually attracted to you.”</td>
<td>1.269</td>
<td>0.802</td>
</tr>
<tr>
<td>3. Failing to present views that differ from their own.</td>
<td>2.150</td>
<td>1.388</td>
</tr>
<tr>
<td>4. Failure to challenge remarks by students or professors that are racist, sexist or</td>
<td>1.789</td>
<td>1.337</td>
</tr>
<tr>
<td>otherwise derogatory to particular groups of people.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Ridiculing a student in a faculty-only discussion.</td>
<td>1.700</td>
<td>1.175</td>
</tr>
<tr>
<td>6. Becoming sexually involved with a student enrolled in one of their classes.</td>
<td>1.497</td>
<td>1.071</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mean</td>
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<td>-------------------------------------------------------------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>7.</td>
<td>Not providing alternative teaching and testing procedures for students who have learning</td>
<td>1.603</td>
</tr>
<tr>
<td>8.</td>
<td>Ignoring another professor’s unethical behavior.</td>
<td>1.641</td>
</tr>
<tr>
<td>9.</td>
<td>Failure to acknowledge significant student participation in research or publication.</td>
<td>1.783</td>
</tr>
<tr>
<td>10.</td>
<td>Failure to keep up-to-date on recent research and scientific findings in their field of academic/professional expertise.</td>
<td>2.133</td>
</tr>
<tr>
<td>11.</td>
<td>Grading on criteria not delineated in course syllabus.</td>
<td>2.025</td>
</tr>
<tr>
<td>12.</td>
<td>Teaching that certain races are intellectually inferior.</td>
<td>1.333</td>
</tr>
<tr>
<td>13.</td>
<td>Failure to provide negative comments on a paper or exam when these comments reflect honest assessment of the student’s performance.</td>
<td>2.425</td>
</tr>
<tr>
<td>14.</td>
<td>Lowering course demands for students who have too many work or family demands.</td>
<td>2.618</td>
</tr>
<tr>
<td>15.</td>
<td>Using university supplies or equipment for personal use.</td>
<td>2.367</td>
</tr>
<tr>
<td>16.</td>
<td>Lowering course demands for student athletes.</td>
<td>1.952</td>
</tr>
<tr>
<td>17.</td>
<td>Relaxing rules (e.g., late papers, attendance) so students will like them.</td>
<td>2.488</td>
</tr>
<tr>
<td>18.</td>
<td>Allowing a students’ likeability to influence grading.</td>
<td>1.936</td>
</tr>
<tr>
<td>19.</td>
<td>Teaching under the influence of alcohol or recreational drugs.</td>
<td>1.286</td>
</tr>
<tr>
<td>20.</td>
<td>Lowering course demands for minority students.</td>
<td>1.464</td>
</tr>
<tr>
<td>21.</td>
<td>Teaching a class in ethics while engaging in unethical behavior in one’s personal life.</td>
<td>2.072</td>
</tr>
</tbody>
</table>

Table 5 (following) presents the items, means, and standard deviations for the Religious Orientation construct using the business faculty and student data sets. Items R23 through R35 were measured on an 8-point Likert scale with a “1” representing “never agree” and a “7” representing “always agree”. Eight represented “not applicable” but was scored as a 0 for data analyses. Higher scores indicate a higher religious orientation. Student means were higher for every item included in this scale. The means for students and faculty religious orientation are significantly correlated (correlation=.912, p=.000). An independent-sample t-test of these means indicated the difference for each of the three religious orientations is highly significant (i-score: t= -7.384, p=.000; es-score: t=-3.899, p=.000; ep-score: t=-11.072, p=.000). Student responses are more religiously oriented than faculty.
Table 5. Religious Orientation Items, Means, and Standard Deviations.

<table>
<thead>
<tr>
<th>Religious Orientation</th>
<th>Students</th>
<th></th>
<th>Faculty</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std.</td>
<td>Mean</td>
<td>Std.</td>
</tr>
<tr>
<td>23. I enjoy reading about my religion.</td>
<td>5.772</td>
<td>1.647</td>
<td>4.466</td>
<td>2.294</td>
</tr>
<tr>
<td>24. I go to a place of worship because it helps me make friends.</td>
<td>3.136</td>
<td>2.087</td>
<td>2.704</td>
<td>1.945</td>
</tr>
<tr>
<td>25. It doesn’t matter what I believe so long as I am good.</td>
<td>5.356</td>
<td>2.106</td>
<td>4.128</td>
<td>2.408</td>
</tr>
<tr>
<td>26. It is important to me to spend time in private thought and prayer.</td>
<td>5.800</td>
<td>1.782</td>
<td>5.153</td>
<td>2.202</td>
</tr>
<tr>
<td>27. I have often had a strong sense of God’s presence.</td>
<td>5.672</td>
<td>1.803</td>
<td>4.640</td>
<td>2.285</td>
</tr>
<tr>
<td>28. I pray mainly to gain relief and protection.</td>
<td>4.592</td>
<td>1.957</td>
<td>3.047</td>
<td>1.943</td>
</tr>
<tr>
<td>29. I try hard to live all my life according to my religious beliefs.</td>
<td>5.444</td>
<td>1.812</td>
<td>4.775</td>
<td>2.405</td>
</tr>
<tr>
<td>30. What religion offers me most is comfort in times of trouble and sorrow.</td>
<td>4.903</td>
<td>1.972</td>
<td>3.647</td>
<td>2.144</td>
</tr>
<tr>
<td>31. Prayer is for peace and happiness.</td>
<td>5.111</td>
<td>1.816</td>
<td>3.972</td>
<td>2.072</td>
</tr>
<tr>
<td>32. Although I am religious, I don’t let it affect my daily life.</td>
<td>4.603</td>
<td>2.152</td>
<td>4.434</td>
<td>2.628</td>
</tr>
<tr>
<td>33. I go to a place of worship mostly to spend time with my friends.</td>
<td>2.303</td>
<td>1.834</td>
<td>1.840</td>
<td>1.445</td>
</tr>
<tr>
<td>34. My whole approach to life is based on my religion.</td>
<td>4.656</td>
<td>2.018</td>
<td>3.760</td>
<td>2.409</td>
</tr>
<tr>
<td>35. Although I believe in my religion, many other things are more important in life.</td>
<td>4.997</td>
<td>2.081</td>
<td>3.645</td>
<td>2.455</td>
</tr>
</tbody>
</table>

The means for students and faculty religious orientation are significantly correlated (correlation=.912, p=.000). An independent-sample t-test of these means indicated the difference for each of the three religious orientations is highly significant (i-score: t=-7.384, p=.000; es-score: t=-3.899, p=.000; ep-score: t=-11.072, p=.000). Student responses are more religiously oriented than faculty.

This study examines the relationship between age and ethical perception. This relationship is significantly correlated for both faculty and students (Faculty: correlation = -.202; p=.000; Students: correlation = -.130, p=.013). Both are negatively significant which would indicate older faculty and students have a higher ethical perception. Age was not correlated to religious orientation for faculty nor students. Neither were age and race correlated in this research data. For mediation of continuous variables, three regression analyses were conducted to determine whether a variable mediated the relationship between two other variables as explained in Baron and Kenny (1986). For moderation, interaction terms including age and either race or the three religious orientations were regressed with ethical perception.

Tests for multicollinearity indicate no need for concern. Variance Inflation Factors (VIFs) for faculty and students were at or below 2.0. Hair, et al (2006) suggests VIFs below 10.0 (others say the cutoff should be 5.0) are acceptable. This data is well below either point and indicates no multicollinearity is present for either faculty or students.
The hypothesis examined in this research is: the ethical perception of business faculty and students will not differ with age (a); this relationship will neither be mediated by religiousness (b) nor race (c) was investigated further using regression analyses and Indirect analysis; nor moderated by religiousness (d) or race (e). Correlation showed a significant relationship between ethical perception and age for faculty (corr = -0.202, p = .000) and students (corr = -0.130, p = .013) indicating for both that older persons have a higher ethical perception. Regression analysis also indicates a significant relationship between age and ethical perception for both faculty (F = 19.825, p = .000, R² = .041) and students (F = 6.165, p = .013, R² = .017); therefore, the null hypothesis for (a) is rejected. For (b) regarding mediation of religious orientation, regression did not find significant relationships for faculty or students thus, mediation is not indicated for religious orientation variables between age and ethical perception. Interaction effects were hypothesized in (d) of this research to examine moderation of age and ethical perception with religious orientation. Interestingly, regression for age and religious orientation was not significant but when all three variables were entered into the regression model, the model was highly significant and indicated this model explained 7% of the variance of faculty ethical perception.

For (c) regarding mediation of race, regression confirmed significant relationships for faculty and students and indicated mediation is present. For faculty, race was significantly related to age (F = 3.293, p = .020, R² = .021) and age was shown previously to be significantly related to ethical perception (F = 19.825, p = .000, R² = .041). Age, race and ethical perception show a significant relationship when entered into regression analysis (F = 7.498, p = .000, R² = .061) so race does appear to mediate the relationship between age and ethical perception. Partial correlation indicates age explained 3.5% of the variance in ethical perception, while the Asian variable explained 1.4% of the variance.

For students, race was significantly related to age (F = 3.591, p = .014, R² = .029). Age and ethical perception were previously shown to be significantly related (F = 6.165, p = .013, R² = .017). A regression model containing age, race, and ethical perception also shows significant relationship (F = 9.209, p = .000, R² = .094) thus, race does appear to mediate the relationship between age and ethical perception for students.

For (d) regarding moderation of religious orientation, regression confirmed significant relationships for faculty and students and indicated moderation is present. For faculty, interaction terms for both intrinsic religious orientation x age (t = -3.552, p = .001) and extrinsic-social religious orientation x age (t = 2.030, p = .043) were significantly related to ethical perception (F = 6.474, p = .000, R² = .040). For students, the relationship is even more highly significant. Interaction terms for both intrinsic religious orientation x age (t = -4.190, p = .000) and extrinsic-social religious orientation x age (t = 3.697, p = .000) were related to ethical perception (F = 11.166, p = .000, R² = .086). Intrinsic Religious Orientation does appear to positively moderate the relationship between age and ethical perception; while, Extrinsic Social religious orientation appears to negatively moderate the relationship between age and ethical perception for both faculty and students.

For (e) regarding moderation of race on the relationship between age and ethical perception, regression found no significant relationship for faculty or students.

This research showed a significant relationship between ethical perception and age for faculty and students indicating for both that older persons have a higher ethical perception. Race was shown for to mediate the relationship between age and ethical perception for both faculty and students. This mediated relationship shows more than 6%
of the variance in ethical perception for faculty and more than 9% of the variance in ethical perception for students. Two religious orientation variables are shown to moderate the age-ethical perception relationship for both faculty and students. For faculty or students with a higher intrinsic religious orientation, the relationship between age and ethical perception is more highly positively significant. For faculty or students with a higher extrinsic-social religious orientation, the relationship between age and ethical perception is more highly negatively significant.

Conclusions

This research examined the current ethical perception and some possible antecedents of it of business students and faculty in business colleges in the southern United States. These students are future business professionals whose skills, abilities and character will greatly affect the economic and ethical face of business beginning in the next few years and for years to come. The faculty are training the students for that opportunity. This research has given a number of significant findings that should assist in understanding the relationship between religious orientation, race and ethical perception. The relationship between ethical perception and age is mediated by race. Although the amount of variance seems small, significant results should not be ignored or discounted. Many variables have been studied regarding the prediction and causation of ethical perception and no one alone appears to sufficiently predict ones’ ethical perception by itself. All should be mindful that ethical perception does not necessarily indicate ethical behavior. In particular, knowing the most ethical behavior does not indicate that one will make the most ethical choice.

The findings from this study contribute to the existing body of literature on ethical perception and age, particularly the mediating and moderating relationships of race and religiousness. Faculty, administration and business leaders can use the findings to develop strategies to address ethical issues. Specifically, faculty who are usually older should be aware that younger students see ethical behavior differently than they. Students “believe that their faculty members play a very important role in educating them about ethics” (Lau & Haug, 2011). Understanding that religious orientation is positively related to ethical perception should cause College of Business faculty to be more positive toward students’ involvement in religious activities regardless of the chosen faith.

Study Limitations

Several limitations of this study are evident. As seen in Manley et al., (2001) self reported assessments of ethical perception may often show a bias or enhancement. Although Nguyen et al. (2008) agreed that “socially desirable responding” could create a limitation, they reported that “previous research showed that social desirability was not related to ethics perception (e.g., Loo, 2001)” (p. 420). Using a student population sample leads to limitations in generalizability. Concerns over language or cultural difficulties with the survey should be examined before conclusions are drawn from that portion of this research.

Future Research

Ethics is a hot topic in all areas of business today. This study raises questions about other mediators or moderators of ethical perception. Situational variables are also very important to the understanding of ethical perception and should be examined further in future research. A few questions that should be considered are whether organizational culture, employee morale, employee motivation, economic environment, or political
environment are significantly related to ethical perception or might mediate personal or
demographic variables. Important demographic variables not considered in this research
that should be examined in future research include: income, family of origin, parents
education, marital status, size of family, personal political views, and employment status.

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Abstract

Despite the controversy regarding the ethics of investing in “sin stocks,” the opportunities for both dividends and price appreciation makes inclusion of them in one’s portfolio tempting. In this report we study the investment merits of companies producing tobacco and alcohol products, identify a “sin stock” investment premium, and examine the performance of these shares in light of stock market conditions, inflation rates, and unemployment rates. Detailed information is provided for individual vice companies as well as a portfolio of alcohol and tobacco firms.

Introduction

According to the Bureau of Labor Statistics, in 2010, the average household expenditure on alcoholic beverages was $412. Another $362 was spent, on average, by these units on tobacco products. Given the Bureau of Labor Statistics’ estimate that there were 121 million U.S. housing units in 2010, almost $50 billion was spent on alcohol alone. Add in the $44 billion spent on tobacco products, and one approaches $100 billion spent on these vices. Can investors take advantage of these hard-to-break habits? That is the subject of this report.

Furthermore, it should be noted that alcohol and tobacco consumption is not uniform across age groups. Alcohol consumption reaches a height of $497 annually among those households with the breadwinner in the 35 to 44 age group. Tobacco consumption reaches $450 annually in the 55 to 64 age group. This near-retirement age group also spends $21 annually on alcohol which is given as gifts, according to the Bureau of Labor Statistics. Effective marketing to these age groups will enhance the profits arising from consumer dependences on these vices. Such dependence further enhances the potential returns that can be earned from investing in those firms which target these customers.

A review of some of the leading “sin stock” research is given next. We then examine the return and risk arising from investment in sixteen companies that benefit from consumer dependence upon alcohol and tobacco, eight companies in each industry. Information is provided regarding the stock price sensitivity to stock market conditions. A key contribution of this study consists of revelations regarding the relationship of vice stock performance and two popular measures of economic conditions, inflation and unemployment rates. We thereby
provide a answer to the question, can knowledge of the general economic conditions be used to enhance “sin stock” investment returns?

**Literature Review**

Alcohol and tobacco are obviously very popular within the United States, making the “top ten” items Americans waste the most money on, based on the perception that these items are goods and services that a consumer does not need. Alcohol purchases placed 7th with an average of 0.9% of total annual expenditures, while tobacco placed 9th with an average of 0.8% of annual expenditures (McIntyre, Sauter, Stockdale, 2011). This provides concrete information that Americans really enjoy purchasing these sin products; if one were to invest, they would make money off of people’s pleasures (and sometimes in tobacco’s cases, addiction). This is where the ethical dilemma may arise for an investor.

Social responsible investing in the U.S. can be defined as the process of integrating personal values and societal concerns into investment decision-making (Schueth, 2003). To further elaborate, the concept of socially responsible investing refers to “ethically investing” or “values-based investing” (Ciocchetti, 2007). As the percentage of socially-responsible investors rises, the percentage of investors who willingly consider sin stocks declines. However, the lack of demand may create opportunities for enhanced rates of return. The word “may” has to be used here, because the lack of demand would reduce both the purchase and sales price of vice stocks. In a study by Mark Skousen (2005), Chairman of Investment U, two SRI funds, the Sierra Club Fund and the Timothy Fund (a funding vehicle of the Presbyterian Church of America) were compared to the S&P 500 Index for the span of two years; the period experienced both a bear and bull market. These two funds were carefully picked and were of the highest rating in the SRI Fund industry. Skousen found that the Timothy Fund under-performed the market index, while the Sierra Fund slightly outperformed the index. In a similar study also by Skousen, Vanguard’s Vice Fund (which invests exclusively in tobacco, alcohol, gambling, and defense stocks, which trades under the symbol VICEX) was compared to the S&P 500 for the same period. The analyst found that the Vice Fund clearly outperforms the Sierra Club Fund, as well as the S&P 500 Index. Our study focuses on the alcohol and tobacco industry, two major components of “sin stock” genre over a ten-year period, a sample period that is five times as long as that studied by Skousen.

In their study, “The price of sin: The effects of social norms on markets,” Princeton professor Harrison Hong and University of British Colombia professor Marcin Kacperczyk (2009) discovered through empirical testing that “sin stocks” act like value stocks and have beaten the market over time. They also state that sin stocks have higher expected returns than other comparable stocks of similar characteristics. In his book *The Future for Investors*, Professor Jeremy Siegel (2005) found that Altria (a tobacco company traded under the ticker symbol MO) is the most profitable stock investment in US history.

Prior research and commentary regarding “sin stock investing” is rich, including over 11 million hits when googling on this term alone. Some of the discussion devolves into what makes a “sin stock,” (with titles such as “When did it become a sin to investing guns?”). Those studies reporting on results of sin stock investing are characterized by Fabozzi, Ma, and Olipant’s (2008) article. Over the 1970 to 2007 period, they found double-digit returns on companies which earned at least a quarter of their income from vice-related activities. Our study extends beyond their analysis by studying a more recent time period, only companies earning money from vice-related activities, and seeks macroeconomic explanations for the “sin stock” premium.
Sample

The research sample consists of the sixteen publically-held firms. Eight are the largest publicly-traded firms in the alcohol industry, while another eight are the largest publicly-traded firms in the tobacco industry. Monthly returns over the July 2002 to June 2012 period are computed and compared to a market surrogate. Although daily and weekly return computations are possible, Maikel (2012) asserts that investors should not worry about day-to-day or week-to-week volatility. All but Godfrey Philips India Limited has 120 monthly observations. Godfrey Philips India Limited has been publicly traded since September 2002, resulting in only 118 observations for this firm. This small difference has no material impact on the tests or findings; in fact the F-statistic’s critical value for 118 or 120 observations is 1.53.

The market surrogate used in this report is Vanguard’s 500 Index Fund Investor Shares, which has the ticker symbol VFINX. The VFINX fund tracks the performance of the Standard & Poor’s 500 Index, which is a widely recognized benchmark of U.S. stock market performance. According to Morningstar (2012), this is a good measure of market performance. It is the measure used by financial managers ranging from James Cloonan (2012), founder and chairman of the American Association of Individual Investors, to technical analyst Chris Kimbe (2010). In the finance literature, VFINX has been used as a surrogate for the market in a wide array of journals including the Journal of Economic Dynamics & Control (Goldbaum and Mizrach, 2008), Journal of Public Affairs (Chong, Halcoussis, and Phillips, 2011), and Journal of Investing (Wright, Boney, and Banerjee, 2008).

According to Morningstar, VFINX has a beta of 1.00 when the S&P 500 serves as the market benchmark. The coefficient of determination R-squared value of the regression equation is 1.00. The regression equation’s intercept term is -0.14 percent, reflecting the management fees charged by Vanguard. Over the 2008-2011 period, VFINX management fees averaged 0.16 percent. In mid-2012, the management fees were 0.17 percent.

More than offsetting VFINX’s management fees is its dividend yield, which stood at 1.8 percent in mid-2012. Meanwhile, the average dividend yield over the 2008-2012 period was 2.1 percent (www.dividendinvestor.com, 2012). Given that the returns of the companies included in the research sample are based solely on share price, while VFINX includes both current income and price appreciation, we would expect the VFINX to have better performance in this study. Furthermore, these are some of the firms with the highest dividend yields, led by Altria Group with a five-year average annual dividend yield of 7.2 percent. In the process of focusing on share prices alone, we have effectively created a conservative measure of the extent of the “sin stock” premium.

Additional information regarding dividend yields is presented in Table 1, where it is reported that the average dividend yield over the last five years of the study was 1.6 percent for alcohol companies and 3.9 percent for tobacco companies in this study. Investing in these alcohol firms would have provided a slightly lower dividend, than investment in the S&P overall. By comparison, one could have almost doubled their current income by investing in tobacco companies. The exclusion of dividends from the analysis below understates the relative performance of the shares of companies involved in vice industries, with a greater dampening effect on the stock performance of tobacco firms.
Findings
Vice Stock Return and Identification of a “Sin Stock” Premium

Table 2 reports return and risk aspects of the S&P 500, eight alcohol and tobacco companies, and portfolios comprised of alcohol and tobacco companies. Data used in the comparison includes monthly average return, return standard deviation, maximum monthly return, minimum monthly return, z-test p-value, and return correlation. The latter two measures provide insight regarding the performance of the “sin stocks” relative to the S&P 500 surrogate. Across the sixteen companies selected, all but two earned a higher average monthly return than the S&P 500 (i.e., Constellation Brands, Inc. & Alliance One International, Inc.). Of the two companies that did not beat the S&P 500, only the return of Alliance One International was over 0.1 percent lower.

In the alcohol industry, there were four companies with an average return that was near the return of the S&P 500 (including Constellation Brands), one that averaged almost double the market return (Diageo), and one that averaged a little over double (Beam). Despite these being defensive companies, and the market rising, two alcohol companies averaged returns four times greater than that of the market (i.e, Boston and Fomento). The average return of the eight alcohol companies was twice as much as the S&P 500’s return, at 1.07%.

In the tobacco industry, all but one company beat the S&P 500 index. Of the companies that did beat the market, one averaged a little under double the return of the market (Universal Corporation), one averaged a little over double (Imperial), four averaged about three times the market return (Altria, British American Tobacco, Reynolds, & Schweitzer-Mauduit). Amazingly, one tobacco company averaged a little over five times the market return (Godfrey). The average return for the eight tobacco companies was about three times as much as the return from the market, at 1.48%. Either these firms are more aggressive than defensive in nature, or there is an anomalous return, referred to here as a “sin stock premium,” awarded to investors in vice companies.

Stock Return Variance and the “Sin Stock” Premium

Given that alcohol and tobacco stocks are often viewed as defensive choices (i.e., Gitman, Joehnk, and Smart, 2011, p. 228), one might anticipate a lower price variance. Our findings indicate that such a deduction is incorrect when risk is measured using standard deviation, which is reported in the second column of Table 2. A key aspect of this column is the similarity of the S&P 500 Index and the values for both vice portfolios, all of which benefit from diversification arising from their dependence on multiple stock returns. Specifically, the standard deviations of the S&P 500 surrogate, alcohol portfolio, and tobacco portfolio are 4.75%, 5.00%, and 5.38%, respectively. If one were to round these values to a whole percentage, the standard deviation would be 5% in each instance. On an individual company basis, standard deviations reach ten percent in the alcohol set (i.e., Brown-Forman) and thirteen percent in the tobacco set (i.e., Alliance One International).

The average maximum monthly return for the S&P 500 surrogate was 10.92%. All the alcohol companies beat the market’s maximum monthly return, with the highest being a 60.12% return (i.e., Beam) and the lowest being a 14.02% return (i.e., Diageo). The average maximum monthly return for the eight alcohol companies was 17.79%, a little under double the maximum market return. All the tobacco companies also beat the market’s average maximum monthly return, with the highest being a 50.92% return (i.e., Schweitzer-Mauduit) and the lowest being
12.63% (i.e., British American Tobacco). The average maximum monthly return for the eight tobacco companies was 16.10%, about 1.5 times the market return.

The average minimum monthly return for the S&P 500 was -16.80% (the negative indicates a loss). All but one of the alcohol companies exceeded the market’s minimum monthly loss, with the greatest being a -41.57% return (i.e., Constellation). The alcohol company that did not exceed the market minimum return was Diageo, at a -14.46% minimum monthly return. Consistent with its low standard deviation, Diageo had both the lowest maximum monthly gain and least monthly maximum loss. The average minimum monthly return for the eight alcohol companies was -24.43%, about 1.5 times the minimum market return.

All but one of the tobacco companies also exceeded the market’s average minimum monthly return, with the greatest loss being a -38.82% return (Schweitzer-Mauduit) and the lowest being -20.16% (Imperial). The tobacco company that did not exceed the market’s minimum monthly return was British American Tobacco, with a minimum monthly return of -12.33%. The average maximum monthly loss for the eight tobacco companies was -12.98%, which was surprisingly lower than the market’s minimum monthly return, because the tobacco portfolio has 492 few companies and hence much less diversification. As a consequence the excess return of the tobacco companies is not necessarily compensating for greater risk.

Analysis of Return Correlation

A z-test was performed to compare the return distribution of the vice stock companies and vice industry portfolio to changes in the S&P 500 surrogate. Our findings are exhibited in Table 2 in the second column from the right, which is the first under the heading “Relationship with the S&P 500 Index Surrogate.” Asterisks highlight instances where the return distributions were significantly different at the 0.10 (one asterisk), 0.05 (two asterisks), and 0.01 level (three asterisks) of significance. Two alcohol companies (Boston Beer and Fomento Econ) have return distributions significantly different from the market surrogate. Also, the portfolio of alcohol companies has a return distribution that is significantly better at the 0.05 level, as signified using two asterisks.

Tobacco companies are twice as likely to outperform the market, with the z-tests of four company returns resulting in significance at least at the 0.05 level. During the July 2002 to June 2012 period, the returns of Altria Group, Godfrey Philips India, and Reynolds American were significantly better than the market at the 0.05 level. Although British American Tobacco had a monthly return that was slightly over one percent lower than Godfrey Philips India, its standard deviation was less than half as large. As a consequence, the returns of British American Tobacco are significantly better than those of the market surrogate at the 0.01 level. The other tobacco return stream that was significantly better than the market at the 0.01 level was that of the tobacco company portfolio overall. Even without considering the dividend yield, both alcohol and tobacco companies outperformed the market.

Despite the frequency with which return means were found to be significantly greater than that of the S&P 500 surrogate, the correlation between the vice company returns and market are always positive and quite high. As shown in the right column of Table 2, the Pearson correlation coefficients range from 0.34 to 0.63. Having a low correlation coefficient does not necessarily mean that the returns are significantly different. For instance, among the tobacco companies, Alliance One International and Altria Group both have a Pearson correlation coefficient of 0.34. Yet, the monthly return distribution of only Altria Group generated a return stream that was significantly different from the market surrogate. Near the other extreme,
although the return distribution of Fomento Econ is significantly greater at the 0.01 level, sixty-one percent of its movement is correlated to that of the market. Obviously, across the remainder of this company’s monthly stock price adjustment, there is a tendency to outperform the market.

The correlation of the individual vice industry portfolios and the market exceeds that of individual companies, with the Pearson correlation coefficient being 0.79 for the alcohol portfolio and 0.64 for the tobacco portfolio. Given the portfolios’ diversification, having a higher correlation coefficient is not necessarily surprising. However, this high correlation in conjunction with the significant z-tests, suggests that investors can earn a reward for investing in vice stocks and still benefit from stock market appreciation.

Regression Equation Identification of the “Sin Stock” Premium

In order to gain more insight regarding the “sin stock” premium, market models were completed for each vice company and the two industry portfolios. Table 3 describes the relationship between chosen vice companies and the S&P 500 index surrogate for the July 2002-June 2012 period. When computing results, the independent variables was the change in the S&P 500 surrogate and the dependent variables were price changes for the vice firms and related portfolios. The regression model is given below in Equation 1.

\[
\text{Change in Vice Firm Share Price}_{t} = a + X(\text{Change in VFINX value}_{t}) \quad \text{[Equation 1]}
\]

These findings reveal how the vice firms have done in the past against the market, and provide some insight regarding how these firms will do in the future against the S&P 500.

