ARTICLES:
Effective Teaching at the University Level: An Art, a Science, or Just Dumb Luck? 
*Jack R. Fay, Connie Shum, Christine E. Fogliasso*

Employment Change in Missouri Workforce Investment Regions 
*David J. Doorn*

Benefit Corporations and Other Socially Responsible Business Organization Structures 
*Carol J. Miller*

An Investigation of Highly Identified Fans and their Marketplace Support of Official Team Sponsors 
*Thomas M. Hickman*

Societal Ethos and Economic Growth 
*Seymour Patterson*

BOOK REVIEWS:
The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor 
*William Easterly* 
Reviewed by *Janet Marta*

The Ultimate Sales Revolution: Sell Differently. Change the World 
*Steve Lishansky* 
Reviewed by *Douglas S. Russell*

Hug Your Haters: How to Embrace Complaints and Keep Your Customers 
*Jay Baer* 
Reviewed by *Jim Walker*
CONTENTS

ARTICLES:

Effective Teaching at the University Level: An Art, a Science, or Just Dumb Luck? ........2
  Jack R. Fay, Connie Shum, Christine E. Fogliasso

Employment Change in Missouri Workforce Investment Regions ............................... 15
  David J. Doorn

Benefit Corporations and Other Socially Responsible Business Organization Structures ......................................................... 53
  Carol J. Miller

An Investigation of Highly Identified Fans and their Marketplace Support of Official Team Sponsors ................................................................. 74
  Thomas M. Hickman

Societal Ethos and Economic Growth .................................................................................. 87
  Seymour Patterson

BOOK REVIEWS:

The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor .............................................................. 104
  William Easterly
  Reviewed by Janet Marta

The Ultimate Sales Revolution: Sell Differently. Change the World .......................... 106
  Steve Lishansky
  Reviewed by Douglas S. Russell

Hug Your Haters: How to Embrace Complaints and Keep Your Customers ............... 108
  Jay Baer
  Reviewed by Jim Walker

Available online at www.nwmissouri.edu

Volume 35    May 2016
The editor gratefully acknowledges assistance from the following reviewers from Northwest Missouri State University:

Casey Abington  Ben Blackford
Ben Collier     Mark Jelavich
Al Kelly        Josephine Cruz Lugovskyy
Hilmi Songur    Deborah Toomey
James Walker

From other institutions:

Debra Cartwright, Truman State University
Tommy Eshleman, The University of Nebraska at Kearney
John David Kerr, Harris-Stowe State University
Frank Markham, The University of Mississippi
Patrick McMurry, Missouri Western State University
Nicholas S. Miceli, Park University
Marcel Minutolo, Robert Morris University
Edgar Norton, Illinois State University
Denise Smith, Eastern Illinois University
Rebecca Summary, Southeast Missouri State University
Cathy L. Taylor, Park University

Manuscript Submissions
The Regional Business Review welcomes original, unpublished manuscripts in the fields of management, marketing, finance, economics, accounting, management information systems, and other business-related fields. The submission deadline is usually the first week of November for publication in the following year. Interested authors should contact the editor for manuscript submission guidelines:

Terry Coalter, J.D., Ph.D., Editor
Booth College of Business and Professional Studies
Northwest Missouri State University
800 University Drive
Maryville, MO 64468-6001
calter@nwmissouri.edu
Articles
Effective Teaching at the University Level: An Art, a Science, or Just Dumb Luck?

Jack R. Fay
Connie Shum
Christine E. Fogliasso
Pittsburg State University

ABSTRACT
Throughout the years while dealing with numerous topics, the basic question of “Is it art or is it science?” has been dissected, discussed, and debated. Among the subjects to be deliberated with this question is included the topic of effective teaching at the university level: Is effective teaching an art, or is it a science? The authors take the position that, as is true of many other professions, teaching is more of an art (a skill acquired by experience, study, or observation) than it is a scientific process (the operation of general laws as obtained and tested through scientific methods). Nevertheless, it is still possible for professors (and aspiring professors) to improve their teaching effectiveness. One way to do so is to require in doctoral programs’ curriculum a number of courses dealing with teaching and developing teaching skills. Also, establishing a structured, mentor/mentee relationship between experienced and new teachers can prove beneficial. Finally, a review of the literature on effective teaching provides a scientific, systematic study of the traits of effective (and ineffective) professors. College teachers who aspire to improve their teaching can examine these traits, select the effective ones that seem workable for them, plan how to integrate those teaching styles into their classroom, and then utilize the behaviors while working with students.

Keywords: teaching, professors, effective teaching, improving teaching
INTRODUCTION

Art can be defined as a skill acquired by experience, study, or observation. Science can be defined as something that may be studied or learned like systematized knowledge, or it may be defined as knowledge covering general truths or the operation of general laws as obtained and tested through scientific methods (Fay & Rupp, 2005).

Very often when people happen to be successful at an activity, they might (rather proudly) attribute their success to their innate abilities and extensive experience concerning the endeavor. However, successful individuals who are more honest and realistic will be more likely to also mention the hard work and scientific, methodical preparation that preceded the success. For example, no one disputes the athletic abilities of a football team that wins the Super Bowl. But the team's players and coaches alike are quick to point out the carefully designed hours and hours of lifting weights, watching film, discussing opponents' strategies, diagraming plays, and endless repetitions on the practice field. It is this systematic approach to preparation ("science") that is combined with the innate abilities and experience of players ("art") that achieves a successful result.

This example can be analogized to successful teaching. Perhaps a beginning point when considering what makes a professor effective is that person's abilities and experience with regard to open, engaging interpersonal communication skills, in other words, a person who truly likes, accepts, and enjoys students as people (Rawlins, 2000). However, one quickly realizes that, even if a teacher has developed such an engaging demeanor and teaching style, he will be completely ineffective unless he is also conveying accurate information in a structured method that has been proven successful (teaching as "science").

Conversely, even though a teacher has correct and important information to convey in a carefully organized and methodical manner, if students are neither attentive to the instructor nor able to comprehend the information being taught, that professor will also be ineffective. He may be a master of the information he is teaching, but without the ability to engage students in the learning process and persuade them to “buy-in” to the relevance and importance of the material that will pique their interest and inspire them to study, he is not a master of teaching (teaching as "art").

So where does this leave a professor who truly wants to be master of both “science” and “art”? Is it possible for professors to actually improve their teaching effectiveness? Literature answers in the affirmative. It is possible to identify instructors’ teaching styles, and this awareness can make them modify or improve on their practice (Ahmed, 2013). Professors can then build on their teaching style—whatever that may be—and then, through a systematic study of the traits of effective (and ineffective) professors and a review of literature on the topic, become better teachers. Just as the skill of painting portraits is an art but
nevertheless can be improved through first scientifically reviewing what colors will be available for the activity, professors can improve the art of teaching by reviewing what attributes and skills have been found effective and to thereafter take steps to hone these attributes and skills in their own teaching activities. This article compiles and reviews those attributes and skills, building upon and updating an earlier version of these ideas that was authored by Fay and Rupp (2005).

In addition, this article suggests that modifications in the curriculum of doctoral programs be made. It discusses why these changes need to include (among others) required courses in teaching skills and techniques. Another recommendation discussed is that universities establish a formal faculty mentor/mentee program. Such a program pairs an experienced, senior faculty member/mentor with a new, junior-level faculty member/mentee. The pair then works together in discussing (and viewing) their teaching strategies and techniques, attending teaching seminars together, and perhaps collaborating on scholarship projects dealing with pedagogy as well as other subjects.

**FOUNDATION FOR A UNIVERSITY TEACHING CAREER**

Individuals who earn doctoral degrees typically pursue one of two career paths. One path is a career that is exclusively research. Individuals who choose this path after earning doctorates go to work for laboratories, government facilities, or else in corporate research and development. The other career path for doctorate holders is a career as professors at the university level. Although university professors are still involved in research, the position is rarely limited to research (as was the case with the first doctorate career path just discussed). Most university professors, especially in small and medium-sized universities, have teaching as their primary responsibility. Research and service activities are additional (but typically lesser percentages) job requirements. This article focuses on the second doctorate career path, namely as a college or university professor, which is the path pursued by the majority of doctorate holders.

Typically, the terminal degree for a tenure-track career as a university professor is an earned doctorate. The doctoral programs that are found in universities around the world today do an excellent job in assuring their students have mastered the subject matter of their program of study. Candidates for the doctorate complete extensive research and course work in their subject area, culminating in original contributions to their field of knowledge. Assurance of the candidate’s mastery of the topic is achieved through his authorship and defense of a dissertation. After successfully defending his dissertation, the newly graduated doctorate holder is off to his first job as a university professor, where he will typically be assigned responsibilities dealing with three areas: teaching, research, and service.

The structure of his doctoral program has certainly prepared the new professor for research, and he may even have already published a refereed journal article
(or two) based upon his dissertation work. The new doctorate holder will also most likely be prepared for the service activities and committee work involved in his new position, since he quite possibly served on committees during his graduate program (graduate schools often have student representatives—usually doctoral candidates—on its many committees). However, a bitter irony awaits: unless the professor’s doctoral degree is actually in some area of education, odds are good that the new professor, who is eagerly looking forward to a career in academia and enlightening young minds for years to come, has had no formal preparation in how to teach.

For example, let us consider a typical doctoral program in a discipline outside of education. The majority of prescribed courses in the program deal with the subject matter of the major. There will also be core courses (i.e., required for all doctoral programs) in areas including research methods, survey construction, statistical packages, regression analysis, and areas such as these. In some disciplines, a number of hours in supporting fields might also be required. Certainly the manner in which the curriculum of the doctoral program just described is constructed prepares a new doctorate holder for a career in research. But while some new doctorate holders choose the research path (as previously discussed), the majority of new doctorate holders choose the university professor, or teaching, path—and only minimal, if any, formal coursework in doctoral programs prepares candidates to teach. According to Smith and Van Doren (2004), individuals who pursue doctorate degrees are high-achieving and highly motivated, which may make them uneasy to undertake tasks and initiatives for which they have not received adequate guidance. In all too many cases those “task and initiatives for which they have not received adequate guidance” are the skills and pedagogies involved in teaching. It is imperative that a solution be found to not only improve the doctorate candidate's teaching skills, but also his self-confidence in realizing that he possesses those abilities.

So what is the answer to this dilemma? Is it possible for professors who may feel (and/or actually be) unprepared to be effective teachers to improve their skills? Or, once the doctoral degree is earned and its coursework completed, is it too late for teaching professors to improve their craft? Today we see reduced university budgets and an economic outlook that makes it appear further reductions are forthcoming. Taxpayer dollars fund (some percentage of) university budgets, and those taxpayers are looking for evidence that their tax dollars are being well spent. Since students are the most visible output of a university—more so than research or service activities—today, more than ever, teaching activities need to be polished, honed, and perfected in order to withstand public scrutiny. This is an appropriate time to take a look at the teaching arena with honesty and objectivity, viewing both where we are and how to get to where we want to be. The art/science of teaching is important and worthy of study because effective teaching leads to the outcome of effective learning (Deepa & Manish, 2014).

Assuming the teaching profession needs to be improved, one way to do so is
to examine the various teaching styles that professors utilize. The following section discusses those styles with candor and transparency. A discussion will then follow about those styles and what can be learned from these traits. In addition, typical doctorate program curriculum will be reviewed, with proposals for modifications that will better prepare doctorate candidates for teaching careers. Faculty mentor programs for new faculty will also be discussed as an aid to effective teaching. These proposals can help all college professors (be they aspiring, new, or experienced) to be better teachers.

A LOOK AT SOME TEACHING STYLES

Teaching style is defined by Conti (1990) as a teacher’s unique qualities that are consistent from situation to situation regardless of the content being taught. It has been said that everyone is an example, whether a good or bad one. With that in mind, described below are a number of different teaching styles in college professors that have been observed by the authors. The different styles are grouped by pairs, and each pair illustrates polar opposites.

The philosophy of The Lion Professor is to terrorize students into submission (think of Professor Kingsfield in the movie The Paper Chase). Students fear him and seldom ask questions in the classroom nor seek his help outside it. This professor creates a toxic atmosphere by humiliating students and quickly establishing an “I’m in control” philosophy. While this does create a situation where learning could take place (because he knows his specialty well and has a strong professional reputation), it probably does not (since he is more concerned about asserting his authority than about assuring student learning). In contrast, The Timid-As-A-Mouse Professor is one in whose class students are in control—and it shows. In this situation students fail to follow class rules, continue talking to each other and texting in class, and the teacher does nothing about it. One cannot tell whether the professor knows the subject matter because no one in class is listening. While some new professors might fall into this category only for a short time after beginning their teaching careers, in other cases, sadly, the situation remains. The Timid-As-A-Mouse Professor lacks self-confidence and, outside of the classroom, tries to isolate himself from both students and colleagues. In his heart he fears he is a teaching fraud and is terrified of having that truth revealed.

There is no doubt about whether The Brilliant-Scholar Professor knows the subject matter—he does. He probably graduated top in his class and has published numerous refereed journal articles, but he cannot relate to his students because he has not been taught how to teach to their level. He encourages student questions but seldom gets any because students have discovered they will not be able to understand his responses. As Georgakopoulos and Guerrero (2010) found, communication is a key ingredient to effective teaching, but The Brilliant-Scholar Professor falls woefully short in that area. His lectures might be brilliant and even passionately presented, but students simply do not understand what he
is saying. The Bore Professor, on the other hand, teaches without any brilliance or passion at all (think of Ben Stein as the economics teacher in the movie Ferris Bueller’s Day Off). He does follow the administration's rules, such as taking attendance, but a few of his students are sleeping before he finishes that task and begins the day's lecture. His lectures are well thought-out and carefully planned, but his communication skills are nonexistent. So as his lecture continues, even more of the class zones out, daydreaming about anything and everything except the actual subject of the class. The Bore Professor does not seem to notice the total lack of interest, fails to achieve any response from students, and continues in this vein for the rest of the class. He tries to transmit his knowledge and puts forth the effort to do so, but does not realize those efforts have yielded very few (if any) results.

The Off-Topic Professor might have a lesson plan when he walks into the classroom, but students know they will be the ones to determine what subject will actually be discussed that day. Early on in the course they pick up on the professor's interests (e.g., family, sports, politics), and quickly realize they can easily lead him off the day’s topic and into an hour of stories about those interests rather than the course's subject matter. On the other hand, The Only-My-Game-Plan Professor not only has a lesson plan, but he refuses to deviate from it at all. He is not open to students asking questions because he is bound and determined to recite his lecture notes for that day. If a current event occurred that morning that is relevant to the course, well, too bad, because discussion of that topic is not in his game plan. He is passionate about his subject matter and believes he is conveying it, but unable to be flexible enough to make sure the subject is actually learned, rather than merely covered.

The Just-Read-the-Book Professor does not really do any teaching. He has carefully selected a good, appropriate textbook and believes that should be enough for students to master the topic. Besides, he is busy with research and service activities, and feels college students are certainly intelligent enough to teach themselves from a well-written text. His classes consist primarily of his asking if there are any questions from the reading the students were assigned to do the previous night. No questions? No problem. Class dismissed. Similarly, The I’ll-Read-You-the-Book (or PowerPoint slides) Professor also does not really teach either. He takes the well-written, informative textbook he has chosen and spends class time actually reading it to the students. Or he may use PowerPoint slides that the publisher provides in connection with the textbook, and reads those to the class, instead of the textbook. No critical thinking is expected of students, nor does it occur.

The Busy-Work Professor expects much more of students than just reading the textbook. In fact, he assigns an exorbitant number of tasks that are lengthy and take students a great deal of time to complete (which he believes to be evidence of learning). He also makes sure every course involves numerous team projects and many class presentations. But unless he constructs those assignments
in a carefully-designed and meaningful manner, followed up by thoughtful, constructive feedback to students on how they are doing and how to improve, there is no assurance learning has occurred. Compare that professor with The I-Don’t-Really-Care Professor. This professor does not assign an exorbitant amount of work to students. In fact, he assigns barely any. He does not really care much about his job (or at least not about the teaching responsibilities it involves), nor his students, and it shows. He shows up late for class, is obviously not thrilled at being there, and dismisses it early. He is distracted while teaching, does not encourage students to ask questions, and his course grades are based on the bare minimum number of tests that will satisfy the administration. The less work for him, the better.

The Angry Professor is absolutely thrilled to be in class, because it gives him a captive audience for him to release his annoyance and frustrations about his particular pet peeve, whatever that may be (think of Sam Kinison as Professor Terguson in the movie Back to School). This is the professor who has a personal agenda and uses class time to promote it, whether that agenda has anything to do with class or not. Claiming the mantel of academic freedom, he forces students to listen to his daily angry diatribe about a topic that has nothing (or very little) to do with the course. His agenda is to express his (angry and strongly held) opinion about what annoys him the most, and he does not care whether students like him. Compare that with The Please-Just-Like-Me Professor. He wants to be a good teacher, and he is convinced that the best evidence of whether someone is a good teacher is how students feel about the professor. He goes out of his way to be likeable, such as by having few classroom rules and low expectations of student achievement. He follows current events that are of relevance to college-age young people and will be sure to mention those in class. The Please-Just-Like-Me Professor goes out of his way to frequent the hangouts where students are found outside of the classroom, and he may try to think, act, and look like his students. Usually his courses lack academic rigor and students pass without much difficulty (and very little studying). Students may like him (or at least he thinks they do), but they are not learning from him.

A summary of some of the most notable data from these teaching styles is helpful. An ineffective teacher is noted for attributes such as poor interpersonal skills and low self-confidence (and/or bullying behavior to hide that fact). He may (or may not) know his subject matter but lacks the communication skills to transmit that knowledge to students. He may rely too much on student approval to make him feel validated. The ineffective teacher might believe he is teaching when he assigns an excessive number of poorly-designed, irrelevant assignments and gives no feedback about how students did on them. Some ineffective teachers rely too much on the course textbook (either by simply reading it to the students, or by simply having students read it themselves, with no other classroom interaction) or PowerPoint slides.

The picture is totally different with regard to an effective teacher. He has not
only mastered his subject matter but also the means in which to convey it to students. He truly cares about student learning; so he prepares for class carefully, seeks relevant current events to make the subject come alive, and is quick to pick up on verbal (as well as nonverbal) cues that students either are or are not understanding what the teacher is saying. Careful attention to students’ facial expressions and body language can provide clues that signal potential confusion (Tofade, Elsner, & Haines, 2013). In addition, any projects he assigns are carefully constructed to directly relate to course material, and he provides timely, constructive feedback to students about those projects. An effective teacher is creative and flexible, with self-confidence and an appropriate sense of (and use of) his authority. He realizes the need for educators to build strong relationships with students and to treat students with respect (Gruber et al., 2012), and he makes sure to do both.

DISCUSSION AND LITERATURE REVIEW

The above-described teaching styles provide food for thought. Certainly professors (like universities) have the reputation of changing very slowly, if at all. And, just as certainly, the majority of professors today are probably fairly contented with their teaching styles, thinking they are doing a pretty good job with a style that works for them. However, the fact remains that no one is perfect, and there is always room for improvement. As a matter of professional pride, academicians should constantly want to improve their teaching styles (as just discussed), but might not know how. And individuals considering or preparing for entry into the professorial ranks should also want to be prepared for their teaching duties. After considering the different types of professors previously discussed and how each operates in the classroom, the following questions arise: Which type is best? Which type is most effective? Which type do students prefer? Kendall and Schussler (2012) found that the classroom atmosphere is influenced by students’ perception of instructor behavior in the classroom. So what instructor behaviors do students perceive as most important?

Answers to the questions above can be found in the literature. In a survey conducted by Fay and Hardin (2000), 300 students from three universities were asked what qualities of accounting professors they considered most important for their education. The results were enlightening and certainly relevant not only to professors in accounting, but also to professors in other disciplines as well. The professorial qualities that students ranked most important in the survey were “knowledge of the subject being taught” and “the general ability to teach.” The first of those preferred qualities (knowledge of the subject) is covered in great depth in doctoral programs, but typically the second (ability to teach) is not. Students who were surveyed also considered it important for professors to have experience (especially in the subject area being taught), the ability to answer questions, fairness in grading, and concern for the students. Certainly the phrase “general ability to teach” is somewhat nebulous. To try to pin down
specifics, Fay and Hardin (2000) asked students to express, in their own words, their opinions concerning what would be the primary characteristics of someone with an exceptional ability to teach. As would be expected, there were a variety of responses. However, the majority of students emphasized attributes such as ability to motivate students, willingness to answer questions, availability of professors, knowledge of the subject matter being taught, and concern for the students.

In another study by Deepa and Manish (2014), the researchers found that students perceive better instructors to be those who consider the students as grown up individuals with their independent identity, who give them personalized attention, who believe in facilitating the transfer of information and knowledge rather than just imparting the same, who manage the class professionally, who are clear in thought process and communicate efficiently, who are approachable, who are updated in their field, who understand the importance of working in teams (p. 7).

Other researchers found that good teachers generally possess the qualities named above and more. Gruber et al. (2012) considered it important for educators to maintain rapport with students, build strong relationships, and treat students with respect. In addition, they must have good communication and teaching skills, expertise, reliability, and respect. Orlando (2013) contended that great teachers respect students; create a sense of community and belonging in the classroom; are warm, accessible, enthusiastic and caring; set high expectations for all students; have their own love of learning; are skilled leaders; are flexible, collaborate with colleagues on an ongoing basis; and maintain professionalism in all areas. Deepa and Manish (2014) concluded that excellent communication skills, attitude, interactive teaching style, a real-world focus, empathy for others, and both organization as well as presentation skills are critical factors that can lead to effective learning. Shibaev and Shibaeva (2014) found that general erudition, tolerance, high cultural level, high level of information culture, communication tools, morality, responsibility, and sincerity are the most valuable qualities for and of professors. Georgakopoulos and Guerrero (2010) even found that professors who employ more nonverbal expressiveness, relaxed movement, in-class conversation, and out-of-class communication were perceived to be better professors than those who do not.

In addition to the personality traits identified above, Ahmed (2013) contended that learner-centered teaching style is more effective than teacher-centered style. With the traditional teacher-centered style, the instructor directs how, what, and when students learn. It is formal, controlled, and autocratic. On the other hand, learner-centered style is responsive, collaborative, problem-centered, and democratic. Both students and the instructor decide how, what, and when learning occurs. Since the focus of this style of teaching is on the learner, it creates a learning environment conducive to learning and promotes the highest
levels of motivation, learning, and achievement for all learners (McCombs & Whistler, 1997).

Students express increased satisfaction when they see in teachers traits such as enthusiasm, careful preparation, clarity of communication, and fair grading (Zietz, Cochran, & Hodgin, 2001). Studies by Latif and Miles (2013) showed similar results—namely, that students perceive the most important characteristics of an effective teacher to be his knowledge, ability to clearly explain the material, and careful preparation. The value of careful preparation was also found a characteristic of effective teaching in research conducted by Jackson, Teal, Raines, Nansel, Force, and Burdsal (1999). According to Marsh and Bailey (1993), additional characteristics of effective teaching also include using technology, flexibility, and enthusiasm.

In light of the qualities and personality traits identified by previous researchers, what can be done to help professors to be more effective educators? Some universities have addressed teaching expertise by implementing mentorship programs between junior and senior faculty. A new faculty member at the university is assigned a senior faculty colleague as a formal mentor. Assuming the senior faculty member is an effective teacher, this relationship can be beneficial and achieve positive results. Mentorship programs include the mentor accompanying the mentee to teaching seminars, visiting the mentee's classroom and providing feedback, as well as the mentee visiting the mentor's classroom to view teaching techniques being utilized. Mentor and mentee might coauthor research dealing with pedagogy or serve as co-advisors of a student organization. The mentorship concept brings to mind the student-teacher situation that is required of undergraduate students earning a bachelor's degree in education. If a college senior can learn from an experienced public school teacher by shadowing him and then teaching under his tutelage, couldn't similar valuable experience be gained from the above-described mentor/mentee program for new university teachers? Senior professors who are effective teachers have wisdom and experience that needs to be shared with new junior faculty. And new faculty members can bring fresh, new, innovative teaching ideas of their own, which can help re-stimulate the passion for teaching that prompted the senior faculty mentor to choose teaching many years ago.

CONCLUSION

As noted previously, the majority of doctoral programs that are outside of education typically provide little, if any, formal classwork about how to be a good teacher. Certainly doctorate holders receive comprehensive training in their fields of study. However effective teaching needs to not only include the teacher’s knowledge of the subject matter, but also (and just as important) his attitude about student learning and the discipline of teaching. What matters most is not the fact that teaching professors may be rich academically, it is the manner in which they convey information and knowledge to their students. Being aware
of the teaching style that they employ in their classrooms can help professors modify or improve on their practice, which can in turn help their students learn better.

Today the public is increasingly demanding accountability for its tax dollars, including those spent on higher education in general and for professors’ teaching activities in particular. However, although researchers identified various personality traits associated with effective teachers, the goal of university administrators should not be to hire individuals who are of a particular personality type. Instead, administrators should provide faculty development opportunities that focus on assisting professors to develop the skills and techniques to help them become better, more effective educators.

Another possible solution to training doctorate holders to be more effective educators would start with reworking doctoral programs’ curriculum, acknowledging the fact that the majority of new doctorate holders will choose to be university professors and those individuals need to be formally taught how to teach. Professional development courses play an important role in increasing pedagogical expertise and new teaching strategies (Hamdan & Lai, 2015). And the more often teachers attend professional development opportunities, the more prepared those individuals are for classroom success (Holloway, 2003). The curriculum for doctoral programs in every discipline should include a number of courses—at least highly recommended, if not actually required—dealing with teaching. These courses should include subjects such as teaching methods, instructional design, psychology of learning, and educational communications. Additional subjects that need to be included in the programs are curriculum administration and assessment indicators.

New faculty members who are assigned teaching responsibilities will also benefit from a university establishing a formal faculty mentor/mentee program. An experienced senior faculty member (mentor) has a wealth of classroom experiences (and others) to draw on when working with a new faculty member (mentee). Mentor and mentee will both benefit from such a program, and can end up establishing a relationship that results in their collaboration on a variety of projects.

