Table of Contents

“Exploring the Effects of Intangible Resources on Competitive Advantage and Performance of Listed Firms in Nigeria” by John O. Okpara ................................................................. 8

“Perspectives of Small Entrepreneurs’ Inaccessibility to Capital in Brooklyn, New York” by Wesley Palmer ................................................................. 29

“Helping through Morality versus Identification: Implications for Consumer Helping Behaviors” by Zachary S. Johnson, Yun Jung Lee & Joseph Thomas Paniculangara...... 43

“The Ramifications of Reinstating the Repealed Sections of the Glass-Steagall Act and the Moral Hazards that Caused the Recent Banking Crisis” by Michael Mahoney, Donald Crooks & Cathynn Tully......................... 58

Book Review:
*Business Schools and their Contribution to Society (2014)*
by Mette Morsing and Alfonso Sauquet Rovira (editors)
Reviewed by Fred J. Dorn................................................. 67
International Journal of Business & Applied Sciences (IJBAS)

Scope and Coverage

The International Journal of Business & Applied Sciences (IJBAS) is a double-blind peer reviewed journal of Business and Applied Sciences Academy of North America (BAASANA) that provides guidance for those involved at all levels of business and applied sciences. The journal publishes research papers, the results and analysis of which will have implications or relevance to policy makers and practitioners in relevant fields. IJBAS gives priority to empirical/analytical research papers. The field of business and applied sciences is a complex one. It is influenced by the many social, technological and economic changes evident in the world today.

IJBAS publishes original papers, theory-based empirical papers, review papers, case studies, conference reports, relevant reports and news, book reviews and briefs. Commentaries on papers and reports published in the Journal are encouraged. Authors will have the opportunity to respond to the commentary on their work and those responses will be published. Special Issues devoted to important topics in business, applied sciences, and related topics, will be occasionally published.

The journal is an invaluable support to academics and researchers in the field, and to all those charged with setting policies and strategies for business and social organizations. The journal includes reviews of current literature, applied research articles, case studies and histories, as well as special and themed issues.

Readership

Professionals, academics, researchers, managers, policy makers

Subject Coverage

- Business Policy and Strategic Management
- Management Issues
- Corporate Social Responsibility and Sustainability
- General and Social Entrepreneurship
- Entrepreneurship, and Innovation
- Legal Issues in Business
- Business Ethics
- Business Policies and Strategies
- Corporate Governance
- Supply Chain, Operations Management and Logistics
- Organizational Behavior and Human Resource Management
- Managerial Accounting and Firm Financial Affairs
- Financial management
- Consumerism
- Information and knowledge management
- Marketing Issues
- Issues of Applied Sciences and Technology
- Interdisciplinary Applied Sciences
- Interdisciplinary Educational Issues
- Issues of Business Law
- Issues of Business and Mass Communication
- Issues of Economic Development
- Interdisciplinary IT issues
- Interdisciplinary applied social issues
- Interdisciplinary Governmental issues
- Issues of Inter-cultural communication
- Issues of multi-cultural and transnational businesses
- Issues of applied sociology and social organizations
- Issues of Non-Profit developmental organizations

Editorial Team

Editor-in-Chief
Dr. Nicholas Koumbiadis, Adelphi University, USA
nkoumbiadis@adelphi.edu

Managing Editor
Dr. M. Ruhul Amin, Bloomsburg University of Pennsylvania, USA
baasana2@gmail.com, mamin@bloomu.edu

Technical Editor of Manuscript
Michael Coffta, Bloomsburg University of Pennsylvania, USA
mcoffta@bloomu.edu

Associate Editor
Dr. Yam Limbu, Montclair State University, New Jersey, USA
limbuy@mail.montclair.edu

Assistant Editors
Dr. Steven Welch, Bloomsburg University of Pennsylvania, USA
swelch@bloomu.edu
Book Review Editor
Dr. Lam Nguyen, Bloomsburg University of Pennsylvania, USA
lnguyen@bloomu.edu

Executive Editorial Advisory Board

Dr. John Okpara, Chairman, Executive Editorial Board
Dr. Charles R. Baker, Adelphi University, USA
Dr. Z.S. Demirdjian, California State University, Long Beach, California, USA
Dr. Daphne Halkias, Northcentral University, USA & University of Bergamo, Italy
Dr. Michael Hamlet, Former Editor-In-Chief of IJBAS
Dr. Nicholas Harkiolakis, Brunel University, Athens, Greece.
Dr. John Kauda, Aalborg University, Denmark
Dr. Richard Jensen, Montclair State University, USA
Dr. Dennis Koft, University of Wisconsin-Whitewater, USA
Dr. Anthony Libertella, Adelphi University, USA
Dr. Nnamdi O. Madichie, Canadian University of Dubai, UAE
Dr. Anayo D. Nkamnebe, Nnamdi Azikiwe University, Awka, Nigeria
Dr. Alfred Ntoko, SUNY Empire State University, New York, USA
Dr. Sonny Nwankwo, University of East London, England, U.K.
Dr. Ganesh Pandit, Adelphi University, USA
Dr. Jayen Patel, Adelphi University, USA
Dr. Hermann Sintim-Aboagye, Montclair State University, USA
Dr. Isaac Wanasika, University of Northern Colorado, USA
Dr. Wencang Zhou, Montclair State University, USA

Editorial Review Board

Dr. Afolabi Aiyedun, New York State Department of Transportation, USA
Dr. Al Yasin Al Ibraheem, Kuwait, University
Dr. Serajul I. Bhuiyan, University of Kuwait, Kuwait
Dr. Socrates Boussious, Briarcliff College, Long Island, New York, USA
Dr. Christina Chung, Ramapo College of New Jersey, New Jersey, USA
Dr. Kenneth Hall, Bloomsburg University of Pennsylvania, USA
Prof. Samuel Idowu, London Metropolitan University, London United Kingdom
Dr. Hoon Jang, Bloomsburg University of Pennsylvania, USA
Dr. Jean Kabongo, University of South Florida Sarasota-Manatee, USA
Dr. Zeno, Kathryn, Ramapo College of New Jersey, New Jersey, USA
Dr. Lawrence Kilgus, Bloomsburg University of Pennsylvania, USA
Dr. Stephan Kudyba, New Jersey Institute of Technology, New Jersey, USA
Dr. William Emeka Obiozor, Nnamdi Azikiwe University, Awka, Nigeria
Dr. Jonathan Ohn, Bloomsburg University of Pennsylvania, USA
Dr. Jung Seek, Bloomsburg University of Pennsylvania, USA
Dr. Madhav Sharma, Bloomsburg University of Pennsylvania, USA
Dr. Farooq Sheikh, State University of New York at Geneseo, USA
Dr. Marco Wolf, University of Southern Mississippi, USA
Dr. Charles Amo Yartey, International Monetary Fund (IMF) Washington, D.C. USA

Ethical Guidelines for Authors

Content
All authors must declare that they have read and agreed to the content of the submitted manuscript.

Ethics
Manuscripts may be rejected by the editor in-chief if it is felt that the work was not carried out within an ethical framework. The editorial board of the journal adheres to the principles outlined by COPE – Committee on Publication Ethics. Authors who are concerned about the editorial process may refer to COPE. Competing interests Authors must declare all potential competing interests involving people or organizations that might reasonably be perceived as relevant.

Plagiarism
Plagiarism in any form constitutes a serious violation of the most basic principles of scholarship and cannot be tolerated. Examples of plagiarism include:

- **Word-for-word copying** of portions of another's writing without enclosing the copied passage in quotation marks and acknowledging the source in the appropriate scholarly convention.
- The use of a particularly unique term or concept that one has come across in reading without acknowledging the author or source.
- The paraphrasing or abbreviated restatement of someone else's ideas without acknowledging that another person's text has been the basis for the paraphrasing.
- **False citation**: material should not be attributed to a source from which it has not been obtained.
- **False data**: data that has been fabricated or altered in a laboratory or experiment; although not literally plagiarism, this is clearly a form of academic fraud.
- **Unacknowledged multiple submission** of a paper for several purposes without prior approval from the parties involved.
- **Unacknowledged multiple authors or collaboration**: the contributions of each author or collaborator should be made clear.
- **Self-plagiarism/double submission**: the submission of the same or a very similar paper to two or more publications at the same time.

Manuscript Guidelines
www.baasana.org/IJBAS
Editorial

This issue of *International Journal of Business & Applied Sciences* includes five papers focusing on a variety of topics related to business and applied sciences. The first three articles published by John Okpara, Wesley Palmer, and Zachary S. Johnson along with Yun Jung Lee & Joseph T. Paniculangara, which focus on strategic management, entrepreneurs, and consumer-to-consumer helping behaviors, respectively. The last two manuscripts consist of one article and one book review published by Michael Mahoney with Donald Crooks & Cathynn Tully and Lam Nguyen focuses on banks and the economy and business schools and society, respectively. These five manuscripts contribute to the body of knowledge in the area of inquiry related to business and applied sciences.

Resource-based view is well-known and growing in today’s world of business, both nationally and internationally. The analysis and interpretation of internal resources of businesses has also led to an increase in having knowledge in strategically managing those resources, especially for managers of both national and global firms. In the first article, entitled *Exploring the Effects of Intangible Resources on Competitive Advantage and Performance of Listed Firms in Nigeria*, John Okpara discussed how the resource-based view (RBV) of a firm is a concept that has been used in strategic management literature as a means of explaining competitive advantage and superior performance of firms (Barry, Clulow & Gerstman 2005). According to the RBV, resources are defined as stocks of available factors such as knowledge, physical assets, human capital, and other tangible and intangible items that are owned or controlled by a firm, which can be converted into final products or services (Abu Bakar & Ahmad 2010; Amit & Schoemaker 1993, Capron & Hulland 1999, Michalisin, Smith & Kline 1997). According to Barney and Hesterly (2006), resources can be classified as tangible and intangible resources. Tangible resources include things like capital, buildings, warehouses, and other facilities, while intangible resources consist of knowledge, skills, and reputation (Hitt et al. 2012). According to Hitt et al. (2012), intangible resources contribute more to firms’ resources than tangible assets in creating values to organizations. In general, the conceptual and empirical analyses within the RBV have focused on firms’ perspective key resources and the value of these key resources in creating superior performance and competitive advantage.

In addition, this article explains how management plays a significant role in the process of converting resources into something of value to customers. This process involves resource identification, development, protection, and deployment. Management skill in these activities has been identified as a source of sustainable competitive advantage (Amit & Schoemaker 1993, Castanias & Helfat 1991). The RBV theory views management as the key to the process of recognizing, developing and deploying resources into valuable activity for the firm.

Based on the study presented, one may conclude that management and possession of managerial skills and talents is a key capability for a firm aspiring to achieve a sustainable competitive advantage and deliver superior performance and that intangible resource, particularly reputation, culture, knowledge, and management are major drivers of performance and competitive advantage. Moreover, reputation, culture, knowledge, and management role have a direct and indirect effect on performance and competitive
advantage. This means that culture not only directly enhances financial performance, but also is able to indirectly influence financial performance through reputation. The author therefore concludes that development of intangible assets and capabilities will create excellent opportunities for Nigerian firms to achieve superior performance and competitive advantage.

The second article presents the importance of understanding entrepreneurs and obtaining capital cannot be emphasized enough. In *Perspectives of Small Entrepreneurs’ Inaccessibility to Capital in Brooklyn, New York*, Wesley Palmer revealed that 95% of the participants found it difficult to raise capital from financial institutions, which increased the risk for business failure.

Based on findings, Palmer has concluded that the lack of financial capital has presented tremendous difficulties for many entrepreneurs. However, financial obstacles did not prevent entrepreneurs from seizing business opportunities and pursuing their ambition to become business owners. Therefore, through their resilience and creative efforts, many entrepreneurs were able to find alternative means of capital funding.

Entrepreneurs in Brooklyn, New York, experienced various hardships, including barriers to financial capital, the inability to restock their businesses, the inability to meet recurring businesses expenses, an uncertain business future, and the threat of losing their life savings, the abuse of predatory lenders, the pain of terminating key employees, and the rejection experience during loan denials. Eight-five percent of the entrepreneurs who participated in the study could not access financial capital for their businesses. Hence, their only alternative was to finance their business ventures with their own savings. Consequently, they had undercapitalized businesses, which stifled business growth and limited their abilities to capitalize on new opportunities. Despite the financial challenges, many entrepreneurs in Brooklyn have been able to maintain stable and successful businesses.

The third article by Zachary S. Johnson, Yun Jung Lee, and Joseph T. Paniculangara discuss how consumers frequently provide voluntary help to other consumers while consuming products and during the provision of services and, in so doing, transcend their traditional passive buying roles and become part of a firm’s value-creation network. As much of the research on consumer-to-consumer (C2C) helping behaviors is anecdotal, managers are left with an incomplete understanding of consumers’ motives for engaging in these valuable activities. Furthermore, consumers can create value for any organization that provides an offering to consumers and, in so doing, voluntarily become part of the organization’s extended value creation network.

The authors conclude that consumers with a salient social identity will sometimes be just as likely to help an in-group member versus consumer in a non-competing out-group, albeit their motives for helping these two different types of consumers are different.

The fourth article titled *The Ramifications of Reinstating the Repealed Sections of the Glass-Steagall Act and the Moral Hazards that Caused the Recent Banking Crisis*, by Michael Mahoney, Donald Crooks, and Cathyann Tully explore the critical aspects of the Glass-Steagall Act of 1933 including a detailed analysis of the objective of the act on the
banks and the economy, especially during the downturn in the economy of the sub-prime mortgage crisis.

The authors concluded that numerous warning signals were evident prior to the 2008 financial crisis. The twenty year period of erosion of the Glass-Steagall Act contributed to the financial crisis by providing an opportunity for the explosion of the sub-prime mortgage market and creation of derivative instruments which fell outside the banking authority’s realm of responsibility. Had Federal Reserve oversight been more stringent, perhaps excessive lending to largely financially unqualified American consumers could have been minimized, preventing the five largest investment banks from overleveraging to the point of disaster. The authors provide a clear case in support of strengthening the core requirements for both investment and commercial banks.

Dr. Nicholas Koumbiadis
Editor-in-Chief
Exploring the Effects of Intangible Resources on Competitive Advantage and Performance of Listed Firms in Nigeria

John O. Okpara
College of Business
Bloomsburg University of Pennsylvania
Bloomsburg, Pennsylvania, USA

Abstract

The purpose of this paper is to examine the effect of intangible resources on competitive advantage and performance of firms in Nigeria. The study follows a quantitative research design using survey methods with statistical treatment. Regression and correlation tests were used to ascertain whether relationships exist between intangible resources, competitive advantage, and organizational performance. Results show that relationships exist between organizational resources, competitive advantage, and performance. The findings are consistent with the proposed resource-based view (RBV) model and in line with previous studies conducted in developed countries. Implications of the study are discussed.

