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Exploring the Use of Music in Business Students' Education

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The central role of music in the lives of university students is undeniable. This research is the first to investigate how and why business students use music. Survey results uncover that nearly 75 percent *of business students listen to music while studying. The most frequently cited reasons were mood enhancement and motivation. The study explores demographic relationships as well as the influence of measures of separateness (found to be positively related to usage) and self-control (negatively related). Other findings highlight significant group-level differences (including across majors) and lead to a greater understanding of students' learning, with implications for innovative teaching methods.*

Highlights:

- *A total of 74.4 percent of the students surveyed consumed music while studying.*
- *Management and Marketing students consumed significantly more music than Finance and Accounting students.*
- *The most frequently cited reasons for using music were improved motivation and mood enhancement.*
- *Students' perceived separateness is positively related to music usage.*
- *Students' perceived self-control is negatively related to music usage.*

Keywords: Music, Business Education, Study Habits, Academic Performance, Business Disciplines
Disciplines of Interest: Accounting, Finance, Management, Marketing

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INTRODUCTION

As a result of great technological advancements, music has never been more ubiquitous and accessible. Annually, more than 350 million songs are downloaded, and an astonishing 1.15 trillion are streamed to listeners in the United States alone [Statista, 2020]. Consumers find themselves just a click or tap away from an infinite library of listening options. Today's college students are confident in instantly finding myriad musical options. These students have had access to the Internet since before entering kindergarten. They have grown up in a world of nearly limitless, low-cost musical choices. They enjoy their music over the most advanced digital sound systems and through headsets their grandparents could not have imagined. Further, they consume music at an astounding rate. Studies report that college students listen to between two and nine hours of music per day [Gurgen, 2016]. More profoundly, students indicate they set aside more time for listening to music than any other daily activity [Lamont, Hargreaves, Marshall, and Tarrant, 2003]. This mass consumption may be further spurred by pandemic-driven physical issues of social distancing as well as emotional issues of isolation and depression.

Thus, some intriguing research questions arise. Why do college students listen to music? How does music benefit students? Which business options are listening, and are there differences between options? For instance, are management and marketing students (studying largely psychology-based topics) perhaps using music differently than accounting and finance students (studying more mathematically-based topics)? Anecdotally, why are so many students consuming music *while they study*? Does music help or hinder their learning? All of these important issues have yet to be addressed in the realm of business education.

The purpose of the current work is to examine business students' usage of music and the related connections to their study habits, motivations, and academic performance. A large-scale survey captures a big enough sample to make comparisons across accounting, finance, management, and marketing options. Additionally, the work measures and investigates separateness and connectedness [Wang and Mowen, 1997], self-control and self-management [Mezo, 2009], grade point average (GPA), and demographic variables. To date, this work is the first to explore music consumption patterns among business students (therefore, no formal hypotheses are put forth).

CONCEPTUAL BACKGROUND

Music has long been central to human existence and fulfills a variety of purposes [Schäfer, Smukalla, and Oelke, 2014; Gabrielsson and Juslin, 1996; Zillmann, Gan, Hargreaves, and North, 1997]. Music can be instrumental in regulating emotions, facilitating social acceptance, developing and validating self-identity, as well as enhancing cognitive learning [Gurgen, 2016; Hargreaves and North, 1999; Merriam and Merriam, 1964]. Thus, anthropologists, ethnomusicologists, and cognitive scientists alike echo the sentiments of Alan Merriam that, "there is probably no other human cultural activity which is so all-pervasive and which reaches into, shapes and often controls so much of human behavior" [1964, p. 218]. Evidence shows that music positively influences social and emotional competencies as well as academic outcomes [Chemers, Hu, and Garcia, 2001; Elias, 2006; Ippolito and Adler, 2018].

Extant research reveals that music plays a significant role in the academic and social lives of college students [Tarrant, North, and Hargreaves, 2000; Tekman and Hortac, 2002]. Psychologist Urie Bronfenbrenner [1979] posits that college students experience an ecological transition that forces them to navigate new settings, expectations, and demands, while simultaneously leaving their support groups and familiar surroundings. Similarly, Tinto [1987] theorizes that college students encounter difficulties in setting and achieving goals due to increased anxieties. A student's inability to adapt to higher education can lead to higher rates of depression, anxiety, drop-out rates, substance abuse, and suicide ideation [Crutchfield and Maguire, 2018; Hoyle and Crawford, 1994]. Music is commonly used as a tool in easing psychological stresses and diminishing social anxiety [Hargreaves and North, 1999].

In qualitative studies, students reveal that engaging with music is therapeutic in enhancing their appreciation of others, improving their social skills, increasing their self-esteem, and solidifying their sense of identity [Lamont, et al., 2003]. In a 2001 report on the state of the arts, renowned educator Sir Ken Robinson, provides evidence that the use of music in education is paramount in providing students with opportunities to express themselves, developing cross-cutting skills (especially those associated with creativity and critical thinking), and enhancing emotional intelligence [Robinson, 2001]. The inability to identify, express, and use feelings is of concern and can lead to personal, social, and academic deficits, all of which can be offset or addressed with the use of music [Robinson, 2001].

Self-Schema Separateness-Connectedness

Although a multitude of individual-difference variables relate to music consumption in education, the current work seeks to isolate and evaluate two. First, the construct of self-schema separateness-connectedness (SC) reflects a person's self-perception in social contexts. Essentially, a separated person maintains a greater sense of independence from others, whereas a connected person upholds a sense of interdependence and views herself/himself as part of an interlinked group [Wang and Mowen, 1997]. In recent decades, the nine-item SC scale has been used to understand persuasion and ad effectiveness finding SC to be a mediating variable [Wang, 2000: Wang and Chan, 2001]. Additionally, SC can be used to segment the world market across and within cultures [Wang, 2000]. Using SC as an individual difference variable related to education, Nemetz, Aiken, Cooney, and Pascal, [2012] found that more connected students saw more "educational utility" in social networking. The SC variable is included here with the justification that music is often a shared, social experience. Perhaps more connected students use music more frequently and for different purposes in education. On the contrary, music is also often used individually to relieve loneliness and fill moments of isolation. Therefore, one might posit that more separated students use music more frequently and in different ways.