Only two of the intercept terms are negative, one for Constellation Brands and one for Alliance One International. However, the Constellation Brands’ -0.01% is negligible. On the other hand, regression model intercept terms get as high as 1.65 percent for alcohol-producer Boston Beer Company and 2.21 percent for tobacco-producer Godfrey Philips India. In fact, seven of the individual vice companies have regression model intercepts exceeding 1.0, which suggests that these firms tend to earn over one percent each month when the stock market is stationary. Furthermore, the regression model intercept terms for both industries exceed 0.6 percent, underscoring the existence of a “sin stock” premium. Investors in tobacco producers over the 2002-2012 period experienced a market model wherein the intercept term of intercept term was over one percent. If one were to add in the dividend yield, which averages about 0.5 percent per month, tobacco stocks’ typical monthly return when the market is stagnant amounts to about 1.5 percent!

All of the F-statistics shown in Table 3 have a value exceeding the value needed to be considered significant at the 0.01 level (i.e., 1.53). The highest F-statistics were recorded by the alcohol companies, with values a high as Heineken’s 79.69. By comparison, the highest F-statistic among tobacco companies is British American Tobacco’s 32.32 value. With all individual companies having very significant F-statistics, it is not surprising that the highest F-statistics are associated with industry portfolios. These research results indicate that the return model depicted by Equation 1 has significant explanatory power.

The related concern is the proportion of return explained by Equation 1. Adjusted R-squared values, shown in the right column, can have values ranging from 0 to 1. The closer an adjusted R-square value is to 1, the better the prediction power of the intercept, regression coefficient, and market return. The alcohol companies numbers once again varied the most, with the lowest being an adjusted R-square of 0.12 (Boston Beer Co.) and the highest being 0.40.
(Heineken). The alcohol companies’ portfolio adjusted R-square was also quite high, being at 0.62, meaning that almost two-thirds of alcohol company price movement can be explained by market performance and use of Equation 1.

Within the tobacco industry, the adjusted R-square values were more similar, with the highest being 0.21 (British American Tobacco) and the lowest being a three-way tie at 0.11 (Alliance, Altria, & Reynolds). The tobacco companies’ portfolio adjusted R-square was 0.41, which implies a fairly strong linear relationship between tobacco companies and the market. While being dependent upon the market, these equations indicate the presence of a monetarily significant “sin stock” premium.

Impact of Unemployment Rates on the “Sin Stock” Premium

The remainder of this paper examines the relationship between the stock prices of vice companies and changes in unemployment and inflation rates. Panel A of Table 4 reports the relationship between vice company portfolio values and contemporaneous unemployment levels, as reported by the U.S. Bureau of Labor Statistics, for the period of July 2002 to June 2012. The independent variable is the change in the unemployment rate and the dependent variables is the vice firms’ price changes. These results will indicate how the vice firms were affected by the unemployment rate in the past 10 years and provide an indication of how they will be affected in the future. The relevant model is given below in Equation 2.

\[
\text{Change in Vice Firm Share Price}_t = a + X(\text{Change in Unemployment rate}_t) \quad \text{[Equation 2]}
\]

Both of the intercept terms reported in Panel A are positive meaning that when unemployment rates did not change—which was the most common occurrence, occurring in 30 out of 120 months—these firms are producing huge rates of return. Slope coefficients, given in the second column, are both negative, implying that as unemployment rises there is a decline in the prices of alcohol companies and tobacco companies. However, before one becomes too excited about the slope of the regression line, they have to consider the F-statistic. None of the F-statistics exceed 1.26, and therefore are insignificant at the 0.10 level. Further emphasizing this absence of an impact is the regression model’s coefficient of determination. The adjusted R-squared is frequently negative and never has a value in excess of 1 percent.

A few important insights regarding alcohol and tobacco companies can be derived from Table 4. There seems to be a “sin stock” premium (excluding dividends) of about one percent for alcohol companies and one and one-half percent for tobacco firms. Changes in unemployment rates had little impact on the “sin stock” premium over the recent decade studied. Given the low explanatory power, it appears as though unemployment rates are unlikely to affect the vice firm prices in the future.

Impact of Inflation Rates on the “Sin Stock” Premium

Panel B of Table 4 describes the relationship between vice company share prices and inflation for the period of July 2002-June 2012. The independent variables used here is the contemporaneous change in the consumer price index, which is also reported by the Bureau of Labor Statistics, while the dependent variable again is vice firm price changes. These results indicate how the vice firm returns were affected by the concurrent inflation rate. With insight to
future inflation rates, significant findings could help forecast vice stock price movement. The research model is now Equation 3, which is given below.

\[
\text{Change in Vice Firm Share Price}_t = a + X(\text{Change in Inflation Rate}_t) \quad [\text{Equation 3}]
\]

As with unemployment rates, the intercept term is positive indicating that vice firm returns are positive when the inflation rate is stationary. While not as stable as unemployment rates, the Consumer Price Index remained unchanged 13 of 120 times, which was the most common level of change over the July 2002 to June 2010 period. In periods where inflation does change it is unlikely to have much of an impact on vice stock returns, because the regression slope of Equation 3 for the portfolios are zero for both portfolios. Furthermore, the F-statistic and adjusted R-square values are also at or close to zero. The same conclusions can be drawn regarding inflation that was made above for unemployment rates. Vice firm returns were not sensitive to changes in inflation for the 2002-2012 period. This also suggests that inflation rates are not very likely to affect the vice firms’ stock prices in the future. The “sin stock” premium is not explained by inflation rates, nor is it impacted by changes in inflation.

A Look at Lagged Responses

Given the lack of a concurrent relationship between vice stock performance and both inflation rates and unemployment levels, we studied the lagged relationship between the data series. Stock prices tend to be leading indicators, so we estimated the one-month leading impact of stock prices (S&P 500, alcohol companies, and tobacco companies) on inflation rates and unemployment levels. The resulting regression equations are given below.

\[
\text{Change in VFINX}_t = a + X(\text{Change in Unemployment Rate}_{t+1}) \quad [\text{Equation 4a}]
\]
\[
\text{Change in VFINX}_t = a + X(\text{Change in Inflation Rate}_{t+1}) \quad [\text{Equation 4b}]
\]
\[
\text{Change in Vice Firm Share Price}_t = a + X(\text{Change in Unemployment Rate}_{t+1}) \quad [\text{Equation 5}]
\]
\[
\text{Change in Vice Firm Share Price}_t = a + X(\text{Change in Inflation Rate}_{t+1}) \quad [\text{Equation 6}]
\]

As one would expect, using Equation 4a, increases in the S&P 500 were followed by lower unemployment rates, while decreases in the S&P 500 was followed by reductions in unemployment rates. However, when apply Equation 4b, we found that the S&P 500 was positively correlated with lagged changes in inflation. Results in all instances were significant at the 0.10 level, but not better.

Using Equation 5, we found that increasing unemployment was preceded by increases in both alcohol and tobacco stock prices. Likewise, declining unemployment rates were preceded by declining alcohol and tobacco stock prices. However, F-statistics and adjusted R-squared values were consistently close to zero. Consequently, future research into this area of investigation was truncated due to the limited correlation and lack of statistical significance.

Summary

Investment in alcohol and tobacco companies requires overcoming two ethical challenges. On one hand there are socially-responsible investors who decry investment in the stocks issued by these companies. On the other hand there is the common perception that, as defensive stocks, they will underperform the market. But have they? That is the research question answered here.
Over the decade ending in July 2012, we find a significantly higher rate of return and risk. We find that the return distributions are correlated and that the market model explains a high percentage of return variation. However, there is a persistent bonus in terms of a monthly “sin stock” premium earned by investors in these equities. By contrast, there seems to be no relationship between these returns and either contemporaneous unemployment rates or inflation rates. Investors do not appear to be using these fundamental factors to adjust their investment in alcohol or tobacco companies. Future research might expand upon the potential for lagged impacts of these revealed in this report.

References


Table 1. Comparative Annual Dividend Yields

Vanguard’s VFINX fund’s average annual dividend yield over the 2008-2012 period was 2.1%, and it dividend yield in June 2012 was 1.8%

<table>
<thead>
<tr>
<th>Alcohol Companies</th>
<th>Five-year Average</th>
<th>June 2012</th>
<th>Tobacco Companies</th>
<th>Five-year Average</th>
<th>June 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam, Inc.</td>
<td>2.8%</td>
<td>1.3%</td>
<td>Alliance One</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Boston Beer Co.</td>
<td>0.0%</td>
<td>0.0%</td>
<td>Altria Group</td>
<td>7.2%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Brown Forman</td>
<td>2.2%</td>
<td>1.4%</td>
<td>B.A.T.</td>
<td>4.0%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Constellation Brands</td>
<td>0.0%</td>
<td>0.0%</td>
<td>Godfrey Philips</td>
<td>1.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Diageo PLC</td>
<td>3.3%</td>
<td>2.4%</td>
<td>Imperial Tobacco</td>
<td>6.7%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Fomento Econ</td>
<td>1.0%</td>
<td>1.4%</td>
<td>Reynolds American</td>
<td>6.1%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Heineken</td>
<td>1.6%</td>
<td>1.6%</td>
<td>Schweitzer-Mauduit</td>
<td>1.6%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Molson Coors Brewing</td>
<td>2.2%</td>
<td>3.0%</td>
<td>Universal</td>
<td>4.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>1.6%</strong></td>
<td><strong>1.4%</strong></td>
<td><strong>Average</strong></td>
<td><strong>3.9%</strong></td>
<td><strong>3.1%</strong></td>
</tr>
</tbody>
</table>

Source: http://www.dividendinvestor.com/?chk=c510c1343938722&symbol=beam&submit=GO
### Table 2. Comparative Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.53%</td>
<td>4.58%</td>
<td>10.92%</td>
<td>-16.80%</td>
<td>z-test p-values Pearson Correlation Coefficient</td>
</tr>
</tbody>
</table>

**Panel A: Alcohol Companies**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam, Inc.</td>
<td>0.66%</td>
<td>9.09%</td>
<td>60.12%</td>
<td>-33.52%</td>
<td>0.420</td>
<td>0.61</td>
</tr>
<tr>
<td>Boston Beer Co, Inc.</td>
<td>2.05%</td>
<td>9.71%</td>
<td>33.31%</td>
<td>-36.48%</td>
<td>0.034**</td>
<td>0.36</td>
</tr>
<tr>
<td>Brown-Forman Corporation</td>
<td>1.26%</td>
<td>5.92%</td>
<td>19.74%</td>
<td>-20.98%</td>
<td>0.076*</td>
<td>0.45</td>
</tr>
<tr>
<td>Constellation Brands Inc.</td>
<td>0.51%</td>
<td>8.42%</td>
<td>23.59%</td>
<td>-41.57%</td>
<td>0.511</td>
<td>0.54</td>
</tr>
<tr>
<td>Diageo plc</td>
<td>0.92%</td>
<td>4.98%</td>
<td>14.02%</td>
<td>-14.46%</td>
<td>0.176</td>
<td>0.54</td>
</tr>
<tr>
<td>Fomento Econ</td>
<td>1.91%</td>
<td>7.92%</td>
<td>19.72%</td>
<td>-33.70%</td>
<td>0.008***</td>
<td>0.62</td>
</tr>
<tr>
<td>Heineken NV</td>
<td>0.60%</td>
<td>6.68%</td>
<td>20.40%</td>
<td>-18.58%</td>
<td>0.440</td>
<td>0.63</td>
</tr>
<tr>
<td>Molson Coors Brewing</td>
<td>0.64%</td>
<td>7.86%</td>
<td>21.62%</td>
<td>-20.07%</td>
<td>0.429</td>
<td>0.47</td>
</tr>
</tbody>
</table>

**Alcohol Companies Portfolio**

| Alcohol Companies Portfolio  | 1.07%                  | 5.00%              | 17.79%                 | -24.43%                | 0.028**        | 0.79                          |

**Panel B: Tobacco Companies**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliance One International</td>
<td>0.16%</td>
<td>12.98%</td>
<td>44.17%</td>
<td>-36.75%</td>
<td>0.370</td>
<td>0.34</td>
</tr>
<tr>
<td>Altria Group Inc.</td>
<td>1.64%</td>
<td>6.78%</td>
<td>34.35%</td>
<td>-21.23%</td>
<td>0.036**</td>
<td>0.34</td>
</tr>
<tr>
<td>British American Tobacco</td>
<td>1.76%</td>
<td>5.44%</td>
<td>12.63%</td>
<td>-12.33%</td>
<td>0.005***</td>
<td>0.46</td>
</tr>
<tr>
<td>Godfrey Philips India</td>
<td>2.80%</td>
<td>12.10%</td>
<td>41.70%</td>
<td>-22.55%</td>
<td>0.014**</td>
<td>0.37</td>
</tr>
<tr>
<td>Imperial Tobacco Group</td>
<td>1.18%</td>
<td>6.27%</td>
<td>16.05%</td>
<td>-20.16%</td>
<td>0.120</td>
<td>0.41</td>
</tr>
<tr>
<td>Reynolds American Inc.</td>
<td>1.76%</td>
<td>7.82%</td>
<td>22.17%</td>
<td>-30.35%</td>
<td>0.037**</td>
<td>0.35</td>
</tr>
<tr>
<td>Schweitzer-Mauduit</td>
<td>1.63%</td>
<td>11.06%</td>
<td>50.92%</td>
<td>-38.82%</td>
<td>0.112</td>
<td>0.44</td>
</tr>
<tr>
<td>Universal Corporation</td>
<td>0.87%</td>
<td>8.70%</td>
<td>26.48%</td>
<td>-22.71%</td>
<td>0.317</td>
<td>0.45</td>
</tr>
</tbody>
</table>

**Tobacco Companies Portfolio**

| Tobacco Companies Portfolio  | 1.48%                  | 5.39%              | 16.10%                 | -12.98%                | 0.007***       | 0.64                          |

*** = 0.01; ** = 0.05; * = 0.10
Table 3. Relationship Between Vice Companies and the S&P 500: Regression Model Output

Y = Dependent variable is vice firm price changes
X = Independent variable is market, monthly change in VFINX market surrogate

<table>
<thead>
<tr>
<th>Intercept</th>
<th>X Variable</th>
<th>F-Statistic(^a)</th>
<th>Adjusted R-Square</th>
</tr>
</thead>
</table>

**Panel A: Alcohol Companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Intercept</th>
<th>F-Statistic</th>
<th>Adjusted R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam, Inc.</td>
<td>0.02%</td>
<td>69.71</td>
<td>0.37</td>
</tr>
<tr>
<td>Boston Beer Co, Inc.</td>
<td>1.65%</td>
<td>17.39</td>
<td>0.12</td>
</tr>
<tr>
<td>Brown-Forman Corporation</td>
<td>0.96%</td>
<td>29.27</td>
<td>0.19</td>
</tr>
<tr>
<td>Constellation Brands Inc.</td>
<td>-0.01%</td>
<td>47.49</td>
<td>0.28</td>
</tr>
<tr>
<td>Diageo plc</td>
<td>0.61%</td>
<td>48.24</td>
<td>0.28</td>
</tr>
<tr>
<td>Fomento Econ</td>
<td>1.34%</td>
<td>73.33</td>
<td>0.38</td>
</tr>
<tr>
<td>Heineken NV</td>
<td>0.11%</td>
<td>79.69</td>
<td>0.40</td>
</tr>
<tr>
<td>Molson Coors Brewing</td>
<td>0.22%</td>
<td>33.57</td>
<td>0.21</td>
</tr>
<tr>
<td><strong>Alcohol Companies Portfolio</strong></td>
<td>0.61%</td>
<td>198.39</td>
<td>0.62</td>
</tr>
</tbody>
</table>

**Panel B: Tobacco Companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Intercept</th>
<th>F-Statistic</th>
<th>Adjusted R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliance One International</td>
<td>-0.35%</td>
<td>15.03</td>
<td>0.11</td>
</tr>
<tr>
<td>Altria Group Inc.</td>
<td>1.38%</td>
<td>15.19</td>
<td>0.11</td>
</tr>
<tr>
<td>British American Tobacco plc</td>
<td>1.47%</td>
<td>32.32</td>
<td>0.21</td>
</tr>
<tr>
<td>Godfrey Philips India Limited</td>
<td>2.21%</td>
<td>18.74</td>
<td>0.13</td>
</tr>
<tr>
<td>Imperial Tobacco Group plc</td>
<td>0.88%</td>
<td>23.73</td>
<td>0.16</td>
</tr>
<tr>
<td>Reynolds American Inc.</td>
<td>1.45%</td>
<td>16.07</td>
<td>0.11</td>
</tr>
<tr>
<td>Schweitzer-Mauduit</td>
<td>1.07%</td>
<td>28.26</td>
<td>0.19</td>
</tr>
<tr>
<td>Universal Corporation</td>
<td>0.41%</td>
<td>30.61</td>
<td>0.20</td>
</tr>
<tr>
<td><strong>Tobacco Companies Portfolio</strong></td>
<td>1.08%</td>
<td>83.78</td>
<td>0.41</td>
</tr>
</tbody>
</table>

\(^a\)F-statistics critical values: 0.01: 1.53; 0.05: 1.53; 0.10: 1.26.
Table 4. Relationship Between Vice Companies and Two Macroeconomic Measures

Y= Dependent variable is vice firm price changes
X= Independent variable is market, monthly change in Unemployment Rate

<table>
<thead>
<tr>
<th>Panel A: Unemployment Rates</th>
<th>Alcohol Companies Portfolio</th>
<th>Tobacco Companies Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>1.03%</td>
<td>1.47%</td>
</tr>
<tr>
<td>X Variable</td>
<td>-0.15</td>
<td>-0.0290</td>
</tr>
<tr>
<td>F-Statistic</td>
<td>0.66</td>
<td>0.0228</td>
</tr>
<tr>
<td>Adjusted R-Square</td>
<td>-0.00</td>
<td>-0.01</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B: Inflation Rates</th>
<th>Alcohol Companies Portfolio</th>
<th>Tobacco Companies Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>1.06%</td>
<td>0.15%</td>
</tr>
<tr>
<td>X Variable</td>
<td>-0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>F-Statistic</td>
<td>0.06</td>
<td>0.00</td>
</tr>
<tr>
<td>Adjusted R-Square</td>
<td>-0.01</td>
<td>-0.00</td>
</tr>
</tbody>
</table>

*F-statistics critical values: 0.01: 1.53; 0.05: 1.53; 0.10: 1.26.*
MORAL SENTIMENTS, WEALTH, AND OTHER-REGARDING CONDUCT

Justin Schramm
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Valparaiso University

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ABSTRACT

Business ethics textbooks often justify free markets arrangements and capitalist economies using the linchpin of Smith’s comments about self-interest. We contend that Adam Smith was not interested in the development of a wholly unfettered, laissez faire economy of “Rambo capitalists” but was primarily concerned with the well being of society and its people. First we show how Smith’s ideas are handled in several widely used textbooks. Then we examine Smith’s earliest work, The Theory of Moral Sentiments, and show the moral expectations Smith had for society and its members. Third, we provide a brief overview of The Wealth of Nations and offer analysis, as well as other philosophers’ analyses, of the interconnectedness of Smith’s two works. If we are correct, then business students would be more adequately taught were they to learn that Smith did not counsel the unfettered pursuit of self-interest nor think free markets meant no concern for the welfare of others.

Introduction

Textbooks for courses in business ethics often reflect the idea that Locke’s Second Treatise on Civil Government allows a person to hold an almost limitless amount of property. (McGowan and McGowan, 2011) However, Locke was clear regarding the limits on property: “if gathering acorns, or other fruits of the earth, etc., makes a right to them, then any one may engross as much as he will.’ To which I answer: not so.” (Locke, section 31). Many business ethics textbooks appear to misrepresent Locke’s writing.

The same sort of misrepresentation occurs in the way students receive the ideas of Adam Smith. Business ethics textbooks often justify free markets arrangements and capitalist
economies using the linchpin of Smith’s comments about self-interest. We contend that Adam Smith was not interested in the development of a wholly unfettered, laissez faire economy of “Rambo capitalists” but was primarily concerned with the well being of society and its people. First we show how Smith’s ideas are handled in several widely used textbooks. Then we examine Smith’s earliest work, The Theory of Moral Sentiments, and show the moral expectations Smith had for society and its members. Third, we provide a brief overview of The Wealth of Nations and offer analysis, as well as other philosophers’ analyses, of the interconnectedness of Smith’s two works. If we are correct, then business students would be more adequately taught were they to learn that Smith did not counsel the unfettered pursuit of self-interest nor think free markets meant no concern for the welfare of others.

Business Ethics Textbooks on ‘Self-Interest’

While not all textbooks ignore other comments Smith made about human motivation and the possibility of other-regarding behavior, many focus exclusively on self-interest. For instance, one popular business ethics textbook said in its sixth edition: “We are, Smith thought, strongly inclined to act so as to acquire more and more wealth…Yet, because people are creatures of self-interest, it is folly for us to expect others to act altruistically toward us.” (Shaw, 2008, at 130) The textbook goes on to add that “Smith reasoned that the greatest utility will result from unfettered pursuit of self-interest.” (130) Another business ethics textbook criticized Smith in its sixth edition: “Smith’s analysis wrongly assumes that every human being is motivated only by a ‘natural’ and self-interested desire for profit.” (Velasquez, 2012 at 168)

One business ethics textbook stated that “In direct contrast to Kant, who holds that people cannot behave morally by following their inclinations, Smith argues that individuals should do exactly that and seek to promote their own self-interest.” (Collins-Chobanian, 2005, at 9) Another business ethics textbook suggests that the economic model Smith proposed “fails to take into adequate account the good of society as a whole, as opposed to the good of those who enter into economic transactions” and neglects to “adequately address the issues of how those members of society who cannot take part in business activities will receive at least the essentials for their survival and well-being.” (De George, 2006, at 143)

Solomon and Martin’s Above Bottom Line, 3e, discusses “individualism, a cluster of ideas about the importance and legitimacy of individual interests (as distinct from, even opposed to, community and society interests…and of individual identity (that is, the individual person as a self-defining unit, instead of a set of roles and relations within a given and fixed social network).” (Solomon and Martin, 2003, at 43) They comment that “The new assumption of individualism became gospel with the publication of a single book, Adam Smith’s Wealth of Nations…” (43) and “the same motives and goals that were so roundly condemned in the Bible and unheard of in most ancient societies now became virtues of the highest order.” (44)

Other examples exist, but the point has been made. Students in business schools often learn that “the unfettered pursuit of self-interest” is justifiable in free markets arrangements, that Smith’s writing counsels as much, and that ultimately society is best-served when people are primarily occupied by self-interests. In short, students learn of Smith’s most famous work, The Wealth of Nations, considered a laissez-faire approach to the accumulation of capital and personal property, but they do not learn that the book’s arguments and analysis exist in a context already established. Students do not learn—nor do most people—that Smith authored The
Theory of Moral Sentiments before the release of his much-touted pro-capitalist The Wealth of Nations.

We think business students deserve a better education since the latter was written in the context of the former. Smith did not counsel the unfettered pursuit of self-interest nor did Smith think free markets meant no concern for the welfare of others.

A Brief Overview of Theory of Moral Sentiments

Published in 1759, The Theory of Moral Sentiments provides a set of moral principles for society and its citizens to follow. Moral Sentiments has few passages regarding the proper distribution of wealth, or, for that matter, economics in general. That job, of course, is the work of his later book. Instead, the goal of Smith’s Moral Sentiments is to get readers to examine their own lives, show concern for virtue, and, consequently, set their priorities as those priorities pertain to the general welfare of individuals in a society. Not only did Smith ask his readers to think of society in general, but he often centered his moral theory on helping the poorest individual members of a society. The Theory of Moral Sentiments opens with the following passage:

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it. Of this kind is pity or compassion, the emotion we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrows of others, is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all the other original passions of human nature, is by no means confined to the virtuous or the humane, though they perhaps may feel it with the most exquisite sensibility.

Smith, certainly a proponent of free markets, nonetheless strongly supports acts of charity. The first sentence of Moral Sentiments states directly that a person is motivated by and interested in the fortunes of others and, as such, the person aims toward their happiness, “though he derives nothing from it.” Not even having read an entire page of Smith’s writing, a person could conclude that Smith is other-regarding and does not encourage a thoroughly selfish life. Instead, Smith’s interest appears to lay in the cultivation of an individual’s character and on the moral rightness and wrongness of the acts performed by the individual as those acts concern others. The opening passage, in fact, speaks of our feelings for others, not the self.

Further, Smith reiterates several times in Moral Sentiments the idea of empathizing with the less fortunate. Smith believes that it is a fundamental quality of humanity to lend a hand to our fellow beings. This being so, Smith states that when the happiness or misery of others in no way affects our own person, we find it difficult to naturally sympathize with them. He believes that to be able to understand fully a person’s plight, we must be able to envision ourselves in the same situation. Only then, Smith believes, are we able to grasp the gravity of someone else’s situation and be more naturally inclined to help that person. Smith states “We despise a beggar; and, though his importunities may extort an alms from us, he is scarce ever the object of any serious commiseration” (Sen, 2009, at 165). In other words, the mere want of fortune or poverty
excites little compassion in our own person, unless we can actually picture ourselves in the same situation. Poverty, Smith observes, is one of the lowest states of human existence and should elicit a natural tenderness in us. “We suffer more, it has already been observed, when we fall from a better to a worse situation, than we ever enjoy when we rise from a worse to a better” (Sen, 2009, at 251). Therefore, although the beggar’s plight ‘extorts’ the smallest or least amount of compassion from us, Smith warns against overlooking his ‘mean existence.’

In the section of Moral Sentiments entitled “Utility of the constitution of Nature,” Smith again shows concern for others, especially those with less; at the same time, a notable similarity to his later book, The Wealth of Nations appears. The constitution of nature, Smith contends, demands that we give charitably to members of our society who are in need of such charity. Just as quickly, however, he says that we have no legal obligation to do so. “Though Nature, therefore, exhorts mankind to acts of beneficence, by the pleasing consciousness of deserved reward, she has not thought it necessary to guard and enforce the practice of it by the terrors of merited punishment in case it should be neglected” (Sen, 2009, at 104). Charity, in other words, ought to be voluntary and “terrors of merited punishment should be neglected.” While suggesting that acts of beneficence are notable, needed, and natural, Smith discards the idea that legislation should be enacted or compunction used that forces us to do charitable acts. On the one hand, Smith believes that government ought not mandate charity but on the other, also believes that acts of beneficence are and should be part and parcel of human life. After all, “Nature exhorts mankind to acts of beneficence.”

Not only did Smith countenance acts of beneficence, he also thought a noteworthy problem with mid-eighteenth century society was people’s intense focus on and admiration for those who accumulated a tremendous amount of wealth. The problem, according to Smith, is not so much that a person is able to accumulate a great amount of wealth or attain economic prosperity: the problem involves the level of importance or status accorded the wealthy. Smith states, “We frequently see the respectful attentions of the world more strongly directed towards the rich and the great, than towards the wise and the virtuous” (Sen, 2009, at 74). On Smith’s account, the problem is not that economic arrangements allow for the accumulation of wealth, but that people admire the position of the wealthy more than they do that of the wise and virtuous. Smith says that the greatest objects of ambition and emulation of people are to deserve and acquire the respect and admiration of others. Therefore, a paradox exists in attempting to gain the admiration of our peers. Because the greatest object of respect is, if Smith is correct, fortune, people strive to be among the rich and the powerful, not the wise and virtuous.

