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.

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**Editor-in-Chief**  
*Mustang Journal of Business and Ethics*  
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<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Editor’s Notes</td>
<td>2</td>
</tr>
<tr>
<td>Advisory Editors</td>
<td>3-4</td>
</tr>
<tr>
<td>Table of Contents</td>
<td>5</td>
</tr>
<tr>
<td>Announcements - Mustang Academic Conference Las Vegas</td>
<td>6</td>
</tr>
<tr>
<td>Call for Papers – Mustang Journals</td>
<td>7-11</td>
</tr>
<tr>
<td>Best Paper Award Winners</td>
<td>12-13</td>
</tr>
<tr>
<td>Faye Braithwaite, Malcolm Cort &amp; Theodore Brown</td>
<td>15</td>
</tr>
<tr>
<td>The Effect of Machiavellian Thinking on Willingness to Use Ethically Questionable Business Tactics among University Students</td>
<td>31</td>
</tr>
<tr>
<td>Thomas Krueger</td>
<td>31</td>
</tr>
<tr>
<td>Paying for Acceptance? A Study of Academic Management Journals</td>
<td>48</td>
</tr>
<tr>
<td>Nicholas Jewczyn</td>
<td>48</td>
</tr>
<tr>
<td>A Literature Review of Economic Portfolio Theory from 1952 to 1986</td>
<td>68</td>
</tr>
<tr>
<td>J. Barry Lin &amp; Jane Mooney</td>
<td>68</td>
</tr>
<tr>
<td>Modeling CSR Project Costs and Benefits Using the Concept of Socially-Responsible NPV</td>
<td>78</td>
</tr>
<tr>
<td>Walton Padelford</td>
<td>78</td>
</tr>
<tr>
<td>Adam Smith and Ludwig Von Mises on the Greater Benefits of Individual Market Activity</td>
<td>84</td>
</tr>
<tr>
<td>Ayodele Omojuwa</td>
<td>84</td>
</tr>
<tr>
<td>Drawing on the Flat Surface of the Yoruba Traditional Economy: Religious Ethical Point of View</td>
<td>94</td>
</tr>
</tbody>
</table>
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Paper: Are Routine Retiring CEOs More Closely Monitored in their Last Year?
THE EFFECT OF MACHIAVELLIAN THINKING ON WILLINGNESS TO USE ETHICALLY QUESTIONABLE BUSINESS TACTICS AMONG UNIVERSITY STUDENTS

Faye Brathwaite*
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ABSTRACT

This study was motivated by the notion that employees' values affect their workplace performance and ethical decision making. The data were taken from a convenience sample of N = 289 students at three universities in the Southern United States. The instrument contained demographic variables, the Mach IV (Machiavellian thinking) scale, and vignettes eliciting responses to ethically questionable business practices. Hypotheses were: H1 - students who scored high on Machiavellian thinking would be more likely to engage in questionable business tactics and H2 - Business students would be more likely to engage in questionable business tactics than students from other disciplines. Regression analyses revealed that Machiavellian thinking was positively related to unethical business behaviors, and that Business students were less likely to be unethical than others. We conclude that Machiavellian thinking, strongly influences unethical business behavior in general, but is not necessarily associated with unethical decision making among Business students.

INTRODUCTION

Business professions want to attract knowledgeable and trustworthy professionals. Employers want to hire employees of high moral standing and who exhibit good ethical decision making skills. Previous studies have shown that accounting students exhibit lower levels of ethical reasoning compared to other undergraduate business students (Mauz, 1975; Blank, 1986; Armstrong, 1987; Richmond 2001).

This study therefore investigates the extent to which Machiavellian thinking and being a student in business, influence willingness to use duplicitous tactics to succeed, among university students. McLaughlin (1970) suggests that individuals with a higher score on the Machiavellian scale tend to be more deceitful, (Long 1976) tend to be less moral, more indifferent and more
manipulative. Richmond (2001) found that accounting students agreeing more with Machiavellian statements were significantly more likely to agree with unethical actions. Despite all the negative implications about Machiavellianism, Gemmil and Heisler (1972) found that more individuals with high Machiavellianism were chosen as leaders since they were better at manipulating others and skillful in finding an environment that was a good fit for their values.

Employees’ values affect their performance in the workplace. Therefore it is important for managers who are hiring to know what to expect from the next generation. It also helps managers match the right person with the right task (Chung C. Liu, 2008). This study therefore investigates the extent to which Machiavellian thinking and being a student earning a Business influences willing to use duplicitous tactics to succeed.

**LITERATURE**

Definition of Machiavellian- relating to the alleged political principles of Niccolò Machiavelli (1469-1527), Florentine statesman and political philosopher; cunning, amoral, and opportunist. (Collins English Dictionary).

Machiavellianism is, according to the Oxford English Dictionary, "the employment of cunning and duplicity in statecraft or in general conduct." Basically, it's to deceive and manipulate others for personal gain. This is not normal but there are many that feel this way. Aziz explains that a Machiavellian person is someone who "views and manipulates others" for "personal gain, often against the other's self-interest". He says this "modern concept of Machiavellianism was derived from the ideas of [Niccolò] Machiavelli as published in [his book] The Prince in 1532", and that interest in it as a personality trait blossomed in the 1970s.

Machiavellianism as described in (Christie and Geis, 1970) is “a process by which the manipulator gets more of some kind of reward than he would have gotten without manipulating, while someone else gets less.” An individual who has immoral reputation for dealing with others to accomplish his/her objectives, and who manipulates others for his/her own purposes (Tandon et al., 2011). Machiavellian thinking according to Tandon et al., occurs when individuals employ aggressive, manipulative, exploitative and devious moves to achieve personal or organizational objectives (Calhoon, 1969; Mudrack, 1993) examined ten kinds of workplace unethical behavior and found them to be of a dubious ethical nature clearly linked with Machiavellianism. Nelson and Gilbertson (1991) in their research found that Machiavellians generally regard workplace behavior of an unethical nature as acceptable.

The Mach IV Scale used by (Christie and Geis, 1970) was later used by Richmond (2001) to measure Machiavellian-type behavior. A few of the Machiavellian ethical principles are:

- “There is a sharp contrast between reality and ideas, what is takes precedence over what ought to be.”
- Ethics may guide what you do in private but expediency rules in public life.
- There are no absolutes in professional life….only conditional imperatives to be applied by situation.
- Success determines right or wrong.
- A virtuous man must be prepared to be non-virtuous when required. (Richmond 2001).

Richmond (2001) results indicated that Machiavellian behavior is not significantly correlated to ethical decision making when the participant evaluated the third party’s ethical choice but was significantly correlated when the participant views himself as the person faced with the dilemma.
O’Boyle et al. (2012) states that the Machiavellian personality has three sets of interrelated values:

- An avowed belief in the effectiveness of manipulative tactics.
- A cynical view of human nature.
- A moral outlook that puts expediency above principle.

Review of the literature confirm that Machiavellians endorse a negative view of people and that they are more likely to make ethically suspect choices (Fehr, Samson and Paulhus, 1992; Jones and Paulhus, 2009). They were less constrained to abide by normal social exchange, but more in mistreatment and betrayal of co-workers (Kish-Gephart, Harrison & Trevino, 2010). They think of themselves as skilful manipulators of others, but their self conception of emotional intelligence does not match reality (Dahling, Witaker, and Levi, 2009).

**Machiavellianism and Business Majors**

Questionable ethical behavior and decision-making practices among business schools’ undergraduate and graduate students as business practitioners (Ho, 2012; Woodbine, Fan and Scully, 2012) and corporate leaders (Bacon, 2011) has suggested a significant need for expanded research in the business disciplines pertaining to business ethics and management (Weaver and Agle, 2002). The education process has been stated in research studies to have a significant influence on the moral development of individuals as supported by academic courses that emphasize moral conduct (Kohlberg, 1981; Conroy and Emerson, 2004; Leonidou, Kvasova, Leonidou and Chari, 2012). Studies conducted by O’Leary and Radich (2001) found that students who were afraid of getting caught doing dishonest things have a significantly lower intentions and willingness to act unethically.

Today’s college and university business students are often referenced by business and corporate leaders as tomorrow’s business leaders. With that being the case, it is critical that they are provided ethical modeling from their business professors that would enhance their career development, ethical perceptions and thinking as they enter into the business world as practitioners (Karkoulian, Samhat, Messarра, 2009; Conroy and Emerson, 2004; Tenbrunsel, 1998). Studies have also shown that Machiavellian personalities and devious tactics may be found in all professions as individuals seek to achieve personal and organizational objectives; especially among those who interact and deal with people on a regular basis which is prevalent in most businesses (Zhang and Gowan, 2012; Tang and Chen, 2011; Jackall, 1988; Schwartz, 1990; and Schrijvers, 2004).

Research has fostered various results as to “why” business students tend to engage in Machiavellianism. Prior research by Hagarty & Sims (1978) identified Machiavellianism as a significant personality variable in graduate business students’ ethics studies. They also found that individuals who were identified as having Machiavellian traits tended to behave less ethically than other participants in the study. Research conducted by Richmond (2001) involving the examination of how ethical reasoning, moral behavior and Machiavellian behavior measures relate to business accounting students’ evaluation of questionable ethical dilemmas discovered that usage of the Mach IV scale may be a useful tool in analyzing and explaining differences in moral behavior and ethical reasoning for business students.
A significant study conducted by Mudrack, Bloodgood and Turnley (2011) involving a sample of 263 senior-level undergraduate business students on individual competitiveness suggests that hypercompetitive was associated with poor ethics, and hypercompetitive people tended to be highly Machiavellian in their conduct and thinking. Ryska (2002) suggest that competitive difference in individuals influences ethical behavior in almost all segments of the person’s life; inclusive of their business practices. A study conducted by Mumford, Murphy, Connelly, Hill, Antes and Brown (2007) associates competitive pressures among students, inclusive of business majors, as contributing to unethical decision-making responses when faced with ethical dilemmas.

**Machiavellianism and Gender**

Christie and Geis (1970) describe Machiavellianism as a person who has an immoral reputation for dealing with others and manipulates them to achieve his/her own objectives. Trevino and Youngblood (1990) found in their study that Machiavellianism is significantly related to ethical decision making. Richmond (2001) indicates that Machiavellian behavior is significantly correlated with ethical decision making when the participant views himself as the person faced with the dilemma.

Previous studies suggest that there is a common correlation between Machiavellianism, gender, age, ethnicity and birth order (Ricks and Fraedrich 1999), while others found no significant differences. Stedham et al. (2007) suggest that research on gender and ethical decision making is somewhat inconsistent (e.g. Kidwell et al. 1987, Akaah 1989, Sikula & Costa 1994, Schoderbek & Despande 1996, Singhapakdi et al. 1999, Izraeli & Jaffe 2000). According to Richmond (2001), prior researchers have reported significant gender differences in ethical studies (Gilliam (1977, 1982), Beltrami et al. 1984; Miesing and Preble 1985; Jones and Gautchi 1988; Ameen et al. 1996. Richmond found that there were significant differences between male and female, males were more justice oriented and more likely to engage in unethical activities and in one vignette females appearing to be significantly more ethical than males.

Stedham et al. (2007) in their study found that intention to behave in an unethical way differs by gender and that the ethical perspectives employed may affect the ethical judgment made. Silver and Valentine (2001) concluded that overall, women tended to be more ethically oriented than men, and found gender differences to be evident across all components of moral intensity. Franke et al. (1997) concluded that gender differences in ethical perceptions decline with experience but only for relative differences, not absolute differences. Their results also indicated that differences were smallest for collusion, conflict of interest and stealing, but greatest for rule breaking and insider information.

On the other hand, some studies indicate no significant difference between men and women ethical decision making. Hegarty and Sims, 1978; Dubinsky and Levy, 1985; Browning and Zabriskie, 1983; Singhapakdi and Vitell, 1990; Sikula and Costa, 1994; Serwinek, 1992; or finding males to be less ethically sensitive compared to females (Clark et al., 1996; Cohen et al., 1998; Thorne, 1999; Sweeny et al. 2009). Sweeny et al. (2009) support previous findings of no gender differences in ethical decision making.
METHODS

The data for this study were collected in three universities in the Southern states of Alabama and Tennessee. The sample was taken on a convenience basis and consisted of \( N = 289 \) university students of various business majors across all four levels of undergraduate standing. Most of the data were collected from upper-level Business classes because one of the objectives of this study is to examine the perspective of Business students as compared to their counterparts in other disciplines. After receiving IRB approval from the universities, the researchers approached professors and requested that they ask their students to complete the questionnaire. Although these classes were in departments of Business, they contained students who were Business minors and other students who had chosen these courses as electives. Students who did not wish to complete the questionnaire were allowed to leave the room. Those who agreed were requested to adopt an exam mode in order to allow maximum privacy for everyone. The professors then collected the completed questionnaires and handed them to the researchers who proceeded to code the responses into the statistical program for analysis.

The instrument consisted of 48 questions with three sections. These were demographic questions, questions measuring the Mach IV (Machiavellian thinking) scale, and vignettes eliciting responses to situations presenting ethically questionable business practices. Dependent variables: The dependent variables in this study are seven of eight vignettes from the work of Burton et al. (1991), Davis and Welton (1991), and Cohen et al. (1996). Vignettes are a common methodology used in business and other social science research to enable the respondents to place themselves in the shoes of the principal decision-maker in the vignette story. They are used here to elicit from the respondents a decision about whether or not they would have carried out an ethically questionable behavior if they were in the actor’s position.

The vignettes used in this study elicit decisions about the following actions:

1. Inflating sales to ensure a personal bonus.
2. Extending questionable loans.
3. Charging the company for small personal expenses.
4. Making a bad debts adjustment to increase reported income.
5. Promoting and selling a questionable (insufficiently tested) product.
6. Authorizing a questionable payment (bribe).
7. Loaning proprietary software to a friend for copying.

The responses about carrying out the proposed actions are seven-point Likert scales from 1=strongly disagree, to 7=strongly agree. Higher values therefore signify strong agreement in carrying out the questionable business behavior.

Independent variables

Four independent variables are used. These are: Machiavellian thinking/willingness to use manipulative or duplicitous tactics to succeed: This measure is the independent variable of
main interest, and consists of nine items from scale measuring specific aspects of Machiavellianism (the Mach IV scale) by Christie and Geis (1970). Examples of items are:

1. The best way to handle people is to tell them what they want to hear.
2. It is wise to flatter important people.
3. It is possible to be good in all respects.
4. There is no excuse for lying to someone else.

Items were coded to be conceptually consistent, so that higher scores represent a high level of Machiavellian thinking. Items are measured with seven-point Likert scales from 1=strongly disagree to 7=strongly agree.

Gender: We include this variable following the finding of Ricks and Fraedrich (1999) that there is a strong association between gender and Machiavellian thinking. Gender is dummy coded so that male = 1, and female = 0.

Religiousness is measured by a single-item measure which asks “Which of the following categories would you use to describe yourself?” Responses range from 1=extremely religious to 7=extremely non-religious.

Business major is a dummy coded variable which designates business majors as 1 and all other majors as 0.

Hypotheses and Methods of Analysis

We first give a uni-variate sample description using important demographic variables. Next we use each of the seven ethically questionable actions as dependent variables. Four independent variables are regressed on each of the dependent variables using OLS regression analyses. The independent variable of main interest is willingness to use manipulative tactics to get succeed in business ventures. The other predictors are used as co-variates following the suggestion of past literature. This investigation therefore pursues two hypotheses.

H₁: Students who score high on Machiavellian thinking will be more likely to engage in questionable business tactics.

H₂: Business students will be more likely to engage in questionable business tactics than their counterparts from other disciplines.

RESULTS

As shown in Table 1, there are more females in the sample (58.1%) which is not unlike the gender distribution of most college and university classes. However, the class standing reflects the over-sampling of seniors as mentioned above. The sample contains (40.8% of seniors and 28.7% juniors). The distribution of students across academic majors is also reflective of the data collection method, as mostly Business classes were sampled. Business majors are 56.9% of the sample population. The mean age of the sample is 23.8 years.
Results of regression analyses (Table 2) show that among seven unethical behaviors Machiavellian thinking (scoring high on the Mach IV scale- Table 3) is strongly related to the performance of unethical business behaviors. In all seven of the behaviors examined, students who score high on Machiavellian thinking are significantly more likely to perform unethical business behaviors than those score lower. Therefore, hypothesis one is supported.

For hypothesis two, Business students are less likely, in the case of all seven behaviors, to be unethical, than their counterparts from other disciplines. Hypothesis two is therefore rejected. The weight of evidence indicates also that gender makes no difference in whether or not students would behave unethically. On only one of the seven behaviors, charging the company for personal gifts, are males more likely (p < .01) to behave unethically.

Religiousness is not related to unethical behavior among this group of students.

**DISCUSSION**

Machiavellian thinking is characterized by Christie and Geis (1970) as an inclination towards adopting manipulative tactics in order to succeed. Most of the past literature examined in this paper has concurred with this view, and we are also in agreement with this characterization. We therefore interpret our findings from this perspective and examine them against a backdrop of Machiavellian thinking which includes the ideas that for example: 1) there is a sharp contrast between reality and ideas, “what is” takes precedence over “what ought to be.” 2). Ethics may guide the private sphere but expediency reigns in public life. Therefore, the advice is: “Be a good man at home but try to be practical and expedient on the job!” 3) Success determines right or wrong. Virtue is equivalent to power and effectiveness in reaching goals. If successful, a businessman is “good”, if unsuccessful, “bad!” (Machiavelli, 1979).

Viewed through this prism, we are not surprised at our finding that those students who score high on the Mach IV scale or are more saturated with Machiavellian thinking are significantly more likely to indulge in questionable business dealings than those who score low on the scale. Such perspectives seem likely to incline the average person to try to cut corners and take those routes of less resistance towards the goal of financial success in business. Machiavellian thinking would dictate that the ends justify the means because “if successful a businessman is good, and if unsuccessful, bad”.

We interpret the finding for hypothesis two against the backdrop of the common belief that Machiavellian behaviors are expected of persons in business or more specifically, business professionals (McLean and Jones, 1992). The results of this investigation has led us to reject hypothesis two, which stated that Business students would be more likely to engage in questionable practices. The Business students in this study were less likely to be unethical than their counterparts from other disciplines. This finding can be an indication of hope for a future business environment that is occupied by business leaders that are less willing to carry out questionable business practices. It might also be a matter of conjecture if these students are indeed genuine in their responses, or are giving responses which are politically correct. What is likely is that these students may have already had courses in Business Ethics, and therefore know about the desirable responses to such scenarios. However, because the Mach IV scale is of proven reliability we accept these results as authentic, and feel that this augurs well for the future.
of ethical dealings in business.

LIMITATIONS

The limitations of this study reside primarily in our sampling methodology. The sampling used was a convenience sample that was taken from three universities located in the southern regions of the United States. Because the sample we used was not randomized, some students may have felt compelled to participate as members of a particular class. These limitations may also restrict the external validity of the findings. Due to the usage of a convenience sample, the application, results and generalizations of our study should be applied to other samples of business students with caution.

CONCLUSION

The impact of Machiavellian thinking and its effect on ethical practices among business professions is very profound in the literature. It was clearly identified that employing business professionals want to attract individuals who are knowledgeable and trustworthy professionals to work in their organizations. They also want to hire people of high moral standing who exhibits good ethical decision making skills and will not yield to the pressure of engaging in unethical practices. Employees' values affect their performance in the workplace, therefore it is critical that employers communicate their expectations and know what to expect from potential individuals before they are hired.

Studies also revealed that questionable ethical behavior and decision-making practices business schools students, business practitioners, and corporate leaders suggest a critical need to expand research in business disciplines pertaining to ethics and management (Weaver and Agle, 2002; Bacon, 2011; Ho, 2012; Woodbine, Fan and Scully, 2012). Business professors must also provide ethical modeling for business students as they matriculate through their academic institutions and business programs (Conroy and Tenbrunsel, 1998; Emerson, 2004; Karkoulian, Samhat, Messarra, 2009).

This research study examined the notion that employees values not only affect their performance on the job, but also impact their ability to make ethical decisions. The data were taken from a convenience sample of (N=289) students at three universities in the southern United States. The instrument contained demographic variables, the Mach IV (Machiavellian thinking) scale, and vignettes eliciting responses to ethically questionable business practices. Results of regression analyses show that among seven unethical behaviors Machiavellian thinking (scoring high on the Mach IV scale) is strongly related to the performance of unethical business behaviors. In all seven of the behaviors, students who scored high on Machiavellian thinking are significantly more likely to perform unethical business behaviors than those who score lower.

We support hypothesis, (H1) that students who scored high on Machiavellian thinking would be more likely to engage in questionable business tactics. However, the null hypothesis (H2) was rejected that business students would be more likely to engage in questionable
business tactics than students from other disciplines. Therefore, we conclude that Machiavellian thinking, an inclination towards adopting manipulative tactics to succeed, strongly influences unethical business behavior in general, but not necessarily associated with unethical decision making among business students.

REFERENCES


Tandon et al., 2011. “What Discriminates the Prospective Manager’s Attitude Towards Corporate Social Responsibility? An Insight from psychological Variables.” *IUP Journal of Corporate Governance*, 3: 52-70


# Appendix - Tables

Table 1. Description of Sample

<table>
<thead>
<tr>
<th>Demographic Characteristic</th>
<th>% of sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>41.9</td>
</tr>
<tr>
<td>Female</td>
<td>58.1</td>
</tr>
<tr>
<td>Class standing</td>
<td></td>
</tr>
<tr>
<td>Freshman</td>
<td>11.1</td>
</tr>
<tr>
<td>Sophomore</td>
<td>15.2</td>
</tr>
<tr>
<td>Junior</td>
<td>28.7</td>
</tr>
<tr>
<td>Senior</td>
<td>40.8</td>
</tr>
<tr>
<td>Other</td>
<td>4.2</td>
</tr>
<tr>
<td>Race/Ethnicity</td>
<td></td>
</tr>
<tr>
<td>Caucasian</td>
<td>47.7</td>
</tr>
<tr>
<td>African American</td>
<td>39.0</td>
</tr>
<tr>
<td>Others</td>
<td>13.3</td>
</tr>
<tr>
<td>Academic majors</td>
<td></td>
</tr>
<tr>
<td>Natural Science</td>
<td>13.9</td>
</tr>
<tr>
<td>Social Science</td>
<td>11.5</td>
</tr>
<tr>
<td>Humanities</td>
<td>6.3</td>
</tr>
<tr>
<td>Business &amp; Accounting</td>
<td>56.9</td>
</tr>
<tr>
<td>Other</td>
<td>11.4</td>
</tr>
<tr>
<td>Continuous Variable</td>
<td>Mean</td>
</tr>
<tr>
<td>Age</td>
<td>23.8</td>
</tr>
</tbody>
</table>
Table 2. OLS regression showing predictors of willingness to perform various unethical behaviors.

<table>
<thead>
<tr>
<th></th>
<th>Inflate Sales $\beta$</th>
<th>Extend Questionable loan $\beta$</th>
<th>Charge for personal gifts $\beta$</th>
<th>Inflate income $\beta$</th>
<th>Promote untested product $\beta$</th>
<th>Authorize bribe $\beta$</th>
<th>Lend software for copying $\beta$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender (male=1)</td>
<td>.105</td>
<td>.066</td>
<td>.154**</td>
<td>.040</td>
<td>.034</td>
<td>.071</td>
<td>.070</td>
</tr>
<tr>
<td>Business &amp; Acct. major</td>
<td>-.325**</td>
<td>-.308**</td>
<td>-.287**</td>
<td>-.359**</td>
<td>-.209**</td>
<td>-.148*</td>
<td>-.237**</td>
</tr>
<tr>
<td>Manipulative tactics</td>
<td>.231**</td>
<td>.171**</td>
<td>.123*</td>
<td>.233**</td>
<td>.225**</td>
<td>.325**</td>
<td>.207**</td>
</tr>
<tr>
<td>Religiousness</td>
<td>.046</td>
<td>.016</td>
<td>.053</td>
<td>.049</td>
<td>.073</td>
<td>.016</td>
<td>.058</td>
</tr>
<tr>
<td>Adjusted R2</td>
<td>.181</td>
<td>.127</td>
<td>.121</td>
<td>.187</td>
<td>.101</td>
<td>.135</td>
<td>.109</td>
</tr>
</tbody>
</table>

Note: * $p < .05$, ** $p < .01$.

Table 3: Mach 1V Scale

**Section C:** Circle the letter of the category of your choice. The table below each statement applies to the statement above it. (Richmond 2001).