Self-Control and Self-Management

The second control variable this study investigates is self-control and self-management [Mezo and Heiby, 2004]. Self-control and self-management (SCSM) skills stem from an individual's inter-dependent processes of self-monitoring, self-evaluating, and self-reinforcing [Bandura, 1991; Kanfer and Schefft, 1988]. In phases, an individual monitors a target behavior, then compares the target behavior to a desired standard, and, last, reinforces through self-reward (or not, through self-punishment). The SCSM scale [Mezo, 2009] is an efficient and reliable instrument. The scale has shown construct validity through study repetition and confirmatory factor analysis [Mezo and Short, 2012]. If music detracts from the cognitive effort required for good study habits, then perhaps students high in SCSM are better able to turn off their music while studying. SCSM might be valuable in measuring students' abilities to isolate more serious and intense study habits apart from relating music usage to more playful, social situations. On the contrary, perhaps students high in SCSM understand their own cognitive processes better and are deftly using music as a motivation tool. Conceivably, students high in SCSM are able to use music as a backdrop for enhancing concentration during periods of intense studies.

METHOD

Survey respondents were recruited from upper-division courses enrolled in a mid-sized college of business in the western United States. Data collection took place over a two-week period in classroom settings. The reasons for sampling upper-division courses were twofold. First, these classes were selected in an effort to reach students who had chosen a major and perhaps completed a few courses in that major. Second, the courses were chosen so as to lessen any possible duplication of respondents. The four-part, paper-and-pencil survey was administered to students enrolled in 17 accounting, finance, management, and marketing classes. Class sizes ranged from 15 to 58 ($M = 31.8$). The survey was administered in classes in an effort to increase response rates and participant involvement.

Part one of the survey used the self-schema SC scale [Wang and Mowen, 1997]. The SC scale consisted of nine statement variables designed to measure independence, individuality, and self–other boundaries. Across all variables, respondents rated their levels of agreement on 1–7 Strongly Disagree – Strongly Agree, Likert-type scales.

Part two of the survey administered the SCSM scale [Mezo, 2009]. In this case, respondents read and rated 16 test variables designed to measure self-monitoring, self-evaluating, and self-reinforcing factors. Ratings of agreement were recorded according to the same 1–7 scales used in part one.

Part three asked respondents to provide demographic and personal information and contained a mix of categorical and open-ended questions. In this section, students supplied data regarding their gender, major, GPA, and the number of hours per day spent listening to music.

Part four of the survey had only two questions. First, respondents were asked about the reasons they listen to music. From a list of 15 possible motivations, respondents were asked to check all that apply (e.g. for enjoyment, to relieve boredom, to relieve tension/stress, etc.). These variables were drawn from the works of Juslin, et al., 2008 and Lamont, et al., 2003. Question two was a two-part measure that first asked students to categorize themselves in one of three ways, as: "I do **NOT** play music when I study," "I **SOMETIMES** play music (e.g., "yes" when doing homework, but "no" when studying for a test)," or "I **DO** play music when I study." The three categories all led to the overarching statement, "because it makes me feel..." followed by a set of five adjectives requiring respondents to rate levels of agreement. The adjectives for respondents in the "**NOT"** group were nervous, depressed, anxious/worried, angry, and less focused. The self-categorized "**SOMETIMES**" and "I **DO"** groups rated the adjectives: optimistic, happy, enthusiastic, less lonely, and more focused. Surveys were collected anonymously in large, unmarked envelopes.

RESULTS

Before data analyses could ensue, data were cleaned and reliability coefficients were calculated. Of the 530 total questionnaires administered, 509 were deemed usable. Most of the discarded surveys were incomplete, or respondents did not properly follow directions. Although the SCSM scale appeared to be very reliable, with a Cronbach's alpha of 0.87 [above the 0.70 standard; Nunnally, 1978], the SC scale was marginal, with an alpha of 0.62 [below Nunnally, 1978; but in line with Schmitt, 1996]. Means were calculated for both the SC and the SCMS.

The sample captured a range of majors with varying demographic and usage characteristics. In total, there were 113 accounting students, 88 finance students, 99 management students, and 131 marketing students. The remaining respondents were split nearly equally between business information systems, other/undecided, and non-business (likely enrolled in a business minor). The sample was lacking somewhat in terms of gender equity, because 37.9 percent of respondents identified as female ($n = 193$).

Overall, the group reported listening to a mean of 3.83 hours of music per day. Although 25.6 percent ($n = 126$) of respondents said that they do not listen to music when studying, 19.9 percent ($n = 98$) of respondents reported sometimes listening, and a full 54.5 percent ($n = 268$) said that they consistently do listen while studying. Across all four major-groups, analysis of variance (ANOVA) showed that students listen to roughly equal numbers of hours per week. Only in a direct two-group comparison was the Marketing group ($M_{hours} = 3.8$) significantly different from the Accounting group ($M_{hours} = 3.1$) ($t = 2.1$; p-value < 0.04). Last, after splitting students into three equally sized GPA groupings (below 3.0, 3.01–3.49, and 3.5 and above), the lowest GPA group listened to significantly more hours of music daily ($F = 3.4$; p-value < 0.02).

With regard to the reasons students listen to music, responses varied greatly. The top reasons cited were for enjoyment, to relieve stress/tension, and to help get through difficult times. The bottom three reasons were to please friends, to be popular with others, and to be part of a group. Generally, male and female students appeared to listen to music for the same reasons; however, four statistically significant gender relationships were found. Specifically, women were more likely to listen to music to relieve stress, to get through difficult times, and to express their feelings and emotions. Men were more likely to use music to inspire creativity and imagination. See Table 1.