Therefore, Smith suggests, it is necessary to change the view of contemporary society in order to promote greater well being. He states that an obligation exists on the whole of society to maintain a duty of care and moral concern for all of its members. “This disposition to admire, and almost to worship, the rich and powerful, and to despise, or, at least, to neglect persons of poor and mean condition, though necessary both to establish and to maintain the distinctions of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments” (Sen, 2009, at 73). Smith does not make a point to say that people should be “classless” in the sense that everybody ought to be economically equal; however, he does believe that everyone, including the upper classes, ought to extend the virtue of charity to those in poor and mean condition. It appears in this passage, as in the opening passage, that Smith believes moral sentiment ought to guide economic behavior.

Acts of beneficence are, in Smith’s words, “ornaments that embellish not the foundation that supports the building” (Sen, 2009, at 105). Acts of charity appease our sense of conscience,
which arises from Nature. Smith believes that a person has a natural love for society and desires for humanity’s union to be preserved for its own sake, although the person may derive no direct benefit from it. The orderly and flourishing state of society is agreeable to an individual and the individual takes pride in seeing society succeed. However, Smith knows that whilst man desires to see society succeed, he also has concerns for his own self-preservation. Says Smith, “He is sensible too, that his own interest is connected with the prosperity of society, and that the happiness, perhaps the preservation of his existence, depends upon its preservation” (Sen, 2009, 106). In an almost simplistic sense, this quotation demonstrates the beginning of a theory by Smith that we later term the Invisible Hand Theory, described in the *Wealth of Nations*. A person’s interests are connected with the prosperity of society. In the context of *Moral Sentiments*, though, Smith provides argument for setting aside self-interest—“though he derives nothing from it” —for the sake of others.

The whole premise of Smith’s *Theory of Moral Sentiments* is ultimately to elicit a strong sense of moral obligation in all the members of a society. Smith mentions things such as the goal of human existence (which strongly corresponds to Aristotle’s view of the doctrine of the mean), the good qualities of a prudent man, and many other insights into the code of morality. He counsels acts of beneficence for the needy. His is not a view of human conduct built entirely around self-interest. A casual reading of *Moral Sentiments* shows Smith’s arguments strongly counsel other-regarding behavior, far from directing or advising people to an unfettered pursuit of self-interest.

Despite a few subtle differences between his earlier and later works, there are abundant examples showing that Smith demonstrates the same moral principles in *The Wealth of Nations* that he did in *Moral Sentiments*. The presence of the same moral principles suggests that, for Smith, economic activity exists in the context of ethics and morality.

**A Brief Look at The Wealth of Nations**

First published in 1776, Smith’s second and most famous work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, focuses on economic activity. Unlike its predecessor, which focuses on the moral character of the individual, *Wealth of Nations* examines an important human activity, namely, the exchange of items of value. As well, it describes the natural inequalities of economic systems and shows how capitalistic societies can prosper. Despite the different subject matter, i.e., economic arrangements and development, Smith assumes the same ethical concepts that are prevalent in *Moral Sentiments*.

Under the section titled “Natural Inequalities,” Smith calls attention to the differences in social status that exist in society as a result of wage discrepancies. He lists five natural inequalities and describes, in detail, why these five inequalities call for higher wages for some work. Smith believes that these five natural inequalities are not misplaced, but are well warranted. The five reasons for the inequality of labor are as follows:

1. Wages of labor vary with the ease or hardship of labor
2. Wages of labor vary with the easiness and cheapness, or the difficulty and expense of learning the business
3. Wages of labor in different occupations vary with the constancy or inconstancy of employment
4. Wages of labor vary according to the small or great trust which must be reposed in the workmen
5. Wages of labor in different employments vary according to the profitability or improbability of success in them (Soares, 2007, at 83)

Smith observed inequalities without alarm. He believed that the inequality of wages was not only fair and equitable, but was to be expected in order to assure that society was not being economically unjust. For example, Smith’s second natural inequality provides that people employed in areas of the labor force that require extensive amounts of training be rewarded for bearing that burden. We know few students who would be willing to go through close to a decade of schooling just to make a mediocre salary. Along those same lines, it is not likely that anyone would trust someone being paid minimum wage to perform open-heart surgery, pursuant natural inequality rule four.

One of the most important sections of Wealth of Nations, the oft-excerpted “The Division of Labor,” shows the connection Smith makes between economics and morality. Smith imagines a manufacturing line in which workers specialize in a particular part of the manufacturing process to make the whole production process more efficient, a practice perfected over one hundred years later by Henry Ford. For the idea of a specialized production line to happen, however, a relatively large number of people need to be employed. Basic economics say that the employment of a greater number of people speeds up the economy and leads to an increased quality of life overall. Smith says “Workmen could not subsist a week, few could subsist a month, and scarce a year without employment. In the long-run the workman may be as necessary to his master as his master is to him” (Cannan, 1937, at 68). On this view, the best interest of the working class is served when capitalism runs its natural course, a course which serves the interests of workers but also of the master, who might then acknowledge the necessity of the workers. Or as Smith notes, the wear and tear of a free man, as opposed to a slave, “is, in reality, as much at the expense of the master as that of the former.” (Soares, 2007, at 67) He says a short while later that “The liberal reward of labor…increases the industry of the common people” (Soares, 2007, at 68), which, again, will serve the master.

Therefore, despite being a proponent of capitalism and concomitant big business, Smith is also a firm believer that an employer owes a duty of care to workers. Smith states, “The scanty maintenance of the laboring poor, on the other hand, is the natural symptom that things are at a standstill, and their starving condition that they are going fast backwards.” (Cannan, 1937, at 69) We see here a dichotomy of sorts, between the way Smith approaches morality in his two books. In The Theory of Moral Sentiments, Smith approaches human relationships from the standpoint of sympathy, whereas in The Wealth of Nations, he approaches relationships from a descriptive, economic standpoint. What better way, then, for Smith to appeal to the moral sentiment of employers and masters than to demonstrate that it is in their best economic interest to be moral and consider the interests of workers? If Smith is correct, the best masters are other-regarding.

If Smith’s observations and reasoning are correct, applying moral theory and sentiment in the workplace aids employers. It appears that Smith does not endorse “unfettered pursuit of self-interest.” Rather, Smith endorses the rational pursuit of self-interest, a pursuit which requires thinking of others. He says that “if masters would always listen to the dictates of reason and humanity, they have frequently occasion rather to moderate than animate the application of many of their workmen.” (Soares, 2007, at 69) ‘Reason and humanity’ ought to guide ‘the master.’ In being guided by ‘reason and humanity, though, the master must be other-regarding inasmuch as workers must be treated with care.
Interpreting *Moral Sentiments* and *Wealth of Nations*

Researchers have noted that Smith’s comments about sympathy in *Moral Sentiments* and his remarks about self-interest appear inconsistent. Lamb states that “This has long been noted.” (Lamb, 1974, at 671). Vernon Smith says that “Adam Smith’s two major works are based on apparently contradictory themes in human nature: non-cooperative self-interest and other-regarding sympathy.” (V. Smith, 1998, at 1)

After commenting on the general scholarly neglect of Smith’s earlier book, Sen comments that “The neglect applies, among other issues, to the appreciation of the demands of rationality, the need for recognizing the plurality of human motivations, the connections between ethics and economics, and the co-dependent role of institutions in general.” (V. Smith, 1998, at 8) Sen, like Smith, recognizes the need for a connection to be made between economics and morality in order for capitalism to function effectively. Sen contends, as we have in this paper, that Adam Smith never abandoned his earlier ideas about morality in publishing *The Wealth of Nations*, but instead was expounding on his earlier perspectives. “Smith never abandoned what he presented in the *Moral Sentiments*. Rather, he continued to advance that perspective, with many additional illustrations, even as he was engaged in presenting *The Wealth of Nations*.” (Sen, 2009, at 9)

In fact, Smith had many chances to abandon the ideas and analysis of *Moral Sentiments* and to repudiate the claims about sympathy and acts of benevolence made in the *Wealth of Nations*. Five editions of the latter work were published in the course of Adam Smith’s life. He made revisions, some minor and some major, in each edition. No edition, though, claims that self-interest is the only and exclusive motivation for human behavior. As well, no edition advises that self-interest ought to be the sole and only motivation upon which to base human conduct.

Nowhere in *The Wealth of Nations* does Smith recommend that self-interest be pursued above all other interests. He does not forsake sympathy and acts of beneficence. Instead, he describes an economic arrangement and provides analysis of its likely outcomes. The book is not, on its face, normative. He recommends certain action within the economic sphere and suggests likely outcomes. One of the recommendations is that employers and masters treat their employees well—not for reasons of morality, but for the sake of greater economic production. In other words, if a master desired greater economic gain, the master should think of workers. A master bent solely on self-interest to the exclusion of others will not be as economically successful. Or, as modern writers might put the matter, masters ought to be other-regarding.

**Conclusion**

The connection between Smith’s two great works is evident. The reasoning employed by Smith in *Moral Sentiments* finds application in *The Wealth of Nations*. The earlier work discusses the many motivations behind a person’s acts, including concern for others which would “render their happiness necessary” to the person. Furthermore, Smith trenchantly exhorts “acts of beneficence” especially toward the downtrodden. In fact, if Smith is correct, neglecting “persons of poor and mean condition… [is] the great and most universal cause of the corruption of our moral sentiments.” Certainly for Smith, people need to be other-regarding, sympathetic to others, and not blindly self-interested.
The claim could and should be made with regard to economic exchange, too. If the employer is to satisfy self-interest, workers must be taken into account. Smith subordinates economic behavior to ethical behavior. So why did he write *The Wealth of Nations*?

Smith had a strong sense of moral obligation. Perhaps he knew that the best way to inspire the upper class to act responsibly was to tout the economic advantages of doing so. We understand now that acting in an ethical manner is good, not just because it is, in a Kantian sense, an obligation or duty, but it is also good prudentially since advantages accrue. The *Theory of Moral Sentiments* lays outs the moral groundwork for being other-regarding; *The Wealth of Nations* provides a prudential groundwork with regard to economic activity.

Although Adam Smith will be primarily remembered as a brilliant economic philosopher, it would be a tragedy if we did not also consider his contributions to moral philosophy as well. Smith was not interested in a “Rambo Capitalistic” society, but was concerned with the well being of its people. As any moral philosopher would contend, each member of a society owes a duty of care to other, less fortunate individuals; Smith was no exception.

It is no wonder that Smith believed his greatest contribution to be the first book he wrote. His grave announces: “Adam Smith, author of *Theory of Moral Sentiments* and *Wealth of Nations*.” Pride of place between ethics, with clear demands for other-regarding behavior, and economics, which may stress self-interest, is to the former, not the latter.

Smith knew that. Textbooks and business education should reflect that truth so business students know it, too.

Resources


A BUSINESS REVIEW OF THE ETHICS AND LAW OF NON-DISCLOSURE AGREEMENTS

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ABSTRACT

Non-disclosure agreements are increasingly important to business in our knowledge-intensive environment. Codes of Ethics address information collecting and confidentiality. Ethically, non-disclosure agreements are defensible under deontology, utilitarianism, or virtue approaches as encouraging transactions while prevent the theft of knowledge. Non-Disclosure agreements are subject to the traditional rules of contract interpretation. Non-Disclosure agreements may take many forms, but all should carefully address some basic questions. How does the non-disclosure agreement interact with other parts of the overall agreements between the parties? Precisely what information is deemed confidential? Precisely what transactions does the non-disclosure agreement address? What objectively measurable standards determine if the non-disclosure agreement has been violated? What remedies are agreed to for violations of the non-disclosure agreement? This article provides businesses a review of the ethics and law of non-disclosure agreements.

KEYWORDS

Non-disclosure agreement, contract interpretation, ethics, codes of ethics, objective standards, deontology, utilitarianism, virtue ethics.

INTRODUCTION

We all realize that personal consumer information is increasingly sought by business marketers. (Anderson, 2011) Simultaneously, business corporations seek to protect their information and transactions from public view with even the Small Business Administration posting informative materials concerning non-disclosure agreements. (SBA, 2013). What are typical provisions in non-disclosure agreements that require particular attention? This article examines the ethics and law of non-disclosure agreements from a business prospective.

BASIC ETHICAL THEORIES

There are, to simplify, three ethical theories: utilitarianism, deontology, and virtue. Utilitarianism is action oriented and declares an action to be right if it produces the greatest good for the greatest number or for society as a whole. Conversations about the “bottom line” or deciding on a course of action after listing the pros and cons are popular variations of utilitarianism. The U.S. is very utilitarian in orientation. If non-disclosure produces the greatest good, then it is acceptable. A criticism of utilitarianism is that it seems to say that the end...
justifies the mean. So, for example, if a giant asteroid were approaching earth and total destruction were inevitable, utilitarianism might rationalize not informing the public to avoid chaos and anarchy. After all, a few days of regular society is more desirable than a few days of panic and crime.

Deontology is also action oriented but focuses on adherence to moral rules. Act according to the dictates or reason regardless of personal feelings. A popular variation is the statement that “rules are to be obeyed without exception.” So if non-disclosure is required according to a rule contained in a contract or in a statute it must be obeyed regardless of individual consequences. A criticism of deontology is that adherence to rules overrides human needs and specific human circumstance. So, in the giant asteroid example, if a moral rule is not to create public panic (“don’t shout fire in a crowded theatre” to paraphrase Justice Holmes in Schenck v. U.S, 1919 ) then not informing the public is appropriate even if individuals might want time to say final goodbyes to their loved ones.

The virtue approach focuses on the character development of the individual actor rather than the action. Resulting actions by the virtuous person are correct. A popular variation is that cliché “day by day in every way, I am getting better and better.” So if non-disclosure is done by a virtuous person, it is presumed to be appropriate to the happiness and well being of society. A criticism of this approach is that individuals may become so self-referential that they are unable to entertain the idea that they may be wrong. Failing to disclose the giant asteroid is virtuous if it prevents individuals from being overcome by base emotions such as fear and greed.

Non-disclosure agreements may be deemed appropriate under all three ethical theories. This is because non-disclosure may produce the greatest good for society by encouraging and facilitating tentative negotiations without fear of loss. Non-disclosure may simply be following a rule of conduct created in a contract. Non-disclosure may produce the greatest happiness and well being (lack of fear and anxiety concerning the potential loss of valuable intellectual property) for the individual.

**EXAMPLES OF ETHICAL CODE PROVISIONS ADDRESSING INFORMATION GATHERING**

The America Marketing Association’s Code of Ethics was revised in 2009. While it does not directly address information gathering, it does contain an interesting section concerning Respect (AMA, 2009):

“Respect – to acknowledge the basic human dignity of all stakeholders. To this end, we will:
Value individual differences and avoid stereotyping customers or depicting demographic groups (e.g., gender, race, sexual orientation) in a negative or dehumanizing way.
Listen to the needs of customers and make all reasonable efforts to monitor and improve their satisfaction on an ongoing basis.
Make every effort to understand and respectfully treat buyers, suppliers, intermediaries and distributors from all cultures.
Acknowledge the contributions of others, such as consultants, employees and coworkers, to marketing endeavors.
Treat everyone, including our competitors, as we would wish to be treated.”

“Treating everyone as we would wish to be treated” is so broad as to be almost meaningless in the context of information collecting and/or the non-disclosure of information. Marketers want to obtain information but do not want to disclose information.
The Direct Selling Association’s Code of Ethics addresses information gathering and privacy in the following manner (Direct Selling Association, 2012):

**Identification and Privacy**

a. At the beginning of sales presentations independent salespeople shall truthfully and clearly identify themselves, their company, the nature of their company’s products or services, and the reason for the solicitation. Contact with the consumer shall be made in a polite manner and during reasonable hours. A demonstration or sales presentation shall stop upon the consumer’s request.

b. Member companies and independent salespeople shall take appropriate steps to safeguard the protection of all private information provided by a consumer, a prospective consumer, or other independent salespeople.”

This code of ethics addresses disclosure and non-disclosure in a manner that fosters reciprocity.

Acxiom is an “enterprise data, analytics and software services company.” (Acxiom, 2012). As an information based company, its Code of Ethics has several sections addressing the collection and non-disclosure of information: “Proprietary Information. Information is a key corporate asset. A critical factor in Acxiom’s success is the maintenance of strict security and confidentiality with regard to Acxiom, client and prospect data and proprietary information. The importance of maintaining the confidentiality of client information and of Acxiom’s proprietary technology and trade secrets cannot be overstated. Associates who have access to proprietary and confidential information must take precautions to keep it confidential. Associates are expected to be very cautious in discussing Company business in public and must use extra care in transmitting confidential materials whether by email, phone, fax or other mode of communication. Remember that an associate’s obligation to protect Acxiom’s confidential information continues even after he/she leaves the Company. (For Acxiom’s full Confidential Information policy, see section 2.7 of the ASB. Also, associates should review their obligations outlined in the Acxiom Global Privacy Education and Certification, the completion of which is required of Acxiom associates, worldwide, annually.” … “Using confidential information. As an example, while working with a client, an associate learns that the client is planning to increase their price by 10%. The associate then quickly rushes out and buys the client’s product before they implement the price increase.

If an associate believes that a transaction, relationship or circumstance creates or may create a conflict of interest, the associate must promptly report this concern to his/her Leader.

**COMPETITIVE INFORMATION**

An important part of successfully competing in the marketplace is knowing what Acxiom’s competitors are doing. Although it is important to gather competitive information, we must do so in an ethical and legal manner. The following dos and don’ts are provided to help associates do their jobs effectively while supporting a competitive business intelligence process.

**Competitive Intelligence Dos**

DO understand and observe these Guidelines.

DO read and collect information from the public domain relating to Acxiom’s markets (geographic and product), clients, competitors, etc.

DO return or destroy another company’s confidential or proprietary information that you receive inadvertently or accidentally.

DO protect Acxiom’s confidential and proprietary information against deliberate theft or accidental loss.
DO notify your Leader if you are aware that others have disclosed confidential information or that third parties are attempting to acquire Acxiom information.

DO understand that others are trying to gain information about Acxiom and its processes, products, and services and take precautions to prevent this from happening.

Competitive Intelligence Don’ts

DON’T lie or misrepresent yourself while gathering information.

DON’T tape record conversations without consent.

DON’T deliberately mislead anyone in an interview for employment or disclose or collect sensitive information while interviewing a candidate.

DON’T exchange pricing information about clients or markets, or any other competitively sensitive information, with any competitor.

DON’T knowingly provide misinformation.

DON’T attempt to obtain trade secrets of competitors or recruit associates with the intent of obtaining trade secrets.

These standards are an appropriate model for businesses that both collect and dispense information. While examples of Codes of Ethics could be multiplied, these three are representative examples for information based enterprises.

FUNDAMENTAL RULES OF CONTRACT INTERPRETATION

As a preliminary matter to interpreting non-disclosure agreements, a brief overview of the rules that courts follow in interpreting contracts is appropriate. The first and primary rule is to interpret in such a way as to further the mutual intent of the parties at the time the contract was executed. For this reason, it is frequently the case that contracts may have some introductory paragraphs stating the purposes and intentions of the parties. These are invaluable when ambiguities and disputes arise and should be seriously considered for inclusion in non-disclosure agreements.

Ambiguity may be present in the words used in the contract when there is a seeming contradiction between different section of a contract ($52.00 in one place and $5200 in another place). This is called “patent” ambiguity because it appears in reading the entire agreement. Patent in this context means readily visible. Ambiguity may be present when applying the language of the contract to an external situation. If the contract stated “the production patent” (singular) and in fact there were numerous production patents (plural), there is uncertainty concerning which production patent were being referenced. This is termed “latent” ambiguity since it is hidden when simply reading the document.

Is the contract in question the final and complete expression of the parties? An “integrated” contract is one that contains the full agreement of the parties without reference to external items. Frequently the contract will use the term “integrated” or contain an integration clause. If it does not, then other conversations or documents become part of the entire agreement.

The following rules may also apply in the context of interpreting a non-disclosure agreement. The words of a contract are given their “plain meaning” unless otherwise stated by the parties. Some contracts contain a dictionary of terms. The contract is interpreted as a whole and sections are not examined in isolation. Each provision in the contract is deemed to be meaningful and not without purpose. A contract is interpreted in a way that makes it legal, not illegal. Courts are reluctant to imply to existence of words that are not in fact written in the contract. Courts look to the way the parties themselves have carried out the contract up to the time of the issue in question.
A California Court of Appeals decision (Miller v. London Properties, 2011) provides a summation of the rules of contract interpretation:

“We begin with a summary of some of the basic rules of contract interpretation. "The fundamental goal of contractual interpretation is to give effect to the mutual intention of the parties." "The language of a contract is to govern its interpretation, if the language is clear and explicit, and does not involve an absurdity." However, "[e]ven if a contract appears unambiguous on its face, a latent ambiguity may be exposed by extrinsic evidence which reveals more than one possible meaning to which the language of the contract is yet reasonably susceptible." "The mutual intention to which the courts give effect is determined by objective manifestations of the parties' intent, including the words used in the agreement, as well as extrinsic evidence of such objective matters as the surrounding circumstances under which the parties negotiated or entered into the contract; the object, nature and subject matter of the contract; and the subsequent conduct of the parties."

A contract must receive such an interpretation as will make it reasonable, if it can be done without violating the intention of the parties. The whole of a contract is to be taken together, not merely an isolated provision thereof and particular clauses are viewed in light of its general intent. A contract is reasonably explained and interpreted by reference to the circumstances under which it was made, and the matter or object to which it relates. "However broad may be the terms of a contract, it extends only to those things concerning which it appears that the parties intended to contract." …

“Generally speaking, where a contract is susceptible of two interpretations, the courts give it such a construction as will make it reasonable and avoid an interpretation that will make the contract unusual, extraordinary, harsh, unjust, inequitable, or that would result in absurdity.”

[Citations omitted].

Ethically these rules should not create a problem as long as the parties are careful and precise in drafting their non-disclosure agreement. Problems most frequently involve lack of care or the proverbial loophole that a party is attempting to unfairly exploit.

**NON-DISCLOSURE AGREEMENT FUNDAMENTALS**

There is no standard length or complexity required for non-disclosure agreements. Sometimes very brief, perhaps the most complex non-disclosure agreements involve intellectual property transfers or joint venture partnerships. The non-disclosure agreement may take the form of a “non-circumvention agreement” (don’t directly contact third parties), an “anti reverse engineering agreement” (don’t disassemble this product to learn how it is made), or a “non-competition agreement” (don’t go in business against us). Numerous examples of non-disclosure agreements are available online and will not be duplicated in this article. As a fundamental matter, never use a form unless you understand the meaning of the provisions. Also, think about the specific concerns inherent in the situation that you are addressing and be certain that these concerns are appropriately addressed in the non-disclosure agreement. Regardless of its form, there are certain legal principles that are appropriate to constructing a legally enforceable non-disclosure agreement.

In complex international transaction litigation (V Cars, LLC v. Israel Corp., 2012), there was a dispute concerned the signing of a non-disclosure agreement:

“V Cars contends that during this visit, Steinwascher signed V Cars' standard non-disclosure agreement. Steinwascher does not recall ever signing any such agreement, however, nor has
Plaintiff produced a copy of any such signed agreement. The parties agree that Steinwascher was given a copy of V Cars' "North American Product Plan" ("NAPP") during his visit, but they otherwise dispute what information he received. V Cars maintains, however, that the NAPP contained non-public detailed information concerning the cars to be produced by Chery, including "dimensions, weight, engine capabilities, whether the vehicle platforms were FWD, RWD, or AWD, vehicle platform capabilities, and the manufacturing costs for each platform." V Cars further asserts that "it took [V Cars] months to obtain information that supported the NAPP."[Internal notes omitted].

This dispute illustrates the importance of very careful document tracking by all parties prior to any substantive disclosures being made.

Ethically, one may examine non-disclosure agreements from the viewpoint of both social and individual good. From the social perspective one may argue that if information is a public good, then non-disclosure is undesirable. In contrast, if non-disclosure encourages business relationships because there is less fear of losing valuable rights and intellectual property, then such agreements are good. From the individual perspective there are two views. If the agreement limits the exercise of one’s abilities, that is bad for both the individual and society. If non-disclosure encourages the investment of time and resources in training and education, that additional knowledge benefits both the individual and society. So there is no clear and unequivocal ethical position concerning non-disclosure agreements.

**CLARITY AND INTENTION IN NON-DISCLOSURE AGREEMENTS**

In 2012 the Delaware Chancery Court discussed in detail non-disclosure agreements. (Martin Marietta Materials, Inc. v. Vulcan Materials Co.). While this lengthy opinion is concerned with specific facts, the non-disclosure language under analysis is worth reviewing. It reads as follows:

"Paragraph (3), entitled "Non-Disclosure of Discussions; Communications," provides for the non-disclosure of Transaction Information. It reads: "Subject to paragraph (4), each party agrees that ... it ... will not disclose to any other person, other than as legally required, the fact that any Evaluation Material has been made available hereunder, that discussions or negotiations have or are taking place concerning a Transaction or any of the terms, conditions or other facts with respect thereto (including the status thereof or that this letter agreement exists)"

Finally, ¶ 4, which is entitled "Required Disclosure," provides as follows:

In the event that a party ... [is] requested or required (by oral questions, interrogatories, requests for information or documents in legal proceedings, subpoena, civil investigative demand or other similar process) to disclose any of the other party's Evaluation Material or any of the facts, the disclosure of which is prohibited under paragraph (3) of this letter agreement, the party requested or required to make the disclosure shall provide the other party with prompt notice of any such request or requirement .... If, in the absence of ... the receipt of a waiver by such other party, the party requested or required to make the disclosure ... should nonetheless, in the opinion of such party's ... counsel, be legally required to make the disclosure, such party ... may, without liability hereunder, disclose only that portion of the other party's Evaluation Material which such counsel which such counsel advises is legally required to be disclosed ...."

Chancellor Strine stated that “the precise issue before me is whether the parenthetical in ¶ 4, which narrows the definition of "required" to those disclosures made in response to an External Demand, provides a singular definition of legally required for purposes of the NDA as a
whole that operates in concert with ¶ 3 (and ¶ 2), or whether ¶ 4 operates as an island unto itself. In other words, is a disclosure "legally required" for purposes of ¶ 3's restriction on disclosing Transaction Information if the legal requirement giving rise to that disclosure is not one that is imposed by External Demand?" Or does ¶ 4 provide a definition of "required" that works together with ¶¶ 2 and 3 to narrow the circumstances when a party may disclose information and, even when that narrow definition is met, subject the party facing an arguable disclosure requirement to go through a rigorous Notice and Vetting Process involving the other party so as to limit disclosure to the bare legal minimum?"

The problem with the non-disclosure language in this case is failing to be precise about the interaction of various clauses within this complex agreement. In part this could be remedied by a statement of intent at the beginning of the non-disclosure agreement or by indicating whether the “required disclosure” language only limits a particular section of the agreement.

Chancellor Strine ultimately concluded after a lengthy analysis that Martin Marietta had violated the non-disclosure agreement. He wrote: “In my view, the NDA operates to put the burden on a party disclosing Transaction Information or Evaluation Material to show that each and every disclosure of Transaction Information and Evaluation Material was legally required. That goes not only to the subject of the disclosure but to the specificity. That is, the disclosing party not only would have to show that a party's relative position on something like synergies or antitrust had to be disclosed (e.g., that Vulcan had a lower estimate of synergies), but that the precise position had to be disclosed (e.g., Vulcan's specific estimate of synergies at a specific time). Martin Marietta has done neither. And even if the burden of persuasion was on Vulcan on this issue, which it is not as a result of the contractual requirements, Vulcan has demonstrated that Martin Marietta disclosed far more than was legally required, in a plain attempt to cast Vulcan in a bad light through a debatable and selective disclosure of Transaction Information and Evaluation Material.”

As the language used in this quotation indicates, the Chancellor is implicitly relying in part on a judgment concerning which party has acted fairly and honorably. Again, an introductory statement concerning the intent of the non-disclosure agreement may clarify the application of the agreement to specific situations. Ethical considerations are more often than presumed a guide to determine fault.