Keywords: Nigeria, competitive advantage, intangible resources, organization performance

Introduction

The resource-based view (RBV) of a firm is a concept that has been used in strategic management literature as a means of explaining competitive advantage and superior performance of firms (Barry, Clulow & Gerstman 2005). According to the RBV, resources are defined as stocks of available factors such as knowledge, physical assets, human capital, and other tangible and intangible items that are owned or controlled by a firm, which can be converted into final products or services (Bakar & Ahmad 2010, Amit & Schoemaker 1993, Capron & Hulland 1999, Michalisin, Smith & Kline 1997). According to Barney and Hesterly (2006), resources can be classified as tangible and intangible resources. Tangible resources include things like capital, buildings, warehouses, and other facilities, while intangible resources consist of knowledge, skills, and reputation (Hitt et al. 2012). According to Hitt et al. (2012), intangible resources contribute more to firms’
resources than tangible assets in creating values to organizations. In general, the conceptual and empirical analyses within the RBV have focused on firms’ perspective key resources and the value of these key resources in creating superior performance and competitive advantage. Several studies using the RBV theory have strongly supported it. However, most of the work has been based on the data pertaining to developed countries (Bakar & Ahmad 2010, Barney 1991, Barry, Clulow & Gerstman 2005, 2007, Collis & Montgomery 1995, Fahy 2000, 2002). Although these studies are useful in improving our understanding of the subject, there is still a knowledge gap about developing countries, and attempting to generalize on the basis of findings from developed economies may be misleading. To our knowledge, very little research on RBV has been conducted in Africa in general, and in Nigeria in particular. As many African nations have opened up their economies for global trade and investment and are now actively engaged in international business and globalization, it is imperative that management theories developed in Western industrialized cultures be tested in non-Western cultures, like Nigeria.

The purpose of this research is to examine the influence of intangible resources among Nigerian firms. Since, to the best of the author’s knowledge, no research has been on done on this topic in Nigeria, this study is significant, and its findings will increase our understanding of this topic in the context of a developing country. This study makes three major contributions to the literature. First, it provides insights to the effect of the resource-based view model from a non-Western perspective. Second, it examines the issue in previously untested locations—as an oil rich country in Africa and home for several multinational corporations, Nigeria provides a highly interesting setting in which to refine and test existing management theories developed in the West. Third, this study lays the foundation for future studies on this topic in Africa and helps to bridge the knowledge gap in the literature, and to a great extent, it will also assist managers when making strategic decisions about competitive advantage and superior performance.

Theoretical Background

The RBV theory argues that firms have resources which enable them to achieve competitive advantage and superior performance. Resources that are valuable and rare can lead to the creation of competitive advantage. That advantage can be sustained over longer time periods to the extent that a firm becomes able to protect against resource imitation, transfer, or substitution (Barney 1991). Researchers have argued that internal resources are more important than external factors for a firm in achieving and sustaining competitive advantage (David 2011). Some researchers have also argued that a firm’s performance will mainly be determined by internal resources of the firm, such as employees, training, experience, intelligence, knowledge, skills, abilities, information systems, patents, trademarks, copyrights, databases, and so forth (Barney 1991, David 2011). In sum, RBV theory asserts that resources are basically what help a firm to exploit opportunities and neutralize threats. David (2011) asserts that the basic premise of RBV is that the mix and type of a firm’s internal resources should be considered first and foremost in devising strategies that can lead to sustainable competitive advantage. Figure 1 below shows the theoretical relationship between intangible resources, competitive advantage and performance (see figure 1).
Literature Review and Hypotheses

Resources are productive assets through which a firm can achieve its objectives (Amit & Schoemaker 1993, Capron & Hulland 1999, Michalisin, Smith & Kline 1997). RBV posits that a firm does not achieve competitiveness because of its resources but because of its competence in making better use of those resources, whereby the productive services of resources must be discovered over time as its management interacts with its resources and makes subjective decisions about resource allocation, deployment, and maintenance (Powell 1995). Intangible assets are said to be more likely to influence competitive advantage and performance than tangible assets because they are more likely to meet Barney’s (Barney 1991) four conditions.

According to the resource-based view (RBV), assets, skills, and capabilities create value for a firm that leads to a sustainable competitive advantage and superior performance (Barney 1991). Resources used to create a competitive advantage are categorized as tangible (financial assets, capital, and production capability) or intangible (intellectual property, trade secrets, corporate reputation, culture, and employee know-how) (Hall 1993). These resources create value and meet the following conditions: it is valuable due to its ability to add financial value to the firm; it is rare (only some firms have it); it is imperfectly imitable by other organizations; and there are no substitutes (Barney 1986, 1991, Rindova, Williamson, Petkova & Sever 2005). Culture and reputation are considered intangible assets because each adds value through differentiation, is rare, difficult to imitate, and without substitution (Barney 1991, Fombrun 1996, Hall 1993, Kay 1993, Rao 1994, Runyan, Huddleston & Swinney 2006). In a survey of executives, corporate
reputation was rated as the most important intangible asset contributing to business success because it is the “product of years of demonstrated superior competence, and is a fragile resource; it takes time to create, it cannot be bought, and it can be damaged easily” (Hall 1993). In the same study, Hall (1993) found that culture was rated as the fourth most important intangible asset, after product reputation (rated number 2) and employee know-how (rated number 3).

Management Influence

Management plays a significant role in the process of converting resources into something of value to customers. This process involves resource identification, development, protection, and deployment. Management skill in these activities has been identified as a source of sustainable competitive advantage (Amit & Schoemaker 1993, Castanias & Helfat 1991). The RBV theory views management as the key to the process of recognizing, developing and deploying resources into valuable activity for the firm (Clulow, Barry & Gerstam 2007). In their research, Clulow, Barry, and Gerstam (2007), argued that in the RBV model, management is the glue that bonds and strengthens the firm. Kotter & Heskett (1992) considered a resource to be a source of competitive advantage when applied to an industry or brought to a market. Consequently, Williams (1992) described the managerial role as transforming resources into something of value to customers. This involves identifying, developing, protecting, and deploying the firm's resource base (Amit & Schoemaker 1993). It has been argued that good quality management is a potential source of sustainable competitive advantage (Castanias & Helfat 1991). The associations of RBV with resources, sustainable competitive advantage, and superior performance have been demonstrated by the works of Fahy (2003), and Bharadwaj, Varadarajan, and Fahy (2003, 1993), Day and Wensley (1988), and Hunt and Morgan (1996). These researchers have argued that management plays a significant role in the process of achieving competitive advantage and superior performance. In view of the above arguments, the author posits that the ability of management to identify, protect, and deploy the firm’s resources efficiently would help a firm to achieve sustainable competitive advantage and superior performance. As a result the author proposes the following hypotheses:

Hypothesis 1a: There will be a positive relationship between a firm’s management and its performance.

Hypothesis 1b: There will be a positive relationship between a firm’s management and its competitive advantage.

Relationship between Reputation and Performance

Corporate reputation is an important intangible asset firms use to create a competitive advantage and enhance performance (Cannelli & Tishler 2004, Flatt & Kowalczyk 2008). Reputation is borne out by the energy and effort that often goes into creating, developing and sustaining a reputation (Hall 1992, Barney 1986). Reputation affects performance and is, at the same time, a result of that performance. A firm may possess an excellent reputation and the publicity surrounding its reputation may feed the initial value of the strategic resource since the firm is perceived by its stakeholders to have an excellent
reputation. In the management literature, it is possible to find empirical studies that assume reputation to be either a dependent or an independent variable (De La Fuente & De Quevedo 2003). Fombrun and Shanley (1990) found a positive relationship between past performance and reputation, and between past accounting profit and reputation. Mathews (2006) also found positive relationships between past return and reputation and between reputation and future return. Brown and Perry (1994) used Fortune’s database and obtained a direct relationship between past return and reputation. Ferguson, Deephouse, and Ferguson (2000) showed that strategic groups with higher reputations have superior performance. Runyan, Huddleston, and Swinney (2006) found a positive relationship between reputation and sustainable performance. In their research, Szwajkowski and Figlewicz (1999) concluded that it is the ability to develop and exploit reputation that dictates a company’s dominance in an industry. Rodriguez, Dorrego, and Jardon (2010) contend in their research that the organizational reputation of business schools has a positive impact on performance (measured as salaries of recent MBA graduates). Deephouse (2000) concluded that a positive evaluation of a firm presented in the media (media reputation) increases the performance of commercial banks. In a similar study but with a different sample, Brammer and Pavelin (2006) found that reputation is determined by a firm’s social performance, financial performance, market risk, and the extent of long-term institutional ownership and the nature of its business activities.

Empirical evidence confirms that a positive corporate reputation leads to higher financial performance and strategic advantage, such as reducing competitive rivalry and mobility barriers to deter market entry (Caves & Porter 1977; Penrose 1959), charging premium prices (Benjamin & Podolny 1999), creating superior stability in stock prices (Weigelt & Camerer 1988), reducing operating costs, and attracting talented workers to a firm (Fombrun 1996). Firms with good reputations are also more likely to sustain a superior financial performance over time (Runyan, Huddleston & Swinney 2006). Other research findings also suggest that reputation has a positive influence on capital gain (Weigelt & Camerer 1988), on the stock market (Kaplan & Norton 2004), and market value (Black, Carnes & Richardson 2000). In order to remove financial bias from the reputation rating, Runyan, Huddleston, and Swinney (2006) decomposed reputation into financial reputation and residual reputation and also demonstrated that corporate reputation contributes significantly towards firm profitability. According to Flatt and Kowalczyk (2008), reputation creates value because it enables the firm to gain business from rivals and attract high quality people to work for the firm. From the foregoing, one may therefore surmise that successful development and deployment of key intangible assets may facilitate the acquisition of tangible resources, such as high quality people, which enable the firm to compete more effectively in a highly competitive market. These studies document that reputation is an essential intangible resource that can enhance a firm’s ability to gain a competitive advantage and achieve superior performance. This leads to hypotheses 2a and 2b:

Hypothesis 2a: There will be a positive relationship between reputation and performance.

Hypothesis 2a: There will be a positive relationship between reputation and competitive advantage.
Corporate Culture and Performance

Culture is considered an intangible asset because it adds value through differentiation, is rare, difficult to imitate, and non-substitutable (Barney 1991, Fombrun 1996, Hall 1993, Kay 1993, Rao 1994, Runyan, Huddleston & Swinney 2006). In a survey of executives, corporate culture was rated as one of the most important intangible assets contributing to business success because it allows firms to manage change and develop values, beliefs, and norms shared by members of an organization. It also helps firms to define a system of shared values and norms that may lead to higher performance and productivity. A strong corporate culture can influence a firm’s performance by increasing the behavioral consistency of its employees. This allows the firm to enhance coordination and control, improve goal alignment, and increase employee effort (Vergin & Qoronfleh 1998). A strong corporate culture can also enhance a firm’s performance because consensus of values, beliefs, and norms facilitates social control in the firm, which is more effective than formal control for any deviations from the norm. Employees also tend to have greater clarity about goal attainment and can make appropriate decisions relating to their jobs, which enhances coordination, motivation, and performance because they are involved in the decision-making process (Vergin & Qoronfleh 1998). A strong culture can lead to above-average return on investment, net income growth, and higher performance (Denison 1990, Dension, Haaland & Goelzer 2004, Gordon & Ditomaso 1992, Knott 2009). A firm with a strong culture would therefore tend to use it as a strategic advantage to achieve superior performance. The author thus, proposes the following hypotheses:

Hypothesis 3a: There will be a positive relationship between a firm’s culture and its performance.

Hypothesis 3b: There will be a positive relationship between a firm’s culture and its competitive advantage.

Knowledge and Performance

The resource-based view of the firm theory (Rao 1994) and the knowledge-based view of the firm (Grant 1996) provide the foundations for the claim that knowledge serves as a resource that influences competitive advantage and superior performance. Researchers have argued that knowledge is an intangible resource (Milgrom & Roberts 1982). Bollinger and Smith (2001) argued that employee know-how possesses the characteristics of strategic assets. According to De Hoog and van der Spek (1997), employee know-how is a component of knowledge and a crucial strategic resource. Bollinger and Smith (2001) posited that knowledge meets the characteristics of a strategic asset because: (1) it is inimitable, each individual in the organization contributes knowledge based on personal interpretation of information; (2) it is rare, organizational knowledge is the sum of employee know-how, know-what, and know-why; (3) it is valuable, new organizational knowledge results in improved products, processes, technologies, or services, and enables organizations to remain competitive and viable; and (4) it is non-substitutable, the synergy of specific groups cannot be replicated. Thus the group represents distinctive competence
which is non-substitutable. Based on the logic of the preceding paragraphs, the author posits that knowledge is a resource that results from the following hypotheses:

_Hypothesis 4a: There will be a positive relationship between a firm’s organizational knowledge and its performance._

_Hypothesis 4b: There will be a positive relationship between a firm’s organizational knowledge and its competitive advantage._

**Methodology**

**Sample and Procedures**

Survey questionnaires were administered to a random sample of 200 senior managers. The managers were selected from 30 listed companies in Nigerian Stock Market and Equity Security. To enhance the response rate, the questionnaires were delivered by hand and collected by hand on a scheduled pick-up date. Six trained assistants and two field supervisors were responsible for the questionnaire distribution and collection. The distribution was done in this way to avoid problems with the local communications system and to fit with local cultural issues, such as the background of the researcher and purpose of the research. A total of 200 questionnaires were distributed and 148 were returned, representing a 74% response rate.

**Measures**

The measures used for the present study were developed based on prior studies (Bakar & Ahmad 2010, Rao 1994, Clulow, Barry & Gerstam 2007, Fahy 2000, Lawler, Mohrman & Ledford 1998). The measures consisted of six areas related to the RBV theory based on the literature. The areas include: performance, competitive advantage, reputation, corporate culture, knowledge, and management role.

**Organizational Performance**

Performance was measured by using six items adapted from Leitner and Warden (2004). The organizational performance construct includes the change in the company market share, profit and sales revenue to their largest competitor. The survey items of performance have been used by Delaney and Huselid (1996). The Cronbach alpha on their research was .86 and .88, respectively. Respondents were asked to indicate their levels of agreement with the description using a five-point Likert-type scale (1 = strongly agree to 5 = strongly disagree).

**Competitive Advantage**

A seven-item scale was adapted from Delaney and Huselid (1996) and Roberts and Dowling (2002). Sample items included: (1) “During the past three years, the competitive advantage relative to your largest competitor has markedly improved”, and (2) “During the past three years, change in market share relative to your largest competitor has
markedly improved”, and The Cronbach alpha is 0.78. Respondents were asked to indicate their levels of agreement with the items’ descriptions using a five-point Likert-type scale (1 = strongly agree to 5 = strongly disagree).

Management Role

A six-item scale was developed based on the works of Clulow, Barry, and Gerstam (2007) and Amit and Schoemaker (1993). Sample items included: (1) “Management has been successful at identifying the company’s resources”, (2) “Management is successful at developing the company’s resources”, and (3) “Management is successful at protecting the company’s resources,” Cronbach alpha is 0.85. Respondents were asked to indicate their levels of agreement with the items’ descriptions using a five-point Likert-type scale (1 = strongly agree to 5 = strongly disagree).