Next, as we analyzed reasons by majors either separately or in combination, it appeared that merging management with marketing (and finance with accounting) yielded the same results (the pairings were not significantly different across all test variables). Thus, two-group analyses were used for brevity. See Table 2. Management and marketing majors (together) showed differing reasons for using music in comparison with the combined group of finance and accounting students. Nine statistically significant relationships were uncovered (at p-value < 0.06). In every case, management and marketing students reported greater frequencies.

In terms of separateness-connectedness, results uncovered a few significant differences. Respondents were first sorted into three relatively equal-sized groups according to their SC means. Such k-group splits have been shown to efficiently manage possible information loss in comparison with median splits [Knüppel and Hermsen, 2010]. A significant linear trend was uncovered wherein movement from the most connected group to the middle group and then to the most separated group showed increased mean-hours spent listening ($F = 5.7$; p-value < 0.02; means of 3.2, 3.4, and 4.0 daily hours,

Table 1. Reasons Why Business Students Listen by Gender*

Reason	Women $n = 193$ (%)	Men $n = 311$ (%)	χ^2-Value	p-Value
For enjoyment	185 (95.9%)	295 (94.9%)		
To relieve tension/stress	157 (84.9)	226 (72.7)	4.92	.03
To help get through difficult times	151 (78.2)	204 (65.6)	9.14	.00
To relieve boredom	138 (71.5)	212 (68.2)		
To express feelings/emotions	128 (66.3)	171 (55.0)	6.34	.01
To be creative/use imagination	73 (37.8)	152 (48.9)	5.85	.02
To reduce loneliness	73 (37.8)	106 (34.1)		
To increase social interaction	46 (23.8)	89 (28.6)		
To have experiences and/or identities validated	32 (16.6)	67 (21.5)		
To create a self-image	23 (11.9)	48 (15.4)		
To please friends	14 (7.3)	33 (10.6)		
To be popular with others	17 (8.8)	22 (7.1)		
To be part of a group	15 (7.7)	30 (9.6)		

*Respondents checked multiple answers.

respectively). A series of χ^2 tests showed no relationships between the reasons why they listen to music and their membership in the three SC groups—meaning that levels of SC were not related to the various reasons students listen to music. Additionally, there were no significant differences in SC means across the self-classified Never, Yes, and Sometimes (listening while studying) groups. However, after combining the Yes and Sometimes groups, we found that the most separated student group had higher means on the "less lonely" and "more focused" reason variables ($F = 5.3$ and 4.7, respectively; p-value < 0.01). Additionally, accounting and finance majors appeared as more separated/independent, and marketing and management majors were reportedly more connected/interdependent ($t = 2.4$; p-value < 0.05). A direct comparison between finance majors (the most independent; $M_{SC} = 4.8$) and marketing majors (the most connected; $M_{SC} = 4.5$) further highlighted SC differences ($t = 2.4$; p-value < 0.02). Across genders, men appeared to feel more separated, whereas women were more connected ($t = 2.6$; p-value < 0.01). Across GPA groups, a significant linear trend emerged wherein students with the lowest GPAs were most separated, whereas students with the highest GPAs were most connected ($F = 16.2$; p-value < 0.01).

In parallel with the SC variable, students were sorted into three relatively equal-sized groups according to their levels of SMSC. Across these three

Table 2. Reasons Why Business Students Listen to Music by Combined Majors*

Reason	Management and Marketing $n = 230$ (%)	Accounting and Finance $n = 201$ (%)	χ^2-Value	p-Value
For enjoyment	223 (97.0%)	188 (93.1%)	3.51	.06
To relieve tension/stress	179 (77.8)	147 (72.8)		
To help get through difficult times	169 (73.5)	128 (63.4)	5.12	.02
To relieve boredom	165 (71.7)	133 (65.8)		
To express feelings/emotions	143 (62.2)	108 (53.5)	3.45	.06
To be creative/use imagination	112 (48.7)	79 (39.1)	4.01	.05
To reduce loneliness	81 (35.2)	67 (33.2)		
To increase social interaction	76 (33.0)	44 (21.8)	6.80	.01
To have experiences and/or identities validated	57 (24.8)	29 (14.4)	7.33	.01
To create a self-image	39 (17.0)	21 (10.4)	3.87	.05
To please friends	26 (11.3)	16 (7.9)		
To be popular with others	23 (10.0)	9 (4.5)	4.82	.03
To be part of a group	27 (11.7)	13 (6.4)	3.60	.06

*Respondents checked multiple answers.

SMSC groups, there were no significant differences in the number of hours spent listening to music. However, using ANOVA across the Never, Yes, and Sometimes (listening while studying) groups revealed that Never students had the highest levels of SMSC ($F = 3.8$; p-value < 0.03). There were no significant SMSC differences across majors; however, additional analyses related to SMSC yielded two other findings. Women had significantly higher reported levels of SMSC ($t = 4.2$; p-value < 0.01). Also, students with higher GPAs had higher levels of SCSM ($F = 3.3$; p-value < 0.04).

Evaluating the Never, Yes, and Sometimes (listening while studying) groups in relationship to major groups uncovered that the variables were not independent ($\chi^2 = 12.6$; p-value < 0.05). Management and marketing majors were most likely to appear in the Yes group, and accounting majors were most likely to appear in the No group. However, the major groups showed only one significant difference across the feeling–adjective ratings under listening (or not listening) while studying. The "less focused" variables had a significantly lower mean for management majors ($F = 3.7$; p-value < 0.02). Tables 3 and 4 present the means and standard deviations of these variables. Within the group that does not listen while studying (see Table 3), the variable "less focused" had the highest means

Table 3. Reasons Business Students DO NOT Listen While Studying*

"Because music makes me feel. . .	Accounting Majors $n = 39$ Mean (SD)	Finance Majors $n = 33$ Mean (SD)	Management Majors $n = 29$ Mean (SD)	Marketing Majors $n = 25$ Mean (SD)	Total $n = 126$ Mean (SD)
depressed."	1.40 (1.0)	1.53 (1.4)	1.36 (0.8)	1.57 (1.1)	1.44 (1.0)
angry."	1.51 (1.1)	1.49 (1.2)	1.22 (0.6)	1.78 (1.3)	1.48 (1.1)
nervous."	1.72 (1.5)	1.60 (1.3)	1.59 (1.1)	2.11 (1.7)	1.73 (1.4)
anxious/worried."	1.82 (1.6)	1.88 (1.7)	1.50 (1.0)	2.04 (1.7)	1.78 (1.5)
less focused."	6.15 (1.3)	5.49 (2.1)	5.24 (2.2)	6.16 (1.3)	5.69 (1.8)

Note: SD, standard deviation.
*7-pt. Likert-type scale.