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>The way to handle people is to tell them what they want to hear.</td>
<td>Strongly disagree</td>
<td>Somewhat disagree</td>
<td>Slightly disagree</td>
<td>No opinion</td>
<td>Slightly agree</td>
<td>Somewhat agree</td>
</tr>
<tr>
<td></td>
<td>1</td>
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<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>30</td>
<td>When you ask someone to do something for you, it is best to give the real reasons for wanting it rather than giving reasons, which might carry more weight.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>31</td>
<td>Anyone who completely trusts anyone else is asking for trouble.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>32</td>
<td>It is hard to get ahead without cutting corners here and there.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>33</td>
<td>Honesty is the belt policy in all cases</td>
<td></td>
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<tr>
<td>34</td>
<td>It is safest to assume that all people have a vicious streak and it will come out when they are given a chance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>35</td>
<td>Never tell anyone the real reason you did something unless it is useful to do so.</td>
<td></td>
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<tr>
<td>36</td>
<td>One should take action only when sure it is morally right.</td>
<td></td>
<td></td>
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<tr>
<td>37</td>
<td>It is wise to flatter important people.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>38</td>
<td>All in all it is better to be humble and honest than important and dishonest.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>39</td>
<td>Barnum was wrong when he said there’s a sucker born every minute.</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>40</td>
<td>People suffering from incurable diseases should have the choice of being put painlessly to death.</td>
<td></td>
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<td></td>
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<tr>
<td>41</td>
<td>It is possible to be good in all respects.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>42</td>
<td>Most people are basically good and kind.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>43</td>
<td>There is no excuse for lying to someone else.</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>44</td>
<td>Most people forget more easily the death of their father than the loss of their property.</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>45</td>
<td>Most people who get ahead in the world lead clean, normal lives.</td>
<td></td>
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<tr>
<td>46</td>
<td>Generally speaking. People won’t work hard unless they’re forced to do so.</td>
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</table>
PAYING FOR ACCEPTANCE? A STUDY OF ACADEMIC MANAGEMENT JOURNALS

Thomas M. Krueger
Texas A&M – Kingsville

ABSTRACT

Research productivity is among the most critical metrics used for faculty and college assessment. Productivity, in turn, is measured in terms of the number of articles published and their quality. While quantity is fairly easy to determine, research quality is much harder to quantify. Without a clear measure of research quality, the journal in which an article appears and specifically its acceptance rate are frequently used as surrogates for a direct quality measure. This study assesses the current scholarship process in the management discipline, where there are currently over 1700 academic journals publishing management-related articles. An examination is made of the extent to which journal acceptance rates vary systematically with the review process, number of reviewers, and country of origin. Furthermore, it investigates the how the presence of a publication fee impacts the influence of these factors on acceptance rates, as well as the acceptance rate itself. Research results indicate that the existence of a publication fee has a greater impact on acceptance rates than the journal review process or number of reviewers. Significant differences in journal acceptance rates across nations are accentuated by publications fees.

INTRODUCTION

As Director of Research at a mid-level research institution (some call them “at-schools” instead of “of-schools”), I am obligated to assess the quality of research produced by our business faculty. Much of the research is outside my area of advanced study. In the process of arriving at a subjective assessment of faculty research, I seek out the opinions of faculty more accustomed to conducting research in a given area. In addition, measures of journal quality including impact factors and acceptance rates are obtained.

Two trends are very evident in academic publishing. One, the number of journals in a specific discipline continues to explode. Two, more journals have begun charging publication fees, and those that have been charging publication fees have viewed the new fees charged by others as justification to increase their charges. In 2012, Cabell’s began publishing information on firm publication fees. Information published by Cabell’s is submitted by editors, which can impact the timing and accuracy of Cabell Publication dictionaries. For instance, as is shown below, a year after editors were asked to provide publication fee information, only about sixty-five percent of management journal editors have provided fee information to Cabell Publishing.

Publication fees have the potential for two diametric impacts on journal quality. A positive influence is the funding supporting editors who put forth additional effort to improve journal quality. For example, editors may enhance the journal’s online presence. However, there is the perverse influence of increasing the number of articles accepted regardless of quality to generate funds. Balancing journal quality and finances is one of the most difficult challenges facing editors today. As associate editor of a leading journal in my area, I can attest to the ongoing discussions our editorial board has had regarding both the publication fee schedule and acceptance rate.

There has recently been a surge in the number of articles focused on journal acceptance rates. There articles have focused on journals dedicated to the accounting, finance, information systems, and market disciplines within business. Given that there are more management-oriented academic journals, it seems odd that management journals have been left out of the mix. This report rectifies this void in the literature.
Of course, there have been a multitude of articles on journal quality. In this article, I am proposing to follow the line of reasoning put forth by Claudia Harris (2008), who notes the wide agreement regarding the top journals in the field of management (see, for instance, Trieschmann, Dennis, Northcraft, and Niemi (2000) and Swanton (2004)). However, she notes that these listings represent only a small fraction of the 1700+ journals in management. It is in these remaining journals that a vast majority of management professors make their mark. Consequently, it is necessary to differentiate these journals in some way. To shed some light on these journals, this research contrasts the acceptance rates of journals across the review process, number of reviewers, geographic location of the publisher, and whether or not a publication fee exists.

In the “publish or perish” environment found at many academic institutions, ascertaining the impact of various scholarship-related variables on journal acceptance rates is an important skill. Time value-maximizing professors have to predict assessment and reward procedures. To the extent that publication is a key driver of the academic reward system, researchers have to learn how to effectively participate in the scholarship environment. This study helps the reader understand the scholarship environment in which they are trying to maximize the value of their efforts. Specifically, this investigation answers a variety of empirical questions concerning the current academic research environment observed by the management scholar. Readers will be more thoroughly aware of the answer to the following five primary questions. This research will also provide insight regarding between one and four secondary questions, which are denoted with a letter following the number of each primary question.

1. How many academic journals publish management-related articles?

   1a. What percentage of management journals require payment of a publication fee prior to publication?

2. What is the typical acceptance rate of management journals?

   2a. Is the acceptance rate different for management journals requiring payment of a publication fee?

3. What percentage of management journals follow a blind review process, editorial review process, peer review process, or combination of these review processes?

   3a. Does one review process have a greater likelihood of accepting a journal article?

   3b. Does any review process have a greater likelihood of requiring payment of a publication fee?

   3c. Is the presence of a publication fee correlated with any observed variation in acceptance rates across review processes?

4. What is the typical number of reviewers critiquing management journals?

   4a. Does one reviewer number have a greater tendency of accepting a journal article?

   4b. Is there a positive relationship between the number of reviewers (and supposedly editor effort) and the likelihood of charging a publication fee?

   4c. Is the presence of a publication fee correlated with any observed variation in acceptance rates across the number of reviewers?

5. To what extent are management journals spread across the globe?

   5a. Is there a concentration of management journals in any one or two nations?

   5b. Is there a nation-based variation in journal acceptance rates?

   5c. Is there a nation-based variation in management journal publication fees?
5d. Is the presence of a publication fee correlated with any nation-based variation in acceptance rates?

Answers to all these questions will be revealed in the findings section of this report. Before getting to the answers, relevant research is reviewed. Answers to the first set of research questions are part of the research method section’s description of the sample. Other research questions are answered in the process of describing the findings. At the end of the report, answers to each of these questions are given in a succinct format.

LITERATURE REVIEW

Research and Accreditation

Virtually all colleges seek accreditation as a way to demonstrate academic quality and thereby attract students and potential employers of their students. Students expect accreditation to provide them with a competitive advantage in the job market, according to Bristow et al. (2007). Across the various accreditations available to a college of business, AACSB-International (The Association to Advance Collegiate Schools of Business) accreditation is the most important. AACSB-International considers scholarly output as a measure of intellectual curiosity and academic rigor across the schools, which may vary to the extent they promote research relative to teaching. While AACSB does not identify a minimal acceptance rates (AACSB, 2013), for a journal to count, some institutions have developed a list of “approved” journals in which research must appear if the author is to receive any “publishing credit” (Polonsky, Jones, and Kearsley, 1999).

Research and Academic Advancement

The all-encompassing nature of research at a school of higher education is effectively captured by Shorter, when he writes:

“Judgments concerning faculty output are used at many levels in a business school. Assistant professor retention, promotion, and tenure decisions are based [at least in part] on research output. Senior faculty competition for university-wide funding considers research output. Meanwhile, universities compare themselves with others on the basis of research productivity.” (Shorter, 2013, p. 87)

At the university level, Schibrowsky, Peltier, and Boyt (2002) show that the quality of research output generally determines the academic status of an academic institution. The resulting “publish or perish” environment in which researchers operate has generated a multitude of academic periodicals in all disciplines. The existence of many management journals however does not guarantee publication. (In fact, if the growth in the number of journals is less than the growth rate in the number of management faculty, the ability to publish will be reduced. This issue is left for future research.) As researchers write multiple articles, they gain an appreciation regarding the relative value of a given investigation. To the extent that they are studying a novel topic, using a unique set of information, applying appropriate statistics, and (perhaps most importantly) obtaining significant results, the value of a research report rises. The objective is to send one’s research to the editor of a prestigious journal in which the research has a reasonable chance of being published. Sending outstanding research to a lesser journal would be a waste of personal resources. Shorter, Krueger, and Chatelain-Jardon(2012) assert that it is consequently necessary to understand the scholarly environment to properly target academic journals.

Research requirements are not new (e.g., Coe & Weinstock , 1984; Moss, Zhang & Barth, 2007). Neither is the observation that the importance of accreditation has resulted in an increase in research expectations. Taylor and Stanton(2009) studied the attitudes of AACSB-accredited business school faculty towards scholarly research and teaching. Typical faculty members believe that research supports teaching, though more time goes into the latter. The normal faculty member believes that the number of acceptances is more important than whether they advance knowledge in one’s field (Taylor and Stanton, 2009), leading Shorter (2013) to conclude that the quality
and quantity of scholarly publications in one’s portfolio has become an increasingly important determinant in retention and tenure decisions in information systems department. In monetary terms, Hult, Neese and Bashaw (1997) report that while base compensation rises roughly with faulty rank in the marketing discipline, administrators use journal quality as a tool to make promotion and tenure decisions. Furthermore, research support can add up to $10,000 to a faculty member’s annual compensation. (Aiken, Ghosh, and Vanjani, 2007).

Measuring Research Quality using Perceived Journal Quality

Business colleges across the globe require faculty to publish quality research according to Krueger, Shorter and Huff (2012), necessitating a worldwide discussion of what constitutes high quality research. Given research’s global relevance, it is not surprising that a substantial literature exists regarding what represents quality research. The relationship between journal and article quality runs both ways. While article quality is often tied to the journal in which it is published, Schibrowsky, Peltier, and Boyt (2002) report that a journal’s quality is determined by the quality of research appearing therein. Hence, editors have to be constantly seeking manuscripts that are better than that typically found in their journal.

Hawes and Keillor (2002) describe different methods of journal rankings over the 1980 to 2001 period. Even with an ordinal ranking of journals, Polansky and Whitelaw (2006) mention situations wherein only the top four journals receive the same quality ranking and others a much lesser ranking. Polansky and Whitelaw go on to report that a difference exists between journal ranking criteria used by faculty and that which they perceive is utilized by their institution.

Journal review process, acceptance rate, number of times an article is cited, and journals sponsorship are just a few of the metrics that can be used to measure journal quality. Double-blind reviews, wherein the identity of both the author and reviewer are unknown to the other is typically perceived to provide greater quality. In a comparison of the single-blind and double-blind review process, Snodgrass (2007) found that when a double-blind review process was used acceptance rates were lower and referees turned in more critical reviews.

Acceptance rates are a readily available source of information regarding journal quality. The percentage of submissions to a journal that end up being published constitutes its acceptance rate. Typically, the lower the acceptance rate the higher the implied quality of a journal. However, arguably the top journal in some disciplines may have a higher acceptance rate due the perceived challenge of being published in a top journal (Carter, 2002). In such cases, the number of submitted manuscripts is reduced and the acceptance rate rises.

Looking at this issue from another standpoint, Tahai and Meyer (1999) distinguish two broad approaches to ranking journals. One is stated preference, or peer review, while the other is revealed preference. In a stated preference environment scholars rank journals based upon their own supposed expert judgment. As a result there are many journal rankings in existence, and metrics that provide a range of rankings such as Harzing’s Quality Journal List and Google Scholar’s h-index (Harzing and Wal, 2008). Mingers and Harzing (2007) find a fairly high correlation between journal rankings based on stated and revealed preference. However, Tahai and Meyer (1999) point out that preference normally changes very slowly.

Arguments against impact factors, which is a function of the number of times an article is mentioned in subsequent research, go back for decades. In the 1990s, Seglen (1997) argues against the use of impact factors for evaluating research. Since the beginning there has been concern about whether the citation index is dictating research (i.e., Gisvold, 1999 and McGarty, 2000). Today, many journals list both acceptance rates and impact factors. Smith (2013) also argues against impact factors, describing a time when he told the editor that he “felt there were numerous instances where the authors were selective in their choice of references, favoring their own works over those of others.” Smith warns that “the authors and editors chose to ignore my critique and suggestions…..and published the article with the original wording and citation” (Smith, 2013, p. 3).
Additional Research Regarding the Review Process

Beyond knowing the acceptance rate, researchers must also be cognizant of how their paper lines up with the mission of a journal. Excellent research reported in a thorough, interesting fashion may still be rejected if the research is not in line with the journal’s mission (Schultz, 2010). Beyer (1978, page 68) views editors as “dual gatekeepers,” who exert considerable control over the flow of research to a journal and recognition by the journal of a researcher.

Effective editors must correctly match manuscripts and reviewers. Schultz (2010) also found that reviewer rejection may be a function of education, professional experience, country of origin, and personal opinion. He demonstrates the impact editors can have on their journal’s rejection rate through its reputation, percentage of invited manuscripts, frequency and length of issue, and page charges. Perhaps the most important impact an editor has on the acceptance rate is his/her policy when reviewers disagree. Although Schultz (2010) was focusing on journals in the atmospheric sciences, it is likely that these same factors impact journals in other academic disciplines, including management.

Articles by experts in a field are highly sought after by editors because they serve as a mechanism to draw readers and subscribers to their journal. However, Smith (2013) points out that this relationship creates a “dark side” wherein editors have a vested interest in publishing the submission, while invited scholars have a forum by which to promote their viewpoint or even rewrite history.

For over twenty-five years there has been a call for better, more objective refereeing of scholarly output (Leband, 1990). Such opinions of course arise mostly when submissions are rejected. Summers (2001) finds that active reviewers are among the most prolific authors in the field. They want their field to advance, enjoy the prestige of being on a review board, and frequently enjoy the review process. In the process, they create at least a perception of what Rynes and Brown (2011) refer to as structural legitimacy. Structural legitimacy is the belief in a given journal’s quality, which creates an aura of research quality if one publishes in that journal.

Cabell Publishing

Arguably the most popular composite listing of information about scholarly academic journals is the directories published by Cabell’s Publishing (Carter, 2002). This listing is frequently identified as a primary source of data for those seeking promotion and tenure (e.g., American University, 2013; and the University of Michigan Library, 2013). One can also frequently find a notation that a journal is listed in a Cabell directory prominently listed at a journal’s web site (i.e., AABRI Academic Journals, Journal of Management Engineering Integration).

Cabell Publishing was founded in 1978 as a means to “help professors, graduate students, and researchers publish their manuscripts in academic journals (Cabells, 2013). Information provided by Cabell’s includes addresses, e-mails, and web sites providing guidelines and submission information. The current editions of Cabell’s Directories are all electronic, facilitating more frequent updating by Cabell Publishing and easier access by clients. As of August 2013, Cabell Publishing produces directories in eleven areas, four of which are in business, three in education, one in psychology, one in computer science, and two in health care.

Although questions have arisen regarding the accuracy of information included in Cabell’s directories, Coe and Weinstock (1984) point out that prior to Cabell’s directories researchers were at the mercy of the preferences and perception of their supervisors. Information published by Cabell Publishing is designed to help the author “match the characteristics of manuscript to the topic areas the journal emphasizes and acceptance rates” (Cabell’s 2013). This includes the style and format of the journals. Other information available includes the journal review process (i.e., blind versus editorial) and time to review. Most importantly for this research, in 2012 Cabell began publishing information on publication fees.
Arguments regarding use of Cabell’s Directories

Five research articles have been published regarding acceptance ratings published by Cabell’s Publishing over the recent past. In the first study, Krueger and Shorter (2012) investigated variation in acceptance rates over time in the finance and information systems arena. Next, they expanded their search to study how acceptance rates vary across nations (Krueger, Shorter, & Huff, 2012) in the accounting, finance, and information systems area. Acceptance rate variations across time and national boundary in the finance, information systems, and marketing disciplines were then examined (Shorter, Krueger, & Chatelain-Jardon, 2012). Instead of treating all finance journals equally, the next analysis considered acceptance rates across seven sub-disciplines, such as corporate finance, insurance, and real estate (Krueger, 2013). Meanwhile, Shorter (2013) took a more careful look at the impact of time to review, manuscript length, and journal sponsorship on information system journal acceptance rates. This report is a natural outgrowth of that research initiative, extending it to the management realm and looking at the new piece of information provided by Cabell Publishing, namely whether or not publication fees exist.

RESEARCH METHOD

Research Sample Identification

Information was obtained from the online version of Cabell’s Directory on Publishing Opportunities in Management on August 5, 2013. The first objective was to segregate management journals charging a publication fee from those which had no such fee. Complicating this research, Cabell Publishing gives editors their choice of four responses to the question of whether their journal charges a fee. One, editors can state that their journal does not charge a publication fee. Two, editors can indicate that publication fees are optional depending, for instance, upon the researcher’s desire to have an expedited review or belong to a specific association. Three, editors can simply state that the potential author should check the journal’s website. Of course, if a publication fee did not exist, there would be no reason to check the website. Four, editors can indicate that publication in their journal requires payment of a publication fee. The distribution of 1736 management journals across possible publication fee responses is shown in Table 1. A sizeable percentage (i.e., 35.2%) of editors do not report the absence or presence of publication fees to Cabell Publishing.

<table>
<thead>
<tr>
<th>Response to Question “Do you Charge a Publication Fee?”</th>
<th>Number of Management Journals</th>
<th>Percentage of 1736 Journals</th>
</tr>
</thead>
<tbody>
<tr>
<td>“See Website”</td>
<td>102</td>
<td>5.9%</td>
</tr>
<tr>
<td>“Optional”</td>
<td>129</td>
<td>7.4%</td>
</tr>
<tr>
<td>“Yes”</td>
<td>187</td>
<td>10.8%</td>
</tr>
<tr>
<td>No Response</td>
<td>611</td>
<td>35.2%</td>
</tr>
<tr>
<td>“No”</td>
<td>707</td>
<td>40.7%</td>
</tr>
<tr>
<td>Total</td>
<td>1736</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The research sample includes only those management journals stating that they have publication fees or they do not have publication fees. The “see website” response, which is given by editors of 102 management journals, may arise from an inconsistent policy regarding publication fees. Meanwhile, the “optional” category, which is used by editors at 129 management journals, gives authors a mechanism (i.e., association membership or participating as a reviewer) whereby they can avoid paying fees. Given the varying nature of fee payments in these cases, both of these small groups were eliminated from further consideration.
Further investigation was made of the remaining 894 management journals, 187 journals requiring the payment of publication fees and 707 journals without publication fees. (These journals will be referred to as FEE-based journals FREE journals below.) An additional sixty-four management journals were eliminated because they did not report an acceptance rate (51 journals), country (5 journals), editorial process (4 journals), or number of reviewers (4 journals). The largest single cause for sample exclusion is that the journal is new and has not yet established an acceptance rate. As shown in the first row of journals deleted because they did not report an “Acceptance Rate” in Table 2, thirty-two journals were eliminated for this reason. Ten journals with a publication fee and fifty-four without a publication fee were eliminated for these four reasons. Although the difference of forty-four journals (i.e., 54 – 10) may seem large, seventy-nine percent of the initial 894 journals do not charge a publication fee. After the eliminations delineated in Table 2, this percentage was still seventy-nine percent.

<table>
<thead>
<tr>
<th>Table 2. Development of Empirical Sample of Journals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment of Initial Sample consisting of all 894 Management Journals reporting the Presence or Absence of a Publication Fee</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Initial Total</td>
</tr>
<tr>
<td>Deletion Due to Not Reporting:</td>
</tr>
<tr>
<td>a. Acceptance Rate</td>
</tr>
<tr>
<td>New Journals</td>
</tr>
<tr>
<td>Older Journals</td>
</tr>
<tr>
<td>b. Country of Publication</td>
</tr>
<tr>
<td>c. Number of Reviewers</td>
</tr>
<tr>
<td>d. Editorial Process</td>
</tr>
<tr>
<td>Final Empirical Sample</td>
</tr>
</tbody>
</table>

Statistical analysis

A variety of summary statistics were used to assess the acceptance rate of designated portions of the remaining 830 management journals. These include skewness and kurtosis to gain an impression of the cumulative probability curve of the management journals across acceptance rates. Z-test statistics were used to compare the overall sets of management journals with and without publication fees. Student t-statistics were used to compare FEE and FREE subsets of the management journal sample (i.e., editorial-reviewed journals). Student t-statistics were used to compare acceptance rates of journals in nations with over ten management journal to acceptance rates of management journals in nations with only one journal.

Due to the lack of an ordinal ranking of review process and country of origin independent variables, the Kruskal-Wallis test was used to conduct a one-way analysis of variance in these instances. The Kruskal-Wallis test, or H test, can be used to test the null hypothesis that the independent samples are identical without the assumption that the acceptance rate distribution approximates a normal distribution or that the independent samples have the same variance (Freund and Williams, 1977). As shown in Table 3 below, the skewness and kurtosis values of the overall sample are different. Adding unique aspects of the selection process to the core split of management
journals in not likely to resolve this separation. For consistency, the Kurskal-Wallis test is also employed in the analysis of the number of reviewers, which includes the miscellaneous grouping of management journals with over three reviewers of a submission.

Table 3. Comparative Summary Statistics Regarding Acceptance Rates Across Management Journals with and without publication fees

<table>
<thead>
<tr>
<th>Statistical Measure</th>
<th>FEE Journals</th>
<th>FREE Journals</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>177</td>
<td>653</td>
</tr>
<tr>
<td>Mean</td>
<td>36.6%</td>
<td>31.3%</td>
</tr>
<tr>
<td>Median</td>
<td>30%</td>
<td>25.5%</td>
</tr>
<tr>
<td>Mode</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Low</td>
<td>2.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>High</td>
<td>95%</td>
<td>100%</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>20.5%</td>
<td>19.4%</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.63</td>
<td>1.17</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-0.48</td>
<td>1.01</td>
</tr>
<tr>
<td>Z-test p-value</td>
<td></td>
<td>0.002**</td>
</tr>
</tbody>
</table>

**RESEARCH FINDINGS**

Overall Impact of Publication Fees

As shown in Table 3, there are over three times as many journals not reporting a publication fee (i.e., the FREE journals) as reporting the existence of such a fee (i.e., the FEE Journals). There is a 5.3 percent (i.e., 36.6% - 31.3%) difference in the acceptance rate of the two groups. As implied by the z-statistics shown on the bottom row of Table 3, one can say that the means of the two populations are significantly different with ninety-nine percent confidence. Given the large size of each group, it is not surprising that the difference in median returns, of 4.5 percent (i.e., 30% - 25.5%), is similar. The most common acceptance rate for management journals, regardless of whether or not they charge a publication fee, is twenty percent.

Two factors suggest that a positive skewness exists in both subsets. One, the median is about six percent less than the mean. Two, the standard deviation is approximately the same as the mode. While an acceptance rates never fall below two percent (with the lowest being the Journal of Business and Research Policy, a FEE journal), in multiple cases acceptance rates are over ninety percent. In fact, the International Journal of Accounting, Management & Economy Scholars and the Mountains Plains Business Education Journal, two FREE journals, accept all submissions.

According to Bulmer’s classic Principles of Statistics (1979), the basic rule of thumb is that if the skewness is greater than one the distribution is highly skewed, while if it is greater than 0.5 a moderate degree of skewness exists. Considering the skewness values listed in Table 3, we cannot say that the distributions are approximately symmetric. The distribution of FEE journals is moderately skewed towards higher percentages, while FREE journals are highly skewed towards higher rates. Hence, the Kurskal-Wallis H-test is used in several instances to assess the impact of non-ordinal independent variables on acceptance rates.

The height and sharpness of the distribution peak relative to the data are captured using a measure referred to as kurtosis. Higher values indicate a higher, shaper peak, while lower numbers indicate a lower, less distinct peak. High kurtosis numbers result from more of the variability being due to a few extreme differences from the
mean, rather than a lot of modest differences from the mean. We can see that the FEE journals are platykurtic, compared to a normal distribution, with its central peak being lower and broader and its tails being shorter and thinner. The FREE journals are leptokurtic, compared to a normal distribution, with a central peak that is higher and sharper, and its tails that are longer and flatter.