Many characteristics—both good and bad—of professors have been noted and discussed. Certainly there is no guarantee that achieving any particular set of established criteria will make someone an effective teacher. However, the odds of this outcome are greatly improved if an individual makes a personal commitment and a well-established plan to do so, and continues with follow-through, taking specific steps to actually make that plan happen. When this dedication, work, and attention to effective teaching are combined with high-quality research and valuable service activities, the result is a respected and contributing professor who is an important part of the university and who will touch students’ lives for years to come.
REFERENCES


Employment Change In Missouri Workforce Investment Regions

David J. Doorn
West Chester University of Pennsylvania

ABSTRACT
From the economic recovery following the 2001 recession through the Great Recession and into the current expansion, the regions of Missouri have experienced a diversity of employment outcomes. The employment distribution across industries in each region in conjunction with each industry’s relative performance, with respect to statewide outcomes, goes a long way toward explaining the disparity in employment experience across the state. Focusing on Missouri’s ten Workforce Investment regions and making use of a dynamic shift-share analysis, this paper decomposes each region’s employment growth in each year into separate components based on relative industry performance across NAICS supersectors. Taking the results from this decomposition and illustrating them graphically helps facilitate the discussion by highlighting the contributions of each shift-share component to regional growth in an accessible fashion and enabling a concise breakdown of industry contributions as well. The results from this shift-share analysis should be useful to regional policymakers and stakeholders.

Keywords: Great Recession, Missouri Workforce Investment regions, shift-share, 2001 recession

INTRODUCTION
Although the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) determined that the 2001 economic recession began and ended in that year, monthly employment across the U.S. continued to fall well into 2003. Using annual average total nonfarm employment data from the Bureau of Labor Statistics’ Current Employment Statistics (CES) program, we see in Figure 1 that nonfarm employment nationally did not technically even decline
in 2001, as the annual average was up a very minimal 0.04% from the previous year. However, over the following two years the nation joined the majority of states in the ongoing “employment recession” that gripped the nation. As also indicated in Figure 1, Missouri’s employment recession did actually begin in 2001, with a loss of about 18,000 jobs representing a –0.65% decline in total nonfarm employment for the year. In 2002 both Missouri and the nation saw similar declines in employment of about –1.10%, representing about 31,200 jobs lost in Missouri and nearly 1.5 million for the nation as a whole. As employment continued to contract through 2003, Missouri lost an additional 18,100 jobs for a total decline of 67,300 jobs from the 2000 peak, a drop of 2.45% overall. This was significantly worse than the nation’s contraction of about 1.30% over the same period.

It was not until 2004 that expansion in employment returned to the U.S. economy. Unfortunately, Missouri continued to underperform the nation with respect to employment growth for the whole of the employment expansion period through 2007. While the nation’s positive employment growth exceeded 1.0% in every year from 2004 to 2007, reaching a high of 1.79% in 2006, Missouri’s employment growth lagged at rates of 0.53, 1.53, 1.44, and 0.76% consecutively through these expansion years. In total, overall employment in Missouri increased by 4.33% through this four-year employment expansion, resulting in an additional 116,100 jobs in the state relative to the 2003 employment trough.

1 For the shift-share analysis to come, data from the Quarterly Census of Employment and Wages program of the BLS is used. This does include the Natural Resources and Mining NAICS supersector, which has Agriculture as a subcomponent. See Table 1 below.
As the “Great Recession” began to get into full swing in 2008, employment in Missouri actually fell at a slower rate than did the nation’s, with the state’s relatively mild decline of –0.16% less drastic than the –0.56% drop in employment in the U.S. as a whole. This relative performance continued into 2009, when the state’s –3.71% drop in employment again was not as deep as the nation’s –4.33% decline. Although the NBER has determined the end of the Great Recession to be the second quarter of 2009, once again the employment recession continued for another year, with national employment falling another –0.73% for the year. Missouri no longer experienced a slower decline in employment than did the nation that year, as the state’s employment level fell another –1.16% in 2010. Based on annual averages, from 2007 to 2010 overall U.S. nonfarm employment declined by –5.55% while employment in Missouri fell by a somewhat less severe –4.98%, amounting to a loss of 139,400 jobs overall for the state. However, for the ensuing employment recovery that began in 2011 Missouri’s employment growth has underperformed that of the nation by a significant margin each year.

While the nation saw significant growth in employment of 1.20% in 2011, Missouri lagged substantially with an employment growth rate of only 0.31% for the year. The following year saw employment growth in Missouri more than double to a still meager 0.69% rate, while the nation’s growth rate climbed to 1.72% in 2012. This wide disparity in employment growth rates continued into 2013 and 2014, with Missouri’s growth never surpassing 1.0% while the nation’s growth continued at its relatively high levels in those years—reaching 1.94% in 2014. For the whole employment recovery from the 2010 trough through the end of 2014 Missouri employment picked up by a total of 67,300 jobs, or 2.52%. Overall employment levels for the state are still well below the 2007 pre-crisis peak, with 2014 average annual employment still 2.28% below its 2007 level, which leaves about 63,800 jobs still missing. For the country as a whole, the strong employment growth throughout the recovery resulted in overall employment rising above its 2007 peak level by April of 2014, with overall U.S. annual average employment for that year surpassing its 2007 level by well over a million jobs.

Although we see that Missouri employment growth has trailed that of the nation in all but two years of the period considered, some regions of the state have done much better than others and even surpassed nationwide performance in some years. An important cause for such diversity in employment outcomes is some combination of differences in employment distribution across industry sectors within each region and variation in sectoral performance across regions. In this paper we use dynamic shift-share analysis to decompose each year’s regional employment change into separate components based on relative industry performance across North American Industry Classification System (NAICS) supersectors. The NAICS supersectors and their component industries are listed in Table 1. The regional breakdown we use is the ten Workforce Investment
Areas (WIA) of the state, as defined by the Missouri Economic Research and Information Center (www.missourieconomy.org/regional/index.stm).

A number of previous studies of state employment trends have also made use of shift-share analysis. Harris, Gillberg, Narayan, Shonkwiler, and Lambert (1994) uses this procedure to consider Nevada's employment behavior over the 1981–1982 and 1990–1991 recessions. More recently, Herath, Gebremedhin, and Maumbe (2011) and Herath, Schaeffer, and Gebremedhin (2013) used dynamic shift-share analysis to investigate changes in West Virginia employment over a lengthier period, beginning in the 1970s and going through 2007. In this paper we make use of the dynamic shift-share methodology of Barff and Knight (1988) and Arcelus (1984) as it has been applied in Doorn and Jacobson (2008) and Doorn and Kelly (2015) in their studies of employment change across the U.S. census regions. In these two papers the dynamic shift-share method was extended to include a graphical analysis of the results that highlights the ability of the shift-share technique to break changes in employment into three

<table>
<thead>
<tr>
<th><strong>Table 1</strong></th>
<th>NAICS Supersectors (in bold) and Component Industry Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GOODS-PRODUCING</strong></td>
<td></td>
</tr>
<tr>
<td>Natural Resources and Mining</td>
<td>Sector 11—Agriculture, forestry, fishing and hunting</td>
</tr>
<tr>
<td></td>
<td>Sector 21—Mining</td>
</tr>
<tr>
<td>Construction</td>
<td>Sector 23—Construction</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Sectors 31, 32, 33—Manufacturing</td>
</tr>
<tr>
<td><strong>SERVICE-PROVIDING</strong></td>
<td></td>
</tr>
<tr>
<td>Trade, Transportation, and Utilities</td>
<td>Sector 42—Wholesale trade</td>
</tr>
<tr>
<td></td>
<td>Sectors 44, 45—Retail trade</td>
</tr>
<tr>
<td></td>
<td>Sectors 48, 49—Transportation and warehousing</td>
</tr>
<tr>
<td></td>
<td>Sector 22—Utilities</td>
</tr>
<tr>
<td>Information</td>
<td>Sector 51—Information</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>Sector 52—Finance and insurance</td>
</tr>
<tr>
<td></td>
<td>Sector 53—Real estate and rental and leasing</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>Sector 54—Professional, scientific, and technical services</td>
</tr>
<tr>
<td></td>
<td>Sector 55—Management of companies and enterprises</td>
</tr>
<tr>
<td></td>
<td>Sector 56—Administrative and waste services</td>
</tr>
<tr>
<td>Education and Health Services</td>
<td>Sector 61—Educational services</td>
</tr>
<tr>
<td></td>
<td>Sector 62—Health care and social assistance</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>Sector 71—Arts, entertainment, and recreation</td>
</tr>
<tr>
<td></td>
<td>Sector 72—Accommodations and food services</td>
</tr>
<tr>
<td>Other Services</td>
<td>Sector 81—Other services</td>
</tr>
<tr>
<td>Public Administration</td>
<td>Federal, State, Local Government</td>
</tr>
</tbody>
</table>
contributing factors. Presenting the contributions from these three sources in a graphical fashion allows the reader to more easily discern differences in industry sector contributions to each region’s relative growth outcomes and aids in the discussion.

In what follows we use county data from the Quarterly Census of Employment and Wages (QCEW) program of the Bureau of Labor Statistics and aggregate up to the ten WIA regions mentioned above. Figure 2 and Table 2 indicate the components of these ten regions. Due to data limitations at the county level, we use private industry employment for most of what follows, although we do add in public sector employment for the NAICS Education and Health Services sector, as it is a huge component and the data is available for nearly every county. Public Administration is also included, which includes all federal, state, and local public sector employers that are available in the QCEW.

Figure 2
Missouri Workforce Investment Regions

Source: Missouri Economic Research and Information Center
Table 2
Components of Missouri Workforce Investment Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Workforce Investment Region</th>
<th>Counties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central</td>
<td>Audrain, Boone, Callaway, Camden, Cole, Cooper, Crawford, Dent, Gasconade, Howard, Laclede, Maries, Miller, Moniteau, Morgan, Osage, Phelps, Pulaski, Washington</td>
</tr>
<tr>
<td>2</td>
<td>Southwest</td>
<td>Barry, Barton, Dade, Jasper, Lawrence, McDonald, Newton</td>
</tr>
<tr>
<td>3</td>
<td>South Central</td>
<td>Butler, Carter, Douglas, Howell, Oregon, Ozark, Reynolds, Ripley, Shannon, Texas, Wayne, Wright</td>
</tr>
<tr>
<td>4</td>
<td>Kansas City</td>
<td>Cass, Clay, Jackson, Platte, Ray</td>
</tr>
<tr>
<td>5</td>
<td>Northeast</td>
<td>Adair, Clark, Knox, Lewis, Lincoln, Macon, Marion, Monroe, Montgomery, Pike, Ralls, Randolph, Schuyler, Scotland, Shelby, Warren</td>
</tr>
<tr>
<td>6</td>
<td>Northwest</td>
<td>Andrew, Atchison, Buchanan, Caldwell, Clinton, Daviess, DeKalb, Gentry, Grundy, Harrison, Holt, Linn, Livingston, Mercer, Nodaway, Putnam, Sullivan, Worth</td>
</tr>
<tr>
<td>7</td>
<td>St. Louis</td>
<td>Franklin, Jefferson, St. Charles, St. Louis City, St. Louis County</td>
</tr>
<tr>
<td>8</td>
<td>West Central</td>
<td>Bates, Benton, Carroll, Cedar, Chariton, Henry, Hickory, Johnson, Lafayette, Pettis, Saline, St. Clair, Vernon</td>
</tr>
<tr>
<td>9</td>
<td>Ozark</td>
<td>Christian, Dallas, Greene, Polk, Stone, Taney, Webster</td>
</tr>
<tr>
<td>10</td>
<td>Southeast</td>
<td>Bollinger, Cape Girardeau, Dunklin, Iron, Madison, Mississippi, New Madrid, Pemiscot, Perry, Scott, St. Francois, Ste. Genevieve, Stoddard</td>
</tr>
</tbody>
</table>

Source: Missouri Economic Research and Information Center

EMPLOYMENT CHANGE IN THE WIA REGIONS

In this section we compare the growth rates of the ten WIA regions to statewide outcomes. Rather than just private industry, we use employment of all types in this part (Total Covered in QCEW parlance), as the data is available for all counties at that level. The annual average growth rates of employment for the U.S., Missouri, and the WIA regions from 2002 to 2014 are given in Table 3. Total employment growth and annualized average growth rates for two alternative definitions of expansionary and contractionary periods are given in Table 4 and in Table 5. The annualized average growth rates given in these tables are calculated as the constant annual growth rate that would yield the equivalent overall percentage change in employment for the period of interest. Table 4
reports growth rates over periods based on the dates of business cycle peaks and troughs as determined by the NBER's Business Cycle Dating Committee. As the economic recession began and ended in 2001, the first two columns of the table represent the business cycle expansion that started with the 2001 trough and peaked at the end of 2007. This is followed by the Great Recession which went from the peak of the previous expansion through the trough in June 2009. As we are using annual data, the trough is considered to be the annual average level of employment for 2009 in this case. The last two columns cover the current business cycle expansionary period through the end of 2014, as annual data for 2015 was not available at the time of writing.

Table 3
Annual Average Growth Rates in All Industries Employment (Total Covered)

<table>
<thead>
<tr>
<th>Region</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>0.27%</td>
<td>0.54%</td>
<td>1.20%</td>
<td>2.55%</td>
<td>1.43%</td>
<td>0.26%</td>
<td>-0.38%</td>
</tr>
<tr>
<td>Kansas City</td>
<td>-1.81%</td>
<td>-1.44%</td>
<td>-0.21%</td>
<td>0.76%</td>
<td>1.02%</td>
<td>1.13%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Northeast</td>
<td>-0.21%</td>
<td>-0.18%</td>
<td>1.56%</td>
<td>1.88%</td>
<td>0.82%</td>
<td>-0.75%</td>
<td>-1.28%</td>
</tr>
<tr>
<td>Northwest</td>
<td>-0.70%</td>
<td>-0.64%</td>
<td>0.60%</td>
<td>0.91%</td>
<td>1.69%</td>
<td>2.10%</td>
<td>1.31%</td>
</tr>
<tr>
<td>Ozark</td>
<td>0.55%</td>
<td>1.47%</td>
<td>1.18%</td>
<td>3.12%</td>
<td>3.07%</td>
<td>2.65%</td>
<td>-0.75%</td>
</tr>
<tr>
<td>South Central</td>
<td>0.06%</td>
<td>0.80%</td>
<td>3.09%</td>
<td>1.81%</td>
<td>-0.13%</td>
<td>-0.93%</td>
<td>-0.39%</td>
</tr>
<tr>
<td>Southeast</td>
<td>-0.23%</td>
<td>0.68%</td>
<td>0.54%</td>
<td>1.61%</td>
<td>1.63%</td>
<td>0.98%</td>
<td>-1.10%</td>
</tr>
<tr>
<td>Southwest</td>
<td>-1.04%</td>
<td>-0.11%</td>
<td>0.46%</td>
<td>0.91%</td>
<td>2.28%</td>
<td>0.43%</td>
<td>-0.15%</td>
</tr>
<tr>
<td>St. Louis</td>
<td>-1.42%</td>
<td>-1.15%</td>
<td>-0.45%</td>
<td>1.00%</td>
<td>0.82%</td>
<td>0.35%</td>
<td>-0.42%</td>
</tr>
<tr>
<td>West Central</td>
<td>-1.51%</td>
<td>0.27%</td>
<td>0.42%</td>
<td>1.63%</td>
<td>1.24%</td>
<td>-0.75%</td>
<td>-2.13%</td>
</tr>
<tr>
<td>Missouri</td>
<td>-0.94%</td>
<td>-0.30%</td>
<td>0.68%</td>
<td>1.45%</td>
<td>1.42%</td>
<td>0.76%</td>
<td>-0.01%</td>
</tr>
<tr>
<td>U.S. (CES)</td>
<td>-1.09%</td>
<td>-0.24%</td>
<td>1.10%</td>
<td>1.71%</td>
<td>1.79%</td>
<td>1.13%</td>
<td>-0.56%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>-3.19%</td>
<td>-0.10%</td>
<td>0.15%</td>
<td>0.87%</td>
<td>1.06%</td>
<td>0.69%</td>
</tr>
<tr>
<td>Kansas City</td>
<td>-3.89%</td>
<td>-2.36%</td>
<td>0.00%</td>
<td>1.20%</td>
<td>0.77%</td>
<td>1.66%</td>
</tr>
<tr>
<td>Northeast</td>
<td>-3.30%</td>
<td>-0.37%</td>
<td>-0.16%</td>
<td>0.10%</td>
<td>0.47%</td>
<td>1.20%</td>
</tr>
<tr>
<td>Northwest</td>
<td>-2.48%</td>
<td>-3.64%</td>
<td>-0.54%</td>
<td>0.72%</td>
<td>0.48%</td>
<td>-0.51%</td>
</tr>
<tr>
<td>Ozark</td>
<td>-4.93%</td>
<td>-1.33%</td>
<td>0.86%</td>
<td>2.58%</td>
<td>1.17%</td>
<td>1.91%</td>
</tr>
<tr>
<td>South Central</td>
<td>-2.46%</td>
<td>-0.11%</td>
<td>0.42%</td>
<td>0.31%</td>
<td>-0.91%</td>
<td>0.59%</td>
</tr>
<tr>
<td>Southeast</td>
<td>-2.25%</td>
<td>-0.29%</td>
<td>0.63%</td>
<td>1.16%</td>
<td>0.02%</td>
<td>0.22%</td>
</tr>
<tr>
<td>Southwest</td>
<td>-3.44%</td>
<td>-1.46%</td>
<td>0.21%</td>
<td>0.44%</td>
<td>0.23%</td>
<td>-0.12%</td>
</tr>
<tr>
<td>St. Louis</td>
<td>-5.21%</td>
<td>-1.46%</td>
<td>0.66%</td>
<td>0.76%</td>
<td>1.48%</td>
<td>1.28%</td>
</tr>
<tr>
<td>West Central</td>
<td>-3.69%</td>
<td>0.63%</td>
<td>-0.12%</td>
<td>0.15%</td>
<td>-0.03%</td>
<td>1.29%</td>
</tr>
<tr>
<td>Missouri</td>
<td>-3.73%</td>
<td>-1.23%</td>
<td>0.51%</td>
<td>0.77%</td>
<td>1.32%</td>
<td>1.18%</td>
</tr>
<tr>
<td>U.S. (CES)</td>
<td>-4.33%</td>
<td>-0.73%</td>
<td>1.20%</td>
<td>1.72%</td>
<td>1.71%</td>
<td>1.94%</td>
</tr>
</tbody>
</table>
Recall that national employment did not actually begin growing until 2003 following the 2001 recession and not until 2010 for the current expansion, based on annual averages. As we are focused on employment change, it makes sense to also look at how employment has behaved over the employment expansions and contractions that have occurred over the period of study as well. (In fact this will be the basis for the upcoming shift–share analysis.) As a result, Table 5 presents four periods: the employment contraction from 2001 to 2003; the employment expansion from 2003 to 2007; the employment contraction from 2007 to 2010; and the current employment expansion from 2010 through 2014. From this we get a better picture of the overall employment outcomes for each region than is perhaps evident in Table 4. In either case, Tables 3, 4, and 5 all indicate considerable amounts of variation in employment growth experiences across the different regions of the state.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>6.40%</td>
<td>1.04%</td>
<td>-3.56%</td>
<td>-0.90%</td>
<td>2.69%</td>
<td>0.53%</td>
</tr>
<tr>
<td>Kansas City</td>
<td>-0.59%</td>
<td>-0.10%</td>
<td>-3.41%</td>
<td>-0.86%</td>
<td>1.22%</td>
<td>0.24%</td>
</tr>
<tr>
<td>Northeast</td>
<td>3.13%</td>
<td>0.52%</td>
<td>-4.54%</td>
<td>-1.16%</td>
<td>1.25%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Northwest</td>
<td>3.99%</td>
<td>0.65%</td>
<td>-1.19%</td>
<td>-0.30%</td>
<td>-3.51%</td>
<td>-0.71%</td>
</tr>
<tr>
<td>Ozark</td>
<td>12.63%</td>
<td>2.00%</td>
<td>-5.65%</td>
<td>-1.44%</td>
<td>5.25%</td>
<td>1.03%</td>
</tr>
<tr>
<td>South Central</td>
<td>4.73%</td>
<td>0.77%</td>
<td>-2.85%</td>
<td>-0.72%</td>
<td>0.29%</td>
<td>0.06%</td>
</tr>
<tr>
<td>Southeast</td>
<td>5.30%</td>
<td>0.86%</td>
<td>-3.32%</td>
<td>-0.84%</td>
<td>1.75%</td>
<td>0.35%</td>
</tr>
<tr>
<td>Southwest</td>
<td>2.94%</td>
<td>0.48%</td>
<td>-3.58%</td>
<td>-0.91%</td>
<td>-0.70%</td>
<td>-0.14%</td>
</tr>
<tr>
<td>St. Louis</td>
<td>-0.87%</td>
<td>-0.15%</td>
<td>-5.60%</td>
<td>-1.43%</td>
<td>2.73%</td>
<td>0.54%</td>
</tr>
<tr>
<td>West Central</td>
<td>1.28%</td>
<td>0.21%</td>
<td>-5.74%</td>
<td>-1.47%</td>
<td>1.92%</td>
<td>0.38%</td>
</tr>
<tr>
<td>Missouri</td>
<td>3.08%</td>
<td>0.51%</td>
<td>-3.74%</td>
<td>-0.95%</td>
<td>2.56%</td>
<td>0.51%</td>
</tr>
<tr>
<td>U.S.</td>
<td>4.44%</td>
<td>0.73%</td>
<td>-4.86%</td>
<td>-1.24%</td>
<td>5.95%</td>
<td>1.16%</td>
</tr>
</tbody>
</table>
Table 5 gives us a picture of the job loss situation across regions and the state during the continuing employment contraction following the 2001 recession that is not evident at all in Table 4. In conjunction with Table 3, we see that while Missouri and the nation continued to experience declining employment following the 2001 recession, three regions of the state recovered quickly and saw annual growth that was positive in both 2002 and 2003. These were the Central, Ozark, and South Central WIA regions, with growth in the Ozark region being the strongest over the 2001 to 2003 period with a total gain in employment of more than 2.0%. While the Southeast and the West Central regions both experienced employment gains in 2003, only in the former were those strong enough to offset their 2002 losses and lead to overall growth in employment for the period. The West Central region ended up with an overall drop in employment of –1.2%, which matched the state’s experience. The remaining regions continued to suffer losses through 2003, with by far the worst overall declines for the period occurring in the Kansas City and St. Louis regions, at –3.2 and –2.6% respectively. The Northwest region was the only remaining region to perform worse than the state during this period of extended employment contraction, while the Southwest and Northeast regions saw milder overall declines of –1.15 and –0.39% respectively.

Comparing the differences in employment growth rates for the economic expansion from 2001 to 2007 in Table 4 to those from the actual employment expansion from 2003 to 2007 exhibited in Table 5 further supports the idea of

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>0.81%</td>
<td>0.13%</td>
<td>5.54%</td>
<td>1.36%</td>
<td>-3.66%</td>
<td>-0.93%</td>
<td>2.79%</td>
<td>0.69%</td>
</tr>
<tr>
<td>Kansas City</td>
<td>-3.23%</td>
<td>-0.55%</td>
<td>2.72%</td>
<td>0.67%</td>
<td>-5.69%</td>
<td>-1.45%</td>
<td>3.67%</td>
<td>0.91%</td>
</tr>
<tr>
<td>Northeast</td>
<td>-0.39%</td>
<td>-0.06%</td>
<td>3.53%</td>
<td>0.87%</td>
<td>-4.90%</td>
<td>-1.25%</td>
<td>1.62%</td>
<td>0.40%</td>
</tr>
<tr>
<td>Northwest</td>
<td>-1.34%</td>
<td>-0.22%</td>
<td>5.40%</td>
<td>1.32%</td>
<td>-4.79%</td>
<td>-1.22%</td>
<td>0.13%</td>
<td>0.03%</td>
</tr>
<tr>
<td>Ozark</td>
<td>2.03%</td>
<td>0.33%</td>
<td>10.40%</td>
<td>2.50%</td>
<td>-6.90%</td>
<td>-1.77%</td>
<td>6.67%</td>
<td>1.63%</td>
</tr>
<tr>
<td>South Central</td>
<td>0.86%</td>
<td>0.14%</td>
<td>3.84%</td>
<td>0.95%</td>
<td>-2.96%</td>
<td>-0.75%</td>
<td>0.40%</td>
<td>0.10%</td>
</tr>
<tr>
<td>Southeast</td>
<td>0.44%</td>
<td>0.07%</td>
<td>4.83%</td>
<td>1.19%</td>
<td>-3.60%</td>
<td>-0.91%</td>
<td>2.04%</td>
<td>0.51%</td>
</tr>
<tr>
<td>Southwest</td>
<td>-1.15%</td>
<td>-0.19%</td>
<td>4.13%</td>
<td>1.02%</td>
<td>-4.99%</td>
<td>-1.27%</td>
<td>0.77%</td>
<td>0.19%</td>
</tr>
<tr>
<td>St. Louis</td>
<td>-2.55%</td>
<td>-0.43%</td>
<td>1.72%</td>
<td>0.43%</td>
<td>-6.98%</td>
<td>-1.79%</td>
<td>4.25%</td>
<td>1.05%</td>
</tr>
<tr>
<td>West Central</td>
<td>-1.24%</td>
<td>-0.21%</td>
<td>2.55%</td>
<td>0.63%</td>
<td>-5.15%</td>
<td>-1.31%</td>
<td>1.28%</td>
<td>0.32%</td>
</tr>
<tr>
<td>Missouri</td>
<td>-1.24%</td>
<td>-0.21%</td>
<td>4.37%</td>
<td>1.08%</td>
<td>-4.92%</td>
<td>-1.25%</td>
<td>3.83%</td>
<td>0.94%</td>
</tr>
<tr>
<td>U.S.</td>
<td>-1.33%</td>
<td>-0.22%</td>
<td>5.85%</td>
<td>1.43%</td>
<td>-5.55%</td>
<td>-1.42%</td>
<td>6.73%</td>
<td>1.64%</td>
</tr>
</tbody>
</table>
focusing on the latter when discussing actual changes in employment. Starting from the actual trough in employment for most regions leaves us with growth rates during the employment expansion that are significantly greater than their overall rates over the economic expansion. While Table 4 indicates overall declines for the Kansas City and St. Louis regions over the economic expansion, Table 5 shows that the declines ceased in 2003 and employment actually grew during the four years of national employment expansion, albeit at much lower annualized rates than most of the rest of the state experienced. Even for those regions that had expanding employment during the wider contraction the growth picture is not greatly distorted by splitting the economic expansion into the two sub-periods. As would be expected, the same four regions—the Ozark, Central, Southeast and South Central—exhibited the strongest overall growth over the 2001 to 2007 economic expansion, at 12.6%, 6.4%, 5.3%, and 4.7% respectively. The Northwest region surpassed both the Southeast and the South Central regions’ growth, with its strong 5.4% expansion in employment from 2003 to 2007. The remaining regions underperformed the state’s 4.4% job growth over the employment expansion, with the St. Louis region having the worst outcome with growth of only 1.7% over the four years. This was followed by the West Central and Kansas City regions’ relatively low 2.6% and 2.7% respective expansions in employment for the period.