Table 4. Reasons Business Students DO Listen While Studying*[a,b]

"Because music makes me feel. . .	Accounting Majors $n = 74$ Mean (SD)	Finance Majors $n = 55$ Mean (SD)	Management Majors $n = 70$ Mean (SD)	Marketing Majors $n = 106$ Mean (SD)	Total $n = 305$ Mean (SD)
less lonely."	4.32 (1.9)	4.37 (2.0)	4.09 (1.9)	4.48 (1.9)	4.34 (1.9)
more focused."	4.92 (2.0)	4.81 (2.2)	4.95 (1.8)	5.38 (1.6)	5.06 (1.9)
optimistic."	4.84 (1.5)	5.28 (1.7)	4.92 (1.5)	5.24 (1.5)	5.13 (1.5)
enthusiastic."	5.22 (1.6)	5.64 (1.5)	5.17 (1.6)	5.49 (1.6)	5.42 (1.5)
happy."	5.51 (1.4)	5.78 (1.4)	5.35 (1.6)	5.64 (1.5)	5.60 (1.4)

Note: SD, standard deviation.
*7-pt. Likert-type scale.
[a]"Sometimes" and "Always" listening groups combined.
[b]Business Information Systems majors, Business minors, Undeclared students not shown.

($M_{lf} = 5.69$). The other variables (depressed, angry, nervous, and anxious/worried) means were all less than 2 on the 7-point scale. For the combined Yes and Sometimes group (see Table 4), the adjectives "happy" and "enthusiastic" had the highest means ($M_{happy} = 5.60$; $M_{enthus} = 5.42$).

DISCUSSION

This exploratory research sought to examine business students' usage of music and related connections to their study habits, motivations, and academic performance. In general, the study uncovered that music is certainly in wide use among business students. The sample reported listening to a mean of just over 3.8 hours daily. Here, we found that increased numbers of hours related to lower reported GPAs. An interesting finding was that a full 74.4 percent of the accounting, finance, management, and marketing students surveyed stated that they listened to music while studying; however, within this group, we found no relationship to self-reported GPAs. The widespread use of music may be attributed to advanced technology, increased accessibility, and the relatively low cost.

Some notable findings emerged with regard to the reasons business students reported listening to music. Perhaps not surprisingly, "for enjoyment" was the most popular response, followed by to "to relieve tension/stress" and "to help get through difficult times." An interesting finding was that female students were much more likely than males to use music as a coping mechanism. Males were more likely to use music for motivation and to enhance their creativity. The bottom three reasons given for listening to music ("to please friends," "to be popular with others," and "to be part of a group") all point to the notion that music is less likely to be used for social purposes. These findings highlight a symbolic turning point in music consumption wherein music is now more often consumed individually. In earlier eras (e.g., the 1960s or 1970s) music was to be shared—it was mostly communal and consumed in the collective through low-tech analog equipment and large speakers (probably, the larger the better). Technology was limited to records, which made it difficult for mobile consumption. Modern technology now allows music to travel anywhere and anytime over satellites and into computers and cell phones, where it might be listened to through a range of high-tech speakers, headphones, and/or previously unimaginable ear "buds." Thus, music is much more likely to be consumed individually.

Deeper analyses across majors exposed both similarities and differences between the four main student groups of accounting, finance, management, and marketing. Clearly, music usage was widespread and permeated all business majors. There were no discernable differences across the test variables of daily hours, SCSM, and the five reasons given among students who do listen while studying. However, a pattern of differences emerged that seems to highlight management and marketing as distinct from accounting and finance. Many comparisons found statistically significant differences wherein management and marketing majors were more likely to listen while studying. Also, post hoc tests showed marketing majors as distinct from accounting majors (with marketing students being more connected, having higher numbers of hours spent listening, and being more likely to listen while studying). Perhaps these differences can be attributed to the more mathematical natures of accounting and finance. Additionally, marketing majors likely have the most opportunities for creativity and possibly use music to spur imagination and originality [see

Ippolito and Adler, 2018]. Conceivably, music could be effectively used in management and marketing classes wherein students (or student groups) are actively designing business plans, promotional campaigns, creating e-commerce strategies, etc.

Analyzing the control variables of SC and SCSM allowed for richer insight into music usage among business students. In this case, we found that students higher in separateness used music more (in general), and they were also more likely to use music when studying. Students higher in separateness are likely craving the human elements of music and/or they are using music to ease the pain that may come with the isolation of studying (especially during times of pandemic). Self-control was negatively linked to music consumption while studying. Students high in SCSM did not listen to significantly less music daily; but rather, their abilities in self-control served them well in compartmentalizing school work from music consumption. Unrelated to music, it is interesting to note that the more connected business students reported higher GPAs (whereas more separated ones had lower GPAs). This finding has implications for universities that may find value in taking extra care to develop and maintain social cohesion and connectedness on campus. It is likely that connectedness leads to a range of benefits beyond enhancing GPAs.

In summary, this research contributes to the study of music in education in three ways. First, it is the foundational investigation of music consumption specifically in the realm of business education. We contend that business education is different in terms of its unique combination of mathematical, psychological, economic, and organizational principals; therefore, understanding the role of music in business education is crucial to developing deeper insights into students' learning processes.

