

Bloch faculty focus

Knocking Down Silos

Gauging Risk and Managing Uncertainty From a Multi-Disciplinary Perspective

Boards of directors, executives and managers need to address the critical nature of risk and uncertainty in the decision-making process. Identification of the risks and uncertainties inherent in a proposed action, assessment of their impact on the possible outcomes, and design of contingency plans to manage them are essential for making sound business decisions. Without these activities, decisions made are likely to be inferior ones, leading to organizations being less competitive in the marketplace.

Karyl Leggio and a team of researchers with expertise in finance and strategic management studied the issue of decision-making using quantitative and qualitative methods. This work draws upon multiple perspectives to advance the state of knowledge across

practice/academic boundaries and disciplinary arenas. "The goal of this research is to advance current thinking about risk and uncertainty concepts as applied to strategic decision-making, and to approach the evaluation of projects from different perspectives," Leggio says, "moving from theory into practice."

Leggio explains that the finance perspective tends to focus on the valuation of risky investment decisions through quantitative frameworks. Strategists, on the other hand, tend to focus on the qualitative aspects of projects relative to uncertainties or contingencies. Yet the isolated nature of research within both of these academic disciplines has hindered the understanding of the overall process of strategic decision-making. "By narrowing the academic divide between strategic management and finance," Leggio states, "we were able to concentrate on improving organizational decision-making regardless of the domain."

Leggio and her colleagues offer the National Ignition Facility as an illustration of how planners and managers can identify risks and uncertainties in development projects. The authors described the project's complexity and uncertainties, designed contingency plans generated through a variation of scenario building within an organization, and used a qualitative, rather than quantitative, real-options analysis as an alternative to better understand the uncertainty inherent in the project.

"This research demonstrates the value of an interdisciplinary approach to problem solving. By combining finance and strategic management models, we arrive at a better approach for decision-makers. And that ultimately leads to better decisions," Leggio concludes.

Karyl Leggio, Ph.D.-

IS THE CHAIR OF THE FINANCE, INFORMATION MANAGEMENT AND STRATEGY DEPARTMENT, ASSOCIATE PROFESSOR OF FINANCE AND EXECUTIVE DIRECTOR OF THE EXECUTIVE MBA.

Alessandri, Todd; Ford, David; Lander, Diane; Leggio, Karyl; and Taylor, Marilyn, "Managing Risk and Uncertainty in Complex Capital Projects," 2004, *Quarterly Review of Finance and Economics*, 44:5, 623-635.

faculty focus

The Formula for Increased Job Satisfaction and Decreased Staff Turnover?

Employee Budget Participation

America's businesses have long used budgets as both a means of planning and coordinating their activities and as a benchmark for evaluation of performance. But how effective is the budget in improving performance? How does the process used to develop the budget impact its effectiveness? As global competition increases, greater attention by management is being directed to the role of the budget process in the allocation of corporate resources and its effect on operating performance. An area of particular interest is how employees' participation in the budgetary process impacts its effectiveness.

David Donnelly, Ph.D., Jeff Quirin, Ph.D., and David O'Bryan, Ph.D., have spent the last seven years examining how and why budgetary participation affects employee performance. In a recent project, they study the principals of equity theory to help explain the relationship between the budget process and

performance.

"Equity theory incorporates the concept of perceived fairness into our understanding of employee performance,"
Donnelly explains, "and it recognizes that individuals assess the fairness of their

treatment by comparing it to the treatment of others."

Based on a study of employees in 15 large U.S. companies, they found that budgetary participation increases employees' perception of equity and that employees with higher levels of perceived equity had a greater commitment to their organization. As such, equity theory appears to yield additional insights into the budgetary participation framework.

"Earlier studies showed that employees who are satisfied with their workload and pay are more committed to their organizations," Donnelly says, "This is important because highly committed employees work harder and perform better." The strong correlation between employees' participation in the budgetary process and an increased perception of fairness and organizational commitment helps to explain how the budget process impacts performance.

Interestingly, the findings suggest there may be additional organizational benefits associated with employee participation in the budget process. As Donnelly explains, "In addition to higher levels of performance, employees' perception of equity and organizational commitment have been linked to higher levels of job satisfaction and lower levels of tardiness and turnover. Thus, careful attention to the design and implementation of employee participation in the budget process can lead to multiple organizational benefits."



David Donnelly, Ph.D.-

IS THE DEPARTMENT CHAIR FOR ACCOUNTANCY AND PROFESSOR OF ACCOUNTING.

"A Nomological Framework of Budgetary Participation and Performance: A Structural Equation Analysis Approach," *Advances in Management Accounting*, 2004, with Jeff Quirin and David O'Bryan.

UMKC Henry W. Bloch School of Business and Public Administration

When Uncle Sam Speaks, Does Anybody Know It?