From Table 3 we see that a few regions began experiencing declines in employment ahead of 2008. The South Central region saw employment decline by more than –1.0% from 2005 to 2007, while employment dropped by –0.75% in just 2007 for both the Northeast and the West Central regions. On the flip side, in 2008 the Kansas City and Northwest regions each continued to experience positive growth in employment—by 0.5 and 1.3% respectively—while the rest of the state was seeing declines. In 2009 all regions saw significant employment declines, as did the nation. The regions hit the hardest, and more deeply than the U.S. as a whole, were the St. Louis region and the Ozark region which experienced annual employment declines of –5.2 and –4.9% respectively that year. The three regions with the smallest declines in employment in 2009 were the Southeast, which fell by –2.3%, and the South Central and Northwest regions which each fell by –2.5%. The remaining regions experienced job declines of between 3.2 and 3.9% in 2009.

In 2010, all regions but one continued to see falling employment. Only the West South Central region experienced growth in that year, with a 0.6% increase in its employment. Because of this, we focus on Table 5 for the remaining discussions in this section, as it shows the overall job declines for each region throughout the employment contraction as well as regional growth outcomes through 2014 for the ensuing employment expansion. With overall declines of –7.0% and –6.9% in turn, St. Louis and the Ozark regions experienced the greatest decreases in employment during the employment contraction, with the Kansas City region’s –5.7% drop following. The West Central, Southwest, Northeast, and Northwest
regions all had declines very close to the state’s –4.9% drop in employment. The regions experiencing the smallest overall declines were the Central, the Southeast and the South Central, with respective declines in employment of –3.7%, –3.6%, and –3.0% from 2007 to 2010.

In 2011, employment continued to decline in the Northeast and Northwest regions, falling by –0.2% and –0.5% respectively, while growth also turned negative for the West Central region. Employment in Kansas City was essentially unchanged, while the remaining regions all had mild growth for the year. This ranged from the Central region’s 0.15% expansion in employment to growth of 0.9% in the Ozark region. In 2012 all regions experienced employment growth, while in 2013 and 2014 all but two regions saw continuing growth in each year. The South Central region saw employment decline by 0.9% in 2013, as the West Central region saw virtually no change for the year. In 2014 the Northwest region saw employment decline by –0.5% and employment in the Southwest region dropped by –0.1%. The overall results for the employment expansion from the 2010 trough to the end of 2014 are in the last two columns of Table 5. We see that the strongest overall employment growth has been in the two regions that were hit the hardest during the contraction – the Ozark region and the St. Louis region, growing 6.7 and 4.2% respectively. This was followed by the Kansas City region’s 3.7% employment expansion and the Central region’s 2.8% growth. While the Northeast, Southeast, and West Central regions expanded by 1.6%, 2.0%, and 1.3% respectively from 2007 to 2010, the remaining three regions all grew by less than 1.0%. One of these, the Northwest region, really only experienced two years of job growth since 2010, with the result being an overall expansion in employment of only 0.1%. As discussed above for the state, we see in Table 6 that by the end of 2014 none of Missouri’s regions had yet regained the employment levels that they had at the end of 2007. Clearly the Northwest, West Central, Southwest, Northeast, and St. Louis regions were hit the hardest by the Great Recession and have significant ground to cover in their attainment of pre-recession employment numbers.

<table>
<thead>
<tr>
<th>Region</th>
<th>Levels</th>
<th>Percent</th>
<th>Region</th>
<th>Levels</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>-2,655</td>
<td>-0.97%</td>
<td>South Central</td>
<td>-1,587</td>
<td>-2.57%</td>
</tr>
<tr>
<td>Kansas City</td>
<td>-11,670</td>
<td>-2.23%</td>
<td>Southeast</td>
<td>-2,309</td>
<td>-1.63%</td>
</tr>
<tr>
<td>Northeast</td>
<td>-2,706</td>
<td>-3.36%</td>
<td>Southwest</td>
<td>-4,919</td>
<td>-4.26%</td>
</tr>
<tr>
<td>Northwest</td>
<td>-4,572</td>
<td>-4.66%</td>
<td>St. Louis</td>
<td>-31,834</td>
<td>-3.03%</td>
</tr>
<tr>
<td>Ozark</td>
<td>-1,563</td>
<td>-0.69%</td>
<td>West Central</td>
<td>-3,403</td>
<td>-3.93%</td>
</tr>
</tbody>
</table>

Table 6
Change in Regional Employment from the 2007 Peak to the End of 2014
DYNAMIC SHIFT-SHARE

When applied to regional employment change, shift-share analysis takes the change in employment within a particular region and breaks it out into several factors that have contributed to that change over some period of interest. These factors include the portion of employment change that can be attributed to general growth trends for overall employment in a larger reference area—the state as a whole in this case—and those changes that can be ascribed to the employment behavior of individual industry sectors. This latter factor is further separable into those changes in a region's employment that are attributable to the statewide employment experience of each industry sector relative to total employment growth for the state and those that can be attributed to any disparity between regional industry performance and that of their statewide peers.

Equation (1) specifies the shift-share decomposition.

\[ AC_i = AG_i + IS_i + RS_i \]  

where \( AC_i \) is the actual change in WIA region \( i \) employment over the particular period of interest; \( AG_i \) is the aggregate growth effect; \( IS_i \) is the industry shift effect; and \( RS_i \) is known as the regional share effect. Each of these components is further defined in what follows.

\[ AG_i = \sum_j G_j \cdot E'_{ij} = E'_i \]  

Equation (2) gives us the formula for \( AG_i \), with \( G_j \) indicating the growth rate of aggregate statewide employment; \( E'_{ij} \) representing beginning of period employment in industry \( j \) in WIA region \( i \); and \( E'_i \) signifying the initial level of employment in WIA region \( i \). Note that the growth rate for overall employment in the state is applied to beginning of period employment in each industry in the WIA region of interest. The result is then summed over all industries in the region. This ends up being the same as just applying the state's employment growth rate to the region's initial employment level across all industries. The result gives us what the change in employment in region \( i \) would have been had employment in the region grown at the same rate as that for the state. If there is any difference between the aggregate growth component, \( AG_i \), and the actual change in the region's employment, \( AC_i \), that difference is further broken out into the industry shift effect, \( IS_i \), and the regional share effect, \( RS_i \). The equations for these are:

\[ IS_i = \sum_j (G_{ij} - G_j) \cdot E'_{ij} \]  

\[ RS_i = \sum_j (G_{ij} - G_j) \cdot E'_{ij} \]
where $G_j$ is the statewide growth rate of industry $j$ employment over the period of interest and $G_{ij}$ is the WIA region $i$ growth rate of employment in industry $j$.

The industry shift effect generated by equation (3) gives us the portion of the growth difference between the region and the state, $AC_i - AG_i$, that is due to statewide industry growth rates being different from the rate of overall employment growth in the state. Note that this difference is summed over all industries to get the overall $IS$ effect on the region's overall employment outcome for the period considered. While the direction of the $IS$ impact from each industry will be the same for all regions, the overall impact of $IS$ on a particular area's employment outcomes will depend on that region's initial distribution of employment across industries. The overall $IS$ contribution will be positive for WIA regions which had a greater initial concentration of employment in industries that grew at faster rates than did statewide total employment over the period. An overall negative $IS$ contribution thus results from an initial employment mix in the region was weighted toward industries with relatively low growth statewide for the period. As we shall see, the $IS$ contribution to overall employment growth for a region tends to be fairly small relative to the $AG$ and the $RS$ components, so the latter will be the main focus going forward.²

Equation (4) gives us the regional share effect. This is the share of employment change in region $i$ that results from differences in employment growth rates for each individual industry within the region and their respective statewide industry average, with these being summed across industries. The resulting sign on the overall $RS$ contribution depends again on the initial distribution of employment across industries and the relative performance of each industry within the region. A positive regional share indicates that the employment distribution in the region was weighted heavily toward industries that outperformed their statewide peers. Being over-weighted in underperforming industries will thus lead to a negative contribution from the regional share. The $RS$ component tends to be the most important factor in explaining differences in employment experience across regions of the state, as it helps identify those industries within each region that have contributed the most to each region's relative employment outcomes over different periods of interest.

The dynamic shift-share procedure used here is an alternative to the historically widely used static shift-share analysis. The use of static shift-share analysis in the regional sciences has been fairly common for quite some time. Esteban-Marquillas (1972) and Richardson (1978) serve as good examples of this and also provide nice explanations of the procedure and its background. Arcelus (1984) and Barff and Knight (1988) were among the primary developers of the dynamic approach. While its usage has not been as widespread, it does seem to be appearing more often in recent work, as noted above.

² Interested readers are welcome to contact the author for the particular IS graphical results for each WIA region. These indicate the contributions of each industry to the resulting IS contribution to overall regional employment growth that is indicated in Figure 3.
The main difference is in their approach to multi-period analysis. The static form applies the above calculations making use of employment growth rates calculated only once for the time frame being considered. These are based only on beginning employment levels and then final employment at the end of the multi-period time frame. This means that no account is taken of any changes to the employment distribution across industries that may have taken place over time. Dynamic shift-share, on the other hand, calculates the above for each individual period within the lengthier time frame of interest and then sums those to get the end result. This allows for $E_{ij}$ to be updated every period and thus better reflects any changes to the employment distribution across time. The result is, of course, different from what the static approach would generate over the same period. Dinc, Haynes, and Quiangsheng (1998), Knudsen (2000), and Doorn and Jacobson (2008) provide further discussion of the differences in the two approaches.

EMPLOYMENT CHANGE IN MISSOURI’S WIA REGIONS FROM 2001–2014: A DYNAMIC SHIFT-SHARE ANALYSIS

As mentioned above, all that follows is based on private industry employment except for the addition of public sector employment to the Educational and Health Services and the inclusion of Public Administration in the analysis. As this is different from what was used in previous sections, for consistency in the results we aggregate these private/public industry employment levels to get total employment in each year for each region and then aggregate these to get statewide employment. These are then used for the growth rate calculations for the shift-share analysis. One potentially confusing result of this is that some of the regional and statewide growth rates exhibited in the figures of this section will not quite match those that we saw previously. This is due to the fact that we are now essentially tracking a subset of the employment that was used above. Most of the differences are minor, especially over the multi-year periods used here.

This section applies the shift-share technique outlined in Section 3 to employment change in each of Missouri’s WIA regions. This allows us to discover regional industry dynamics that help explain the differences in employment experience across the ten regions that we saw above. In particular, this involves taking a deeper look at the relative industry performance driving the regional share effect for each WIA, as this tends to be the biggest source of such disparities. In order to conveniently convey the results and motivate the discussion, they are given in a graphical format. While it is possible to do this on an annual basis for each of the ten regions, the discussion becomes rather cumbersome. Instead we focus on the four multi-year periods of employment contraction and expansion and sum the associated annual effects, making good use of the dynamic approach to shift-share analysis. Figure 3 contains four panels that indicate the shift-share breakdown of employment change in each region over each of these periods. In addition to
overall regional growth for the period, the percent growth of statewide aggregate employment is also included. This allows us to visually see the differences in regional employment performance that the shift-share decomposition seeks to explain, i.e. $AC_i - AG_i$.

Figure 3
Shift Share Component Contributions (left axis) and Growth in Employment (right axis)

Figure 4 contains ten panels that provide additional detail by further breaking out the contribution to each region’s RS component in each period that is due to relative industry performance in the region. Together with Figure 3 these graphics give us a more complete picture of the industry performance underlying the overall change in employment within each region. For years in which industries with positive impacts outweigh those with negative, the overall RS will be positive, and vice versa. In addition, it is fairly straightforward to determine which industries provided the greatest boost. This can be somewhat misleading, however, as declining industries can show up as positive contributors to a region’s

Figure 3
Shift Share Component Contributions (left axis) and Growth in Employment (right axis)

For those readers interested in the annual detail, a technical appendix which contains a set of two graphics for each WIA region is available from the author. The top panel of these plots the annual growth rate of employment from 2002 to 2014 along with a breakdown of the contributions to this growth from each of the three shift-share factors. The bottom panel graphic for each WIA region breaks out the RS contribution shown in the top panel into each industry’s contribution to that region’s regional share.
relative growth if employment in an industry in that division is declining more slowly than in others.

CENTRAL WIA REGION

We see by the strong positive RS contribution in Figure 3 that the Central region’s positive employment growth throughout the 2001 to 2003 aggregate employment contraction was due to strong performance of the region’s industries relative to statewide industry averages. Panel 1 of Figure 4 indicates that only three industries underperformed their statewide peers over this period—Manufacturing, Natural Resources and Mining, and Public Administration. Positive contributions to RS from the remaining industry sectors—led by Trade, Transportation and Utilities (TTU), Construction, and Professional and Business Services—are what led to the overall positive contribution of this component to the region’s employment change being plenty large enough to offset the negative AG effect for the period. This was aided further by a positive IS contribution, which indicates a relatively strong mix of industries in the region as well.

This relative outperformance continued through the period of employment expansion that followed, with the region being among the top two performers with respect to overall employment growth. While the industry mix ended up being tilted slightly toward slower growth industries over this period, as evidenced in Figure 3 by the negative IS contribution, this was significantly outweighed by the positive AG and RS contributions. We see that the only
industry providing a negative contribution to the Central region’s RS over this period was Public Administration. All other industries outperformed in the region and provided positive contributions to employment growth, adding nicely to the positive AG for the period. The industries providing the largest contributions to the region’s positive RS component for this period of growth were Professional and Business Services, Leisure and Hospitality, TTU, and Financial Activities.

Over the employment contraction that was due to the Great Recession, we see that once again the Central region had a positive RS contribution, which was joined by a positive IS. As expected, however, this was nowhere near enough to offset the large negative AG component. However, it was enough to keep the Central region among the three areas of the state with the smallest overall declines in employment. The positive RS component for the period was again due to the vast majority of industries in the region outperforming their statewide peers, with TTU providing the biggest positive contribution, followed by Educational and Health Services, Professional and Business Services, and Other Services. Of course in this case that does not necessarily mean they saw growth in employment, but instead just saw milder contractions. This was the case for the majority of the region’s industries with the exception of Natural Resources and Mining, Educational and Health Services, Other Services, and Public Administration. We see in Figure 4 that Public Administration actually joined Information and Financial Activities in providing a negative contribution to RS, despite actual employment growth over the period. This is because the expansion of the industry in this region lagged its average rate of expansion across the state as a whole.

In the employment expansion from the end of 2010 through the end of 2014, the Central region continued to experience net positive contributions from its RS component. However, with five underperforming industries this was not enough to outweigh the negative contribution from the IS component. This has resulted in overall growth being at a rate lower than the state average. The major underperformers providing negative contributions to the RS component were Other Services and TTU, joined by Construction, Leisure and Hospitality, and Public Administration. The biggest positive contributions to RS for the region came from Professional and Business Services, Information, and Educational and Health Services, with the first of these by far the strongest. Overall employment growth in the region was still above 3.0% and the region has remained in the top four with respect to overall employment growth through the expansion so far.

**KANSAS CITY WIA REGION**

We see in Figure 3 that the relatively deep employment contractions experienced by both the St. Louis and the Kansas City regions over the 2001 to 2003 period were due to each region’s industries exhibiting substantial relative underperformance with respect to statewide industry averages. This is indicated
by the regional share component for each providing large negative contributions to regional employment growth that added to those from the aggregate growth component. For the Kansas City region, Figure 4 indicates that only Manufacturing was a relative outperformer for the period, again meaning less of a decline than the statewide average for the industry over the contraction period. The biggest underperformers for the region TTU, Information, and Financial Activities, followed by Professional and Business Services, and Other Services. There was a very slight positive contribution from the IS component over the period that clearly had little impact.

Over the following employment expansion, the Kansas City region once again underperformed its statewide peers, despite again seeing a slight positive contribution from IS. It ended up being one of only three regions to underperform state average employment growth over the expansion. Although this time three of the region's industries were relative outperformers—Professional and Business Services, Public Administration, and TTU—their fairly strong positive contributions to RS were outweighed by negative contributions from the remaining industries. This was led by Leisure and Hospitality, Information, and Financial Activities, although several other industries also had sizeable negative contributions.

During the deep employment contraction that accompanied the Great Recession, the Kansas City region slightly outperformed the state average, meaning its employment decline was marginally less. This was due to small positive contributions from both the IS and the RS components. For the RS contribution to employment change there were actually six outperforming industries in the Kansas City region (i.e., with relatively smaller declines than in other regions). These included Manufacturing, Public Administration, and Leisure and Hospitality which provided the largest positive contributions. This slightly outweighed the negative contributions from the five industries that suffered worse outcomes than their statewide peers, with Information and TTU by far the biggest negative contributors to RS over the years of contraction. The result, of course, was only a small positive contribution from RS throughout the contraction.

As we saw above, the Kansas City region joined the Ozark and St. Louis regions to be one of the top three regions for employment growth across the state for the employment recovery period through 2014. In this case the region's small positive contribution from RS was enough to offset the even smaller negative IS contribution. Although there were only three underperforming industries over the employment expansion thus far—Financial Activities, Information, and Professional and Business Services—the size of their negative contributions to RS was enough to offset a large part of the relatively small positive contributions from the remaining industries. Leisure and Hospitality, TTU, Construction, and Other Services led the outperformers.
NORTHEAST WIA REGION

We saw previously that the Northeast region experienced only a small decline in employment over the contraction resulting from the 2001 recession. From Figure 3 it is evident that this was due the positive RS contribution in conjunction with a positive IS component. Manufacturing, Educational and Health Services, Information, and Natural Resources and Mining were the only underperforming industries in the region over the contraction, while the outperformance of just TTU in the region was nearly enough to offset this. Of course we see that additional industries also provided positive contributions to RS, resulting in a fairly sizeable net positive contribution that nearly made overall growth positive for the region. The largest of these came from the relative outperformance of the Leisure and Hospitality, Other Services, and Construction industries.

Over the ensuing employment expansion from the end of 2003 through 2007, we see that once again a positive RS for the region led to employment growth stronger than the state average. This despite the fact that there were now five underperforming industries in the region and the nontrivial negative IS contribution. Of the underperforming industries, Educational and Health Services and Leisure and Hospitality were the largest negative contributors to RS. They were joined by Manufacturing, Natural Resources and Mining, and Construction. We see in Figure 4 that their negative influence on growth was overcome by large positive contributions from the relatively outperforming TTU and Professional and Business Services industries, joined with positive contributions from the remaining sectors as well.

The region’s TTU industry continued with its relatively large positive contribution to RS through the employment contraction period from the end of 2007 through 2010. By itself this was enough to offset the effect from the main underperformers—Educational and Health Services and Manufacturing—throughout the period. However, it was joined in relative outperformance by Professional and Business Services, Leisure and Hospitality, Financial Activities, and Construction, resulting in a large enough positive RS contribution to keep...
overall employment from falling by as great of a percentage as state average employment did. A small positive IS contribution also helped with this.

While the Northeast region experienced growth rates above statewide averages through each of the periods considered so far, or smaller declines anyway, this has not been the case for the current period of employment expansion through 2014. We see in Figure 3 that a sizeable negative RS contribution has led to overall growth that is more than 1.5 percentage points below the state average for the period. Only four of the region’s industries have been outperformers so far, with Manufacturing providing the largest positive contribution to RS. That of Natural Resources and Mining, Construction, and Public Administration pale by comparison. Educational and Health Services has had by far the biggest negative contribution, followed by Financial Activities, Leisure and Hospitality, Other Services, and Information. TTU and Professional and Business Services had relatively small negative impacts as well.

NORTHWEST WIA REGION

Although this region also experienced an overall decline in employment during the employment contraction that began with the 2001 recession, we see in Figure 3 that both the IS and the RS contributions were positive for the period. By far the biggest positive contribution came from Professional and Business Services, followed by much smaller contributions from Other Services and Information. TTU, Financial Activities, and Public Administration mildly outperformed their compatriots in other regions as well. The negative contributions were led by the underperforming Leisure and Hospitality industry and followed by similar negative impacts from the Educational and Health Services, Manufacturing, and Construction industries. Natural Resources and Mining was a negligible drag as well.

During the employment expansion that followed, we see that the Northwest Region had very strong overall growth in employment, essentially matching that of the Central region. Only the Ozark region grew faster. Despite the small negative IS contribution and the fact that only three industries in the region outperformed with positive RS contributions, the RS component ended up still generating a substantial positive contribution to employment growth for the region. Clearly this was primarily due to the very large relative outperformance of the Manufacturing industry in the region. In fact, Manufacturing in the Northwest region saw very solid growth over this four-year employment expansion, with annual rates of 2.06%, –3.40%, 15.10%, and 9.69%. Employment in this industry even grew another 6.76% in 2008. The only other industries providing positive contributions to the RS component were Other Services and TTU. We see in Figure 4 Panel 4 that the negative contributions from the remaining industry sectors in the region were all pretty small, save for that from Educational and Health Services.
The positive RS contribution to employment change in the region continued into the following period of employment contraction. In this case the result was only a slightly milder overall decline than the state as a whole experienced over the period. We see that the negative IS contribution did not help matters. However, all but four of the region's industries ended up being outperformers over the period, again led by a huge margin by Manufacturing, and then by Construction and TTU. The four industries in the region that performed even worse than their statewide peers through the contraction were Professional and Business Services, Leisure and Hospitality, Educational and Health Services, and Financial Activities.

Unfortunately, this outperformance was not to last, as we saw previously that the Northwest region has seen the lowest overall employment growth of all of the regions through the expansionary period that began at the end of 2010. We see that the large negative RS contribution over this period is due to all but two of the region's industries being underperformers relative to statewide industry average growth rates. Those two were Manufacturing and Public Administration, with fairly insignificant positive contributions anyway. The four industries in the region with the largest degrees of underperformance, as seen in Figure 4, were Other Services, TTU, Educational and Health Services, and Financial Activities.

**OZARK WIA REGION**

As mentioned previously, the Ozark region has typically been the strongest performer in the state with respect to job growth, although we will see later that it was one of the two hit the hardest over the Great Recession. The regions relatively strong growth in employment of more than 2.0% over the 2001 to 2003 aggregate contraction we see is due primarily to the relatively large positive RS contribution, joined by a positive IS contribution as well. In fact, all but two industries, Manufacturing and Leisure and Hospitality, contributed positively to the region's RS component for the period. This was led by substantial outperformance by the Educational and Health Services, Information, and TTU industries, followed with still large positive contributions to RS from Professional and Business Services, Financial Activities, and Public Administration.
During the period of aggregate employment expansion that followed, the Ozark region experienced extremely strong growth in employment of more than 10%. We see in Figure 4 Panel 5 that the region only had two underperforming industries, this time Manufacturing and Information, and their degree of underperformance is pretty insignificant in its drag on the RS component. All remaining industries generated significant positive contributions to the RS component for the region, with the largest coming from Professional and Business Services, TTU, Leisure and Hospitality, Construction, and Educational and Health Services. Financial Activities, Public Administration, and Other Services all had significant positive impacts on RS, as well.

This turned around during the subsequent employment contraction, with only Educational and Health Services and Professional and Business Services providing positive contributions to RS for the period. The largest negatives came from strong underperformance in Manufacturing, Construction, and Other Services, followed by significant weakness in Financial Activities, Leisure and Hospitality, Information, and TTU as well. We see in Figure 3 that the result of this was the Ozark region ended up with the St. Louis region in being the only two regions to suffer a greater degree of job losses than the state as a whole, or any other region of the state.

Following the contraction, however, the Ozark region returned to experiencing by far the strongest employment growth in the state during the employment expansion through 2014. Once again both RS and IS are positive contributors for the region, with outperformance by all but three of the region’s industries helping to generate this outcome. The three laggards this time around are the Financial Activities, Educational and Health Services, and Leisure and Hospitality industries, while the largest positive contributions to RS have come from Professional and Business Services, TTU, and Manufacturing. Outperformance in Other Services, Information, and Public Administration also contributed significantly.

SOUTH CENTRAL WIA REGION

The large positive RS contribution to the South Central region’s employment change during the employment contraction of the early years of our study was enough to bring it to positive overall growth in employment for the period, one of only four Missouri regions to achieve this. We see in Figure 4 Panel 6 that a majority of the region’s industries outperformed their statewide industry averages and generated positive contributions to RS. While Educational and Health Services, TTU, Natural Resources and Mining, and Financial Activities were all underperformers, the effect was clearly not strong enough to offset much of the relatively strong positive impact from most of the outperforming industries. This is most evident from the relatively large contributions of the Professional and Business Services, Manufacturing, Other Services, and Leisure and Hospitality industries to the region’s RS component.
Growth remained strong in the region through the employment expansion that followed, although the region's industry mix did generate a negative IS contribution for this period. The second panel in Figure 3 indicates that this clearly was not enough to offset the relatively large positive RS contribution to the region's employment growth. Once again all but four industries outperformed, with Professional and Business Services, TTU, Other Services, and Manufacturing providing the largest contributions to the positive RS. This was followed by Leisure and Hospitality, Natural Resources and Mining, and Financial Activities. The negative contributions came from Educational and Health Services, Information, Construction, and Public Administration.