**PRECISELY WHAT INFORMATION IS DEEMED CONFIDENTIAL**

As fundamental as it seems, a non-disclosure agreement may use language such as “trade secret” without precisely stating what the “trade secret” is in the particular transaction. Many courts have relied upon Sections 757 and 758 of the Restatement of Torts to define a trade secret in the absence of a specific statutory definition applicable to their jurisdictions. As discussed by the Legal Information Institute of Cornell Law School: “Sections 757 and 758 of the Restatement of Torts (1939) set forth the basic principles of trade secret law that were widely adopted by U.S. courts. In particular, § 757, comment b, listed six factors to be considered in determining whether information constitutes a trade secret:

- The extent to which the information is known outside the claimant's business
- The extent to which it is known by employees and others involved in the business
- The extent of measures taken by the claimant to guard the secrecy of the information
- The value of the information to the business and its competitors
- The amount of effort or money expended by the business in developing the information
The ease or difficulty with which the information could be properly acquired or duplicated by others
There are three essential elements to a trade secret claim:
The subject matter involved must qualify for trade secret protection; it must be the type of information trade secret was intended to protect, and it must not be generally known.
The holder of the trade secret must establish that reasonable precautions were taken to prevent disclosure of the secret information.
The trade secret holder must prove that the information was wrongfully acquired by another; that the information was misappropriated.

As one might suppose, there are numerous ways to assert that the information in question is not actually a trade secret or was not improperly obtained. Consequently it is better to be precise in a non-disclosure agreement rather than relying upon the flexible phrase “trade secret.” A related approach is to use a phrase such as “all data provided” being subject to the terms of the non-disclosure agreement. This avoids the loaded and well defined term “trade secret” as well as including rolling protection for information disclosed in the course of the negotiation.

In one case (Berkla v. Corel. 2012) the agreement in question addressed the confidential information issue in the following manner:
“The NDA did not specifically list what information was deemed confidential. Instead, it provided the following definition:
Included within the meaning of Confidential Information are matters of a technical nature (such as inventions, know-how, formulas, computer programs, software, documentation, secret processes or machines, and research projects), matters of a business nature (such as information about costs, profits, markets, sales, customers, potential customers, suppliers and employees), plans for further product developments, and any other information of a similar nature not available to the public. Information shall not be deemed to be "Confidential Information" to the extent that it was (a) in the public domain at the time of the Company's communication thereof to Recipient or subsequently enters the public domain without breach of any confidentiality obligation to the Company, or (b) already in Recipient's possession free of any obligation of confidence at the time of the Company's communication thereof to Recipient.”(Berkla v. Corel, 2012).

The court decided that the aggrieved party could not pursue contract damages and the tort of breach of confidence simultaneously. “Breach of confidence” is an older tort action based upon the misappropriation of a trade secret.

Ethically the fundamental concepts of “trust” and “goodwill” permeate these transactions. One party trusts the other not to misuse the disclosures in the same manner that one in a dating relationship trusts the other not to misuse private facts learned about the other. If one is doing business with an entity or individual lacking “goodwill” it is very difficult to be adequately protected by any document, however well written. Contracts do not magically enforce
themselves or repair damages done maliciously. Once the information is public, there is no way to make it not public.

**PRECISELY WHAT TRANSACTION DOES THE NON-DISCLOSURE AGREEMENT ADDRESS**

It is common for companies to interact in multiple transactions. Does a non-disclosure agreement in transaction A automatically extend to transaction B? Arguably it does not unless clearly written. Precisely what “uses” is the information that is to be disclosed to be used for?

In the previously mentioned Martin Marietta case, Martin Marietta and Vulcan were considering a merger. The non-disclosure agreement allowed the information to be used for a transaction ‘between’ the parties. Chancellor Strine noted:

“Vulcan argues that the terms of the Confidentiality Agreements make clear that Martin Marietta could only use Evaluation Material for the purpose of considering a "business combination transaction" that was "between" the parties. Vulcan construes this phrase to mean a friendly, contractual business combination between the two companies that was negotiated between the existing boards of the two companies, and that was not the product of a proxy contest or other unsolicited pressure strategy. Relatedly, Vulcan argues that the Confidentiality Agreements precluded Martin Marietta from revealing publicly that the parties had engaged in merger discussions or revealing any of the Evaluation Material unless Martin Marietta was legally required in the sense of having received "oral questions, interrogatories, requests for information or documents in legal proceedings, subpoena, civil investigative demand or other similar process," and had given the other party prior notice and a chance to seek an injunction and had conducted an exacting review limiting its disclosures to the bare legal necessity. “

Having conducted a detailed analysis of the facts and timeline of interactions, Chancellor Strine wrote:

“Considering the NDA first, I focus on the linguistics of the key phrase "business combination transaction between" as applied to the Exchange Offer and Proxy Contest. In focusing on the words, I apply the well-settled principles of contract interpretation that require this court to enforce the plain and unambiguous terms of a contract as the binding expression of the parties' intent. But, if words in the contract are ambiguous, then I must look to extrinsic evidence to determine the parties' intent. Most relevant here, I consider how the drafting history of the NDA, Martin Marietta's own conduct, and the interpretative gloss provided by the JDA bear on the interpretative question. I then turn to the JDA and use the same approach to determine whether the Exchange Offer and Proxy Contest fall within the ambit of "the Transaction" as it is used in that Agreement.”

With considerable analysis of the contentions made by the parties, Chancellor Strine concluded:

“Vulcan argues that the use of the word "between" narrows the set of potential "business combination transactions" that fall within the NDA's definition of a Transaction to those that are "between" Martin Marietta and Vulcan in the sense that the transaction is a product of the joint determination of the governing boards of the companies at the outset through a contract. For
example, a front-end exchange offer followed by a back-end merger would be "between" the companies as long as the companies entered into a negotiated acquisition agreement that anticipated the exchange offer's launch. By contrast, Martin Marietta's hostile Exchange Offer is not "between" the boards of Vulcan and Martin Marietta - rather, the transaction is precisely designed to bypass the Vulcan board and take the offer directly to Vulcan's shareholders without the Vulcan board's consent. Likewise, the Proxy Contest can hardly be said to be "between" the boards of the companies, as it is aimed at Vulcan's shareholders and is designed to change the composition of the Vulcan board with the objective of obtaining the new board's consent to Martin Marietta's proposed business combination.

Vulcan has persuaded me that its interpretation of "between" is a reasonable one. "Between," in the context of the NDA, can be read to necessitate reciprocal action on the part of both Vulcan and Martin Marietta, a requirement that is not met by an exchange offer made to Vulcan's shareholders without the prior consent of the Vulcan board and is not met by a proxy fight that has as its goal the circumvention of the current Vulcan board's consent. Vulcan's position is supported by a standard dictionary definition of "between," which is "involving the reciprocal action of: involving as participants: jointly engaging." A similar definition of "between" was cited by the Ontario Superior Court of Justice in its well-known 2009 Certicom decision to support that Court's conclusion that the parties' use of the word "between" in certain confidentiality agreements operated to block the unsolicited takeover bid of one party for the other. In Certicom, the Court permanently enjoined RIM's hostile bid for Certicom because the bid had been assessed and prepared using confidential information disclosed by Certicom under two confidentiality agreements with RIM, and the confidentiality agreements did not allow use of such information for a hostile purpose. The Court held that, "[b]ased on the ordinary and usual meaning and dictionary definition of the word 'between' and the manner in which the word is used in the [confidentiality agreements], a takeover bid would in my view only amount to a business combination between the parties if Certicom consented to, or endorsed, the transaction and in that manner participated with RIM in RIM's bid." Although Certicom is to some extent distinguishable from this case in that the confidentiality agreements at issue in Certicom contained contextual language informing the court's interpretation of "between" that do not exist in the NDA, and is only persuasive authority for purposes of this decision, that respected Court's facial interpretation of the word "between" supports Vulcan's reading. [Footnotes omitted except Certicom Corp. v. Research in Motion Ltd (2009) 94 O.R. 3d 511 (Can. Ont. Sup. Ct. J.)]

Noteworthy in this lengthy analysis is how significant one word, "between", became and how the U.S. court ultimately relied upon the decision of a Canadian court in reaching its conclusion. A more specific reference or statement of purpose of the transaction could have prevented this ambiguity. Ethically all parties should conduct themselves consist with the spirit of the non-disclosure agreement as well as the letter of the agreement.

**OBJECTIVELY MEASURABLE STANDARDS ARE PREFERABLE TO SUBJECTIVE STANDARDS**

Terms such as “good faith”, “best efforts”, and “due care” may seem meaningful at the time the non-disclosure agreement is being negotiated but frequently are simply a subsequent source of contention. Best practice is to use terms capable of precise objective measurement. For example, rather than write in the non-disclosure agreement “keep the information secure,” it would be better to write “keep the information in the locked vault at ABA Bank.”
For example, as one court noted: “"Utilizing best efforts" is ambiguous and open to alternative interpretations.” (Arcardi v. Marder, 1998). One phrase that might appear to be ambiguous but tends to be interpreted with precision is “commercially reasonable manner.” This terminology considers the customary practices of the profession or trade in question.

It might appear appropriate for the non-disclosure agreement to require that each item of confidential information be marked “confidential.” This makes the understand objective and not subject to a subjective interpretation regarding a particular item. However, this language cuts both ways. One the one hand it avoids confusion concerning what is considered confidential. On the other hand it may be difficult to appropriately mark electronic (non-paper) data and what consequences occur if an item is not marked confidential. As one court decision observed in holding against trade secret status: “None of the information provided by FS to AOS was marked confidential, nor did FS make it known that it expected this information to remain confidential.” (Fail-Safe v. A.O. Smith, 2012).

One way to address the marking confidential issue would be to word the non-disclosure agreement so that all information provided is deemed to be confidential unless the recipient objects to this within a stated period of time following receipt. This could be divided into written and oral provisions if one desired that oral statements not be considered subject to the non-disclosure agreement.

Ethically it is important not to intentionally or accidentally mislead individuals and companies in a business transaction. Clarity through objective standards is desirable to achieve this end.

**SPECIFYING REMEDIES FOR VIOLATIONS**

A well prepared non-disclosure agreement will have a section addressing remedies for violations of the agreement. These provisions, that may be lengthy, typically allow a party to seek an uncontested temporary restraining order, permanent injunction, and, without limitation, any necessary additional writ or order in the sole discretion of the individual who provided the confidential information.

Additionally there may be a “liquidated damages” provision that specifies the amount of monetary damages that a breach of the non-disclosure agreement will produce. As long as this dollar amount is a good faith estimate of the actual loss, courts will uphold it. Reasonable attorney’s fees are also typically included as well as a waiver of any requirement for a bond or other security in connection with the injunctive remedies that are sought. There is likely a choice of law and venue provision.

The remedies for violating a non-disclosure agreement are contractual and not tort based as the following case illustrates:

“SC Law's first claim for relief is for breach of contract. SC Law alleges that TCS breached the Non-Disclosure Agreement in a number of different ways, including keeping confidential information in its possession after the termination of the relationship, misusing confidential information to facilitate the TCS/SB&V transaction, refusing to certify the destruction of the confidential information, failing to protect the confidentiality of the information "in at least the same manner as a fiduciary of [SC Law] would do," and for violating the Non-Disclosure Agreement's covenant not to compete against SC Law with information obtained pursuant to the Agreement.” (Southern California Institute of Law v. TCS Education System, 2011).
Ethically it is appropriate to expect compensation for losses that are suffered when a non-disclosure agreement is violated. As long as there is a reasonable damage provision, this seems perfectly just.

CONCLUSION

Knowledge is a valuable commodity in the modern world just as livestock was in the ancient world. Theft of knowledge is consequently illegal and unethical. A non-disclosure contract allows parties to share information in an exploratory fashion without fear of loss. Additionally non-disclosure agreements may protect against unfair competition. While free-market competition is socially desirable, unfair advantage by theft is not.

Under any of the traditional ethical approaches, deontology, utilitarianism, or virtue, non-disclosure agreements are ethical. Deontology involves rule keeping and all rules condemn theft. Utilitarianism approves non-disclosure agreements as increasing business transactions and knowledge sharing. Virtue approaches would welcome restrained usage of the property of another subject to the approval of the owner of the property.

It is important to be knowledgeable concerning the foundational principles of non-disclosure contracts that the present article has presented. If knowledge is power, perhaps this discussion will be a powerful tool for entrepreneurs and others engaged in the knowledge business.

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TOM, DICK AND HARRY CONTEMPLATE WHAT A BANK 
SHOULD HAVE DONE WITH THEIR “25¢ TO OPEN” BANK ACCOUNTS 
AN ETHICAL ‘CRITICAL INCIDENT’

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Abstract

The objective of this case is to provide students with the opportunity to discuss the ethicality of employees who take advantage of the incentive system that headquarters has created.

A secondary objective of this case is to provide students with the opportunity to discuss the ethicality of the incentive system itself...a system that puts so much pressure on employees to meet the required goals that they feel that it is necessary, and justifiable, to ‘fudge’.

This case has the lads contemplating an effort by a local bank to recruit new customers. Because the bank puts so much pressure and gives so much reward for new account recruitment, the two managers at this bank were actually paying (out of their own pocket) prospective customers to open an account.

As with all TD&H cases, this illustration involves a bit of superfluous bantering between the three fictitious lads. However, as is also the case with all TD&H scenarios, it is based on an incident which really happened, and was observed by the second author of the case.

Tom, Dick and Harry Contemplate What A Bank Should have Done with their “99¢ to open” Bank Accounts
An Ethical ‘Critical Incident’

Harry has become virtually the full-time pastor at the small church where Sally had volunteered Harry to help (see Appendix for more details re. T,D&H).

Dick and Tom continue to come over to Harry’s house from time-to-time. Tonight he was playing some tapes from counseling sessions. Harry spends Wednesday afternoons at the church where he is available for such counseling. Any time that he is meeting with a female, the
church office insists on having a tape recorder running. Harry wants to play one of the tapes for the other lads to get their business opinion.

“Whoa, hold on,” interrupted Dick. “You are now doing pastoral counseling?”
“Uh, yeah,” replied Harry.
“Does that mean that you are the CEO for the church, too?” continued Dick.
“Not really, but that is typical for most Baptist-type churches. The Deacons really run the budget for the church. Various churches turn-over different amounts of financial and strategic authority to the pastor, but the Deacons really run the church.” explained Harry. “Can I play the tape? I am interested in your ‘business’ opinion regarding this lady’s situation.”

The Tape Recording of Susan’s Complaint: (I will put the ‘actual’ tape recording in a different font.)

I work at the First Cherries Bank, you know our ads: “First Cherries, We are the Quick Pick of Middleville County’s Banking Fruit.” (Aside, for some strange reason, all of the banks in Middleville county have some fruit for the name of the bank.)

Cherries Bank started with locations near the entrance/exit of Army bases, starting with the base here in Middleville County. They were very small locations with quick, easy access, and required very little money to open an account and cash/deposit your check...only 99¢ to open an account. We continue that same plan of quick easy access to small branches, we still have one near every area Army bases, but also in large grocery stores where customers can do their banking business during their weekly grocery trip.

Almost all of our business is with small non-commercial customers. One of our biggest sources of revenue is from ‘pay-day’ loans...a loan for just a few days until they get their end-of-the-month paycheck. We also do some car loans, but relatively few home loans, and virtually no commercial banking at all. We also make a lot of money from various fees, particularly bounced-check fees.

The problem that I am having is with Brittany and Samantha. Brittany is the Branch Manager where I work, and Samantha is the Assistant Branch Manager. They are quite close and are well-liked by their district and regional managers. But all of ‘us’, the ‘personal bankers’ in our branch, well, we, despise them, and a number of personal bankers have quit because of them. Almost all of the ‘personal bankers’, as we are called, are young females, and we all have teller/account recruitment/account management responsibilities, as do the branch managers.

Here is what Brit and Sam do: They accomplish all of their monthly new-account goals within the first week of the month. By recruiting so many new customers they are always recognized as the top performers of the month which gives them a very nice incentive check from Cherries’ headquarters.

But here is how they do it: They cheat! They tell anybody they contact that they are entitled to a ‘free account’, and in fact, ‘because of a special promotion that Cherries is running, you get $20 just for agreeing to open an account’. And then Brittany and Samantha pay for that $20.99 out of their own pocket. They are glad to do that because the incentive monies for recruiting new customers and making your recruitment quota, pays FAR more than that.

But listen. Not only are they scamming the company, but they are scamming the customers. They are scamming the customers because they don’t tell the customers about all of the fees that accompany an account. There is a monthly account fee. And if your account balance goes below a certain amount, there is another fee for that. So customers gladly take the ‘free’ $20, only to find later that they have not gotten a “good deal” after all.

And not only are they cheating, but all of us have personality issues with them too. They are real chummy with each other, but very cool with everybody else at the branch. And surely you have been to a store that has one of our branches and you know that everybody is in an area about 10 feet by 15 feet. Because they are so indifferent and unhelpful as managers, eight of the personal bankers at our branch
have quit within the last three months. I mean, really! A manager is supposed to be helping you...and they are no help at all! Some managers they are!

Several of us want headquarters to investigate them. But, on the other hand, they are just taking advantage of the system that headquarters created. So Pastor, I want to ask you, are they doing anything ethically wrong to take advantage of the system that headquarters created? Should I just shut my mouth and start employing the same tactics? Let me tell you, making those monthly quotas is really tough...they set the bar very, very high. And if you don’t make their quotas, your pay really suffers, and your chance for promotion to management just goes out the window. I can understand why Brittany and Samantha want to use such a scam.

Questions for Discussion
1. Do you think that Brittany and Samantha are committing an ethical violation? After all, they are just taking advantage of the rules that headquarters established.

2. Do you think that the bank headquarters is committing an ethical violation by setting the new-account-recruitment goals so high that it is very difficult to meet those goals without resorting to questionable techniques?

3. Several of the ‘personal bankers’ want to ask headquarters to investigate Brittany and Samantha. What do you think might be the result of such an investigation? Fired? Demoted? Warned? Ignored? Promoted?

Teaching Notes

(1) Case Overview

This case has the lads contemplating a business ‘critical incident’ involving some ethical questions. Harry has virtually become the full-time, permanent, ‘interim’ pastor, and he is available for pastoral counseling sessions on Wednesday afternoons. He has brought in a tape recording of one of his recent sessions.

The situation involves a local bank that stresses quick access with extremely small branches (roughly 10’ x 15’ of working area) located near Army bases and more commonly these days, in large grocery stores. The company pressures the employees, all of whom have banker/teller responsibilities, to recruit new accounts...and pressures them hard.

The branch manager and assistant manager both easily meet their quotas earning significant earning praise and significant bonuses. However, they meet these quotas by paying customers to sign-up for accounts (without fully explaining the ‘hidden’ fees of maintaining an account.)

As with all TD&H cases, this illustration involves a bit of superfluous bantering between the three fictitious lads. (If you are interested in the history and continuing exploits of TD&H, please see the Appendix.) However, as is also the case with all TD&H scenarios, it is based on an incident which really happened, and was observed by the second author of the case.
(2) Objectives of the Case
The objective of this case is to provide students with the opportunity to discuss the ethicality of employees who take advantage of the incentive system that headquarters has created.

A secondary objective of this case is to provide students with the opportunity to discuss the ethicality of the incentive system itself...a system that puts so much pressure on employees to meet the required goals that they feel that it is necessary, and even justifiable, to ‘fudge’.

(3) Suggested Teaching Approach
This case is rather short; most students will be able to read it in under 5 minutes.

It then asks the students to consider the ethicality of this business situation. It could be assigned as either a take-home question or discussed in class.

(4) Analysis
Level: Undergraduate business majors, possibly in their first management or business ethics class.

Issues: The ethicality of a high-pressure incentive system, and the ethicality of ‘scams’ that an employee may use to achieve those desired results.

Computations: None.

(5) Case Questions
1. Do you think that Brittany and Samantha are committing an ethical violation?

2. Do you think that the bank headquarters is committing an ethical violation by setting the new-account-recruitment goals so high that it is very difficult to meet those goals without resorting to questionable techniques?

3. Several of the ‘personal bankers’ want to ask headquarters to investigate Brittany and Samantha. What do you think might be the result of such an investigation? Fired? Demoted? Warned? Ignored? Promoted?

(6) Case Answers
Q1. Do you think that Brittany and Samantha are committing an ethical violation?
A1. Opinions can vary, that is what makes a case interesting. It is our opinion that they are much more guilty of behaving unethically toward the customers they are trying to recruit than towards the bank management. Yes, they do hand the customers some legalistic-looking documents that explain all of the charges and fees, but that is the kind of ‘boiler-plate-looking-stuff’ that customers, especially less-educated customers, tend not to understand. They were not emphasizing the charges that would quickly accrue.

Q2. Do you think that the bank headquarters is committing an ethical violation by setting the new-account-recruitment goals so high that it is very difficult to meet those goals without resorting to questionable techniques?
A2. In our opinion, yes, the extremely high goals, coupled with high rewards for meeting them, and high punishment for not meeting them, is sowing the seeds for employee misconduct.
A survey by KPMG found that the leading reason given for unethical conduct was: “Feel pressure to do ‘whatever it takes’ to meet business targets.” (59%) The second reason cited was: “Believe they will be rewarded for results, not the means used to achieve them.” (52%) (Ferrell)

The ethical tone for every organization is set at the top. “If a ruler listens to falsehood, all his officials will be wicked.” Proverbs 29:12

But the fact that almost 60% cited a critical problem from pressure to do whatever it takes to meet business targets, indicates that not only do most companies have performance-based incentive programs, but that in many, arguably the majority of cases, the bar is set so high that employees feel pressured to cheat to meet those targets.

Q3. Several of the ‘personal bankers’ want to ask headquarters to investigate Brittany and Samantha. What do you think might be the result of such an investigation? Fired? Demoted? Warned? Ignored? Promoted

A3. See Epilogue.

(7) References

(8) Epilogue
Here is where things get interesting. At the request of several of the ‘personal bankers’, headquarters did investigate the branch.

They came to the branch and interviewed everyone. Brittany and Samantha admitted to the practice, but said that all of the others were doing more-or-less the same thing. As a result, everyone at the branch was given counseling and issued a warning for their files. Feeling betrayed, in addition to the personal bankers that had already quit, several more of the personal bankers quit.

Both Brittany and Samantha stayed as managers, and a few months later, Brittany was promoted to a larger bank, primarily because of her outstanding performance with respect to new-account-recruitment.

Appendix 1
Background Information Concerning Tom, Dick and Harry
Update for 2012 Oklahoma City Conference

Tom, Dick and Harry made their first appearance at the 1994 meeting of the SouthWest Case Research Association. Counting that conference and this current case, they have participated in 21 cases...or an average of over one a year.

Although fictional characters themselves, they are always asked to deal with a real business situation...the situation around which the case is built is never fictional.

Many fictional characters remain at the same age, thus Dennis the Menace is still four years old, and Beetle Bailey is still a private in the Army. At other times, the characters (especially when portrayed by real people) such as Indiana Jones and Harry Potter, are allowed to age. TD&H started out as seniors in college working on class case assignments. But after
several years, I figured that at least one of them needed to graduate…and so they are now much older with jobs, wives, and activities different from those of a typical, unmarried, male, college student. Each case would begin with some bantering between the lads as they related the latest exploits of themselves or some of their friends. And, invariably, this bantering would be conducted in some tavern. I always enjoyed writing the stories of their various exploits, and often, loyal SWCRA participants would tell me that they enjoyed reading about their latest misadventures as well.

(Here is this year’s update on the adventures of TD&H)

Longtime readers of the chronicles of TD&H may remember that Harry’s new wife, Sally, was not too enthusiastic about The Business Incubator as a meeting place (see TD&H Brother McGoo, SWCRA 2010). (aside: sometimes a local tavern will call itself “The Office”…so that patrons can say that they had to stay late, working at “the office”. In an effort to keep up with the times, this tavern owner decided on “The Business Incubator”). Sally became quite adamant about Harry avoiding the Business Incubator after Harry was appointed Interim Pastor at the small church where they had been ‘just helping’ Sally’s friend, the pastor (now former pastor) at the church.

However, Harry’s wife is OK if the other lads come over to their house on a BYOB basis (and also BHSB (Bring Harry Some Beer), since the wife doesn’t want him to be seen purchasing it at the grocery store either)…so the lads have assembled at Harry’s house.

How Harry ended up as Interim Pastor:

It seems that Sally’s friend, young pastor Ttekcorc, pushed the old deacons a bit too hard and he was asked to leave. (again, for more details on how that happened see TD&H Brother McGoo, SWCRA 2010). The church had scheduled for several possible pastors to come in for an ‘audition’. (It is common in Baptist churches to invite candidates in to give a sermon and meet the congregation.)

They had a pastor scheduled for that Sunday, but at the last moment he called and reported car trouble and that he would not be able to make it. Harry had been helping ‘teach’ the Young Married’s class, and when it was revealed that the candidate was not coming, one of attendees of the Young Married’s class suggested that Harry deliver the lesson in church that he had shared earlier that morning…which he did.

Believe it or not, the same thing happened the following week with a different candidate, and again, Harry shared the lesson he had used in just previously the Sunday School Class. And, then, in perhaps an act of Divine providence, the same thing happened for the third week in a row!

The deacons were so impressed with Harry that they asked him if he would be ‘interim pastor’. Harry was very surprised that the deacons would ask him since he has never had any ministerial training, and is not ordained to do anything. But not wanting to appear obstinate, he reluctantly agreed to serve until a permanent appointment could be made. However, he is getting worried because the deacons don’t appear to be trying very hard to recruit his replacement.

To be continued…
TOWARDS A BETTER UNDERSTANDING OF THE U.S. OIL INVENTORY

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Abstract

As oil supply is relatively stable and oil consumption is generally more seasonal, oil inventory becomes an important cushion in balancing demand and supply. The Energy Information Administration (EIA) of the U.S. Department of Energy reports the oil inventory on Wednesday of each week; and the number becomes one of the most watched pieces of the information in the U.S. oil market. However, despite the importance of the oil inventory, academic empirical studies are lacking to ascertain the relationship between oil inventory and the underlying market fundamentals. In this paper, we do not intend to provide a comprehensive study of the determination of the oil inventory, but just investigate the links between oil inventory and several variables commonly cited to be related to oil inventory. These variables include oil imports, refinery utilization rate, and oil prices. We try to establish some theoretical linkages between oil inventory and these variables. In the meantime, our empirical studies reveal some important empirical regularities that may defy the commonly understood relationships.
Introduction

As oil supply is relatively stable and oil consumption is generally more seasonal, crude oil inventory becomes an important cushion in balancing demand and supply. The Energy Information Administration (EIA) of the U.S. Department of Energy reports the oil inventory on Wednesday of each week; and the oil inventory number becomes one of the most watched pieces of the information in the U.S. oil market (see, for example, MacDonald, May 16, 2012, Nowlin, August 2, 2012). In the meantime, news agencies also poll the forecasts of the oil inventory report from industry analysts (see, for example, Bird, August 1, 2012). Oil inventory data has reportedly impacted oil prices. As oil inventory turns out to be lower than expected, oil price is expected to react by going higher, and vice versa. Many news reports attest to this (see, for example, Gibbons, August 22, 2012).

Despite all the heavy trade and industry coverage of the event and many firms in the oil industry building proprietary models of the oil inventory, academic studies of the oil inventory is rare. Studies may use the oil inventory as an input variable, but they fail to directly focus on the oil inventory itself. Such studies include Mahedy et al. (1996) and Scholtens et al. (2008).

Consequently, the true value of the oil inventory as a variable is eluding academic empirical studies which are struggling to ascertain the relationship between oil inventory and underlying market fundamentals. In this paper, we do not intend to provide a comprehensive study of the determination of the oil inventory, but to investigate the links between oil inventory and several variables commonly cited to be related to oil inventory. There may be a plethora of variables that could be related to the oil inventory, however, in this study, we only focus on three variables: oil imports, refinery utilization rate, and oil prices.