The Federal Beef Promotion Program

Consumers might be surprised to discover that ads touting "Beef. It's what's for dinner" are messages from the federal government rather than the beef industry. Nevertheless, that was the Supreme Court's conclusion in Johanns v. Livestock Marketing Association (2005). In her latest research, Rita Cain, Professor of Business Law, analyzes the case.

In 1985, Congress established a federal policy to promote beef products. The U.S. Department of Agriculture (USDA) requires cattle sellers to pay \$1 for each head of cattle sold. Commonly known as the "beef check-off," the program generated more than \$26 million in 2004 for generic beef advertising.

The Livestock Marketing Association (LMA) objected to funding the generic ads. Its members contended the generic ads impeded their ability to differentiate their superior, specialized beef products. Further, since the check-off fee is collected on domestic sales and imports, some LMA members did not want to contribute to ads that promote all beef, as if imported is the same as domestic. This complaint heightened when European and Canadian beef became associated with Mad Cow Disease.

LMA contended that the first amendment prohibits the government from forcing dissenting members to fund objectionable industry messages. But the Supreme Court accepted the USDA's contention that the advertising was "government speech." The United States is entitled to articulate its own messages without committing any free speech offense to individuals who disagree with that message, the Court found. Further, government can support its articulated policies with revenues like the beef check-off, regardless of taxpayers' disputes with those policies.

"The beef promotion program is an example of 'government ventriloquism,'" Cain says, "because the ads frequently stated they were 'sponsored by the Beef Council.'" Nevertheless, the Court was unconcerned if

the public misperceived the ad's sponsor. As long as the beef promotion statute did not require misleading attribution in the ads, then public misperception is irrelevant to the constitutionality of the statutory fee.

Cain contends

that government can add its perspective to the marketplace, as long as government sponsorship of



Rita M. Cain, Ph.D. -

IS A PROFESSOR OF BUSINESS LAW.

Cain, Rita M. "Supreme Court Upholds Compelled Subsidy Ads as Government Speech" forthcoming in *Journal of the Academy of Marketing Science*, 33/4 (Fall, 2005).

speech is transparent. "When government speech is not adequately disclosed or is misattributed to industry, taxpayers and voters cannot challenge their elected officials about an offending message."

The implications of Livestock Marketing v. USDA are not limited to the agricultural sector. Cain explains that Medicare providers could be obligated to contribute to messages about Social Security reform or that energy producers could be obligated to contribute to messages about exploration of alternative fuels.

"In any of these instances, the message might contradict a party's self-interest," Cain says.
"Congress should hold itself to a non-deceptive standard regarding such ad campaigns, but there is no constitutional imperative on lawmakers to do so."

Improving Care Quality in Nursing Homes:

The Need to Measure and Compare

The movement to improve nursing home quality is gaining momentum as the baby boomers approach old age. Long-term care consumers and their families are demanding the better quality care that many nursing home providers are committed to delivering. Advances in health information technology have made a wealth of information available on the physical and mental health of nursing home residents. And yet, harnessing this information for measuring nursing home quality improvement has been a major challenge.

In the early 1990s, a research team at the University of Wisconsin developed a set of nursing home quality indicators (QIs) that uses routinely collected data to measure the quality of nursing care processes such as

medication use and preventive services and outcomes such as falls, pressure sores and physical or mental decline. Individual residents are scored on each QI. Facility QI rates, which reflect the prevalence or incidence of QIs among residents in a nursing home, are summarized in reports that target areas for intervention by quality improvement teams. Additionally,

regulatory agencies or consumers can use QI rates to identify the best or worst quality nursing facilities.

The QIs have become successful tools for nursing home management and state and federal agencies. After 10 years of application their shortcomings also have become apparent. Greg Arling and colleagues at the University of Minnesota have conducted a review of the content, measurement and application of QIs. From this analysis, they made a series of recommendations to strengthen the measures. For example, the QIs should be broadened to include quality of life as well as medical or nursing care. Also, current QIs focus on problems such as poor care or bad outcomes. Arling states, "The quality indicators need to be more proactive with an emphasis on best care practices and positive outcomes, not just problem avoidance."

The QIs have great comparative value: "The major application of the QIs is the comparison of rates between facilities or the comparison of rates with state or national averages," he explains. "Comparisons can be made more accurate by adjusting QIs statistically for differences in facility size and types of residents."

Arling and his colleagues are moving forward with their recommendations, including making the QI reporting systems more consumer-friendly. They are involved in a multiyear project funded by the State of Minnesota, the National Institute on Aging and the Commonwealth Fund to better understand how nursing homes can improve care quality.

Gregory Arling, Ph.D.

IS AN ASSOCIATE PROFESSOR OF HEALTH SERVICES ADMINISTRATION.
Arling, Greg; Kane, Robert L.; Lewis, Teresa; and Mueller, Christine. "Future Development of Nursing Home Quality Indicators," *The Gerontologist*, 45(2): 147-156, 2005.



University of Missouri-Kansas City Henry W. Bloch School of Business and Public Administration 5100 Rockhill Road Kansas City, MO 64110-2499

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