Second, this research is original in its application of SC and SCSM as control variables. The findings here would seem to indicate that music is frequently used as a coping mechanism among more separated students and that students high in self-control are more prone to turning off their music while studying. In the ongoing wake of the COVID-19 pandemic, it is easy to envision intense levels of isolation through quarantining and social distancing. In parallel, students are likely to feel they have less control over many issues in their lives. It is likely that they turn to music to deal with the harsh, new realities of their lives.

Third, the primary reasons given across the three-quarters of business students that are using music while studying tend to revolve around issues of affect regulation and motivation. They are consuming music to improve their moods and to maintain enthusiasm. When not studying, students are using music to relieve stress, to get through difficult times, to fight off loneliness, and to spur creativity. Thus, it appears that music is a popular and vital "tool in the toolbox" frequently wielded by business students to facilitate, structure, and build their university educations.

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Does an Accounting Internship Impact CPA Exam Performance?

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We examined whether an accounting internship influences CPA exam performance. Using 2005–2013 candidate data, we found that an internship is significantly related to CPA exam performance in the Auditing (AUD) section. We speculate that the internship's observed positive effect for the AUD section and the lack of effect for the other three sections is because the audit section more closely reflects knowledge/skills acquired by interns than the other three exam sections. These results have implications for academics and candidates seeking to improve CPA exam performance. Our study also provides information for those considering incorporating an accounting internship into the curriculum.

Keywords: Accounting Internship, CPA Exam, Performance
Disciplines of Interest: Accounting

INTRODUCTION

Internships have grown in importance and have become a primary means for employers of accounting graduates to recruit prospective new associates. In fact, most new associates at the Big 4 accounting firms previously had internships with the firm [Bloomberg Business 2007]. Although many professions use internships as a recruiting device, the accounting profession has been found to have the highest percentage of hires from former interns [Koba, 2014]. Internships in the accounting profession will likely continue to be very important as the firms continue to expand their global operations and associated recruiting goals.

Although few would contend that internships do not have value for the student and for the organization offering the internship, there is limited research examining whether an accounting internship has any impact on the career success

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of the intern after he or she joins the accounting firm. One short-term measure of career success is the timely completion of the CPA exam. In many accounting organizations, failure to pass the CPA exam in a timely manner will likely lead to the associate leaving the organization. The purpose of the current study was to investigate the relationship between having an academic accounting internship and performance on the CPA exam. Results indicate that having an internship is positively related to performance on the audit section of the CPA exam.

We believe that this study provides an important contribution to the existing academic literature on the accounting internship. We note that this is the first study to use multivariate statistics to examine the relationship between an accounting internship and CPA exam performance. Although some prior studies have looked at how an accounting internship could affect academic motivation and performance [Knechel and Snowball, 1987; Martin and Wilkerson, 2006], only one prior study has examined how an accounting internship might impact CPA performance [Hairston, Harter, and McKay, 2020]. Investigating this issue is important, because performance on the CPA exam is critical to the career success of an accounting graduate.

In addition, we contribute to the existing academic literature on the determinants of CPA exam success. Prior studies have extensively examined factors that might affect a candidate's CPA exam performance. Those factors examined in prior literature include student aptitude, as measured by SAT or ACT scores [Grant, Ciccotello, and Dickie, 2002]; implementation of the 150 credit hour requirement [Allen and Woodland, 2006]; faculty research specialty and productivity [Boone, Legoria, Seifert, and Stammerjohan, 2006, Bline, Perreault, and Zheng, 2016]. However, the role of an accounting internship on candidate CPA exam performance has received minimal attention in the literature [Hairston et al., 2020]. Given the popularity of an accounting internship with accounting students, it is worthwhile to expand the examination of an accounting internship on CPA exam performance.

The remainder of this paper is organized as follows: The next section provides a brief review of background literature into research on academic accounting internships. The subsequent sections present the research methods and results. Finally, the paper ends with discussion and implications of the study.

BACKGROUND AND LITERATURE REVIEW

Although internships are important in the profession's recruiting process, relatively little is known about their impact on students who have the internships. The limited research that exists has been in three areas: One area that has been investigated pertains to the time between the completion of the academic accounting internship and the end of the student's academic career.

Researchers have found that students return from the internships with greater academic motivation and performance [Martin and Wilkerson, 2006] and enhanced future academic performance [Knechel and Snowball, 1987]. In particular, Knechel and Snowball [1987] found that students who had completed an accounting internship performed better in a subsequent auditing course than students who had not had an accounting internship. The researchers proposed that knowledge gained from the internship could have resulted in the observed difference.

A second area of inquiry investigates whether the internship impacts the student's intention to have a long-term career in public accounting. Hart, Kremin, and Pasewark [2017] investigated whether an internship altered the length of time students anticipated working in public accounting. They found that some aspects of the internship (workload) decreased organizational commitment, whereas the type of work and interactions with coworkers increased organizational commitment. However, the internship experience resulted in a shorter than expected career in public accounting.

A third area that researchers have investigated is the entry of new associates into the accounting profession. In particular, these researchers investigated the interviewing success of students who completed an accounting internship [Pasewark, Strawser, and Wilkerson, 1989] as well as future job opportunities in public accounting for students who completed an accounting internship [Rigsby, Addy, Herring, and Polledo, 2013]. Pasewark et al. [1989] found that students who had internships are more likely to get an office visit based on an on-campus interview than their counterparts who had not had an internship.

The limited prior research on an accounting internship has focused on the time period from when the internship occurs until the time when the student enters the accounting profession. None of these inquiries looked at success after joining the firm. The accounting firms all have academic performance requirements to be considered for joining the firm. And, like all organizations, they have expectations that must be met to remain a member of the firm.