Review Process and Publication Fee Impact on Acceptance Rates

Cabell Publishing allows editors to identify one of six different methods as characterizing their review process. These review processes are exhibited in the first column of Table 4. There are three versions of what is commonly referred to as the “blind” review process and two versions of the “editorial” review process, with each having a “peer” version, as well as “peer” appearing by itself. The underlying connotation of the “peer” version is that authors are able to identify who would be an appropriate set of referees, or extra effort is made in some other way to match up the manuscript with experts in the research’s area. Editors have recently been able to indicate whether their journal has a “blind” or “double blind” review processes, the former implies that the reviewer does not know the identity of the author, while in the latter the identity of the reviewer and author are not shared with the other party.

Table 4. Distribution of Management Journals Sample Across Review Process Types

<table>
<thead>
<tr>
<th>Review Process</th>
<th>Distribution Across Review Processes</th>
<th>Acceptance Rates</th>
<th>z-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FEE Journal</td>
<td>FREE Journals</td>
<td>Both</td>
<td>FEE Journals</td>
</tr>
<tr>
<td>Blind</td>
<td>57.2%</td>
<td>52.3%</td>
<td>31.1%</td>
<td>34.8%</td>
</tr>
<tr>
<td>Blind Peer</td>
<td>3.4%</td>
<td>6.7%</td>
<td>31.0%</td>
<td>52.8%</td>
</tr>
<tr>
<td>Double Blind</td>
<td>31.6%</td>
<td>28.0%</td>
<td>33.2%</td>
<td>37.6%</td>
</tr>
<tr>
<td>Editorial</td>
<td>5.6%</td>
<td>9.0%</td>
<td>38.6%</td>
<td>38.2%</td>
</tr>
<tr>
<td>Editorial Peer</td>
<td>1.1%</td>
<td>3.4%</td>
<td>36.1%</td>
<td>37.5%</td>
</tr>
<tr>
<td>Peer</td>
<td>1.1%</td>
<td>0.6%</td>
<td>34.9%</td>
<td>37.8%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>32.4%</td>
<td>36.6%</td>
</tr>
</tbody>
</table>

Kurskal-Wallis H-test statistic 9.18
Kurskal-Wallis Critical Value at 0.05 12.83
A majority of both FEE and FREE journals use a blind review process. If we add together the three “blind” review processes, we see that that 92.2 percent (i.e., 57.2% + 3.4% + 31.6%) of FEE journals use this process. A form a blind review is used in 87.0 percent (i.e., 52.3% + 6.7% + 28.0%) of FREE journals. Summing together the two editorial journals, we see that about twice as many FREE journals use an editorial review processes. Strict peer review is used in only about one percent of the journals. Perhaps the most surprising review style finding is that an editorial review is much more common across FREE journals, which were shown in Table 3 to have a statistically lower acceptance rate, given the potential inference that editors are more interested in attempting to generate revenue.

Acceptance rates across review style are the subject of the four right columns found in Table 4. In the combined samples, acceptance rates range from 38.6 percent for editorial journals to 31.0 percent for journals with a blind, peer review process. Journals with blind review processes tend to have lower acceptance rates than editorial review processes, with peer review in the center. However, given the variation within the individual review processes, the Kurskal-Wallis H-test statistic is 9.18, or less three-fourths of the critical value necessary to assert that there is a difference across review styles with a ninety-five percent level of confidence.

Two review processes have significantly different subsets when the sample is divided in terms of whether or not a publication fee is charged. Blind FREE journals have an acceptance rate that is 4.8 percent (i.e., 34.8% - 30.0%) lower, while blind peer-reviewed journals have an acceptance rate that is 24.9 percent (52.8% - 27.9%) lower. Both are significant at the 0.05 level, the first probably due to the large sample size in light of a lack of significance for the smaller double blind review process despite a 5.9 percent (i.e., 37.6% - 31.7%) difference between FEE and FREE journals. Meanwhile, the blind peer review process’ significance appears to be due to a large variation in acceptance rates between FEE and FREE journals.

Number of Reviewers and Publication Fee Impact on Acceptance Rates

Cabell Publishing permits editors to identify between zero and three reviewers on a given manuscript, with a catch-all category of “over three” for any instances with additional reviewers supplying input on the acceptability of a given manuscript. Information regarding the distribution of FEE and FREE journals across the number of reviewers is displayed in the first two columns of Table 5. The most common level is two reviewers, which exists at 70.6 percent of FEE journals and 55.5 percent of FREE journals. The second-most common reviewer level is the use of one reviewer at FEE journals which occurs 16.4% of the time, while FREE journals have a much greater tendency to use three reviewers which occurs 23.4% of the time. FEE journals are slightly more likely to use no reviewers, while FREE journals are twice as likely to use over three reviewers.

<table>
<thead>
<tr>
<th>Number of Reviewers</th>
<th>Distribution Across Number of Reviewers</th>
<th>Acceptance Rates</th>
<th>Z-statistic p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FEE Journals</td>
<td>FREE Journals</td>
<td>All Journals</td>
</tr>
<tr>
<td>Zero</td>
<td>2.3%</td>
<td>1.7%</td>
<td>38.6%</td>
</tr>
<tr>
<td>One</td>
<td>16.4%</td>
<td>10.6%</td>
<td>42.1%</td>
</tr>
<tr>
<td>Two</td>
<td>70.6%</td>
<td>55.6%</td>
<td>33.1%</td>
</tr>
<tr>
<td>Three</td>
<td>6.7%</td>
<td>23.4%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Over Three</td>
<td>4.0%</td>
<td>8.7%</td>
<td>32.9%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>32.4%</td>
</tr>
</tbody>
</table>

Kurskal-Wallis H-test statistic 6.00
Kurskal-Wallis Critical Value at 0.05 11.14
Average acceptance rates are displayed in the “Acceptance Rate” columns for the entire sample (i.e., the “All Journals” column) as well as the FEE and FREE subsets individually (in the “Total Row”). Information regarding statistical significance of the FEE and FREE subsets is provided in the right column. Acceptance rates vary from 24.7 percent for the three-reviewer set to 42.1 percent for the one-reviewer subset. Although seemingly different, the Kurskal-Wallis H-test statistic of 6.00 is only about half of the 11.43 critical value necessary to be significant at the 0.05 level. Contributing to the lack of significance is the similarity of the other three reviewer levels, which tend to be within three percent (i.e., (│38.6% - 32.4%│ + │33.1% - 32.4%│ + │32.9% - 32.4%│) / 3)) of the mean. Furthermore, the overall mean acceptance rate and that of the common two-reviewer level (i.e., 32.4% and 33.1%, respectively) is similar.

The most striking difference in acceptance rates observed between the FEE and FREE fees journals occurs in this common two-reviewer tier. Although the difference is only 3.8 percent (i.e., 35.9% - 32.1%), the variation is significant at the 0.01 level. One might get the impression that FEE journals have higher acceptance rates. Looking at the row above, we see that this is not necessarily the case. In the one-reviewer row, the FREE journals have an acceptance rate that is 1.1 percent (i.e., 42.4% - 41.3%) higher. This difference is significant at the 0.05 level. None of the other reviewer levels come close to being significant. Given the offset across FEE and FREE journals and lack of difference at three of five levels, it is not surprising that the Kurskal-Wallis H-test statistic indicates that the number of reviewers cannot be tied to differences in acceptance rates overall.

**Geography and Publication Fee Impact on Acceptance Rates**

Insights to the geographic distribution of management journals included in Cabell’s Directory of Publishing Opportunities in Management are disclosed in Table 6. As shown in the first row, fifty-five countries, or about one-fourth of the 196 countries in the world (Rosenberg, 2012), have at least one reported management journal originating within its borders. Journal frequency is highly concentrated, with eleven countries being the home to at least ten management journals. The concentration is even more focused if one considers that 403, or forty-nine percent of all management journals, originate in the United States. Another eleven percent and nine percent and are headquartered in the United Kingdom and India, respectively. Twelve nations are the home to only one management journal covered by Cabell’s management directory.

Further analysis of the listing of nations with management journals, shown in the right column of Table 6, reveals very few regional observations. Countries from Asia, Europe, North America, and South America can be found in the group of nations with high and low management journal levels. The only underrepresented, inhabited continent is Africa.

Table 6 also presented two cells with a variety of data for nations with either high or single frequencies of management journals. Comparing these, one can see that publication fees are about ten percent more common in nations with high management journal frequency. This is somewhat counterintuitive, because one might often expect publication fees to be more common in nations with only one domestic journal and, hence, fewer choices for domestic authors.

Mean acceptance rates are close, varying by only a 2.4 percent. However, the acceptance rate variation is over twice as high (i.e., 30.4% v. 12.0%) for single-journal nations. Nonetheless, the acceptance rate range is similar, with journals running from under ten percent to one hundred percent. Two Student t-test of significance were computed in order to determine whether the means are significantly different. A comparison of countries with at least ten management journals to countries with only one journal was highly insignificant (i.e., 0.808). Acceptance rates at single-country journals are also insignificantly different from those found in the United States.
Table 6. Distribution of Management Journals Sample across Countries

Management Journals = 830
Countries with at least one Covered Management Journal: 55

<table>
<thead>
<tr>
<th>Countries with at least Ten Management Journals (N = 11)</th>
<th>Australia, Brazil, Canada, Germany, India, Italy, Malaysia, Romania, Turkey, United Kingdom, USA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FEE JOURNAL Percentage: 18.9%;</td>
</tr>
<tr>
<td></td>
<td>Mean Acceptance Rate: 37.8%</td>
</tr>
<tr>
<td></td>
<td>Acceptance Rate Standard Deviation: 12.0%</td>
</tr>
<tr>
<td></td>
<td>Acceptance rate range: 2.0% - 100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries with only One Management Journal (N = 12)</th>
<th>Bangladesh, Chile, Columbia, Greece, Hungary, Latvia, Libya, Mexico, Norway, Peru, Qatar, Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FEE Journal Percentage: 8.3%;</td>
</tr>
<tr>
<td></td>
<td>Mean Acceptance Rate: 40.2%</td>
</tr>
<tr>
<td></td>
<td>Acceptance Rate Standard Deviation: 30.4%</td>
</tr>
<tr>
<td></td>
<td>Acceptance rate range: 9.0% - 100.0%</td>
</tr>
</tbody>
</table>

| Acceptance Rate Significance Student t-statistics of single journal countries versus | Countries with at least 10 journals: 0.808 USA Journals: 0.201 |

Table 7 provides additional information regarding journals published in nations with at least ten management journals. Romania and Australia are the two nations with the greatest likelihood of charging a management fee. By contrast, none of the listed management journals in Germany, Brazil, or Italy charge a management fee. As shown in the “Both” column, average acceptance rates range from Italy’s 22.5 percent to over fifty percent in Malaysia (52.5%), Turkey (55.5%) and Romania (57.2%). This difference is significant at the 0.05 level, as exemplified by a Kurskal-Wallis measure of 30.89, which is forty percent higher than the critical value of 21.92.

Publication fees have a significant influence in two instances, plus the overall sample. The two nations with at least ten management journals experiencing an acceptance rate impact arising from publication fees are India and Malaysia. Indian FREE management journals have an acceptance rate difference of 14.2 percent (i.e., 47.5% - 33.3%), while the difference in Malaysia is 13.9 percent (i.e., 53.9% - 40.0%). The former difference is significant at the 0.01 level, while the latter difference is significant at the 0.05 level. Despite its seemingly wide difference (i.e., 30.5% for FEE journals and 27.6% for FREE journals) the presence of a publication fees does not appear to impact U.S. acceptance rates.
Table 7. *Management Journal Acceptance Rates across Countries: Closer Study of Countries with at Least Ten Management Journals reported by Cabell Publishing*

<table>
<thead>
<tr>
<th>Country (Total Journals)</th>
<th>Percentage of Journals Charging Publication Fees</th>
<th>Average Acceptance Rates</th>
<th>t-test p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>All Journals</td>
<td>FEE Journals</td>
</tr>
<tr>
<td>Overall Sample (830)</td>
<td>21.3%</td>
<td>32.4%</td>
<td>36.6%</td>
</tr>
<tr>
<td>USA (403)</td>
<td>20.4%</td>
<td>28.2%</td>
<td>30.5%</td>
</tr>
<tr>
<td>United Kingdom (85)</td>
<td>11.8%</td>
<td>29.9%</td>
<td>29.6%</td>
</tr>
<tr>
<td>India (75)</td>
<td>30.7%</td>
<td>37.7%</td>
<td>47.5%</td>
</tr>
<tr>
<td>Canada (28)</td>
<td>28.6%</td>
<td>30.8%</td>
<td>42.9%</td>
</tr>
<tr>
<td>Romania (26)</td>
<td>38.5%</td>
<td>57.2%</td>
<td>59.9%</td>
</tr>
<tr>
<td>Australia (24)</td>
<td>37.5%</td>
<td>32.1%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Germany (11)</td>
<td>0.0%</td>
<td>29.7%</td>
<td>na</td>
</tr>
<tr>
<td>Brazil (10)</td>
<td>0.0%</td>
<td>40.0%</td>
<td>na</td>
</tr>
<tr>
<td>Italy (10)</td>
<td>0.0%</td>
<td>22.5%</td>
<td>na</td>
</tr>
<tr>
<td>Malaysia (10)</td>
<td>10.0%</td>
<td>52.5%</td>
<td>40.0%</td>
</tr>
<tr>
<td>Turkey (10)</td>
<td>30.0%</td>
<td>55.5%</td>
<td>55.0%</td>
</tr>
</tbody>
</table>

Kruskal-Wallis H-test statistic 30.89
Kruskal-Wallis Critical Value at 0.05 21.92

**CONCLUSION**

Evaluating research quality is a notoriously difficult problem with no widely agreed to solution. Ideally, published research should be scrutinized by true experts in the field and given scores for quality and quantity according to rules that are known and agreed to by all parties. In reality, research is assessed by committees with general competencies rather than specialist insights to research questions, methods, findings, and conclusions. In order to make critical decisions regarding remuneration and retention, these specialists often resort to public information regarding the journal in which the research is published. This study reports on an examination of acceptance rates within the management discipline.

Five primary research questions and eleven related queries were posed in the introduction. Answers to these are given below.
#1. Scholarly Management Journals: As of August 2013, there were 1736 academic journals publishing management research. Approximately half of these are included in this study, mostly because thirty-five percent have not reported to Cabell Publishing whether or not they charge a publication fee. Across those reporting the presence or absence of a fee, twenty-one percent, or 177 management journals, definitely charge a publication fee.

#2. Scholarly Management Journal Acceptance Rates: On average, 32.4 percent, or one in three submissions is accepted. There is a significant difference in acceptance rates between management journals with publication fees and those without. FEE-journal acceptance rates are about five percent higher, which is consistent with the premise that journals requiring publication fees are more lenient.

#3. Scholarly Management Journal Review Process: Seventy percent of management journals follow a blind or double-blind review style. Eight percent of management journals conduct editorial review process, while peer reviews exist at about one percent of journals. The other journals merge “peer” review into either a blind or editorial process. Acceptance rates are not statistically different across review styles. However, the addition of a publication fee criteria results in significantly more generous acceptance rates in the blind and blind-peer review processes.

#4. Scholarly Management Journal Reviewers per Submission: Almost sixty percent use two reviewers. Acceptance rate variation is not statistically different across reviewer levels prior to consideration of the publication fee. FEE journals using two reviewers have a significantly higher acceptance rate. By comparison, FREE journals have a higher acceptance rate at the one-reviewer level, which exists at twenty-one percent of management journals.

#5. Scholarly Management Journal Geographic Location: Although management journals are published in many nations, their geographic distribution is highly concentrated, with a majority being published in the United States. Researchers will not automatically face lower acceptance rates by randomly sending manuscripts to nations wherein only one management journal exists. However, targeting submissions to specific countries will impact the acceptance rate to which research is exposed. Italy and the United States have the lowest acceptance rate levels, while Romania and Turkey have the highest acceptance rate levels. These findings are consistent with the prior research in other business disciplines. An important contribution of this research is the inclusion of a publication fee variable. For instance, the research results document the significantly higher acceptance rate probability of FEE journals in India and Malaysia.

This research is dependent upon the self-reporting done by journal editors, each of whom might calculate acceptance rates differently. Future research might include asking editors to describe their measurement process and/or asking them to report acceptance rates on the basis of a prescribed formula. In order to gauge the robustness of these findings regarding the relevance of publication fees in assessing journal quality, similar analyses should be done in different business disciplines or subsets of the management discipline.

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A LITERATURE REVIEW OF ECONOMIC HISTORY PORTFOLIO THEORY FROM 1952 TO 1986

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ABSTRACT

Researchers posited that the downside-beta capital asset pricing model (DCAPM) should replace the more traditional CAPM. Other researchers had realized that Markowitz had noted that it would be appropriate to use semi-variance means, as opposed to the securities' mean-variance, for the examination of securities portfolios regarding variance and expected returns. However, researchers in the current literature realized that two sections, namely that a perfectly efficient lending market existed and that all investors were part of an efficient market where all current prices were known and the investors' predictions of expected values in the future were identical, were not always consistent for investors and markets, contrary to the views of Markowitz and Treynor. Contemporary theorists needed to account for imperfect markets, returns, and increased risks; there might be a reason to use the CAPM and adjust Jensen's alpha in order to properly measure abnormal portfolio performance. Researchers in the literature, by varying the time constraint of the CAPM, demonstrated that value securities portfolios did not typically over time regularly exhibit a lower return than growth securities portfolios.

INTRODUCTION

This paper is a critical examination of modern portfolio theory from the years 1952 to 1986. Researchers posited that the downside-beta capital asset pricing model (DCAPM) should replace the more traditional CAPM because by utilizing the release of the model's constraints, for the use of the traditional CAPM with assumptions of preferences of investors (regarding risk), the normality assumption proved to be sufficient. Other researchers had realized that Markowitz had noted that it would be appropriate to use semi-variance means, as opposed to the securities' mean-variance, for the examination of securities portfolios regarding variance and expected returns. However, researchers in the current literature realized that two sections, namely that a perfectly efficient lending market existed and that all investors were part of an efficient market where all current prices were known and the investors' predictions of expected values in the future were identical, were not always consistent for investors and markets, contrary to the views of Markowitz and Treynor. Contemporary theorists needed to account for imperfect markets, returns, and increased risks; there might be a reason to use the CAPM and adjust Jensen's alpha in order to properly measure abnormal portfolio performance. Researchers in the literature, by varying the time constraint of the CAPM, demonstrated that value securities portfolios did not typically over time regularly exhibit a lower return than growth securities portfolios. The examination concerns the development of a platform of values that is useful in an economic historical interpretation of modern portfolio theory. The means of accomplishing that objective herein below will be via the use of an annotated bibliography, a literature review essay (broken down into an overview, a synthesis of foundational theory, the CAPM, and the current research annotations, a synthesis of the APT and the current research annotations, and a synthesis of foundational, primary, and secondary theory and the current research annotations), and a summary.

Annotated Bibliography


The authors of Abbas, Ayub, Sargana, and Saeed (2011) have clearly formulated their study problem in that the downside-beta capital asset pricing model (DCAPM) should replace the more traditional CAPM (p. 189). The mentioned research was relevant to the theory covered in a previous paper (see Jewczyn (2013) because the research
results were an update to the formulation and use of the CAPM discussed in that theory segment; the issue was defined to be the increased prevalence of research into downside risk and the DCAPM was shown to be more relevant than the “APT and multi-factor CAPM” (Abbas, Ayub, Sargana, & Saeed, 2011, p. 189). The problem could have been approached from another perspective, but the release of the model constraints, for use of the traditional CAPM, of the assumptions of preferences of investors (regarding risk) and the normality was sufficient (p. 189). The authors’ research orientation was critical science since mathematical formulae were used to advance their collective thesis and the theoretical framework was developmental (pp. 190-194). The relationship, between the authors’ research orientation and the accompanying framework, was a good fit since the result was that the study’s conclusion, that the modified DCAPM outdid the traditional CAPM concerning accurate asset pricing (p. 189), was supported by the research (p. 196).

The researchers in Abbas, Ayub, Sargana, and Saeed (2011) evaluated 156 references from the literature relevant to the problem (pp. 197-203) and did include literature positions from the review with which the authors did not agree (p. 190). The research piece was not exactly a study (p. 196), but a comprehensive literature review such that the conclusion was supported by the preponderance of studies in the literature, which utilized empirical data, and supported the authors’ conclusion (p. 196). Although there was an objective basis for the study review, the authors were essentially demonstrating what they already believed (p. 190). The theoretical arguments made by the authors could be deconstructed into a logic train and the arguments made were patent (pp. 195-196). The authors’ scientific literature review was useful for practice since a practitioner model of the theory was provided in the utilized DCAPM (p. 194). The strength of the DCAPM was found to be that the model could apply to more asset pricing situations than the CAPM (p. 195) and the weakness was that several constraints had to be released in order to make the DCAPM workable as a solution (p. 189). The authors’ research and the conclusion presented in their article relates to the thesis being developed in this paper in that the DCAPM was supported as an improvement to the limited practical use and empirical testable value of the traditional CAPM (p.190).


The authors of Artavanis, Diacogiannis, and Mylonakis (2010) had clearly defined the issue of their study as, since various previous studies had relegated a smaller load to mean deviations that were positive (p. 25), the risk on the downside was more explanatory for variance and risk and that Markowitz had noted that it would be appropriate to use semi-variance means as opposed to the securities’ mean-variance for the examination of securities portfolios regarding variance and expected returns (p. 25). The relevance of the authors’ thesis to foundational theory was clearly established (p. 25) and the problem could not have been effectively approached from a different perspective (p. 26). The authors’ research orientation was critical science and the research theoretical framework was developmental since an empirical analysis of data, and the accompanying results’ interpretation, was provided that was a logical extension of the framework from the authors’ research orientation (p. 27).

The authors evaluated 45 articles from the literature concerning the issue (Artavanis, Diacogiannis, & Mylonakis, 2010, pp. 33-35) and did address research studies wherein those researchers did not agree with the authors’ research orientation and theoretical framework (p. 26). The basic components of the study, such as the analyzed population of individual securities and the several opposing portfolios for a 15 year time period on the London Stock Exchange and the Paris Stock Exchange (pp. 35-38), as well as the intervention (p. 30) and outcome (p. 33), were appropriate to the study. The measurements were accurate and valid (p. 26), the data analysis of the data was accurate and relevant to the research questions (p. 29), and the conclusions were validly based upon the data and analysis provided in the authors’ study (pp. 32-33). There might have been a better means of cleaning the data in the study (p. 29) and any researcher could probably better properly account for and provide a better proxy for the consideration of firm survival bias, which was only marginally accounted for and coincidentally addressed in the study (p. 29). The authors were objective and scientifically confirmed, through empirical analysis, their theoretical framework. The study’s arguments could be logically deconstructed and the conclusions were well-founded (p. 33), with the exception of the two considerations noted above. The article contributed to the theory of this paper by providing several workable alternatives to the traditional versions of the CAPM (p. 26). The study was useful, in a practitioner sense, for providing strong alternatives that were explanatory, considering expected returns and risk inherent in portfolios examined in the study, but was weak in not properly accounting for the firm survival bias mentioned above and some computed outliers regarding normal versus non-normal distributions of the data (pp. 26 and 32).

The authors of Asness, Frazzini, and Pedersen (2012) did formulate a problem concerning their interpretation of modern portfolio theory (MPT) regarding risk parity (p. 47). However, the authors’ formulated problem was not clearly defined and its significance, regarding scope, severity, and relevance, was not clearly established (pp. 47-48). For example, previous convention among primary theorists dictated that the researcher would, as a part of the model’s assumptions, at least infer (Treynor, 1962, p. 13; Sharpe, 1964, p. 442; p. Mossin, 1966, p. 768) or indicate outright (Lintner, 1965b, p. 589) that the securities in the portfolio were composed of common equities or mutual funds of those common equity securities, which the authors of the study examined failed to do outright (Asness, Frazzini, & Pedersen, 2012, pp. 47-58). It was curious to note that the authors all indicated that: they were Managing Principals (market practitioners) in the same brokerage (p. 47); that their employing brokerage marketed risk parity funds; that the use of risk parity funds solved many of the problems associated with the diversity of securities portfolios (p. 47); and that increased leverage in the portfolio, commonly called investor margin, solved many issues associated with risk (read – proposed diversification) (p. 47). Curiously, all of these statements and assertions were contrary to the position of Markowitz, namely that a 50% continued margin on securities in a portfolio, because of interest, transaction costs, and the securities’ volatility, will over time reduce the original dollar of principal invested, margined to two dollars, down to one-half of one cent (Markowitz, 1959, pp. 118-119). Typically, from the previous theory paper (see Jewczyn (2013)), leverage (or margin) was an investment tool to be used in a one-period model to improve an investor’s buying power in the securities portfolio and aid in market clearing, but was not intended by foundational or primary theorists to be a long-term endeavor.