Company Reputation

A six-item scale modified from Flatt and Kowalczyk (2008), Hammond and Slocum (1996), Weigelt and Camerer (1988), and Runyan, Huddleston, and Swinney (2006) was used to assess reputation. Sample items included: (1) “Our Company is recognized for its innovativeness”, (2) “Our company is recognized for its quality management”, and (3) “Our company is recognized for its ability to attract and develop talented workers.” The Cronbach alpha is 0.82. Respondents were asked to indicate their levels of agreement with the items’ descriptions using a five-point Likert-type scale (1 = strongly agree to 5 = strongly disagree).

Corporate Culture

Seven items modified from Knott (2009) measured corporate culture, based on the degree to which managers’ decision making was influenced by the firm’s strong corporate culture. Sample items included: (1) “Managers in competing firms usually talk positively about our management style and the way we do things”, (2) “Company values are known through our vision, mission, creed, and credo”, and (3) “Employees are encouraged to follow the company’s creed and credo.” The Cronbach alpha is 0.86. Respondents were asked to indicate their levels of agreement with the items’ descriptions using a five-point Likert-type scale (1 = strongly agree to 5 = strongly disagree).

Organizational Knowledge

A ten-item scale was developed from RBV theory and literature. Sample items included: (1) “Our culture encourages sharing of knowledge”, (2) “Top management encourages regular meetings to share knowledge”, and (3) “We have qualified and knowledgeable workers.” Cronbach alpha is 0.82. Respondents were asked to indicate their levels of agreement with the items’ descriptions using a five-point Likert-type scale (1 = strongly agree to 5 = strongly disagree).
Pilot Test of the Instrument

A pilot study was conducted to test the questionnaire’s construct validity. The instruments were submitted to a panel of six management professors who teach and conduct research in the area of strategic management, and six chief executive officers of multinational corporations in Nigeria, the United Kingdom, and the United States for validation. The experts were asked to review the items in each of the instruments and determine whether these items were appropriate for the study. They were also asked to eliminate items they found to be irrelevant, and make suggestions about how to simplify the items they found to be relevant. After some minor revisions and modifications were made, instruments were resubmitted to the experts for another review. They recommended the use of the instruments for the study. To establish reliability, the validated instruments were pre-tested on a small sample (n = 40) randomly selected from the larger sample. The correlation of random split-halves for internal consistency ranged from 0.80 to 0.85, the step-up formula ranged from 0.88 to 0.90 and the Cronbach alpha for the judgmental questions relating to performance and competitive advantage were 0.80 and 0.85 respectively.

Factor Analysis

A confirmatory factor analysis of the items in the questionnaire was performed to ascertain whether items measure the concepts developed for the study. To be included in a factor, an item must have had at least a 0.50 factor loading. Four factors explaining management role, corporate culture, organizational knowledge, company reputation, competitive advantage, and performance emerged from the analysis (see Table 1). To test the reliability of the factors, alpha coefficients were computed for each of them, with the resulting reliability of 0.82, 0.87, 0.84, 0.80, 0.85, and 0.83 for management role, corporate culture, organizational knowledge, company reputation, competitive advantage, and performance. Table 1 includes the eigenvalues of each factor as well as the percentage of variance explained. The result of each factor analysis was a single factor, which was used to answer the research questions.

Prior to carrying out factor analyses tests, reliability analyses for each scale were run through Cronbach alpha. As shown in Table 1, management was measured through a 4-item scale that proved to be very reliable (alpha = 0.82). Corporate culture was measured by a factor that summarizes the information about four areas of corporate culture. This four-item scale proved to be extremely reliable (alpha = 0.87). Organizational knowledge was measured through a four-item scale that also proved to be reliable (alpha = 0.84). It summarized organizational knowledge as a tangible resource for a corporation. Competitive advantage, too, was measured by a four-item scale which was reliable (alpha = 0.85). Finally, performance was also measured by a four-item scale which was reliable (alpha = 0.83) (see Table 1).
Table 1: Results of Factor Analysis

<table>
<thead>
<tr>
<th>Item</th>
<th>Factor Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management Role ( alpha = 82 )</strong></td>
<td></td>
</tr>
<tr>
<td>Management has been successful at identifying</td>
<td>0.75</td>
</tr>
<tr>
<td>and developing resources</td>
<td></td>
</tr>
<tr>
<td>Management has been successful at protecting</td>
<td>0.77</td>
</tr>
<tr>
<td>and deploying resources</td>
<td></td>
</tr>
<tr>
<td><strong>Corporate culture ( alpha = 87 )</strong></td>
<td></td>
</tr>
<tr>
<td>Managers in competing firms usually talk</td>
<td>0.80</td>
</tr>
<tr>
<td>positively about the way we do things</td>
<td></td>
</tr>
<tr>
<td>Our company is managed according to longstanding</td>
<td>0.78</td>
</tr>
<tr>
<td>policies and practices</td>
<td></td>
</tr>
<tr>
<td><strong>Organizational knowledge ( alpha = 84 )</strong></td>
<td></td>
</tr>
<tr>
<td>We have knowledgeable workers</td>
<td>0.74</td>
</tr>
<tr>
<td>We have innovative workers</td>
<td>0.77</td>
</tr>
<tr>
<td>Training and development are available for our</td>
<td>0.79</td>
</tr>
<tr>
<td>workers</td>
<td></td>
</tr>
<tr>
<td><strong>Company reputation ( alpha = 80 )</strong></td>
<td></td>
</tr>
<tr>
<td>Our company is recognized for its customer</td>
<td>0.85</td>
</tr>
<tr>
<td>service</td>
<td></td>
</tr>
<tr>
<td>Our company is recognized for its quality of</td>
<td>0.82</td>
</tr>
<tr>
<td>products and services</td>
<td></td>
</tr>
<tr>
<td>Our company is recognized as an ethical</td>
<td>0.86</td>
</tr>
<tr>
<td>organization</td>
<td></td>
</tr>
<tr>
<td><strong>Competitive advantage ( alpha = 0.85 )</strong></td>
<td></td>
</tr>
<tr>
<td>In the past three years, profit relative to our</td>
<td>0.79</td>
</tr>
<tr>
<td>largest competitor has improved</td>
<td></td>
</tr>
<tr>
<td>In the past three years, sales relative to our</td>
<td>0.83</td>
</tr>
<tr>
<td>largest competitor has improved</td>
<td></td>
</tr>
<tr>
<td>In the past three years, our customer base has</td>
<td>0.85</td>
</tr>
<tr>
<td>improved</td>
<td></td>
</tr>
<tr>
<td><strong>Performance ( alpha = 0.83 )</strong></td>
<td></td>
</tr>
<tr>
<td>In the past three years, profit relative to our</td>
<td>0.83</td>
</tr>
<tr>
<td>largest competitor has improved</td>
<td></td>
</tr>
<tr>
<td>In the past three years, sales revenue has</td>
<td>0.86</td>
</tr>
<tr>
<td>improved</td>
<td></td>
</tr>
<tr>
<td>In the past three years, customer satisfaction</td>
<td>0.85</td>
</tr>
<tr>
<td>level has improved</td>
<td></td>
</tr>
</tbody>
</table>

Response range: 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree.

Results

Correlation and multiple regression analysis were used to assess the influence of intangible resources and capabilities on performance and competitive advantage. The acceptable level of significance was set at p < 0.05. A total of six regression runs were performed for management role, corporate reputation, corporate culture, and organizational knowledge.
and performance as well as competitive advantage with management role, corporate reputation, corporate culture, and organizational knowledge. The correlations and multiple regression results are summarized in Table 1. With regard to hypotheses 1a and 1b, the data in Table 1 shows that significant correlation was found between management role and performance \((r = .56, p < .01)\), and management role and competitive advantage \((r = .54, p < .01)\). With regard to research questions 2a and 2b, the data in Table 2 also show that a firm’s reputation is positively and significantly correlated to performance and competitive advantage \((r = .59, p < .01, r = .57, p < .01\) respectively) (see table 2). For research questions 3a and 3b, the analysis in Table 2 shows that culture is positively and significantly correlated to performance and competitive advantage \((r = 0.65, p < .01, r = 0.57, p < .01\) respectively) (see Table 3). With regard to research questions 4a and 4b, the results shown in Table 3 indicate organizational knowledge is related to performance and competitive advantage.

### Table 2: Means and Correlations of Study Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Management Role</td>
<td>3.20</td>
<td>0.70</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Reputation</td>
<td>3.42</td>
<td>0.72</td>
<td>0.50**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Culture</td>
<td>3.25</td>
<td>0.66</td>
<td>0.53**</td>
<td>0.44*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Knowledge</td>
<td>3.38</td>
<td>0.68</td>
<td>0.49**</td>
<td>0.35</td>
<td>0.34</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Competitive Advantage</td>
<td>3.41</td>
<td>0.64</td>
<td>0.54**</td>
<td>0.57**</td>
<td>0.57**</td>
<td>0.53*</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>6. Overall Performance</td>
<td>3.48</td>
<td>0.60</td>
<td>0.56**</td>
<td>0.59**</td>
<td>0.65**</td>
<td>0.59*</td>
<td>65**</td>
<td>1.00</td>
</tr>
</tbody>
</table>

*p < 0.05; **p < .01

Regression analyses were conducted to provide additional information regarding the research questions. As shown in Table 2, management role, reputation, culture, and knowledge combined contributed significantly to a company performance \((R^2 = 0.68)\), indicating that 68 percent of the variance in a company performance could be accounted for by management role, reputation, culture, and knowledge. The data in Tables 3 and 4 also show that the variables of management role, reputation, culture, and knowledge contributed significantly to competitive advantage \((R^2 = 0.71; F = 56.30)\), indicating that 71 percent of the variance in a company’s competitive advantage could be accounted for by management role, reputation, culture, and knowledge (see tables 3 and 4). These findings suggest that intangible resources such as management role, reputation, culture, and knowledge are important variables that could influence a company’s performance and competitive advantage.
Table 3: Regression Analysis on Performance

<table>
<thead>
<tr>
<th>Variables</th>
<th>β</th>
<th>r</th>
<th>p-value*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Role</td>
<td>0.32</td>
<td>0.50</td>
<td>0.005**</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.30</td>
<td>0.55</td>
<td>0.000**</td>
</tr>
<tr>
<td>Culture</td>
<td>0.353</td>
<td>0.59</td>
<td>0.001**</td>
</tr>
<tr>
<td>Knowledge</td>
<td>0.347</td>
<td>0.56</td>
<td>0.004**</td>
</tr>
</tbody>
</table>

(R² = 0. 68; F = 50.23)

Notes: *p < 0.05, and **p < 0.01

Table 4: Regression Analysis on Competitive Advantage

<table>
<thead>
<tr>
<th>Variables</th>
<th>β</th>
<th>r</th>
<th>p-value*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Role</td>
<td>0.40</td>
<td>0.60</td>
<td>0.000**</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.38</td>
<td>0.58</td>
<td>0.005**</td>
</tr>
<tr>
<td>Culture</td>
<td>0.353</td>
<td>0.54</td>
<td>0.007*</td>
</tr>
<tr>
<td>Knowledge</td>
<td>0.347</td>
<td>0.56</td>
<td>0.006*</td>
</tr>
</tbody>
</table>

(R² = 0. 71; F = 56.30)

Notes: *p < 0.05, and **p < 0.01

Discussion

Results of this study lend support to the theoretical claim that management plays a significant role in a firm’s competitive advantage and performance. Results also confirm previous research findings that management, reputation, culture, and knowledge are intangible resources and capabilities that can influence a firm’s sustainable competitive advantage and performance (Apintalisayon 2008, Barney 1991, David 2009, Hall 1992, Hitt, Ireland, Camp & Sexton 2001, Kay 1993). The main findings of this study were that company performance could be predicted from the intangible resources such as management role, reputation, culture, and knowledge variables. The results are also similar to some findings of the earlier studies conducted in other countries (Hunt & Morgan 1996, Hall 1993, Fahy 2000, Day & Wensley 1988, Bharadwaj, Varadarajan & Fahy 1993). The RBV positions management as the key driver of the process of recognizing, developing, and deploying resources into valuable activity (Clulow, Barry & Gerstam 2007). The respondents confirmed the RBV perspective that management is critical for a firm’s competitive advantage and performance. This is true for Nigeria, where poor management characterizes most organizations in the public and private sectors. Most organizations in
Nigeria that have achieved some measure of success have attributed their success to their top management team. This study also found that organizational reputation had a significant impact on competitive advantage and performance. The reason for this may be because of the cultural disposition of the country. Most business transactions in Nigeria are still based on trust. Reputation is based upon things like good performance record over a long period of time, and it is closely tied in with basic things like trust, honesty, and decency. In Nigeria, people are more likely to do business with companies and people they trust and who have built a reputation. Additionally, people in Nigeria will lend money to reputable organizations, business owners, and individuals without a contract, and trust that the borrower will pay back the money when they have it.

Results of the data analysis show that corporate culture influences performance and competitive advantage. This finding is consistent with Nigerian culture. Nigeria is a collectivist country, which is described as having a set of values, beliefs, and norms shared by the people. These shared values, beliefs, and norms are transmitted into the organizations and can influence a firm’s performance and competitive advantage by their ability to increase behavioral consistency of the firm’s employees to enhance coordination and control, improve goal alignment, and increase employee effort and satisfaction. This consensus of values, beliefs, and norms can also enhance a firm’s performance because they facilitate social control in the firm, which is more effective than formal control when it comes to any deviations from the norm. Most Nigerian workers would prefer a structured work environment where they know exactly what to do. When Nigerian employees know what to do, they tend to make the right decisions relating to their jobs. Making the right decisions enhances their motivation and performance because they are involved in the decision-making process, thus making them feel as if they are an integral part of the organization. The findings are therefore consistent with previous studies (Denison 1990, Dension, Haaland & Goelzer 2004, Gordon & Ditomaso 1992, Knott 2009).

With regard to organizational knowledge, the author finds that as a strategic asset, organizational knowledge is related to performance and competitive advantage. This conclusion then suggests that organizations that wish to remain competitive should develop mechanisms for capturing relevant knowledge and disseminating it accurately, consistently, concisely, and in a timely manner to all who need it. Since organizational knowledge is a strategic asset, then the method used to implement a knowledge management system is critical and should be pursued. First, management should pursue knowledge as a business strategy where the focus is on knowledge creation, capture, organization, renewal, sharing, and use at each point of the strategic management process. Second, management needs to focus on intellectual asset management such as patents, technologies, structural knowledge assets, customer relations, operations, and management practices. Third, emphasis should be placed on a personal knowledge asset accountability strategy. Here, each employee is responsible for his/her own knowledge-related investments, renewal of knowledge, and sharing of knowledge assets within the employee’s area of accountability. Fourth, knowledge creation strategy should focus on organizational learning, research and development, and employee motivation to innovate and learn. The fifth strategy is the knowledge transfer strategy. Here, the emphasis is on systemic approaches to transferring knowledge, such as acquisition and restructuring. The specific method selected by an organization differs based on the individual business and its unique needs. Finally, management should initiate governance structure of top-down
monitoring of systems and processes to facilitate knowledge-related activities. This may include implementing incentives to encourage knowledge sharing, identification and management of knowledge assets, and restructuring departments and the entire organization if necessary.