Any inventory of a commodity is an interaction of the market fundamental supply and demand factors. The theory of commodity storage suggests that inventory is determined by the current and expected future market fundamentals, in a more general sense. Oil imports can be viewed as a supply factor, while refinery utilization rate reflects demand for oil. Oil price reflects all information in the oil markets, and it can be influenced by the inventory as well.

In this study, we empirically investigate the linkages between oil inventory and other variables we mentioned above. To carry out the empirical analysis, we resort to Granger causality test – a method that defines the causality based on whether a variable helps predict the future of the other variable. Our empirical results verify some market common senses, but do provide additional insights into the working of the oil inventory. In this sense, our study contributes to the literature in commodity price determination.

The next section discusses some theories on commodity inventory based on which we propose our testing hypotheses. Section 3 explains the methodology and data source. Section 4 provides brief descriptive statistics and then proceeds to the discussion of main empirical results. The final section concludes.

A Theory of Commodity Inventory
The market fundamentals for the supply and demand of crude oil have varied greatly over the last twelve years. Economists have noticed that the demand for oil and oil derivatives maintain a high level of seasonality. This seasonality is demonstrated by the increase demand for oil products during the winter months. For those living in the northern hemisphere, oil demand will begin to rise during the October-November months, peak in December-January, and decline in February-March, until it reaches the high demand in the summer months. Potential changes in the supply/demand, market fundamentals, can result drastic changes in price. Maintaining a ceteris paribus control, or holding everything else constant, the effects/changes of the crude oil inventory levels can reflect altering market pressures and conditions for the short-run. These measures can show a balance or imbalance, between production and demand. Earlier works that developed the elementary theory of shortage, lack of supply, was developed to explain price backwardation. Other empirical studies include Pindyck’s (1994) research focusing on the relationship between inventories and the price of heating oil in the short-run. Figure 1 graphically depicts the U.S. inventory level from January, 2000, to April, 2012.

Figure 1: U.S. Stocks

![U.S. Ending Stocks of Crude Oil, thousand barrels](image)

*Figure 1* shows the steady increase in crude oil inventory. Although the graph looks sporadic, the mean value is increasing slightly over the long-run with no increase in variance. Data retrieved from the U.S. Energy Information Administration.

The U.S. imports of crude oil is the amount of crude oil the U.S. receives from overseas drilling operations in foreign countries and offshore drilling operations that are not funded by the U.S. government. This is an integral variable, not only for its market fundamental importance, but also because of its influential properties. If the U.S. is not importing as much crude oil as prior years, this is an indication that we are utilizing more of the U.S. domestically produced oil
or government reserve oil. Oil imports are expected to lead to more inventories. On the other hand, it is likely that oil inventory can influence imports as well. Higher inventories reduce convenience yield, thus reducing imports. If this is true, we would expect a negative relationship between oil inventory and oil imports. Figure 2 shows the U.S. imports of oil was on a steady inkling until 2007 when we began to import less crude oil from foreign countries and began utilizing national reserves.

**Figure 2:** U.S. Imports

![U.S. Imports of Crude Oil, thousand barrels](image)

Figure 2 graphically depicts the level of imports of crude oil from foreign countries into the U.S. Note, the increase in foreign oil imports until 2007, possibly due to the recession or changes in national buyer preferences. Data retrieved from the U.S. Energy Information Administration.

The U.S. Percent Utilization of Refinery Capacity is the amount of operational capacity being used for crude oil refineries. Essentially, it is the amount of crude oil that the refineries are converting from its raw form into the byproducts known to us as petroleum, motor oil, diesel fuel, kerosene, jet fuel, asphalt, and so on. This is an essential variable due to its massive effect on inventory levels, production, and price. We can propose a two-way relationship between oil inventory and refinery utilization rate. On one hand, as demand increases, refinery utilization rate will increase, thus reducing oil inventory. If this relationship is true, we would expect a negative connection between oil inventory and refinery utilization rate. On the other hand, the economics of oil and refining suggest that oil inventory could cause changes in refinery utilization rate. As crude oil inventory is at the high level, oil price is likely to be low, thus leading to a higher crack spread. Higher profit would lead refineries to crank up the production, thus increasing refinery utilization rate. If this relationship is true, we would expect a positive relationship between oil
inventory and refinery utilization rate. **Figure 3** graphically depicts the level of capacity utilization from January, 2000, to February, 2012.

**Figure 3:** U.S. Percent Utilization of Refinery Operable Capacity

![U.S. Percent Utilization of Refinery Operable Capacity](image)

Figure 3 shows the steady incline in the amount of refining capacity utilization in the U.S. Data retrieved from the U.S. Energy Information Administration

The Cushing, Oklahoma spot price is the amount that the barrels of oil can be purchased for at the present time. Barrels of crude oil are bought and sold in international markets every second of every day. The spot price represents the price an investor will pay if he or she buys that barrel at that time. Cushing, Oklahoma just represents one of the largest oil storage units in the country. Typically, the barrels of oil from Cushing are sold on the Chicago Mercantile Exchange and New York Mercantile Exchange. This variable is a crucial part of this analysis because of its market fundamental characteristics. However, it is not settled as to what the relationship is between the oil price and oil inventory. It is often reported that inventory could influence oil prices. When inventory is higher, oil prices decline, and vice versa (Ye, Zyren and Shore, 2002). These reports, many times, are simply some anecdotal evidences and it lacks systematic evidence for these. As a matter of fact, it was argued that there was no systematic relationship between the oil price and oil inventory (Fottouh, Kilian and Mahadeva, 2012). Some theoretical models were built to explain the lack of relationship between the two variables (Pirrong, 2008, Alquist and Kilian 2010). Our empirical results will help to shed light on this issue. In addition, the other side of the relationship between oil price and inventory is often not mentioned or at least understated. When oil prices are high, it is more profitable to sell to the market, thus high oil prices could lead to lower inventories. The price is influenced by all the factors leading up to the final sale of the product. **Figure 4** shows the steady increase in spot price with the effects of the 2007 recession.

**Figure 4:** Cushing, OK WTI Spot Price

![Cushing, OK WTI Spot Price](image)
Data and Methodology

The data used in this analysis consists of four variables. All of the variables used maintain a solid theoretical validation as well as function appropriately within basic market fundamentals.

The dependent variable in this analysis is the Crude Oil Inventory (U.S. Ending Stocks excluding SPR of Crude Oil, thousand barrels).

The independent variables used for our analysis include:

1. The imports of crude oil from overseas extracting operations (U.S. Imports of Crude Oil, thousand barrels)
2. The refinery utilization rate (U.S. Percent Utilization of Refinery Operable Capacity, as a percent)
3. The spot price (Cushing, OK WTI Spot Price FOB, dollars per barrel)

We studied the weekly series of oil inventory data as reported by the EIA. The oil inventory data in our study excludes the oil inventory in strategic petroleum reserve. The inventory data is differenced to obtain the change in inventory information. In the final analysis, the differences in natural logarithm of the oil inventory level are obtained to represent the percentage inventory changes ($\Delta inv$). Obtained from the EIA include the weekly crude oil imports. Percentage changes in the oil imports ($\Delta Imports$) are obtained by taking the first
difference of the natural logarithm of the oil imports. Weekly west Texas intermediate oil prices are used to convert the oil price levels into percentage changes by the same conversion method ($\Delta$OilPrice). Refinery utilization rate has also been obtained from the EIA. Since it is already in percentages, no data transformation has been performed. Figure 5 shows the plot of these transformed variables except the refinery utilization rate.

**Figure 5:** Percentage Changes of the U.S. Oil Inventory, and Imports and Price
We first provide descriptive statistics to understand the patterns in the oil inventory data. Since all data series need to be stationary in order to be able to use the Granger causality method, we perform the unit root tests using the now standard Dickey-Fuller test. We find that all differenced series are stationary, thus the Granger causality tests have been performed on the pairs of the variables (X and Y). Specifically, suppose we have two variables for which we would like to detect a causality relationship, we will need to run the following regression:

\[ x_t = a_1 + \sum b_{1,t} x_{t-i} + \sum c_{1,t} y_{t-i} + \epsilon_{1t}, \]

and then test whether the coefficients to the lagged y variables are collectively zero. If the null hypothesis of zero effect cannot be rejected, then we conclude that y Granger causes x. Otherwise we conclude that y does not Granger cause x.

To test whether x Granger causes y, a similar regression is run:

\[ y_t = a_2 + \sum b_{2,t} x_{t-i} + \sum c_{2,t} y_{t-i} + \epsilon_{2t}. \]

If the coefficients to lagged x variables are collectively zero, then x does not Granger cause y. Otherwise, we conclude that x Granger causes y. Based on the regression results of the two equations, we can conclude whether there is a one-way causation (either x causes y (x→y) or y causes x (y→x)), or there is a two-way causality (BOTH x causes y AND y causes x (x↔y), or there is no causal relationship. As we can see from this discussion, Granger causality is defined based on whether one variable helps predict the other variable.

**Empirical Results**

We first provide some descriptive statistics of oil inventory change. Table 1 shows the average oil inventory level changes and standard deviation of the oil inventory level changes by month and by year. It is very obvious that the oil inventory level change shows strong seasonal
patterns. Spring months are typically the months to build up inventories while the summer months are the months that draw on the inventories. This is not surprising given the fact that summer months are the “boating and driving” months. In addition, another major drawdown month is December and possibly November as these two months are also travel months as well due to the concentration of the holidays. This pattern is evident for both subsamples. In comparison, there is no clear pattern in terms of the inventory change volatilities. Looking at the average inventory level and volatility of the inventory level by year, no clear patterns can be detected.

<table>
<thead>
<tr>
<th>Month</th>
<th>Mean</th>
<th>Std Dev</th>
<th>Mean</th>
<th>Std Dev</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
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<tbody>
<tr>
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<td>4286</td>
<td>177</td>
<td>1359</td>
<td>876</td>
<td>3686</td>
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<tr>
<td>Feb</td>
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<td>3593</td>
<td>455</td>
<td>4403</td>
<td>1089</td>
<td>2938</td>
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<tr>
<td>Mar</td>
<td>23</td>
<td>4099</td>
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<td>2778</td>
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<tr>
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<td>1846</td>
<td>2924</td>
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<tr>
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<td>3681</td>
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<td>4299</td>
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<tr>
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<tr>
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<tr>
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<tr>
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<td>1544</td>
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<tr>
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<td>42</td>
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</tr>
<tr>
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<td>-1663</td>
<td>4500</td>
<td>-1941</td>
<td>3413</td>
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<table>
<thead>
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<th>Year</th>
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<th>Std Dev</th>
</tr>
</thead>
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<td>4479</td>
</tr>
<tr>
<td>1992</td>
<td>-1607</td>
<td>4583</td>
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<tr>
<td>1993</td>
<td>411</td>
<td>5777</td>
</tr>
<tr>
<td>1994</td>
<td>-222</td>
<td>4066</td>
</tr>
<tr>
<td>1995</td>
<td>-542</td>
<td>4513</td>
</tr>
<tr>
<td>1996</td>
<td>-173</td>
<td>4257</td>
</tr>
<tr>
<td>1997</td>
<td>380</td>
<td>4156</td>
</tr>
<tr>
<td>1998</td>
<td>465</td>
<td>4415</td>
</tr>
<tr>
<td>1999</td>
<td>-881</td>
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</tr>
<tr>
<td>2000</td>
<td>-32</td>
<td>3286</td>
</tr>
<tr>
<td>2001</td>
<td>409</td>
<td>4098</td>
</tr>
<tr>
<td>2002</td>
<td>-609</td>
<td>4240</td>
</tr>
<tr>
<td>2003</td>
<td>-145</td>
<td>3396</td>
</tr>
<tr>
<td>2004</td>
<td>399</td>
<td>3322</td>
</tr>
<tr>
<td>2005</td>
<td>571</td>
<td>2958</td>
</tr>
<tr>
<td>2006</td>
<td>-37</td>
<td>3009</td>
</tr>
<tr>
<td>2007</td>
<td>-578</td>
<td>3543</td>
</tr>
<tr>
<td>2008</td>
<td>561</td>
<td>4150</td>
</tr>
<tr>
<td>2009</td>
<td>140</td>
<td>3685</td>
</tr>
<tr>
<td>2010</td>
<td>175</td>
<td>3441</td>
</tr>
<tr>
<td>2011</td>
<td>-107</td>
<td>3713</td>
</tr>
</tbody>
</table>
Table 2 reports the standard Dickey-Fuller unit test results. The tests were done with a trend and without a trend in the regression equations separately. All the variables are stationary. The results are robust with regard to chosen different lag lengths.

<table>
<thead>
<tr>
<th>Variable</th>
<th>No Trend</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage Change Oil Inventory</td>
<td>-13.39</td>
<td>-13.39</td>
</tr>
<tr>
<td>Percentage Change Oil Imports</td>
<td>-12.73</td>
<td>-12.78</td>
</tr>
<tr>
<td>Refinery Utilization Rate</td>
<td>-4.648</td>
<td>-5.239</td>
</tr>
<tr>
<td>Percentage Change Oil Price</td>
<td>-9.274</td>
<td>-9.272</td>
</tr>
</tbody>
</table>

Note: Critical values are for 1%, 5% and 10% significance levels, respectively

Table 3 shows the results of Granger causality tests. The left panel provides the results of the test without controlling for seasonality. There are several tests that are statistically significant. In the pair of imports and inventory changes, only inventory change is found to lead to changes in imports. The cumulative impact of the inventory changes on imports is found to be negative. However, imports change does not Granger cause oil inventory changes.

For the pair of oil inventory change and refinery utilization rate, there appears to be a two-way causality since both test statistics are significant at high significance levels. The effect of utilization rate on oil inventory change is negative while the effect of the oil inventory change on utilization rate is positive, consistent with our earlier discussions.

For the pair of oil price change and inventory change, there is no significant causality relationship between them.

The panel on the right side of table 3 reports the Granger causality test results controlling for the seasonable factors. The seasonable factors are modeled by the month dummies in the regression. The same exclusion tests were applied to the corresponding variables. The major difference in the results is that with controlling for the seasonality in the dataset, there is now a two-way causality relationship between oil price changes and oil inventory changes. Oil price change Granger causes oil inventory change, with a negative effect. Similarly, oil inventory change leads oil price change with a negative effect as well. These empirical results are robust to the lags of the variables included in the regression equations.

The negative leading impact of inventory on oil may not be hard to understand since higher inventory signals more oil available for consumption, which should lead to lower oil prices, everything else being the same. The causation from oil to inventory can also be
understood on the basis of oil economics: as oil prices are high, it is more profitable to sell to the market, thus high oil prices could lead to lower inventories.

<table>
<thead>
<tr>
<th>Table 3: Granger Causality Test</th>
</tr>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>A. Δimports and Δinv</strong></td>
</tr>
<tr>
<td>a. Δimports =&gt; Δinv</td>
</tr>
<tr>
<td>b. Δinv =&gt; Δimports</td>
</tr>
<tr>
<td><strong>B. utilRate and Δinv</strong></td>
</tr>
<tr>
<td>a. utilRate =&gt; Δinv</td>
</tr>
<tr>
<td>b. Δinv =&gt; utilRate</td>
</tr>
<tr>
<td><strong>C. ΔoilPrice and Δinv</strong></td>
</tr>
<tr>
<td>a. ΔoilPrice =&gt; Δinv</td>
</tr>
<tr>
<td>b. Δinv =&gt; ΔoilPrice</td>
</tr>
</tbody>
</table>

Note: Bold numbers in the Impact column indicate a significance at a 10% level.

Conclusions

In this paper, we selectively examined relationships between oil inventory and several oil market fundamental variables including oil imports, refinery utilization rate, and oil prices. Our simple descriptive statistical analysis confirms strong seasonal patterns in the oil inventory data. In addition, our analysis suggests that there is a one-way causation running from oil inventory to imports, rather than the conventionally discussed imports to oil inventory causation. This finding may not be surprising since the causation from imports to inventory may not be detectable using the weekly data since the causality may be more contemporaneous than the current data can show.

Our finding of a two-way causality relationship between refinery utilization rate and oil inventory may appear to be counter-intuitive at first, for we find that oil inventory change contributes positively to refinery utilization rate. However, this is understandable since higher oil inventory change would imply more profit for refineries and thus it will drive up the refinery utilization rate.

While it may not be surprising to find a negative impact of the oil inventory on oil prices, the finding of a negative impact of oil prices on inventory can also be understood. As prices are high, it is more profitable to sell to the market, thus leading to lower inventories changes.

Our study only provides some simple analyses of the U.S. oil inventory data; however, empirical evidences are largely consistent with economic explanations. This helps contribute to the better planning of the market participants as we understand the oil inventory better.
References


VARIOUS ETHICAL PERSPECTIVES WHEN TRAINING STUDENTS FOR BUSINESS MANAGEMENT

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Abstract

Effective learning of ethics requires that students be trained on how to handle ethical problems. This article suggests ways of training business people and students who are being trained in management and finance in the hopes that guidance and training in ethics will help them carry out their jobs properly, and it notes a number of ways in which to internalize and apply ethical behavior.

The focus of teaching ethics is not only the transmission of already known values, but also their internalization. The teaching of ethics presupposes a lack of internalization of rules and ethical norms. Therefore, one must emphasize the correct methods to enable the internalization of permitted and prohibited behavior in organizations and companies.

It is important to note that internalization depends not only on the existence of an ethics program but also on adequate consideration of the complex nature of man in continuing education programs.

This paper emphasizes that it is insufficient to lecture students on the topic of ethics, and that students must internalize the complexity of ethical behavior. For example, one good method is to analyze dilemmas through role-playing scenarios. This teaching method demands that students “walk in the shoes” of key players in the company, such as accountants or managers, by using methods of practical experience. This way of teaching assists students in analyzing the values that are important to them and justifying the reasons behind their choices.

Since learning by example is one of the most common teaching methods, it is important to present future business people with examples of organizations and companies that conduct themselves ethically. As social values and norms should be internalized through self-awareness (Wolf, 2008), and ethics should be integrated into a company’s business strategy and goals.

Keywords: Business Ethics, Teaching, Internalization, Moral Decision, Academia

“Whatever you are, be a good one.”
Abraham Lincoln

Different aspects of training business management students exist in ethics within academia. There is an ongoing academic debate about the effectiveness of the teaching of business ethics on the behavior of business people. There is a general opinion that "You can't teach ethics to business students because their values have already been formed prior to entering college" (Williams and Dewett, 2005, p. 30). This school of thought presumes that moral values are already formed before one enters college or university and thus the study of business ethics in college will not be effective. However, although the goal of most business people is the maximization of profits, it is still possible to learn ethics and altruistic models. There are three main goals of teaching ethics: to raise business people’s awareness of ethics, to develop an ethical sensitivity to the results of their actions, thus contributing to one’s moral development, and to develop the
ability to act and make ethical decisions under complex conditions (Williams and Dewett, 2005; Budden & Budden, 2011).

It should be noted that despite the existence of ethics programs and codes of ethics in various U.S. companies for example, these programs did not prevent the recent outbreak of the huge financial scandals that took place at the beginning of the millennium involving Enron, Anderson, Worldcom, Xerox, among others. In other words, the lack of an internalization of ethical ideas by managers and employees needs to be addressed.

The teaching of ethics is one of the main suggestions recommended in the United States in order to fight the economic corruption that was revealed after the Enron scandal. These economic scandals led the President of the United States at the time, George Bush, to call for universities and colleges that train business and financial people to include business ethics as a mandatory course for their students. Indeed, Wolf (2008) notes in her book the importance of teaching ethics in academia as part of students’ training in management and finance.

Is it Even Necessary to Teach Ethics?

It is generally acknowledged that it is difficult to attempt to change a person’s ethics and principles even by taking a course on ethics (Cole and Smith, 1996; McCabe et al., 1991; George, 1981). It is clear that the main benefit of courses that teach ethics is that they raise awareness of ethical topics and provide skills on moral decision-making and moral analysis. In other words, they sharpen one’s judicial capacity (Kolb and Kolb, 2005; Wolf, 2008, 2011; Budden & Budden, 2011).

The focus is not whether or not to teach ethics. Rather, it should be on choosing the most objective way of teaching ethics and determining which skills should be developed during the instruction (Falkenberg and Woiceshyn, 2007). Professional career skills today require the development of an understanding of personal values, a sharpened sense of preserving the environment, and the application of moral principles and values (Sims and Felton, 2006; Hartman, 2008; Solomon, 1992). In addition, there should be emphasis on improving social and environmental welfare (Samuelson, 2006; Wolf, 2004), which includes the strengthening of corporate social responsibility (CSR) activities.

At the macro level, it is important that the collective group of employees behave morally (Moberg, 2006). At the micro level, it is important to apply the teaching of ethics to issues related to ethical management and the emotional difficulties that arise as a result of ethical dilemmas and organizational cover-ups (attempts to ignore and conceal unethical behavior or social pressures). If these topics are taught within an academic framework, there is the possibility that when the students face ethical problems as real-world managers, they will be able to reach moral conclusions and make intelligent, moral decisions (Falkenberg and Woiceshyn, 2007; Wolf, 2006, 2008, 2011).

It has been shown that teaching ethics raises awareness of issues that contribute to the community. Such courses also equip students with the tools for ethical thought (Weber and Glyptis, 2000). Indeed, based on a case study of 129 participants, a survey of students in business courses finds the study of ethics is considered an important part of required training courses (Crane, 2004). Ethics training in corporations can also contribute to employee satisfaction and company efficiency.

Internalization of Values

The focus of teaching ethics is not only the transmission of already known values but, more importantly, their internalization. The teaching of ethics presupposes a lack of internalization of rules and ethical norms. Therefore, one must emphasize the correct methods to enable the internalization of permitted and prohibited behavior in organizations and companies, and to establish rules that are generally spelled out in the company code of ethics.

Although current-day information systems offer ideas about what is permitted and what is prohibited, there is no doubt that the teaching of ethics is also important in the contemporary world. Henry Adams’ statement: “A teacher affects eternity; he can never tell where his influence stops,” remains relevant even today.

An effective educator of morals is a revolutionary, insofar as he/she does not issue commands or demand obedience (Kohlberg, 1969, 1970). The educator enables others to come up with their own independent decisions, instilling in others the ability to consider the roots of problems while not forcing the acceptance of any particular ideas. Therefore, students must be supplied with the necessary tools and skills
that will train them to make good, ethical decisions and to behave accordingly. Students of business, economics, and administration should be trained via situational analysis to examine their own personal orientations toward ethical behavior. Such training is a unique experiential tool for those studying ethics.

It should be noted that studies indicate that the teaching of ethics via exposure to complex situations can help an individual better analyze other situations and to handle future issues (Carlson and Burke, 1990; Schumann, 2001). Thus, teaching situations in which people are trained to analyze complex situations allow the students to clarify their personal ways of thinking and to determine their specific ways to analyze the situations.

Personal cognitive styles also affect moral behavior (Trevino, 1986). In considering whether one has an internal or external locus of control determines whether one is conscious of his/her ideas and values. A person with an external locus of control attributes the things that happen to him to fate, luck, or circumstance, whereas a person with an internal locus of control takes more responsibility for situations. The latter outlook is very important to analyze situations correctly. Awareness of ones own nature and habits allows for a clearer analysis of problems, taking into consideration one’s own attributes and characteristics.

**An Effective Way to Teaching Ethics**

Effective learning of ethics requires that students be trained on how to handle ethical problems (Felton and Sims, 2005; Wolf, 2006, 2008, 2009). It is insufficient to lecture students on the topic of ethics. Rather, students must internalize the complexity of ethical dilemmas through role-playing. They must “walk in the shoes” of key players in the company, such as the manager or the accountants, by using methods of practical experience. It is suggested that the following be included in academic studies of ethics (Felton and Sims, 2005; Wolf, 2004, 2006, 2008):

* Assist students in analyzing the values that are important to them and justifying the reasons behind their choices.
* Train students to make the best possible decisions in situations with conflicting issues. Ethics is not only about deciding between good and evil.
* Managerial decisions, an integral part of business, should be discussed from an ethical point of view.
* In this age of globalization, one must take cultural influences into consideration. Students’ perspectives should be broadened so that they consider that values are the products of specific cultures and norms.
* Ethical decision-making includes more than merely the maximization of profits.
* The creation of scenarios in the teaching process trains managers to involve work teams in the ethical dilemmas that may arise in the business realm and to make joint decisions.

**The Use of Scenarios as a Method of Moral Training**

A productive way of training students to think ethically is by developing their skills for coping with complex ethical situations. This can be done through the presentation and analysis of different scenarios. Such scenarios present students with complex situations including personal, social, international and cultural problems that are often taken from reality (Budden & Budden, 2011).

Scenario analysis requires the students – the future generation of business people – to come up with a solution to ethical problems. In their article, "It is a small world after all: Teaching Business Ethics in a Global Environment", Budden and Budden (2011) present a list of scenarios and emphasize the need for theoretical exercises in different situations within class in order to bring about ethical skills. According to them, this will improve the students’ chances of making more ethically rational and mature decisions.

Indeed, they note that business students at the University of Louisiana were asked to analyze complex scenarios made up of ethical dilemmas, and a group discussion was held regarding the analysis of those dilemmas. Among the topics discussed were bribes and corruption, security problems, environmental issues, potential disasters, etc. There is no doubt that it is worth adopting this learning method in colleges and universities that train students in business administration. The acquisition of tools to improve the ability of future business people is of great importance in terms of experiential learning, as Aristotle posited.

**The Positive Side of Teaching Ethics**

Ethics may also be taught through the writing of a code of ethics. A comparison of the ethical behavior of students at universities with a code of ethics and students at universities without a code of ethics reveals significant differences (McCabe and Trevino, 1993). Indeed, in the study carried out by McCabe and
Trevino compared the ethical behavior of students in universities that had a code of ethics to the behavior of students in universities that did not have a code of ethics. According to them, significant differences were found in the ethical behavior of students in both types of institutions. At universities without a code of ethics, more students are found to be involved in, and to accept, cheating. In contrast, students who are required to sign a code of ethics are more likely to adhere to it. The code of ethics clarifies expectations and presents the rules for suitable behavior.

Since managers and accountants are entrusted with the finances in organizations and companies, the issue of ethics is central to their training. The teaching of ethics helps to instill in accountants and managers-in-training a more mature ethical outlook (Kidwell, 2001). This can also be achieved by the creation of a code of ethics. For example, a comprehensive ethics study program for accounting students at Niagara University helped students strengthen their polemics and debates over ethical issues within the professional working environment (Kidwell, 2001). The students were asked to write their own codes of ethics for academia. By following this practical method, the students were able to internalize the message that, apart from the university staff, the students also have an obligation to engage in ethical behavior. The shared wording in the rules of ethical behavior reflects the fact that ethical regulations apply both to students and the teaching staff.

In the example of Niagara University, the joint writing of the ethical code led to a shared consensus about implementing and enforcing the code. There were a number of factors that led to the decision to establish and follow a code of ethics at the university. It was decided that the students would become familiar with the content of the code of the ethics at the start of their studies so that they would follow it throughout their studies. The students were also involved in writing and enforcing the code. It was found that there are a number of shared principles among the codes of ethics at several universities.

In the above example, the students decided that all students at the university would be required to sign a pledge to honor the code of ethics. Students would also be required to submit reports about any unethical behavior and to establish a body (mainly composed of students) responsible for enforcing the code and for testing the honor system at the university.

It is important to note that analysis of the emotional state of accountants and what influences their behavior reveals the complexity of human nature (Bazerman, 2002). This confirms Freud’s 1931 judgment that man is generally motivated by irrational outlooks and influenced by impulses and tendencies about which he is not always aware. In most cases man tends to adopt explanations that are convenient (Bazerman, 2002). Even when a mishap or transgression is brought to light, it is human nature to conceal one’s mistake, even without any evil intention. For instance, the guilty accountants in the recent U.S. financial scandals were given a great deal of latitude to make excuses based on their personal interpretations. The goal of the teaching of ethics is to produce an internalization of the laws concerning what is permitted and what is prohibited, to help one recognize situations in which he is liable to transgress in order to avoid them, and to teach one to see himself in different situations in which one is liable to transgress.