Over the employment contraction from 2007 to 2010, the South Central region experienced the second smallest decline in employment of all of the regions in the state. Once again we see in Figure 3 that this is due to a relatively large positive RS contribution over the employment contraction. Although only five of the region's industries saw milder declines than their state industry averages (i.e., outperformed), the relatively large positive contributions to RS from this were enough to easily offset the small negative contributions from the relative underperformers. We see in Figure 4 that the region's five outperforming industries over this period were Manufacturing, Other Services, TTU, Construction, and Professional and Business Services. The most significant of the underperformers were Educational and Health Services, Financial Activities, and Leisure and Hospitality.

Coming out of the employment contraction, the South Central region has had a difficult recovery. We see in Figure 3 that the region's large negative RS contribution over the expansion has brought its employment growth down into the bottom three outcomes for the state. Figure 4 shows that this is due to the majority of the region's industries being underperformers over this expansionary period, with the worst of these being Manufacturing, Other Services, Construction, Leisure and Hospitality, and TTU. The only significant outperformance in the region has come from the region's Professional and Business Services, Educational and Health Services, and Public Administration industries.
SOUTHEAST WIA REGION

In Figure 3 we see that the Southeast region is also one of the four to see expansion in employment over the 2001 to 2003 aggregate contraction. Again this is due to a large positive $RS$ contribution to employment change for the region, generated by the outperformance of all but two of the regions industries over the period. The two underperformers were Financial Activities and Information, albeit neither with much of an impact. The largest positive contributions to $RS$ came mostly from the strong outperformance of five industries: Public Administration, Educational and Health Services, Leisure and Hospitality, TTU, and Professional and Business Services. Manufacturing, Other Services, Construction, and Natural Resources and Mining also contributed.

Interestingly even more of the region’s industries were underperformers during the following years of aggregate employment expansion. These were Information, Professional and Business Services, Construction, and Manufacturing, with the first of these clearly being the biggest relative drag. Positive contributions to the $RS$ component were led by Financial Activities and Other Services, with fairly significant contributions from all of the remaining industries as well. These were Public Administration, Natural Resources and Mining, Educational and Health Services, TTU, and Leisure and Hospitality. While the region did suffer a relatively poor industry mix over the expansion, as evidenced by the negative $IS$ contribution, this was clearly far outweighed by the outperformance by most of the region’s industries.

The Southeast region experienced the smallest decline in employment of any region in Missouri over the employment contraction that was due to the Great Recession. We see in Figure 3 that this is due to it having the largest positive $RS$ contribution over this period as well. In fact, all but three of the region’s industries outperformed their industry averages, meaning smaller overall declines in employment. The biggest outperformers by far were Other Services and Construction, followed by TTU. Significant positive contributions to $RS$ also came from Manufacturing, Information, and Financial Activities. The three industries experiencing employment declines greater than their statewide averages were Leisure and Hospitality, Public Administration, and Educational and Health Services.

Unfortunately, the strong relative performance of the region’s industries did not continue into the employment expansion that followed the Great Recession. We see in Figure 3 that both $IS$ and $RS$ are now negative. Although Educational and Health Services and TTU have provided somewhat significant positive contributions to the region’s $RS$ for the period, with outperformance in Financial Activities, Public Administration, Information, and Leisure and Hospitality having less of an impact, we see in Figure 4 that these were easily negated by the relatively large negative contributions from Other Services, Manufacturing, and Professional and Business Services.
SOUTHWEST WIA REGION

We see in Figure 3 that the Southwest region had a fairly sizeable positive $RS$ component during the early 2000s employment contraction, but this was largely offset by the large negative $IS$ contribution to employment change. The result was employment decline that was only slightly milder than that of the state as a whole. The negative $IS$ indicates that the region's employment was fairly heavily weighted toward relatively poor performing industries. Of course we see from Figure 4 Panel 8 that the region's Manufacturing industry provided significant outperformance to contribute positively to $RS$, but that was only because employment in Manufacturing declined at a slower rate in the region than it did in most other areas over this period. Five more of the region's industries were relative outperformers, including Professional and Business Services, Leisure and Hospitality, Information, Financial Activities, and Other Services. The greatest underperformance came from TTU, with the remaining industry's underperformance being relatively inconsequential.

Over the 2003 to 2007 employment expansion, the region again slightly outperformed the state in its employment growth. Figure 3 shows this is again from counteracting contributions from the $IS$ and $RS$ components, as the region clearly still had a relatively poor mix of employment across industries. The fact that only three of the region's industries were relative underperformers over this period of expansion helped lead to the larger positive $RS$ component for the region. These underperformers were the Manufacturing, Leisure and Hospitality, and Educational and Health Services industries. From Figure 4 it is clear that by far the largest contribution to the positive $RS$ component came from outperformance in TTU. The positive contributions from the remaining outperforming industries were much smaller.

For the subsequent employment contraction, we again see the region's relatively large negative $IS$ contribution. Once again this was offset by a larger positive $RS$ component, leading the region's decline in employment over this period to be slightly less than the state's. Only three of the region's industries fared worse than their statewide peers: Educational and Health Services, Financial Activities, and Public Administration. The remaining industries all saw relatively smaller declines, leading to relative outperformance. These were led by Manufacturing, Professional and Business Services, TTU, and Leisure and Hospitality.

Over the employment expansion period that followed, we see that the Southwest Region's fortunes have reversed, with a large negative $RS$ component greatly outweighing an $IS$ component that is now providing a positive contribution to the region's employment growth. This has resulted in lackluster employment growth over the period that is the second worse in the state. We see in Figure 4 that the biggest drags have come from underperformance in Manufacturing, Educational and Health Services, and TTU, with all but three of the remaining industries also generating negative contributions to $RS$. The three outperforming
industries in the region have been Construction, Information, and Public Administration.

ST. LOUIS WIA REGION

As mentioned above, the St. Louis region joined with the Kansas City region to be the two regions of the state that experienced the worse employment contractions following the 2001 economic recession. Figure 3 indicates that both RS and IS provided negative contributions to the region’s employment change over the period. The only outperforming industries were Financial Activities, Natural Resources and Mining, and Information, although only the first of these had any real effect. We see in Figure 4 Panel 9 that all of the remaining industries were relative underperformers with most having pretty significant negative contributions to the RS component. The biggest of these came from Professional and Business Services, Manufacturing, Educational and Health Services, and Construction, although the negative impacts from Leisure and Hospitality, Public Administration, Other Services, and TTU also are clearly seen in the figure.

The St. Louis region continued in its relative underperformance through the subsequent employment expansion, as it had the smallest employment growth of any region in the state. Although IS became positive, it was not nearly enough to offset the region’s large negative RS contribution over this period. The main drivers of that were underperformance in Professional and Business Services, TTU, Manufacturing, and Public Administration, accompanied by less severe underperformance in the Other Services, Construction, Financial Activities, and Natural Resources and Mining industries. The only outperformance for the region over this period of aggregate employment expansion occurred in Information, Educational and Health Services, and Leisure and Hospitality.

The St. Louis region continued to underperform during the Great Recession, with the region experiencing the second worse decline of all of the regions through the resulting employment contraction. Once again this was aided by a negative RS contribution for the period. Manufacturing was by far the biggest
negative contributor to the region’s RS, with sizeable impacts from TTU, Other Services, Professional and Business Services, Educational and Health Services, and Construction also to blame. Only Information, Financial Activities, and Leisure and Hospitality were relative outperformers during this period.

In the employment expansion that followed, the St. Louis region again joined the Ozark region to become one of the top two performers with respect to employment growth. However, in this case the small positive IS and RS components only put its overall growth rate above the aggregate for the state by about a half of a percentage point. As we see in Figure 5, the positive and negative industry contributions to the region’s RS component largely outweigh each other. The five outperformers for the region have been the Financial Activities, Other Services, Manufacturing, Information, and Educational and Health Services industries. The underperforming industries have been led by Professional and Business Services, with the remaining industries having significantly smaller impacts.

WEST CENTRAL WIA REGION

Over the employment contraction at the beginning of our study period, we see that the West Central region experienced a decline in employment similar to that of the state as a whole. The very small positive IS and RS components did cause the regions decline to be slightly milder, but not by much. The positive contributions to RS from the outperforming Information, Professional and Business Services, Educational and Health Services, and Leisure and Hospitality industries were slightly larger on net than the negative impact from the remaining industries, which all underperformed over the period. The industries with the biggest negative impacts on RS were Manufacturing, Other Services, Natural Resources and Mining, and Public Administration.

In the subsequent employment expansion, both RS and IS turned negative for the West Central region and brought its employment growth well below the state average. Although there were only four underperforming industries in the region over this period, their relatively large negative contributions to RS more than offset the positive contributions from the remaining industries. On the positive side, Professional and Business Services, Other Services, Public Administration, and Manufacturing had the biggest impacts, with Natural Resources and Mining, Financial Activities, and Construction following. The negative contributions were led by Educational and Health Services and Leisure and Hospitality, although those from TTU and Information were also significant.

The region’s experience through the employment contraction that began with the Great Recession was again quite near that for the state as a whole, with both IS and RS being positive but nearly nonexistent in this case. Again there were four underperforming industries that negated the relative outperformance from the rest. This time the negative contributions to RS came from Professional and
Business Services, Leisure and Hospitality, Financial Activities, and Information. The positive contributions were led by Public Administration, Natural Resources and Mining, TTU, and Manufacturing, with the rest being inconsequential.

Over the latest employment expansion through 2014, the West Central region has had stronger overall employment growth than all but four other regions of the state. This despite the negative contributions from both IS and RS. The region’s underperforming industries have been led by Manufacturing and Other Services, with Leisure and Hospitality, TTU, Financial Activities, and Information also providing negative contributions to the region’s RS. Unfortunately, significant outperformance in Construction, Professional and Business Services, and Natural Resources and Mining, and less so from Public Administration and Educational and Health Services, has so far not been enough to boost overall growth further for the West Central region.

CONCLUSION

In this paper we have taken an in depth look into employment outcomes across the Workforce Investment regions of Missouri. After first comparing the state’s employment experience to that of the nation from 2001 to 2014, we looked at differences in the performance of overall employment across regions of the state. In the process we noted the wide range of outcomes that have occurred over different stages of the business cycle and then focused on periods of aggregate employment contractions and expansions that do not typically follow the business cycle as it is determined by the NBER. We then made use of dynamic shift-share analysis to look into relative industry performance factors that influence overall employment outcomes in each area. By breaking annual employment changes in each region into separate shift-share components that drive it, we are able to identify outperforming and underperforming industries in each region and how these have influenced the region’s overall employment experience over the periods of interest. In presenting the results of the shift-share analysis, we have relied on a graphical approach in order to aid the discussion and make the results more easily accessible to the reader.

The results from this shift-share analysis should be useful to regional policymakers and stakeholders across Missouri as they consider economic development plans going forward. With this in mind, we briefly discuss overall industry performance nationwide and in the state through the period of study, and since 2007 in particular. This will aid in our final review of regional performance and outcomes since 2007.

Using national QCEW data, Table 7 gives the annual growth rates of each NAICS supersector for the entire country from 2001 to 2014, as well as growth rates for the periods from 2007 to 2014 and the employment expansion from 2010 to 2014. As above, all are at the private industry level with the exception of Education and Health Services and Public Administration. Recall that the
former adds federal, state, and local government employment in the sector to that of private industry. The main points to gather from this table include a quick look at which industries have been growing over the long run, which have been growing steadily through the latest employment expansion, those that have been declining or slow growth industries and those which still had employment below their 2007 levels at the end of 2014. Missouri industry growth has largely mirrored that of the nation, particularly with respect to sign, if not degree. Table 8 provides the state and regional employment changes for the same two periods, 2007 to 2014 and 2010 to 2014. This provides a look at each region’s industry employment outcomes relative to their 2007 levels, as well as their growth through the employment expansion up to 2014.

Referencing Tables 7 and 8, those industries that can be considered growth industries nationally and statewide are Natural Resources and Mining, Professional and Business Services, Education and Health Services, and Leisure and Hospitality. All four ended 2014 with significantly higher employment than they had in 2007 due to limited declines, if any, during the recession years and relatively strong and steady growth since. The employment levels in 2014 for these industries were respectively 13.5%, 6.8%, 10.8%, and 9.8% higher than in 2007. The Statewide Aggregate row in Table 8 indicates that these industries have also been the only ones in Missouri to achieve employment in 2014 that was above 2007 levels, although with the exception of Education and Health Services these increases have not been nearly as large as those nationally. The increases in employment levels for Missouri were 4.1%, 2.8%, 10.8%, and 1.8% for Natural Resources and Mining, Professional and Business Services, Education and Health Services, and Leisure and Hospitality, respectively. This indicates that positive regional performance in these industries should be good for growth going forward. In fact, Economic Base Theory, which is widely used in the development literature, indicates that two of these industries can be considered basic, or export, industries, which are beneficial in driving regional growth as they bring in significant revenues and resources from outside the region. The two in this list that would be considered basic industries are Natural Resources and Mining and Leisure and Hospitality, while other industries typically included are Manufacturing and Public Administration (at the state and federal level). Non-basic industries primarily produce goods and services for consumption inside the region and are considered not as important to regional growth and development. (See Krikelas, 1992, for more information on Economic Base Theory and further references.)

As is well known, Manufacturing has been a declining industry with respect to employment share for a long time in the United States and its continued erosion has been fairly steady over the period of analysis. Manufacturing is also a very cyclical industry and was hit hard in 2009. While it was one of the nation’s first industries to experience a recovery following the Great Recession, its employment nationally in 2014 was still more than 12% below its 2007 level.
### Table 7
Annual Industry Employment Growth Rates in the U.S. and Overall Changes from 2007 to 2014 and from 2010 to 2014

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources and mining</td>
<td>-2.57%</td>
<td>-0.33%</td>
<td>1.13%</td>
</tr>
<tr>
<td>Construction</td>
<td>-1.33%</td>
<td>-0.17%</td>
<td>3.66%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-7.18%</td>
<td>-4.93%</td>
<td>-1.40%</td>
</tr>
<tr>
<td>Trade, transportation, and utilities</td>
<td>-1.68%</td>
<td>-0.70%</td>
<td>0.94%</td>
</tr>
<tr>
<td>Information</td>
<td>-6.33%</td>
<td>-5.46%</td>
<td>-2.55%</td>
</tr>
<tr>
<td>Financial activities</td>
<td>0.36%</td>
<td>1.57%</td>
<td>0.82%</td>
</tr>
<tr>
<td>Professional and business services</td>
<td>-2.36%</td>
<td>-0.51%</td>
<td>2.75%</td>
</tr>
<tr>
<td>Education and health services</td>
<td>2.83%</td>
<td>1.84%</td>
<td>1.63%</td>
</tr>
<tr>
<td>Leisure and hospitality</td>
<td>0.93%</td>
<td>1.39%</td>
<td>2.51%</td>
</tr>
<tr>
<td>Other services</td>
<td>0.94%</td>
<td>0.36%</td>
<td>0.63%</td>
</tr>
<tr>
<td>Public administration</td>
<td>1.37%</td>
<td>0.14%</td>
<td>-0.40%</td>
</tr>
</tbody>
</table>
## Table 8
Overall Changes in Regional and Statewide Industry Employment from 2007 to 2014 and from 2010 to 2014

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Region</td>
<td>29.00%</td>
<td>-24.54%</td>
<td>-13.64%</td>
<td>-3.29%</td>
</tr>
<tr>
<td>Kansas City Region</td>
<td>11.58%</td>
<td>2.11%</td>
<td>6.15%</td>
<td>1.80%</td>
</tr>
<tr>
<td>Northeast Region</td>
<td>18.05%</td>
<td>-21.02%</td>
<td>-9.71%</td>
<td>-4.45%</td>
</tr>
<tr>
<td>Northwest Region</td>
<td>37.53%</td>
<td>9.81%</td>
<td>5.69%</td>
<td>4.81%</td>
</tr>
<tr>
<td>Ozark Region</td>
<td>5.37%</td>
<td>-21.22%</td>
<td>-13.08%</td>
<td>-0.73%</td>
</tr>
<tr>
<td>Southwest Region</td>
<td>16.30%</td>
<td>5.89%</td>
<td>11.02%</td>
<td>2.40%</td>
</tr>
<tr>
<td>South Central Region</td>
<td>8.62%</td>
<td>-32.01%</td>
<td>-19.29%</td>
<td>-2.07%</td>
</tr>
<tr>
<td>Southeast Region</td>
<td>-10.88%</td>
<td>-25.20%</td>
<td>-6.01%</td>
<td>-5.75%</td>
</tr>
<tr>
<td>St. Louis Region</td>
<td>-13.71%</td>
<td>-24.37%</td>
<td>-18.87%</td>
<td>-2.32%</td>
</tr>
<tr>
<td>West Central Region</td>
<td>-7.69%</td>
<td>-2.54%</td>
<td>6.31%</td>
<td>0.27%</td>
</tr>
<tr>
<td>Illinois</td>
<td>8.62%</td>
<td>-32.01%</td>
<td>-19.29%</td>
<td>-2.07%</td>
</tr>
<tr>
<td>Missouri</td>
<td>10.85%</td>
<td>-5.75%</td>
<td>2.07%</td>
<td>4.81%</td>
</tr>
<tr>
<td>Nationwide Aggregate</td>
<td>4.09%</td>
<td>-25.54%</td>
<td>-14.77%</td>
<td>-4.28%</td>
</tr>
<tr>
<td>Statewide Aggregate</td>
<td>8.09%</td>
<td>3.84%</td>
<td>5.59%</td>
<td>3.19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources and Mining</td>
<td>-24.54%</td>
<td>-13.64%</td>
<td>-3.29%</td>
<td>-6.21%</td>
</tr>
<tr>
<td>Construction</td>
<td>-21.02%</td>
<td>-9.71%</td>
<td>-4.45%</td>
<td>-38.63%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.81%</td>
<td>5.69%</td>
<td>4.81%</td>
<td>-23.65%</td>
</tr>
<tr>
<td>Trade, Transportation and Utilities</td>
<td>-6.21%</td>
<td>12.07%</td>
<td>15.74%</td>
<td>13.47%</td>
</tr>
<tr>
<td>Information</td>
<td>-3.59%</td>
<td>1.60%</td>
<td>11.80%</td>
<td>6.27%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>15.74%</td>
<td>13.47%</td>
<td>2.38%</td>
<td>-5.60%</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>-24.54%</td>
<td>20.62%</td>
<td>7.37%</td>
<td>4.54%</td>
</tr>
<tr>
<td>Educational and Health Services</td>
<td>7.37%</td>
<td>11.80%</td>
<td>6.27%</td>
<td>5.29%</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>10.05%</td>
<td>8.17%</td>
<td>-1.23%</td>
<td>-8.47%</td>
</tr>
<tr>
<td>Other Services</td>
<td>10.05%</td>
<td>8.17%</td>
<td>-1.23%</td>
<td>-8.47%</td>
</tr>
<tr>
<td>Public Administration</td>
<td>10.05%</td>
<td>8.17%</td>
<td>-1.23%</td>
<td>-8.47%</td>
</tr>
<tr>
<td>All Industries</td>
<td>10.05%</td>
<td>8.17%</td>
<td>-1.23%</td>
<td>-8.47%</td>
</tr>
</tbody>
</table>
For Missouri it was nearly 15% lower, with all regions of the state ending up with significantly lower employment in this sector in 2014 as well.

Although Public Administration did see some employment growth in both the state and the nation through the Great Recession years, by 2014 employment in the sector had declined 4.3% nationally since 2010 and 6.4% in the state. This has resulted in national employment in Public Administration being less than its 2007 level by 1.2% and by 2.4% in Missouri. In fact, only three regions of the state ended 2014 with employment in Public Administration above their 2007 levels. These were the Kansas City, Ozark, and West Central regions.

Like Manufacturing, the Construction industry tends to be greatly affected by the state of the economy. Construction was particularly hard hit through the Great Recession and the continuing employment contraction that followed. Although it has been growing strongly since 2012, employment in Construction nationally was still more than 19% below its 2007 level at the end of 2014. For Missouri it was more than 25% lower, with recovery growth at only 3.8%. This was much lower than the nation's 11.3% growth in Construction employment from 2010 to 2014. Another highly cyclical industry, Trade, Transportation, and Utilities, had nearly returned to its 2007 employment levels nationally by the end of 2014, with a gap of just 0.90%, but it was still 4.3% below for Missouri.

Information has been a declining industry through most of the years considered here. While it has seen slight growth in employment nationally from 2012 forward, for Missouri this industry has continued to decline. Even at the national level marginal growth has not come close to bringing employment back to where it was in this sector in 2007. There was still a gap of close to 10% in 2014. For Missouri employment in this industry was more than 18% lower in 2014 than it was in 2007, as it continued to decline in every year through the recovery period.

Financial Activities was a moderately growing industry through the 2001 recession and beyond, but with respect to employment the damage from the financial crisis has still not been reversed. In 2014 national employment in the sector was about 5.8% lower than what it was in 2007. In this case the state’s decline was slightly less, resulting in employment being 4.6% lower in 2014 in this industry.

Although the Other Services sector experienced employment growth in every year through 2008, it has had some dramatic swings in employment since. This has resulted in an overall decline in the sector’s employment by 2014, with it ending up still 4.6% lower than its 2007 level. For Missouri this was much worse, with employment in the sector more than 13% lower in 2014 than it was in 2007. In fact, that is about what the drop has been through the national employment recovery that began in 2010. This also is the only supersector that has seen overall declines in employment across every region of the state since 2010, with employment significantly below 2007 levels in each region as well.
Central Region

With growth of 3.3% from 2010 to 2014, the Central region is among the top four regions in the state with respect to employment growth through the recovery. After the Ozark region, it also is the closest to recovering its 2007 overall employment levels, being just 0.9% below in 2014. Recall that the region’s RS component provided a net positive contribution to employment over this period, despite having five underperforming industries. The biggest positive contributors to its RS have been Professional and Business Services, Information, and Education and Health Services. With respect to statewide averages, the region’s underperforming industries have been Other Services, TTU, Construction, Leisure and Hospitality, and Public Administration.

We see in Table 8 that with respect to basic industries, the Central region has had the best results in its Natural Resources and Mining sector, with 2014 employment 29.0% above its 2007 level. Despite its relative underperformance in the sector, the region’s 4.5% growth in Leisure and Hospitality employment through the latest employment recovery has helped it to exceed its 2007 levels by 2.4% in 2014. This bodes well for the region if this expansion continues. Both Public Administration and Manufacturing employment remain significantly below 2007 levels, although the latter has expanded by 6.2% since 2010. Aside from these basic industries, the region has had quite strong expansion in the two remaining growth sectors, Professional and Business Services and Education and Health Services, with employment in both considerably higher than their 2007 levels.

Kansas City

Despite overall employment remaining nearly 2.0% below its 2007 levels, the Kansas City region has also been one of the top regions in the state for employment growth from 2010 to 2014, with an expansion of 4.0%. Only the Information, Financial Activities, and Professional and Business Services industries provided negative contributions to its RS component. The remaining industries all outperformed their peers. However, the negative contributions very nearly negated the positive, leaving the boost from RS relatively small. As we can see in Table 8, the region’s declines in their underperforming Information and Financial Activities industries have been very significant, respectively leaving employment 38.6% and 12.1% below their 2007 levels in 2014.

The region’s top performing industries over the recovery have been Leisure and Hospitality, TTU, Construction, and Other Services. Unfortunately, all of these save Leisure and Hospitality have employment levels still below their pre-recession levels. The 8.2% growth in the Leisure and Hospitality sector through the latest employment expansion has led to its 2014 employment being 6.3% higher than it was in 2007. Being a basic industry, this is a good thing for the Kansas City region going forward. Another basic industry that has served the region’s economic recovery has been its Natural Resources and Mining sector, with 37.5% employment growth since 2010 leading to employment in the sector ending up
18.1% above its 2007 levels. While Manufacturing employment in the region remained well below 2007 levels in 2014, the region’s remaining basic industry, Public Administration, actually ended up with 3.1% higher employment in 2014 than it had in 2007. This despite its 5.6% decline from 2010 to 2014, meaning that its growth through the recession had not been offset by 2014.

**Northeast**

Following its 2.1% growth from 2010 to 2014, the Northeast region's employment in 2014 was still 3.1% below its 2007 level. This slow recovery was associated with a sizeable negative RS contribution for the period. While the region's Natural Resources and Mining, Construction, Manufacturing, and Public Administration sectors all outperformed, only the first of these ended up with higher employment in 2014 than in 2007. However, the fact that three of the outperforming sectors are also basic industries is potentially a good thing for the region's future. The remaining industries all underperformed their statewide peers, although in TTU in this region attained higher employment in 2014 than it had in 2007, but only by 0.73%. Leisure and Hospitality employment was up very slightly.

**Northwest**

The Northwest region’s employment growth of 0.56% over the employment expansion is the lowest of any region in Missouri. We saw previously that the Northwest had a large negative RS component for the period from 2010 to 2014. This was the result of having eight of its ten industries underperform their statewide averages. Only Manufacturing and Public Administration provided positive contributions, which were fairly negligible.

We see in Table 8 that only one of the four growth industries discussed earlier actually saw employment in the region come out higher in 2014 than it had been pre-recession. That was Education and Health Services, which was up by 6.9%. While Professional and Business Services and Leisure and Hospitality did see growth over the employment expansion, it was not enough to undo the damage, leaving the former still down by 5.5% and the latter down by 3.8%. In fact, the only other industries that saw positive net employment growth from 2010 to 2014 were Manufacturing and TTU.