From the above points made concerning the research article at hand, it may appear to the reader that the authors’ research orientation for the article at hand was interpretive and that the theoretical framework was an emotional sort of appeal from a marketer’s standpoint (Asness, Frazzini, & Pedersen, 2012, p. 47). The authors seem to have evaluated 25 articles from the literature concerning the problems under review, which were essentially risk parity and investor aversion to leverage for portfolios, but the authors’ salient points were buttressed by citing, or referring, to the authors’ own previously published articles; sometimes more than one-half dozen citations on just one page of the current study (pp. 47, 49, 50, 51, 53, 55, 56, 58, 59). From these observations above, it would probably be rendered moot to discuss the authors’ objectivity in the study at hand or the lack of their use of published positions in the literature that were not supportive of the authors’ thesis.

The table of summary statistics for the study exhibited three samples with mini-groups in each sample: a “long sample…stocks [and] bonds” (years 1926 to 2010); a “broad sample…stocks…bonds…credit [and] commodities” (years 1973 to 2010); and a “global sample…stocks [and] bonds” (years 1986 to 2010) (Asness, Frazzini, & Pedersen, 2012, p. 52). Considering the fact that these securities and instruments have been traded on numerous exchanges and venues throughout the world for vastly different time and economic periods, and that there were over one-dozen indices used to compare them with one another over the disparate time periods of the study (p. 52), a reconciliation of the authors’ handling of the data in this study was not possible.

There did not seem to be the level of objectivity necessary for a dispassionate study to have taken place and the posited conclusions of the study do not seem to be warranted from the authors’ handling of the data in this study. There does not seem to be a contribution to modern portfolio theory made by this study; the authors did not even acknowledge Jack Treynor as one of the concurrent, primary theorists who posited the traditional CAPM (Asness, Frazzini, & Pedersen, 2012, p. 49). From the above observations, the study at hand did not contribute to the collective understanding of modern portfolio theory and did not provide empirical evidence to support the specific thesis of this paper.


The authors of Azam and Ilyas (2011) formulated their study’s problem as a comparison of the power of prediction of three financial asset pricing models: the traditional CAPM (return expectations for one stock or a portfolio of securities’ surplus return); the Fama-French model of three factors (a model that adds to the CAPM the factors of premium size and “book to market equity premiums”) (p. 415); and the model of five factors (that adds to the three-factor model the two factors of “[P]rice (sic) to earning[s] premium and leverage premium”) (p. 415). The problem for the study was clearly defined and the scope, severity, and relevance were clearly established (p. 419). The research problem could have been approached differently, but the four hypotheses, the 50 firms examined, and the five year time period helped to narrow the study to an experimental bandwidth that seemed appropriate for the authors’ critical science research orientation (p. 419). The developmental framework for the study was a good fit for...
the research orientation and was reflected in the authors’ findings (p. 423).

The authors of Azam and Ilyas (2011) evaluated 29 studies from the literature relevant to the study’s problem (pp. 425-426) and included literature containing positions not in agreement with the authors’ problem under study (p. 417). The population (p. 419), intervention (p. 420), and outcome (p. 424) were supported by the validity of the data measurements and analysis (p. 421). The regression analyses and the separate model ANOVAs (pp. 420-422) were relevant to the research question and the conclusions (p. 424) were validly based upon the data examined and the analysis (p. 423). The study’s tone and apparent lack of bias indicated an objective basis for reasoning and assessment (pp. 420-423). The study’s arguments were straight-forward upon deconstruction and the research questions lead to the hypotheses and then inevitably to the constructs under examination (pp. 419-422). The study contributed to the understanding of practitioner models of asset pricing for securities because the three commonly used models (pp. 416-417) were used in the study and the five factor model demonstrated a slight advantage over the CAPM and three factor model concerning accuracy as a “proxy for risk” (p. 424). The study under examination was important to the thesis considered in this paper because the authors of the study connected a variety of theoretical advances in modern portfolio theory, which have been embodied in the constructs of practitioner models, and several of the authors’ study conclusions supported assertions and conclusions in this paper.


The authors of Bai, Newsom, and Zhang (2011) formulated their study problem as the lack of convergence between three theories of investment; “modern portfolio theory…capital market theory…and utility theory” (p. 107). The study problem was clearly defined and the scope was clearly established, but the study under consideration did not use empirical data (p. 108). The problem could have been approached with a study that actually used empirical data to perform an actual study, instead of the research at hand that was performed using graphical illustrations (p. 108) and mathematical proofs (pp. 109-110), which were then corroborated by the studies’ listings of other researchers (p. 111). The authors’ research orientation seemed to be interpretive, since the authors’ confirmation came from the subjective analysis of students’ reactions when those students were presented with the brief’s results (p. 110). The theoretical framework was developmental, since the subjective interpretive orientation developed from the authors’ subjective interpretation (p. 110). The theoretical and research perspective complemented one another in the study brief at hand (p. 110).

The authors of the Bai, Newsom, and Zhang (2011) study brief examined 12 literature sources (p. 111) and included author positions in the literature that did not support the study brief’s problem resolution (p. 107). There was no study of empirical data conducted by the authors: the conclusions were arrived at subjectively from an interpretation of student responses in classes taught (p. 110); the proofs of graphical and mathematical calculations seemed rudimentary (pp. 108-109); and the burden of corroboration was placed upon researchers who had authored actual studies that seemed to corroborate the authors’ intuitive positions (p. 111). The basis for the brief seemed to be subjective, but the authors amalgamated a brief concerning what they already believed to intuitively be true (pp. 107, 109, & 110). The brief did not contain the substance necessary to constitute a study (p. 110) and the brief was limited by subjective interpretations (p. 110) with no use of empirical data sets (p. 108). Although the authors’ opinions contained in the study brief seemed appealing for use in a synergistic discussion later in this paper, the authors did not provide a sufficient amount of hard evidence to support their assertions (pp. 110-111).


The authors of Balvers and Dayong (2009) formulated an examination problem associated with two asset pricing models: an extended version of the traditional CAPM that accounted for some transaction costing; and a consumption version of the CAPM that used the growth of real money (p. 337). The problem, which was clearly defined, was to account for the consideration of the value premium that appeared, as a result of the models’ usage, since “value firms are sensitive to liquidity shocks but growth firms are not” (p. 337). The significance to the study was that an additional factor appeared as a result of the use of the models for computations (p. 341). The problem could have been approached from another perspective, but the methodology used in the study was effective (p. 343). The authors’ research orientation was critical science while the theoretical framework was developmental; the orientation and framework were mutually supportive in the study (pp. 346-347).

The authors of Balvers and Dayong (2009) evaluated 47 studies that were relevant to the problem examined (pp. 366-368) and included studies where the authors of those studies were not in agreement with the objectives of
the study under consideration (p. 338). The basic components of the study’s design were adequate (pp. 343-345), but the measurements (p. 343) and data reliability could not be determined from the study (pp. 345-346) since those measurements and data came from a third party website that was deemed to be appropriate and accurate by the study’s authors (p. 345). Upon consideration of the fact that the datasets and portfolios of securities data came from the compilation website of Kenneth French (p. 345), the study’s conclusions (pp. 362-364) were assumed for this discussion to be congruent with the aspects of relevance to the research questions (p. 344) and the data analysis (pp. 347-348) secondary to the use of the study’s models (p. 345). The tone of the study was objective (pp. 354-356) and even though the original assumptions seemed bold, the study’s results, that extensions of the two previous models were more functional (p. 364), were borne out by the assumptions and methodology (p. 343). A deconstruction of the arguments did not exhibit breaks in the logic train of the study (p. 359). The study’s results contributed to the understanding of asset pricing theory, with the use of better models and improved datasets for study, with the use of a more useful set of models for practitioner use; but the usage of the two models would not be practical or universal in all situations (p. 359). The study related to the specific thesis of this paper by improving the models under consideration for asset pricing so that the Current Research discussion could be more complete and thorough.


The authors of Ben Mabrouk and Bouri (2010) clearly formulated three problems for examination: an outline of the CAPM’s application to asset pricing, as discussed in the relevant literature; the fact that the CAPM may not be applicable without some model adjustments; and the debate in the literature concerning whether variations of the CAPM make the CAPM model more useful to practitioners and theorists (p. 265). The problems examined in the study were clearly defined and the significance issues such as scope, severity, and relevance to the problems discussed were clearly established (pp. 267-270). The research problems might have been approached from another perspective, but the authors’ critical science research orientation and their developmental theoretical framework were well coordinated and meaningful to the study (p. 294).

The authors of Ben Mabrouk and Bouri (2010) evaluated 123 studies in the literature relevant to their study (pp. 296-305) and did include literature in which the researchers did not agree with the positions of the authors of the study (p. 271). Unfortunately, the study under consideration was not really a study at all (p. 267), but a really long, in-depth literature review (p. 294). Therefore, the usual questions regarding data, analysis, models, and study validity would probably be rendered moot. It appeared that the authors were simply performing an extensive literature review to prove what they already intuitively believed concerning the models (pp. 265 and 294). The article did contribute to the promotion of a better understanding of contrarian positions in the literature regarding aspects of the CAPM (p. 271) and it related to the thesis of this paper by providing an extraordinarily large volume of results and discussion from the literature concerning certain variations of the traditional CAPM (pp. 296-305).


The authors of Bontas and Odăgescu (2011) formulated a study problem concerning the application of two different models of arbitrage pricing theory (APT) (p. 96). The problem was clearly defined, in spite of numerous grammatical and syntax issues in the writing (pp. 96-108). The principal problem was one of preference for one of two variations of the APT to “be used in [a] financial portfolio’s optimization” (p. 97) and whether short term or long term economic factors employed were more decisive concerning the results (p. 108). The problem might have been more effectively approached from another perspective; perhaps a comparison of the results from the usage of variations of both the APT and the CAPM. The authors’ research orientation was a combination of critical science and an interpretive scheme; a mode that did not seem to coalesce well with their penchant for a theoretical framework of developmental and psychological analysis (pp. 98-100). There was a tenuous relationship throughout the study between the authors’ research orientation and their theoretical framework making the study a tedious read (p. 108).

The authors of Bontas and Odăgescu (2011) evaluated only eight studies from the literature (p. 109) and did not perform a literature review (pp. 96-98) before delving into their study, so it was not discernible whether the authors included conflicting viewpoints, since the survey was not performed. There were no indications of data calibration or even a data section in the study (p. 97) and it appeared that two random variations of the APT were chosen for use in the study; the Ross model and the Morgan Stanley model (p. 97). The study seemed to address concerns that the authors previously held in an intuitive sense, but except for short chains of calculations and

The author of Galagedera (2009) clearly formulated the study’s problem as to whether the derived relationships concerning measures of systemic risk were reliant upon a securities market portfolio’s results volatility (p. 341). The significance of the problem was clearly established by discussing relationships involving a variety of frameworks and models (p. 342), but there was only a three page introduction and no literature review (pp. 341-344). The problem could have been more effectively approached through the use of the more familiar study regimen typically used in U.S. research journals so that the study’s format could have been more readable (p. 341). The author’s research orientation was typified by an interpretive approach (pp. 341-344) that did not seem to mesh well with the developmental theoretical framework regimen of chains of mathematical equations (pp. 344-349) that then lead to numerous graphs of scatter plot results (pp. 350-352) that required additional interpretation before the graphs were shown (p. 349). There did not seem to be a relationship between the author’s research orientation and his theoretical framework used in the study.

The author of Galagedera (2009) evaluated, throughout the study, only 11 references, but since there was no literature review, it was difficult to determine whether the author was in agreement with any of the literature cited (p. 358). The population in the study was 27 emerging markets taken from the Morgan Stanley brokerage website database, but there was no data section in the study and the author mentioned that there were 13 years of data and that the proxy for the risk-free rate was the “10-year US (sic) Treasury bond rate” (p. 349). There were a great many graphs of results from the examination of the datasets used in the study, but there were no tables of results to see how the graphing was done. So many parts of the study under consideration were missing from the publication article that the study was extremely difficult to follow. It was not possible to deconstruct the study into a logic train for further examination or to form an opinion regarding the conclusions (pp. 356-357). There may be some remarks that would be useful from the study under examination, but there was not enough information in the study and there were so many parts missing, that a determination concerning the strengths and limitations of such a study would be prohibitive and it is unknown whether the study under consideration would be useful to the thesis of this paper.


The author of Levy (2010) formulated the study problem as the theoretical substitution of prospect theory for expected utility since analysis that involves mean-variance “is not always consistent with peoples’ choices;” thus the use of the traditional CAPM would be in doubt and the results inconsistent (p. 43). The significance, such as scope, severity, and relevance, were clearly established in the study (pp. 52-53). The problem could have been approached differently, but the use of the argument that the substitution, and testing of the substitute, of prospect theory in the CAPM framework such that the CAPM was valid even though there was no validity in the use of expected utility provided “strong experimental support for the CAPM” (p. 43). The author’s research orientation was a combination of interpretive and critical science (pp. 48-49) and the theoretical framework for the study was the development of substitutions within the CAPM; the framework was developmental (p. 50). The combinatorial orientation was an appropriate fit for the developmental framework in the instance of this study (p. 68).

The author of Levy (2010) evaluated 79 studies from the literature (pp. 68-71) relevant to the study and included theoretical viewpoints from the literature that were not in agreement with the assumptions and problems posited in the study (pp. 45-46). The basic study components, such as population (p. 65), the intervention (p. 46), and outcome (p. 68), were appropriate and the data analysis (pp. 64-65) was relevant to the research question (p. 45); the conclusions were based validly upon the analysis and data (p. 68). There was an objective basis to the reasoning used in the study (pp. 44-45) and a rudimentary deconstruction of the author’s arguments was straight-forward in order to reconcile the logic flow of the study from constructs (p. 48) to conclusions (p. 68). The study contributed to the understanding of the use of the traditional CAPM with variations so that the mechanics of propriety, regarding different applications for the use of the model, were more complete to promote effective usage in different pricing.
situations (pp.66-67). The strength of the study was the explanations just provided, but the weakness was that the model variations were not useful in all situations for asset pricing (p. 63), or expected returns from a portfolio (p. 64), and that there were still unanswered discussion questions from the literature regarding the empirical validity of the CAPM (p. 44). The study specifically related to the thesis of this paper by providing effective discussion to fill gaps in the literature (pp. 45 and 67-68), regarding the explanation of CAPM assumptions (pp. 46-47), as well as the use of variations of the model (pp. 49-51), to help buttress arguments elsewhere later in this paper.


The author of Marasović (2009) clearly formulated the study problem as the comparison of multi-factor models of securities portfolios on the Croatian stock exchange wherein absolute values were compared with mean values (p. 20). The significance was clearly established and the problem could have been approached from a different perspective, but the comparison of like and type portfolios, to show differences achieved by portfolio managers in different sectors, with respect to the absolute and mean values for the respective portfolios, was sufficient (p. 20 and 27-29). The author’s research orientation was critical science (p. 21) that employed the use of a developmental theoretical framework (pp. 22-24); the orientation and framework dovetailed effectively (pp. 22-23) and created a unique perspective in the study of the problems (p. 30).

The author of Marasović (2009) evaluated 24 studies from the literature (pp. 30-31) relevant to the study and included positions with which he did not agree (pp. 21-22). The basic study components of intervention (p. 22), population (p. 26), and outcome (p. 30) were appropriate as were the validity of the measurements (p. 23), data accuracy (p. 24), and relevance to the research questions (pp. 27-28). The conclusions seemed to follow from the study’s results (pp. 29-30). The study’s basis was objective (p. 21) and the arguments could be deconstructed to effectively follow the logic chain (pp. 21-23). The study was useful to the understanding of how absolute versus mean values in portfolios of securities listed on an exchange, of different sectors, could differ by treatments from financial managers (pp. 20 and 30). Although the results may not have universal applications regarding securities portfolios (p. 30), the insights from the results of the study may help to buttress arguments concerning the thesis of this paper.


The authors of Spyrou and Kassimatis (2009) clearly formulated the study’s problem as the difference in premium expected for value versus growth securities in a market portfolio; the authors of the study attempted to demonstrate that, for 12 European markets using the Kenneth French standard High Minus Low (HML) portfolios, that value securities portfolios did not typically over time regularly exhibit a lower return than growth securities portfolios (p. 1899). The study’s significance, with regard to scope (p. 1901), severity (p. 1902), and relevance (p. 1899) was clearly established, and although the study might have been differently approached, the use of the CAPM for consistency was most effective in the methodology of the study (p. 1901). The authors’ research orientation was that of critical science (p. 1900) whereas the theoretical framework (p. 1903) for the study was developmental. The relationship between the authors’ research orientation and the theoretical framework used in the study was that of mutual compatibility and was instrumental in reaching the conclusions posited (p. 1910).

The authors of Spyrou and Kassimatis (2009) evaluated 34 studies (pp. 1913-1914) that were relevant to the problem advanced in the study and the authors included positions from the literature in which those researchers did not agree with the viewpoints of the study’s authors (p. 1901). The basic study design’s components of population (p. 1901), intervention (p. 1903), and outcome (pp. 1910-1911) were the result of accurate and valid measurements (p. 1901). The analysis in the study was relevant to the research questions (pp. 1906-1909) and the conclusions (p. 1911) were validly based upon the analysis (pp. 1906-1909) and data (Datastream) (p. 1911). The tone of the study was objective (pp. 1899-1900) and it was a relatively straight-forward exercise to deconstruct the flow of arguments into a logical progression (p. 1913). The results of the study contributed to the understanding of the problem under study (pp. 1900 and 1913) and were useful to promote a better understanding of modern portfolio theory (p. 1900), as well as to the promotion of the use of a practitioner’s model for the evaluation of securities portfolios (p. 1909). The study related to the thesis of this paper in that it helped to promote a more complete understanding of the theory and the models used with securities portfolios later in this paper.


Fama and French three-factor model (F & F) and the value at risk (VaR) in choosing the optimal portfolio shares. *International Research Journal of Finance & Economics, 2011*(80), 94-104.

The authors of Talebnia, Zare, Abadi, and Fathi (2011) clearly stated the study’s problem as such: whether and if it were indeed possible to construct a portfolio of securities such that the constructed portfolio would approach an optimal portfolio’s results dictated by the use of the CAPM and the “Fama-French three factor model” (p. 94). The significance issues such as scope (p. 99), severity (p. 95), and relevance (p. 98) were clearly established. The study could have been approached from another perspective, but the use of the critical science research orientation (p. 95) seemed to work well within the study’s developmental theoretical framework (p. 98).

The authors of Talebnia, Zare, Abadi, and Fathi (2011) evaluated 49 sources from the literature relevant to the study (pp. 102-104) and included researchers from the literature whose collective viewpoint did not coincide with the authors of the study (pp. 95-96). The basic components of the study, such as the population (p. 99), the intervention (p. 100), and the study’s outcome (pp. 100-101), accompanied by measurement validity (p. 104) and an accurate analysis of the data ((pp. 100-101), all proved to be valuable to promote relevance to the research questions. The conclusions seemed to flow regularly from the analysis in the study (pp. 100-101). There was an objective basis for the study (p. 95) and the authors followed a study format (p. 99) that allowed for a relatively straight-forward deconstruction of the arguments to logically follow the work easily from the introduction (p. 94) to the conclusion segment (pp. 100-101). The study’s results contributed to a better understanding of the notions that optimal portfolios could be selected using only the CAPM, the Fama-French model, and the “Value at Risk (VaR)” (p. 99). The study helped to understand the use of modern portfolio theory and some practitioner models that may prove useful in optimizing securities market portfolios later in this paper.


The author of Zakamulin (2011) clearly formulated the study problem as: whether a vector of Sharpe ratio assets that were risky could be substituted for the Markowitz procedure, when the aspects of return and risk were changed in market portfolios or individual securities; there might be a reason to use the CAPM and adjust “Jensen's alpha in order to properly measure abnormal portfolio performance” (p. 1). The study’s significance, with regard to the scope (p. 2), severity (pp. 3-4), and relevance (p. 1), was clearly established. The study problem could have been approached from the perspective of the use of the APT as opposed to the CAPM (p. 2), but the author’s combinatorial use of the interpretive and critical science research orientations (p. 2) meshed well with the study’s developmental theoretical framework (pp. 4-6).

The author of Zakamulin (2011) evaluated 14 sources (p. 9) that were relevant to the research problem and included sources that echoed the assumptions integral to the arguments posited in the study, while adjusting certain parameters necessary for those assumptions to work (pp. 2-3), but the author failed to include researchers from the literature who disagreed with adjustments posited to support the study’s assumptions and thus the methodology manipulations in the study. The basic components of the study were sound, but there were not many references (stated above) nor were there any counter viewpoints; the study seemed rather one-sided. Further, it was difficult to agree with the author’s bias for summarily dismissing some of the standard assumptions of the Markowitz model without adequate cause (pp. 1-2) and then, oddly enough, the author’s penchant for not adequately substituting with complete substitutions, courting the CAPM and Sharpe ratio adjusted securities, in numerous examples of mathematical coding (pp. 3-6). Further, even though the 15 national datasets (from the Ken French website) of data seemed appropriate (p. 7), the 30 years of data utilized (p. 7) seemed to be arbitrarily divided into two, non-analogous, 15 year periods for comparison (p. 7); there was no evidence of econometric substantiation, calibration, or any theoretical substantiation for the divisional sub-sets of data posited – the bizarre rationale was to simply “examine the evolution of the investment opportunity set through time” (p. 7). Overall, the basis for the study was objective, but the above points, considering the data manipulations, probably do not allow for a proper enough accounting for accurate enough results in the conclusion segment (pp. 8-9). Although the methodology (p. 2) allowed for a straight-forward enough deconstruction of the study into the component parts of logical arguments, there were troubling points in the data’s handling that may be an effective means for an invalidation of the results of the study (e.g. no tabular results or appendices – just graphs and a plethora of theoretical, mathematical calculations with only a one paragraph summary/conclusion) (pp. 1-9).
The author of Zhang (2009) clearly formulated the study’s problem as: a test of the asymptotic version of the APT with Sharpe ratios, which rejected the current theoretical platform of an exact relationship, in order to bypass the systemic factors so that the use of the model then “treats the beta pricing relation as approximate” (p. 1255). The significance of the study, with regard to scope (p. 1257), severity (pp. 1257-1258), and relevance (p. 1255), was clearly established. The study could not have been approached from another perspective, because the author of the study indicated the presence of a gap in the literature due to the fact that no researcher had ever tested the asymptotic APT model for relief from beta pricing issues in a relationship that had actually been held within the bounds of theory (p. 1255). The author’s critical science research orientation (pp. 1256-1257) meshed well with the study’s developmental theoretical framework (p. 1256).

The author of Zhang (2009) evaluated 23 relevant studies from the literature (p. 1266) and included a number of researchers who did not have an orientation or belief in concordance with the study’s author (pp. 1255-1256). The basic components of the study design were fairly compelling (p. 1256) and the accuracy and validity, of the data, were above reproach (p. 1260). The analysis in the study (pp. 1260-1264) was relevant to the research questions (p. 1257) and the conclusions (pp. 1264-1265) seemed to follow from the results (p. 1263) of the study. There was an objective tone to the study (p. 1255) and a deconstruction of the arguments was not difficult in order to observe a logical flow (pp. 1256-1257) to the conclusions. The study contributed to an alternative understanding of pricing and anomalous returns, through the theoretical and practitioner level use of the APT, concerning securities in market portfolios. The study will be useful to help understand the use of modern portfolio theory and some practitioner models that may prove useful in optimizing securities market portfolios later in this paper.

**Literature Review Essay**

**Overview**

The authors of Abbas, Ayub, Sargana, and Saeed (2011) posited that the downside-beta capital asset pricing model (DCAPM) should replace the more traditional CAPM (p. 189). The mentioned research was relevant to the theory in the previous theory paper (see Jewczyn (2013)) and updated here because the research results were an update to the formulation and use of the CAPM discussed in the previous theory paper (see Jewczyn (2013)); the issue was defined to be the increased prevalence of research into downside risk and the DCAPM was shown to be more relevant than the "APT and multi-factor CAPM" (p. 189). By utilizing the release of the model’s constraints, for the use of the traditional CAPM with assumptions of preferences of investors (regarding risk), the normality assumption proved to be sufficient (p. 189). The authors' research orientation, and the accompanying framework, was a good fit since the result was that the study's conclusion, that the modified DCAPM outdid the traditional CAPM concerning accurate asset pricing (p. 189), was supported by the research (p. 196).

The researchers of Abbas, Ayub, Sargana, and Saeed (2011) provided a literature review that was useful for practice since a practitioner model of the theory was provided in the utilizable DCAPM (p. 194). The strength of the DCAPM was found to be that the model could apply to more asset pricing situations than the CAPM (p. 195) whereas a weakness of the study proved to be that several constraints had to be released in order to make the DCAPM workable as a solution (p. 189). The authors' research and the conclusion presented in their article related to the thesis being developed in this paper in that the DCAPM was supported as an improvement to the limited practical use and empirical testable value of the traditional CAPM (p.190).