There are a number of institutions in the United States that promote ethics, such as the Ethics Resource Center (ERC), whose clients include such corporate giants as the Boeing Company and General Electric. In a survey carried out by the ERC in 2000, a random sample of approximately 1,500 employees at different companies revealed that the overwhelming majority demanded ethical behavior from their organizations and expected that their companies would educate them about how to behave according to the code of ethics. They felt that the behavior of senior employees should serve as a model for others.

Therefore, internalization depends not only on the existence of an ethics program but also on adequate consideration of the complex nature of man in continuing education programs. Social values and norms should be internalized through self-awareness (Wolf, 2008). Ethics should be integrated into the company’s business strategy and goals.

The Influence of Culture in the Teaching of Ethics

It is clear that the teaching of ethical principles is also related to culture. Indeed, as already noted, at many universities in the United States the study of ethics is a required course in business administration, economics, social sciences, and law departments.

An examination of the teaching of ethics among students of different cultural backgrounds reveals the effectiveness of ethics courses in the United States (Peppas, 2002). The need for such an examination stemmed from the recent increase in interest in ethics in American and international media. In my opinion,
more than ever before, business organizations are considering the formulation of a code of ethics as the basis for the training of future managers and leaders.

In Peppas’s terms: “Businesses are hiring a more culturally diverse workforce than in the past and are often turning to international students graduating from U.S. institutions" (Peppas, 2002, p. 2). It is assumed that cultural background influences the internalization of the principles of business ethics. Just as one’s national background affects one’s education, one’s cultural background affects one’s internalization of ethical principles.

In research by Peppas examining ethical codes and the national origins of students studying for masters’ degrees in business administration at several American universities (Peppas, 2002), the students were asked to take a position on seven issues included in the code of ethics, and on their behavior toward eight ethical values related to commercial business. The sample consisted of 309 American students between the ages of 21 and 53, 251 of whom were U.S. citizens and 58 of whom were Asian.

The results found that the internalization of ethical values differed among the male and females participants. Females were found to have a greater tendency than men to preserve values. This finding was also discovered in Ford and Richardson’s studies (1994). There were also differences between the American and Asian students in terms of their perceptions of the application of the code of ethics. As compared to the American students, Asian students were more positive about a company code of ethics to reduce unethical activities in the organization (Ford and Richardson, 1994).

In their perceptions of business and commercial partners, in contrast to the Asian students, the American students did not agree with the statement “Buyer Beware!” in business negotiations. The American students felt that the consumer is protected and thus there should be no great fear of the seller. In other words, American students believe in the power of political legislation and ethics to control unethical behavior. In contrast, the Asian students believed that business people tend to disregard legal considerations and ethics in business transactions. These findings show that one’s cultural background has an influence on the internalization of ethical regulations. Therefore, different teaching techniques and emphases are required based on the cultural backgrounds of the students.

Today’s changing world calls for a fresh look at values. Because of the dramatic structural changes in the characteristics of society today, many scenarios in the work arena did not exist a few generations ago. Values must remain in line with advances in human knowledge, situational changes, and technological and social developments. There are indeed universal values but new work situations require renewed consideration of ethical outlooks among different cultures.

I believe that teaching ethics is of great importance in both academia and in organizations. In my opinion, the creation and analysis of scenarios has an additional value in training business students to live ethical business lives. They are supplied with the tools for self-awareness and with an ability to correctly analyze and make decisions in a reflective and appropriate manner.

REFERENCES

SOCIOINTERCULTURAL EVALUATION FOR INVESTMENT PROJECTS IN INDIGENOUS COMMUNITIES WIXARIKAS

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Abstract

This paper analyzes aspects of the problem that occurs in the social evaluation of investment projects for indigenous communities’ Wixarikas (Huichols). A project in this context make particularly complex the evaluation. On the socio-economic perspective with which it is evaluated comes into play the incommensurability of social and intercultural issues that cannot be ignored. It is addressed the questions that have arisen in the development of this type of project and presents a theoretical framework for the methodological proposal of socio-cultural evaluation.

Keywords: Social evaluation of investment projects, socio-intercultural evaluation, indigenous communities, Wixarikas.

Resumen

Se analizan aspectos de la problemática que se presenta en la evaluación social de proyectos de inversión para las comunidades indígenas wixarikas (huicholes). Los proyectos en este contexto hacen particularmente compleja la evaluación. En la perspectiva socioeconómica con la que se evalúa entra en juego la incommensurabilidad de los asuntos de carácter social e intercultural que no se pueden pasar por alto. Se abordan las interrogantes que han surgido en la elaboración de este tipo de proyecto y se presenta un marco teórico para la propuesta metodológica de evaluación socio-intercultural.

Palabras clave: evaluación social de proyectos de inversión, evaluación socio-intercultural, comunidades indígenas, Wixarikas.
1. Introduction

While developing investment projects for the implementation of alternative energy in communities Wixarikas (hichols) in Mexico in 2010, it was found that there were a number of issues to discuss in the theory of social evaluation of investment projects when they are applied in an indigenous context. These projects aim to improve the conditions of Wixarikas and other indigenous communities through promoting basic infrastructure. This basic infrastructure also enables the generation of projects with their own principles and approaches in line with the cultures and economic logics of the involved ethnic groups, as well as their social and environmental rationality, especially how they relate with Mother Earth (Gómez González, Gómez Calderón and Gómez Calderón, 2008).

In Wixarikas communities, the fact of assessing the possibility of provide electric service through alternative energies presents in advance externalities which can be considered negative to their culture, as this service would involve greater use of television sets, radios and other media which open the possibility of extending an acculturating process that despite the benefits, negative effects could be even more undesirable. However, the installation of all services would result in improving their means of agricultural production through the use of machinery and equipment that cannot be used without electricity. But the simple fact of wanting to help Wixarikas as part of government policy may have racist implications to place the national mestizo culture above them.

This is not a simple matter; the sample is that despite the high interest in this culture, in recent decades, the government policy has not been able to contribute to significantly improve the economic and material well-being of this ethnic group (Wiegand and Fikes, 2004: 54).

Externalities are found in opposed directions and they should be valued them both from the perspectives of the indigenous communities and the non-indigenous society. Clearly, it is evident that the non-indigenous culture has a greater weight and that decisions will have a particular bias in this direction, but through a series of ethical issues in public policy, they could be taken into account qualifications of the indigenous world to try to balance their interests. For example, unlike the non-indigenous world, for Huichol peasants both production and religion are so closely linked with economic and social life which apparently show a lack of interest in the adoption and adaptation of technology (Torres Contreras, 2000: 162 - 163).

The Huichol Serrano uses his time not devoted to alternative working techniques in the performance of ritual acts jointly with his family and other families in the social and production environment production (Torres Contreras, 2000: 163).

This does not mean that Wixarikas are isolated from the mestizo society. The persistence of their culture and community can be explained through processes of identification to the world, but the specificity of their ethnicity is due in part to the creative integration of what is not their culture.
(Florentine Beimbord and Peñaflor Romandie, 2009: 13). The complex skein for the analysis of projects in these contexts begins with the consideration that in the social assessment, mentions Fontaine (1999), externalities allow to understand the feasibility of promoting a non-profit project and socio-intercultural context. Externalities are multi-way and should be analyzed in intra-social, the intra-cultural and inter-cultural (Guerra García, 2004).

This research refers to intra-societal aspects when what it is analyzed is not unique to one of the participating cultures involved and is not put into consideration in inter-cultural relationships. The intra-societal aspects are all those cross-cutting issues in society regardless of the cultures involved, such as poverty, technology and welfare that concern to all human beings. The inter-cultural affairs, on the other hand, are placed on the discussion of the interrelationships among cultures such as the use of resources, domination, language shifts and displacements, asymmetries, differences of understanding, among others. Intra-cultural refers to the differences within the ethnic and cultural groups and that does not give a clear and uniform idea of what a community or people want.

By introducing this methodological perspective of analysis that it has been called socio-intercultural (Guerra García, 2004) in the social assessment, it opens an area of research to generate models that describe the categories to consider in this type of environment.

To pay to the issue is necessary to take into account the fact that decision-makers and intended beneficiaries of the project are from different cultures necessarily involves a "poli-relativism", i.e., to consider all possible relative positions on the evaluation at the same time. That is, if relativity is understood as the application of criteria and calculations from a determined particular perspective accepting that there are certain other points of reference, then, implies not only the acceptance of the existence of other criteria, but the development of mechanisms to consider these other benchmarks and other ways of seeing the world in her assessment of a project.

This implies that the assessment must be also performed as 'multi-criteria', i.e. recognizing that treating complex problems such as those presented in ethno-regions will need to consider the social, cultural, intercultural and intra-cultural incommensurabilities present in these situations. This incommensurability refers to the presence of multiple legitimate values in society and culture, diverse views and conflicting that result not only the in need to involve all the different actors and agents in the decision making process, but understand the policies of the State implied to the effect (Vargas Isaza, 2005). The incommensurability is associated with the multidimensional nature of complexity and the use of different dimensions of socio-intercultural analysis.

Therefore, this paper is aimed to answer the following research questions: How to make a socio-intercultural assessment of an investment project in an indigenous community? Or more specifically, what are the categories to be considered in these
assessments? These issues have been analyzed for the case mentioned and briefly described in this article.

2. Evaluation of investment projects

It is understood as an investment project to be considered as the formulation of an intervention as a mean to study an existing problem and analyzing the feasibility of achieving a desired change at least in some parts of society. The investment project is one where is delineated with clarity and detail what is to be achieved and also how to do, allowing to justify the intervention from different points of view to give or not give solution to a problem (Andia Valencia, 2010: 28-29).

Before achieving any activity are assessed the possibilities and potential for the project or projects. In any case, even when the target is private, the assessment should be considered a form of social research.

…applied, systematic, planed and directed, on which is supported a judgment about the merit and value of different components of a program, in such a way that serve as a basis or guide for making rational and intelligent decisions between courses of action (Matos Bazó, 2005:23).

3. Evaluation of investment projects

The objectives of any project evaluation, private or social, are always aimed at developing or improving living conditions. The development of the formulation comprises activities from the intention until the end and how it is to be put into operation the project. The project evaluation, although not mentioned in many methodologies, borrows from making public policy criteria already established or commonly accepted. The private evaluation of investment projects provides criteria that mostly come from public policies aligned with an individualistic perspective they put on a secondary level the involvement made to the community. The social assessment of investment projects, however, departs from public policy underlining the common good as a priority.

It is to be considered that public policies can be placed in streams and approaches of economic thought. Classical economics often includes only the variables that are monetary and cash, but the latest trend precisely it includes all aspects of the social fabric that could not be strongly measured though can be qualified. Especially when considering the known effects as externalities previously thought to be indirect or of minor importance, but increasingly are taking on a greater significance. Without putting aside the economic and financial technicalities, the fact that many externalities are hardly difficult to quantify in general makes more difficult to evaluate.

Evaluation is one of the more difficult concepts to address in socio-inter-cultural environments because is generally not possible to implement a valid metric valid and accepted by all stakeholders. In addition, the aspects that commonly are considered to
have universal validity are questioned in the presence of other ways of seeing and perceiving the world. Then for this case, to evaluate means to clarify any doubts that the operation of a project might have before it is applied from the poli-relativism and multi-criteria mentioned.

Such type of projects do not always represent a competition for the allocation of scarce resources, where the guiding principle of the allocation would be given by an indicator of profitability, but there are other equally valid criteria that deal with socio-inter-cultural issues where cultural relativism provides different views that may converge or diverge. The uncertainties that arise are due in large part because of problems involving socio-inter-cultural information and the difficulties for prescribing and determining the final outcome (Arroyave, 1994).

3. The social economics approach

The crisis of development models has allowed the visibility of some ancestral ways of understanding the economy and the emergence of innovations that have being called the third sector economy, solidarity economy, barter economy, popular economy or social economy (Bastidas Delgado and Richer, 2001: 1). In fact, any economy is social. However, when the focus is on private, all considerations are set aside of the other actors involved in the whole economy (Bastidas Delgado and Richer, 2001:2). The purpose is not to add a more endogenous variable but predominantly recognize the social dimensions of the economy (Izquierdo, 2009:5).

The aim of the social economy is not for profit, it is a welfare-oriented model of groups and communities (Pujol, 2003:36). So, an alternative energy project in these communities ensures sustainability, even if the investment cost is high and apparently did not have a positive financial result. The good life of the community and social synergies generation may be sufficient to justify a project of this type. From this perspective, the State would pursue the aim to improve conditions in communities. In addition, the social economy is diffused through a process of recognition of the poor circumstances in which there is an indigenous community and the debt for over 500 years of Mexican society has for this sector (Bastidas Delgado and Richer, 2001: 2).

In modern times, where it is increasingly clear responsibility for each of the people, where cooperation is becoming increasingly necessary and where it is not considered that the individual good necessarily leads to the common good, social approach is increasingly most needed, even in private projects. In this sense the social economy is an alternative approach consistent with the proposed socio-inter-cultural assessment. Precisely for the mentioned case, it is necessary to address an indigenous economy, understood as one form of social economy in Latin America, which starts from a vision of a plenty fulfillment life of human beings in their relationship with nature and its search for the good of all.

For example, for the case of Wixarikas is known that
...each family member contributes something to the party and also he has the right to be helped to open his land to plant, to help him clean the fields, to harvest and to help him hunt the deer (Torres, 2000: 162).

This gives a sample of a different economic dynamics of the mestizos. In itself the indigenous economy looks:

...to ensure to the indigenous peoples their well-being in all spheres of life, being this philosophical basis of welfare and lays the groundwork for the implementation of the indigenous economy (Consejo Indígena de Centroamérica, 2010).

The indigenous economy is composed of traditional practices to adapt to a particular environment which consist of the following features: a) the production that determines a given landscape according to the particular form of territory appropriation of each tribe worked with traditional techniques, b ) distribution, where different mechanisms operate to the intermediation as reciprocity and redistribution c) consumption, characterized by the forms of matching d) work organization and e) the earth, seen from a different worldview of individual ownership (Lugo, 2007: 60).

However, it is necessary to clarify that the indigenous economy has particular characteristics according to the indigenous culture and has this relationship with other ethnic groups. The pre-Columbian elements, which consist of traditional practices to adapt to a particular environment, where there is no money to exchange, correspond to an economy that can be called traditional (Lugo, 2007: 60), but there are many elements that have been created from the relationship with the non-indigenous world, perhaps the oldest economic relationship of the latter has been trading.

Trying to generalize,

Indigenous economies are composed of a traditional economy with a segment of a market economy which may be in descending from larger to smaller magnitude, depending on the case in question. Generally, the segment of the market economy behaves inter-cultural adaptations as goods produced with techniques or traditional labor organizations to sell them to the market or whose incomes are applicable to reciprocity or traditional complementarities (Lugo, 2007: 60).

To Lugo (2007: 60-61) the traditional economy consists of the following elements: 1) the production of traditional practices that determine a landscape, a product of particular forms of land appropriation, 2) distribution, where different mechanisms operate other than the intermediary of money, which in their different languages have to do with reciprocity, mutual aid, barter, community collaboration, etc., 3) consumption, which is characterized by finding ways of matching, 4) social indigenous organization, which determines to a greater or lesser extent the allocation of work, use and the enjoyment of the resources and the use of goods and services production and 5) The land as a living...
being that belongs to itself, so that private property is always a matter of conflict in the legal framework in relation to non-indigenous population (Lugo, 2007: 60-61).

Barter, for example, is one of the elements of the traditional economy that is not only currently used by many indigenous communities, but is re-emerging in different niches of society, for example in clubs and interest groups in local and international levels and has being questioned its inefficiency (Tocancipa Falla, 2008: 147). Based on the above, it can be understood why the idea that the indigenous people lack power to be used as leverage for their good living or to live together in a more harmonious way in Mexican society, requires a broader view that the providing common assessment tools, both private and social.

For all the above to take place it is necessary the real and true recognition of the social organizations in this case the government, communities and indigenous peoples. This public policy is highly relevant for evaluation in such type of contexts (Huot and Bussiéres, 2006:124)

4. Social evaluation

A social investment project seeks to meet social objectives through government targets or alternatives, used by support programs (Matos, 2005). Most important in this type of intervention is that the direct users and social beneficiaries must agree with the formulation posed, i.e., the project must be generated in a unidirectional way, in this case mestizo government to an indigenous community, but must be multidirectional.

However, regarding the social dimension, few evaluations go beyond indicators that describe the satisfaction of basic needs and are pending or without considering other socio-inter-cultural aspects such as inter-cultural equality, balance within and between generations, the level of social organization or the management capacity of a community or region, the formation of social networks, social and human capital, the response and societal organization facing market structures and their change processes (Mazabel-Dominguez, Romero-Jacuinde y Hurtado-Cardoso, 2010).

In the present case is noteworthy that the indigenous areas in Mexico have juxtapositions between uses and interests implying that the soil in the worldview of their people and economic activities are predominantly non-indigenous (Korsbaek, 2009). Recent examples have involved some ethnic struggles against the mining exploitation and use of certain private interests on the uses that indigenous peoples want to make on the soil (Saliba, 2011; La Jornada, 2011; Zapateando, 2012). So the difference from the other evaluations is that the benefits, costs and externalities should be observed from different perspectives simultaneously. That is, in inter-cultural projects is not sufficient to make the formulation and evaluation from one perspective, but it is necessary to put on the table all the criteria and viewpoints of the participating cultures involved.
This shows that the different etno-regions have conflicts and disputes regarding the agenda that economic actors that are not indigenous have for the use of what they consider their land. Thus, in addition to private mining projects, indigenous aspirations confront other companies in connection with new sources of energy, innovative technologies and media, which have also presented breaks, joints and disagreements, subject to further study. The problem that arises is that on the social valuation there are other elements which are perceived and then visible as a community harm that are difficult to quantify or to generate a weighting in monetary units. Hence the development approach of such projects must be preferably a qualitative approach.

5. Externalities

Social research projects always involve a number of edges concerning the management of externalities not only unresolved, but are raised to the extent they are found in practice. Externalities occur when social or economic activities of a group of people have an impact on another or on the nature and the impact is not taken into account adequately by the first group (Jaime and Tinoco, 2006:105). But this does not mean that their development is less valuable. Instead, discussions on the socio-inter-cultural perspective lead to generate new constructs that allow understanding that what happens in a concrete social reality.

Traditionally the evaluation of an investment project intend to build a starting point for determining the compensations that would probably be necessary to grant for counteracting the negative effects on the natural or social systems. However, this compensatory and corrective philosophy is not recommended for projects in which participate different cultures, because actions implying compensation and involving a party could be unacceptable to another.

In the treatment of externalities is important to mention that from the social approach is feasible to calculate the costs of the negative effect and then try to pay in corrective form is not precisely the optimal (Fontaine, 2008: 13), i.e. to internalize externalities is not the best philosophy in the social assessment, because when the groups are from different cultures there are inter-cultural situations that must be addressed proactively.

6. Economics and management of natural resources

The importance of this type of projects increases the finding that rural indigenous communities have been assigned the task of being providers of resources to urban areas and have been given the responsibility to preserve the environmental balance (Mozas Moral and Bernal Jurado, 2006: 127). Also an added feature with this type of alternative energy projects in indigenous communities is that at the same discusses
issues of economics and management of natural resources. In this regard it should be noted that interest in the sources of new and renewable energy (SNRE) (Fuentes de Energía Nuevas y Renovables, FENR) was due to the energy crisis that increasingly is stressing (Rodríguez Murcia, 2008: 88).

Within this discipline is the green economy, which unlike conventional economic theory, its objective is not the pursuit of efficiency, profitability and growth in purely monetary terms, but to try to support the sustainability of capital natural (Domínguez Torreiro, 2004: 8). Therefore this type of project also is part of a natural resource economics that encompasses everything related to 1) the management and valuation of natural resources, 2) determining acceptable levels of negative externalities and 3) the calculation of positive externalities.

But despite that awareness of the global ecological crisis is an undeniable fact, the current economic systems difficult not only has the evaluation of these projects but also the incorporation of new methods of energy used to be more sustainable. What is clear is that the human dependence on ecosystems can be seen so clearly in subsistence economies linked to the natural environment, where human communities, including indigenous communities take directly from the ecosystems only what they need to live; of this, community’s Wixarikas have great wisdom.

Recognition of this fact implies the assumption that the economic and social development will depend on the medium and long term, not only the proper maintenance of ecological systems that sustain and constitute the planet's natural capital but also the respect and attention given to the indigenous cultures from which there is too much to learn (Gómez and de Groot, 2007: 5-6). Issues related to natural resources are analyzed both from an economic perspective and from the institutional framework with its rules, duties and obligations, formal and informal (Domínguez Torreiro, 2004: 6-7). Also should be considered certain forms of relationship that each culture has with nature.

7. Incorporating the environmental dimension in project analysis

In this type of projects in rural indigenous communities is difficult to ignore the environmental impact assessment, which involves the identification, analysis and evaluation of project impacts on the environment, natural and social, from the poli-relativism and multi-criteria even when they are not necessarily expressed in monetary units. The addition of this category involves considering a number of additional activities not normally considered and whose execution is required today.

To evaluate the environmental impact of a project on the economic environment it is possible to note that from the time of its construction and after commissioning and implementing, it will influence the environment where it will be installed by the effects produced on the existing and future natural, human and economic activities, during its operation and to the final stage of abandonment. In particular, the environmental evaluation is to gauge the future effects through a process to identify, interpret, predict and disseminate the project's potential effects on the economic
and socio-inter-cultural environment in which it will be located and operated that would be reflected in the actual and future environmental changes.

8. Development or good living

Another element to consider in evaluating projects in indigenous communities is that in Latin America is running a renewal of the critique of conventional development under a process that offers several special features and it provides another approach to social assessment.

In this new situation points out that while many of the positions on the conventional development, and even many of the critical currents, they operate within their own knowledge of western modernity, the most recent Latin America alternatives are beyond those limits (Gudynas y Acosta, 2011: 72).

What is important here as it is in communities’ Wixarikas assessment is that the positions of the 'good life' recover visions rooted in the knowledge of indigenous peoples' own knowledge. The positions of good living challenge to the development with its philosophy of progress and that in practice meant an adversarial relationship with nature.

Living well is not, then one more alternative development in a long list of options, but is presented as an alternative to all those positions (Gudynas y Acosta, 2011: 72).

The good life is a concept of public policy in construction, but generally recovers the idea of a good life, welfare in a broader sense and in the case of the social economy and social assessment as a general rule provides that a community lives well, without waiting for progress at the cost of the devastation of natural resources. As mentioned Kichwa leaders:

…is a holistic vision of what should be the goal or mission of every human effort, which consist of finding and creating the material and spiritual conditions for building and maintaining the good life, which is also defined as harmonious life that in languages such as runa shimi (Quichua) is defined as “alli kausar” or sumac Kausai (Hidalgo, 2011), 88).

From the above it is stressed that the evaluation of a project is different if it is part of any policy development or within the one presented to the approach of good living. Public policies are crucial in guiding the work of social evaluation.

9. Wixarikas indigenous communities

For the Huichol culture, also called Wixarika, be wise means knowing the nature (Iturrioz, cited by Juránková, 2007: 150). For this culture the mestizo world is an alter world coexisting with his mythical (Durín, 2005: 91).
Spirituality and religiosity influences the mode of being of the Huichol, in the way of seeing the world, in their view (Juránková, 2007: 151).

The word 'Huichol' derives from 'hueitzolme', a territorial area currently located in Nayarit, its language belongs to the dialect totorame from the family southern Uto-Aztecan (Wiegand and Fikes, 2004: 51-52). The Wixarikas inhabit the region Huicot comprising approximately two hundred and fifty thousand hectares shared by the states of Nayarit, Durango, Jalisco and Zacatecas. This area is located in the Sierra Madre Occidental in a broad band called the Big Nayar, but the weight that the desert located in San Luis Potosi has for them is crucial to their culture (Porras Carrillo, 2006: 34).

In fact, the pilgrimage that according to the obligations imposed by the Huichol culture should make the huichol to the desert of San Luis Potosi is one of the key events in his life and one of the highlights and attractions of this indigenous people (Porras Carrillo, 2006: 34).

This type of migration on the Wixarikas allows in a greater perspective to understand the dynamics of their culture in their intensive interaction with 'the other' (Florentine Beimborn and Peñaflor Romandie, 2009: 15). It is generally a poor region with unpaved roads and sidewalks, electricity is very scarce and low since the problems of access to this territory makes difficult the installation of services and communications (Barrera, 2002: 45).

The altitudes of variegated terrain of mountains, plateaus, cliffs and canyons are located from 400 to 3,000 meters above sea level, containing within it a variety of ecological niches, with a wealth biotic of untold wealth (Guizar Vazquez, 2009: 171).

In addition to the Wixarikas inhabit this region other ethnic groups besides mestizos: the Coras, the Tepehuanos, the Tepecanos and the Mexicaneros which congregate in total 56, 614 indigenous people (Guizar Vasquez, 2009: 171). The town Wixarika has settled agricultural activities from at least 900 years ago (Tetreault and Lucio Lopez, 2011: 170), traditionally are living in three communities, San Sebastián, Santa Catarina and San Andrés, who along with Tuxpan and Guadalupe de Ocotán are the five political territorial units were formed from the time of the Spanish Crown in the eighteenth century (Wiegand and Fikes, 2004: 51).

According to the latest Census of Population and Housing of the National Statistics, Geography and Informatics (Censo de Población y Vivienda del Instituto Nacional de Estadística, Geografía e Informática, INEGI), 44, 788 Huichol speakers live in these regions with an age greater than five years, of which 22, 129 are men and 22, 659 women (INEGI, 2010). According to INEGI (2011) the Huichol language is in place 22 speakers in number of speakers before the Chontal and after the Chatino, but it is one of the groups with a higher percentage of monolinguals in Mexico (Juránková, 2007: 149).
The productive organization of the groups in this ethno-region has focused on primary activities of the agricultural nature; the breeding of cattle, both Wixarikas as other ethnic groups is the most relevant activity. Rainfed agriculture and forestry have also gained importance in recent years (Guízar Vasquez, 2009: 177). However, the above are not the only economic activities. The migration process is also strongly linked to its economy. An interesting fact is that there are several types of migrations in addition to the religious: The seasonal, shelter and the handcraft.

The seasonal is when the Huichol go to work as laborers and employees outside of the mountains in the dry season. Many of them move from one job to another without having the opportunity to return regularly to the mountains. The second type of migration occurs because eventually have to flee the violence towards the coast where there are groups that have been definitively established, both indigenous peoples as mestizo’s townships. Handcraft migration is the third type of migration has to do with the height that today are taking the craft markets across the country, a number of passes Wixarikas spent full seasons on trading tour and for some this is already a form of life (Florentine Beimborn and Peñaflor Romandie, 2009: 15-16).

For the specific case of land use in the Nayar, the Wixarikas have sustained fighting.

Among the Wixarikas there is a subtle and complex regional division of labor, based not only on specialized production as agricultural and manufactured goods, but also in a particular way to grow, produce and manufacture products for each group. This division of labor is wrapped itself in a class hierarchy and of a group, as well as relative territoriality, prompting constant disagreements and conflicts involving animosities between all groups involved, and even within each group: Coras against Wixaritari, Tepehuanos against Coras, etc. (Guízar Vasquez, 2009: 172).

Prolonged intra and inter-cultural conflict is cruder against colonization from the mestizo ranchers who have had the support of the state to advance the ethnophagic process resulting from the asymmetries among the indigenous and non-indigenous groups. The fact is that the territory Wixarika has been claimed more insistently every day since the colonial times and today. That claim is made in more sophisticated ways by the mestizo group, the current struggle is not only in the juxtaposition of mining regions with the sacred areas, but the mestizo group uses education, religion and technology, among others, to penetrate and change their world. These and other considerations socio-inter-cultural of the Wixarikas life cannot be neglected in the evaluation of an investment project.