**Ozark**

With employment rising 6.9% between 2010 and 2014, the Ozark region has experienced the strongest growth in employment of all of the regions, leaving it only 0.76% below its 2007 levels at the end of 2014. Recall that both RS and IS were positive contributors for the region over the recovery period, with out-performance by all but three of the region's industries helping to generate this outcome. The three laggards this time around are the Financial Activities, Education and Health Services, and Leisure and Hospitality industries. Despite being a growth industry for the state and the nation, the region's employment in Leisure
and Hospitality ended 2014 at a level 0.32% below that of 2007.

The largest positive contributions to RS came from TTU and Manufacturing, although neither ended up with higher employment than they had pre-recession. (Recall that a positive RS in such cases means the decline occurred more slowly in this region than it did in other regions.) In fact, Manufacturing in the Ozark region fared worse than it did in any other region. Despite strong growth of about 15% through the recovery, employment in the industry remained 19.3% below its 2007 levels in 2014. The same is true for its Construction industry, which ended 2014 with a remaining gap of 32% from its 2007 employment levels. While outperformance in Other Services and Information also contributed significantly to the region’s RS, only the outperforming Public Administration exceeded its 2007 employment levels in 2014, by 2.6%.

**South Central**

With slow growth of only 1.2% through the employment expansion to 2014, the South Central region ended 2014 with its overall employment still 2.5% below 2007 levels. The region’s large negative RS contribution over the employment expansion was due to all but three of the region’s industries being underperformers. An important basic industry, Natural Resources and Mining continued to decline through the expansion and ended in 2014 with employment 13.7% below 2007 levels. In fact, the region had only two industries that ended with higher employment in 2014 than they had in 2007—Professional and Business Services and Educational and Health Services, two of the four growth industries. Both of these provided significant positive contributions to the region’s RS component as well. The biggest negative impacts to RS came from the region’s Manufacturing, Other Services, Construction, Leisure and Hospitality, and TTU industries. Note that two of these are also considered basic industries, so the continued decline of Manufacturing and slow growth of Leisure and Hospitality should be of particular concern. The fourth, Public Administration, declined throughout the 2010 to 2014 period.

**Southeast**

Like the South Central region, the Southeast also had a significantly negative RS contribution through the employment expansion to 2014, joined by a negative IS as well. The region’s overall employment in 2014 was still 1.3% below its 2007 level. However, we do note in Table 8 that for this region there were five industries that did exceed their 2007 levels by 2014. This includes Natural Resources and Mining, Information, Financial Activities, Professional and Business Services, and Education and Health Services. All of these except for Professional and Business Services also had positive impacts on the region’s RS, as did TTU, Leisure and Hospitality, and Public Administration. Unfortunately, these were outweighed by the large negative RS contributions from Manufacturing, Professional and Business Services, and Other Services, added to by Construction as well.
Southwest

We see in Table 8 that, with just a 0.89% increase in employment, the Southwest region experienced the second lowest expansion among all of the regions over the 2010 to 2014 period. While in all previous periods studied, including the Great Recession, the region had a moderately large positive RS component, this reversed significantly in the final period. Only three of the region’s industries provided positive contributions to RS—Construction, Information, and Public Administration—with only the second of these ending up with employment above its 2007 level, by 7.6%. In fact, the Southwest was one of only two regions in which the declining Information industry experienced growth through the latest employment expansion, at 15.7%.

Of the region’s underperforming industries, the biggest negative contributions to RS came from the declining Manufacturing sector, TTU, and Education and Health Services, for which the Southwest region experienced the smallest expansion of any of the regions. In addition to the drag from Manufacturing, the region’s remaining basic industries also underperformed, with Natural Resources and Mining declining 4.1% through 2014. Leisure and Hospitality did actually grow, though, and ended up with employment up 2.7% from its 2007 levels.

St. Louis

With 4.4% growth through the employment expansion, the St. Louis region was second only to the Ozark region, although in this case employment remained 2.7% short of its 2007 levels in 2014. Its small positive RS component was due to the positive and negative industry contributions being close to offsetting. The five outperforming industries for the region were Manufacturing, Information, Financial Activities, Other Services, and Education and Health Services, with only the last of these being a growth industry nationwide.

Manufacturing is the only basic industry among the outperformers, but despite its 8.1% post-recession employment growth it remained 16.6% below 2007 levels in 2014. Among the remaining basic industries, Leisure and Hospitality is the only one that ended up with employment exceeding its 2007 levels, by 1.7%. Continuing declines in both Natural Resources and Mining and Public Administration from 2010 to 2014 left their employment levels significantly below what they had in 2007. This was particularly bad for the region’s Natural Resources and Mining industry, as employment was down by 28% in 2014 relative to 2007.

West Central

With negative contributions from both IS and RS over the employment expansion to 2014, the West Central region’s 2.6% employment growth for the period left it still 3.1% below its 2007 levels. Of the four growth industries, only the region’s outperforming Natural Resources and Mining and Education and Health Services sectors ended up with employment above where it was in 2007. Note that the strong 18.1% growth in the basic Natural Resources and Mining indus-
try’s employment from 2010 to 2014 resulted in it being a huge 39.9% higher in 2014 than it was in 2007. Employment outcomes in the remaining basic industries were not so rosy. Employment in the region’s underperforming Manufacturing sector ended down 15.5% from its 2007 levels and in its underperforming Leisure and Hospitality industry employment was still down 4.0%. However, employment in the outperforming Public Administration sector was up by 5.3%.
REFERENCES


Benefit Corporations And Other Socially Responsible Business Organization Structures

Carol J. Miller
Missouri State University

ABSTRACT

New statutory alternatives and private certification are now available for businesses that want to embed corporate social responsibility (CSR) priorities in their business purpose. B Lab created B Corp certification to recognize businesses that embrace environmental and social goals and practices. Ben & Jerry’s became the first public corporation to achieve B Corp certification in 2012, and it served as a catalyst for the “B” movement after its structural inability to prevent being taken over in 2000. In 2010, Maryland became the first of 30 states to pass a benefit corporation statute that allows a business to include in its articles of incorporation certain general and specific environmental and social purposes that its board of directors must consider, in addition to profit, in making business decisions. In 2008, Vermont was the first of ten states to pass L3C statutes that create a complicated investment mechanism for foundations and charities to invest in social, environmental or educational purposes, while seeking not-for-profit tax status. A recent Department of Labor Interpretive Bulletin makes it easier for directors of foundations to consider these attributes when investing pension funds. The Federal Trade Commission’s 2012 Guides for the Use of Environmental Marketing Claims provide guidance to businesses advertising environmental attributes of their products or packaging. Sustainable and responsible investing (SRI) exceeded $6.57 trillion at the beginning of 2014, doubling since 2010. Collectively, these recent developments accentuate the growing adaptation of businesses in blending for-profit goals with social and environmental objectives.

Keywords: Benefit Corporation, B Corp, L3C, social and environmental purposes, socially conscious investing, environmental marketing claims, IRS non-profit regulations
INTRODUCTION

New statutory alternatives and private certification are now available for businesses that want to embed corporate social responsibility (CSR) priorities in their business purpose. Directors and managers are allowed or required to consider certain environmental or social factors, along with profit, in deciding what is in the best interest of the business. Rather than being a violation of fiduciary responsibilities, such considerations are now a part of the fulfillment of fiduciary duties. The first part of this article briefly recounts the historic duty of directors to maximize shareholder wealth in a traditional corporation as a contrast to the emergence of benefit corporations. The second part explains the rise in environmental and socially responsible choices for investing, consumer purchasing, employee preference, and B Corp certification. The third part discusses statutory benefit corporations and L3Cs with taxation implications. The final, fourth part critiques potential legal, regulatory, and global challenges for the new forms of business in advancing the evolution of CSR.

TRADITIONAL FIDUCIARY DUTY TO MAXIMIZE WEALTH UNDER THE BUSINESS JUDGMENT RULE

The “business judgment rule” requires corporate directors to make informed decisions, acting in the best interest of the corporation. For ordinary discretionary decisions, the business judgment rule protects corporate management, creating a rebuttable presumption that directors acted properly in fulfilling that duty (Hammon & McCann, 1998). It places the burden of proof on shareholders to challenge directors’ decision in a shareholder derivative suit. In corporate trendsetter states, such as Delaware, the corporate charter may contain a provision that insulates directors from monetary damages for breach of fiduciary duties in shareholder derivative suits, as long as there is no (1) breach of loyalty, (2) bad faith, or (3) improper personal financial benefit (Corporations, 1996). Missouri lacks that corporate charter provision, but includes a very broad shareholder-approved indemnification provision, as long as the director’s conduct has not been “finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct” (General Business Corporations, 1994).

When the decision involves confronting a hostile takeover, however, the burden of proof usually shifts to the directors. There is a heightened scrutiny because of the potential conflict of interest between the directors and shareholders. The directors must demonstrate that the acquirer’s offer constituted a threat to corporate policy and that the directors’ response was reasonable (Torchmark Corp. v. Bixby, 1988).

Socially-conscious businesses have been limited by case law in prioritizing their CSR objectives. “Maximization of shareholder value” has been the mantra for the past century for traditional for-profit corporations, requiring the board
of directors to consider the financial interests of all shareholders, instead of prioritizing other goals (such as employment of more workers and expansion of the benefits of industrialization; *Dodge v. Ford*, 1919). This Michigan case emphasized that

A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors...does not extend to the reduction of profits, or the non-distribution of profits among stockholders in order to devote them to other purposes (*Dodge v. Ford*, 1919, p. 684).

Similarly, Delaware courts required directors of a traditional corporation to take the best price for shareholders when faced with a takeover (*Revlon, Inc. v. MacAnderson & Forbes Holdings, Inc.*, 1986).

More recently, the founders of Craigslist, Inc. created a for-profit business, but operated it with a community service focus. eBay sought to take over its competitor Craigslist by acquiring minority shares sufficient to elect someone to the board of directors. A dispute between the minority and majority shareholders led to a lawsuit, asserting that the majority shareholders breached their fiduciary duties. The Delaware Chancellor held that “purely philanthropic ends” could not be protected by the business judgment rule. The traditional corporate form of business requires directors to maximize the economic value for the benefit of shareholders (*eBay Domestic Holdings, Inc. v. Newmark*, 2010). This case was decided in 2010, on the eve of the emergence of benefit corporation statutes.

The passage of benefit corporation statutes has been encouraged by B Lab co-founders Jay Coen Gilbert, Bart Houlahan, and Andrew Kassoy, who deem the passage of a benefit corporation statute in Delaware in 2013 “a tipping point in the evolution of capitalism” (Gilbert, 2013). “Benefit corporation statutes” differ from “constituency statutes” that govern the traditional for-profit corporations. Under constituency statutes, the board is charged primarily with promoting the financial well-being of the corporation. Although it “may” consider non-financial interests, directors are not required to do so. Thirty states have passed benefit corporation statutes since 2010 (State by State Legislative Status, 2015; see Appendix I). In a benefit corporation, shareholders can include in the Articles of Incorporation the “requirement” that the directors consider the impact of societal and environmental factors as part of the decision-making process. Because the corporate articles of benefit corporation statutes require management to weigh the social and environmental factors, the benefit corporation structure provides more of a “safe harbor” for directors and officers to consider factors in addition to profit in making decisions. The statute adds further clarification that directors and officers have a fiduciary duty to consider the impact of their decisions on society and the environment (see Clark, 2013). Therefore, the board of directors in a benefit corporation is no longer required to prioritize the “highest offer” where the offeror’s interests may not align to the strong commitment the target company has to social, community or environmental interests.
SOCIALLY RESPONSIBLE AND ENVIRONMENTALLY SUSTAINABLE INVESTING AND CERTIFICATION

Increase in Socially Conscious Investments

The Triple Bottom Line (TBL) movement focuses on profit, people, and the planet. First popularized by British consultant John Elkington in 1994, TBL takes the long-term view of financial, social, and environmental performance. There are hidden social and environmental costs when production is shifted to a “cheaper labor market” and climate change impact if renewable energy sources are not used. TBL serves as the foundation for fair trade principles (Triple Bottom Line, 2009), B Corp certification, and the rise in sustainable investments.

Sustainable and Responsible Investing (SRI) exceeded $6.57 trillion at the beginning of 2014, compared to $3.07 trillion in 2010 for U.S.-domiciled assets under management of SRI strategies (US SIF Foundation, 2014, p. 12). Although strategies overlap, environmental factors are involved in $2.94 trillion and social criteria are reflected in $4.27 trillion of investment vehicles. Product specific criteria, such as exclusion of tobacco or alcohol, are involved in $1.76 trillion of investments (US SIF Foundation, 2014, p. 13). Environmental, social and governance (ESG) criteria, accounting for $12 billion in 1995, are being used increasingly today, as

individuals, institutions, investment companies, money managers and financial institutions that practice SRI seek to achieve long-term competitive financial returns together with positive societal impact . . . [to] build long-term value for companies and their stakeholders, and foster businesses or introduce products that will yield community and environmental benefits (US SIF Foundation, 2014, p. 12).

On September 3, 1914, total capitalization of all equities markets worldwide was at an all-time high at $66.6 trillion (USD; First Trust Portfolios, 2014), of which SRI represents 10%.

According to fund managers, 80% of the growth of SRI is motivated by client demand (US SIF Foundation, 2014, p. 15). Studies show that 86% of consumers would change from their current brand to a more socially responsible brand if price and quality were equal (Clark, 2013, citing Cone Cause Evolution Study, 2007) and 69% of employees consider social and environmental track record in evaluating where they would prefer to work (Clark, 2013, p. 3, citing Cone Cause Evolution Study).

Some venture capitalists have joined the sustainability movement. Equilibrium Capital Group became Oregon's first benefit corporation. It manages and operates portfolios, finding opportunities where sustainable values (such as re-use, reduce, replace, re-cycle, energy efficiencies and use of solar and wind power) can enhance long-term value of firms. Bill Campbell, Chief Financial
Officer at Equilibrium, recognizes that “when collapse is threatened, financial wealth, ecosystem, and social wealth must create, sustain, and enable each other or you will lose them all” (Campbell, 2014). As the head of structuring and sustainability, Campbell is involved in Equilibrium’s capital investments that foster sustainable practices. In speaking at the Academy of Legal Studies in Business 2014 annual meeting in Seattle, Washington, Campbell noted that such investors need a cash flow with a sustainable base; “they may come for the returns, but will stay for the sustainable impact” (Campbell, 2014).

B Corp Certification

B Lab was established by Jay Coen Gilbert, Bart Houlahan, and Andrew Kassoy to facilitate a global movement for entrepreneurs to use the power of business to address social and environmental problems (Gilbert, 2013). B Lab began certifying socially responsible businesses with environmental stewardship as “B Corps” in 2007. This is a private certification that assesses the company’s governance, mission, and impact on the community and the environment. Each company undergoes a B Impact Assessment with a questionnaire, documentation, and an on-site review, after which it must achieve a score of at least 80 out of 200 points to achieve a two-year certification (About B Lab, Term Sheet for Certified B Corporations, 2015). Today, 1588 businesses have been certified as B Corps in 43 countries in 130 industries (Multinational and Public Companies, 2016). To build credibility with practitioners, B Lab certification founders created an international movement to certify businesses with environmental and social commitment (About B Lab, 2015). In addition to certification, B Lab supports a database of social and environmental performance data (based on impact reports; B Impact Report, Ben & Jerry’s, 2014).

Ben & Jerry’s was the first publicly-held company to acquire B Corp. certification in 2012 (Ben & Jerry’s Join the B Corp Movement, 2012). Ben & Jerry’s has long been a leader in fostering CSR (Courtney, 1994). The three primary mission statements of Ben & Jerry’s are: (1) Product Mission: “make fantastic ice cream,” (2) Economic Mission: “manage Company for sustainable financial growth,” and (3) Social Mission: “innovate ways to make the world a better place” (Ben & Jerry’s, Our Values, 2015). Global Director of Social Mission at Ben & Jerry’s, Rob Michalak, recognized that

[P]eople place a high value on companies that manifest a social purpose alongside economic and environmental missions…. [P]eople are more loyal to and will switch to supporting companies with a social purpose. The B Corp certification galvanizes public confidence in companies that achieve B Corp certification. Also, B Corp community creates more opportunities for collaboration, benchmarking networking—a variety of elements that can improve a company’s performance and ultimate success (Honeyman, 2014, p. 56).
Ben and Jerry’s ice cream business was founded in 1978 in Vermont by Ben Cohen and Jerry Greenfield. In 1985, Ben and Jerry’s Foundation was established to support anti-poverty and pro-employee projects, primarily through grants to not-for-profit organizations, initially funded by 7.5% of the company’s annual pretax profits. Its leadership has taken stands against issues such as poor wages and environmental degradation. The company is committed to fair trade practices, eco-friendly packaging, and paying extra to farmers who do not use bovine growth hormones (rBGH; Ben & Jerry’s, Our History, 2015). Global Director of Social Mission Rob Michalak indicated that the B Impact Assessment for B Corp certification has helped Ben & Jerry’s to look deeper into human resource and supply chain factors to improve best practices (B Impact Assessment, Ben & Jerry’s, 2014).

Ben & Jerry’s faced a dilemma with the Unilever takeover in 2000. Unilever took over Ben & Jerry’s company (over the objection of its founders), after the board accepted Unilever’s substantial offering of $43.60 per share after the price of Ben & Jerry’s stock had fallen to $17.00 per share. Pursuant to its fiduciary duties to maximize shareholder wealth, the board accepted the offer. Page and Katz argue that there were legal mechanisms to counter the offer, such as poison pills and avoidance of preferred stock redemptions (Page & Katz, 2012) if Unilever’s corporate mission and practice were inconsistent with Ben & Jerry’s long established CSR mission. The controversies surrounding the Unilever takeover started the movement for a new form of business entity that could consider more than shareholder profit in deciding what was in the best interest of the company (Ben & Jerry’s Join the B Corp Movement, 2012), serving as a catalyst for the adoption of corporate forms that more directly embrace social responsibility as a priority. Vermont’s benefit corporation statute became effective in 2011 (Vermont Benefit Corporation Statute, 2011).

Despite the lack of such a benefit corporation statute in 2000, Ben & Jerry’s was able to negotiate a merger that included an independent board of directors, with Ben & Jerry’s as the wholly-owned subsidiary of Unilever, so Ben & Jerry’s could continue its social and environmental stewardship and achieve B Corp certification. Nevertheless, the Ben & Jerry’s dilemma and struggle spurred the emergence of B Corps and benefit corps as mechanisms for inclusion of social and environmental responsibility in the core of the business purposes (Edmondson, 2014).

While new businesses in states that have benefit corporation statutes may choose to incorporate with this new model, existing corporations may prefer to maintain their current structure and opt for private B Corp certification. For businesses in states that have not adopted the statutory structure, B Corp certification does provide investors and consumers with a benchmark that the business is committed to social and environmental goals.

Although Missouri does not have a benefit corporation statute, some of its
businesses have acquired B Corp certification from B Lab. In Kansas City, Missouri, the Arnold Development Group is an example of a business that embraces B Corp certification. It promotes sustainable mixed use projects and walkable neighborhoods—an environmentally friendly lifestyle that reduces transportation costs and strives to produce more noncoal energy than the project consumes by using solar, hydro, or natural gas as a source for electricity. The business is a proponent of the Triple Bottom Line and believes that a “key driver of a city’s attractiveness is the extent to which people feel connected to one another or the degree of social capital that exists” (Find A Benefit Corporation, Arnold Development Group, 2015). Straughtup Solar, LLC in St. Louis, Missouri creates turnkey solar projects for schools, businesses, and homes, with a commitment to renewable energy. It believes that “B Corp certification is 100% consistent with our core values…for creating a better world” (Find A Benefit Corporation, Straughtup Solar, LLC, 2015).

While B Corp certification and statutory benefit corporations share many social and environmental purposes and a recognition of the Triple Bottom Line principles, they are not interchangeable labels. A business can opt for private B Corp certification even if it is domiciled in a state that has not yet adopted a benefit corporation statute or if it prefers only the private certification. Adding to the confusion is the fact that B Lab, a non-for-profit 501(c)(3) corporation is the primary promoter of the adoption of benefit corporation statutes (About B Lab, 2015).

DEVELOPING STRUCTURE FOR ENVIRONMENTALLY AND socIALLY CONSCIOUS BUSINESS ORGANIZATIONS

Characteristics of Statutory Benefit Corporations

Benefit corporations are the latest organizational structure for embodiment corporate social responsibility (CSR) goals in the statutory structure of corporations. Statutory benefit corporations are entities created pursuant to specific statutory authority that requires inclusion of the social and environmental purpose in the articles of incorporation to create this alternate form of business organization. Corporate directors are now able to consider social and environmental impact of their decisions, in addition to the short and long-term financial implications. Consideration of these attributes is not a breach of fiduciary duties to the shareholders, but rather a fulfillment of the corporate objectives. B Lab and American Sustainable Business Council are key promoters of benefit corporation statutes (Promote Corporate Responsibility, n.d.). The Model Benefit Corporation Legislation (MBCL) serves as the model for most state statutes (MBCL, 2014).

Thirty states and Washington, D.C. have adopted benefit corporation statutes as a business organization alternative (State by State Legislative Status, 2015; see Appendix I). Maryland was the first state to adopt this format in 2010.
(Maryland Benefit Corporation statute, 2010). New companies can incorporate as a “benefit corporation” in states with the benefit corporation statutes, while existing businesses can amend their articles of incorporation to become a benefit corporation. Details are not uniform from state to state, but benefit corporation statutes share the basic tenets of the benefit corporate objectives: (A) positive impact on society and the environment, (B) directors’ accountability to expanded duties that consider non-financial stakeholder interests as well as financial interest, and (C) adherence to third-party standards (Clark, 2013, p. 1).

Purpose: Positive Impact on Society and the Environment

A majority of the states require a benefit corporation to state both a general public benefit purpose as well as a specific one in the articles of incorporation. The general public benefit purpose is to have a “material positive impact on society and the environment,” that is in the best interests of the benefit corporation as a whole (Clark, 2013). The specific public benefit purpose can be quite targeted and individualized to the corporate priorities. For example, a business could choose to provide low-income individuals with products or services, promote economic incentives beyond direct job creation, or improve economic opportunities in a stated impoverished area. It could foster programs or offer grants that improve human health or promote the arts or strive for a neutral impact carbon footprint (How Do I Create Specific Public Benefit? 2015). A business could monitor stream aquatic health and limit flow of byproducts into the stream. By requiring both a general and specific purpose, it is less likely that the corporation could include only a narrow self-serving environmental purpose and then promote itself as a “green corporation.”

Accountability: Directors’ Accountability to Expanded Duties to Consider Non-financial Stakeholder Interests

Directors and officers are required to consider the effect of their decisions on multiple constituencies (not just short-term financial interest of shareholders). The local and global environment, community, customers, and employees are also considered “stakeholders” worthy of consideration in making business decisions. Although no one of these stakeholders has to be given priority, the scope of the specific purposes may allow prioritization of one of these constituencies. Under MBCL § 301(a) the Board of directors shall consider the effect of any action/inaction upon:

(i) the shareholders of the benefit corporation;

(ii) the employees and work force of the benefit corporation, its subsidiaries, and its suppliers;

(iii) the interests of customers as beneficiaries of the general public benefit or specific public benefit purposes of the benefit corporation;
(iv) community and societal factors, including those of each community in which offices or facilities of the benefit corporation, its subsidiaries, or its suppliers are located;

(v) the local and global environment;

(vi) the short-term and long-term interests of the benefit corporation, including benefits that may accrue to the benefit corporation from its long-term plans and the possibility that these interests may be best served by the continued independence of the benefit corporation; and

(vii) the ability of the benefit corporation to accomplish its general public benefit purpose and any specific public benefit purpose.

In fulfilling their fiduciary duties, the directors should consider the broader social impact of their decisions in day-to-day operations and in issues of liquidity and control (Model Benefit Corporation Act (MPCA, 2014, §301). Board minutes also should explain how the directors considered the impact of their decisions on the benefit constituencies. Only shareholders have enforcement rights (primarily through injunctive relief) and director’s decisions are protected from monetary damage remedies in most states (What Are My Liabilities? 2015). Because the statutes are so new there is currently a paucity of appellate case law interpreting the rigor of those duties.

**Transparency: Adherence to Third-Party Standards**

An annual benefits report is required in adherence to third-party standards. Under the MBCL, publically-traded benefit corporation must include a benefit director whose duties include preparing this annual report, assessing compliance with the general public benefit and, specific purposes of the benefit corporation (MBCL, 2014, §302(c)). These reports evaluate the directors’ and company’s performance on the stated social and environmental objectives. The third-party standard by which these are judged should be comprehensive, credible, independent and transparent and the determination should be made as to the process and level of performance required to meet the social objectives. Assessment tools are available from a number of third-party sources, including B Lab (a promoter of the benefit corporation concept). Other third-party assessment mechanisms include Global Reporting Initiative (RI), Underwriters Laboratories (UL), Green Seal Business Certification, and Green America Business Network. Additional certifiers include Food Alliance Certified, Sustainable Farm Certification, Sustainability Quotient, People 4 Earth Business Framework, Good Guide Co. Rating, and ISO 26000 (How Do I Pick Third Party Standard? 2015).

Some entrepreneurs have questioned whether these third-party standards are adequate and advocate a traditional accounting audit instead (S. Askinosie,
personal communication, Nov. 10, 2015). Transparency requirements vary from state to state. This annual report is available to shareholders and shall be filed with the Secretary of State in most states. Reporting requirements vary by state. Most states (other than Delaware) require that the report (redacted of proprietary data) be made available to the public through a website or other means (Statutory Reporting Requirements, 2015).

**L3C: Hybrid Form of Business**

Hybrid forms of business aimed at fostering public benefit while pursuing profit have taken many forms. Low-profit limited liability company (L3C) statutes facilitate the creation of a hybrid for-profit/not-for-profit entity for the accomplishment of specified charitable or educational purposes. Vermont was the first state to pass an L3C statute in 2008 (Vermont L3C statutes, 2008). Nine other states and two Native American jurisdictions have done so, although North Carolina repealed its statute in 2014. As of Nov. 1, 2015, there were 1279 L3Cs registered nationally, with the largest number of L3Cs in Michigan (InterSector Partners, L3C, 2015). Missouri does not have either an L3C or Benefit Corporation statute and there is no bill currently pending.