The authors of Artavanis, Diacogiannis, and Mylonakis (2010) noted that, since various previous studies had relegated a smaller load to mean deviations that were positive (p. 25), the risk on the downside was more explanatory for variance and risk. Further, the authors realized that Markowitz had noted that it would be appropriate to use semi-variance means, as opposed to the securities' mean-variance, for the examination of securities portfolios regarding variance and expected returns (p. 25). The relevance of the authors' thesis to foundational theory was clearly established (p. 25) and the problem could not have been effectively approached from a different perspective (p. 26).

The basic components of Artavanis, Diacogiannis, and Mylonakis (2010), such as the analyzed population of individual securities and the several opposing portfolios for a 15 year time period on the London Stock Exchange and the Paris Stock Exchange (pp. 35-38), as well as the intervention (p. 30) and outcome (p. 33), were appropriate to the study. There might have been a better means of cleaning the data in the study (p. 29). Perhaps there will be a researcher in the future who might eventually better properly account for and provide a better proxy for the consideration of firm survival bias, which was only marginally accounted for and coincidentally addressed in the study (p. 29). The article contributed to the thesis in the previous theory paper (see Jewczyn (2013)) and updated the research here by providing several workable alternatives to the traditional versions of the CAPM (p. 26).
The authors of Asness, Frazzini, and Pedersen (2012) did formulate a problem concerning their interpretation of modern portfolio theory (MPT) regarding risk parity (p. 47). A previous convention among primary theorists dictated that the researcher would, as a part of the model's assumptions, at least infer (Treynor, 1962, p. 13; Sharpe, 1964, p. 442; p. Mossin, 1966, p. 768) or indicate outright (Lintner, 1965b, p. 589) that the securities in the portfolio were composed of common equities or mutual funds of those common equity securities, which the authors of the study examined failed to do outright (Asness, Frazzini, & Pedersen, 2012, pp. 47-58). The study’s assertions were contrary to the position of Markowitz: namely that a 50% continued margin on securities in a portfolio, because of interest, transaction costs, and securities' volatility, would over time reduce the original dollar of principal invested, margined to two dollars, down to one-half of one cent (Markowitz, 1959, pp. 118-119). The previous theory paper (see Jewczyn (2013)), which was updated here, maintained that leverage (or margin) was an investment tool to be used in a one-period model to improve an investor's buying power in a securities portfolio and aid in market clearing, but was not intended by foundational or primary theorists to be a long-term endeavor.

The researchers of Asness, Frazzini, and Pedersen (2012) evaluated the literature concerning the problems under review, which were essentially risk parity and investor aversion to leverage for portfolios, but the authors' salient points were buttressed by citing, or referring, to the authors' own previously published articles (pp. 47, 49, 50, 51, 53, 55, 56, 58, 59). The authors failed to maintain their objectivity in the study and the lack of use of published positions in the literature (other than their own) was not supportive of the authors' thesis.

The authors of Azam and Ilyas (2011) compared the power of prediction of three financial asset pricing models: the traditional CAPM (return expectations for one stock or a portfolio of securities' surplus return); the Fama-French model of three factors (a model that adds to the CAPM the factors of premium size and "book to market equity premiums") (p. 415); and the model of five factors (that adds to the three-factor model the two factors of "[P]rice (sic) to earning[s] premium and leverage premium") (p. 415). The research problem could have been differently approached, but the four hypotheses, the 50 firms examined, and the five year time period helped to narrow the study to an experimental space that seemed appropriate for the authors' critical science research orientation (p. 419).

The authors of Balvers and Dayong (2009) examined two asset pricing models: an extended version of the traditional CAPM that accounted for some transaction costing; and a consumption version of the CAPM that used the growth of real money (p. 337). The researchers attempted to account for the consideration of the value premium that appeared, as a result of the models' usage, since "value firms are sensitive to liquidity shocks but growth firms are not" (p. 337). The significance to the study was that an additional factor for modeling appeared as a result of the use of the models for computations (p. 341).

The researchers of Balvers and Dayong (2009) evaluated 47 studies that were relevant to the problem examined (pp. 366-368) and included studies where the authors of those studies were not in agreement with the objectives of the study under consideration (p. 338). Upon consideration of the fact that the datasets and portfolios of securities data came from the compilation website of Kenneth French (p. 345), the study’s conclusions (pp. 362-364) were assumed for this discussion to be congruent with the aspects of relevance to the research questions (p. 344) and the data analysis (pp. 347-348) secondary to the use of the study's models (p. 345). The authors’ original assumptions seemed bold: the study's results, that extensions of the two previous models were more functional (p. 364), were borne out by the assumptions and methodology (p. 343). The study's results contributed to the understanding of asset pricing theory with the use of a more useful set of models for practitioner use; but the usage of the two models would not be practical or universal in all situations (p. 359). The study related to the specific thesis of this paper by improving the models under consideration for asset pricing so that the Current Research discussion section could be more complete and thorough.

The authors of Ben Mabrouk and Bouri (2010) noted: an outline of the CAPM's application to asset pricing; the fact that the CAPM may not be applicable without some model adjustments; and the literature debate among theorists concerning whether variations of the CAPM make the CAPM model more useful to practitioners and theorists (p. 265). The researchers evaluated 123 studies in the literature relevant to their study (pp. 296-305) and did include literature in which the researchers did not agree with the positions of the authors of the study (p. 271). The article contributed to a better understanding of contrarian positions in the literature regarding aspects of the CAPM (p. 271) and related to the thesis of this paper by providing an extraordinarily large volume of results and discussion from the literature concerning certain variations of the traditional CAPM (pp. 296-305).

The authors of Bontas and Odagescu (2011) considered two different models of arbitrage pricing theory (APT) (p. 96). The issue was one of preference for one of two variations of the APT to "be used in [a] financial portfolio's optimization" (p. 97) and whether short term or long term economic factors employed were more decisive concerning the results (p. 108). There was uncertainty concerning whether the conclusions of the study would be useful to the thesis of this paper, since there were so many breaks in the logic train of arguments in the study.
The author of Galagedera (2009) realized that derived relationships concerning measures of systemic risk were reliant upon a securities market portfolio's results volatility (p. 341). The author's research orientation was typified by an interpretive approach (pp. 341-344) that did not seem to mesh well with the developmental theoretical framework regimen of chains of mathematical equations (pp. 344-349) that then lead to numerous graphs of scatter plot results (pp. 350-352) that required additional interpretation before the graphs were shown (p. 349).

The author of Levy (2010) posited a theoretical substitution of prospect theory for expected utility since analysis that involved mean-variance "is not always consistent with peoples' choices;" thus the use of the traditional CAPM would be in doubt and the results inconsistent (p. 43). The substitution of prospect theory in the CAPM framework, such that the CAPM was valid even though there was no validity in the use of expected utility, provided "strong experimental support for the CAPM" (p. 43).

The authors of Spyrou and Kassimatis (2009) realized that there was a difference in the premium expected for value versus growth securities in a market portfolio; the authors of the study demonstrated that value securities portfolios did not typically over time regularly exhibit a lower return than growth securities portfolios (p. 1899). The authors of Spyrou and Kassimatis (2009) evaluated 34 studies (pp. 1913-1914) that were relevant to the problem advanced in the study and the authors included positions from the literature in which those researchers did not agree with the viewpoints of the study's authors (p. 1901). The results of the study contributed to the understanding of the problem under study (pp. 1900 and 1913) and were useful to promote a better understanding of modern portfolio theory (p. 1900), as well as to the promotion of the use of a practitioner's model for the evaluation of securities portfolios (p. 1909). The study related to the thesis of this paper in that it helped to promote a more complete understanding of the theory and the models used with securities portfolios later in this paper.

The authors of Talebnia, Zare, Abadi, and Fathi (2011) proposed whether and if it were indeed possible to construct a portfolio of securities such that the constructed portfolio would approach an optimal portfolio's results dictated by the use of the CAPM and the "Fama-French three factor model" (p. 94). The authors evaluated 49 sources from the literature relevant to the study (pp. 102-104) and included researchers from the literature whose collective viewpoint did not coincide with the authors of the study (pp. 95-96). The study's results contributed to a better understanding of the notions that optimal portfolios could be selected using only the CAPM, the Fama-French model, and the "Value at Risk (VaR)" (p. 99). The study was useful to help understand the use of modern portfolio theory and some practitioner models that may prove useful in optimizing securities market portfolios later in this paper.

The author of Zakamulin (2011) studied whether a vector of Sharpe ratio assets that were risky could be substituted for the Markowitz procedure, when the aspects of return and risk were changed in market portfolios or individual securities; there might be a reason to use the CAPM and adjust "Jensen's alpha in order to properly measure abnormal portfolio performance" (p. 1). The author evaluated 14 sources (p. 9) that were relevant to the research problem and included sources that echoed the assumptions integral to the arguments posited in the study, while adjusting certain parameters necessary for those assumptions to work (pp. 2-3). But, the author failed to include researchers from the literature who disagreed with adjustments posited to support the study's assumptions and thus the methodology manipulations in the study. The author's bias summarily dismissed some of the standard assumptions of the Markowitz model without adequate cause (pp. 1-2) and then did not adequately substitute with complete substitutions, courting the CAPM and Sharpe ratio adjusted securities, in numerous examples of mathematical coding (pp. 3-6).

Even though the 15 national datasets (from the Ken French website) of data for Zakamulin (2011) seemed appropriate (p. 7), the 30 years of data utilized (p. 7) seemed to be arbitrarily divided into two, non-analogous, 15 year periods for comparison (p. 7). There was no evidence of econometric substantiation, calibration, or any theoretical substantiation for the divisional sub-sets of data posited - the bizarre rationale was to simply "examine the evolution of the investment opportunity set through time" (p. 7). There were troubling points in the data's handling that may be an effective means for an invalidation of the results of the study (e.g. no tabular results or appendices -- just graphs and a plethora of theoretical, mathematical calculations with only a one paragraph summary/conclusion) (pp. 1-9).

The author of Zhang (2009) tested an asymptotic version of the APT with Sharpe ratios, which rejected the current theoretical platform of an exact relationship, in order to bypass the systemic factors so that the use of the model then "treats the beta pricing relation as approximate" (p. 1255). The author indicated the presence of a gap in the literature due to the fact that no researcher had ever tested the asymptotic APT model for relief from beta pricing issues in a relationship that had actually been held within the bounds of theory (p. 1255). The author evaluated 23 relevant studies from the literature (p. 1266) and included a number of researchers who did not have an orientation or belief in concordance with the study's author (pp. 1255-1256). The study's analysis (pp. 1260-1264) was relevant to the research questions (p. 1257) and the conclusions (pp. 1264-1265) followed from the results (p. 1263) of the
study.

A Synthesis of Foundational Theory, the CAPM, and the Current Research Annotations

Jack Treynor posited a number of assumptions that extended the modern portfolio theory work of Markowitz (Treynor, 1962, p. 2). Treynor's market value theory included seven basic assumptions (p. 2). Unfortunately, there were researchers in the current literature who did not agree with a portion of the standard assumptions posited by Treynor; not all of the assumptions above were considered, such as common equity securities quantified, to be assumed in the current studies examined (Asness, Frazzini, & Pedersen, 2012, pp. 47-58). Oddly enough, Jack Treynor was not even acknowledged as one of the concurrent theorists who had originally posited the CAPM (p. 49). Further, researchers in the current literature realized that two sections, namely that a perfectly efficient lending market existed and that all investors were part of an efficient market where all current prices were known and the investors' predictions of expected values in the future were identical, were not always consistent for investors and markets, contrary to the views of Markowitz and Treynor (Zakamulin, 2011, p. 1). Contemporary theorists needed to account for imperfect markets, returns, and increased risks; there might be a reason to use the CAPM and adjust “Jensen's alpha in order to properly measure abnormal portfolio performance” (p. 1).

A significant side-note of interest, to promote an adequate comprehension of the time-period constraints associated with Treynor's theory, was that Treynor had separated the proposed investors' projected, expected, security returns into two, cumulative-result, additive parts (Treynor, 1962, p. 5). The first part of the security return, a) regardless of how the investor invested, the capital rate of return calculated from the use of the risk-free rate of lending was added to the second part, which was b) the return expected based upon the assumed risk for any taken risks and those taken risks had no relationship to the capital invested (p. 6). All four of the CAPM primary theorists, Treynor, Sharpe, Linter, and Mossin, had overtly agreed that an investor’s functionality, or utility, was predicated upon return and risk – typically noted when assumptions were discussed relating to common equity positions in a portfolio (Lintner, 1965b, p. 589; Mossin, 1966, p. 768; Sharpe, 1964, p. 442; Treynor, 1962, p. 13). However, some researchers in the literature posited that more factors added to the analysis for accuracy purposes, such as in the cases of the three and five factor models, could inevitably improve upon the considerations of risk and return of the CAPM (Azam & Ilyas, 2011, p. 415). Researchers in the literature realized that there were three commonly used models in contemporary practice (pp. 416-417) and that the five factor model demonstrated a slight advantage over the CAPM and the three factor model concerning accuracy as a “proxy for risk” (p. 424).

Treynor's market value theory was introduced with a unique means of a discussion framework that allowed a separatist, theoretical viewpoint of the mathematics and the resulting rigor of those calculations. The framework, or experimental space used for consideration of those calculations, was that Treynor was able to summarily dismiss the risks associated with price and interest rates (Treynor, 1962, p. 4). However, a modified version of the Treynor CAPM, such as the DCAPM, could outdo the traditional CAPM concerning accurate asset pricing (Abbas, Ayub, Sargana, & Saeed, 2011, p. 189). Further, a consumption version of the CAPM (CCAPM) that used the growth of real money accounted for the consideration of the value premium that appeared since “value firms are sensitive to liquidity shocks but growth firms are not” (Balvers & Dayong, 2009, p. 337).

Treynor noted that the only reason that portfolio analysis was able to be conducted was that there was a proxy for the riskless asset in existence (Treynor, 1962, p. 4). Apparently, Treynor’s notion was that the risks associated with pricing and rates were insignificant in the macroeconomy of the United States compared to "typical equity risks" (p. 4). An important conclusion was that Treynor had assumed that certain risks were insignificant when compared with the magnitude of the U.S.' macroeconomy, so the space where Treynor was experimenting was characterized by only one time period (p. 17). The ideological viewpoint of a one time period experimental space was echoed by foundational and primary theorists (Lintner, 1965b, p. 588; Markowitz, 1959, p. 299; Mossin, 1966, p. 770). There was some dissension in the ranks of the theorists for there were those theorists who sympathized with Merton’s aversion to the single time period constraint (Roll & Ross, 1980, p. 1074; Black, Jensen, & Scholes, 1972, p. 14). Researchers in the literature, by varying the time constraint of the CAPM, demonstrated that value securities portfolios did not typically over time regularly exhibit a lower return than growth securities portfolios (Spyrou & Kassimatis, 2009, p. 1899).

Even though Treynor alluded to multiple time periods for other, residual calculations, and considered extrapolation from a single time period to continuous time or multiple time periods, the mathematics variables in the proofs started with, and it was assumed that there was, only a one time period constraint for the proofs (Treynor, 1962, p. 5). The type of calculation just described was important to Treynor's theory because the above constraint made possible the mathematical result and belief that the lending markets provided value resolution for the
difference between an investor's shares and equity, since the future value of debt was related to the present value of debt and was simply a function of the "lending rate" (p. 7). Unfortunately, the Treynor viewpoint just mentioned did not adequately account for downside risk and researchers in the literature acknowledged that the prevalence of research into downside risk promulgated that the DCAPM was shown to be more relevant than the "APT and multi-factor CAPM" (Abbas, Ayub, Sargana, & Saeed, 2011, p. 189). Those researchers realized that the DCAPM was supported as an improvement to the limited practical use and the empirical testable value of the traditional CAPM (p.190).

One similarity was that Treynor naturally assumed that the contents of securities portfolios remained static during the mathematical calculations and proofs performed for one time period, which was arbitrary (Treynor, 1962, p. 5). Another similarity consideration, with regard to the work of Markowitz, was that Treynor noted that, for a perfect market for equity, risk for each security share was directly related to an investment's covariance compared to the aggregate investment value of the overall market (p. 13). The above consideration was thought to hold true, using the Markowitz calculations, for both the matrix of covariance involving securities and a particular portfolio's variance (p. 14). Researchers in the literature realized that: the use of risk parity funds solved many of the problems associated with the diversity of securities portfolios (Asness, Frazzini, and Pedersen, 2012, p. 47); the criterial values of securities portfolios were not necessarily absolute (Marasović, 2009, p. 20); the risky assets were indeed substitutable (Zakamulin, 2011, p.1); and that the content of portfolios under study was not necessarily static (p. 3).

William Sharpe conclusively reported that his capital market theory (Sharpe, 1965, p. 417) could not be evaluated in reality since his theory was predicated upon assets' future expected return and the risks concomitant with the associated investment of those assets (p. 416). Researchers in the literature confirmed the preceding view from Sharpe in that the practical manifestation of the theory, the DCAPM was supported as an improvement to the limited practical use and empirical testable value of the traditional CAPM (Abbas, Ayub, Sargana, & Saeed, 2011, p. 190); to include the accompanying lack of empirical validity of the CAPM (Levy, 2010, p. 44). However, by substitution, Sharpe realized that the actual security returns' standard deviations and mean values, as opposed to expected returns statistics, could be used as a proxy for "ex ante predictions of investors" (Sharpe, 1965, p. 416). Researchers in the literature also echoed Sharpe’s sentiments of asset substitutability (Zakamulin, 2011, p.1), but differed from Sharpe’s implicit assumptions regarding the lack of a static nature of the shares contained in securities portfolios (p. 3).

Sharpe had concluded that there was a sufficiently strong enough correlation coefficient to demonstrate that there was substantiation for one of the standard assumptions of portfolio theory regarding investor risk aversion (Sharpe, 1965, p. 417). The observation set the platform in place for Sharpe's formulation of an approach to portfolio theory to conclude that portfolio theory rested upon a capital asset pricing model that relied upon aggregate capital market general equilibrium (Sharpe, 1964, p. 433). The view just espoused was not echoed by some researchers in the literature, however, who noted that multiple versions of the APT could be used to optimize securities portfolios (Bontas & Odăgescu, 2011, pp. 96-97). Further, barring equilibria considerations, the short-term factors had more of an impact on the model’s results than long-term factors (p. 108).

An important corollary to Sharpe’s belief was that the pricing of capital assets moved in a linear fashion in the market and that the returns' annual standard deviations and average returns, while moving in a linear fashion, then changed future values of those returns and deviations (Sharpe, 1965, p. 417). Researchers in the literature concluded that, although there may be a linearity aspect to those returns, the returns did not necessarily have to be depicted in a normal manner and could result in non-normal distributions of those data (Artavanis, Diacogiannis, & Mylonakis, 2010, pp. 26 and 32).

In order for the CAPM to function properly, Sharpe made two basic assumptions, similar to Treynor, that there was: (a) in-place a proxy for the risk-free interest rate enjoyed by all investors; and that (b) future expectations of security returns anticipated by all investors were identical (Sharpe, 1964, p. 433). However, a researcher in the literature used the Sharpe ratios implicit in the CAPM, which rejected the current theoretical platform of an exact relationship, to bypass the systemic factors so that the use of the APT model then allowed the treatment of the beta pricing relationship as an approximation (Zhang, 2009, p. 1255).

Lintner acknowledged the Sharpe observation of the dual price points available in the actual market, but differed from Sharpe's view of capital asset pricing in that these observations would be consistent in general equilibrium even when investors did not share the typically expected identical expectations of future returns (Lintner, 1965b, p. 587). Lintner realized that decisions involving the optimal choice of portfolios of securities depended upon the use of "residual variances" (p. 610). Also, in markets for securities, which were pure and competitive, those residual variances were integral to the equilibrium pricing of securities (p. 611). Lintner’s views were not completely supported in the literature because researchers espoused the idea that more factors were necessary to accurately depict returns and variances (Azam & Ilyas, 2011, p. 415). Lintner posited that the
diversification in mutual funds was limited to risk considerations, other than economic factors that affected general markets for securities, and that the mutual funds examined over time, regarding security returns' estimates of statistical error, were simply points that supported regression analyses of the Standard and Poor's index because mutual funds were just a conglomeration of common stocks of that index (Lintner, 1965b, p. 612).

Lintner suggested that portfolio theory would include the ideas that assets at risk would trade in a market that was: competitive; under perfect conditions; and that security prices existed in a general equilibrium. Each risk asset's price was directly related linearly to the security's future expected returns, as well as to the covariances and variances when considering the other securities in the proposed portfolio. Lintner acknowledged the Sharpe observation of the dual price points available in the actual market, but Lintner differed from Sharpe's view of capital asset pricing in that Lintner held that these observations would be consistent in general equilibrium even when investors did not share the typically expected identical expectations of future returns.

Jan Mossin assumed a general equilibrium model for the CAPM (Mossin, 1966, p. 769) and agreed with observations by theorists such as Sharpe, who had made two basic assumptions similar to Treynor's observations: that there was in-place a proxy for the risk-free interest rate enjoyed by all investors; and that future expectations of security returns anticipated by all investors were identical (p. 770). Mossin supported the Markowitz idea that investors had a range of choices that could be depicted as points on a graph of the securities' "mean-variance" (p. 770) and that expected returns and yield variances were to be expressed rather simply in some basic unit of measure to which he ascribed the use of the U.S. dollar for the sake of convenience (p. 770). A proxy for the risk-free rate was confirmed in the literature (Galagedera, 2009, p. 349). Although researchers concurred regarding the linearity of the returns and variances, an exception was taken to the assumption of normality (Artavanis, Diacogiannis, & Mylonakis, 2010, p. 32). Dollars as a sake of convenience in the metrics was also supported in the literature (Balvers & Dayong, 2009, p. 337).

The Mossin concept of the vector matrix of securities distribution (Mossin, 1966, p. 771) echoed the Markowitz viewpoint, but a significant difference from other primary theorists was that Mossin decided to arbitrarily assign a price to one of two securities considered and then to evaluate pricing with regard to all other securities proposed for inclusion in the securities portfolio in relation to that arbitrarily assigned security price (p. 771). The arbitrariness of the securities' selection was not echoed by researchers in the literature (Bontas & Odâgescu, 2011, p. 108).

A further departure from the theoretical norms set up by Markowitz was that Mossin assumed that: the investor's utility curve was not snake-like (upward sloping) or discontinuous, but concave; that the first derivative was positive whereas the second derivative was negative; and that there was a constraint such that, as opposed to investment being unlimited, the sales proceeds from the now defunct portfolio should equal the total investment in the investor's new portfolio (Mossin, 1966, p. 772). Unlimited investments aside, there were researchers in the literature who acknowledged that for the CAPM to work, only the first two moments were applicable and that the higher levels of derivatives must by default be zero (Abbas, Ayub, Sargana, & Saeed, 2011, p. 193). Mossin also referred to the allocation of assets in the subject portfolio as a zero-sum game such that one investor's gain, in a perfect market in general equilibrium, would constitute another investor's loss; a condition that dovetailed with Mossin's belief in a concave graph of investor preferences (Mossin, 1966, p. 773). Graphing was addressed in other segments above and the researchers in the literature posited that portfolio theory did not involve a zero-sum assumption for the securities at hand and that the portfolios' content was not necessarily static (Zakamulin, 2011, p. 3).

There was a general agreement in the portfolio theory views of theorists Mossin and Treynor regarding additive values concerning the use of the risk-free lending rate and expected return: regardless of how the investor invested, the capital rate of return was calculated from the use of the risk-free lending rate and was added to the second part, which was the return expected from the assumed risk for any risks taken and those taken risks had no relationship to the invested capital (Mossin, 1966, p. 774). The idea of additive values was supported in the literature as was the concept of surplus return (Azam & Ilyas, 2011, p. 415).

Mossin reasoned that, in equilibrium, price was the determinant such that all investors would hold the available securities outstanding in exactly the same allocation percentage in all investor portfolios (Mossin, 1966, p. 775) but that, due to limitations from the mathematical proofs, a researcher would be unable to determine whether each investor would also hold an identical percentage of assets that were riskless (p. 775). The idea of percentages was marginally addressed in the literature and the concept of value premiums was given as the rationale for the investors' impetus to hold certain securities in preference to others; namely in value versus growth sector security decisions (Balvers & Dayong, 2009, p. 337).