10. Proposal for socio-inter-cultural evaluation

In this complexity described, the proposal for socio-inter-cultural evaluation lies in structuring the categories of analysis according to the macro-spheres and micro-spheres in
the corresponding categories to specific cases a) intra-societal, b) intra-cultural issues and c) cross-cultural issues. Figure 1 shows a diagram referring to the above:

**Figure 1. Schema for socio-intercultural analysis**

<table>
<thead>
<tr>
<th>DIMENSIONS</th>
<th>INTRA-SOCIAL</th>
<th>INTRA-CULTURAL</th>
<th>INTER-CULTURAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>MACRO-SPHERA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political, social, economics</td>
<td></td>
<td></td>
<td>SOCIO-INTER-CULTURAL</td>
</tr>
<tr>
<td>MICRO-ESPHERA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender, class, ethnicity</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors' construction

**A. Evaluation from the macrospheres**

To evaluate a project as presented is necessary to take into account the political, social and economic macro-spheres. In the case of communities Wixarikas maximum criteria come from a) trends in public policy, whether the development or the good life, which in turn imply what the State wants to do with the poor and the marginalized, that in most cases converge to generate the necessary synergies on the most needy; b) worldwide and nationally environmental trends that encourage alternative technologies and avoid those that add to global warming c) inter-culturalism, which the State wishes to do with ethnic groups that make up the nation, that is, to what extent and how they are targeted efforts towards indigenous peoples.

Perhaps these trends in public policy are the most important consideration in evaluating any investment project.

**B. Evaluation from the micro-spheres**

Since the talk is related to specific projects, the evaluation must consider the manifestations of the various stakeholders, local governments, and the Wixarika people here in this case and mestizo society that is located in the vicinity and possibly may also receive externalities of the projects. In this case it is important to consider other aspects of the specificity of the participating community, which can also guide the final decision, for example the demographic makeup in Wixarika is relevant.

**C. The evaluation from the intra-social**

This category includes the analysis of costs, benefits and externalities that have more to do with the affairs of society regardless of cultures and ethnic groups involved. In this case, the sustainable uses of the technologies, policies to address poverty regardless
of ethnic group you belong to the population in this State, among others, belong to the intra-social evaluation. The use of alternative energy in the communities avoid using harmful energies, here the problem lies in evaluating the potential environmental cost or benefit. This is because the contamination is considered a negative externality generated by the processes of production and consumption, in this case of electrical energy (Reyes Gil, Galván Rico & Aguilar Serra, 2005: 436).

On the other hand, the inclusion of the interests of future generations brings to rural indigenous communities opportunities for certain incentives from global policies for mitigation and adaptation to climate change through the mechanisms of clean development of energy (Pinto Silbato, 2004: 123). If to this problem is added the Mexican government's responsibility to have entered the Kyoto Treaty, the evaluation becomes immeasurable and the result tends definitely to the installation of the best solar power plants, regardless of whether there are cash flows to recover the monetary investment.

That is, the financial investment is minimal compared to: a) the fight against the damaging effects of climate change, b) the opportunity for development of rural and indigenous communities and c) compensation to indigenous communities by the historical fact of the Spanish domain first mestizo domain later for more than five hundred years.

The presence of cutting sustainable projects is one of the intra-societal aspects that make complex this assessment, since the value of using alternative energy is more significant, regardless of the cultures involved. So that in the era we live projects of this type could have a differentiating feature from other social assessments.

D. The evaluation from the intra-cultural

In practice it results that the indigenous communities are not a uniform whole, for while some people refuse to have the benefits of alternative energy because they see certain dangers of acculturation, others prefer to apply in the household and production that would give them a better way of life. That is, not all Wixarikas manifested in consensus on intervention projects.

In the case of mestizos is, not everyone agrees with Wixarika help a community, especially if there are others - indigenous or not - which also require benefits. Therefore, the adoption of technology in the rural indigenous area is a challenge, defining the most suitable methodology in relation to user involvement requires more socio-intercultural research Wixarikas.

The technology used by farmers Wixarikas is normally integrated into its socio-cultural structure and dynamics and it is from their perception of the environment that they develop a culturally specific technical system, so that any technological innovation disrupts their life the way they see the world and they values (Berrueta Soriano, Limón Aguirre, Fernández Zayas & Soto Pinto, 2003: 95). This raises many questions that are ultimately linked to externalities. How does or could disrupt the use of alternative energy to cultural technical system of the Wixarikas? How this technology would change their lifestyle, their
way of seeing the world and their values? Does this technology allow a strong presence of the inhabitants and their cultural values?

When the electric energy gets to the community, some people who thought they would emigrate and not do because satisfiers could possibly be enough for people to stay, possibly altering their migratory tradition. Another effect is that by the time of getting the electric power also they reach the mass media to disrupt cultural values. Preliminary assessment between costs and benefits is not easy to determine. The arrival of energy is also linked with the use of media and these processes of acculturation increases. How would these processes be? How much it is valued the displacement of a language in a culture and society? These are questions that cannot be solved simply.

**E. The evaluation from the inter-cultural**

The evaluation of inter-cultural projects must be understood in context by relating it to the contextualized political strategies. Inter-culturalism can’t be thought from an instrumental logic, which favors the extension or universalization of a trans-cultural model with supposed good intentions. Neither can pass the same criteria used in different contexts. As mentioned by Diez (2004: 195):

> The construction of a project refers to socio-historically situated processes and practices that shape and are configured in a field of dispute, in which there are correlations of variables between different forces of actors with different and frequently conflicting, interests.

In the evaluation processes are present, the formations, structures and resistances, relationships of social inequality and the struggle to transform them. Thus, in this form, public policy aimed at expanding rural indigenous energy is not always desirable because of the dynamic processes of acculturation that generally have the inter-cultural relations. But if it is accepted this policy as essential to survival and good life of communities, at least it should be noted the adoption of renewable energy solutions, as well the potential benefits would not be outweighed by the negative externalities that would make the investment an unsustainable project from the global point of view (Pinto Silbato, 2004:123).

Here it is necessary to evaluate the externalities that exist between cultures when the project enhances inter-cultural relations. Acculturation effects must be analyzed, especially those of non-indigenous society over Wixarikas, loss of cultural values, such as language, customs and in general the influence on their worldview. But how to assess externalities when the criteria are incommensurable? For example, in evaluating any investment project, the evaluator has to observe the possibility of soil contamination.

The problem is that, for the culture Wixarika land is sacred and should not be disrupted. To calculate an optimal point, in this case means that the indigenous people give up their principles and have to yield to mestizo’s criteria: To disrupt a little bit the earth to
the "level of acceptance." In summary, the solution becomes impossible. Let others decide for them is neither fair nor just, so it is more precisely at a crossroads.

11. In conclusion

It is conclude here that it is necessary to open research in line with the socio-inter-cultural assessment in the indigenous context, to address in more depth each of the raised externalities. Socio-inter-cultural evaluation of investment projects is a research methodology that is part of the implementation of public policies, which extends beyond the application of quantitative techniques centered on financial interest in the private perspective.

In the way of transversal and cross analysis of macro and micro-spheres is proposed to study certain aspects of intra-societal, intra-cultural and inter-cultural characterized features of multicultural societies. As explained, the analysis of macro-spheres departs from precepts of the social economy and considers the specific aspects of the indigenous economy in which theories are contrasted with the development of the emerging proposals of living. In this methodology, it is clear that financial technical matters are reduced to the need for further qualitative analysis of externalities.

The complexity of the evaluation is increased when the projects in question are related to alternative energies that fall down and framed into ecological economics of natural resources, where the idea of sustainability in itself marks a significant difference in the ways of conduct evaluation in social investment projects.

In short, from the perspective of socio-inter-cultural economy, alternative energy projects in communities’ Wixarikas could not be expected to pay monetary investment for a generation of mostly peasants, since their economic status would not allow it. However, the investment is justified because it would promote social and economic development of the community, but also if it is done through the use of renewable energy that would generate positive externalities to the world and the future of humanity. The latter value is fully justifying the project.

References


AFRICOM AND THE GULF OF GUINEA SECURITY INITIATIVE: STRATEGIC IMPLICATIONS FOR NIGERIA

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ABSTRACT

The work takes an analytical investigation of AFRICOM and the Gulf of Guinea security initiative and the strategic implications for Nigeria. The work is an empirical research which employed a combination of quantitative and qualitative methods to gather data from 113 respondents chosen from the diplomatic corps, the defence sector and the academia. In all, the study found out that Africa’s oil albeit West African oil represents a viable alternative to the rather precarious supply from the Middle East, and therefore crucial to America’s economic and strategic interest. AFRICOM therefore is an obvious American response to this interest. In the same vein, the study found out that global oil competition between the United States, Europe, China and India has made AFRICOM an imperial economic arrangement to secure America’s interest in the sub-region. More so, the study found out that the national security and strategic interests of Nigeria were not adequately articulated in a military programme that is largely nebulous and suspicious in the sub-region. The work finally offers useful recommendations that can significantly address the grey areas of the Command to adequately balance the economic, security and strategic interests of all the stake holders.

Key Words: AFRICOM, Gulf of Guinea, Security, Nigeria, Oil and Gas, United States, Africa.

INTRODUCTION

In recent times, there has been series of developments, which has brought about the presence of United States (US) naval ships in the Gulf of Guinea region. Thus according to Lubeck\(^1\) it is obvious that American energy security concerns and the persistent competition from the Far East empires of China and India cannot be overemphasized. The fact stems essentially from the following economic and geopolitical realities:

- The rapid growths in demand for oil especially China, India and the U.S.
The declining production among key suppliers and perhaps globally as a result of rapid and under-investment in the Persian Gulf region;

Increase in political instability in the Middle East, (which is the seat of the largest reserves of oil) due to the US occupation of Iraq, Sunni and Shia Muslim sect rivalries and Islamic based resistance movements

In addition to the aforementioned factors are the active resource nationalism in Iran and Venezuela and political conflict in the Aegean and Caspian oil zones. These situations and events have seriously aggravated petroleum insufficiency to a world with a huge appetite for oil, hence the intensified competition for the inadequate supply. The elementary economic implication therefore is the persistent rise in petroleum price that peaked around $100 in 2007/2008, and hovering around $70 in recent months. Even in the midst of this scenario, according to the US Department of Energy (DOE) in Klare predicts that by 2025, American imports will rise from the current 13 million barrels (bbl) per day to more than 18 million, depending on price. This increasing demand for oil may not change as it is encouraged and sustained by globalisation, mass production and consumption. This situation is made worse by the crisis in the Middle East where the factual predictions that by 2025, the region’s share of the world oil could increase from 21 to 34 million barrels per day or more. Apart from oil, Africa has substantial gas reserve about (8%) of the world’s total. Although some analysts posit a higher percentage for the region, the fact remains that Africa’s gas is also important in the world. The chart and the table below show the global distribution of oil and gas reserve by region.

**Fig i**

![Pie Chart showing World’s Share of Proven Gas Reserve](image)

**World’s Share of Proven Gas Reserve**

**Table 1**
World’s Distribution of Oil and Gas

In addition, both the US and Europe are becoming increasingly dependent upon Sub-Saharan Africa for their oil and gas supply, as energy demand increases due to rising competition from China and India and the US desire to reduce its dependence on the Middle East. Of strategic and geo-political importance to the US, Europe and now China are the Gulf of Guinea States, which include Nigeria, Angola, Congo-Brazzaville, Congo DRC, Cameroon, Sao Tome & Principe, Equatorial Guinea, Gabon, and Ghana. Nigeria and Angola are the largest producers: Nigeria has estimated proven oil reserves of 36.2bn barrels.

As a corollary to the above, available statistics from the International Energy Agency Annual Report 2006 shows that with Saudi Arabia’s 261.9 billion barrels, Iran’s 132.4 billion, Iraq’s 115 billion, Kuwait’s 99 billion and United Arab Emirates’ 97.8 billion barrels, the region remains the nucleus of oil production in the world and will continue to be so in the foreseeable future. However, the prospects of stable oil supply from this region is severely threatened by the tensile conflicts and the emergence of very complex resource nationalism pioneered by Iran which has the potential to spread to other hitherto American friends in the region. This position has heightened the value of oil supplies to the world and equally sustains an exorbitantly high global oil price regime in the last 3-4 years.

These grim realities have therefore made Africa’s oil the most attractive, given her relatively secured supplies. More so, the United States of America in her energy policy has articulated all known and imagined strategies to protect this source to guarantee her oil consumption. The attempt by the United States is equally challenged by the rampaging penetration of African oil resources China, India and of the European Union. These ‘threats’ have therefore pushed the United States to strategise further in order to re-position and consolidate her grip on Africa’s oil. However, Watts asserts that investigative reporting is critical in this type of study because of the strategic importance of oil for both Africa and the West. Oil investment in Sub-Saharan Africa represents 50% of all foreign direct investment.

With a proven reserve of up 90 billion barrels by conservative estimates, Africa has a major role in the global oil political economy essentially because of the seeming less volatility of the region. However, the events in Nigeria and the Gulf of Guinea which

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Onshore Oil (million)</th>
<th>Gas (Trillion Cubic meters)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Middle East</td>
<td>685.6</td>
<td>56.0</td>
</tr>
<tr>
<td>2. North America</td>
<td>37.3</td>
<td>7.1</td>
</tr>
<tr>
<td>3. South &amp; Central America</td>
<td>98.6</td>
<td>7.0</td>
</tr>
<tr>
<td>4. Asia-Pacific</td>
<td>38.7</td>
<td>12.6</td>
</tr>
<tr>
<td>5. Africa</td>
<td>77.4</td>
<td>11.8</td>
</tr>
<tr>
<td>6. Europe</td>
<td>19.7</td>
<td>61.0</td>
</tr>
<tr>
<td>7. Former Soviet Union</td>
<td>77.8</td>
<td></td>
</tr>
</tbody>
</table>
have about half of the entire African reserves in the last decade have introduced severe threatening elements that could harm western oil interests especially that of the United States of America.

Africa Command is a unified Combatant Command of the United States Department of Defence that is responsible for the US military operations and military relations with 53 African countries except Egypt. Africa Command (AFRICOM) was established October 1, 2007 as a temporary sub-unified command under US European Command that for more than two decades was responsible for US military relations with more than forty African nations. AFRICOM was formally launched October 1, 2008, during a public ceremony at the Pentagon attended by representatives of African nations posted in Washington D.C.

Officials from Africa Command have repeatedly stressed that they are not seeking headquarters or basing locations in Africa. In June 2007, early plans predating the establishment of the command, discussed the possibility of a ‘distributed command’ that would be networked across several countries rather than a single combatant command headquarters. However, the following wide-ranging international consultations, leaders of new command said they chose to focus on building programs and partnerships while suspending discussions about possible locations until after the command was well established. In February 2008, a spokesperson for AFRICOM stated that its headquarters would be located in Stuttgart, Germany for the near future. The scope of proposed operations has been said to include diplomatic missions, economic activities and humanitarian aid.

This is a misnomer to an extent because United States combatant command all have the same responsibility in general, which is to plan, direct and execute US military operations in their assigned area of responsibility.

It is against this background that the thrust of the paper focuses on AFRICOM and the Gulf of Guinea Security Initiative with specific emphasis on its strategic implications for Nigeria.

OBJECTIVES OF THE STUDY

The general objective of this research is to investigate AFRICOM and the Gulf of Guinea Security Initiative with specific interest in the strategic implications for Nigeria. Specifically, this work seeks to achieve the following objectives:

(a) To find out the security implications and prospects posed by the presence of a United States military ship in the Gulf of Guinea and more especially its challenge to the territorial integrity of the Nigerian polity.

(b) To provide awareness to the average Nigerian, as most people do not know of the existence of US Africa Command or do not fully comprehend the implication of its existence. There is the need therefore to sensitise the Nigerian citizens.

(c) To ascertain what America’s Energy interests are.

(d) To identify the current global contending interest in energy matters.
To find out the overt and covert objective of the initiative.

To understand the relevance of Africa’s oil to the United States and the world by extension.

**RESEARCH QUESTIONS**

(a) What is America’s Energy Interest and needs at the moment?

(b) What are the global contending interests in energy matters?

(c) What is the relevance of Africa’s oil to the US and indeed the world?

(d) What is AFRICOM and what are the overt and covert objectives of this initiative?

(e) Can AFRICOM secure West African oil?

**RESEARCH HYPOTHESES**

- There is no significant relationship between AFRICOM’s interest in the gulf of guinea and Nigeria’s territorial integrity.

- There is no significant relationship between the presence of American warships in the gulf of guinea and its global imperialistic tendencies.

- There is no significant relationship between AFRICOM’s initiative to guarantee peace in the gulf of guinea and Nigeria’s national security.

- There is no significant relationship between the United States oil interest in the gulf of guinea and the internal affairs of Nigeria.

- There is no significant relationship between respondents’ demographic information and the variables tested.

**LIMITATIONS OF THE STUDY**

The study is quite extensive and not all areas could have been covered. For instance, the headquarters of AFRICOM is situated in Stuttgart, Germany and the researchers could not travel that far due to time and financial constraints. The researcher was limited to publications on secondary data such as the internet and journals.

Primary data was collated by means of interview and questionnaires distributed to staff of the British High commission, Ghanaian High Commission, American Embassy all in Abuja, participants at the Nigerian Defence college Abuja, Nigerian Naval Base Okemini, Port Harcourt, Rivers State and National Institute of International Affairs, Lagos. The researcher could not, access the Chinese Embassy and the Defence
Headquarters effectively as most people declined to fill out the questionnaire. Also, lecturers at the University of Port Harcourt declined to fill the questionnaires, would not be interviewed or were not available.

AFRICOM and The Gulf of Guinea Security Issues

Gulf of Guinea

According to the Encarta Dictionary, a gulf is a large inlet of an ocean similar to a bay but often longer and more enclosed by land. The Gulf of Guinea lies on the South Atlantic Ocean stretching from Cape Palmas in the South Eastern tip of Liberia to Cape Lopez in Angola. The Gulf of Guinea has a distance of 2,970nm (NM-Nautical Miles) along the coast. Dokubo states that the Gulf of Guinea has a market size of about 300 million consumers. It encompasses a large number of countries from West to Central Africa: Angola, Benin, Cameroon, Central African Republic (CAR), Cote d’Ivoire, the Democratic Republic of Congo (DRC), Equatorial Guinea, Gabon, the Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Nigeria, Republic of Congo, Sao Tome and Principe, Senegal, Sierra Leone and Togo.

A second definition referred to it as the Gulf of Guinea Sub-region states that the Gulf of Guinea Sub-region consists of eight countries stretching from the south western tip of Nigeria in West Africa to Angola in Central.

The ecosystem of the region is a source of global interest. In addition to openness to the Atlantic Ocean, countries of the Gulf of Guinea enjoy a rich bionetwork, made of diverse fauna and flora.

Fig ii Map of the Gulf of Guinea

Gulf of Guinea map, Source: www.321energy.com...engdahl/engdahl050506.htm
Relationship between Nigeria’s National Security Strategy and the Gulf of Guinea

The Gulf of Guinea is of utmost importance to the security of Nigeria as her national interest in the Gulf of Guinea is manifest from its geostrategic location, activities in the area and the direct interest of its coastal population. With a coastline of 420nm, territorial waters of 24nm and Exclusive Economic Zone (EEZ) of 200nm and approximately 84,000square nm of sea room, Nigeria has a sovereign and territorial interest in the Gulf of Guinea. More so the region is presently infested with unmitigated cases of piracy in Africa, perhaps comparable to the Gulf Aden. The table below shows piracy attacks in the sub-region from 2000-2004.

Fig iii

<table>
<thead>
<tr>
<th>Gulf of Guinea</th>
<th>Rest of Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>34%</td>
</tr>
<tr>
<td>5%</td>
<td>18%</td>
</tr>
<tr>
<td>5%</td>
<td>18%</td>
</tr>
<tr>
<td>90%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Piracy Attacks in Africa 2004-2004

Also, Nigeria has a number of strategic ports as well as oil and gas installations in the area to underscore its infrastructural and economic interest. Furthermore, eight states with a population of 34million or 25% live along the coast of Nigeria. Therefore, 25% of Nigeria’s population could be adversely affected in the event of any security threat like pollution from the Gulf of Guinea.

Considering the security implications of the Gulf of Guinea, it is imperative for Nigeria to formulate a strategy to create the national and international conditions that are favourable for the protection or extension of its vital national interests against existing and potential adversaries. This is the reason for a national security strategy in the Gulf of Guinea. Consequently, Nigeria’s national security strategy has a direct relationship with the Gulf of Guinea.
FOREIGN OIL INTEREST IN AFRICA

It is a blatant truth that the US enjoys a position of revered military strength and its economic and political tentacles are common place. It is however imperative to note that US military and industrial might are the corollary of fossil fuel inter alia, which could be regarded as the life blood of contemporary economies, without which the economies of any nation would grind to a standstill. This viewpoint is rightly attested to by the report of a Judicial Commission in Nigeria, which states that: “the importance of oil and petroleum products in our national economy cannot be overemphasized. Any country would count herself lucky if she had a regular and an uninterrupted supply of oil and petroleum products and this is so, because of the very serious in roads which expenditure on oil and petroleum products now make on the economy of any country.”

Britain and Germany were the earliest to show interest in middle-Eastern oil. Britain was more active ab-initio, through its influence in the pre-WW1 Turkish empire. The United States later made its interest known at the realisation that Middle-East oil was prolific and oil extraction was cheap. Eventually, as a result of its intense political and commercial pressure, the USA secured an entry to the Middle-East producing areas. Though, the British Government made attempts at keeping the US interests out of its producing and refining facilities in Persia, it could not stop the US interest in Iraq and the Persian Gulf States. Problems arose however, when Britain created the State of Israel. This is because it was difficult enough for Arabs to accept European domination of parts of the Arab world, but now, they are faced with what they considered a colony of infidel Westerners who intended to live permanently on Arab land. The United States have continually given unabashed support to Israel, thereby complicating relations with the oil producing states of the Middle-East. Further reasons for the Arab animosity towards US are:

- US occupation of Islamic lands in the holiest of its riches, overwhelming its rulers, humiliating its people, threatening its neighbours and using its bases in the peninsula as a spearhead to fight against the neighbouring Islamic people.
- Despite immense destruction inflicted on the Iraqi people at the hands of the crusader-Jewish alliance and in spite of the appealing number of dead, exceeding in million, America is ready to repeat once more, this dreadful slaughter.
- While the purposes of the US in these wars are religious and economic, they also serve the petty state of the Jews, to divert attention from their occupation of Jerusalem and their killing of Muslims in it.

Also, the negative feelings towards the US have arisen due to the American television shows and movies that constantly undermine traditional family in the Middle-East.

With the Arabian and Persian Gulf becoming a cauldron of chaos, it becomes necessary for the US to diversify its sources of supplies. The Caspian Sea with its rich energy sources offers an opening to the US. The Caspian Sea however has a region with an explosive mix of ethnic groups and instability. Though, Canada and Mexico are reliable sources of supplies, Hugo Chavez of Venezuela has decided to diversify Venezuela’s oil exports in order to ensure less dependence on US market, as well as counter US hegemonic influence in the country.
With the Middle-East and the Caspian Sea becoming problematic, as well as
Venezuela’s aversion to US, the quest for alternative source becomes more
imperative. Thus the Gulf of Guinea evolves as an option to consider.

Towards the West African oil and the origin of Africa command

The increasing unreliability of oil supplies to the United States of America because of the
factors enunciated in the preceding paragraphs created obvious need to look for
alternative sources of oil from relatively stable producing zones of the world. This grim
reality eventually transmitted Nigeria and the Gulf of Guinea as America’s ‘vital interest
and new energy security zone’.

Beginning from the campaign promoted by a neo-conservative think tank and
Paul Michael Wihbey, a lobbyist and energy ‘expert’, a significant awareness was
created. Within a mere eight years, with the support of the Institute for Advanced
Strategic and Political Studies (ASPS) with headquarters in Jerusalem, American military
in and around the Gulf of Guinea as well as greater American- Nigerian cooperation in
managing security in Niger Delta is now obvious and significantly on course.23

As one of the aftermaths of 9/11, the strategic value of West African oil for
American energy rose significantly. This is even in the face of the hypocrisy that Bush is
embracing the pariahs of the human rights community-Equatorial Guinea and Algeria
even as neo-colonialists are attacking the reliability of supply and human rights records
of Saudi Arabia and other Persian Gulf suppliers.

This desperate quest for oil by the United States has therefore necessitated the
need to create a military build-up under the guise of the Global war on Terrorism
(GWOT) to protect oil resources from the encroachment of other nations that are
interested in African oil such as China and possibly India in due course.24

America’s military presence in Nigeria and the Gulf of Guinea was a product of
the grandiose European Command (EUCOM) in Europe and part of North Africa. With
the end of the Cold War, the European Command’s strategic worth had withered
tremendously, there was therefore need to redesign her mission and this mission was
realised under the Global War on Terrorism (GWOT) where real and imagined terrorists
can be tracked at least to secure American economic interests albeit oil needs. The Global
War On Terror offered European Command strategists an attractive opportunity to
reclaim lost relevance and resources by looking Southward to North and West Africa,
where they repositioned some of their forces to the Sahel and the Gulf of Guinea.25

This attempt is at the core of the counter measures taken to stem the growing
insecurity of US oil supplies and approximates what Michael Klare refers to as the
‘economisation of security’ an important strand of US foreign policy since the 1930s
which has focused on global oil acquisition policy and disguised economic imperialism.

AFRCOM comes in the context of a growing conflict with China over Africa’s oil
supplies. Subsequently it was designed to increase the US military presence on the
continent. At present, the US has 1,500 troops stationed in Africa, principally at its
military base in Djibouti in the Eastern Horn of Africa. That could well double in time. Indeed Naval exercises of the Gulf of Guinea had already begun, in part with the intention of shipping Niger Delta insurgents reaching offshore oil rigs. It also plans to beef up the military capacity of African governments to handle their dissidents, with additional ‘rapid-reaction’ US forces available if need be. Today, the command is fully in place with various level of co-operation from the affected member countries.

Further justifying the need for Africa Command Sanders, asserts that: ‘The US has always provided humanitarian disaster and technical assistance on a range of areas particularly peace keeping, when asked by African nations to do so. US have done it for more than 35 years. Therefore, Africa Command is a strategic positioning of all this assistance and capacity building to one location- Stuttgart, Germany as opposed to the three locations where assistance and capacity building was housed before. This was important in order to better coordinate our resources and respond to African nation’s request to have these resources in one location.’

Africa Command is viewed by the United States as a benevolent gesture designed to assist a crises infested African continent to contain security threats within and around them in ways that will guarantee her development. Sound as this argument may be, it crumbles on the altar of the simple logic that this initiative coincided with the era of severe energy crisis in the United States and stiff competition from far Eastern countries of China and India. In the same vein, humanitarian and military consideration should logically be more expedient in the Darfur region of Western Sudan than in the Gulf of Guinea, which is important perhaps because of oil.

In the face of all these doubts and debates, US military involvement in West Africa increased in the post 9/11 era, focusing on three broad goals:

- Getting US forces on ground to advice and upgrade the region’s militaries in support of the Global War on Terror.
- Establishing maritime dominance in the Gulf of Guinea to secure offshore oil installation and if necessary, unilaterally defending American energy assets and;
- Building or sub-contracting access to new air and naval bases, to provide both forward supplies, surveillance and air cover capacities. This corroborates European Command’s General Jones’ position that ‘Africa plays an increased strategic role militarily, economically and politically....’ ‘for his command, which now spends 70% of its time and energy in Africa up from nearly none when he took it over about four years ago’.