**Implications**

The author believes that, besides the theoretical implications, the empirical findings also provide some important practical implications for managers. Findings that intangible resources have significant influence on a company’s performance and competitive advantage indicate how important it is for managers to value and protect organizational resources. At the same time, however, the finding that culture has a much stronger influence on company performance than reputation and knowledge suggests that it might be wise for managers to emphasize strategies that would encourage a culture that reflects values, beliefs, and norms that are widely shared and internalized by all employees. Encouraging and developing a strong culture would influence a company’s performance by increasing behavioral consistency among its employees, which would enhance coordination and control, improve goal alignment, and increase employee effort to deliver advantages in the form of superior products and services.

The management role was found to play a pivotal role in organizations in terms of achieving competitive advantage and performance. Thus, a company should strive to hire and develop competent managers who will be able to identify, develop, deploy, and protect the company’s resources as well as to build up its competitive advantages. This will help to improve company performance and give the company an advantage over competitors because intangible resources usually cannot be easily imitated. Because organizational knowledge was found to be related to performance and competitive advantage, it would be wise for organizations that wish to remain competitive to develop means of capturing relevant knowledge and disseminating it accurately in a timely manner to employees. Since organizational knowledge is a strategic resource of a firm, the method used to implement a knowledge management system is critical and should be pursued. The focus for knowledge management should be on knowledge development, renewal, sharing, and use at each point of the strategic management process. In sum, the implication of this study is clear: companies should look for synergies between their organizational intangible resources and capabilities such as culture, reputation, knowledge, and management roles in order to obtain superior performance and a competitive advantage.

**Limitations and Future Research**

Irrespective of the important findings of this research, its possible limitations should also be mentioned. The first limitation lies in the fact that real sources of performance and competitive advantage are usually well hidden, making it impossible for a researcher to measure them completely objectively. For this reason, the author had to use senior managers’ relatively subjective assessments of their intangible resources as antecedents of their companies’ performance and competitive advantage. The second limitation was the need to use cross-sectional research design instead of longitudinal design. Because the development of intangible resources occurs over time, an optimal design would be
longitudinal design. The third limitation was the use of the drop-off and pick-up method for data collection. However, the author protected the confidentiality and anonymity of the respondents by using codes instead of names to identify individual responses. The fourth limitation was the fact that all data were collected using self-report questionnaires, raising the possibility of responses being affected by a common method. The fifth limitation was that data were collected at one point in time, making it difficult to establish causal relationships. The sixth and final limitation was the fact that the findings of this study cannot be generalized to other sub-Saharan African countries or to people working in other companies that were not part of this study. Based on the limitations of the present study, future research should be replicated to validate or refute its findings. This would help to expand the literature and increase our understanding of this topic. This study should also be replicated in other sub-Saharan African countries. This study used a survey method for data collection and analysis; future research should use qualitative methods focusing on one industrial sector to gain a better understanding of the nature of intangible resources on firms’ performance and competitive advantage. Future research should also use in-depth interviews to further refine the scales for measuring these constructs.

Conclusions

First, the findings agree with prior studies which concluded that management and possession of managerial skills and talents is a key capability for a firm aspiring to achieve a sustainable competitive advantage and deliver superior performance. Second, the results support theoretical claims that intangible resources, particularly reputation, culture, knowledge, and management are major drivers of performance and competitive advantage. Third, the findings suggest that reputation, culture, knowledge, and management role have a direct and indirect effect on performance and competitive advantage. This means that culture not only directly enhances financial performance, but also is able to indirectly influence financial performance through reputation. This study therefore concludes that development of intangible assets and capabilities will create excellent opportunities for Nigerian firms to achieve superior performance and competitive advantage.
References


Mathews, JA 2006, Resource and activities are two sides of the same coin: duality of the activities and resource-based views of strategic management, paper presented at the Conference on Strategic Management, Copenhagen.


Perspectives of Small Entrepreneurs’ Inaccessibility to Capital in Brooklyn, New York

Wesley Palmer, Ph.D.
Wezpa Consulting, Inc.
Brooklyn, New York
wpalmer@wezpa.com

Abstract
Many small entrepreneurs in Brooklyn, New York are unable to secure financial capital for their businesses. Entrepreneurial firms should have access to business capital because they are the leading employers in the community. The purpose of this phenomenological study was to explore the meaning of human experiences as they relate to entrepreneurs in Brooklyn, New York, who are facing financial challenges due to the inaccessibility to financial capital. This research was founded on Brigham and Ehrhardt’s financial management theory. The first research question concerned the experiences and perspectives of entrepreneurs who are unable to find adequate funding for their business ventures, and the second question concerned the ways entrepreneurs experience financial hardship as a result of their inability to access capital to finance their businesses. Data were collected in the form of unstructured face-to-face interviews with 20 Brooklyn entrepreneurs using snowball and purposive sampling methods. The data analysis involved developing the salient statements of the participants’ experiences into themes. Some of the themes included loan applications denial and the use of personal savings as business capital. The findings revealed that 95% of the participants found it difficult to raise capital from financial institutions, which increased the risk for business failure. This study may contribute to the existing body of literature and promote social change by encouraging entrepreneurial leaders to build community relations and engage in community entrepreneurial mentoring programs.
Introduction

The ability to start a new business and raise start-up capital is perhaps one of the most challenging problems for nascent entrepreneurs. Many local lending institutions and banks are reluctant to invest in entrepreneurial enterprises because of the high level of risks associated with entrepreneurial enterprises (Mitter 2012, Winrow 2010). This research was necessary because of the integral role entrepreneurs play in national economic development. According to the National Economic Council (2012), small and new businesses helped create 4.25 million private sector jobs between 2009 and 2012. Entrepreneurial firms are the leading job creator and have been the creators of two out of every three new jobs since the early 1990s.

This exploratory study involved evaluating entrepreneurs’ experiences with existing resources such as the U.S. Small Business Administration (SBA), community banks, and venture capitalists to gain insights into how effective their services are to entrepreneurs. The professional staff members at the SBA provide technical advice, guarantee loans, and provide ongoing support to entrepreneurs; however, these professionals do not provide any form of direct financial support. Community banks offer small loans to entrepreneurs; however, many entrepreneurs cannot access the loan offer due to the lack of business credits as well as poor personal credits (Shane 2008). Venture capitalists provide capital and management support to entrepreneurs, but many entrepreneurs cannot meet venture capitalist lending requirements (Bengtsson & Wang 2010, Shane 2008). Thus, these resources do not meet the needs of many cash-strapped entrepreneurs. The finding section of this research discusses the remedies for the problems and shortcomings of these resources. The SBA mentor-protégé program is a bold attempt to provide assistance to some entrepreneurs.

Businesses associated with the SBA mentor–protégé program are relatively small. The businesses enlisted in the program receive mentoring, training, and technical assistance. Many of the businesses admitted in the program are owner-family businesses that have a capital requirement of $5,000 to $75,000. Most of the businesses enjoyed initial success and survived for at least 5 years. The dynamics of their success would be an interesting study for future research.

Purpose

The purpose of the study was to get an in-depth understanding of the lived experiences of entrepreneurs in Brooklyn and acquire new information that could be used to develop alternative capital acquisition initiatives for nascent and existing entrepreneurs. Gaffney (2009) posited that capital acquisition is a difficult undertaking for entrepreneurs who do not have the required collateral. Thus, an initiative that allows a network of entrepreneurs to pool their resources and assist each other might be a viable option for some cash strapped entrepreneurs.

The study was exploratory in nature and involved a search for the meaning of the lived experiences of the studied phenomenon. Thus, a phenomenological methodology was selected because it allowed me to express the universal essence of the lived experiences of the participants rather than present an explanation of the researched subject (Moustakas 1994, van Manen 1990). The qualitative phenomenological approach leads the researcher...
to focus on writing a description of the lived experiences of the subject matter instead of presenting the researcher’s views.

**Methodology**

Singleton and Straits (2010) and Trochim and Donnelly (2008) posited that snowball sampling is the most effective way to solicit participation from hard-to-reach populations. Snowball sampling can help researchers to identify participants who meet the research criteria to join the study. In addition, participants who join the study can provide contact information that the researcher may use to recruit other potential participants. In this research I selected a large pool of potential participants through the referral process and then randomly selected the participants for the study from that pool using the purposive sampling method. To obtain a sample that provided the information necessary to understand the phenomenon, I combined snowball with purposive sampling.

The initial list of entrepreneurs from Brooklyn, New York, came from a random selection of individuals from the local business directory. The list included business names, telephone numbers, and addresses. I used the initial list to call and identify entrepreneurs in the area who had an interest in participating in the study and provided any interested participants with written invitations that included a brief overview of the purpose of the study. The criteria for participation were as follows: The entrepreneurs must have had legitimate registered businesses, must have operated the business for at least 1 year, and must have believed that they were experiencing difficulty obtaining financial capital. Consistent with phenomenology, the study included interviews with 20 entrepreneurs from Brooklyn, New York.

**Problem Statement**

The problem is the lack of understanding about the lived experiences of small business owners in Brooklyn, New York who are unable to obtain capital to finance their business enterprises. According to the SBA (2012), more than 50% of loan applications from entrepreneurs result in rejections, although the federal government sanctioned more than $30 billion for entrepreneurial ventures. Staff at the SBA reported that banks used $26 billion of the funds earmarked for entrepreneurial ventures to fund their own obligations and only allotted $4 billion to entrepreneurs.

Researchers at the Federal Reserve Bank of New York (FRBNY, 2012) reported that 37% of loan applications did not receive approval, 36% received partial approval, 42% were not eligible to apply, 29% felt discouraged, and only 13% received full approval. Twelve percent of the applicants were entrepreneurs from the borough of Brooklyn, New York. Thus, a larger study of the entrepreneurial population in Brooklyn may produce a higher percentage of applicants who did not receive approval. Many leaders of financial institutions, established business leaders, and professional employees are reluctant to conduct business with small and fledgling entrepreneurial businesses because of the scale of their operations, the lack of stability, weaknesses in their financial positions, and inadequate social ties with established market players (Su, Xie, & Li 2011). Brooklyn’s entrepreneurs have similar elements of weakness and inadequacy that prevent them from acquiring the skills and financial assistance they need to sustain economic stability.
Research Questions

The borough of Brooklyn, New York is the home of a wide range of businesses that make important contributions to the economy. Because of their important contributions, there should be a ready source of capital to fund their business enterprises and maintain their economic stability. Federal and state officials should treat entrepreneurship as an integral part of economic development, and policy makers should equip the SBA with adequate resources so it can play a more active consulting role in Brooklyn, NY to reduce the number of ill-advised entrepreneurial ventures in the borough. Entrepreneurs are leaders in modern technology (Mitter 2012, Sullivan & Marvel 2011) who continue to set new standards and forge innovations. Entrepreneurial firms have been the largest employers in the United States since the 1990s (de Bettignies 2008), yet entrepreneurs continue to struggle for lack of adequate financial resources. This research includes a phenomenological study of entrepreneurial financial experiences guided by two research questions:

1. What are the experiences and perspectives of entrepreneurs who are unable to find adequate funding for their business ventures?
2. In what ways do entrepreneurs experience financial hardship as a result of their inability to obtain capital to finance their businesses?

Theoretical Framework

Central to this study was Brigham and Ehrhardt’s (2005) financial management theory. Foundational concepts of financial management theory include capital acquisition, risk assessment, credit requirement, and success and failure. Capital acquisition is the most essential consideration when establishing businesses; without the acquisition of capital, individuals cannot establish businesses. Risk can hamper capital acquisition; thus, risk assessment plays an integral role in business analysis. Risk assessment includes examining two types of risk: (a) business risk, which is the uncertainty that a business will receive favorable market response and generate income, and (b) financial risk, which is the risk added through borrowing financial capital.

Risk assessment also includes critical credit components to determine the credit worthiness of the business. The success and failure of a business depend on its ability to obtain credit. These fundamental concepts lay the groundwork for the research. Furthermore, financial management theory helps to explain the importance of business analysis, financial decisions, and their impact on businesses, including entrepreneurial businesses (Brigham & Ehrhardt 2005).

A wide range of social, academic, and business literature contains descriptions of the financial hardships that entrepreneurs experience. Scholars and practitioners have developed several conceptual arguments through an iterative process as an attempt to explain entrepreneurs’ business experiences. The literature reviewed presented several mixed findings with regard to entrepreneurs’ financial hardships. Some of the findings attributed entrepreneurs’ financial hardships to lack of managerial skills, poorly conceived ventures, lack of entrepreneurial education, liability of newness, and inaccessibility of capital (Clarke & Holt 2010, Dunn & Liang 2011, Dyer & Ross 2008, Markova & Petkovska-Mircevska 2010, Sardana & Scott-Kemmis 2010, Sullivan & Marvel 2011). This research built on the premise that inaccessibility to capital is the root of entrepreneurs’ hardships.
This phenomenological study followed a framework for data collection, data analysis, and addressing the research questions. High risk tolerance seems to be the driving force behind the entrepreneurs in Brooklyn, New York, who are determined to operate their own businesses despite their inability to raise capital through traditional financial institutions (Elston & Audretsch 2011, Shane 2008). The efforts to provide service to their communities while making a livelihood have been challenging for many entrepreneurs, yet they continue to persevere with hope of finding success.

**Gap in the Research**

The gap in the research was the lack of knowledge about the lived experiences of entrepreneurs in Brooklyn, New York. Thus, no known financial entity was established specifically to provide entrepreneurs with the financial and human capital that they need to establish, develop, and maintain economically viable businesses. Furthermore, there existed no formal plan to reduce the high rate of business failures associated with entrepreneurial firms. Samuels et al. (2008), Markova and Petkovska-Mircevska (2010), and Fourie and De (2008) noted entrepreneurial businesses fail because entrepreneurs are unable to raise capital from investors, including local and national banks, due to their risk records.

**Literature Review**

The literature review revealed that entrepreneurship does not have the high rate of failure perceived by many scholars and practitioners; 50% of entrepreneurial businesses succeed (Naughton & Cornwall 2009). Notwithstanding these successes, many entrepreneurial businesses fail because of the lack of appropriate education, technical competence, professionalism, and administrative leadership. Although all types of training and educational support are available, many entrepreneurs do not have the resources to acquire them.

Whereas technical incompetence and other administrative inefficiencies affect entrepreneurs in some ways, the major downfall of entrepreneurial enterprises is their inability to raise start-up and working capital to sustain long-term economic growth. The U.S. economy has a substantial amount of capital available for investment. According to Fuster and Willen (2010), $1.25 trillion is available for investment in various debt instruments that are waiting for opportunities to make equitable returns. Despite the large pool of investment capital available, leaders of nascent and small firms continue to face acute financial hardship.

Capital available in August 2008 was $1,572.9 billion, and by August 2009, the amount of capital available through commercial banks was $1,452.2 billion, or a decline of $120.7 billion; nevertheless, there was no shortage of capital (Lahm et al. 2012). In addition, researchers at the SBA reported that the government sanctioned $30 billion dollars for small business enterprises during 2012. The conditions for entrepreneurs’ access to the capital include high credit ratings, SBA loan guarantees, and marketable collaterals. Researchers at the FRBNY (2012) interviewed a small sample of 12% of entrepreneurs in Brooklyn, New York, and found that none of the participants received approval for credit. Credit denial seems to be the pattern and may be the experience of the larger entrepreneurial population in Brooklyn (FRBNY, 2012).
Research Design

The study involved investigating the lived experiences of small and new entrepreneurs in Brooklyn, New York, as a social and financial phenomenon in terms of financial hardship and its impact on entrepreneurial businesses and the communities within which they operate. In many communities, leaders of entrepreneurial organizations are the only employers to provide opportunity for the residents. Therefore, an understanding of the impact warrants an investigation.