However, Mossin's mathematical calculations do allow the determination of a specific investor's holdings between riskless assets and risky assets (Mossin, 1966, p. 775). The previous concept was not difficult to find in the
literature since partitioning of a portfolio would require the use of such a determination and the use of a risk-free proxy (Galagedera, 2009, p. 349). Even if all assets were thought to be "perfectly divisible" (Mossin, 1966, p. 776), Mossin's idea, that if a certain investor held any assets that were risky the investor would by default hold some of every risky asset (p. 776), was a significant departure from the Markowitz notion that not all efficient portfolios contained some of every asset under examination (Markowitz, 1959, p. 26). There was no support in the relevant literature for the Mossin belief of holding every risky asset available in the securities portfolio (Abbas, Ayub, Sargana, & Saeed, 2011, p. 192).

A Synthesis of the APT and the Current Research Annotations

Stephen Ross developed an alternative to the capital asset pricing model (CAPM), which had been introduced in the early 1960's (Ross, 1976, p. 341). Ross acknowledged that the CAPM was then currently accepted as a functional means for examining assets that were risky in "capital markets" (p. 341). Researchers in the literature, however, had concluded that, due to the majority of current research concerning downside risk, the DCAPM was shown to be more relevant than the "APT and multi-factor CAPM" (Abbas, Ayub, Sargana, & Saeed, 2011, p. 189). Ross had concluded that the then current modern portfolio theory included the viewpoint that most of the risk assumed by investors, when investors were inclined to diversify their investment portfolios, was probably attributable to macroeconomic, "systematic influences" (Chen, Roll, & Ross, 1986, p. 383). Although researchers from the literature agreed that the APT provided some merit in the treatment of risk, those same researchers disagreed with Ross' position concerning macroeconomic, systemic influences by maintaining that short term factors, when used in conjunction with the two arbitrarily used models in their study, were more meaningful to the results than long-term economic factors (Bontas & Odăgescu, 2011, p. 108).

Since Ross was able to use asset substitutes in the application of his APT model, he had determined that, given equal pricing of substitutes in the portfolio that were perfect, the principal feature of APT was that each security's return was possessed of restrictions "generated by the model" (Roll & Ross, 1980, p. 1077). Therefore, Ross had reasoned that those security returns, when restricted by the model, were influenced by various macroeconomic surprises or what he described to be those systemic influences discussed above. Those influences were changes to "industrial production" (more commonly known as U.S. GNP) (Chen, Roll, & Ross, 1986, p. 386), "inflation" (p. 388), an artificially constructed variable that was the result of subtracting the long-term return of a government bond portfolio's return from the long-term return of bonds that were considered "low-grade" (a proxy for changes in consumer confidence relative to equity stocks) (p. 389), "term structure" (p. 389), short term "relative pricing" (of various equities) (p. 390), and yield curve changes in "consumption [and] oil prices" (p. 390). Unfortunately, these considerations from Ross did not necessarily apply in studies from the literature where researchers had used more contemporary versions of the APT and noted that the short term factors were more appropriate and meaningful to the results (Bontas & Odăgescu, 2011, p. 108). Further, another researcher in the literature had indicated that a more fair representation of the risk-free rate proxy should be the "10-year US (sic) Treasury bond rate" (Galagedera, 2009, p. 349).

A cursory examination of Ross' corollary one (Ross, 1976, p. 350) and an application of the resulting APT assumption four (p. 351) from corollary one would lead the reader to accept that Ross' APT was supply-side whereas the CAPM was a demand-side model that was specifically based upon an investor's consumption, as already shown above, and generally upon "utility theory" (Roll & Ross, 1980, p. 1074). Ross concluded that the CAPM was more restrictive in the associated theoretical platform assumptions for use of that theory, as opposed to the use of the APT, according to the reasoning of the previous several paragraphs above. Ross posited that his APT was empirically testable whereas he inferred, by default, that the CAPM was not empirically testable. Current researchers did echo the sentiment that the traditional CAPM had limited practical uses and that the CAPM was not empirically testable (Abbas, Ayub, Sargana, & Saeed, 2011, p. 190). There were current researchers who had found more uses for the APT by using versions of the APT that rejected restrictions previously allied only with the CAPM (Zhang, 2009, p. 1255) or by choosing one of the two more current versions of the APT in order to optimize securities portfolios (Bontas & Odăgescu, 2011, p. 97).

The then current modern portfolio theory, according to Ross, included the view that most of the risk assumed by investors was probably attributable to macroeconomic, systematic influences; a view shown above to be inconsistent with current research concerning the APT. Since Ross was able to use asset substitutes in the application of his APT model, he had determined that the principal feature of APT was that each security's return was possessed of restrictions generated by the model. The substitutes question aside, there were researchers who had summarily dismissed the practical use of the original versions of both the APT and the CAPM: the researchers had opted for a more practical current model version (the DCAPM) for use in the evaluation of returns and variance.
concerning securities portfolios (Abbas, Ayub, Sargana, & Saeed, 2011, p. 190).

A Synthesis of Foundational, Primary, and Secondary Theory and the Current Research Annotations

Fischer Black, Michael Jensen, and Myron Scholes agreed with four of the basic assumptions of the CAPM, namely that: a) investors could choose a portfolio using a security return's variance and mean, based upon personal consumptive choices secondary to the utility curve in one period, while being opposed to risk; b) there were no associated costs; c) returns were normally distributed; and d) investors could use the risk-free rate for both lending and borrowing to achieve these ends (Black, Jensen, & Scholes, 1972, p. i). Black, Jensen, and Scholes agreed with the modern portfolio theory considerations proposed by Markowitz and Sharpe (p. 6). The ideological viewpoint of a one-time period experimental space was echoed by foundational and primary theorists (Lintner, 1965b, p. 588; Markowitz, 1959, p. 299; Mossin, 1966, p. 770). However, there was some dissension in the ranks of the theorists for there were those theorists who sympathized with Merton’s aversion to the single time period constraint (Roll & Ross, 1980, p. 1074; Black, Jensen, & Scholes, 1972, p. 14). There were researchers in the literature who were not of the single time period school of thought who had used disparate time periods for their studies (Asness, Frazzini, & Pedersen, 2012, p. 52).

Black, Jensen, and Scholes disagreed with the original CAPM version proposed by Treynor because of aggregation issues associated with the use of a single security (when many were available) (Black, Jensen, & Scholes, 1972, p. 8), beta coefficient assignment issues secondary to the data "grouping procedure" (p. 10), and the fact that empirical testing demonstrated that, over time (35 years), securities with high risk earned less than CAPM predictions and low risk securities earned more (p. 14). A current researcher rectified part of the issue with a vector of Sharpe ratio assets that were risky, which could be substituted for the Markowitz procedure, when the aspects of return and risk were changed in market portfolios or individual securities; there was a reason to use the CAPM and adjust “Jensen's alpha in order to properly measure abnormal portfolio performance” (Zakamulin, 2011, p. 1). Another significant difference in the theoretical view was that Black, Jensen, and Scholes, as demonstrated above, showed that the CAPM was empirically testable whereas other theorists posited that the CAPM was not empirically testable (Roll & Ross, 1980, p. 1073). Researchers noted that there was: a limited practical use and empirical testable value of the traditional CAPM (Abbas, Ayub, Sargana, & Saeed, 2011, p. 190); and that there was an accompanying lack of empirical validity of the CAPM (Levy, 2010, p. 44).

By relaxing the basic CAPM assumption, that borrowing and lending were indeed without risk, Black, Jensen, and Scholes were able to introduce a two-factor CAPM (Black, Jensen, & Scholes, 1972, p. 42). Other versions of the CAPM arose from Black, Jensen, and Scholes' contention that there might indeed be assets for which there would be no market and that transaction costs (taxes) do exist (p. 43). Researchers in the literature, for a variety of reasons, noted that the most useful current version of the CAPM was the DCAPM (Abbas, Ayub, Sargana, & Saeed, 2011, p. 189; Artavanis, Diacogiannis, & Mylonakis, 2010, p. 26). Black, Jensen, and Scholes noted that errors in measurement contributed to the fact that the more traditional version of the CAPM (Treynor) was not valid, since the empirical testing now included "selection bias" (Black, Jensen, & Scholes, 1972, p. 43), and that excess future returns did not turn out to be in proportion to the beta coefficients used in the traditional CAPM (pp. 45-46). Downside beta issues were successfully addressed in the literature through the use of the DCAPM (Galagedera, 2009, p. 341). Current researchers provided strong alternatives that were explanatory, considering expected returns and risk inherent in study portfolios examined, but did not properly account for the firm survival bias in their study and some computed outliers regarding normal versus non-normal data distributions (Artavanis, Diacogiannis, & Mylonakis, 2010, pp. 26 and 32).

Black, Jensen, and Scholes contended that empirical examination of the data, using the traditional CAPM, became skewed and that the post hoc results were not necessarily reliable because the slopes of the graphs depicting the excess returns' means did not follow the predictions of the original model; in other words, that the mean was in fact not zero and actually moved over time (Black, Jensen, & Scholes, 1972, p. 45). Regarding movement over time, the current literature did address non-analogous time periods (Zakamulin, 2011, p. 7) and the non-normality of returns with regard to the original CAPM version (Artavanis, Diacogiannis, & Mylonakis, 2010, p. 32). Further, if borrowing did not turn out to be riskless, the two factors of excess mean returns and beta turned out to be a linear function (Black, Jensen, & Scholes, 1972, p. 46). Part of the two factor issue was addressed by pricing with regard to all other securities proposed for inclusion in the securities portfolio in relation to the arbitrarily assigned security price (Mossin, 1966, p. 771). The arbitrariness of the securities’ selection was not echoed by researchers in the literature (Bontas & Odăgescu, 2011, p. 108).

Even though other studies had tested the long term effects on returns, posed by the inclusion of costing (taxes), the results of other studies did not predict or explain the results from the use of biased data with the
traditional model (Black, Jensen, & Scholes, 1972, p. 47). Black, Jensen, and Scholes had contended that their work was not complete and that further studies were needed to explain the divergence of empirical results from those predicted by the traditional CAPM (p. 47). Douglas Breeden also noted that empirical tests of the traditional CAPM were inconclusive and, if the assumptions and constraints upon the traditional CAPM were relaxed, that the model was more generally and economically useful but that the expected returns in equilibrium were not quite so simply calculated (Breeden, 1979, p. 265). The relaxation concern was echoed elsewhere in the literature and was integral to the functionality of the CAPM for practitioners (Abbas, Ayub, Sargana, & Saeed, 2011, p. 189).

Breeden contended that all investors’ expected results would be correlated (for any one period) and that those investors' portfolios of securities' beta would be ratio proportional to their respective risk acceptance; each investor’s utility function (rates of consumption) was correlated perfectly to the aggregate (for a time period) and that (in a perfect market) consumption adjustments were ratio proportional to an investor's risk acceptance (Breeden, 1979, p. 266). For purposes of the use of beta, a researcher in the literature tested the asymptotic APT model for relief from beta pricing issues in a relationship that had actually been held within the bounds of theory (Zhang, 2009, p. 1255).

Breeden used a model, which employed continuous-time constraints, that was similar to a model used by Ross so a number of Breeden's assumptions were similar to a continuous-time model in general, but not to the one-period traditional CAPM (Breeden, 1979, p. 267). Breeden's model was consistent with the supply and demand of an asset determined in equilibrium (p. 269), but trading for assets only took place at the equilibrium pricing congruent to the determination of the investors' utility function consumption curves (p. 267). Supply and demand issues aside, a researcher obliquely addressed equilibrium pricing by showing that a vector of Sharpe ratio risky assets could be substituted for the Markowitz procedure when the aspects of return and risk were changed in market portfolios or individual securities: there would then be a rational reason for the use of the CAPM, with an adjustment to Jensen's alpha, so that abnormal portfolio performance could be properly measured (Zakamulin, 2011, p. 1). From the sections above, the reader will note that the basic distinction has already been made between the APT and the CAPM models: Ross’ APT was supply-side whereas the CAPM was a demand-side model that was specifically based upon an investor's consumption and generally upon “utility theory” (Roll & Ross, 1980, p. 1074).

Robert Merton was in agreement with Breeden's view of the traditional version of the CAPM in that the CAPM should be used with multiple betas to adequately represent relationships between total wealth and asset returns (Breeden, 1979, p. 273). Another contention was that Merton observed that the then current theory maintained that for two prospective portfolio assets, when one was without risk, that only the risky asset should be graphed because the efficient portfolio of risky assets was tangent to the risk-free asset line; Merton decided that it was important to graph both assets' return and risk and to choose two risky assets at the point of tangency because both assets were already assumed to be risky since both risky assets appeared in some combination on a graph of the efficient frontier of risky assets (Merton, 1972, p. 1868). The thought of making both assets risky in a two-asset portfolio did not mesh well with primary theory, since it was already shown that the capital rate of return calculated from the use of the risk-free rate of lending was added to the second part, which was the return expected based upon the assumed risk for any taken risks, and that those taken risks had no relationship to the capital invested (Treynor, 1962, p. 6). Further, a researcher in the literature noted that in order for the model to work properly, that the proxy for the risk-free rate was the 10-year U.S. Treasury bond rate (Galagedera, 2009, p. 349).

Franco Modigliani and Merton Miller occupied a dual role with regard to the development of pricing theory, and the models proposed by the various primary theorists, in that Modigliani and Miller acknowledged the support of primary theorist Lintner regarding Propositions I and II before the CAPM was formally, concurrently introduced by Lintner and other primary theorists (Modigliani & Miller, 1958, p. 261). Primary theorist Treynor, as discussed above, acknowledged that the Treynor research of agent reasonable and ideal behavior eventually and summarily lead to the confirmation of Modigliani and Miller's Proposition I (MMI) (Treynor, 1962, p. 1).

Modigliani and Miller's Proposition I included the notions that: a) firm's market value was exclusive of the firm's structure for capital and was reliant upon the revenue rate resulting from the classes of that firm's equity securities (Modigliani & Miller, 1958, pp. 268-269) and b) MMI was predicated upon the assumption that MMI could be derived with an end goal of the maximization of firm market value or firm profits (p. 262). The valuation of the firm was affected by value premiums, resulting from the use of the CCAPM to value firm securities; it did make a difference in the results (Balvers & Dayong, 2009, p. 337).

The reason for the need for MMI&II was that Modigliani and Miller posited the belief that the value of an investment decision regarding firm capital should not be predicated upon the status of who owned the firm at the moment when those decisions were made by management (Modigliani & Miller, 1958, p. 264). Modigliani and Miller reasoned that those who held equity positions could liquidate their shares of firm ownership, if the shareholders disagreed with management concerning firm value or the disposition of proposed firm financial
projects, but those shareholders would still be able to benefit from the liquidation of those shares in question and the streams of revenue associated with the shares up to liquidation (p. 264). These concerns were borne out by researchers in the literature who approached an optimal portfolio of securities such that investors maximized their utility; in effect benefitting even after the shares of common were liquidated (Talebnia, Zare, Abadi, & Fathi, 2011, p. 99).

**SUMMARY**

The authors of Abbas, Ayuh, Sargana, and Saeed (2011) posited that the downside-beta capital asset pricing model (DCAPM) should replace the more traditional CAPM. That research was relevant to the theory in the previous theory paper (see Jewczyn (2013)) and updated here because the research results were an update to the formulation and the use of the CAPM discussed in that previous theory paper (see Jewczyn (2013)); the issue was defined to be the increased prevalence of research into downside risk and the DCAPM was shown to be more relevant than the APT and multi-factor CAPM. Markowitz had noted that it would be appropriate to use semi-variance means as opposed to the securities' mean-variance for the examination of securities portfolios regarding variance and expected returns.

Jack Treynor posited seven assumptions that extended the modern portfolio theory work of Markowitz. Unfortunately, there were researchers in the current literature who did not agree with a portion of the standard assumptions posited by Treynor; not all of the assumptions were considered. The first part of the security’s return, a) regardless of how the investor invested, the capital rate of return calculated from the use of the risk-free rate of lending was added to the second part, which was b) the return expected based upon the assumed risk for any taken risks and those taken risks had no relationship to the capital invested.

Researchers in the literature, by varying the time constraint of the CAPM, demonstrated that value securities portfolios did not typically over time regularly exhibit a lower return than growth securities portfolios. Lintner also observed the then current theory notion, that assets not held in cash were not related to risk-averse investors' holding of cash in a normal distribution of returns in competitive markets, but this conditional occurrence was not always necessarily so. Further, in markets for securities, which were pure and competitive, those residual variances were integral to the equilibrium pricing of securities.

Jan Mossin assumed a general equilibrium model for the CAPM and agreed with observations by theorists such as Sharpe, who had made two basic assumptions similar to Treynor's observations. The Mossin concept of the vector matrix of securities distribution echoed the Markowitz viewpoint, but a significant difference from other primary theorists was that Mossin decided to arbitrarily assign a price to one of two securities considered and then to evaluate pricing with regard to all other securities proposed for inclusion in the securities portfolio in relation to that arbitrarily assigned security price. Stephen Ross developed an alternative to the capital asset pricing model (CAPM), which had been introduced in the early 1960's.

Black, Jensen, and Scholes contended that an empirical examination of the data, using the traditional CAPM, became skewed and that the post hoc results were not necessarily reliable; the slopes of the graphs depicting the excess returns' means did not follow the predictions of the original model, the mean was in fact not zero, and the mean actually moved over time. Part of the two factor issue was addressed by pricing with regard to all other securities proposed for inclusion in the securities portfolio in relation to that arbitrarily assigned security price. Breeden contended that all investors' expected results would be correlated (for any one period) and that those investors' portfolios of securities' beta would be ratio proportional to their respective risk acceptance; each investor's utility function (rates of consumption) was correlated perfectly to the aggregate (for a time period) and that (in a perfect market) consumption adjustments were ratio proportional to an investor's risk acceptance. Breeden's model was consistent with the supply and demand of an asset determined in equilibrium, but trading for assets only took place at the equilibrium pricing congruent to the determination of the investors' utility function consumption curves.

Franco Modigliani and Merton Miller occupied a dual role with regard to the development of pricing theory, and the models proposed by the various primary theorists, in that Modigliani and Miller acknowledged the support of primary theorist Lintner regarding Propositions I and II before the CAPM was formally, concurrently introduced by Lintner and other primary theorists.

The Current Research of this paper was comprised of two parts. The first part was an annotated bibliography of 15 cited sources (i.e., refereed journal articles written in the past three years) around the previous theory paper (see Jewczyn (2013)) and updated here to include the topic objectives. The second part of the Current Research component consisted of a research literature review essay of some 25 pages on those topic objectives. One purpose of the Current Research component was to critically examine in-depth the contemporary research in modern...
portfolio theory and the development of financial economics, CAPM, and APT, including asset pricing, asset-specific return, risk and diversification, and the efficient frontier regarding the construction of securities portfolios. The examination concerned the development of a platform of values that is useful in financial economics as it relates to asset pricing, asset-specific return, risk and diversification, and to the efficient frontier regarding the construction of securities portfolios. Various contemporary developments of specific concepts in modern portfolio theory and the development of financial economics were analyzed, concerning CAPM and APT, and a discussion ensued regarding how those concepts related to a platform of values that is useful in financial economics as it relates to asset pricing, asset-specific return, risk and diversification, and to the efficient frontier regarding the construction of securities portfolios.

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MODELING CSR PROJECT COSTS AND BENEFITS
USING THE CONCEPT OF SOCIALLY-RESPONSIBLE NPV

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ABSTRACT

Businesses constantly make strategic changes in response to changes in the business environment. Conventional Net Present Value based capital budgeting does not account for the value of such strategic flexibility, leading to potential under-investment. Firms often perceive initial costs associated with CSR projects to be high and have difficulty evaluating the uncertain future benefits which can be difficult to capture. This case applies the real option framework to illustrate a more holistic approach to the valuation of CSR projects where the value of real options related to CSR projects are captured in Socially-Responsible NPV. Straightforward numerical examples are given to illustrate the optimal exercise of socially-responsible real options and the calculation of the Socially-Responsible NPV. The analytical tools can be applied to the evaluation of any project with embedded strategic options. This case demonstrates how the real-option valuation approach can be particularly useful in the often difficult CSR decision-making process.

INTRODUCTION

Traditional finance textbooks teach Net Present Value (NPV) based on Discounted Cash Flow (DCF) analysis. Any uncertainty in the parameters is reflected in the expected cash flows and in the risk-adjusted required return, which is the discount rate used to convert the cash flows to their present value. This framework is essentially static in the sense that projects are evaluated in the beginning assuming a particular mode of operation. A NPV represents the current value given that particular mode of operation. Another assumed mode of operation, for example operating at 150% of capacity relative to a base mode of operation, would result in a totally different NPV. Again, the uncertainty in the choice of which mode of operation to use in the beginning valuation is simply driven by a best-effort forecast of the future distribution of cash flows based on an implicit prior assumption that the scale/mode of operation is the optimal one and that there is no dynamic change in managing/operating the project when faced with ongoing/evolving environmental changes.

While advanced textbooks have also incorporated real option-based models in the valuation of projects with operating/strategic flexibility, clear and accessible introduction to the application of real option valuation model in CSR projects has been scant. But CSR projects are frequently cases where such strategic flexibility plays a prominent role in the value of such activities. Changing external market conditions as well as social and environmental events can have significant impact and CSR activities can often respond quickly to such external forces. Without accounting for the value of such strategic flexibility, traditional NPV is clearly a deficient methodology in the valuation of CSR projects, and this may explain the difficulty in corporations’ often uncertain approach to starting or managing CSR projects.

This paper provides a simple numerical example-driven illustration of how a real option framework can relatively easily deal with strategic flexibility in CSR projects. We illustrate the optimal
exercise of strategic real options in response to changing environmental factors, and we provide examples of CSR project valuation incorporating such optimal exercise of these strategic options.

This paper proceeds as follows. We start with a review of the literature in the theory of real options. We build a basic real option model and briefly present, using simple numerical examples, the theoretical construct of contingent claim analysis (CCA). Then we extend the basic model to incorporate the many embedded strategic real options in the case of a CSR project. We then focus on the optimal exercise of such strategic real options in relation to CSR-related external environmental changes. We illustrate the straightforward valuation methodology using CCA and point out how correct valuation of CSR projects can be drastically different from the static traditional NPV valuation.

LITERATURE REVIEW

Since the seminal paper by Black and Scholes (1973), real options have become standard material in most corporate finance textbooks. While the concepts of strategic flexibility and optimal exercise are mentioned in the context of capital budgeting and project valuation, clear and accessible illustration of the application of these concepts has been scant. We provide a brief review of key literature here.

The concept of operational and strategic flexibility has been applied in the field of capital budgeting, treating a project owner as having the flexibility of changing the modes of operation, default and abandonment among them, has spawned a large body of research into real options in the last decade. Trigeorgis (1993, 1996) gives a comprehensive review of the real option literature.

These studies include analyses of operating flexibility in a wide variety of business activities: natural resource industry (Brenman and Schwartz, 1985; Kemna, 1993), leasing (Copeland and Weston, 1982; McConnell and Schallheim, 1983), flexible production (Kulatilaka, 1988; Kulatilaka and Trigeorgis, 1993), research and development (Kolbe, Morris, and Treisburg, 1991), strategic acquisition (Smith and Triantis, 1993), foreign investment (Baldwin, 1987; Kogut and Kulatilaka, 1993), shipping (Bjerksund and Ekern, 1993), government subsidies (Mason and Baldwin, 1988), and regulation (Treisburg, 1993), among others. Amram and Kulatilaka (1999) also give a variety of real option applications in many diverse areas.

The valuation of real options may be analyzed by Contingent Claim Analysis (CCA), where the value of a contingent claim, a project whose value is driven or impacted by uncertainty-induced operating or strategic change in the mode of operation, is derived by finding the value of an equivalent portfolio of traded assets, a so-called tracking portfolio (Cox, Ross, and Rubinstein, 1979). Conceptually and in its graphical presentation, contingent claim analysis (CCA) is very similar to decision-tree analysis, with the critical difference being the use of the risk-neutral probabilities (or state price in the Arrow-Debreu framework) and consequently the risk-free rate. Varian (1987) gives a detailed illustration of the theoretical foundation and application of CCA.

We next provide a short introduction to contingent claim analysis, which will be used as the basis of our valuation of CSR projects.

THE BASIC MODEL—FIRM WITH NO CSR PROJECT

Contingent claim analysis is based on two simple but powerful ideas in modern finance theory. First, the present value of a risky cash flow stream can be found by discounting the certainty equivalent of the risky cash flows at the risk-free interest rate. In contrast, conventional methods discount the risky cash flow at the required rate of return (risk-free rate plus a risk premium) of the cash flow stream. Second, the value of a contingent claim on an asset can be derived by finding the value of an equivalent tracking portfolio of similar traded or observed assets. This is the basis of the binomial valuation of financial/stock
options.