**RESEARCH DESIGN**

An empirical research design (qualitative and quantitative) was used to investigate the nature and extent of the problems experienced by detectives in the collection, processing and utilisation of crime information. According to Maxfield and Babbie, the empirical research design produces knowledge based on experience or observation. Social science is said to be empirical when knowledge is based on what we experience. The empirical (quantitative) research design worked well in this study, as the researcher collected data
in the form of written and spoken language, and analysed the data by identifying and categorising themes. This also allowed the researcher to study selected issues in depth, openness and detail, as she identified and attempted to understand the categories of information that emerged from the data. Further, the research was flexible, data collection was less structured and easier, the researcher was able to make adjustments, and the whole study was naturalistic, participatory and interpretive. The researcher used the qualitative approach, because, according to Creswell, the qualitative approach involves the study, use and collection of a variety of empirical material through case study, personal experience, and interviews, that describe the problem and meaning in practice. This research had to involve these practical ways of gathering information, due to limited literature on the topic.

The qualitative approach worked well in this study, because verbal, non-numerical data was collected through naturalistic interaction with people in everyday situations. The process was open, to make it possible to record unexpected events and practices. AFRICOM and its strategic implications in the Gulf of Guinea was contextualised for study, and the qualitative approach, involving a multi-method research process, combining case study, literature, interviews and experience, was used for this research. (See figure iv below)

Figure 1: Research design summarised

POPULATION
The entire member of staff of embassies of the United States, United Kingdom, Ghana, the Nigerian Navy, Nigerian Defence College and even the academia constitute the population or universe of this study. Ideally, the researcher would like to study the entire population or universe, to give more weight to her findings. Due to financial, time and other constraints, the researcher was not able to study the entire population.

SAMPLE AND SAMPLING PROCEDURES

In all, a total of (113) questionnaires were returned by the respondents. The researcher distributed 30 questionnaires to the Nigerian Navy, Okemini, Port Harcourt, 15 copies of the same questionnaires was given to the Ghanaian High Commission in Abuja, 5 copies was distributed to the British High Commission in Abuja, another 20 questionnaires was given to participants at the Nigerian Defence College at Area 11, Abuja. 30 copies of the questionnaires was given to staff of the Ministry of Defence, 13 copies was given to staff of Nigerian Institute of International Affairs (NIIA). Upon arrival at the American Embassy in Abuja, AFRICOM officials at the Embassy opted for a structured interview, rather than questionnaires. So, the researcher interviewed one staff of AFRICOM in the American Embassy in Abuja.

SOURCES OF DATA COLLECTION

The researcher utilised primary and secondary data. The primary data was collated by means of interview and questionnaires distributed to staff of the British High commission, Ghanaian High Commission, American Embassy all in Abuja, participants at the Nigerian Defence college Abuja, Nigerian Naval Base Okemini, Port Harcourt, Rivers State and National Institute of International Affairs, Lagos.

Secondary Data

The researcher referred to seminar papers, journals, textbooks, newspaper publications and the internet etc., for secondary data.

Primary Data

Questionnaire

This empirical study is purposive in nature. A six-paged structured questionnaire was used to collect data. The questionnaire included two major sections: “A” demographic Information and “B” AFRICOM emphasis scales. Section “A” required the respondents to check the boxes that included age, gender, department, country, qualifications and length of service as they applied to them. Section “B”, the core of the questionnaire, required respondents to rate a list of 21 statements using a 4-point likert scale, where 1 was equal to the lowest and 4 equal to the highest. (1 = strongly disagree; 2 = disagree; 3 = agree; 4 = strongly agree). The questionnaire’s design was adapted from some questionnaires used by researchers for AFRICOM study. The original questionnaires were, however, modified to suit the researcher’s purpose of study. In total, 113 questionnaires were distributed, 100 questionnaires were retrieved out of which 86 of them were used for the final analysis. This represented approximately 47.7% return rate.
Interview

As part of the study, structured interview was conducted to elicit views from AFRICOM officials in the American embassy in Abuja. This is to complement data collated from the questionnaire, especially from a respondent that could better be reached through interview and whose confidentiality is relatively higher. More so, interviews are one of the most commonly recognised forms of the qualitative research method, the researcher used interviews as one of her data collecting methods. Face-to-face interviews between the interviewer and interviewee took place, using an interview schedule.

The purpose of the interview was to determine how information relating to the investigation of the role of AFRICOM initiative in the Gulf of Guinea. The researcher gave the appointed interviewee specific guidelines on how the interview was conducted. The interviewee was given a full description of what the study was all about. General guidelines and procedures were discussed. Each question on the interview schedule was handled separately, with the interviewee.

The interviews for this research were scheduled to last for forty-five minutes in a convenient and peaceful atmosphere in AFRICOM office in Abuja. Although the initial attempts to get the interviewees to respond to questions were not successful, they eventually co-operated.

Reliability Test

A quantitative analysis was performed to statistically test the reliability of the research instrument. In research statistics, when the reliability of a research instrument has been established, it provides a basis for continuity. The instrument was tested with the Cronbach alpha coefficient and a reliability coefficient of .853 was obtained. Thus, the research instrument was accepted as very reliable in that it allowed for the consistency or repeatability of what we set out to measure.

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.853</td>
<td>21</td>
</tr>
</tbody>
</table>

Data Analysis techniques

After the data collection, all the structured items of the questionnaires were keyed into a computer and were analyzed, using the Statistical Package for Social Sciences (SPSS) version 17 of program on a computer. The core of the questionnaire was analyzed using the independent one-sample t-test statistical tool to determine the significant relationship between the variables. In testing the null hypothesis that the populations mean is equal to a specified value \( \mu_0 \), one uses the statistic

\[
t = \frac{\bar{x} - \mu_0}{s / \sqrt{n}}.
\]
One-way-analysis of variance ANOVA (F-test) was employed to test the relationships/comparisons between variables and respondents’ demographic profile (age, gender, department, county, qualifications and length of service). The statistical significance was set at $p < 0.05$. The F-test is used for comparisons of the components of the total deviation. For example, in one-way, or single-factor ANOVA, statistical significance is tested for by comparing the F test statistic

$$F = \frac{\text{variance between items}}{\text{variance within items}}$$

$$F^* = \frac{\text{MSTR}}{\text{MSE}}$$

where

$$\text{MSTR} = \frac{\text{SSTR}}{I - 1} \quad I = \text{number of treatments}$$

and

$$\text{MSE} = \frac{\text{SSE}}{n_T - I} \quad n_T = \text{total number of cases}$$

**DATA PRESENTATION AND ANALYSIS**

This chapter introduces data presentation and analysis however, the data analysis of this study was conducted using the Simple Percentage of Social Sciences (SPSS) Version 17.0: column chart distribution, mean point value, standard deviation, ANOVA and t-test of significance. The researcher employed the One-way-analysis of variance (ANOVA) to test the statistical significant differences between variables and respondents’ demographic information. One Sample t-test was used to find statistically significant relationship among the variables. Statistical significance was set at $p < 0.05$ to assess if the researcher’s level of confidence observed in the sample also existed in the general population.
Figure 1 above depicts that 8.1% of the respondents are aged 20-30, while 25.6% of the respondents are aged 31-40. The figure further revealed that 53.5% of the respondents are aged 41-50, and 12.8% of the respondents are aged 51 and above.

Data from figure 2 above shows that 79 (91.9%) of the respondents were male, while 7 (8.1%) were female.
The column chart distribution for respondents place of work (see figure 3) showed that 10 (11.6%) of the respondents were Diplomats/community relation officers. And 12 (14.0%) were from the Nigerian Defence College. While, 7 (8.1%) of the respondents are of the AIR FORCE, whereas, 8 (9.3%) were from the ARMY. 14 (16.3%) of the respondents are of the NAVY, and 35 (40.7%) were from the Ministry of Defence.

Figure 4: the column chart distribution for respondent’s academic qualification revealed that 8 (9.3%) of the respondents hold secondary school certificate. While, 12 (14.0%) hold National Diploma certificates, whereas, 40 (46.5%) of the respondents hold first-degree certificate of various kinds. The number of respondents who hold post graduate certificates were 26 (30.2%)
The column chart distribution for respondent’s country of origin tells that 79 (91.9%) of the respondents are Nigerians. While, 4 (4.7%) are Ghanaians, whereas, 1 (1.2%) are from the United Kingdom, and 2 (2.3%) are Zambians.

The data for respondents based on their length of service depicts that those who have served for between 5-10 years were 14 (16.3%). While those that have served 11-15 years were 12 (14.0%), whereas, those who have served 16-20 years were 6 (7.0%). Those of 21-30 years were 52 (60.5%) and those who have served 31 years and above were 2 (2.3%).
Table 2: One Sample t-test Analysis of Variables on the Impact of AFRICOM and the Gulf of Guinea Security Initiative.

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>item1</td>
<td>86</td>
<td>3.593</td>
<td>.6207</td>
<td>53.675</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item2</td>
<td>86</td>
<td>3.7674</td>
<td>.4249</td>
<td>82.218</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item3</td>
<td>86</td>
<td>3.3721</td>
<td>.6333</td>
<td>49.377</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item4</td>
<td>86</td>
<td>3.093</td>
<td>.6255</td>
<td>45.857</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item5</td>
<td>86</td>
<td>3.2791</td>
<td>.6259</td>
<td>48.582</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item6</td>
<td>86</td>
<td>2.9070</td>
<td>3.274</td>
<td>8.233</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item7</td>
<td>86</td>
<td>2.3721</td>
<td>.7037</td>
<td>31.260</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item8</td>
<td>86</td>
<td>2.0814</td>
<td>.8706</td>
<td>22.170</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item9</td>
<td>86</td>
<td>2.8372</td>
<td>.8382</td>
<td>31.390</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item10</td>
<td>86</td>
<td>2.5233</td>
<td>.6983</td>
<td>33.507</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item11</td>
<td>86</td>
<td>2.3837</td>
<td>.7541</td>
<td>29.314</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item12</td>
<td>86</td>
<td>3.3605</td>
<td>.6670</td>
<td>46.716</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item13</td>
<td>86</td>
<td>3.2326</td>
<td>.8069</td>
<td>37.149</td>
<td>85</td>
<td>0 .00</td>
</tr>
<tr>
<td>item14</td>
<td>86</td>
<td>3.093</td>
<td>.7915</td>
<td>36.238</td>
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<td>0 .00</td>
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<tr>
<td>item15</td>
<td>86</td>
<td>3.0116</td>
<td>.6944</td>
<td>40.219</td>
<td>85</td>
<td>0 .00</td>
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<tr>
<td>item16</td>
<td>86</td>
<td>3.3256</td>
<td>3.327</td>
<td>9.270</td>
<td>85</td>
<td>0 .00</td>
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<td>item17</td>
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<td>.6458</td>
<td>50.591</td>
<td>85</td>
<td>0 .00</td>
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<tr>
<td>item18</td>
<td>86</td>
<td>2.1628</td>
<td>.9562</td>
<td>20.975</td>
<td>85</td>
<td>0 .00</td>
</tr>
</tbody>
</table>
To answer the research questions, the results in table 1 above revealed that America’s interest in the Gulf of Guinea is oil; as such, America will always protect her energy interest. It is agreed through the data generated that AFRICOM is part of America’s economic agenda to exploit the region of its natural resources. Following the global energy crisis, contending interests among global powers has weakened global security and AFRICOM is seen as a means to guarantee oil supply to the United States with the pretence that it will guarantee peace in the Gulf of Guinea. Majority of the respondents are of the opinion that AFRICOM will engender internal conflict in Nigeria. As a result, United State’s military base should not be located in the West African Coast for any reason what so ever. Respondents presumed that US military base in the Gulf of Guinea will challenge Nigeria’s territorial integrity, and can never enhance security.

Therefore the results showed that many Nigerians are aware of the AFRICOM mission in the Gulf of Guinea; however, there is need to further sensitized Nigerians on the role of AFRICOM. It was further observed that Nigeria must be adequately consulted in the operations of AFRICOM and should contribute significantly to AFRICOM if the
need arises. Respondents advocated for greater cooperation and support should AFRICOM come to stay. Nevertheless, the realization is that West Africa’s Oil is important to the United States; therefore, African Oil should not be allowed to be protected by the US. Advocacy towards this demonstrates that Nigeria is in a better position to protect her Oil. Nonetheless, accepting AFRICOM to stay will give rise to other military formations in West Africa, and the immediate effect is that AFRICOM will turn to an imperial organization.

Table 3: Analysis of Variance (ANOVA) of respondents’ demographic information

<table>
<thead>
<tr>
<th>Demographic Respondents</th>
<th>Information of</th>
<th>Sum of Squares</th>
<th>f</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>Between Groups</td>
<td>1.722</td>
<td></td>
<td>.574</td>
<td>.905</td>
<td>.443</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>52.011</td>
<td>2</td>
<td>.634</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>53.733</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>Between Groups</td>
<td>.270</td>
<td></td>
<td>.090</td>
<td>1.200</td>
<td>.315</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>6.160</td>
<td>2</td>
<td>.075</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6.430</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Place of Work</td>
<td>Between Groups</td>
<td>6.363</td>
<td></td>
<td>2.121</td>
<td>.607</td>
<td>.612</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>286.485</td>
<td>2</td>
<td>3.494</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>292.849</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country of Origin</td>
<td>Between Groups</td>
<td>2.315</td>
<td></td>
<td>.772</td>
<td>2.874</td>
<td>.041</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>22.011</td>
<td>2</td>
<td>.268</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>24.326</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aca. Qualification</td>
<td>Between Groups</td>
<td>1.772</td>
<td></td>
<td>.591</td>
<td>.710</td>
<td>.549</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>68.182</td>
<td>2</td>
<td>.831</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>69.953</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of Service</td>
<td>Between Groups</td>
<td>1.461</td>
<td></td>
<td>.487</td>
<td>.323</td>
<td>.809</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>123.562</td>
<td>2</td>
<td>1.507</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>125.023</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The data in table 2 highlighted mixed results. 5 of the independent variables (age, gender, place of work, academic qualification, and length of service) showed no significant differences in the respondents’ view of the AFRICOM agenda and its strategic
implication for Nigeria, where as, the variables concerning country of origin showed significant differences in their opinion concerning AFRICOM agenda and its strategic implications for Nigeria.

Table 4. Hypotheses and their Remarks

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1</td>
<td>Accepted</td>
</tr>
<tr>
<td>Hypothesis 2</td>
<td>Rejected</td>
</tr>
<tr>
<td>Hypothesis 3</td>
<td>Rejected</td>
</tr>
<tr>
<td>Hypothesis 4</td>
<td>Rejected</td>
</tr>
<tr>
<td>Hypothesis 5</td>
<td>Accepted</td>
</tr>
</tbody>
</table>
SUMMARY

For the purposes of this research project, the Gulf of Guinea sub-region is defined as the thirteen West African nations, mostly fronting the Atlantic Ocean from Angola in the Southeast to Cote d’Ivoire in the West. Other countries within this area include Ghana, Togo, the Republic of Benin, Nigeria, Cameroon, Chad, the Democratic Republic of Congo (DRC), Congo, Equatorial Guinea, Gabon, and Sao Tome and Principe. Chad is the only landlocked country among the Gulf of Guinea states. These countries have different colonial ties. The languages spoken across the sub-region include English, French, Portuguese and Spanish. The sub-region population is estimated at over 200 million. Nigeria alone has about 150 million, with perhaps over 250 ethnic groups and a land mass of about 350,000 square miles (Nigeria: facts and Figures). Nigeria is thus a dominant nation in the sub-region in terms of human and material resources. The sub-region has a coastline of about 3,400 miles (5,500 km), roughly the size of Mexico. With an Exclusive Economic Zone (EEZ) of 200 nautical miles, the sub-region has a maritime domain of about 680,000 square nautical miles (nm). Exercising effective and sustained security over this vast maritime domain is a daunting challenge for sub-regional states.

In addition, the strategic importance of the Gulf of Guinea cannot be over emphasised. This is because the global economy is experiencing tremendous changes with significant effects anticipated on the Gulf of Guinea sub-region. As such, the political climate in the Middle East, which has disruptive effects on oil prices and causes shifts in the structure of oil demand, coupled with robust economic growth in China and India, is likely to elevate the sub-region in U.S., European, and Asian energy strategies among other factors that fuel interests in the Gulf of Guinea sub-region. Most sub-regional oil is exploited from offshore oil fields, far from ground-based political instability, and can be easily protected from domestic disorder. Problems linked to Caspian Sea oil exploration and exploitation, and especially ecological problems, make the Gulf of Guinea off-shore oil even more appealing. With the exception of Chad, whose oil fields are connected to Cameroon by the 1,000 kilometre long Doba-Kribi pipeline, no oil routes in the sub-region pass through the territories of neighbouring countries. Therefore, oil deals can be made bilaterally rather than multilaterally. Additionally, the sub-region's crude oil is better quality than that from Latin America and the oil contains little sulphur, which better suits U.S. oil companies. Finally, the numerous transit chokepoints facing other world oil producing nations adds to the comparative advantage of producers in the sub-region, contributing to ease of shipping, lower transportation costs, and fewer environmental hazards and security problems. Overall, Gulf of Guinea oil is an attractive source of energy. It leads all other regions in proven deepwater oil reserves (about 14,495 billion barrels), which will create significant savings in security budgetary provisions. This, according to experts, has prompted the U.S. Intelligence Estimate to anticipate an increase in its Gulf of Guinea oil imports from the current 16 percent to 25 percent by the year 2015 (a percentage higher than U.S. imports from the Middle East).
Historical evidence shows that endemic competition amongst oil multinationals from the west pervades the Gulf of Guinea. For example, the British firms Shell and British Petroleum (BP) dominated the development of oil in Nigeria. Their initial monopolistic position was lost with the entrance of other multinational corporations like Mobil Exploration Nigeria, Gulf Oil Nigeria, the Italian State firm ENI (AGIP), Total Elf, ChevronTexaco and the French subsidiary SAFRAN. French Equatorial Africa had French firms (SPAEF). In Portuguese Angola and Belgian Congo, the dominant oil firm was the American Cabinda Gulf Oil Company. Angola today is dominated by oil majors like ChevronTexaco, Total, and ExxonMobil. American oil companies ExxonMobil, Ocean, Marathon, and Amerada Hess dominated Spanish Guinea.

Today, the scramble for African oil, including Gulf of Guinea oil, has changed from a political contest among European national oil companies monopolizing their neo-colonial spheres of influence to an economic contest among multinational and national oil companies. All are bidding for oil concessions across old imperial boundaries. The changed economic contest caused by oil majors trying to break the monopolies held by the dominant firms opens the door to maritime security threats in the sub-region. For example, environmental degradation from oil exploration and exploitation has not been given adequate attention. The communities whose livelihood is touched by environmental degradation persistently cry foul without favourable response. The failure of both the government and the oil majors to respond has provided the expanded political opportunities for militant youth to emerge in the Niger Delta; today these militant youth are causing havoc in the oil rich Niger Delta area.

The shift from political to economic contests reflects three major transformations in the international system: the change from a multi-polar to a uni-polar order, the privatization and multinational mergers of former national oil companies, and the failure of African states to successfully nationalize their petroleum industries. The gradual decline of British, French, Portuguese, Spanish and Belgian spheres of influence over the course of the 20th century was paralleled by the rise of American capitalism to global hegemony.

For the United States of America, there has been an increased global strategic interest in the Gulf of Guinea since the end of the 1990s and especially since the September 11, 2001 terrorist attacks against the United States. Central to global interest in the region is the rising profile of the Gulf of Guinea in the West’s energy security calculations, as a source of both oil and profit for western oil majors. Furthermore, interest in the Gulf of Guinea is shaped by turbulent relations between the U.S. and President Hugo Chavez of Venezuela that have affected the oil supply from Venezuela. The continued instability in the Persian Gulf region, which is among the major crude oil suppliers to the U.S., has a similar result. These factors greatly influence U.S. policy towards Africa and the Gulf of Guinea sub-region. Since diversification of energy supplies is now the cornerstone of U.S. energy security policy, Washington sees Gulf of Guinea oil as a crucial opportunity to further diversify its oil supply, thus facilitating the inclusion of Gulf of Guinea in the strategic energy calculations of U.S. policymakers.

United States' policy and energy interests in the Gulf of Guinea sub-region involves partnering with member states to create an investor friendly environment. These
partnerships require political stability, rule of law and property rights. The U.S. sees accountability in managing oil revenues as an important step in promoting the socio political environment. With increased focus on the Gulf of Guinea comes with increased security threats and risks stemming from corruption and bad governance, piracy, terrorism, militant activities, oil flow station and terminal operation disruptions, maritime boundary disputes and oil majors’ competition for dominance. These new threats to oil supply security require new U.S. policy approaches to energy security, so U.S. energy policy endorses stronger global alliances, such as bilateral relationships with key countries and regions.\textsuperscript{44}

The U.S. has expanded military aid programs in Africa, including the provision of arms, military equipment and technical assistance. Expanded aid programs are intended to enhance friendly African states’ internal security so they can better control ethnic, religious, and factional divisions, support peacekeeping operations, and improve anti-terrorism measures.\textsuperscript{45} Other measures that the U.S. is using to complement maritime security include military training, U.S. Navy exercises, the acquisition of basing rights in strategic African countries and the establishment of U.S. African Command (AFRICOM) as a new geographic combatant command responsible for the African region. It is therefore in the light of the aforesaid background that AFRICOM was established most probably to protect US economic interests and perhaps strengthen Nigeria’s maritime security capacity which in turn will guarantee the flow of West African oil to the United States. It is therefore evident from the respondents that AFRICOM is significantly an American agenda with questionable Nigerian collaboration and a largely ignorant Nigerian population on the role and scope of AFRICOM in the Gulf of Guinea.

**CONCLUSIONS**

The Gulf of Guinea sub-region has been in wide media publicity due to its large deposits of hydrocarbons, other mineral resources, fisheries and agricultural products. Interest in the sub-region is intensified by the ongoing Middle East crisis, instability in the Persian Gulf region and the U.S. invasion and occupation of Iraq. Oil from the sub-region yields higher profits, does not have numerous transit chokepoints, offers ease of shipping and lower transportation costs, is mostly exploited from offshore locations, yields higher quality oil with low sulphur content and American Petroleum Institute gravity often close to 40\textdegree, and often comes with fewer environmental risks to stakeholders. These alluring features of the Gulf of Guinea make it quite attractive and imperative for the establishment of AFRICOM by the United States.

The strategic attributes of Gulf of Guinea sub-regional oil make it an important part of western energy calculations. The area hosts stiff international competition among industrialized nations seeking new, safer, and more reliable sources of energy. Extra-regional powers currently scrambling for oil from the Gulf of Guinea sub-region, including the U.S., some European countries, China, Japan, and India are making huge investments. At the same time, shipping activities have increased tremendously.

These huge investments and increased shipping activities have boosted the revenue profile of member states while simultaneously exposing the sub-region to security risks. There is growing concern that the vast resources and potential in the Gulf
of Guinea sub-region are being undermined by multifaceted domestic, sub-regional and international threats and vulnerabilities that stem from political and socioeconomic problems including bad governance, corruption, lack of economic diversity, militant youth activities, oil pipeline destructions, the illegal bunkering of petroleum products, oil terminals and flow stations disruptions, piracy, poaching, terrorism and environmental degradation.

AFRICOM needs to key into the Gulf of Guinea Commission Strategy in order to be quite relevant to the region and Nigeria in particular. This proposed strategy is to counter the emerging security challenges in the Gulf of Guinea sub-region under a framework of strategic analysis of ends (strategic objectives), means (available maritime security resources), and ways (maritime operational concepts). These threats challenge all sub-region member states' limited capacity for effective and sustained maritime security. The sub-region has a long history of land-centric security arrangements. In assessing sub-regional naval forces based on their Order of Battle in relation to their vast maritime territories, the picture emerges of mostly relatively low capacity naval forces that can barely police their territorial waters, much less police beyond them. The inability of most of these forces to mount effective and sustained policing exposes the vulnerable sub-regional sea areas to criminal activities and exploitations.

If these issues are not appropriately addressed, these nations will continue to lose their major source of revenue to criminals, terrorists and militants, driving away genuine investors because they cannot create an investor friendly environment for the oil majors and extra-regional powers.

RECOMMENDATIONS
The recommendations of this work are based on the research findings and conclusions. Since these threats are real, member states need to overcome divisive political issues, cooperate and collaborate, and make the sub-regional maritime domain safe by collectively implementing this proposed integrated maritime security strategy. They should also cooperate and collaborate with oil majors, other stakeholders and extra-regional powers investing heavily in sub-regional oil.

In the same vein, it is obvious that most member states lack resources and manpower to deal with emerging security threats within their respective brown and territorial waters. Member states continue to confront emerging threats unilaterally rather than bilaterally or multilaterally. Because none of the sub-region states have sufficient means to achieve maritime domain security, sub-regional political leaders should make collective maritime security a central policy focus. Furthermore, political leaders should take a cue from the Indian Ocean Region leaders who recently overcame their historical mistrust enough to engage in basic collective maritime security cooperation and collaboration. By overcoming their differences, mustering enough political will, and pooling resources together, Gulf of Guinea leaders will convince extra-regional stakeholders to contribute to the implementation of this collective maritime security strategy. In the meantime, the efforts of the extra-regional powers to provide limited security, aid, training, and arms sales to deal with the myriad of security problems is highly commendable.
AFRICOM and Nigeria must encourage member states to articulate maritime defence strategies extending beyond their own territorial waters and must work to strengthen the Gulf of Guinea Countries, revealing details of its technical subcommittee action plan and integrating it with this proposal. In so doing, and in light of lessons learned from ECOMOG experience, the sub region will be better positioned to handle emerging security threats.

Furthermore, AFRICOM should strive to work cooperatively with Nigerian Defence authorities. The proposed integrated maritime collective strategy aims to make the maritime domain safe and investor friendly under the framework of ends, means, ways, and acceptable risk. The strategic objectives are 1) to prevent the maritime environment from being used by militants, criminals, terrorists, or hostile states to commit criminal acts, terror, or hostile acts against other member states, its people, economy, and property; 2) to develop member states' capabilities to deal with emerging security threats by themselves; and 3) to collaborate with extra-regional powers and oil majors to transform existing naval capabilities and improve interoperability. Attainment of these objectives is a function of the political will of the member states' governments, the strength of the Gulf of Guinea Countries, lessons drawn from ECOMOG operations, and cooperation, collaboration and commitment of oil majors and extra-regional powers.

The sources of strategic guidance are the Nigerian Navy Trident Strategic and defence-in-depth concepts. A hybrid approach to the strategic guidance is adopted, using three levels. Level one involves IA cooperation, collaboration, and integration; intelligence gathering and sharing; and strong Maritime Domain Awareness. Level two involves surveillance, early warning, anti-smuggling, anti-piracy, and anti-militant activities; the protection of oil installations; Search and Rescue; independent and joint exercises and operations; and policing up to 100 nautical miles seaward. Level three involves coordinated efforts to defend the entire sub-region's maritime interests and protect sea lanes of communication, along with maintenance of naval presence within and beyond the Exclusive Economic Zone.

Levels one and two is mandatory to all nations of the sub-region; level three would be left to the better resourced member states, oil majors and extra-regional powers to implement.

AFRICOM should also co-operate with the Gulf Co-operation Council to enforce requirements for each level. In each level, maritime forces would be required to pre-empt, detect, deter, and respond rapidly against all criminal activities through visible presence and surveillance operations. They would be mandated to conduct vessel queries and compliant boarding. Collective operations will build solid cooperation, capacity, and trust among member states.

Finally, AFRICOM and Nigerian defence authorities should strive to embark on a comprehensive enlightenment programme to adequately educate Nigerians on the role of AFRICOM to elicit adequate support for AFRICOM. This way, the true intentions of AFRICOM will be known and appreciated to build confidence in the scheme. More so grey areas will be properly addressed for effectiveness and transparency.
NOTES

2. Ibid
10. Ibid
13. Ibid
22. ibid
37. Ibid


44. Ibid