Instrumentation

The main data collection instrument was face-to-face interviews guided by prepared questionnaires. The process also include audio recordings and written notes. According to Singleton and Straits (2010), properly executed face-to-face interviews are more effective as a data-gathering instrument than are self-administered questionnaires. I developed the questionnaires based upon the research questions in an effort to gather data that would specifically address the entrepreneurs’ issues. The prepared interview questions facilitated descriptions of the core issues and provided an understanding of the entrepreneurs’ lived experiences in obtaining initial and working capital (Moustakas 1994, van Manen 1990).

Epoché

I conducted this research using the concept of epoché. Epoché is a strategy used by researchers to intentionally suspend personal biases and experiences to view the studied phenomenon from a fresh perspective (Moustakas 1994). The foundation of the concept is in transcendental phenomenology, which focuses on the description of the participants’ lived experiences rather than on the researcher’s interpretation.

Sampling Procedure

This phenomenological research involved investigating the experiences of entrepreneurs in Brooklyn, New York, to learn how the lack of credit, perception of high risk, and financial hardship affected their experiences. The research involved comparing and contrasting the experiences of 20 entrepreneurs to identify patterns and similarities among the participants (Creswell 2007). Patterns and similarities help the researcher to get an insight into the participated entrepreneurs lived experiences. The study employed a combined sampling strategy to select the participants who would provide a rich source of credible information.

Sample Size and Percentages

The sample size of 20 was suitable for the qualitative study; generalizations to a larger population might not have been applicable. Table 1 shows the percentages associated with a sample size of 20.
Table 1: Percentages Associated with a Sample Size of 20

<table>
<thead>
<tr>
<th>Number of Participants</th>
<th>% of 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>9</td>
<td>45</td>
</tr>
<tr>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>11</td>
<td>55</td>
</tr>
<tr>
<td>12</td>
<td>60</td>
</tr>
<tr>
<td>13</td>
<td>65</td>
</tr>
<tr>
<td>14</td>
<td>70</td>
</tr>
<tr>
<td>15</td>
<td>75</td>
</tr>
<tr>
<td>16</td>
<td>80</td>
</tr>
<tr>
<td>17</td>
<td>85</td>
</tr>
<tr>
<td>18</td>
<td>90</td>
</tr>
<tr>
<td>19</td>
<td>95</td>
</tr>
<tr>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

**Population**

The entrepreneurs who participated in the study operated in Brooklyn, New York. A combination of snowball and purposive strategy was suitable due to the reluctance by members of the targeted group to publicize their experiences. Because of its unique referral
characteristic, snowball sampling allowed me to identify individuals who appropriately fit the criteria and who would provide rich entrepreneurial experiences. The purposive sampling method allowed me to select participants who were typical of the entrepreneurial population by exercising professional judgment (Singleton & Straits 2010). The sample size was broken by numbers and percentage for easy calculation.

**Screening and Selection Process**

The study began with a list of 100 potential participants selected randomly from the local telephone directory in Brooklyn, New York, and contact was made by telephone. I secured interest by making brief phone calls to potential participants from the initial list of names. The phone calls involved providing potential participants an introduction to the study, and 20 individuals showed initial interest. Interested participants were processed and selected in accordance with the research methodology.

**Entrepreneurs’ Demographics**

Eight of 20 (40%) of the participants were female and the remaining 12 (60%) were male. Both male and female participants engaged in a wide variety of business activities such as restaurants, supermarkets, podiatry-foot care centers, hair and beauty centers, business technologies, event planners, eye care centers, special education services, dry cleaning services, real estate services, retail stores, importation, and financial services. Educational attainment included high school diplomas and associate of applied science, Bachelor of Arts, Master of Science, medical doctor, doctor of education, and doctor of philosophy degrees. The ages of the participants who engaged in the studies ranged between 36 and 72.

**Data Collection**

The essence of a good study exists in the integrity of the data collected. Creswell (2007) posited that the larger the pool of participants in a scientific study the greater the chance of producing a substantial theory that reflects the lived experiences of the participants. 20 small and new entrepreneurs in the borough of Brooklyn, New York, participated in interviews. Each interview lasted for 45 to 60 minutes.

Data collection took place in Brooklyn, New York, which was the designated area for this research. Brooklyn is a striving business community comprised of a large number of small and new businesses and has a tremendous data source to facilitate empirically designed research. The population included a diverse group of people including Caucasians, African Americans, Jews, Hispanics, Asians, Caribbeans, and other nationalities.

**Participants**

The number of participants selected for this study was consistent with phenomenological qualitative research. Creswell (2007) posited that five to 25 participants were sufficient to produce an empirical phenomenological study. This research included 20 participants who owned small businesses and experienced capital acquisition challenges. The number of participants allowed the researcher to compare and contrast the participants’ experiences and to unearth significant patterns and similarities.
Data Analysis

In organizing and analyzing the vast volume of unstructured interviews collected using electronic media and written notes, NVivo 10 software helped to classify the data and establish patterns, themes, and similarities among the participants. By using NVivo, I was able to identify trends, patterns, and similarities in the data that were common in the experiences of the participants. The personal interviews of the participants served an essential role in this qualitative phenomenological research. Van Manen (1990) noted that interviews were important elements in phenomenological studies because they help researchers to collect experiential stories that develop a richer and deeper understanding about human lived experiences.

Significant Themes

Table 2 contains the themes that answered I questions based on the identification of significant categories from more than 30% of participants’ responses.

Table 2: Significant Themes That Answer the Research Questions

<table>
<thead>
<tr>
<th>Themes</th>
<th>Number of participants (20)</th>
<th>% of participants who experienced the themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Difficult to raise financial capital</td>
<td>19</td>
<td>95</td>
</tr>
<tr>
<td>2. Likely to close business soon</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td>3. Experienced loan denial</td>
<td>13</td>
<td>65</td>
</tr>
<tr>
<td>4. The impact of business closure</td>
<td>14</td>
<td>70</td>
</tr>
<tr>
<td>5. One’s savings as a source of capital</td>
<td>17</td>
<td>85</td>
</tr>
</tbody>
</table>

Discrepant Findings

Discrepant cases are contradictions and variations from the general experiences of the studied phenomenon. The difficulty-raising-capital theme varied markedly between two participants. Participant 20 reported the bank was helpful and supportive and she had no difficulty getting the bank to finance her multimillion-dollar business operation.

Participant 3 had some challenges with the bank during the early phase of his business. However, the bank eventually provided financial assistance that changed his financial trajectory. Variation is a significant component of iterative qualitative research (Corbin & Strauss 2008, Moustakas, 1994). Variations reflect the integrity and the independent collection of the data. Although the intent of a phenomenological study is to find
commonality among the lived experiences of the participants, a small variation does not alter the results significantly. The variation of this research was relatively small; nevertheless, it offered authenticity to the research process and content.

Results
A brief discussion with the participants proceeded before the interviews to reiterate the procedures, protocols, and purpose of the study. The intent of the preliminary discussion was to allow the participants to share or clarify any concern they had regarding their role in the study. The research questions solicited answers based on the lived experiences of the phenomenon through the lens of a phenomenological approach.

Key Findings
The research revealed that 95% of entrepreneurs found it difficult to raise capital from financial institutions. Thirty percent feared they might have to close their businesses soon due to financial challenges, and 65% of the participants interviewed had their loan applications denied. Seventy percent indicated that business closures have a negative social and economic impact on the community, and 85% financed their businesses with their own savings due to the inaccessibility to financial capital from financial institutions.

Limitations of the Study
The complex nature of the research environment prevented having full control over all the research variables. Thus, the study was subject to various limitations. Small and new entrepreneurs with approximately 1 year of business experience whose business experiences included only a small geographic area in the State of New York may not represent the experiences of entrepreneurs as a whole.

Data collected from 20 entrepreneurs provided considerable insights into the financial challenges that entrepreneurs in Brooklyn, New York, faced in their search for financial capital. However, the researcher could not verify that the experiences of the entrepreneurs who participated in the study were representative of entrepreneurs outside of the parameters of this study. The study included a combination of snowball and purposive sampling due to the nature and scope of the study that affected the degree of randomness.

Recommendations
The need for a reliable source of capital was the central concern for entrepreneurs in Brooklyn. All the participants (100%) reported that they would support a financial institution established solely for the purpose of assisting entrepreneurs with financial capital. Numerous agencies and organizations have staff members who provide training, mentoring, and consulting services to entrepreneurs; however, these entities are unable to meet the primary need, which is the need for financial capital.

Thus, a future study could include the practicality of the SBA offering loans instead of loan guarantees. Entrepreneurs enlisted in the SBA protégé –mentor program have maintained strong and stable businesses. Their stability is the result of the close supervision of their mentors. Future studies could involve comparing mentored businesses with businesses that did not receive mentoring as a means to measure their success. Leaders of venture capitalist firms also engage in supervision and mentoring of selected businesses. Bengtsson and
Wang (2010) stated that venture capitalist firms provide operations management, advice, and financial capital. Therefore, future research could involve examining the viability of establishing venture capitalist firms that would focus on helping small businesses as their core business strategy.

**Implications for Social Change**

Entrepreneurs are individuals who want to make a difference in their community and the world. The risk of losing one’s life’s savings and in many cases the family income is not a small matter. Elston and Audretsch (2011) posited that entrepreneurs are determined individuals and do not easily get discouraged. Thus, entrepreneurs have the ability to bypass barriers to financial capital by using credit cards, family savings, and informal borrowing to take advantage of business opportunities.

One of the greatest resources for positive social change is information. The objective of this research was to provide information that would help entrepreneurs to make valuable contributions to their communities to highlight the point that financially stable entrepreneurial businesses contribute greater to the society than undercapitalized businesses (Schiff et al. 2010). Undercapitalized businesses are potential failures.

**Conclusion**

The lack of financial capital has presented tremendous difficulties for many entrepreneurs. However, financial obstacles did not prevent entrepreneurs from seizing business opportunities and pursuing their ambition to become business owners. Therefore, through their resilience and creative efforts, many entrepreneurs were able to find alternative means of capital funding.

Entrepreneurs in Brooklyn, New York, experienced various hardships, including barriers to financial capital, the inability to restock their businesses, the inability to meet recurring businesses expenses, an uncertain business future, and the threat of losing their life savings, the abuse of predatory lenders, the pain of terminating key employees, and the rejection experience during loan denials. Eight-five percent of the entrepreneurs who participated in the study could not access financial capital for their businesses. Hence, their only alternative was to finance their business ventures with their own savings. Consequently, they had undercapitalized businesses, which stifled business growth and limited their abilities to capitalize on new opportunities. Despite the financial challenges, many entrepreneurs in Brooklyn have been able to maintain stable and successful businesses.
References


Brigham, E & Ehrhardt, M 2005, Financial management: Theory and practice, South-Western, Mason, OH.


Creswell, J 2007, Qualitative inquiry & research design, Sage, Thousand Oaks, CA.


Fuster, A & Willen, S 2010, $1.25 trillion is still real money: Some facts about the effects of the Federal Reserve's mortgage market investments (Public Policy Discussion Paper 10-4), Federal Reserve Bank of Boston, Boston, MA.


Shane, A 2008, The illusions of entrepreneurship: The costly myths that entrepreneurs, investors, and policy makers live by, Yale University Press, New Haven, CT.


Helping through Morality versus Identification: 
Implications for Consumer Helping Behaviors

Zachary S. Johnson  
Assistant Professor of Marketing  
Robert B. Willumstad School of Business  
*Adelphi University*  
Garden City, NY  
zjohnson@adelphi.edu

Yun Jung Lee  
Assistant Professor of Marketing  
Robert B. Willumstad School of Business  
*Adelphi University*  
Garden City, NY  
ylee@adelphi.edu

Joseph Thomas Paniculangara  
Assistant Professor of Marketing  
Ted Rogers School of Management  
*Ryerson University*  
Toronto, Ontario, Canada  
joseph.paniculangara@ryerson.ca

Abstract

Consumers frequently provide voluntary help to other consumers while consuming products and during the provision of services and, in so doing, transcend their traditional passive buying roles and become part of a firm’s value-creation network. As much of the research on consumer-to-consumer (C2C) helping behaviors is anecdotal, managers are left with an incomplete understanding of consumers’ motives for engaging in these valuable activities. Recent empirical research suggests that consumers are motivated to provide assistance to other consumers based on their perception of a common social identification, or perceived oneness with a group, such that higher levels of identification correspond to increases levels of helping. However, research also suggests that higher levels of identification can simultaneously decrease helping intentions towards those who are believed to be members of a competing out-group. While there is some recognition that consumers may provide assistance to others outside of their membership groups, it is not
clear what motivates consumers to help these other consumers. The current research thus examines consumers’ different motivations for helping other consumers within a consumption context who are either part of the same membership group or are part of a broader non-competing group. Our findings suggest that consumers with a salient social identity will sometimes be just as likely to help an in-group member versus consumer in a non-competing out-group, albeit their motives for helping these two different types of consumers are different.

**Keywords:**

Consumer-to-consumer helping, social identification, moral idealism, helping behaviors, consumer community

**Introduction**

Consumers often engage in voluntary actions that allow them to transcend their passive buying roles and act in ways that benefit the organization as well as other consumers. In taking on additional value-creating roles in the production of services or provision of products, consumers are said to become co-creators of value (Prahalad & Ramaswamy 2000) and may be viewed as acting as de facto employees (e.g. Bowers et al. 1990, Zeithaml, Bitner, & Gremler 2009). Though “research to date suggests relatively little is known about how customers engage in the co-creation of value” (Payne, Storbacka, & Frow 2008), consumer-to-consumer (C2C) helping, that is, consumers’ voluntary activities that benefit other consumers, are recognized as an important value-creating activity (Bettencourt 1997, Groth 2005, Muniz & O’Guinn 2001) that is ubiquitous within the marketplace. These value-creating activities have been documented in a variety of contexts, including during a service delivery (Bettencourt 1997), providing advice to friends and family on which gym to use (Rosenbaum & Massiah 2007), and assisting other consumers with using a product properly (Schouten & McAlexander 1995). In these and other activities, which fall under C2C helping activities, consumers can create value for any organization that provides an offering to consumers and, in so doing, voluntarily become part of the organization’s extended value creation network. Notwithstanding a wide range of and pervasive reliance on C2C helping activities in the market, the reasons individuals engage in C2C helping behaviors still merit study, as previous studies regarding C2C helping have mostly been based on anecdotal evidence (Price, Feick, & Guskey 1995).