Consider the basic mode of operation of a company whose shares are traded. Figure 1 depicts the (uncertain) evolution of the value of the business (note the similarity to a decision-tree):

**Figure 1. Evolution of firm value—Basic mode**

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The value of the firm is driven by uncertainty about the state of the economy. Further, suppose that the risk of the business requires a $k = 18.55\%$ required rate of return, while the risk-free rate is $r = 2\%$. There is a 50% probability that the price will go up by 82% each period, and a 50% probability that it will go down by 55% each period.

Suppose there is a project similar to the company available for adoption, and the following tree, Figure 2, depicts the (uncertain) growth path of the value of the new project:

**Figure 2. Evolution of New Project Value**

<table>
<thead>
<tr>
<th>$t = 0$</th>
<th>$t = 1$</th>
<th>$t = 2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>72.88</td>
<td>132.80</td>
</tr>
<tr>
<td></td>
<td>21.95</td>
<td>40.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.05</td>
</tr>
</tbody>
</table>

It is easy to see that the new project is exactly twice the scale of the existing firm. Using conventional DCF technique, we can find the NPV of the project as:
PV (future value of the project) = \((0.5 \times 72.8 + 0.5 \times 21.95)/(1 + 18.52\%) = 40\).
This is exactly the current given value of the project. If the current owner asks for a price of 41, then the NPV of this project is:

\[ NPV = 40 - 41 = -1. \]

The CCA approach uses a backward risk-neutral valuation process. See Varian (1987) for a detailed discussion of the theoretical foundation and derivation of CCA in general, and a comparison of risk-neutral probabilities and decision tree probabilities in particular.

The risk-neutral probability \( p \) is defined as:

\[ p = \frac{((1 + r) \times V_0 - V^-)/(V_0 - V^-)}{V_0}. \]

Given the risk-neutral probability, the Certainty Equivalent cash flow is computed by taking integration of the risky cash flows over the risk-neutral probabilities, or:

\[ V^{CE} = p \times C_+ + (1 - p) \times C_- \]

The present value of future project value is then found by discounting the Certainty Equivalent Value at the risk-free rate:

\[ C_0 = \frac{V^{CE}}{1 + r} = \frac{p \times C_+ + (1 - p) \times C_-}{1 + r} \]

We have: \( p = ((1 + 2\%) \times 40 - 21.95)/(72.88 - 21.95) = 18.85/50.93 = 0.37 \),
And, \(1 - p) = 0.63; \)
Then, \( C_0 = (0.37 \times 72.88 + 0.63 \times 21.95)/(1 + 2\%) = 40.8/1.02 = 40. \)
Again, \( NPV = 40 - 41 = -1. \)

The CCA result confirms the valuation derived from conventional DCF valuation, as it should since we have not incorporated any strategic flexibility at this point. In this scenario no real option is considered, and thus the two valuations yield identical results. In situations involving complex options, conventional DCF would generate erroneous values by ignoring the value of the real option. CCA is a straightforward and elegant tool that can be used to properly account for all the embedded options in project valuation, as will be illustrated below.

Although our simple two-period tree ends with only two possible outcomes, in practical applications it is quite easy to model more sub-periods, each of shorter span, and thus generate as many states/outcomes as required for the analysis. It is important to note that the risk-neutral probability is distinct from the probabilities used in a conventional decision-tree type of analysis—they are the state prices in the Arrow-Debreu framework. This, while an important theoretical point, does not change the straightforward solution process.

For the project, an NPV of -1 would seem to make it unprofitable to undertake. However, considerable operational flexibility might be present. Such operational flexibility can be analyzed and valued as real options using the CCA approach. These embedded options enhance the value of the project. In using conventional DCF analysis, these valuable options are ignored, and consequently misallocation in the form of under-investment results. Following Trigeorgis (1993), we define:

\[ SR-\text{NPV} = \text{Passive NPV} + \text{Value of Operational Flexibility (Real Options)} \]
The correct decision rule for investment then is to accept projects with positive SR-NPV.

**A FIRM WITH CSR PROJECTS**

We now examine the firm in greater details when the firm conducts CSR activities. Using the value trees given above, we consider the strategic flexibility embedded in CSR activities and their valuation impact.

CSR activities, through environmental protection projects or corporate philanthropy, frequently in combination with low-focus marketing, often result in reputation/goodwill effects, which can be associated with potential expansion in the firm’s operation. Prominent among these are projects where technology firms recycle used or retired tech products, often their own brands, in emerging or developing countries. Environmental projects and water projects associated with chemical, energy, and pharmaceutical firms are also quite common. While the CSR activities themselves might carry some costs, the associated reputation/goodwill impact can be substantial and long-term in nature.

Practically all businesses have the flexibility to expand the scale of operations through additional investment. These growth options are particularly valuable when the state of the economy turns out to be good. Assume that after a firm’s CSR activities generate substantial goodwill and increased sales in a particular market/region, the management has the strategic flexibility to make an additional investment of \( I_G = 60 \) and double the firm’s operations. At year 1, the management decides whether to expand the scale of operation by comparing the project value from the base-case operation to that of the expanded operation. Year 1 project value will be: 

\[
V_1^+ = \max(72.88, 2 \times 72.88 - 60) = \max(72.88, 85.76) = 85.76, \text{ when the growth option is exercised following the reputation/goodwill effect from CSR activities, and}
\]

\[
V_1^- = \max(21.95, 2 \times 21.95 - 60) = \max(21.95, -16.1) = 21.95, \text{ when the base operation is maintained, i.e., when the CSR activities did not generate additional sales beyond the base-case operation.}
\]

The SR-NPV (value of the project plus the option to grow) is:

\[
SR-NPV = \frac{p \times C^+ + (1 - p) \times C^-}{1 + r} - I_0
\]

\[
= \frac{0.37 \times 85.76 + 0.63 \times 21.95}{1 + 2\%} - 41
\]

\[
= \left( \frac{45.56}{1.02} \right) - 41 = 3.67
\]

The value of the strategic option to expand as a result of CSR activities can be calculated as:

Value of CSR-associated Growth Option = SR-NPV - Passive NPV

\[
= 3.67 - (-5) = 8.67.
\]

This CSR-associated strategic option to invest when business prospects are good is a highly valuable real option. In many businesses, growth options account for a large fraction of firm value. By failing to account for this type of option, conventional NPV can lead to serious under-valuation of CSR activities. In the above example this growth option accounts for more than one fifth (21.68%) of the gross baseline value (40) of the project.

**VALUING THE SWITCHING REAL OPTION ASSOCIATED WITH CSR ACTIVITIES**

CSR activities often are associated with a heightened sense of environmental and consumer protection. This has resulted in companies promptly acting to correct and remedy cases of environmental
pollution or consumer damages. In a more proactive sense, firms actively engage in environmentally sound operational process such as in waste reduction, water conservation, and air and chemical pollution control. In both factory and merchandising operating processes, companies can often change/switch in multiple ways in response to changing external factors. Many businesses are able to, in relatively short order, switch their operation into a different/new process/technology, different/new input combination, or different output mix.

In times of economic downturn and/or negative corporate conditions, managers have the option of switching to either maximize gain or minimize loss. We discuss two possible switching scenarios.

In the first case, we assume that the firm can switch completely (100%) between two operational processes, the baseline operational process and the switched operational process. Our assumption here is obviously that external factors and CSR considerations are part of the parameters in the switching decision. For example, due to a pollution issue, the firm’s baseline operating results might be undermined from negative reputation effects, whereas the switched operating process is a more CSR-sensible choice and results in associated positive reputation/goodwill effects. Further, we assume the following project value tree, Figure 3, from the switched operation:

**Figure 3. The Switching Option**

Under the switched operation, cash flows are lower and less volatile than under the original operation. The income fluctuation is driven by uncertainty in external environment in relation to the firm’s operational process. Current value of the switched operation \( C_N^0 \) is lower than that of the baseline project \( C_0 \), otherwise manager would have rationally already switched.

The CSR-associated strategic flexibility embedded in this case is that the manager has the option of switching. The switching decision will be based on year 1 realized state of external condition. The manager compares the project value of current use \( C \) to that of the alternative operation \( C_N \). Year 1 project value will then be max( \( C \), \( C_N \)):

\[
V_1^+ = \max(C, C_N) = \max(72.88, 56.69) = 72.88, \text{ when the original operational process is chosen, and} \\
V_1^- = \max(C, C_N) = \max(21.95, 25.47) = 25.47, \text{ when the operational process is switched.}
\]

Applying CCA, the SR-NPV (value of the project plus the option to switch operation) is:

\[
\text{SR-NPV} = \left[ p \cdot V_1^+ + (1 - p) \cdot V_1^- \right] / (1 + r) - I_0 \\
= \left( 0.37 \cdot 72.88 + 0.63 \cdot 25.47 \right) / (1 + 2\%) - 41 \\
= (43.01 / 1.02) - 41 = 1.17
\]
The value of the strategic option to switch can be calculated as:

\[
\text{Value of CSR-associated Option to Switch} = \text{SR-NPV} - \text{Passive NPV} \\
= 1.17 - (-5) = 6.17
\]

The value of the CSR-associated option to switch accounts for over 15% of the gross value of the project (40). The presence of this strategic option makes the project viable (SR-NPV = 1.17 > 0), despite the negative conventional NPV associated with the original operational process.

It is important to note that although value from the CSR-sensible switched operational process is substantially lower than the baseline operational process in the good states where the original operational process did not become environmentally problematic, the lower volatility, and thus higher value in the bad states, creates a valuable strategic option for the firm.

This is a good place for us to pause and ponder the nature of CSR activities. While they are often perceived as cost-generating and profit-irrelevant, the value of CSR activities is often greatest when things turn really bad. Our simple numerical example provides a clear picture of this important point.

Our second case permits firms to mix operations. In many business operations, assets are flexible only on an exclusive basis, capable of a complete switch in term of inputs or outputs, a situation similar to case 1 analyzed above. In other cases, however, a mixed operation is not only possible, but very likely optimal in many situations. We next consider a scenario of mix operation.

Assume that the manager can reconfigure the operation by retaining original operational process in one region/market and switch its operational process in a different region/market. In this case, given substantially different regulatory frameworks and/or degree of enforcement, a firm might conduct different CSR activities to best match its varied scale and scope of operations in different parts of the global economy.

Here, specifically, we assume the optimal mix is for the manager to run 40% of original operational process and at the same generate 75% of the cash flow from the complete (100%) switched operational process. We are assuming a degree of reputational/goodwill advantage from the switched operation, thus the weights do not need to sum to 100%.

In terms of valuation, the manager will compare a 100% baseline outcome (C) to the outcomes from the optimal mix (0.4*C + 0.75*CN) and determine the strategic choice in year 1. Year 1 cash flow will be: max( C, 0.4*C + 0.75*CN), or,

\[
V_1^+ = \max( C^+, 0.4*C^+ + 0.75*CN^+) = \max(72.88, 0.4*72.88+0.75*56.69) \\
= \max(72.88, 71.67) = 72.88, \text{ when 100\% original operational process is maintained, and}
\]

\[
V_1^- = \max( C^-, 0.4*C^- + 0.75*CN^-) = \max(21.95, 0.4*21.95+0.75*25.47) \\
= \max(21.95, 27.88) = 27.88, \text{ when mix operation is chosen.}
\]

The SR-NPV (value of the project plus the option to mix operation) is:

\[
\text{SR-NPV} = \left[p*V^+ + (1 - p)*V^-\right]/(1 + r) - I_0 \\
= (0.37*72.88 + 0.63*27.88)/(1 + 2\%) - 41 \\
= (44.53/1.02) - 41 = 2.66
\]
The value of the CSR-associated strategic option to switch and mix operation can be calculated as:

Value of CSR-associated Option to Switch and Mix Operation
\[ = \text{SR-NPV} - \text{Passive NPV} \]
\[ = 2.66 - (-5) = 7.66 \]

The value of the CSR-associated option to switch, permitting mixed operation, accounts for about 19.2% of the gross value of the project. To the degree that mixed operation may involve higher cost in reconfiguring the operation, the higher value of the option to mix would justify the strategic choice if the increase in cost is not more than the increased value of the project.

We note that, for the sake of clarity and tractability, we have assumed that the optimal mix of the two operations is given, or that it had been worked out. In practice, the optimal mix would be part of the optimal exercise problem and is not independent of, nor can be predetermined before, the optimal exercise problem. The consideration of various degrees of mixed operation makes the analysis substantially more complex. The complexity, though, comes with a higher value for the strategic flexibility. The conceptual understanding of the value of CSR-associated real option to switch, however, is clearly demonstrated in our simple numerical examples.

**VALUING THE CSR-ASSOCIATED ABANDONMENT/SALVAGE OPTION**

Most assets can be sold for salvage value when continued operation is not economical. Sometimes serious environmental or regulatory impact can result in a choice of unethically continuing operation or closing an operation under CSR-sensible concerns. Here, we assume that after one year the assets and land can be sold for 70% of the total initial costs at 28 (= 40*70%). At year one the manager would compare the salvage value to the value from current operation and decide whether to continue the operation or to abandon it.

Year 1 project value will be: max( C, 28 ), or
\[ V_1^+ = \max( C^+, 28) = \max(72.88, 28) = 72.88, \text{ when the baseline operation is continued (as no environmental or regulatory issue has been realized)}, \]
\[ V_1^- = \max( C^-, 28) = \max(21.95, 28) = 28, \text{ when operation is abandoned due to CSR-concerns and assets and land are sold for their salvage value}. \]

The SR-NPV (value of the project plus the option to abandon) is:

\[ \text{SR-NPV} = \frac{p \times V^+ + (1 - p) \times V^-}{1 + r} - I_0 \]
\[ = \frac{(0.37 \times 72.88 + 0.63 \times 28)/(1 + 2\%) - 41}{1.02} = 2.73 \]

The value of the strategic option to abandon can be calculated as:

Value of CSR-associated Option to Abandon = SR-NPV - Passive NPV
\[ = (2.73) - (-5) = 7.73 \]

The CSR-associated option to abandon a project for its salvage value is a valuable option when business environment turns out unsatisfactory due to CSR-associated negative impacts. By not accounting for this option, conventional NPV analysis forces the assumption that once a project is accepted, it will be carried out to the end regardless of the realized state of economy and other external factors. This is obviously an erroneous assumption, with serious implications. In our example, the CSR-associated abandonment option accounts for over 19% of the gross value of the project. The abandonment option also makes the project viable (SR-NPV = 2.73 > 0).
CONCLUSIONS

In this case study we have applied the concept of real options and Contingent Claim Analysis (CCA) to the analysis and evaluation of CSR projects. The success story of many corporate CSR activities attests to the value of corporate social responsibility and its role in corporate governance and managerial choices. However, traditional Net Present Value-based finance valuations often are not able to properly analyze and account for the high uncertainty associated with CSR outcomes and thus CSR-project valuation is perceived as difficult. This paper provides straightforward numerical examples to illustrate the optimal exercise of such options and to illustrate the simple CCA-based valuation technique. It is our hope that this methodological case can be successfully used as a teaching/learning case in the relatively under-explored area of CSR valuation.

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ADAM SMITH AND LUDWIG VON MISES ON THE GREATER BENEFITS OF INDIVIDUAL MARKET ACTIVITY

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Union University

Abstract
In his development of economic method, the great Austrian economist, Ludwig von Mises stated that the proper scope of the subject is the means used to attain various ends, not the ends themselves. However, Adam Smith wanted to say more about the ends to which men strive, or more about the highest good for man. Smith taught that our knowledge of the good comes from our social interactions and the use of the impartial spectator, an imaginary being that observed human behavior and pronounced it pleasing or unpleasing, good or bad.

Mises follows a utilitarian method in which people are acting in order to increase their utility or remove dissatisfaction. All action, therefore is rational. There is nothing to be said about good or bad ends, so this would seem to leave us with an ethically empty theory. However, for Mises, there are greater benefits that come into existence as a result of individual human action, although he would never use the term “invisible hand.” These benefits are social cooperation and rendering service to one’s fellow man.

Ludwig von Mises, one of the great Austrian economists, makes frequent use of the term praxeology in his writings. This term was coined by Alfred Espinas in 1890 and means the science or the study of human action. Mises uses this as the subject matter of economics. Economics deals with human action or the means or methods put into action to achieve various ends. “To act means: to strive after ends, that is, to choose a goal and to resort to means in order to attain the goal sought” (Mises, 2006). Man is also a moral being. “Man is not, like the animals, an obsequious puppet of instincts and sensual impulses. Man has the power to suppress instinctive desires, he has a will of his own, he chooses between incompatible ends. In this sense he is a moral person; in this sense he is free” (Mises, 2006). This incompatibility of ends suggests a trade-off in pursuing goals because of limited resources—the familiar production possibilities or consumption possibilities. In this choosing consists man’s freedom and man’s moral choice.

However, can we say anything about the ends themselves? Are there any stronger moral categories or moral statements that apply? For example, how does the great exemplar in economics, Adam Smith approach the problem, and is his approach different from that of von Mises?

In addition to his great work in economics, The Wealth of Nations, Smith also wrote The Theory of Moral Sentiments in which he treats the springs of man’s moral conduct. In treating both of these works, we can obtain a more complete picture of human action according to Adam Smith who follows his teacher, Francis Hutcheson, in discussing the availability of moral knowledge. For Hutcheson, moral knowledge was available to us through an internal faculty called the moral sense (Hutcheson, 1725). Smith takes a different approach. Moral knowledge is obtained by a sympathetic placement of oneself in another’s situation as a sort of impartial spectator through whom judgments can be made as to the course of proper moral action (Smith, 1982). However, for Smith, there can be no knowledge of morals without the interactions of society. The society of others regulates our own extreme passions as we consider the views of others. Our passions and viewpoints tend to be brought into accord with the rest of society by the operation of sympathy (perhaps empathy in modern parlance). This is the beginning of moral judgment. In the apprehension of moral ends, Smith backs away from a strict methodological individualism. Glenn Morrow comments.

The [moral] theory of Adam Smith abandons this individualistic method. The moral world is something independent of the individual thinker. His moral judgment is based, not upon an inner intuition of rational truth, nor upon a divine revelation, but upon the reflected sentiments of himself and those of his fellow-men, mutually supporting and influencing one another, produce the objective order of moral standards (Morrow, 1923).
Thus, in Smith’s thinking, sympathy does not always denote a compassionate and benevolent feeling toward our fellow men. Sympathy is simply an ability to understand or feel to a certain degree the passions which motivate others, whatever those passions might be. It is possible for men to be motivated by self-interest, as Smith emphasizes in *The Wealth of Nations*, and also to sympathize with the motives of self-interest in others. However, in the first line of *The Theory of Moral Sentiments*, Smith states that human beings are not exclusively self-interested creatures. “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it” (Smith, 1982). Smith is taking a balanced view of the nature of man. He, like Mises, is not interested in the caricature presented to us by *homo economicus*. Mises may not disagree with the existence of the impartial spectator. He simply finds this line of investigation not to his purpose. He also parodies the use of the concept of the economic man as not necessary.

The absurdity of this doctrine becomes manifest as soon as the question is raised in what this economic man differs from real man. He is considered as a perfect egoist, as omniscient, and as exclusively intent upon accumulating more and more wealth. But it does not make any difference for the determination of market prices whether an “egoistic” buyer buys because he wants himself to enjoy what he bought or whether an “altruistic” buyer buys for some other reasons, for instance in order to make a gift to a charitable institution. Neither does it make any difference on the market whether the consumer in buying is guided by opinions that an unaffected spectator considers as true or false. He buys because he believes that to acquire the merchandise in question will satisfy him better than keeping the money or spending it for something else. Whether or not he aims at accumulating wealth, he always aims at employing what he owns for those ends which, as he thinks, will satisfy him best (Mises, 2006).

Indeed the euthanizing of *homo economicus* has been contemplated for a long time. “…*homo economicus* and the individualism upon which it is based are dying of old age” (O’Boyle, 2007). Kenneth Boulding insisted that economic man is more than the sum of certain minor virtues such as thriftiness and industriousness, and that he might miss the great virtue of love (Boulding, 1954). Richard Thaler predicts that in the future of modeling economic behavior that “*homo economicus* will become more emotional” (Thaler, 2000). The nature of man is both altruistic and egoistic. Men and women are moved both by love of self and fellow feeling with others (Cropsey, 1972).

The difference in the treatment of human action by Smith and Mises consists in Smith’s taking a more holistic view of man, and trying to say something about the ends which men pursue. We might say that Smith is taking a natural law view which is that nature itself gives us sentiments by which we are able to apprehend objective moral order and make moral choice. Smith discusses this in relation to the law of retaliation or *lex talionis*. “Nature, antecedent to all reflections upon the utility of punishment, has in this manner stamped upon the human heart, in the strongest and most indelible characters, an immediate and instinctive approbation of the sacred and necessary law of retaliation” (Smith, 1982).

Mises is clear that his work in praxeology is concerned with means, not the ends which are pursued. “Praxeology is indifferent to the ultimate goals of action. Its findings are valid for all kinds of action irrespective of the ends aimed at. It is a science of means, not of ends. It applies the term happiness in a purely formal sense. In the praxeological terminology the proposition: man’s unique aim is to attain happiness, is tautological” (Mises, 1966).

So, in Mises’ work, it is the human action that produces movements in prices and changes in all other economic phenomena. This is the subject matter of economics, or praxeology, not an analysis of the ends or purposes that men and women are trying to achieve. Smith wants to say something about the ends at which we aim. We might even use the word *sumnum bonum*, or the highest good toward which humans can strive. In looking at Smith’s broader scope, there is no need to get involved with the so-called conflict between *The Theory of Moral Sentiments* and *The Wealth of Nations*. There is an over-arching purpose in Smith’s work. D.D. Raphael and A.L. Macfie, the editors of the 1982 Liberty Fund edition of *The Theory of Moral Sentiments* state, Smith himself provides the best evidence against any idea that there is a conflict between his two works. In the Advertisement to edition 6 of TMS he refers to the final paragraph of the book, which promises another one on law and government, and says that he has ‘partly executed this promise’ in WN. Clearly therefore he regards WN as continuing the sequence of thought set out in TMS (Smith, *Sentiments*, Introduction, 24). The sequence of thought that Smith began in *The Theory of Moral Sentiments* had begun much earlier in his lectures in moral philosophy at Glasgow. The substance of these lectures is contained in *Lectures on Justice, Police, Revenue and Arms* in which topics of moral interest as well as economic interest are
presented. For instance, the interrelationship between commerce and its effects on moral behavior is discussed in Part II of the Lectures (Smith, 1896).

Smith occupied the Chair of Moral Philosophy at the University of Glasgow from 1752 until 1764. In Scottish universities of that time it was common for lectures on economic matters to be delivered from the Chair of Moral Philosophy. One might say that modern economics got its start from the Chair of Moral Philosophy. For Smith, then, economics is included under the larger heading of moral philosophy, and the economic motivation of self-love was one of several sentiments of the human heart that the impartial spectator would approve. Perhaps it is this Smithian moral philosophy orientation that brings ethical discussions into otherwise strictly cause-and-effect economic discussion. Thomas Woods discusses the matter this way:

The marketplace does indeed have a moral dimension. The study of the how the marketplace works does not. The latter is concerned only with cause-and-effect relationships. Cause-and-effect relationships either exist or do not exist. It does not matter what we think about them, or how much we wish they could be otherwise. Thus we may say, in our capacity as moral philosophers, that business firms ought to be honest in their dealings and in their claims (Woods, 2010).

Smith is not a utilitarian, at least not in the Benthamite sense of philosophical radicalism. In our approval or desire for the intellectual virtues Smith states, “The utility of those qualities, it may be thought, is what first recommends them to us; and, no doubt, the consideration of this, when we come to attend to it, gives them a new value. Originally, however, we approve of another man’s judgment, not as something useful, but as right, as accurate, as agreeable to truth and reality: and it is evident we attribute those qualities to it for no other reason but because we find that it agrees with our own” (Smith, 1982).

Von Mises seems to support the utilitarian method, but at other times to present problems with it. Utilitarianism consists in the maximizing of one’s utility or satisfaction. Jeremy Bentham developed an additive method for calculating utilities. It was known as the felicific calculus which was designed to add up pleasures and pains produced by some proposed piece of legislation. For Bentham, the good was pleasure and evil was pain. “Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand the standard of right and wrong, on the other the chain of causes and effects, are fastened to their throne” (Bentham, 1948). The felicific calculus was a complex list of scoring pleasures and pains according to intensity, duration, certainty, proximity and other categories. The principle is simple. Add up the pleasures and pains and the course of action is clear. If the sum of the pleasures is greater than the sum of the pains, the action in question should be done. These pleasures and pains are subjectively defined. Thus, there is no way to say that a person is acting irrationally. Mises agrees.

Human action is necessarily always rational. The term ‘rational action’ is therefore pleonastic and must be rejected as such. When applied to the ultimate ends of action, the terms rational and irrational are inappropriate and meaningless. The ultimate end of action is always the satisfaction of some desires of the acting man. Since nobody is in a position to substitute his own value judgments for those of the acting individual, it is vain to pass judgment on other people’s aims and volitions. No man is qualified to declare what would make another man happier or less discontented (Mises, 1966).