Each L3C has three distinct types of investors to provide a multi-tiered mechanism for raising outside capital. In the top tier are profit-seeking investors who favor socially conscious investment, but expect market rate return. The middle tier is composed of not-for-profit foundations engaged in private foundation Program-Related Investment (PRI) that satisfies complex IRS requirements. In the third tier are charities that can invest in an L3C or loan it money, with the expectation of some below market return (Xia, 2013). Other socially conscious investors can also invest if they are willing to take less than market return on their investment in exchange for knowing that the funds are used to support a social, educational, or environmental cause.

**Tax Implications for L3Cs and Socially Conscious Foundations and Charities**

There must be a synergy between the purpose of the L3C and the charitable organization or foundation, so the L3C furthers the foundation’s social missions. The overlap in mission or charitable purpose of the foundation and the L3C is essential for PRI shielded investments, so it is not characterized by the IRS as a “jeopardizing investment.” If the IRS determines that the foundation managers “failed to exercise ordinary business care and prudence” in providing for the short-and long-term needs of the foundation, the PRI investment is considered a “jeopardy investment,” meaning it jeopardizes the carrying out of the foundation’s exempt purpose (Treas. Reg. 53.4944-1(a)(2)(i), 2012). The investment risk is greater for foundations than for charities that consider investing in an L3C, especially with the lower return rate of the L3C structure.
It is a case-by-case determination as to whether a foundation satisfies the PRI requirements, so as to avoid penalty taxes. Internal Revenue Code (IRC) Section 501(c)(3) exempts charities and foundations from federal income tax if the entities are "organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary or educational purposes." From a tax standpoint, the PRI can count toward a foundation's distribution requirements, and, if properly structured, the foundation is not subject to crippling excise taxes. To qualify as a PRI, an investment must meet three requirements: (1) the primary purpose of the investment must be the accomplishment of one or more of the purposes described in IRC Section 170(c)(2)(B); (2) no significant purpose of the investment can be the production of income or the appreciation of property; and (3) no purpose of the investment can be to engage in a political campaign or influence legislation, lobbying, or electioneering (Treas. Reg. 53.494-3(a)(1)(iii), 2012). The foundation, however, is required to distribute a percentage of its assets annually for charitable purposes to avoid a tax penalty.

In 2015, the IRS provided new guidance that allows a private foundation to make "mission-related investments" (MRIs) by considering the relationship between the foundation's charitable purpose and the investment. If it is a "mission-driven investment," it may be a prudent investment, even if it provides a lower rate of return (I.R.S. Notice 2015-62, Oct. 29, 2015). This 2015 IRS notice better aligns the prudent-investor standard for jeopardy investments under I.R.C. 4944 with state charitable investment standards of the Uniform Prudent Management Institutional Funds Act (Fox, 2015).

This October 2015 IRS Guidance is especially important clarification of the 1969 Tax Reform Act's enactment of excise taxes to discourage speculative investment by private foundations. Both the foundation and its managers are subject to penalty taxes for violating "jeopardy investment" restrictions if they invest in a manner that jeopardizes the foundation's purpose (I.R.C. §4944 (a), (b) and (e)). Under I.R.C. 4944(a)(1), the private foundation is subject to an initial tax of 5% of the amount invested if it invests any amount in a manner that jeopardizes the carrying out of its exempt purpose. Any foundation manager who knowingly participates in making this jeopardy investment is subject to an initial tax of 5% of the same amount under I.R.C. 4944(a)(2). I.R.C. 4944(b)(1) imposes an additional tax on the foundation of 25% of the amount of the jeopardy investment, if that investment is not removed within the taxable period. Under this section, a similar additional tax of 5% of the amount of the jeopardy investment is imposed on a foundation manager who refuses to agree to the removal from jeopardy of an investment that has triggered the imposition of the initial tax (Investments that Jeopardize Charitable Purposes, https://www.irs.gov/pub/irs-tege/eotopick88.pdf, 1988 and https://www.irs.gov/irm/part7/irm_07-027-018.html#d0e116). Because of the 2015 IRS Guidance, it is now less likely that a PRI investment will be subject to this excise tax.

It will also be easier for trustees and directors of private pension funds to
invest in socially conscious funds of L3Cs because of the October 22, 2015 Interpretive Bulletin from the U.S. Department of Labor. The 2015 Interpretive Bulletin, replacing the Interpretative Bulletin 2008-01, clarifies that the Labor Department does not believe that Employee Retirement Income Security Act (ERISA) prohibits a fiduciary from addressing economically targeted investing (ETI) or environmental, social, and governance (ESG) factors. Such factors no longer need to be considered “inherently suspect or in need of special scrutiny” (Department of Labor Interpretive Regulation, 2015). Financial returns are still the key component in investment policy, but the 2015 Interpretive Bulletin clarifies that “environmental, social, and governance issues may have a direct relationship to economic value of the plan’s investment” (Stanger, 2015). This will give trustees and directors more discretion in divesting a portfolio of energy companies that enhance climate change or stock of companies promoting unhealthy products, such as tobacco companies. In selecting plan investments, noneconomic factors were rarely acceptable for compliance with rigorous ERISA fiduciary standards under the 2008 Interpretative Bulletin. The 2015 change in Department of Labor policy will better facilitate the ability of private pensions to invest in benefit corporations and L3Cs that have social justice or environmental purposes. Although the Interpretive Bulletin does not directly apply to state or local pension plans, it may influence similar steps by states agencies that are considering clarification of their relevant standards.

**CRITIQUE OF NEW SOCIALLY AND ENVIRONMENTALLY CONSCIOUS BUSINESS ORGANIZATIONS**

Scholars disagree on the probable impact of benefit corporations and B Corp certification. Some see this as a reflection of the general trend toward environmental consciousness and need for social justice, while others question whether it is just window dressing. Those in the latter camp note that enforcement mechanisms are very weak and only shareholders can bring suit to compel enforcement of fiduciary duties to consider social and environmental factors. There are no punitive monetary damages for failure of officers and directors to adhere to these stipulations. Critics also observe that if benefit corporation status becomes the primary way that consumers judge a business’s commitment to social responsibility, entrepreneurs without pure commitment to such goals may incorporate as a benefit corporation with little intent to follow through on rigorous commitment to these altruistic goals (Robson, 2015, pp. 533–548). Skeptics maintain that this is an easily abused marketing tactic that can be used by businesses with minimal commitment to real environmentally friendly products or policies.

Some socially-conscious entrepreneurs are skeptical of B Corp certification and benefit corporations. Even Fortune 500 companies adopt Best Practices Models or try to capitalize on the popularity of “going green.” As it becomes more popular for business to market their products as “green” or “sustainable,”
some businesses are deceptively applying the labels, fostering what has been
dubbed “greenwashing.” Despite the best efforts of entrepreneurs, such as
Shawn Askinosie of Askinosie Chocolate, they have seen the failing of the “fair
trade” label, which once was designed to embrace and protect small farmers.
As larger corporations have jumped on the “fair trade” bandwagon, many of
the small coffee and cocoa farmers that the label was designed to protect are
being squeezed out. This has led to a split between Fairtrade International
(FLO) and Fairtrade USA that certifies the larger plantations. It also has
caused some entrepreneurs to become cynical about the ability of B Corp
certification to be a reliable test against greenwashing and to question whether
its standards are rigorous enough. The opposition is also based on the lack of
reputable accounting audits of business practices to ascertain the commitment
to social justice goals (S. Askinosie, personal communication, Nov. 10, 2015).

Even socially-conscious entrepreneurs disagree on the best way to help
underdeveloped countries evolve out of poverty. TOMS Shoes, which has been
praised for its “One-for-One Business Model,” donating a pair of shoes for each
pair bought, has sometimes been criticized for displacing local producers and
vendors (The One-for-One Business Model, 2015).

How a business can best assess “material positive impact” on society and the
environment is debatable. Requiring outside audits by reputable accounting
firms might better test whether the businesses are putting into practice the social
justice and environmental priorities. The addition of a statutory requirement that
each benefit corporation include outside directors with commitment to these
social or environmental goals could improve compliance. Other scholars have
recommended the creation of an independent Benefit Corporation Commission
with standing to enforce the social and environmental purposes (White, 2014).

International standards of the ISO 14020 series establish benchmarks for
environmental labeling of both products and services as part of the ISO 14000
environmental management standards of the International Organization for
Standardization (ISO). Businesses are seeking strategic advantage by promoting
the environmental attributes of their products, but inaccurate and unfettered
labels can be more confusing than helpful to the environmentally conscious
consumers. ISO standards include rules throughout the lifecycle for the usage
of terms such as degradable, recyclable, recycled content, reduced energy/
water consumption, renewable material, renewable energy, carbon neutral, and
sustainable. The methodology upon which environmental claims are based
should be clear, transparent, and based on scientifically sound and verifiable data
to reduce marketplace confusion (ISO 14021:1999, 1999, pp. 1–2; Environmental
Labels and Declaration, 2012, pp. 5–10).

The Federal Trade Commission’s (FTC) 2012 revision to its “Guides for the
Use of Environmental Marketing Claims” (16 C.F.R. § 260, 2012) serves as an
additional check on the overstatement of environmental attributes (Shaheen &
Mudge, 2012). In theory, if businesses adhere to these guidelines, “greenwashing”
will be minimized in marketing of products. The Guides “apply to labeling, advertising, promotional materials, and all other forms of marketing” (16 C.F.R. § 260.1(c), 2012). “To prevent deceptive claims, qualifications and disclosures should be clear, prominent and understandable…[and] specify whether it refers to the product, the product’s packaging, a service, or just to a portion of the product, package or service” (16 C.F.R. § 260.3(a) and (b), 2012)). For example, a business should not use a term such as “environmentally friendly” without qualifying how it achieved that term by stating more specific information, such as “environmentally friendly, 20% less packaging.” “Non-toxic” and “free-of” claims should be avoided generally, but the FTC provides guidance on when such labels may be appropriate (16 C.F.R. § 260.9 and § 260.10, 2012). For example, where competitors’ bottles contain BPA and this business’ products do not, it may be appropriate to market the product as “BPA-free.” Guidance is given on when it is appropriate to label products as “biodegradable” (16 C.F.R. § 260.8, 2012) or “recyclable” (16 C.F.R. § 260.12, 2012) or “renewable materials” (16 C.F.R. § 260.15 and 260.16, 2012).

The 2012 Guides address how carbon offset claims can be made, (16 C.F.R. § 260.5, 2012) as well as when an advertisement may reference a green certification or seal of approval. If the certification is based on independently-developed and maintained standards and includes objective application of the standards by an independent auditor, the reference may be appropriate (16 C.F.R. § 260.6, 2012). These components of the Guides have implications for B Corp certification, and what standards are in place to verify assertions made by corporations seeking this seal of approval.

Some critics of B Corps and benefit corporations suggest that there may be a polarizing effect, so that traditional corporations will be less compelled to consider CSR factors or be involved in altruistic endeavors since there is now a corporate alternative for the social and environmental advocates. “By creating two classes for for-profit entities, benefit corporations suggest that social responsibility is optional—a strategic model that for-profits can choose to embrace or ignore—rather than a fundamental obligation of all entities” (Robson, 2015, p. 505). On the other hand, “separation of corporate mission from social mission can lead to a disconnect between the public benefit goals of the foundation [created by the for-profit entity to foster social or environmental philanthropy] and the undiluted pursuit of profit by the corporation” (Robson, 2015, p. 517). These concerns seem overblown, given the popularity and increased investment in businesses that promote social and environmental purposes.

CONCLUSION

In the past decade, new market opportunities have emerged for businesses to embrace environmental and social responsibility attributes. Statutory benefit corporations, L3Cs and private B Lab certification of B Corps are among the
new alternatives for businesses that want to include a stronger fiduciary focus that considers how the business decisions impact the employees, community, constituencies and the environment. These new certifications and structural alternatives can help propel the profit-driven businesses toward greater social responsibility and sustainable business practices, as they market their involvement in social justice or environmentally friendly products.

Benefit corporations and B Corp certifications are both reflections of growing environmentalism and social consciousness and catalysts for future embodiment of these attributes in business DNA. As more businesses embrace these factors, consumers may reward these businesses with purchases of their products and investments in the stock of the publicly-held business. This, in turn, may cause more traditional for-profit entities to at least seek B Corp certification, even if they do not incorporate as a benefit corporation. Many pension fund directors are now freer to invest in socially conscious businesses without breach of fiduciary duties because of the recent U.S. Department of Labor Interpretative Bulletin. If businesses adhere to the 2012 Federal Trade Commission’s Guides for the Use of Environmental Marketing Claims, deceptive use of green marketing is far less likely. The collective impact of third-party certifications, investment incentives and marketing standards has the potential to drive social justice and environmental accountability.
# APPENDIX I

**States Adopting Benefit Corporation Statutes**

<table>
<thead>
<tr>
<th>State</th>
<th>Year Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>2014</td>
</tr>
<tr>
<td>Arkansas</td>
<td>2014</td>
</tr>
<tr>
<td>California</td>
<td>2012</td>
</tr>
<tr>
<td>Colorado</td>
<td>2014</td>
</tr>
<tr>
<td>Connecticut</td>
<td>2014</td>
</tr>
<tr>
<td>Delaware</td>
<td>2014</td>
</tr>
<tr>
<td>Florida</td>
<td>2014</td>
</tr>
<tr>
<td>Hawaii</td>
<td>2012</td>
</tr>
<tr>
<td>Illinois</td>
<td>2014</td>
</tr>
<tr>
<td>Idaho</td>
<td>2015</td>
</tr>
<tr>
<td>Indiana</td>
<td>2015</td>
</tr>
<tr>
<td>Louisiana</td>
<td>2012</td>
</tr>
<tr>
<td>Maryland*</td>
<td>2010</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>2013</td>
</tr>
<tr>
<td>Minnesota</td>
<td>2015</td>
</tr>
<tr>
<td>Montana</td>
<td>2015</td>
</tr>
<tr>
<td>Nebraska</td>
<td>2014</td>
</tr>
<tr>
<td>Nevada</td>
<td>2014</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>2015</td>
</tr>
<tr>
<td>New Jersey</td>
<td>2012</td>
</tr>
<tr>
<td>New York</td>
<td>2012</td>
</tr>
<tr>
<td>Oregon</td>
<td>2014</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>2012</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>2014</td>
</tr>
<tr>
<td>South Carolina</td>
<td>2012</td>
</tr>
<tr>
<td>Tennessee</td>
<td>2016</td>
</tr>
<tr>
<td>Utah</td>
<td>2014</td>
</tr>
<tr>
<td>Vermont</td>
<td>2012</td>
</tr>
<tr>
<td>Virginia</td>
<td>2012</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>2013</td>
</tr>
<tr>
<td>West Virginia</td>
<td>2014</td>
</tr>
</tbody>
</table>

REFERENCES


Campbell, B. (2014, August 5). Speaker at Academy of Legal Studies in Business Annual Meeting, Environmental Section, Seattle, WA. Campbell@eq-cap.com


eBay Domestic Holdings, Inc. v. Newmark, 16 A.3d 1 (Del. Ch. 2010).


I.R.C. §4944 (a), (b) and (e) subsections for various tax provisions


Vermont L3C statutes. (2008). 11 V.S.A. §§ 3001(27), 3005(2), 4001, 4005(a)(2), 4023(6), 4163


An Investigation of Highly Identified Fans and their Marketplace Support of Official Team Sponsors

Thomas M. Hickman
Washburn University

ABSTRACT
This study investigated the marketplace support of brands that serve as official sponsors of a National Football League (NFL) team by fans of the team. The study was carried out during the fourth week of the season and respondents were selected at public venues that attracted a wide cross-section of people. Respondents recorded their purchasing behavior in nine product categories in which an official sponsor existed for the team. Share of wallet was then calculated for the official sponsor in each product category. Results indicated that highly identified fans possessing a favorable disposition toward sponsorship reward team sponsors with increased marketplace support provided they are aware of the firm-team affiliation. In addition, the importance of fan awareness of the official sponsors is documented as it is shown that awareness of the sponsor is highly variable across the product categories that were studied. Theoretical and managerial implications of the findings are discussed and direction is provided for future research.

Keywords: sponsorship, sponsorship awareness, share of wallet, social identity theory

INTRODUCTION
Social identity theory (SIT) provides a framework for understanding why individuals seek to demonstrate behavior that is consistent with their own self-concept. Specifically, SIT postulates that people categorize themselves into personally meaningful classifications such as their religious affiliation or country of origin in order to give structure to their lives (Tajfel & Turner, 1985). By extension, social identities are an influential driver of behavior due to the
psychological attachment the individual has with that particular social identity (Ashforth & Mael, 1989). Notably, parallel research has found that individuals are drawn to products that share key tenets of an important social identity (Lantz & Loeb, 1998). In fact, Bhattacharya and Sen (2003) suggest that identity based customer–company commonalities accelerate the creation of brand loyalty. Therefore, if firms are able to become integrated into a meaningful social identity of a current or potential customer, the firm should be able to increase the likelihood of favorable business outcomes such as increased sales and brand loyalty.

Through sponsorship, firms seek to capitalize on the social identity that fans share with their favorite teams. Nevertheless, a favorable transfer of affinity for the team to an affinity for the firm rests on fans being both aware of the affiliation and approving of the firm’s attachment to the team. Clearly, companies involved in sponsorship believe this is attainable as sponsorship spending in North America is projected to continue its upward trajectory and increase by 4% to $21.4 billion in 2015 (IEG, 2015). Two separate studies have confirmed that increased sales are, in fact, a central concern of marketing managers actively engaged in sponsorship (Lough & Irwin 2001; O’Reilly & Madill, 2009). The extant literature has made tremendous inroads in discovering how various fan characteristics translate into increased purchase intentions of products and services sold by sponsoring firms (e.g., Madrigal, 2000). Yet, little empirical evidence exists that demonstrates how actual spending, rather than purchase intentions, is impacted by sponsorship. Studying how share of wallet, which is the percentage of a customer’s spending within a product category on a particular brand, changes as a result of sponsorship provides a method to measure the effectiveness of this marketing communications vehicle. Accordingly, this study analyzes the influence of sponsorship awareness on share of wallet among fans with high levels of fan identification and a high favorability toward sport sponsorship. In doing so, this research provides consequential information for practitioners while advancing the knowledge of the power of social identity to impact purchase decisions.

THEORETICAL DEVELOPMENT

Social identity theory and self-categorization theory posit that people define themselves in terms of membership in social categories that provides meaningful structure to their lives (Tajfel & Turner, 1985). This study focuses on fan identification which is defined as, “the personal commitment and emotional involvement customers have with a sport organization” (Sutton, McDonald, Milne, & Cimperman, 1997, p. 15). The agenda of several research programs has investigated sports fans’ relationships with their teams, which has substantiated that highly identified fans ride an emotional rollercoaster not only during games but also throughout the season (e.g., Bizman & Yinon, 2002; Hirt, Zillmann, Erickson, & Kennedy, 1992).
Firms attempt to become interlaced with the emotional, identity-based investment that fans have made with their team through sponsorship, which has been conceptualized as a “cash and/or in-kind fee paid to a property (typically a sports, entertainment, non-profit event or organization) in return for access to the exploitable commercial potential associated with the property” (Ukman, 1995, p. 1). Consistent with the aim of sponsors, research has indicated that increased levels of fan identification translate into increased purchase intentions of sponsors’ products and services. For example, Madrigal (2001) concluded that highly identified fans use a firm-sponsorship linkage that drives elevated purchase intentions. Also consistent with SIT, Madrigal (2000) found that purchase intentions increased when the respondent perceived that supporting sponsors was a behavioral norm among fans of the team. Hickman (2011) provides additional documentation of the strength of social identification as it relates to sponsorship by demonstrating that fans who are highly identified with the fan club to which they belong report higher intentions to support team sponsors.

In addition to fan identification, an individual’s favorability toward sponsorship has been shown to be a key component in the ultimate success of the investment. For instance, Close, Finney, Lacey, and Sneath (2006) determined that a positive attitude toward the sponsor as a result of the firm’s sponsorship increased purchase intentions. Additionally, Alexandris, Tsaousi, and James (2007) demonstrated that positive attitudes about sponsorship result in a greater likelihood for fans to develop a positive image of the sponsor, to engage in positive word of mouth about the sponsor, and to report positive purchase intentions. Further, Dees, Bennett, and Ferreira (2010) find evidence that fan identification moderates both the attitude toward the sponsor as well as purchase intentions. Finally, DeGaris, and West (2012) conducted a study that utilized NASCAR fans’ perceptions of the official soft drink sponsor. They report that fans who believe the brand’s sponsorship is effective consume about twice as much of the product as fans that do not agree that the sponsorship is effective.

Despite the wealth of research that suggests sponsors should be routinely rewarded with increased sales through sponsorship, a separate stream of literature chronicles that fan awareness of team sponsors is often very low (e.g., Eagleman & Krohn, 2012; Miloch & Lambrecht, 2006; Pitts & Slattery 2004). More promising information regarding awareness was found by Gwinner and Swanson (2003) who report that increased identification with the team is predictive of sponsor recognition. Like Madrigal (2000, 2001) and Hickman (2011), this determination provides evidence that social identification is influential as it relates to desirable sponsorship outcomes.

To summarize, social identity theory suggests that individuals seek to behave in ways that are consistent with their own self-ascribed categorizations. Further, it has been demonstrated that individuals confer goodwill to the firm if they perceive it as sharing a meaningful identity. In the case of sponsorship, identity-
congruent behavior consists of marketplace support of sponsors by highly identified fans provided they have a positive attitude toward sponsorship and are aware of the firm’s affiliation with the team.

Therefore, this study hypothesizes that firms will attain a higher share of wallet among individuals with high fan identification and high favorability toward sponsorship who are able to correctly identify the official team sponsor as opposed to similar fans who are unsuccessful in recognizing the firm as a sponsor.

RESEARCH METHODOLOGY

The data for the study were collected within the greater metropolitan area of a National Football League (NFL) team at locations that attract a variety of people (e.g., a large city park and large outdoor shopping area). Since it was critical to the external validity of the study, the locations selected were in areas that were void of any cues regarding team sponsors. Further, a systematic procedure was used to select the sponsors to study in this research. First, sponsors had to offer products or services that were not in product categories where switching costs to the customer are relatively high or where there is a strong likelihood that a customer’s share of wallet with one competitor in the product category is 100% and zero for all other competitors. Therefore, sponsors like banks and insurance companies were eliminated from consideration. Second, each sponsor had to be a primary sponsor with full rights to leverage the sponsorship in their promotions mix. Third, each sponsor needed to have acted as an official sponsor for a minimum of three years at the time of data collection. This requirement is supported by the findings of Walraven, Bijmolt, and Koning (2014) who determined that the most substantial awareness increases occurred in the second year of a sponsorship agreement. Ultimately, nine team sponsors were chosen for analysis that met each of these three key requirements. The product categories associated with this study were supermarkets, sporting goods stores, milk, soft drinks, hot sauce, packaged rice, sports drinks, pizza restaurants, and fast food chicken restaurants.

The study took place during the fourth week of the season. Potential respondents that appeared to be at least 18 years old were approached at each location and were screened for residency within the metropolitan area. Upon confirmation of the age and residency requirements, respondents were advised they would be asked questions about household spending and sport sponsorship. Importantly, they were not told prior to taking the survey that these two areas of study would be linked or that the sponsorship questions were related to a particular team. After the respondents completed the survey they were given their choice of snacks as a token of appreciation for their participation.

The initial set of questions directed respondents to consider all of their spending in each of the nine product categories over the course of one year. Further,
they were instructed to enter the percentage of money they spent at each of
five competitors (the sponsor and four of its competitors) in that category
over the one-year timeframe. This methodology is similar to economic impact
studies (Bernthal & Regan, 2004) where respondents are given a set of spending
categories such as lodging, dining, and shopping and are subsequently asked
to report their actual spending in each of the categories. Although this study
required respondents to estimate spending over the course of one year, a pilot
study with qualitative feedback indicated that this was not a difficult task and
that respondents were confident in their ability to provide accurate spending
information.

This initial phase of the study alphabetically arranged each sponsor with four
dummy sponsors in the same product category. The utilization of dummy
sponsors is routine in sponsorship recognition studies (e.g., Brownlee, Shreffler,
& Ross, 2012; Wakefield, Becker-Olsen, & Cornwell, 2007). Johar and Pham
(1999) instruct that relatedness and prominence heuristics can be problematic
in recognition tasks because respondents use these cues to increase their odds
of correctly guessing the sponsor. Therefore, dummy sponsors were chosen
that shared similar marketplace stature as the official sponsor. For example,
the official supermarket was a regional supermarket, therefore, other regional
supermarket chains were selected as dummy sponsors. On the other hand, the
official soft drink was an internationally distributed brand. In this case, the
dummy sponsors were other well-established brands with a global presence. In
addition to the sponsor and four dummy sponsors, an “other” option was also
listed within each category to account for spending with brands or firms that
were not among the five listed. Respondents were directed to skip any product
categories where they did not make purchases.

Next, respondents completed the Sport Spectator Identification Scale (SSIS;
Wann & Branscombe 1993) to determine their respective levels of fan
identification. Each of the seven items of the SSIS utilized a Likert scale anchored
by strongly agree/strongly disagree that allowed respondents to record their
answers to (1) It is very important to me the (name of team) wins; (2) I am a
strong fan of the (name of team); (3) My friends see me as a strong fan of the
(name of team); (4) During the season, I closely follow the (name of team) live
in person, on TV, on the radio, in the newspaper, or on the Internet; (5) It is
very important for me to be a fan of the (name of team); (6) I strongly dislike
the (name of team's) greatest rivals; and (7) I often wear (name of team) apparel
at work or at home. Then, subjects were asked to rate their general favorability
of sponsorship using three-items consisting of modified versions of measures
utilized by previous studies (Dees, Bennett, & Villegas, 2008; Smith, Graetz,
& Westerbeek, 2008). Again, seven-point Likert scales anchored by strongly
agree/strongly disagree were used, which allowed respondents to report their
level of agreement with (1) All things considered, I have a favorable opinion
of companies that sponsor the (name of team); (2) All things considered, my
feelings about companies that sponsor the (name of team) is very positive; and
(3) I think it is good to see companies sponsor the (name of team).