One of the early requirements to remain in the firm, for those who are in the audit area, is the successful completion of the CPA exam (associates in the tax and advisory services areas may use other recognized certifications as demonstration of technical competence). The CPA exam has been the benchmark for professional competence of those who serve as public accounting auditors for many years. Failure to pass the CPA exam has always limited the promotion possibilities for audit professionals because the auditor who signs the audit opinion must be a CPA. The Big 4 firms formalized the importance of passing the CPA exam when they instituted the requirement to complete the CPA exam before advancement can be considered. In addition, some firms have time stipulations for the completion of the exam. Although evidence exists that internships can improve academic performance after the internship [Knechel and Snowball, 1987], there is little evidence that the internship can also result in enhanced performance on the CPA exam.

One study has investigated the impact of an internship on CPA exam performance [Hairston et al., 2020]. These authors find that an accounting internship results in an increase in CPA exam scores (statistically significant for BEC) and pass rate (statistically significant for REG). However, the authors do not indicate that any control variables were considered when conducting these tests, so it is presumed that multivariate analysis was not applied. They then go on to evaluate performance based on a number of demographic categories. Although this study is important, it is possible that the results could result from not considering all of the independent variables together.

The Big 4 accounting firms and the AICPA/National Association of State Boards of Accountancy (NASBA) have made statements that would lead one to believe that an academic accounting internship should result in a better performance on the CPA exam. Representatives from the Big 4 firms have publicly stated that accounting interns are generally treated like first-year associates. In addition, interns work with first-year associates and are given the same types of tasks to complete that first-year associates are given. Representatives from the AICPA and the NASBA have each made public statements that the CPA exam should be built around the skills and abilities that entry-level professionals need early in their career. If the Big 4 internships are meeting their objectives and if the CPA exam is testing entry-level skill requirements, then an accounting internship should help CPA candidates be better prepared for the exam. As a result, we test the following hypothesis:

Hypothesis: *Ceteris paribus*, students who complete an academic accounting internship will have a higher score on each individual section of the CPA examination than students who do not complete an internship.

METHODS

Data for this study come from two sources. One source is CPA exam data from the NASBA The data comprised exam scores for every section of the CPA exam taken by all candidates from 2005 to 2013. In addition, demographic information about the candidates, such as birth date, gender, date the exam section was taken, and university where the degree was granted, was included in the data set.

The second source of data came from a mid-size private university in the northeastern United States. This university is a residential campus, and more than 100 students complete the accounting degree each year. The College of Business is AACSB-accredited, and a majority of the accounting students begin their career in a Big 4 firm.

The registrar's office provided information on accounting students who graduated between 2005 and 2013. The file included information indicating whether the student completed an academic accounting internship. The data set also included student birth date, gender, degree year, GPA, and SAT score submitted at the time of application to the university.

We reduced the NASBA data set to candidates who were from that particular university. We next matched the candidates on birth date, gender, and degree year, so we were able to identify candidates who both graduated and sat for an individual section of the CPA exam for the first time during the period 2005–2013.[1] The final sample contains a total of 1,543 first-time examination sittings.

The definition of each variable in the study is provided in Table 1, whereas Table 2 reports descriptive statistics. With regard to descriptive statistics, the average score (SCORE) on the AUD section (75.3) is above the passing score of 75, whereas the average score on the other three sections are below the passing score. However, the percentage of candidates who passed the CPA exam section (PASS) is above 50 percent for all four sections. In fact, the PASS rate is over 63 percent for the BEC section. Another demographic statistic important in the current study is whether the candidate has had an internship. More than half (54 to 56 percent) of the candidates had an academic accounting internship (INTERN) on his or her transcript. This university requires an undergraduate grade point average (GPA) of 3.0 before a student can take an internship for academic credit. In addition, internships are reviewed for content before being approved, and students are required to meet with faculty supervisors on a regular basis and complete an academic component of the internship.

Other demographic variables in the data set are the length of time between graduation and taking the CPA exam (YEARGAP), SAT score, overall undergraduate GPA, gender, graduate degree, and test-taking windows. On average, candidates attempted the CPA exam section for the first time between 15 and 18 months after obtaining the undergraduate degree. This interval may seem like a long time, but candidates may be in graduate school, and they will take the exam one section at a time. The average SAT and GPA of the sample were approximately 1142 and 3.36 on a 4.0 scale. In addition, approximately 45 percent of the candidates were female. With regard to the test-taking window, the most popular window was the fourth quarter window (October–November).

The analysis was conducted with both OLS regression as well as logistic regression. We chose to conduct the analysis with both because the mean and median of SCORE are slightly different, indicating that there could be minor data skewness issues in the sample. In the analysis, we regressed SCORE (PASS) on INTERN separately for each of the four sections of the CPA exam (AUD, FAR, REG, and BEC). In addition, we included a number of other items as control variables either because they have been found to be associated with SCORE in prior studies or are believed to possibly influence the relationship of interest. The data were analyzed using the following model:

Table 1. Operational Definitions of Variables

Variable	Operational Definition
SCORE	The candidate score (ranging from 0–100) on the respective section of the CPA exam.
PASS	A dummy variable that is coded as 1 when the candidate passed the exam and as zero otherwise.
INTERN	A dummy variable that is coded as 1 when the candidate took an accounting internship course and as zero otherwise.
YEARGAP	Number of years passed since graduation when he or she took the exam.
SAT	The candidate's combined SAT (verbal and math).
GPA	The candidate's overall GPA.
GENDER	An indicator variable, coded as 1 if the candidate is female.
GRADUATE	An indicator variable, coded as 1 if the candidate had a graduate degree and as zero otherwise.
Q1–Q4	Q1, Q2, Q3, and Q4 are indicator variables that are coded as 1 if the candidate took the exam in Q1/Q2/Q3/Q4, and as zero otherwise.

$$\begin{aligned}\text{SCORE(PASS)} = {} & \beta_1\text{INTERN} + \beta_2\text{YEARGAP} + \beta_3\text{INTERN} \times \text{YEARGAP} \\ & + \beta_4\text{SAT} + \beta_5\text{GPA} + \beta_6\text{GENDER} + \beta_7\text{GRADUATE} \\ & + \beta_8\text{Q2} + \beta_9\text{Q3} + \beta_{10}\text{Q4}.\end{aligned}$$