Much of the research on C2C helping behaviors examines helping activities that occur within a community context. And the relatively new studies in helping behavior have shifted their focus from “individual” to “group” and from “interpersonal” to “intergroup” dynamics (Levine et al. 2005). In any group that an individual becomes a member of, individuals are thought to perceive a sense of moral responsibility towards others in the group, which is commonly manifested in communities within which consumption is an integral part of the community’s definition (e.g. Muniz & O’Guinn 2001, Schouten & McAlexander 1995). Accordingly, research has examined how social identification (i.e., the perceived oneness that individuals feel towards others who share a common group membership) can influence C2C helping activities (Johnson, Massiah, & Allen 2013). In general, consumers are more likely to help those within their own group while actively...
choosing not to help members of groups perceived as being competitive (Johnson et al. 2013).

Often, however, an individual will help someone in need simply because it is possible or because it may feel uncomfortable to see someone needing help but not receiving it. And anecdotal evidence suggests that even members within groups who may actively avoid helping members of competing groups often voluntarily help people who are members of noncompeting groups. For instance, while a member of a subgroup of the Harley Davidson Subculture of Consumption may be less likely to help a member of a competing subgroup if his identification with his primary subgroup is salient (Johnson et al. 2013), Harley Davidson riders are known to help novice riders (Schouten & McAlexander 1995) and support philanthropic activities that benefit the broader society. It thus stands to reason that consumers who identify with a group may help unknown others for reasons apart from their identification with a group. However, it is unclear what might motivate consumers to help non-members who are part of a non-competitive group.

An important motivation that consumers may have to help others is their inner belief that they have a moral responsibility toward others. In fact, research shows that individuals differ in the extent to which they are able to perceive empathetic concern towards others (Davis 1983) or have positive social traits that lead to a higher probability of lending assistance toward others (Luthans & Youssef 2007); moreover, research suggests that some of these differences are manifested within days of birth (Sagi & Hoffman 1976). What is unclear, however, is how social identification and an individual’s innate disposition towards helping others may differently affect consumers’ helping intentions towards a member of an in-group versus a member of a non-competing outgroup. The current research thus examines how an individual’s moral idealism, or belief that one should help others in all circumstances independent of context, affects consumers’ motivation towards helping other consumers with whom they either do or do not identify with.

In the following sections, we first discuss the importance of C2C helping within the marketplace. Next, we focus on two important antecedents of C2C helping intentions, respectively, social identification and moral idealism, and we theorize how they may each independently affect helping behavior among consumers. Finally, we report our findings, which suggest that consumers with a salient social identity will sometimes be just as likely to help an in-group versus an out-group member, albeit their motives for helping the other individual may be different.

**Theoretical Background**

**Consumer-to-Consumer Helping**

Consumer-to-consumer helping activities broadly refer to voluntary activities that consumers engage in that benefit other consumers (Bettencourt 1997, Groth 2005). Given the breadth of this definition, activities that fall within the area of C2C helping can occur within a variety of settings and include a wide range of activities that benefit both consumers and the businesses within which these activities occur.

During a service provision, for instance, consumers can help each other in a variety of ways such as helping other customers find a sought-after item within a store or helping new
customers learn how to use a service properly (Groth 2005). In the event of a service failure, consumers may provide emotional support to other consumers in a service setting where consumers interact with one another, such as when they are waiting for a train (Harris & Baron 2004). These types of interactions that occur during the service provision can reduce anxiety and dissatisfaction for both the giver and the recipient of the help (Harris & Baron 2004). Consumers may also provide benefits to other consumers by telling others about a product or service that they view as beneficial. When consumers engage in WOM advertising by recommending that friends and family members buy from a company (Bettencourt 1997, Groth 2005) or use a service provider such as a gym (Rosenbaum & Massiah 2007), they are aiding other consumers by providing valuable information that will increase the probability that the person receiving the information will benefit from the use of a high quality product, service, or experience.

Much of the research on C2C helping occurs within communities, particularly those that are defined by the use of a common brand or set of consumption activities shared by its members. In any community, members feel a moral responsibility towards other members and may provide a variety of forms of assistance to other members of the community which often relates to the use of the product or products linked to the community (Muniz & O’Guinn 2001). C2C helping has been observed in a wide variety of consumer communities. These activities are essential for both the development of the communities and for the maintenance of the communities and, in turn, benefit the brands that are linked to the communities. Perhaps one of the most interesting aspects of consumption communities regards proselytization or encouragement of converts, as this dimension relates to what some researchers refer to as brand proselytizing (Belk & Gulnur 2005), in which members try to help the community and other members by encouraging desirable consumers to share in their consumption activities. For instance, members of the Jeep, Macintosh, and Apple Newton consumption communities have been observed attempting to convince family members, friends, and acquaintances to switch to their community’s admired brands (Schouten, McAlexander, & Koenig 2002, Belk & Gulnur 2005, Muniz & Schau 2002).

Once consumers are part of a community, members engage in a variety of helping activities. Members assist other members with shopping, problems with a product, or coaching in the proper use of a product (Johnson et al. 2013). In the Harley Davidson Subculture of Consumption, for instance, members help other members learn how to use a bike properly, understand which products to purchase in order to become initiated into the community, and may provide assistance to other members during emergencies or other situations that are problematic (Schouten & McAlexander 1995). Similarly, in the Jeep brand community, members of the community provide various forms of assistance during a consumption event including helping other members cross rivers and use their Jeeps properly (Schouten, McAlexander, & Koenig 2002). In the MG brand community, members volunteer to organize events or otherwise help out the group by, for example, being part of community governance (Leigh et al. 2006).

Hence, research has established that consumers often provide value to businesses and other consumers when they help each other within the marketplace and that C2C helping activities are particularly common when consumers share a common membership with other consumers. But what motivates consumers to help other consumers who are not members of the same group? In particular, while research suggests that consumers are more
likely to help those in a common membership group, research does little to account for why consumers provide assistance to others who are not part of their community nor will become part of it. For instance, research suggests that members of the Harley Davidson Subculture of Consumption help each other. They sometimes also engage in activities that benefit others who are not part of their community. They may, for instance, go on a charity ride or volunteer on behalf of a nonprofit organization. Sometimes, consumers may simply be more likely to help if they are able to help (Groth 2005), though research suggesting the relationship between the ability to help and the propensity to do so may be tenuous.

Though it is clear that consumers often help each other, particularly if they share membership in a common group, consumers may be motivated for a variety of reasons to help another consumer who they do or do not identify with. In the remainder of this paper, we discuss two significant antecedents of helping behaviors and examine how these different motivations for helping others can change depending on whether a group identity becomes activated. First, we discuss the motivation toward helping others based on a common identification toward others within a common community. Second, we look at consumers’ level of moral idealism – that is, the belief that one should always treat others in a fair way that is benevolent and beneficial towards others.

**Motivations for Helping Other Consumers – Social Identification and Moral Idealism**

While personal identity distinguishes an individual from other individuals, social identity distinguishes members from non-members (Ashforth, Harrison, & Corley 2008, Brewer & Gardner 1996). Tajfel (1978, p. 63) defined social identity as “that part of an individual’s self-concept which derives from his knowledge of his membership of a social group (or groups) together with the value and emotional significance attached to that membership.” When individuals identify with a group, they view their membership as a component of their own identity and perceive a psychological connection of fates with the organization and its members (Mael & Ashforth 1990). Hence, akin to how a parent might feel toward their children, members who have a strong identification with a group perceive the accomplishments and failures of the group as their own (Ashforth & Mael 1989), which leads to higher levels of helping intentions toward other members (Sturmer, Snyder, & Omoto 2005). In fact, when individuals help someone who they identify with, it can feel as though they are helping themselves (Cialdini et al. 1997, Manor et al. 2002).

Not only are primary and close others such as family but also secondary and distant others such as ethnic groups included in one’s own group (Aron et al. 1992). In a consumption context, community members have an interest in helping other members of the community and trying to enhance the value of the community (Algesheimer, Dholakia, & Hermann, 2005); and they have frequently been observed as having a higher propensity of providing help to members than to nonmembers. For instance, members of the Saab brand community were more likely to help other Saab drivers with car troubles than they were to help drivers of other vehicles with similar troubles and Mac users were more likely to help other Mac users than PC users (Muniz & O’Guinn 2001). In a more nuanced empirical analysis of the relationship between group membership and helping intentions, recent research suggests that consumers who identify with a group can also identify with the overall community which subsumes its subgroups. Interestingly, consumers become less likely to help
members of a broader community when their subgroup identification is salient since their focus is on the subgroup instead of the overall community (Johnson et al. 2013).

To summarize, within groups of all forms, members perceive a sense of “moral responsibility” (Muniz & O’Guinn 2001) toward the community and to other members, a perceived responsibility that often is manifested through various forms of helping behaviors toward other members and to the community. This effect is based largely on the individual’s level of social identification towards the community (Levine et al. 2005) and, moreover, an individual’s consideration of their own identity may decrease their intentions towards helping others with a different identity. However, much of the research on helping behaviors between consumers is examined in contexts where the goals of different groups can be perceived as inconsistent. For instance, membership within the Apple community represents an opposition to PCs (Muniz & O’Guinn 2001) much as membership in a biker community can represent an opposition both to non-bikers and bikers perceived as poseurs (Schouten & McAlexander 1995). Hence, helping behavior toward members of the in-group relates to community concern, but helping members of the out-group “may require distancing oneself from one’s in-group and specific individual motivations” (Sturmer, Snyder, & Omoto 2005). Often, however, the group(s) consumers identify with may have a neutral or non-combative relationship with other groups – but research does not examine helping behaviors towards these groups.

It therefore becomes unclear how in communities like these, whether members of the community will provide help to consumers outside of the community in times of need. And if they do receive help, what motivations lead to helping intentions? To answer these questions, this study not only examines the link between social identification and helping intentions but also examines how an individual difference variable – moral idealism – motivates consumers’ helping intentions.

People may help others just because they recognize that someone else needs help. Individuals may simply want to reduce unpleasant feelings that they experience when they see the plight of others: individuals are inclined to help through the need to reduce unpleasant feelings, to reduce normative distress (we are socially trained to help a needy other), and to reduce sadness that is vicariously experienced through seeing pain in others – hence, the helper may be motivated by the goal of removing negative feelings (Cialdini 1991). Harris and Bacon (2004), for example, observed that customers would act as de facto employees by providing information that “was particularly valuable and important for well-being when the service provider did not adequately supply the information” (p. 296).

So what makes some people more likely to help someone in need of help than others? Consumers may be motivated by a wide range of motives (i.e. Cialdini, 1991), and while researchers disagree about the relative strength of various motivations, it is commonly agreed that various stable dispositional characteristics affect consumers’ motivation to help others. Many researchers, for instance, have suggested that individuals vary to the degree that they hold positive personality traits and have the capacity to empathize with others. Those with positive personality traits are more likely to engage in positive organizational behaviors, such as helping (Luthans & Youssef 2007). Similarly, empathy is viewed as an emotional reaction that involves compassion, concern, and tenderness. When people have high empathy, they feel a sense of connection with someone requiring help (Eisenberg et
al. 1989), and so they are more likely to help. The degree to which individuals empathize with others is viewed as a dispositional state and can link to a person’s general prosocial orientation towards others (i.e. Archer, 1991). That is, consumers may perceive a general obligation towards others which is stronger than empathy or altruistic motives alone (Staub 1991). In particular, an individual may exhibit differences in long-term stable moral principles related to “the valuing of moral principles such as justice, equality, and the greatest good for the larger group when acting in accordance with these values is not due primarily to the desire to avoid self-censure or to feel good about oneself” (Eisenberg 1991, p.129). This concept has been long-established and represents an individual’s moral philosophy, specifically one’s moral idealism, which refers to an individual’s belief that one should consistently apply moral rules (Forsyth 1980).

In sum, consumers can be motivated to help other consumers based on a plurality of motives. In this research, we specifically focus on an individual’s social identification and moral idealism, a dispositional trait. But how do these motivations differently affect consumers’ helping intentions toward another member of their own community versus their helping intentions towards another consumer who is not part of their community or a community with conflicting goals? Based on the above theorizing, we hypothesize that, in the groups that people identify with, social identification is more important than moral idealism and is the prominent reason why people help each other. By contrast, when consumers encounter an unknown other with whom they do not share an identity, social identity should have no effect on helping and, thus, moral idealism should be a stronger predictor of helping intent.

Hypothesis: When consumers encounter a member of their own (another non-conflicting) group requiring assistance, their motivation to help the other consumer will be based on social identification (moral idealism).

Method

A total of 139 undergraduate students at a large southeastern university participated in this study in exchange for course extra credit. Participants began the study by reading a scenario that described another consumer who was in need of assistance which they could provide. In particular, participants were informed that they were at an airport and noticed another passenger who was clearly distraught. To manipulate social identification, participants were either informed that the passenger was a student at their university, which was apparent since she was wearing a T-shirt from their school (high identification), or they were not provided any group-level information (neutral identification).

Participants were informed that, because they were near the check-in counter, they were able to hear the passenger’s conversation with the gate agent. According to the scenario, the customer was upset because she was travelling to attend a relative’s funeral and, because her connecting flight had been delayed due to bad weather, she had missed her flight. To avoid missing the funeral, she needed to get on the flight that would be departing shortly, a full flight that the participants had a ticket for. The employee at the check-in desk indicated that she could get on the current flight, but only if another passenger was willing
to give up their seat and wait for the next flight which was two and a half hours later. Hence, as prior research suggests, when individuals recognize that they can easily provide help to a person in need if the cost of doing so is low, the design was developed to lead to a high level of helping among all consumers.

Participants were then asked how willing they would be to give up their seat and choose to take the later flight ("The probability that I would give up my seat would be," 1 = Very Low, 7 = Very High, "The likelihood that I would consider giving up my seat is:" 1 = Unlikely, 7 = Likely, and "The probability that I would give up my seat is:" 1 = Improbable, 7 = Probable, α = .98). They also completed a social identification scale ("When someone praises [the students’ university name was inserted here], it makes me feel good," “When [the students’ university name was inserted here], succeeds, I feel like I have succeeded also," and “I care about what others think of [the students’ university name was inserted here],” Mael 1988, α = .78) and items adapted from the moral idealism scale developed by Forsyth (1980) which included: “One should not perform an action which might in any way threaten the dignity and welfare of another individual,” “Deciding whether or not to perform an act by balancing the positive consequences of the act against the negative consequences of the act is immoral,” and “The dignity and welfare of people should be the most important concern in any society” α = .65.

Results

A two-part analysis was conducted on the data. First, a two-way ANOVA was conducted to compare the probability that participants would engage in C2C helping. ANOVA revealed that there was no difference in participants’ helping intentions based on whether the person in need of help was associated with their university (M Member = 5.39, M Non-member = 5.31; F (1,137) = .09, p = .77). Next, a structural model was examined to test the hypothesized relationships.