At this point, respondents were asked to select the official sponsor in each
product category. The choices they encountered were displayed in the same
format described in the household spending phase of the study. Specifically, in
each product category, respondents were given an alphabetical list consisting of
the official sponsor and four dummy sponsors followed by an “other” option.
Next, subjects reported whether the team associated with this research was their
favorite NFL team. Only the surveys completed by respondents that indicated
the focal team was their favorite were included for analysis because previous
research has determined that fans have a negative bias of sponsors of rival teams
(Hickman & Lawrence 2010). This resulted in keeping 420 of the 454 surveys
that were collected.

RESULTS

Demographic data was obtained from 414 of the 420 respondents. Males
represented 58.5% of the sample, and 76.1% of respondents reported being
Caucasian. Respondents were required to be at least 18 years old with 19.1%
indicating they were from 18–24; 60.6% were aged 25–44, and the remaining
20.3% were 45 years or older.

Utilizing SPSS version 19, the seven-item SSIS was found to be a reliable measure
of fan identification (α = .92), exceeding the .70 minimum recommendation
(Nunnally, 1978). A FanID score that ranged from one to seven was generated for
each respondent based on the mean response of the seven-item SSIS. FanID was
then dichotomized using a median split and respondents were either categorized
as high or low in fan identification. This procedure is similar to previous studies
using median splits of measured variables (e.g., Shiv & Fedorikhin, 1999).
Although surveys were only included for analysis if the respondent indicated the
team associated with the study was their favorite NFL team, those categorized
as high in fan identification (M = 6.74, SD = .25) scored significantly higher in
FanID than those classified as low in fan identification (M = 5.08, SD = 1.10); $t$
(418) = 21.70, $p$ = .000.

An identical process was carried out with the three-item sponsorship favorability
scale. Analysis demonstrated the items exhibited strong reliability (α = .90) that
allowed for the creation of a sponsorship favorability (FAVOR) score based on
the average response of the three relevant items in the survey. As with the FanID
variable, FAVOR was dichotomized using a median split. A significant difference
in FAVOR scores was found with respondents categorized as high in FAVOR (M
= 6.44, SD = .46) reporting higher favorability of sponsorship than respondents
categorized as low in FAVOR (M = 4.28, SD = 1.06); $t$ (418) = 27.69, $p$ = .000.
Consistent with Gwinner and Swanson’s (2003) findings, the correlation of
FanID and FAVOR was significant and positive ($r$ = .65, $p < .001).
Finally, within each product category, respondents were either categorized as SponsorAware Yes or SponsorAware No to indicate whether they successfully completed the recognition test in the given category. A series of three-way interactions (FanID: High vs. Low) x (FAVOR: High vs. Low) x (SponsorAware: Yes vs. No) were performed and planned contrasts were examined to test the hypothesis associated with this study. Specifically, the analysis isolated fans categorized as high in FanID and high in FAVOR and compared the sponsor’s share of wallet reported by respondents based on their SponsorAware status. While each respondent’s classification in FanID and FAVOR was consistent across product categories, each respondent’s SponsorAware status was reclassified as either SponsorAware Yes or SponsorAware No for each product category to reflect their individual success rate of recognizing official team sponsors. A total of 36.2% (152/420) of the fans that participated in the study were categorized as High FanID and High FAVOR. As shown in Table 1, the percentage of these respondents that successfully completed the sponsorship recognition task in a given category ranged from 28.3% (supermarkets) to 82.2% (packaged rice).

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Sponsor Awareness Percentage</th>
<th>n</th>
<th>Sponsor Identified</th>
<th>Sponsor Share of Wallet</th>
<th>Std. Error</th>
<th>F</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets</td>
<td>28.3%</td>
<td>43</td>
<td>Yes</td>
<td>50.67</td>
<td>4.97</td>
<td>13.72</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>109</td>
<td>No</td>
<td>28.95</td>
<td>3.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sporting Goods Stores</td>
<td>68.4%</td>
<td>104</td>
<td>Yes</td>
<td>69.90</td>
<td>3.77</td>
<td>1.23</td>
<td>.268</td>
</tr>
<tr>
<td></td>
<td></td>
<td>48</td>
<td>No</td>
<td>77.27</td>
<td>5.47</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk</td>
<td>48.7%</td>
<td>74</td>
<td>Yes</td>
<td>30.27</td>
<td>3.51</td>
<td>8.76</td>
<td>.003</td>
</tr>
<tr>
<td></td>
<td></td>
<td>78</td>
<td>No</td>
<td>15.61</td>
<td>3.49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soft Drinks</td>
<td>80.3%</td>
<td>122</td>
<td>Yes</td>
<td>71.51</td>
<td>3.17</td>
<td>10.20</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30</td>
<td>No</td>
<td>47.96</td>
<td>6.66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hot Sauce</td>
<td>41.4%</td>
<td>63</td>
<td>Yes</td>
<td>27.22</td>
<td>4.16</td>
<td>6.40</td>
<td>.012</td>
</tr>
<tr>
<td></td>
<td></td>
<td>89</td>
<td>No</td>
<td>13.73</td>
<td>3.34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packaged Rice</td>
<td>82.2%</td>
<td>125</td>
<td>Yes</td>
<td>41.60</td>
<td>3.50</td>
<td>4.06</td>
<td>.045</td>
</tr>
<tr>
<td></td>
<td></td>
<td>27</td>
<td>No</td>
<td>25.04</td>
<td>7.44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sports Drinks</td>
<td>53.9%</td>
<td>82</td>
<td>Yes</td>
<td>62.93</td>
<td>3.85</td>
<td>22.98</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>70</td>
<td>No</td>
<td>34.29</td>
<td>4.57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pizza Restaurants</td>
<td>39.5%</td>
<td>60</td>
<td>Yes</td>
<td>12.38</td>
<td>2.24</td>
<td>7.64</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td></td>
<td>92</td>
<td>No</td>
<td>4.38</td>
<td>1.84</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chicken Restaurants</td>
<td>52.0%</td>
<td>79</td>
<td>Yes</td>
<td>29.27</td>
<td>3.21</td>
<td>2.83</td>
<td>.093</td>
</tr>
<tr>
<td></td>
<td></td>
<td>73</td>
<td>No</td>
<td>21.50</td>
<td>3.32</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* A total of 152 respondents were classified as both High FanID and High FAVOR. The full sample size of the study was 420. The results displayed represent the planned contrast of interest and are based on the series of three-way interactions performed on the full sample.
Based on the series of three-way interactions, the results shown in Table 1 indicate broad support for the hypothesis. Specifically, respondents that recognized the sponsor reported a significantly greater share of wallet in seven of nine product categories among those fans classified as High FanID and High FAVOR. For example, respondents that recognized the official supermarket as the team sponsor reported a significantly higher share of wallet for that store than those that failed the recognition test in the supermarket category ($M_{\text{SponsorAwareYes}} = 50.67; M_{\text{SponsorAwareNo}} = 28.95; F(1, 412) = 13.72, p = .000$). Additionally, an eighth category, chicken restaurants, showed marginal support for the hypothesis ($M_{\text{SponsorAwareYes}} = 29.27; M_{\text{SponsorAwareNo}} = 21.50; F(1,382) = 2.83, p = .093$). Only the official sporting goods store failed to enjoy a higher share of wallet among fans that recognized it as the sponsor ($M_{\text{SponsorAwareYes}} = 69.90; M_{\text{SponsorAwareNo}} = 77.27; F(1,378) = 1.23, p = .268$).

**DISCUSSION**

Social identity theory posits that firms are well-positioned to create a lasting loyalty with their customers if they share a meaningful identity with them (Bhattacharya & Sen, 2003). One such mechanism for firms to achieve identity congruence with their customers is through the sponsorship of a sports franchise. The research described in this article demonstrates the potential power of sponsorship to act as a bridge from the firm to the customer through an identity-based connection with the fan. Further, the results of this study provide empirical evidence of the vital role that awareness of the sponsorship plays in the measurable success of sponsorship initiatives. While the findings of this study, with respect to highly variable recognition rates, are similar to the results of previous research (e.g., Pitts & Slattery, 2004), the current study magnifies the awareness problem by demonstrating that even among highly identified fans with a positive temperament toward sponsorship that an enormous disparity exists among the sponsors in their successful ability to communicate their partnership with the team. Moreover, the awareness problem that so many sponsoring brands suffer from is crystalized by the finding that eight of nine sponsors studied in this research enjoyed a greater share of wallet among highly identified fans with a favorable attitude toward sponsorship that were aware of the sponsorship as opposed to similar fans that were unaware of the sponsoring brand. Together, these findings extend previous studies examining sponsorship awareness and provide information about the ramifications of high versus low sponsorship awareness as it relates to purchasing behavior. Therefore, the results of this study suggest that sponsoring firms must effectively leverage and activate the sponsorship through efficient marketing communications. Leveraging the sponsorship is all of the marketing communications related to the sponsorship while activation of the sponsorship creates opportunities for fans to interact with the brand (Weeks, Cornwell, & Drennan, 2008). Opportunities to interact with the brand may be particularly impactful among highly identified fans due to their natural inclination to reward firms as a result of a shared social identity.
Ultimately, successful sponsorship activation may serve as a mechanism to create long-term customer loyalty.

Several studies have demonstrated that firms benefit from a logical fit with the sponsored entity (e.g., Johar & Pham, 1999). This can result from an image-based fit where noteworthy similarities exist in the image of the sponsor such as a prestigious automobile manufacturer sponsoring a prestigious tennis event. Alternatively, sponsor fit can be achieved through a functional fit where the sponsor’s products are used or could potentially be used by the sponsored property (Gwinner & Eaton, 1997). Although this study did not instruct fans to make determinations on the level of fit that these nine sponsors shared with the sponsored team, it is likely that the sponsoring firms in the sporting goods stores and sports drink categories would score higher on both fit dimensions than sponsors in the remaining seven categories studied. Even so, the sporting goods store was the only sponsor that did not experience a higher share of wallet among highly identified fans with a favorable disposition toward sponsors who correctly identified the sponsor. In contrast, sponsors in disparate categories such as milk, pizza restaurants, and hot sauce enjoyed a significantly higher share of wallet among these same respondents.

Importantly, the results of this study suggest that sponsors in non-congruent product categories have the potential for successful sponsorship outcomes. Conversely, the results also suggest that sponsors in congruent product categories do not automatically benefit in their role as official sponsors. As a result, the findings of this study make it readily apparent that brands cannot expect positive sponsorship outcomes due simply to an image or functional fit with the sponsored property. Specifically, the time and money companies spend on both activating and leveraging the sponsorship likely play an important role in the eventual success or lack of success that brands experience as a result of sponsorship. Therefore, even a sponsor in the sporting goods category that is believed to have a natural advantage through image and functional fit must still cultivate a meaningful relationship with the fan as a result of the sponsorship. By not doing so, even brands that have a natural fit with the sponsored property may fail to achieve the business outcomes that are desired from sponsorship. On the other hand, through careful leveraging and activation, a brand of hot sauce that serves as an official sponsor of an NFL team may still be able to experience positive outcomes through sponsorship. Aaker’s (2013) assertion that the right audience can still connect with a brand even in the absence of a readily apparent fit supports the conclusion that sponsors in a wide range of product categories can achieve a positive return on the sponsorship investment.

Finally, a key methodological contribution of this study was the measurement of reported purchasing behavior as opposed to purchase intentions that have been the standard method to gauge marketplace support of sponsoring firms (e.g., Madrigal, 2000). As a result, the findings of this article are an important extension to the findings of previous research that has demonstrated that the
auspicious fan characteristics of high fan identification (Gwinner & Swanson, 2003) and a favorable attitude toward the sponsor (Biscaia, Correia, Rosado, Ross, & Maroco, 2013) promote increased purchase intentions of sponsors’ products and services.

LIMITATIONS AND FUTURE RESEARCH

The findings of this study challenge the belief held by numerous scholars (e.g., Prendergast, Poon, & West, 2010) that a firm should not engage in sponsorship in the absence of a coherent fit with the sponsored property. While it seems unlikely that sponsors in product categories such as milk or supermarkets would have scored particularly high on either the functional or image fit dimension, respondents were not asked which sponsors possessed a fit with the sponsored team. Therefore, future research can ascertain respondents’ assessment of sponsor fit to gauge the influence of fit on share of wallet. An additional limitation of this study was the reliance on the respondents’ memories of their purchases in the respective product categories. This limitation is substantially mitigated since faulty recollections should impact actual and dummy sponsors at a similar rate. Even so, future research could attempt to develop a procedure where fans track their actual spending over a period of time in product categories of interest to the study. Indeed, future research that is able to assess actual purchasing behavior as a consequence of specific theoretical underpinnings will build upon the findings of this article and should certainly attract the attention of both scholars and practitioners.
REFERENCES


Shiv, B., & Fedorikhin, A. (1999). Heart and mind in conflict: The interplay of affect and
cognition in consumer decision making. Journal of Consumer Research, 26(3),
278–292.

Smith, A., Graetz B., & Westerbeek, H. (2008). Sport sponsorship, team support, and

fostering fan identification in professional sports. Sport Marketing Quarterly, 6(1),
15–22.

Worchel & W. G. Austin (Eds.), Psychology of Intergroup Relations, 6–24. Chicago:
Nelson-Hall.

about Sports, Arts, Event, Entertainment, and Cause Marketing. Chicago: IEG, Inc.

Advertising, 36(4), 61–74.

Walraven, M., Bijmolt T. H. A., & Koning, R. H. (2014). Dynamic effects of sponsoring:
How sponsorship awareness develops over time. Journal of Advertising, 43(2),
142–154.


internet: Activation, congruence, and articulation. Psychology & Marketing, 25(7),
637–654.
ABSTRACT
Four indexes of societal predisposition have been examined within the framework of a neoclassical production function to determine their effects on efficiency and economic growth. The indexes are: power distance index and masculinity index—the relational variables, and individualism index and uncertainty avoidance index—attitudinal variable. Hofstede shows that the signs of the coefficient of the individualism index and masculinity index variables were positive, while the signs of the power distance index and the uncertainty avoidance index variable were negative. In the present paper, the uncertainty avoidance variable is negative. Its relationship to growth is not clear. Its relationship to efficiency is also negative. Efficiency and growth are related but the connection between the societal variables and efficiency is tenuous. Societal variables do explain differences in growth rates when combined in a model that explicitly contains investment and population growth (used as a proxy for labor growth).

Keywords: Hofstede, societal predisposition, efficiency and economic growth

INTRODUCTION
What is the role of societal values in determining economic growth? The question is not novel, having been addressed with some intensity by economists, anthropologists, and sociologists in the 1950s and early 1960s. Boeke (1953) developed a dualistic theory in which social dualism is defined as “the clashing of an imported social system with an indigenous social system of another style.” The implicit assumption of the theory is that societal differences have economic consequences for growth and development. For example, according to Boeke a dualistic economy is characterized by limited needs that result in a backward sloping supply of effort and risk-taking. That is, in this traditional milieu social
imperatives overwhelm economic ones. Moreover, in such an economy, there is a palpable absence of profit seeking, an aversion to capital, and a view of the world that is dominated by fatalism and resignation. These societal characteristics of less developed countries were seen to hamper economic growth.

McClelland (1961) explains economic development in terms of achievement motivation measured by means of thematic apperception tests in which the subjects were shown pictures and asked to tell stories based on them. Hagen's (1962) traditional society is dual or triple, consisting of the peasant, elite, and trade-financier class. This society does not foster creative and innovational behavior in individuals. For members of such a society the world is an arbitrary place. Interpersonal relationships are solved via ascriptive authority and people avoid anxiety by resorting to authority. Elsewhere, Vergopoulos (1978) notes that peasant households are motivated by the satisfaction of needs or by the desire to guarantee simple reproduction. Change that produces economic advance comes about in the form of an “anxious innovator” whose childhood training prepares him to “anticipate success.”

The underlying theme of these studies is that “the socio-cultural characteristics of underdeveloped countries (or ‘peasant societies’) are insuperable barriers to economic growth” (Higgins, 1968, p. 257). These arguments embody notions of uncertainty avoidance. From this, it follows that the solution to the problem of underdevelopment is the transition to a rational society, which the people want and which can be accomplished by learning from others (Mead, 1956). And Higgins (p. 262) says Mead believes that change may be less painful if it is done with alacrity. Recently, the notion that one society is better than others, as measured by economic performance, social values, technology, art, and ethical standards, inevitably leads to the implication that Western society is the barometer for excellence.

In developing countries, people establish dyadic relationships with members of their families and the community at large. They are not averse to appealing to members of the family who have jobs in government to do something for them—get a job or expedite official documents for various activities. This arrangement contrasts in significant ways from the “fleeting, anonymous, ‘single-stranded’ relationships” that characterize relationships in industrial societies especially in the public arena (Theobald, 1990, p. 8). This dichotomous societal distinction separates developing and developed economies and leads inevitably to the conclusion that low growth in Africa is caused by such pathologies as internecine violence and corruption, and a kleptocracy that prevents these countries from conforming to the rational-legal model that distinguishes developed countries. An interesting twist is that development might just increase inequality, which might impair the public order and result in political decay (i.e., political instability). For its part, political instability leads to slow growth through its deleterious effect on investment. This is the antithesis of rational-legal model outcomes.
None of this is to be construed as evidence of the absence of economic motivation in traditional economies. The peasant’s aversion to risk-taking is a logical response to environmental, social, and economic realities that shaped his experience. Subsistence peasant agriculture tends to be a highly risky and uncertain undertaking. In an environment with imperfect information, peasant farmers confront wide price bands rather than a single input price. Access to credit and insurance is often very limited. Faced with these circumstances, peasant behavior makes a great deal of economic sense. Survival maximization takes precedence over income maximization (Vergopoulos, 1978). For the peasant, the strategy is that it is better to “avoid a bad year (total crop failure) than to maximize the output in better years” (Todaro, 1997, p. 319). In other words, the peasant’s choice of technology is one that “combines a low mean per hectare yield with low variance (less fluctuations around the average)…” rather than “a higher mean yield but also present the risk of a greater variance” (p. 319). De Janvry, Fafchamps, and Sadoulet (1991) have shown that peasants do respond to price incentives and that market failures for labor and/or food inhibit the response of peasants to external shocks.

We proceed to identify and examine the effects of societal bias or characteristics on economic growth as measured by increases in real GDP. There are two classes of societal biases that concern us—those that are relational and those that are attitudinal. The relational biases assume many dimensions, including the way people relate to each other (i.e., power distance between parents and children and masculinity—the inequality between husbands and wives). Attitudinal bias might include individualism (versus collectivism), gender roles (the notion that certain activities are defined by gender—determined legally or by force of custom and tradition), and the degree of tolerance for risk (or risk and uncertainty avoidance). Hofstede (1991) corroborates the notion that growth is related to these variables, graphically showing that the individualism and power distance index are negatively related (p. 54, Fig. 3.1). The correlation coefficient for 53 countries is –0.68. However, the individualism index and GNP per capita are positively related (p. 75, Fig. 3.2) and their correlation coefficient is 0.84. This implies that the power distance index and GNP per capita are negatively correlated. The present study contrary to Hofstede suggests that the relationship between masculinity and growth is negative. Finally, uncertainty avoidance and growth are negatively related. The purpose of the present paper is to examine the effects of power distance and masculinity, individualism, and uncertainty avoidance, designated as societal variables, on efficiency and growth.

1 Others have made this point elsewhere. For example Erasmus (1961) noted that higher-yield hybrid corn was rejected by Mexicans and American Indians because it makes poor tortillas since there was no market for the surplus; Colombia’s indifference to soybeans was for much the same reason.
MEANING AND SOURCE OF CULTURAL DIFFERENCES

Recently, there has been an increase in the conversation surrounding income inequality, prominently by Stiglitz (2015) and Piketty (2013) who contends that when the rate of return to capital exceeds the rate of growth of GDP the resulting concentration of wealth leads to social and economic instability. Among the causes of the rising income equality are preferential tax cuts that favor the rich, deregulation, and rulings by the U.S. Supreme Court in, for example, Citizen United. Stiglitz was also able to demonstrate that large inequality hurts even the 1 percent (p. 73). The transfer of money to the 1 percent increases their income by the amount of the transfer, but since it harms GDP, then even the 1 percent are worse off in the long term. While Piketty’s analysis was contained an historical sweep, Stiglitz mainly focused on a period that includes the Great Recession of 2008 going forward. The present paper looks at societal inequalities that can affect economic growth from 1990 to 1999.

The inequality addressed in this paper is societal rather than economic (i.e., income). Societal inequality can be measured by means of the relationship between people in authority, the boss, the religion leader (clergy), the government official, the medical doctor, and their subordinates. One measure of societal inequality is the power distance index or PDI. The power distance is defined as “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally” (Hofstede, p. 28). PDI can lead to subservience and acceptance of income inequality as justified by the forces that created the PDI. It is also conceivable that subservience produces passivity and political stability; the latter is believed to be positively correlated with investment and growth (Barro, 1991). Further, the index used to measure power distance (i.e., the power distance index (PDI) score) provides information about dependence relationships in a country. PDI scores range from 0 to 100, with low scores indicating small power distances, and high scores large power distances. Low power distance countries exhibit limited dependence of workers on bosses; while in high power countries the relationship between the worker and the boss may be autocratic or paternalistic (Hofstede, p. 27).

PDI differs from the conventional formula used by economists to derive measures of inequality. The Herfindahl index, the Gini coefficient, and the Lorenz curve are often used to show skewness in the distribution of income within a country or sales within an industry. For example, the Herfindahl index can be used to compute the concentration of sales within an industry—it is defined as the summa of the firm sales-to-total-sales ratio with range [0,1]; 0 denotes perfect competition and 1 monopoly. The Gini coefficient, also with range [0,1], can be used to inform about the degree of inequality in the distribution of income within a country—with 0 measuring perfect equality and 1 perfect inequality in the distribution of income. While the Gini coefficient tries to encompass the entire Lorenz curve in a single statistic, the Lorenz curve
facilitates a reading of the shares or proportion of absolute or relative income that accrues to various percentile of the population. On the other hand, the inequality measured by PDI is about relationships between people in authority and people in subservient positions. To the extent that high values of PDI reflect strong inequality, the efficient use of resources is compromised and economic growth is constrained. Economic growth (rise in per capita income) appears to be inversely correlated with the power distance index. That is, countries with higher power distance indexes (cultural inequality) have lower growth rates. To the extent that high PDI leads to political stability, investment and growth could be higher. Indeed, the present analysis, contrary to Hofstede (p. 54) supports a positive effect of PDI and efficiency, and PDI real GDP growth.

The societal inequality and economic inequality may move together since power distance with its implied inequality can be found between children and parents, students and teachers, and workers and bosses. In this latter relationship, “Organizations centralize power as much as possible in a few hands. Subordinates are expected to be told what to do…. Salary systems show wide gaps between top and bottom in the organization” (Hofstede, p. 35).2 And people at the top tend to be better educated than people at the bottom, a state of affairs that enhances the likelihood that a huge chasm will continue to develop between their incomes. However, because of the multiplicity of power distances, any of which might be found in a given country, it is difficult to infer a priori the sign of the correlation coefficient between power distance as measured by PDI and economic inequality as measured by Gini coefficients.

Another aspect of societal bias is reflected in the presence of individualism (and collectivism) in the society. The society’s individualism is a matter of degree since in any given country there can be found a continuum between the extreme of individualism at the one end and collectivism at the other. Individualism is identified with countries in which the ties between individuals are loose—people are expected to take care of themselves and their immediate families. The United States is believed to be such a society and this might explain some aspects of income inequality and economic performance and development. Acute income inequality can lead to social unrest, which reduces investment and economic growth.

By contrast, collectivism is the antithesis of this and people from birth are integrated into strong, cohesive in-groups that for a lifetime protect them in exchange for unquestioning loyalty. Collectivism applies to most countries in Africa, The Middle East, Eastern Europe, and Asia. As a way of life around the world, it is more prevalent than individualism. Hofstede found growth and

---

2 Particularly glaring cases of the gap between the top and bottom in the labor market are included in Time, April, 28, 1997, p. 59. The article says, “The corner office of a typical Fortune 500 company comes with annual total compensation of $7.8 million, an increase of roughly 50% over last year. CEOs make a good 200 times more than the average factory worker, even if you throw in the 3% raise that working stiffs gained in 1996.”
individualism to be positively related. Analysis in the present paper supports that finding.

For the economists, perhaps the best approximate gauge of individualism is gleaned from the dominant political system operating in the country. Political systems run the gamut from democracy as a liberal political paradigm at the one extreme and communism as an illiberal political system at the other extreme. Under democratic regimes, capitalism gives freer reins to economic agents, while under communism the market is tethered by central planning and government ownership and control of resources. Some economists see differences in liberties and individual freedoms as embodied in institutional settings or frameworks that influence the efficiency and growth rate of economies. For example, Scully (1988) notes that “Politically open societies, which subscribe to the rule of law, to private property, and to the market allocation of resources, grow at three times the rate and are two and one-half times as efficient as societies in which these freedoms are abridged.”

Casual observation (the success of the U.S. economy and the failure of the U.S.S.R) and Scully’s (1988) findings suggest that societies that value the rule of law and governments that promote individualism are likely to grow (and develop) more rapidly than countries that promote collectivism. That is, societies with a high degree of individual rights and freedoms grow faster than societies in which these rights are circumscribed. Hofstede’s (1991, p. 75) findings also show that per capita income and individualism are positively correlated. Others have shown that democracies coupled with free markets, by promoting political stability, tend to grow faster than other political systems.