We predict that the sign of INTERN, SAT, and GPA will all be positive. SAT, GPA, and GRADUATE have been included as control variables in prior studies, and the expected sign in the current study is consistent with prior findings [Rau et al., 2019; Nagle et al., 2018; Bline et al., 2016]. As stated previously, the NASBA and AICPA representatives have stated in public forums that the CPA exam is designed to represent the knowledge base expected of first-year professionals. In addition, accounting firm representatives have stated in public forums that internships are designed to give interns the same experiences they will have as entry-level associates. If the AICPA and the firms are successful at meeting these objectives, then the completion of an accounting internship should provide candidates with understanding that will be helpful in being successful on the CPA exam. As a result, those who complete an accounting internship should be better prepared for the CPA exam than candidates who have not completed an accounting internship. Thus, we expect the INTERN variable to have a positive sign.

We do not predict a sign for YEARGAP, GENDER, and Q2–Q4. The findings with regard to GENDER have been inconsistent in prior studies, and there

Table 2. Descriptive Statistics by Section

	AUD			FAR			REG			BEC		
Variable	Mean	Std Dev	Median	Mean	Std Dev	Median	Mean	Std Dev	Median	Mean	Std Dev	Median
SCORE	75.337	13.479	76.000	72.774	14.726	76.000	73.619	14.200	76.000	74.750	10.870	77.000
PASS	0.548	0.498	1.000	0.535	0.499	1.000	0.549	0.498	1.000	0.635	0.482	1.000
INTERN	0.553	0.498	1.000	0.543	0.499	1.000	0.555	0.498	1.000	0.557	0.497	1.000
YEARGAP	1.474	1.324	1.000	1.433	1.319	1.000	1.587	1.415	1.000	1.352	1.219	1.000
SAT	1,140.993	101.780	1,130.000	1,141.522	102.345	1,140.000	1,144.773	102.297	1,140.000	1,143.047	103.108	1140.000
GPA	3.358	0.339	3.380	3.380	0.334	3.400	3.364	0.347	3.400	3.357	0.350	3.390
GENDER	0.459	0.499	0.000	0.480	0.500	0.000	0.443	0.497	0.000	0.464	0.499	0.000
GRADUATE	0.067	0.250	0.000	0.079	0.270	0.000	0.072	0.259	0.000	0.057	0.233	0.000
Q1	0.228	0.420	0.000	0.207	0.406	0.000	0.192	0.394	0.000	0.143	0.351	0.000
Q2	0.199	0.399	0.000	0.147	0.355	0.000	0.205	0.404	0.000	0.203	0.403	0.000
Q3	0.273	0.446	0.000	0.297	0.457	0.000	0.256	0.437	0.000	0.302	0.460	0.000
Q4	0.300	0.459	0.000	0.349	0.477	0.000	0.347	0.477	0.000	0.352	0.478	0.000
N	403			381			375			384		

Note. See Table 1 for variable definitions.

is no specific reason to expect candidates to score higher or lower in any particular quarter of the year. There are competing possibilities that prevent prediction of a sign for YEARGAP. First, stronger students may be more likely to take the CPA exam soon after obtaining the undergraduate degree. This possibility would imply that the sign for this variable would be negative. On the other hand, if the CPA exam is designed to represent what entry-level professionals need to understand, then more work experience should result in greater comprehension and a higher score on the CPA exam. In addition, candidates may take a CPA review course prior to sitting for the exam, and YEARGAP may also be measuring whether the candidate took a formal review course. These two reasons would imply that the coefficient for YEARGAP should be positive. As a result, we cannot make a prediction about the sign of this variable's coefficient.

We expect the interaction between INTERN and YEARGAP to have a negative coefficient for at least some of the CPA exam sections. We believe that the knowledge gained from the internship will initially increase CPA exam performance relative to those who had not had an internship. However, over time the new associates who had not completed an internship will also acquire the same information on the job. This combination of events would lead to a negative coefficient for the interaction term.

RESULTS

The results of the OLS regression analysis are presented in Table 3. The independent variable INTERN is significant ($\beta = 3.4151$, p-value $= 0.0345$) in one of the four models (AUD), and it was insignificant in the other three models (FAR, REG, and BEC). This finding may be due to the audit portion of the CPA exam more closely reflecting audit skills needed by new associates than the other three sections of the exam. In general, the AUD section of the CPA exam addresses basic auditing and attestation concepts. A student who has a tax internship would likely work in either individual tax or corporate tax, and the CPA exam will address both individual and corporate tax issues. In addition, one might believe that the REG section of the exam would be closely related to the tax practice of the accounting firm, but the REG section of the exam also includes business law, so the relationship with the firm's practice is likely not as close as that of the audit section. The FAR section addresses a wide range of financial accounting topics, many of which are likely beyond the level that would be seen by students as part of an academic accounting internship. Finally, the BEC portion of the CPA exam is broader in nature and entails areas than entry-level professionals and interns would likely encounter.

The interaction term INTERN $\times$ YEARGAP is negative and significant ($\beta = -2.0383$, p-value $= 0.0132$) for the AUD section only. This finding