In utilitarianism, with absolutely subjectively defined ends, no action can be deemed irrational. This makes utilitarianism into an ethically empty theory. There is simply nothing to say about the goals that humans strive for—either good or bad. There is no natural law proposition to which we could appeal in this system. Again Mises concurs.

But the teachings of utilitarian philosophy and classical economics have nothing to do with the doctrine of natural right. With them the only point that matters is social utility. They recommend popular government, private property, tolerance, and freedom not because they are natural and just, but because they are beneficial….The Utilitarians do not combat arbitrary government and privileges because they are against natural law but because they are detrimental to prosperity (Mises, 1966).

Since human action is by definition rational, we cannot say that the pursuit of prosperity is uniquely rational or good. We can observe that humans tend in this direction, and can point out the most efficient means to attain prosperity. This is the subject matter of economics—human action. Adam Smith, however, wants firmer springs of human behavior to build upon, perhaps like the ‘propensity in human nature …to truck, barter, and exchange one thing for another’ (Smith, 1965), or perhaps some firmer moral tendencies indicated by the impartial spectator or by natural law. A.C. Waterman comments on Smith’s observation of the “natural effort of every individual to better his own condition” (WN, 112). “Human action must therefore be driven by ‘self-love,’ or ‘interest,’ which may be a reliable guide to right conduct and which may produce natural [good] social outcomes. But where the institutional framework is defective, interest will naturally produce outcomes that are ‘unnatural’ [bad]. (Waterman, 2002).
Smith tried to say something objective about human happiness or the highest good at which humans aim. Both nature and providence indicate that the purpose for human beings is to attain happiness.

The happiness of mankind, as well as of all other rational creatures, seems to have been the original purpose intended by the Author of nature, when he brought them into existence. [That end] is still more confirmed by the examination of the works of nature, which seem all intended to promote happiness, and to guard against misery. But by acting according to the dictates of our moral faculties, we necessarily pursue the most effectual means for promoting the happiness of mankind, etc. (Smith, 1982).

This highest human happiness has content and is discussable. Human happiness consists of tranquility and the sense of being beloved (Smith, 1982). “Ease and tranquility, we saw earlier, comprise a sort of summary of the ends. They are a pair, meaning ease of body and ease of mind” (Alvey, 2004). Smith is not convinced that prosperity is necessarily the way to attain this, but there is an invisible hand operating in the moral world as well as in the world of exchange. Smith’s quote from the Wealth of Nations on the invisible hand is well known. However, there is also a powerful invisible hand at work in the area of moral behavior even though only a small number pursue the life of virtue while the vast majority pursue wealth and greatness (Smith, 1982). Smith’s likens the pursuit of wealth and greatness to a type of vanity or deception. “…wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquility of mind, than the tweezer-cases of the lover of toys;…” (Smith, 1982)

Fortunately, this pursuit of wealth particularly for the lower and middle classes lies along the same path as the pursuit of virtue. “In the middling and inferior stations of life, the road to virtue and that to fortune, to such fortune, at least, as men in such stations can reasonably expect to acquire, are, happily in most cases, very nearly the same. In all the middling and inferior professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success” (Smith, 1982).

So, along this path of wealth creation lies development of civilization which, as sort of an unintended consequence, allows men and women to achieve the Smithian view of the good life. We can experience tranquility and the sense of being beloved through the pleasant sociability that bourgeois society offers—fair trading, friendship, conversation, social interaction.

Von Mises would not use the term ‘invisible hand,’ possibly because of its theistic overtones. Von Mises is interested in developing the science of human action through an a priori method, not on the basis of human instincts (sentiments) or theistic explanation (Mises, 1966). The logical structure of the human mind is equated with the a priori method, that is, A cannot be non-A. This logical structure applies to all humans regardless of their state of technological advance. “The content of primitive man’s thoughts differ from the content of our thoughts, but the formal and logical structure is common to both” (Mises, 1966).

The logical structure of man’s mind is capable of selecting various means to attain various ends. This is the subject matter of praxeology or economics.

A peasant eager to get a rich crop may—according to the content of his ideas—choose various methods. He may perform some magical rites, he may embark upon a pilgrimage, he may offer a candle to the image of his patron saint, or he may employ more and better fertilizer. But whatever he does, it is always action, i.e., the employment of means for the attainment of ends (Mises, 1966).

Economic method then starts with a reflection on the essence of human action. This essence is the pursuit of various ends using various means. The costs and benefits of attaining various ends can be enumerated by the actor. This is the essence of praxeology, or what von Mises calls the a priori method. In this sense human action is rational. To call an action irrational is to say that some human being is acting with a set of values that are different from my own (Mises, 2013).

In Mises’ analysis of economic action, however, more inclusive results occur—phenomena such as social cooperation and rendering service to one’s fellow man. These “other-oriented” results stem from individual economic action. These results occur apart from our own intention. This would be an invisible hand-like phenomenon, i.e. “[he is] led by an invisible hand to promote an end which was no part of his intention” (Smith, 1965). These are truly market-driven results that are greater than the individual, but von Mises would never use the term “invisible hand.”

One could hardly misinterpret more fundamentally the essence of social cooperation and the economic effort of civilized mankind than by looking upon it as if it were a fight or the playful duplication of fighting, a game. In social cooperation everyone in serving his own interests serves the interests of his fellow men. Driven by the urge to improve his own conditions, he improves the conditions of other people…Competition on the market must not be confused with the pitiless biological competition prevailing between animals and plants or with the war still waged between—unfortunately not yet completely—civilized nations. Catallactic competition on the market aims at assigning to every individual
that function in the social system in which he can render to all his fellow men the most valuable of the services he is able to perform” (Mises, 2006).

Mises further expounds on this theme in Human Action by discussing Ricardo’s Law of Association. “For Ricardo, and other 19th century liberals, there was a clear link between free trade by comparative advantage and a regime of international peace. Nations that traded with one another would become interdependent and thus be led to remain in peaceful cooperation with one another” (Horwitz, 2008). As Mises states: “…human action itself tends toward cooperation and association; man becomes a social being not in sacrificing his own concerns for the sake of a mythical Moloch, society, but in aiming at an improvement in his own welfare” (Mises. 1966).

References


Abstract

Existing studies of historians of Yorubaland have focused more on the historicity of the Yoruba economy to the detriment of the ethical dimension of the Yoruba economy. The ethical dimension is vital to study us as regards the information about the Yoruba traditional economy in the global context. The study of Yoruba economy from ethical point of view will serve the purpose of demonstrating the role Yoruba traditional religion played in the economic development of Yoruba society. The relation of Yoruba economy to ethics has to do with the conviction that Yoruba religion is the source of Yoruba ethics. It cannot be gainsaid that Yoruba ethics contributed a lot to economic change in Yorubaland just as the protestant ethics contributed to the rise of capitalism in Europe. There was a correlation between religious doctrines and the practical ethics of economic activity. The fact being stressed here is that Yoruba religion provided rules of ethics, which had economic impetus. This fact is what this paper intends to establish. In doing so, this study will cover the following areas: Theoretical issues, Yoruba traditional economy, Yoruba religion and traditional economy, relation of Yoruba ethics to Yoruba traditional economy; moral issues in Yoruba traditional economy, and challenges before the stake holders in the contemporary economy.

Introduction

Quite a number of historians of Yorubaland have done elaborate works on the historicity of the Yoruba economy. These works, however, ignored the ethical dimensions of the Yoruba economy, which to us is vital regarding information about the Yoruba traditional economy in the global context. The study of Yoruba economy from ethical perspectives will serve the purpose of demonstrating the role Yoruba traditional religion played in the economic development of Yoruba society. The relation of Yoruba economy to ethics has to do with die conviction that Yoruba religion is the source of Yoruba ethics. It is no exaggeration that Yoruba ethics contributed a lot to economic change in Yorubaland just as the protestant ethics contributed to the rise of capitalism in Europe. There was a correlation between religious doctrines and the practical ethics of economic activity. The fact being stressed here is that Yoruba religion provided rules or ethics, which had economic impetus. This fact is what this paper intends to establish. In doing so, this essay will cover the following areas: conceptual issues, Yoruba traditional economy, Yoruba religion and traditional economy, relation of Yoruba ethics to Yoruba traditional economy; moral issues in Yoruba traditional economy, and challenges before the stake holders in the contemporary economy.
Conceptual Issue

For us to understand the issues under focus, it is important to throw some lights on key terms underlying this work with reference to the context in which they were used. These terms are: ethics and Yoruba traditional economy. The word ethics is derived from the Latin word ettiicus. It is rendered in Greek as ethics. They both mean character.

The French etiquette, indicates things related to morals or the science of morals. The plural form in Greek Ta ethyl refers to "recognized rules of conduct of human life i.e. moral rules. Precisely, ethics can be defined as the normative science of human conduct or the systematic study of the fundamental principles of the moral law. In other words, ethics is a systematic reflection upon human behaviour with expectation of how they ought to behave and what they ought to do." Human behaviour, which ethics study, refers to human conduct. This includes both the inward and outward activities such as intention, motives, desires, speech, movement, and physical action. The conduct of a man could affect himself and people towards whom a conduct is directed. In the light of this, even, man's conduct has social implications either for the person who performed it or the person to whom a conduct is directed at. This is the social background of ethics. Arising from this fact is social reflection upon people's conduct. This reflection presupposes examination of human conducts from ethical perspectives. This deals essentially with relation of ethics to every social activities of man in any given society. Hence, the following questions: Who is performing an action? What action did he perform? Why did he perform it? How did he perform it? What are the implications of performing the act either for him or for others? Having asked the questions, society proceeds to make judgments about the action. In some of the ethical judgments, we say that an action or kind of action is morally right, wrong, obligatory, duty, good, or bad depending how it corresponds to socially approved standards of behaviour. Ethical judgments are concerned with actions or kinds of action that seek to uphold or destroy the moral values of society.

Moral values in this context refer to ethical principles, which are the standards of moral behaviour and the norms with which man's conduct should conform. They are guides of human conducts indicating certain things or certain ways of behaviour, which should be guided, and other things or ways of behaviour, which should be adopted. Moral values could be positive or negative. Positive values indicate what we ought to do or how we ought to behave or the attitude of mind we ought to cultivate. Examples of positive values are justice, honesty, tolerance, truthfulness, responsibility, loyally, co-operation, kindness, and humility to mention but a few. The negative values are the direct opposite of positive values, which consist actions and ways of behaviour, considered wrong and from which people should abstain. Examples of negative values are dishonesty, cheating, injustice, hatred, falsehood, exploitation, oppression stealing, untruthfulness, indolence, and irresponsibility. Society demands on its members to behave positively by adhering to positive moral values. Man has to meet the demand because; it is part of the 'contract' man made (implicitly) when he became a member of his society. This is what makes life in society possible and meaningful.

The Yoruba Traditional Economy

Economy deals with allocation of human and physical resources or the principle of prioritization of needs. Thus, by Yoruba traditional economy, we mean the manner in which resources were allocated in pre-colonial Yoruba society precisely the period before 1850. The Yoruba traditional economy was characterized by farming, manufacturing and trading. The major business of the people was agriculture although an appreciable number of people engaged in traditional occupations such as smiting, carving, weaving, hunting, and fishing.
Trading or marketing activities were widespread and even took place on footpaths especially at junctions leading to various farm settlements. In agriculture, all the four factors of production: land, labour, capital and entrepreneurship were favourably combined. Land was available for members of society to use freely without any hindrance as land either belonged to the family or the community. In any case, every free person had access to its use. Members of the biological family worked the land. Members of the extended family provided additional labour during peak periods. However, in a situation where members of the family could not produce enough labour needs, labour exchange could be secured from neighbours. And after their services, they were duly taken care of. In addition, there were various associations formed by people of the same age grades. They helped each other in doing farm works. Such help was rendered in turns among members in a system known as Owe at Aaro (labour exchange). As for the capital, which is another factor of production, a few rich members of society could loan money to those in need but with little interest. Where a borrower could not pay interest, he had the choice of making somebody work on the farm of creditor on his behalf. This practice, known as the Iwofa system was quite widespread.

The person who volunteered to do so was given fair treatment especially if he or she was of good character. The traditional entrepreneurs were family heads who supervised farming and other economic activities. An important feature of traditional occupations was that each occupation had its code of ethics, which regulated the behaviour of the people, engaged in the occupation. Again, there were mutual relationships among people of different occupation because more often than not, every occupation had a link with Yoruba religion, which emphasized unity of mankind. For example, the hunting vocation was associated with Ogun (Yoruba god of iron) who according to Yoruba people was the first hunter; and fishing to Yemoja (water divinity). Besides, each occupation specialist complemented the work of others. For example, a hunter needed the services of blacksmith and carvers who produced the gun he used for hunting expedition. He also needed the services of bricklayers who built his house as well as the services of mat and cloth weavers who produced the mat that he slept upon and the cloth that he wore during and after hunting expeditions. Hence there was division of labour in the traditional society.

Relation of Yoruba Ethics to Traditional Economy

It is important to begin this section with a brief account of what constitutes Yoruba ethics. Yoruba ethics is more of religious ethics per se because it is what God forbids that the society forbids and vice versa. In other words, there is no demarcation between Yoruba religion and its ethics. The point worth noting at this juncture is that Yoruba ethics is rooted in religious tradition although some philosophers are opposed to this. As far as they are concerned Yoruba morality is not a religious morality but secular morality with a rational basis. It was their belief that a Yoruba man lives a moral life because he is a rational being, and to be a rational being is to be subject to the moral rules. It implies that as a rational being, your rational will tells you that certain kinds of actions are bad and must be avoided while other kinds of actions are good and should be done.

In spite of this an average Yoruba still believe that man's rationality is one of the moral qualities God created in him. Therefore, everything is still tied back to God. On this account, Yoruba people associated morality with God. This led to several moral attributes given to God such as the impartial judge, justice, good, love, honest, tolerant. By implications, each of the five fundamental beliefs of Yoruba traditional religion has a moral undertone. For example, God is the source of ethics, while divinities, ancestor, and spirits constitute invisible agents of inculcating and articulating the ethics on members of the society. There are various religious rules and taboos, which forbid the performance of certain actions in the society.
It is important to note that Yoruba ethics is a community ethics. Individualism is not encouraged since an evil done by an individual heap disaster upon the whole community. Arising from the communal-based Yoruba ethics are the following basic moral values: respect for elders and authority, honesty in matters related to sex, marriage and general social issues, hard-work, tolerance, love, peace, kindness, hospitality, justice, responsibility and so on. Each person in the society is expected to integrate these values in day to day social activities like trading, fanning, working, and politics. Having established this fact, we need to know how ethics is related to economics because most people do believe that economics and ethics do not mix. Contrary to this opinion, it is our understanding that ethics is related to economics in a number of significant ways. First, the economy is an important part of society. It involves all of us in one-way or another. In this case, the economy is not something separate from society or imposed upon it. It is an integral part of society and its activities mostly consist of rules of human behaviour, which specify that certain actions are wrong or immoral and that others are right or moral.19

On this account, economic activities are subject to moral rules. And, because economic activity is human activity, it can be evaluated from the moral point of view just as any other human activity can be so evaluated. Economics, like other social activities, presupposes a background of morality and would be impossible without it. On this note, we can conclude that ethics is the oil as well as the glue of the society and therefore of economic activities. On this account here is correlation between Yoruba ethics and Yoruba traditional economy.

Moral Issues in Yoruba Traditional Economy

We shall focus our attention on moral issues associated with factors of production, employee and employer relationship, and market structure. Others include attitude to work and system of credit facilities as found in the Yoruba traditional economy. Moral issues arise in the way the factors of production were perfectly combined in traditional Yoruba economy. For example, the opportunity, which individuals have in using land freely without hindrance, presupposed the application of certain moral values such as tolerance and selflessness. It can be argued from a moral point of view therefore that the opportunity given to each person to have access to land use is a clear demonstration of the existence of tolerance among members of the society. Tolerance in this context means making allowance for others to live, or for other people's beliefs, opinions, customs, behaviour, taste, choices and so forth. To our mind, this is recognition of genuine differences in people's intelligence, physical structure, wealth, social positions, merits, opportunities and achievements .20 Tolerance is also recognition of the fact that there can never be uniformity in a plural community. The fact that each person was free to use land also demonstrated the existence in Yoruba society of the spirit of collectivism, communalism and co-operation. Co-operation in this sense implies camaraderie, partnership, and mutual relation. In society where co-operative spirit thrives, there is always the growth of fraternity, solidarity, fellow feeling, volunteers, coalitions, toleration, united fronts, common front, and mutual assistance. This brings about the spirit of give and take, mutual concession, composition and comradeship. However society did not expect its members to abuse freedom they had regarding the use of land and their overall social interactions.

Still on the factor of production, the fact that labourers were adequately remunerated is a clear demonstration that the economy was guided by the principles of respect honesty and sympathy. The employer knew that he had moral duty to pay for the services rendered to him while the employee knew he had to render service directly proportional to the wage negotiated. By so doing the economy interplay between the two -employee and employers were honoured according to the agreement between them. Hence the Yoruba adage:
Ogunaiagbasekiigbe (a labourer's sweat should not dry before he is remunerated).

On capital formation, rich people were expected to make their money from genuine and clean sources mostly through hard work, patience and perseverance. In the day-to-day economic activities of the Yoruba the emphasis, was always on hard work. By hard work we mean working with a lot of effort that is characterized by dedication, patience, endurance, and commitment. The Yoruba believe that the antidote to poverty is hard work. They worked hard to meet, all three basic necessities of life - food, shelter and clothing. To buttress this fact, the Yoruba people believed:

Ojoodunnioro un dun ole
A lazy man regrets his laziness on the day he needs money to mark important occasion.
Ise o tekun, ebijare ole, arokiri o tan gbese
Weeping does not help poverty, hunger humiliates the lazy one, talking about does not settle debt.

As a matter of fact, Yoruba people believe that a person must work, in actual fact and those without any clear means of livelihood could simply be called ole (thief) or ole (lazy). Such people were looked upon and condemned in the strongest words possible. Consequent upon this, a hard-working person had enough money not only to meet his daily needs but also to loan to the needy. On the part of those taking loans, it is their moral obligation to pay back their debt as at when due. This is recognition of the fact that the giving of credit or loan in traditional Yoruba economy was based on mutual trust. In this case, absolute confidence or faith is usually reposed in the recipients. Trust in this context implies creditworthiness, confidence and reliability. This led to the success of traditional saving and credit schemes. This practice, however, does not encourage idleness. The poor are expected to work harder to improve their lots and economic conditions. However, people were free to spend their resources on materials that provided them comfort.

What Yoruba people frown at is wastage. Associated with this is the ethics of thrift. In Yoruba society it was a moral responsibility of every member of the society to be thrifty because there was no room for wastage. To waste resources of any kind is to be an apa. He is condemned in strong terms. By so doing, members of Yoruba traditional society were made to develop attitudes of honesty, prudence, frugality, industry, punctuality and justice in all their economic activities. These attitudes constitute part and parcel of Yoruba economic ethics. The above ethical principles are also noticed in market places. For example the compartmentalization of sellers in which each of them coexist side by side is a practical demonstration of the principle of tolerance and love, which are essential to business practices. This is religious explanation for the principle of tolerance in market place. For example Yoruba people believe that each person is created by God and hence has right to live without fear or favour or undue intimidation. It is on this ground that an average Yoruba hold the firm conviction that:

Ajeiyako di ti baba lowo " (all traders can co-exist) and that
Ojuorun to eye e folafapakanra (literally, the sky is spacious enough to accommodate two birds).

Other aspects of Yoruba traditional market, which equally raised ethical issues, are related to the sale of agricultural goods and other commodities displayed for sale at footpaths and roadsides for prospective buyers. The cost of such commodities was indicated with certain number of pebbles put beside each pack of the commodity. The practice was that each buyer was honest enough to drop the exact money as so indicated for a number to pack that was purchased. The buyer had to be honest in such circumstance because of the religious belief that the spirit of the earth on which such goods were displayed, the spirits of weed, trees, leaves, sky and other living and non living things residing in the area where such commodities were displayed were witnesses to the buying activity. And if a person defrauds,
such spirits have capacity to harm. The belief of traditional Yoruba people is that God, divinities, ancestors and even Aje (the spirit of money) who acted as agents of inculcating economic ethics could inflict the dishonest buyer with disasters of various kinds and even death. This is because failure to pay the fxan money for the goods bought was tantamount to lying against the principle of honesty upon which economic activity is built.22

On the part of seller too, they were expected to tell the truth about the nature of goods sold to the public. That is he was expected to tell the truth regarding the features of goods displayed for sale. It is on this ground that some sellers in Yoruba markets had established the reputation of being honest. Such traders are known for dealing in genuine goods (ojagidi) and so buyers did not have to doubt the quality of goods offered for sale.. Moral issues also arise in the occupational aspect of the Yoruba traditional economic sector. This is evident in ethical rules guiding persons engaging in similar occupations. These norms regulate occupational conducts and behaviour towards the public. As for the occupational, conducts, there were certain approved behavioural patterns, which all members must abide with. For example, those who dealt in iron (blacksmiths, hunters, farmers) must be truthful in their business relations with customers in order not to offend Ogun. What constitutes offences to Ogun include the breaking of covenant, lying, falsehood, wickedness and stealing. Whoever is guilty of any of the moral offence would incur the wrath of Ogun. This could manifest in form of accident, untimely death, wound and injuries. In the same vein; those smelting and mining irons must not steal, or plan any evil They must not have sexual relationship with the wife of colleagues. Hence the warning:

Enitiiyoosiseasunrinkogbodo se ibi
Bi eniyan gun esinninuasunrinko nil ko se
Enitibansiseasunrinkogbodogboseeni

Whoever will do the work of iron smelting must do no evil
If a person rides a horse inside a smelter He will not be entangled
Whoever smelts iron must not accept evil charms to harm others.

In the same manner, the hunter was not to have an affair with the wife of co-hunter and he should not intercept the hunting path of a co-hunter. Similarly, makers of she abutter (on“) should not keep malice against their husbands or any other members of the society lest their products come out badly. Apart from this, each person engaged in one occupation or another is expected to produce genuine products for their prospective buyers. Hence, cases of selling of adulterated or expired goods were alien to Yoruba society. Each person was (through occupational rules and guidelines) made to develop attitude of honesty, tolerance and respect as they interact with their prospective buyers. By and large occupational codes of behaviour, etiquette, manners, laws or regulations exerted great influence on people of similar occupations in traditional Yoruba economy. The codes provided reflective background against which the public judges economic activities as good or bad. The codes also provided a map for the path of ethical pursuit in various economic activities in Yoruba traditional society. They all inculcated the spirit of honesty, love, tolerance, sincerity and justice on those who participated in traditional economic activities.23

From the foregoing, it was obvious that ethical issues in Yoruba traditional economy defined that every person was economically free in order to be able to devote more time and effort to moral undertakings. The economic prosperity of individuals was a contributory factor for moral development. Also, the profit motive of the individual was enhanced but socially and morally conditioned. Appropriation and accumulation of wealth by lawful and
moral means was regarded as a right. It was also believed that the profit motive was the most effective incentive for people to work and produce. On this note, the right to private property was accepted as a basic human right conditioned by moral standard of the society. Private property was broadly interpreted to include the means of production and distribution, instruments of exchange, land and all material objects deemed relevant to the pursuit of happiness and maintenance of life.

**Conclusion**

In all, economic activities were performed under what is regarded as the doctrine of moral privacy. This doctrine assigned a relative portion to economic value vis.-a-vis moral value, giving indisputable priority to righteousness over profit. This development, to our mind has at least two implications. First, it suggests that the ultimate goal of economic activity does not lie in the sphere of the economy itself but in the sphere of morality. In other words, profit seeking in all circumstances was a means and was to be justified in terms of a moral aim. Second, whenever there was conflict between moral and economic values, consideration of morality always preceded and superseded consideration of economics. For example when a traditional retailer was confronted with a choice of whether to maximize profit or consider the plight of the consumer, tradition expected him to show consideration for the consumer. For the traditional Yoruba people the saying Owo fun niko to eeyan, (money making should not supersede good human relations) remained fundamental and all enduring. Good character in the Yoruba sense included respect for old age, loyalty to one's parents and traditions, honesty in public and private dealings, devotion to duty, readiness to assist the needy and sympathy.

Therefore, traditional Yoruba people believe that profit seeking in economic activity can be harmful to individual morality when and if unchecked and could lead to personal greed and selfishness. It can be harmful to national morality when, if unbound, it becomes so pervasive that interpersonal relations are dominated by the consideration of profit at the expense of public good. Therefore, we can conclude in the words of Garrett "that unless we have an economy that puts ethics into total framework, we may end up as a successful economic person but morally mediocre, if not morally crippled person.

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