SEM (Structural Equation Modeling) was used to analyze the data, which allows us to account for the shared variance between the measures of the social identification and moral idealism measures. Two models were estimated – one model was estimated for participants exposed to the low identity manipulation and another was estimated for participants exposed to the high identity manipulation. Both models contained independent measures, social identification and moral idealism, along with their relationships with participants’ helping intentions.
In the high identification condition, the path between social identification and helping intentions was significant but the path between moral idealism and helping intentions was not significant ($\chi^2(24) = 30.16, p = .18$, RMSEA = .06, NFI = .95, CFI = .99; $\gamma_{Social Identity} = .42, p < .01$; $\gamma_{Moral Idealism} = -.04, p = .85$). On the other hand, in the low identification condition, the path between social identification and helping intentions was non-significant, but the path between moral idealism and helping intentions was significant ($\chi^2(24) = 26.22, p = .34$, RMSEA = .04, NFI = .94, CFI = .995; $\gamma_{Social Identity} = .41, p = .13$; $\gamma_{Moral Idealism} = .55, p < .05$). Thus, our findings suggest that when consumers encounter another consumer in a non-conflicting group who is in clear need of assistance and can
easily be helped, the consumer will often be similarly likely to receive help as compared to a member of the potential helper’s community. However, the reason for helping the other consumer will be dependent upon whether the person in need of help is a member of a group that the helper identifies with. Specifically, when consumers identify with a common group, a potential recipient of help receives help based on shared membership. By contrast, a person requiring assistance who is not a member of a common community may receive help simply because a helper holds a dispositional trait to believe that others should be treated equitably.

**Discussion**

This study examined how social identification and an individual’s moral idealism independently affect consumers’ helping intentions towards a member of an in-group versus a member of a non-competing outgroup. But before discussing the different influence of these two antecedents, it should be noted that there was no difference in the probability that participants would engage in C2C helping other in-group members versus helping non-competing outgroup members. This result is consistent with the findings of a previous meta-analysis research in which no universal difference was found in interracial helping (Saucier et al. 2005). However, Saucier et al. (2005) also concluded that there tends to be a higher imbalance in interracial helping when helping activities required a higher cost. In the current study design, we only included a low cost helping scenario (i.e., giving up one’s seat and waiting for the next flight two and a half hours later) since our main focus was to determine the independent influences of social identification and moral idealism on consumers’ helping intentions. Thus, the results suggest that the cost of helping was successfully manipulated. In order to expand the scope of the research in C2C helping, however, future research may need to study whether and how high cost of helping in-group members vs. outgroup members changes the probability that participants would engage in C2C helping. Furthermore, the interplay between the two antecedents and intention to help could be different in a high risk of helping scenario. Still, the results of the current study can be well applied to C2C helping behavior because most of everyday C2C helping requires a relatively low cost for helpers.

While the results of the current study confirmed a similar level of probability of helping in-group members as helping non-competing outgroup members, there were clearly different reasons for consumers to help in-group members and non-competing outgroup members. That is, consumers help in-group members due to their social identity, while they help non-competing outgroup members due to moral idealism. The findings of the current research have implications for both business and policy makers. First, as discussed in the beginning of this paper, consumers can become co-creators of value (Pralahad & Ramaswamy 2000) by engaging in C2C helping (Bettencourt 1997; Groth 2005, Muniz & O’Guinn 2001). We should understand why consumers help other consumers in order to maximize the positive outcomes of C2C helping, especially because organizations cannot fully control consumer C2C helping behaviors. For instance, information sharing or word-of-mouth (WOM) is a common form of C2C helping (Price, Feick, & Guskey 1995). While organizations cannot control what consumers tell others, they can certainly encourage satisfied consumers to share their experiences with in-group members (e.g., members of a subculture of consumption or a brand community) by emphasizing belonging to the same group. Firms can likewise develop policies that reduce consumers’ perceived costs of helping by, for instance, providing incentives to consumers that would offset any costs of
assisting other consumers. By contrast, organizations can boost WOM to non-competing outgroup members (e.g., non-users of either the organization’s or competitor’s products) by emphasizing, for instance, that everyone deserves to know about and use the best products. Second, C2C helping behavior could benefit society as a whole. “From a public policy perspective, it is important to determine to what extent consumers assist others in attaining market and consumption goals” (Price et al. 1995, p.255) because C2C helping can replace certain types of policies and be more effective. For instance, social marketing should be designed differently based on whether the recipient of the action is an in-group member or an outgroup member.

Limitations

Prior research has examined consumer-to-consumer helping behaviors within consumer communities such as the Harley Davidson Subculture of Consumption (Schouten & McAlexander 1995; Johnson et al. 2013) and the Jeep brand community (Schouten & McAlexander 1995), communities characterized by hierarchal social structures in which members are rewarded and sanctioned for engaging in desirable and undesirable activities, respectively. In addition to helping other members, the value of membership is associated with the perceived exclusivity of it – a perception that often leads members to withhold help from those whose membership would be perceived to dilute the community (Schouten & McAlexander 1995, Johnson et al. 2013). Hence, a consumer’s identification with many types groups may increase an individual’s motivation to help members who they accept within their community while simultaneously decreasing the same individual’s motivation to help non-members and non-legitimate members. Much of the value of this study was in examining helping intentions toward members and non-members of a social group characterized by a lack of barriers towards helping non-members. In particular, participants of this study were asked to rate their identification with their university, which based on its public nature and associated public educational mission, may engender feelings of inclusivity among those who identify with it. Combined with the low-cost helping situation described in this study, we were able to examine consumers’ helping motivations when they were able to provide value to someone else without any tangible cost, social or otherwise, to themselves. As prior studies have examined helping when individuals benefit or can be sanctioned based on their actions within a community, examining consumer-to-consumer helping within this type of situation was valuable as it recognizes a common form of helping within the marketplace.

However, the lower-cost helping situation described within this study also acts as a limitation to it. In particular, because the cost of helping was sufficiently low, differences in helping intentions towards members and non-members were not significantly different. As such, managers reading this study should be careful to recognize that while some helping situations like the one described in our study are low-cost to consumers, many consumer-to-consumer helping actions may be perceived as costly to potential helpers. Hence, if consumers perceive costs to helping others, they will be less likely to engage in these value-creating activities. It will therefore be important for managers to identify ways to minimize barriers that may hinder consumers’ motivations towards helping others. One way to increase consumers’ motivations towards helping other consumers is to draw upon self-determination theory. Self-determination theory supplants the distinction between intrinsic motivation and extrinsic motivation, positing the existence of autonomous
motivation. Autonomous motivation consists of intrinsic motivation and internalized extrinsic motivation. Intrinsic motivation arises from the interest in the task and internalized extrinsic motivation results from the value of the task being integrated with the self (Gagne & Deci 2005). Autonomous motivation promotes prosocial behaviors including helping others. We suggest that consumers will have autonomous motivation if they identify with someone in need of help, as increased social identification gives rise to intrinsic motivation as well as the internalized extrinsic motivation that is associated with the value of promoting the interests of the group. Alternatively, to increase autonomous motivation of would-be helpers, managers should consider providing incentives to consumers who help other consumers. In providing an external motivation of helping, they may provide external motivation to those who are already intrinsically-motivated to provide some assistance to others but would withhold assistance due to high perceived costs.
References


Mael, F 1988, *Organizational identification: construct redefinition and a field application with organizational alumni*, doctoral dissertation, Wayne State University, Detroit, MI.


The Ramifications of Reinstating the Repealed Sections of the Glass-Steagall Act and the Moral Hazards that Caused the Recent Banking Crisis

Michael Mahoney
Wagner College
Staten Island, NY

Dr. Donald Crooks
Wagner College
Staten Island, NY

Dr. Cathyann Tully
Wagner College
Staten Island, NY

Abstract

This paper will examine the critical aspects of the Glass-Steagall Act of 1933 including a detailed analysis of the objective of the act on the banks and the economy. A further review will explore the atmosphere and psychology of the various banking practices that were implemented during the 1980’s and 1990’s. A chronology of pivotal events will prove that the current environment of deregulation and erosion of the distinct line between commercial and investment banks is actually attributed to monetary policies dating back to Alan Greenspan and the Federal Reserve Board actions of the 1990’s. The start of the 21st century saw the rapid growth of derivative instruments that were not regulated, prompting the moral hazard which caused the mortgage banking industry collapse. A further analysis of the reckless practices will show how these lending practices caused financial chaos. The paper will conclude with an analysis of the present arguments to strengthen the core requirements for both the investment and commercial banking.
Glass–Steagall Act, also known as the Banking Act of 1933(48 Sat.162) was passed in 1933 and forbade commercial banks from engaging in the investment banking business. The enactment was an emergency response to the failure of nearly 5,000 banks during the Great Depression. It was originally a section of President Franklin D. Roosevelt’s New Deal program and became a permanent measure in 1945. Some of the more important features included tighter regulations for national banks in the Federal Reserve System, prohibited banks from the sale of securities and created the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits with a pool of money appropriated from banks.

Beginning in the 1900’s commercial banks established security affiliates that floated bond issues and underwrote corporate stock issues. The expansion of commercial banks into securities underwriting was substantial until the 1929 stock market crash and the subsequent Depression. In 1930, the Bank of the United States failed, reportedly because of activities of its security affiliates that created artificial conditions in the market. In 1933 all banks were required to close for a four day “Bank Holiday” and 4,000 closed permanently.

Bank closings coupled with an already devastated economy pushed public confidence in the U.S. financial structure to new lows. In an attempt to reverse this spiral and restore the public’s confidence that bank’s would follow reasonable banking practices Congress created the Glass-Steagall Act. The Act forced a separation of commercial and investment banks by preventing commercial banks from underwriting securities, with the exception of U.S Treasuries and federal agency securities and municipal and state general obligation securities. Conversely investment banks were not allowed to receive banking deposits.

Investment banking consists mostly of underwriting securities and related activities, making secondary markets in those securities and setting up merger and acquisition activities, restructuring and overall business advisement.

The Glass-Steagall Act helped restore confidence in the banking industry during and after the Depression. Many historians however gesticulate that the practices of the commercial banks of the time had little actual effect on the already devastated economy and were not a major contributor to the crisis environment. Over the years legislators, economists and businessmen have argued that Glass-Steagall was outdated, created an atmosphere of uneven playing field between domestic institutions and those globally who were not constrained by such restrictions. There was also a strong feeling of government overreaction to a crisis in attempt to insure against repeat economic distress. The world economy became more dynamic with the emergence of the strong Japanese economy and the geopolitical impact of the Middle Eastern states buttressed with growing oil revenues.

In 1994 the Government proposed letting the banks enter new fields of business, including allowing big banks selling real estate, computer services and possibly even securities. The new rules would allow banks to set up subsidiaries that could undertake any activity “incidental to or within the business of banking” Until now, subsidiaries of federally chartered banks have been limited almost exclusively to banking. Critics of big banks
were quick to warn that new regulations could undermine Glass-Steagall which is murkily written and open to interpretation “said Diane Casey, executive director of the Independent Bankers of America, a Washington based trade group that represents small banks. While the Treasury was not actively involved in drafting regulations the proposals were consistent with the Clinton administration’s general position that banks should be allowed to diversify into other industries.

The first breach in the Glass-Steagall Act occurred in 1989 when some big banks were granted permission from the Federal Reserve to set up separate subsidiaries for trading securities and J.P. Morgan was the first obtaining the right to trade corporate debt and stocks in 1990. These holding companies were legally separate from the banks and were limited to trading securities and could not engage in activities like real estate brokerage and data processing.

The Financial Services Modernization Act of 1999 was passed by Congress after 12 attempts in 25 years. Congress finally repealed Glass-Steagall, rewarding financial companies after 20 years and $300,000,000 of lobbying efforts.

The key element of the repeal of Glass-Steagall was the proposed merger of Citicorp and Travelers Insurance. The merger was granted temporary approval by Alan Greenspan’s Federal Reserve. The official stance of the White House was that the Financial Modernization Act was tearing down the antiquated laws and granting banks significant new authority. The signing of the Gramm-Leach-Bliley Act in late 1999 repealed Glass-Stegall once and for all paving the way for both consolidation and expansion in the banking/investment banking industry.

It must be remembered that deregulation and consolidation in the banking and investment banking area had been in place and growing over the past three decades. In fact there were more bank mergers and acquisitions from 1988-1998 sixty-nine in total than from 1998 to 2012, fifty-nine. It also could be argued that an overly accommodating monetary policy by the Federal Reserve since before the dot.com bust and post 9/11 was the fuel that propelled asset backed price appreciation. Alan Greenspan, in an effort to move the stalled economy post 9/11 kept interest rate at historically low levels as the stock market and economy struggled. Investment money flowed unabatedly into real estate as a safe haven. This accommodative policy along with a relaxation of regulations led to an environment of ever increasing laxity when it came to policing risk and its potential consequences.

The Glass–Steagall repeal did not lead to a tremendous consolidation of banks and mergers or takeover of brokerage firms on a large scale. It is not often mentioned that there existed and still does exist tremendous differences in culture of the two types of institutions. The genetic makeup of those who work in investment banks is drawn from the universe of alpha males and females as opposed to the more staid personalities in the commercial bank sector. In fact of all the firms those failed or were in danger of failing only one was the real benefactor of the repeal. The institution was the very one that hastened and lobbied for the repeal of Glass-Steagall, Citigroup. Citigroup was the combination of Citicorp and Travelers Insurance and its subsidiary of Salomon Brothers-Smith Barney that was allowed by the adoption of Financial Modernization Act mentioned earlier. In studying the other firms that fell victim to the Great Recession in the banking and investment industry all others were either banks or brokerage firms.
Brokerage Firms

*Lehman Brothers* – unable to find a buyer and fell into bankruptcy

*Merrill Lynch* — bought by BankAmerica during the crisis

*Bear Stearns*—bought by J.P. Morgan also during the crisis and both acquisitions orchestrated to some extend by the Federal Reserve and Treasury

Banks

*Wachovia*

*Washington Mutual*

A number of Savings and Loan Companies along with Mortgage granting institutions also failed, the most prominent being Countrywide Credit which was acquired by BankAmerica.

Glass-Steagall in and of itself did not directly cause bank and or investment bank failures, it was a component of a string of ongoing deregulation and lax regulation that added fodder to the fire. One must look at some of the other factors that allowed, indeed provided impetus for the failures. Deregulation in its broad stroke should spur competition as long as the remaining regulations are upheld and enforced. The first line of defense in any organization is regulating itself as a means of survival and the ability to prosper and thrive. Given an atmosphere of relaxed regulatory involvement the risk appetite will rise to meet the appetite and intestinal fortitude levels of your rivals. This is exactly what transpired during the melt down and the Great Recession.

It would be wise to look at some of the more pertinent and elusive descriptions of Glass-Steagall and what are indeed factual.

1. Glass-Steagall, in fact, was never repealed. It is still applicable to insured banks and forbids them from underwriting or dealing in securities. What was repealed in 1999 were the sections that prohibited insured banks from being affiliated with firms commonly called investment banks, those that are engaged in underwriting and dealing in securities.

2. Repeal allowed banks to use taxpayer insured funds for risky trading, this is also not factual. Portions of Glass-Steagall that remained after 1999 prohibited insured banks from underwriting or dealing in securities. Before and after repeal the banks were allowed to trade [buy or sell] bonds and other fixed income securities for their own account. Banks have always been allowed to trade securities they can invest in.

3. Banks did not get into trouble ‘trading’ risky mortgage back securities they ran afoul by holding these instruments in their portfolios. This is basically the same thing as granting loans that defaulted during the meltdown.

4. The repeal of Glass-Steagall did not allow the Investment bank subsidiary to have access to insured deposits so unless they fraudulently comingled or poached funds this would not be possible.
5. The banks failed by making bad loans. The investment banks that failed Bear Stearns, Merrill Lynch and Lehman were not affiliated with insured banks. These institutions by and large became insolvent because of over leveraging, something this paper will address in ensuing pages.