Barro (1991) found, perhaps not too reliably, that socialist systems have a negative effect on growth. He also found that political instability has a negative effect on growth. He used two variables from Bank’s (1979) data set, namely, (1) the number of revolutions and coups per year, and (2) the number per million population of political assassinations per year. The coefficients of these variables were negative with respect to growth and were interpreted to have adverse influence on property rights, and thereby negative influences on investment and growth. The upshot of this is that democracies tend to be more politically stable than non-democracies and hence can be expected to grow more rapidly.

**METHODOLOGY**

The allocation of resources within the countries’ productive units is influenced by societal biases. The productive unit will choose a particular organizational form, but the societal framework within which the decision-making process of the productive unit takes place is exogenous and reflects the societal biases that are prevalent in the country. Collier and Gunning (1999) discussed a number of factors that explain, for example, the reason for slow growth in sub-Saharan Africa. All these factors have a link to government action that harms the citizens.
The question this paper examines is the effect of differences in social or cultural circumstances and tradition values on economic performance in sub-Saharan Africa.

Let the economy be described by a Cobb-Douglas production function that is homogeneous of degree one in the inputs. The relationship between inputs and the resulting output is given

\[ Y = AK^\alpha L^\beta \]  

where \( Y \) is output, \( K \) and \( L \) denote capital and labor, respectively, \( A \) is technology, and \( \alpha \) and \( \beta \) are elasticities—\( \alpha + \beta = 1 \). To produce \( Y \), firms in each country use the same technology and resources, capital \( K \) and labor \( L \) described by eq. (1). Differences in output \( Y \) depend on how efficient firms are in transforming resources to output. If measurement errors are assumed away, technical efficiency is captured by the random disturbance term (i.e., the error term). The estimate of technical efficiency is \( F(K^*, L^*) \geq Y \) (see Aigner & Chu, 1968). Differences in efficiency can result from social differences in countries as described by power distance index, individualism index, masculinity index, and uncertainty avoidance index.

Taking the logarithm of eq. (1) and differentiating yields the growth rate of real output defined by the weighted growth of capital and labor. Thus,

\[ g_Y = \alpha g_k + \beta g_L \]  

where \( g_Y \) is the growth rate of output, \( \alpha \) is elasticity of output with respect to capital, \( g_k \) is the growth rate of capital, \( \beta \) is the elasticity of output with respect to labor, and \( g_L \) is the growth rate of labor. The growth rate of output is expected to be influenced by the efficiency with which inputs are used, the latter determined by societal bias. When societal bias is introduced, the growth rate equation can be written in functional form as

\[ g_Y = y(g_k, g_L, S^i) \]  

where \( S^i \) represents the \( i \)th societal indicator such as PDI, IDV, MAS, and UAI. To estimate (3), a specific functional form must be determined. Since growth theory does not provide any guide to the functional form of the growth equation, a linear specification is chosen. Thus, the equation to be estimated is given as

\[ g_Y = a_0 + \alpha g_k + \beta g_L + bS^i + u \]  

where \( u \) is a stochastic error term, \( a_0, \alpha, \beta, \) and \( b \) are coefficients to be estimated, and all other variables are as defined in (3) above.
DATA

The dependent variable in this study is real GDP growth rate from 1990 through 1999. The growth rate for each country is the average of their annual rates. The independent variables consist of the capital and labor growth, the power distance index (PDI), the individualism index (IDV), the masculinity index (MAS), and the uncertainty avoidance index (UAI).

The capital variable is not observable directly. Economists have several ways to estimate the capital variable. Scully (1988) estimates capital stock in their initial year by taking gross investment for 1970 and multiplying it by the fraction of non-inventory investment and dividing by the weighted depreciation rate. This would have been the preferred approach. But the lack of building and machinery data defeated this option. A second approach takes investment divided by output for each year to represent capital.3 This was the method chosen in the current paper for the regression analysis. After computing proxies for capital, averages were found for each country’s capital “stock.”

Population data proxy labor data on the assumption that labor force participation rate is a relatively constant proportion of the population. The population growth rate is the average of the annual growth rates for the period for each country in the sample. The data on population originated from the World Bank, World Development Indicators 2000.

The power distance index (PDI) data (a measure of societal inequality) come from Hofstede (1991, p. 26, Table 2) which lists countries according to their power distance index score that ranges from 0 to 100, with 0 denoting as before the lowest PDI and 100 the highest. Also PDI signifies the inequality between parents and children. The PDI data cover 50 countries and three regions. A casual review of the data suggests generally that wealthier countries have lower PDI scores than poorer countries.

The Individualism index (IDV) is measured within a range of 0 for the most collectivist and 100 for the most individualist countries. The USA has the distinction of being the most individualistic and Guatemala the most collectivist. What is immediately apparent from the data is that the most developed countries cluster around the high IDV scores: USA (91), Australia (90), and UK (89), while at the bottom are Guatemala (6), Ecuador (8), and Panama (11), less developed countries. The data come from Hofstede (Table 3.1, p. 53) and also cover 50 countries and three regions.

Masculinity (MAS) index scores run the gamut from 0 for most feminine to about 100 for the most masculine country. The source of the data is Hofstede (1991, p. 84, Table 4.1). Japan has the distinction of being the most masculine (score rank is 1) and Sweden the most feminine (score rank is 53). The

---

3 This approach is used by Feder (1983), Balassa (1978), and Gyimah-Brempong (1991).
relationship between economic growth and masculinity (femininity) derives from two statements: (1) Masculine culture countries strive for a performance society; feminine countries for a welfare society, (2) “Governments in masculine cultures are more likely to give priority to growth and be prepared to sacrifice the living environment for this purpose” (Hofstede, p. 98). Thus, one might infer that the more masculine the country the faster the economic growth. However, the data appear to be inconclusive at first glance since wealthy countries have both high and low MAS. This variable also measures inequality between husbands and wives.

Attitudes toward risk and uncertainty are captured by means of an uncertainty avoidance index (UAI) that covers 50 countries and originates from Hofstede (1991, p. 113, Table 5.1). Hofstede defines uncertainty avoidance as “the extent to which members of a culture feel threatened by uncertain or unknown situations.” The uncertainty avoidance index ranges from 0 for the weakest to 100 for the strongest. The data show that high scores are found for Latin American, Latin European, Mediterranean, Japan, and South Korea, medium high for German-speaking countries, medium low for Asian countries (excluding Japan and S. Korea), the African countries, and the Anglo and Nordic countries. The UAI appears to capture, better than the other indexes, the cultural gap between otherwise similar countries.

It is assumed that the data for the independent variable capture societal attitudes prevalent in the sample countries plus the belief that such attitudes change slowly over time. Thus, the performance of real GDP growth for any period of time is expected to be influenced by these societal attitudes. The data were constructed on the basis of questionnaires completed by IBM workers in 46 countries and three regions—see Hofstede (1991) for methodology and description and interpretation. The data for the economic variables, output, investment, and population come from various World Bank sources, including African Development Indicators (1997).4

ANALYSIS

Ordinary least-squares (OLS) regression technique was used to estimate equation (4) relating each of the cultural variables to the growth rate of real GDP for a cross section of 48 (of 50) countries. These countries run the gamut from very rich to very poor and, therefore, violate the assumption of constant variance. That is, heteroscedasticity is likely to pose a problem. Glejser’s test was used to check for heteroscedasticity and it was found not to be a problem. The coefficient estimates are presented in Table 1. Column 1 contains the estimate of growth in terms of capital and labor. This is the base model against which the effect of cultural bias on economic growth is evaluated. The remaining four columns

---

4 The actual World Bank data source is a computer database called STARS which means Socio-Economic Time-Series Access and Retrieval System.
show the coefficients of the societal variables. Column 2 is the power distance index (PDI), column 3 contains the individualism index (IDV), column 4 has the masculinity index, and column 5 contains the uncertainty avoidance index.

Hofstede (1997) finds a positive relationship between power distance and wealth and if real GDP growth is regressed on the power distance index variable, the same result obtains in the present analysis. But the adjusted $R^2$ is only .11, although the PDI coefficient is statistically significant. Similarly, Hofstede finds a strong negative relationship between a country’s wealth and the individualism index. However, regarding the countries in this present study, this relationship does not hold up. The adjusted $R^2= -.01$ and the IDV variable is not statistically significant. Hofstede argues that masculine countries are more concerned with growth than with environmental protection. We find that the relationship might be positive but negligible. The MAS coefficient is zero but significant statistically at the 20% level of significance. Finally, low uncertainty avoidance (risk averse) countries do not appear to perform better or worse than high uncertainty avoidance countries. Our findings from regressing growth on uncertainty avoidance support this conclusion; the UAI coefficient is zero and statistically significant and the correlation coefficient is zero. For example, in Hofstede (1997) Table 5.1 p. 113 Japan has a score of 92 but the U.S. has a score of 46.

The relationship between any societal index and economic performance is difficult to ascertain from the correlation between them. Economic growth results from real things such as capital and labor and the influence of technology. Economic efficiency might be affected by societal factors as Hofstede’s findings suggest. But with the exception of power distance, we find only the influence of growth rate of capital and the growth rate of labor. Further, total factor productivity is not influenced at all by societal variables. The role of capital and labor in determining growth and the effects of cultural variables are shown in Table 1.
### TABLE 1
Regression Estimates of Economic Growth Rates of 46 Countries and Three Regions (1990–1999)

<table>
<thead>
<tr>
<th>Coefficient Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable</strong></td>
</tr>
<tr>
<td><strong>Constant</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>INGDP99</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>POPGR99</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>PDI</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>IDV</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>MAS</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>UAI</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Adj.R²</strong></td>
</tr>
</tbody>
</table>

Note: t-statistics are in parentheses.

The information in Table 1 can be used to explain differences in growth rates based on inequality practices (PDI and MAS) and individual characteristics (such as IDV and UAI) of societies. The basic equation in column 1 explains 38% of the variation in growth rates (of 0.12%) among the countries in the sample. The coefficients of the capital variables INGDP99 and the population growth rate POPGR99 have the expected sign and are significant. A 1% increase in population growth could explain higher growth rates of 0.98% in the sample countries over 1990–1999. Similarly, a 1% rise in capital (i.e., investment/GDP) would account for 0.12% rise in output.

The equation in column 2 explains about 37% of the variability in economic growth. The coefficient of the power distance variable is not significant, meaning it contributes nothing to growth. In particular, the power inequality between parents and their children or bosses and subordinates does not explain variations in growth rates across countries. That is, dominant parent countries did not grow faster nor more slowly than less dominant parent countries. Hence, variations in growth are explained by other factors and by changes in capital and labor.
growth, the latter coefficient being significant at the 1% level. The coefficient of the individualism index variable (column 3) is not significant, meaning that countries that have more individual freedom did not grow at a faster rate. The masculinity index (MAS; column 4) has a negative sign and is significant at the 2% level of significance. This implies that more masculine countries in our sample had lower rates of growth (i.e., for countries with 1% higher MAS index growth rates would be lower by –0.023%). Finally, the uncertainty avoidance index (UAI), whose coefficients appear in column 5, explains 37% of the variation in growth, is statistically insignificant (t-value is 0.44). The investment/GDP and the population growth variable are significant at 1% in columns 4 and 5—growth rates would be 0.12% and 0.98% respectively. Thus, countries where people avoid uncertainty are no different from countries where uncertainty is avoided less.

Table 2 shows the results of the estimation of Equation (4) for the decade of the 1980s. As in the 1970s, the only variable that mattered for economic growth once again was labor. That is, an increase in the growth rate of labor would increase the growth rate of real GDP.

**TABLE 2**


<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>LNGR7090 (1)</th>
<th>EFFIC (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-2.376</td>
<td>1.07</td>
</tr>
<tr>
<td></td>
<td>(-3.020)</td>
<td>(0.84)</td>
</tr>
<tr>
<td>INGDP99</td>
<td>0.15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3.20)</td>
<td></td>
</tr>
<tr>
<td>POPGR99</td>
<td>1.15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3.51)</td>
<td></td>
</tr>
<tr>
<td>PDI</td>
<td>-0.0040</td>
<td>-0.0025</td>
</tr>
<tr>
<td></td>
<td>(-0.3264)</td>
<td>(-0.21)</td>
</tr>
<tr>
<td>IDV</td>
<td>0.0050</td>
<td>-0.46</td>
</tr>
<tr>
<td></td>
<td>(0.37)</td>
<td>(-.44)</td>
</tr>
<tr>
<td>MAS</td>
<td>-0.0244</td>
<td>-0.023</td>
</tr>
<tr>
<td></td>
<td>(-2.28)</td>
<td>(-2.25)</td>
</tr>
<tr>
<td>UAI</td>
<td>0.0079</td>
<td>0.38</td>
</tr>
<tr>
<td></td>
<td>(0.77)</td>
<td>(0.47)</td>
</tr>
<tr>
<td>R²</td>
<td>.40</td>
<td>.03</td>
</tr>
</tbody>
</table>
Table 2 contains the overall effect of societal variables on economics growth and efficiency. The values of all the coefficients in Table 2 but the coefficient of the masculinity variable (significant at 3%), the capital variable, and the labor variable are insignificant. The resource variables have a positive effect on growth but the coefficient of masculinity variable is negative, meaning that countries with higher masculinity index values have lower growth rates. Growth and efficiency are positively correlated.

Regressing the growth variable on the societal variable, eq. (2) in Table 3 yielded coefficients that are statistically insignificant, implying that some countries have some opportunities for improving efficiencies. However, eq. (2) does not appear to explain any variation efficiency. The MAS variable is statistically significant and carries a negative sign. This suggests that more masculine countries are less efficient than more masculine ones.

### TABLE 3
Regression Estimates of Efficiency for 46 Countries and Three Regions (1990–1999)

<table>
<thead>
<tr>
<th>Equation No.</th>
<th>Constant</th>
<th>Coefficient</th>
<th>Independent Variable</th>
<th>$R^2$</th>
<th>Estimated Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-0.22</td>
<td>0.003</td>
<td>UAI</td>
<td>-0.01</td>
<td>-0.0038</td>
</tr>
<tr>
<td></td>
<td>(-0.40)</td>
<td>(.042)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1.18</td>
<td>-0.023</td>
<td>MAS</td>
<td>0.09</td>
<td>.0350</td>
</tr>
<tr>
<td></td>
<td>(2.24)</td>
<td>(-2.39)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>0.026</td>
<td>-0.0006</td>
<td>IDV</td>
<td>-0.02</td>
<td>-0.0007</td>
</tr>
<tr>
<td></td>
<td>(0.067)</td>
<td>(-0.077)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>0.19</td>
<td>-0.0034</td>
<td>PDI</td>
<td>-0.01</td>
<td>-0.0019</td>
</tr>
<tr>
<td></td>
<td>(0.36)</td>
<td>(9.56)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: t-statistics are in parentheses.

Equations (1)–(4) in Table 3 represent the separable effects of relational and attitudinal characteristics of peoples on efficiency. The masculinity index variable and the power distance index are statistically significant. The correlation coefficients in column 5 indicate that the equations do not explain the relationship between the inputs and efficiency. The estimated means from the equations are shown in column 6. The means of equations (1), (3), and (4) have negative signs. The last column in Table 3 contains means computed from the estimated equations. MAS makes a negative contribution to efficiency, (i.e., higher levels of masculinity would be consistent with higher levels of efficiency). The PDI is also statistically significant but the coefficient is zero (–0.0034) and the $R^2$ is –0.01, the equation is not a good fix for the data. The upshot of all this
is that none of the independent variables in Table 3 exerts any influence on efficiency.

CONCLUSION

Societal variables such as relational variables like power distance index and masculinity index (measures of societal inequality), and attitudinal variables, individualism index and uncertainty avoidance index, of a society are suspected to influence economic growth. Something about their background and historical experiences dictate the way people relate to each other: the boss to the worker, parents to children, male and female, attitudes out individual and group effort, and responses to risk and uncertainty. Differences in power distance relationships, individualism (versus collectivism), and a country's attitude toward uncertainty would seem not to determine how efficiently resources are used. However, societies with stronger masculine indexes than feminine ones in the sample have lower growth rates.

Strong power distance index countries may be no less efficient or productive than smaller ones whether workers' opinions are valued or welcomed: Power distance index appears to make no difference whatsoever. If anything, social attitudes and behavior seem not to matter much, except attitudes toward men and women. Masculine societies in our group do not seem to perform better than more feminine ones. That is, from Table 1 the coefficient of the masculinity variable suggests that more masculine societies had lower economic growth rates. In the final analysis, it is capital and labor that mainly explain differential growth rates across countries. An inferential thought of societal inequality in terms of masculine societies and lower economic growth is that this can manifest itself in income differentials skewed in favor of males. Societal inequalities can lead to income inequalities can lead to political instability, which reduces investment, and economic growth. This is a hypothesis that could be explored in a future research paper.
REFERENCES


Book Reviews
The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor

By William Easterly

Basic Books, New York, NY ©2014

Reviewed by Janet Marta

According to a blurb by Francis Fukuyama on the flyleaf of this book, Bill Easterly is “the most interesting and provocative economist writing on development topics today.” Easterly’s main thesis in his books is that development aid does not work to produce sustained economic growth in poor countries. As a reviewer approaching her 60th birthday, I can attest that the poor countries I heard about as a young girl are still poor, though rich countries have poured billions of dollars in foreign aid into those countries over the years. In one of his previous books, his main point was that aid programs were ill designed and nobody did any follow-up work. He told stories about the IMF and the World Bank both having teams of advisors in a specific country…giving different advice. He also noted that much aid money ends up being diverted into rulers’ offshore bank accounts. His experience generally showed that person-to-person, targeted projects work well, but government-to-government or aid-organization-to-aid-organization does not.

In this book, Easterly takes a different perspective: development aid violates the fundamental human rights of people in poor countries. The opening scenario describes an armed group of men descending on a farm in rural Ohio, setting everything on fire, and marching the owners away at gunpoint, later telling them they could never come back. The point is, of course, that it did not happen in Ohio; it happened in Uganda. And although the project that resulted in the farmers’ displacement was funded by the World Bank, and despite publicity in the New York Times, the World Bank has not investigated this incident.
William Easterly maintains that the real cause of poverty in the world is “the unchecked power of the state against poor people without rights” (p. 6). From the beginning of the “development aid project” (he dates it from President Truman’s first announcement of a foreign-aid program), one perspective dominated: authoritarianism, based on open racism at the beginning. He believes there is an urgent need to debate this assumption now that the evidence is quite clear that authoritarian development does not work. But even if it DID work, he asks, what about the rights of the poor to self-determination? The opposing idea, according to Easterly, is economic freedom.

Most Americans would respond, “Of course people need economic freedom!” And most Americans generally think foreign aid is a good idea: “Of course we should help people in poor countries.” But under an authoritarian model of “development,” these two things do not go together very well. The other story that stands out in this book is about Chung Ju Yung, who was born on a farm in Korea in 1915. He wrote later about having worked 15–16 hours a day and still not having enough to eat. A “development expert” would have recommended something like more fertilizer, better irrigation, etc. Instead, Chung concluded that the family land was never going to be good for farming (something he knew that the experts did not, even though he was poor). He moved to Seoul and opened an auto-repair shop and even during WWII was able to send money back to his parents. Eventually, he ended up making, rather than fixing, cars: the first Hyundai rolled off the assembly line in 1975.

Easterly’s main point is relatively simple: “We must not let caring about material suffering of the poor change the subject from caring about the rights of the poor” (p. 339). He believes that the best thing Westerners can do is advocate for the poor to have the same rights as the rich. In a way, it’s a hard message to swallow because it implies potentially messy and unpredictable outcomes. It also implies that we Westerners have been a bit naïve in our charitable giving. Or maybe it is even worse: maybe we have just been giving to assuage some kind of guilt, and we do not even care about the results for desperately poor people. Easterly gives us an entirely new perspective on development aid in these 350 pages.
The Ultimate Sales Revolution: Sell Differently. Change the World

By Steve Lishansky
Advantage Media Group, Charleston, SC ©2015

Reviewed by Douglas S. Russell

*The Ultimate Sales Revolution*, by Steve Lishansky, combines his extensive business experience, with neuroscience, to create the perfect universal dynamic of the client relationship. In today’s business environment, where competition has never been fiercer, creating and building greater impact, value, and results in every client relationship is of the utmost importance. Lishansky provides proven principles and a path for creating massively successful relationships. This book teaches sales professionals how to create value in the lives of their prospects and clients so they become trusted and respected partners in success. Most importantly, his book shows how to do it without the manipulative, probing, controlling, and closing techniques that have poisoned the art of sales in the mind of customers.

Mr. Lishansky challenges the perceptions or stereotypes, that have turned sales into one of the least respected and least trusted professions in the business world. By applying insights from neuroscience, *The Ultimate Sales Revolution* shows you how to quickly become an “Indispensable Partner” in your client’s success, which is the ultimate level of any professional relationship, dispelling any negative or unprofessional stereotypes that clients may have of sales. You can obtain this lofty level of success, trust, respect, and differentiation from your competition by ensuring that every client request and activity delivers meaningful results. For example, too often we do not communicate clearly. Time and again, what a person asks us for is rarely what that person most wants and values. Finally, almost none of the time do we truly comprehend what the other person(s) means when they tell us things that they assume are easy to understand, right?
By avoiding the three sources of Miscommunication (me, them, and us), sales professionals can effectively communicate to their clients, thus enhancing their relationships.

Additionally, this book will teach you how to build essential trust and respect, get to what is most important and valuable to clients, gauge exactly what is needed at every stage of their relationships, and create immensely positive experiences that lead to bottom line-enhancing results. Readers will discover how to ensure that every action delivers impact, value, and results. *The Ultimate Sales Revolution* provides a refreshing new look at the process of sales and the transformation it is undergoing today regarding trust and respect as they relate to sales professionals. The book recognizes that everyone in business is really in sales, revolutionizes selling as an ethical, effective, and efficient communication and that the relationship building process is focused on maximizing client value.

Throughout the book, Lishansky, brings together common sense with a lifetime of experience in order to identify the differences that make the difference in establishing the most successful sales relationships. The author’s writing style is down-to-earth, simple, and easy to follow. He presents effective principles as well as practical tips for becoming the “Indispensable partner” in your client’s successes. A roadmap for how to get the best possible client relationships and maximum competitive advantage.

Each of the principles in this book transforms your ability to win business and get paid for your value, not your time, effort, or activity. How to earn the access, recognition, respect, and rewards reserved for the most successful sales people and privileged professional services providers. *The Ultimate Sales Revolution* is a gold mine for those wishing to enhance their impact, value, and capacity for positive influence. To make a difference in building valuable client relationships, which are the key to any sales professional’s success and growth.
Jay Baer’s recent book forwards insights to help businesses tackle customer complaints in our new online/connected world (complainers are “haters” in Baer’s parlance). Beyond his twenty-two years of online consulting experience and interviews with fifty customer service leaders, the foundations of *Hug Your Haters* stem from discussions with over 2000 American consumers—representing a valid cross-section of ages, races, incomes, and technology aptitudes—who had complained to a business during the prior twelve month period. For those new to customer service or failing to embrace online platforms, *Hug Your Haters* should be an eye-opener. For those embracing customer-focus and the online world, it should be a reminder, a reminder everyone’s watching and how, or even if, you respond speaks loudly.

Long gone are the days when customers primarily turned to their circle of friends to proclaim a firm’s ineptitudes—today’s landscape allows customers to “voice” complaints via an increasing number of publicly viewed venues and firms need to “answer every complaint, in every channel, every time” (p. 10). Baer’s research indicates the very fact of answering complaints increases customer advocacy for firms, while not answering them decreases such, across all customer service channels. Turning a blind eye to customer complaints is not an option; the game has changed. As frequently mentioned, and rightly so, “customer service has become a spectator sport” (p. xii).

Historically, complainers were classified as public (e.g., complaining to the
firm, to a public agency) or private (e.g., complaining to friends or basically anyone other than the firm), yet Baer classifies complainers into “offstage” and “onstage” categories which seems more appropriate today. Offstage haters are those complaining directly to the firm (e.g., a phone call, an email). Such complainers want an answer; they want their problem solved, and his research indicates the bigger the customer problem the more likely complainers are to use offstage means (at least initially). Yet the growth today is with onstage haters; those who increasingly take complaints to public, online, forums (e.g., Facebook, Twitter, etc. and yes, this is skewed toward younger generations). While offstage haters still represent the greatest amount of complainers, onstage haters tend to complain more often—in part because they can do so quickly and easily from their smartphones. Onstage haters are the ones who have transformed customer service into a spectator sport. While “offstage haters want an answer, in many cases, onstage haters want an audience” (p. 45).

Baer suggests the greatest opportunity for improvement rests with “hugging haters” online, each and every one and in view of all customers. While firms should certainly want to resolve an onstage hater’s problem, it is the onlookers who are actually the bigger prize. It is common for consumers today to visit online review sites before making purchases and this group is impacted by how, or if, your firm responds to haters. “Haters aren't your problem…ignoring them is” (p. 111). Today's online world actually blurs the line between providing customer service and a firm's public relations activities.

While Baer offers advice about how to respond to both offstage and onstage haters, perhaps most noteworthy is his “Reply Only Twice” rule when dealing with onstage haters. The rule is simply this: “Online, never reply more than twice to any person in any single conversation” (p. 153). Once a second reply fails to address a customer’s concerns (and this second reply should include an offstage option), continuing the conversation publicly is likely to only drag your firm down a negative path. The fact that others are able to see your attempts to resolve a customer's problem is the real message. Of course, as you may be thinking, not every onstage hater is legitimate (i.e., they may be trying to take advantage of the situation), but not responding to them has very real consequences; others are watching.

Overall *Hug Your Haters* is a good, easy/quick, read. Baer’s core message is the need to respond to every customer complaint — something it is doubtful most firms currently embrace, let alone agree with. Yet firms need to remember that “not responding is a response; a response that says ‘I don’t care about you’” (p. 4). For many, much of what Baer forwards will be insightful as embracing every complaint might seem a bit “world shattering” for most. However, my guess is ten to twenty years down the road, most will be inclined to think what was the big deal; didn’t everybody know this? So, go ahead, start “hugging your haters” because by doing so you will be showing others that your business is one they just might like to hug back.
Notes
Notes
Notes
Notes