Two of the biggest banks that failed, Wachovia and Washington Mutual got into trouble mainly by making risky loans to homeowners. Two large banks with investment banking arms, JP Morgan and Wells Fargo, resisted taking government money and arguably could have weathered the storm without it. BankAmerica nearly met the same fate of Wachovia and Washington Mutual but not because they bought Merrill Lynch but for their large investment in Countrywide Mortgage a plain vanilla mortgage company.

It would be better to focus our research on some of the reasons that these failures happened at all. Deregulation has had strong government backing since and before even the Reagan Administration. We will look at the most current governmental easing starting with the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. This bill eliminated previous restrictions on interstate banking and branching. This was the first link in the foundation of allowing big regional banks to merge and acquire other banks while moving to a national platform.

**Timeline of Key Events**

1996 - Fed Reinterprets Glass-Steagall. After several revisions bank holding companies were allowed to earn up to 25% of their revenues in Investment banking.
1998 – Citicorp-Travelers Merger, creates Citigroup, Inc. merges a commercial bank with an insurance company [Travelers owned Salomon, Smith Barney investment banks] to form the world’s largest financial services company.

1999 – Gramm-Leach-Bliley Act—with support from Alan Greenspan, Federal Reserve Chairman, Treasury Secretary Rubin and his successor Lawrence Summer, repeals Glass-Steagall.

2000 – Commodities Futures Modernization Act- Passed with support from the Clinton Administration, including Treasury Secretary Lawrence Summers and bi partisan support in Congress. This bill prevented the Commodity Futures Trading Commission from regulating most over-the-counter- [non Listed instruments] derivative contracts, including credit default swaps [CDO’s].

2004 – Voluntary Regulation- the SEC proposes a system of voluntary regulation under the Consolidated Supervised Entities program, allowing investment banks to hold less capital in reserve and increase leverage.

A pattern was emerging that eventually led to bank and investment bank failures. Investment banks were policing themselves more and more with less oversight by the SEC and Federal Reserve. This atmosphere allowed investment banks to increase leverage from 12-1 to 33-1, this leveraging works wonders in a rising asset environment but downward spiraling of asset values leads to dire consequences very quickly.

**Hands off Regulation**

A rapid growth in the new types of derivatives instrument posed a major problem to regulatory agencies and removed any transparency that had here-to-fore existed. The financial industry developed a wide range of derivative instruments in the 1990’s, most of which were not regulated, this growth continued unabated and accelerated in the first decade of the 21st century. The most important of these derivatives were credit default swaps [CDS] which were effectively a form of bond insurance, where the insurer would bear the risk in the event of a bond default.

In a completely unregulated market, derivative trading ballooned from a total outstanding nominal value of $106 trillion in 2001, to a value of $531 trillion in 2008. Capital requirements were allowed to drift significantly lower as result of SEC actions in 2004 as reported in an article published by a former SEC official. SEC rule

**Financial Services Leverage**

![Financial Services Leverage Chart](image)
15c3-1 allowed some financial firms to hold less capital and dramatically increase their leverage from 12-1 to 33-1. This move was in response to the existing regulatory ratio guidelines followed in Europe and was intended to help the 5 largest US investment banks remain competitive on a global basis. Before the rule change the broker-dealer was limited in the amount of debt it could incur, to about 12 times its net capital, though various reasons broker-dealers operated at significantly lower ratio. If, however, Bear Stearns and other large broker-dealers had been subject to the “typical haircuts on their securities positions” and aggregate indebtedness restriction, and other provisions for determining required net capital under the traditional standards, they would have not been able to incur their high debt leverage without substantially increasing their capital base.

**Growing Tsunami**

An atmosphere of accommodative monetary policy, friendly bipartisan support for deregulation spanning two decades and an easing of regulatory oversight led to an appetite for increased leverage. This increased leveraging was in somewhat a response to the cries of shareholders for greater returns and a leveling of the playing field with European banks that routinely had leverage ratios even exceeding 40-1.

<table>
<thead>
<tr>
<th></th>
<th>Economy-wide</th>
<th>Non-financial corporate sector</th>
<th>Financial Sector</th>
<th>Households &amp; Small Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EA</td>
<td>US</td>
<td>EA</td>
<td>US</td>
</tr>
<tr>
<td>1999</td>
<td>3.51</td>
<td>2.66</td>
<td>0.67</td>
<td>0.46</td>
</tr>
<tr>
<td>2007</td>
<td>4.54</td>
<td>3.47</td>
<td>0.92</td>
<td>0.49</td>
</tr>
<tr>
<td>2008</td>
<td>4.73</td>
<td>3.46</td>
<td>0.97</td>
<td>0.49</td>
</tr>
<tr>
<td>Change in 1999-2007</td>
<td>1.03</td>
<td>0.81</td>
<td>0.25</td>
<td>0.03</td>
</tr>
</tbody>
</table>

(Carmassi, Gros & Micossi, 2009)

The 2004 rule allowed the Investment banks to pile up debt at an unprecedented rate while at the same time weakening regulatory oversight. It allowed, for the first time the SEC to have a window on the bank’s risky investments in mortgage related securities; unfortunately the agency never took true advantage of that part of the bargain. Christopher Cox who became the new Chairman of the SEC a year later never considered this a high priority. The commission assigned seven people to examine parent companies—which in 2007 controlled financial empires with combined assets of more than $4 trillion [at the time of the article in October 2008 not a single inspection had been made since the division was reshuffled]. The 2004 decision reflected a faith that Wall Street’s financial interests coincided with Washington’s regulatory interests.” In retrospect, the tragedy is that the 2004 rule making gave us the ability to get information that would have been critical to sensible monitoring, and yet the SEC didn’t oversee well enough” Mr. Goldschmid an SEC
Commissioner and authority on securities law from Columbia University, said in an interview.

**Moral Hazard**

Both commercial and investment banks are awarded government protection, without consideration for their risk taking via liberal lending practices and use of derivative instruments. The safety net provided to banks by the federal government actually protected commercial banks from suffering severe financial consequences when the mortgage market began to collapse. Making the country’s exposure worse, was the activity which took place outside the traditional banking system, whereby private financial markets had willingly finance unprecedented amounts of leverage in more loosely supervised firms such as Bear Sterns, Lehman and AIG. In fact moral hazard became a global issue as the European Central Banks provided liquidity to the banks in Britain.

“Never in the field of financial endeavor has so much money been owed by so few to so many. And one might add so far with little real reform.” Mervyn King, Governor of the Bank of England, October 20, 2009

**Concluding Remarks**

As evidenced in this paper, numerous warning signals were evident prior to the 2008 financial crisis. The twenty year period of erosion of the Glass-Steagall Act contributed to the financial crisis by providing an opportunity for the explosion of the sub-prime mortgage market and creation of derivative instruments which fell outside the banking authority’s realm of responsibility. Had Federal Reserve oversight been more stringent, perhaps excessive lending to largely financially unqualified American consumers could have been minimized, preventing the five largest investment banks from overleveraging to the point of disaster. The authors provide a clear case in support of strengthening the core requirements for both investment and commercial banks.
References


Book Review

Business Schools and their Contribution to Society

Mette Morsing and Alfons Sauquet Rovira (editors)

SAGE 2014 254 pages 67.00 Softcover

Reviewed by:
Fred J. Dorn, Ph.D.
Northcentral University

If one were to ask “What is this book about?” a good response would be “bringing values in from the parking lot and putting them to use at the water cooler and in the boardroom.” (Samuelson, p.155) The truth be told, however, it is about far more than that – it is a collection of essays or reflections on “how business schools can and should contribute to a better and more sustainable society.” (Ramanantsoa, p. xvi) Twenty two essays in all - they range from topics such as “The Business School of the 21st Century” to “The Future of Business School Research.” But it is not all about the future – a chapter that snuck in there entitled “The Need for Good Old Principles in Financial Management Education” should satisfy anyone who is looking for reflections on the past.

But before embarking on that journey let’s spend a few minutes discussing how this book came to be. There is an organization, which some, or many might be familiar with, known as Community of European Management Schools (CEMS). “This organization is an association of management schools originally European, but currently international, that aims to reflect precisely on the central aspects of business school education: future challenges, the teaching curricula, or pedagogy of management education. (p. xvii)” With these goals in mind, CEMS approaches these issues as teachers as well as researchers keeping at the forefront the “ultimate goal: to constantly question what we teach and how that contributes to creating the sort of future business executives society needs. Thus, the mission is not reduced to reproducing knowledge but is largely focused on creating new knowledge. This is especially vital in the field of business education which is characterized by the constant rapid evolution of knowledge. With this book, we want to commit to paper this permanent reflection process around the challenges for business education (p. xvii).”

With that said, the audience that would be interested in this book will be broad and diverse. Obviously academics both teachers and researchers would find the book to be of interest but business executives will as well. In fact, one of the essays Chapter 21 is entitled “A Plea to Business Schools: Tear Down Your Walls.” In this chapter the authors argue that most business schools have built their instruction on the Adam Smith principle of serving one’s own interest – this basic concept was championed further by Milton Friedman (1970) and is embedded today in “most business school coursework (with) the underlying premise that society benefits most when the modern day corporation assumes a focus on one lone responsibility – to make a profit.
Making is not necessarily bad – since profits give us resources – as aptly noted by Ingvar Kamprad – CEO of IKEA – the author of this chapter Robert Stand suggests that what is often conspicuously missing from the business curricula is the consideration of other strategies besides profit maximization. Rather the sole focus has been addressing the needs of the shareholders at the expense of everything else. As a result profit and shareholder value have been translated into an age of greed run amok.

But the truth be told it was neither Smith or Friedman who failed us but rather ourselves since the “self-interest notion was “cherry-picked from Smith’s writings and using his example of the butcher, the baker and the candle stick maker – the business owner of that day while not in business solely for the benevolence of others surely realized that to do some harm to the local stakeholders in the community would serve no long-term purpose to the business owner. In fact such behavior would have had deleterious impact on all concerned.

Concern is of course the word of the day when we give consideration to this discussion. Concern for your neighbor, concern for your neighborhood, concern for any and all members of the broader community. To put it in context Strand says having concern or empathy for one’s neighbors is a basic positive trait of humanity – concern for others “arises from social relationships”(p.215) So it only follows that in these smaller communities each member is aware of the presence of the others and has a genuine concern for each member due to both self-interest and empathy – and why not – as one succeeds others should succeed – a rising tide lifts all boats – just as an “ebbing tide” will lower all vessels on the water.

If we fast forward and examine the configuration of today’s modern era corporation most employees find themselves isolated from the community at large. From the company cafeteria to the company health club (both on site) these employees have no reason to leave the building and as a result they become further isolated from the community. This too is true as far as the community is concerned as well. If a member of the community wanted to reach out or into the corporation they would face any number of obstacles from the company’s security guards to the security systems, buffers, and 20 foot metal gates built to keep every OUT. When is the last time any of us spontaneously just “dropped in” on one of these corporate communities – waltzed up to the front door and strolled through the lobby so that we could stop by to visit with one of our friends, customers, vendors, or fellow not for profit board members? Good luck with that plan.

A further indication of distance among stakeholders is geography and distance. Products are created in several different settings and then many times brought to a central location site and assembled while customer service can be delivered (how effectively remains to be seen – i.e., witness the frustration of many Americans who interact with foreign born customer service representatives when it comes to managing their credit card accounts) via the phone or Internet or more recently through the service Skype.

In conclusion, the “shareholder to whom Friedman states the business person is completely responsible – is not a person who lives in the community as the baker, butcher, or candlestick maker. Rather, the modern day shareholder is made up of a disparate collection of faceless institutions, indices with automatic buy/sell algorithms, and unknown traders
spread throughout the world who are continuously buying and selling in an effort to maximize short term gains.” (p.215)

The expression of concern voiced in Chapter 12 which is entitled “The Future of Business School Research: The Need for Dual Research Methodologies” is that business schools have lost their way by focusing on “scientific research.” Research – which has no relevancy – yet there are still those who would say just the opposite – “that a lack of disciplinary rigor is part of the problem with management research” (p.114) with a lack of coherent and consistent frameworks or paradigms. Still it is a documented fact that time spent on research in most business schools today exceeds the time devoted to teaching.

The authors of this chapter argue that business schools face a unique challenge that is not faced by most academic fields – the challenge of addressing two audiences - business academics and business practitioners. Thus “because the academics are outside business organizations they cannot directly participate in or easily observe what is happening inside the organization” (p.115). What is the recommended path of exploration by these authors – “dual research methodologies” – what are dual research methodologies? Dual research methodologies are a combination of quantitative and qualitative approaches that are not mutually exclusive” and moreover – no matter what the topic of study - qualitative researchers in contrast to their quantitative colleagues - claim forcefully to know relatively little about what a given piece of observed behavior means until they have developed a description of the context in which the behavior takes place” (p.116).

Give further consideration to the fact that when “business academics face the additional challenge that the great majority of (their) output tested hypotheses with probabilistic predictions” are generally not what managers can use. Managers are far more interested in pattern recognition. They ask questions like “Does this configuration of external circumstances mesh with my particular configuration of strategies and actions to produce a success outcome for my company (p.115)” This is why so many practicing managers prefer to read periodicals such as The Harvard Business Review and the California Management Review as well as best selling business books instead of peer reviewed journal articles. A fact, interestingly enough, that was pointed out to this reviewer more than 15 years ago by an employee of one of the most successful worldwide management consulting firms. So in summary, the authors state that “rather than wanting tested hypotheses, the practitioner will want to test the hypothesis on his or her own situation. Only when the hypothesis seems to fit the particular situation will the practitioner implement the recommendation from the hypothesis (p.115)” As a result the preference from the managerial audience for case based evidence presents a challenging expectation of business schools. The expectation is not only to conduct research with two different methodologies but also to become more than just a process of interpreting or translating academic research for an audience that is managerial.

To their credit, the authors of this chapter speak from experience by referring to the work of Michael Porter – the noted competitive strategist. Having worked with him personally, they refer to his effort of converting industrial organization theory into a framework for competitive strategy. Yip, the second author of this chapter makes the following observation about Porter – “twenty or more years of industrial organization economics
research did not make the translation to competitive strategy” (p.115). Rather Porter took another six years of case research to convert industrial organization to competitive strategy and still he was never able to generate the kinds of insights craved by managers. Still, the authors do offer several recommendations as to how practitioners and researchers can address some of the concerns.

Summary

No doubt practitioners will appreciate this book, since an effort has been made to include them in the discussion at every turn. Whether it is in the two chapters discussed here or in chapters such as: “Business Schools – From Career Training Centers Towards Enablers of CSR: A New Vision for Teaching at Business Schools” to “Responsible Business Education: Not a Question of Curriculum but a Raison d’etre for Business Schools” there is enough here for anyone and everyone interested in management to wrestle with for some time to come.

The book is thought provoking – if for no other reason - this reviewer was surprised to learn that a wide gap still exists today between practice and research. The book should be required reading of all newly appointed executives as well as doctoral students and newly minted assistant professors. These recommendations are made with the hope that the gap will close ever so slightly.