Table 3. Regression Results
Dependent Variable: SCORE by Section

		AUD		FAR		REG		BEC	
Variable	Pred. Signs	Parameter Estimate	*p*-Value	Parameter Estimate	*p*-Value	Parameter Estimate	*p*-Value	Parameter Estimate	*p*-Value
INTERN	+	3.4151	0.0345	−0.5619	0.3847	0.0585	0.4891	0.4378	0.3723
INTERN × YEARGAP	−	−2.0383	0.0132	0.7111	0.2327	0.2188	0.4131	−0.0430	0.4764
YEARGAP	?	2.4355	0.0003	0.3699	0.5846	0.9785	0.1830	0.6571	0.2369
SAT	+	0.0213	0.0005	0.0247	0.0002	0.0071	0.1707	0.0244	<.0001
GPA	+	15.2369	<.0001	20.7910	<.0001	15.3000	<.0001	13.5325	<.0001
GENDER	?	−3.0447	0.0138	−6.8183	<.0001	−5.5071	0.0002	−5.4714	<.0001
GRADUATE	+	1.4530	0.2804	1.9644	0.2126	0.5068	0.4281	−0.1012	0.4796
Q2	?	5.0764	0.0062	6.8592	0.0014	−0.6031	0.7847	0.2977	0.8462
Q3	?	4.4598	0.0098	7.4869	<.0001	0.1274	0.9523	2.9294	0.0381
Q4	?	2.3255	0.1824	4.6032	0.0106	0.2506	0.9028	1.9729	0.1702
Year fixed effect		Controlled		Controlled		Controlled		Controlled	
N		403		381		375		384	
Adj R^2-		0.2262		0.3431		0.1268		0.3923	

Note. See Table 1 for variable definitions. *p*-Values are based on one-tailed (two-tailed) tests for variables whose relation to the dependent variables is (is not) predicted.

offers evidence that any advantage gained by interns as a result of exposure to the audit environment diminishes over time because those who did not have an accounting internship gained comparable experience on the job.

Taken together, the size of the coefficients of INTERN and INTERN × YEARGAP suggests that an accounting internship results in a performance increase of approximate 1.38 points on the AUD section of the exam for students who took this section within one year of graduation.

YEARGAP was found to be positive and significant for AUD ($\beta = 2.4355$, $p = 0$ 0.0003). There may be multiple reasons for this observation. For example, it is possible that the longer the candidate is on the job, the more exam-related skills he or she is developing, resulting in a higher score. It is also possible that the candidate started taking a CPA review course after starting his or her professional career. Either of these could result in the positive YEARGAP coefficient.

The control variables SAT and GPA are significant as expected for all four sections of the CPA exam. All coefficients are highly significant except SAT for the REG section. GENDER is negative and significant for all four sections, showing that females scored lower on each section of the CPA exam than did their male counterparts. The control variable GRADUATE is insignificant for all four sections of the CPA exam.

The logistic regression results are presented in Table 4. The logistic results generally confirm the OLS regression results, indicating that any data skewness issues that may exist in the SCORE variable do not overly influence the analysis. The few differences noted between the OLS and logistic regression results pertain to the GRADUATE and SAT variables. For the GRADUATE variable, in the FAR analysis, the OLS analysis resulted in a p-value of 0.2126, and the logistic regression resulted in a p-value of 0.0410. For the SAT variable, in the REG analysis the OLS analysis resulted in a p-value of 0.1707, and the logistic regression resulted in a p-value of 0.0248. In addition, there were several differences with regard to the control variables for the exam window.

CONCLUSIONS AND IMPLICATIONS

Internships have become a valued recruiting device for many accounting firms and corporations. The student and the organization have an extended period of time to learn more about each other to determine whether the prospective new associate is a good fit for the organization. Although there are likely numerous reasons for the student and the organization to desire completion of the internship, the results of this study indicate that performance on the CPA exam should not be one of those reasons.

We find that, in general, the completion of an academic accounting internship is significantly related to CPA exam performance only in the AUD section. For students who took the AUD section within one year of the graduation, an accounting internship results in a performance increase of approximately 1.38 points on this section of the exam.

The results provide strong support for the relationship between GPA and the CPA exam section score. Every model has a highly significant coefficient for GPA, demonstrating that higher performance in the classroom yields results, not just in the course but also for comprehensive exams when the program is completed.

This study is subject to a number of limitations. First, the data for the study were taken from one university. It is generally difficult to obtain information from the university's records office. We were able to do so because we did not need any student names or identification numbers. Future researchers may want to replicate this study in another setting. The results obtained were for a medium-size, AACSB-accredited, private university. There is no reason to suspect that findings in another setting will be different, but there is no proof that the results are not sample-specific.

Another limitation is that candidates were matched to exam scores based on birth date, gender, and degree year. To the extent there could be errors in these data, we could have some misclassifications.

A third limitation is that there are missing control variables. We did not know the semester in which the internship was taken. Hairston et al. [2020]

Table 4. Robustness Check: Logistic Regression Results Dependent Variable: PASS by Section

		AUD		FAR		REG		BEC	
Variable	Pred. Signs	Parameter Estimate	*p*-Value	Parameter Estimate	*p*-Value	Parameter Estimate	*p*-Value	Parameter Estimate	*p*-Value
INTERN	+	0.6368	0.0369	−0.0012	0.4987	−0.1698	0.3176	−0.1539	0.3435
INTERN × YEARGAP	+	−0.2787	0.0528	−0.0040	0.4917	0.1864	0.1349	0.1529	0.2284
YEARGAP	?	0.2696	0.0324	0.0735	0.5887	0.1436	0.2388	0.0242	0.8728
SAT	+	0.0037	0.0019	0.0052	0.0002	0.0025	0.0248	0.0052	0.0002
GPA	+	2.0710	<.0001	2.9894	<.0001	2.4523	<.0001	2.6030	<.0001
GENDER	?	−0.5255	0.0252	−1.0723	<.0001	−0.7647	0.0016	−0.7095	0.0069
GRADUATE	+	0.2476	0.3129	0.9634	0.0410	0.2686	0.2958	−0.1369	0.4107
Q2	?	1.2554	0.0005	0.9684	0.0233	0.1495	0.6845	−0.2543	0.5696
Q3	?	1.0735	0.0010	1.0139	0.0067	0.1001	0.7784	0.1055	0.8006
Q4	?	0.8171	0.0126	0.5314	0.1312	0.0641	0.8507	−0.3533	0.3918
Year fixed effect		Controlled		Controlled		Controlled		Controlled	
N		403		381		375		384	
Pseudo R^2		0.2040		0.2772		0.1763		0.2568	

Note. See Table 1 for variable definitions. *p*-Values are based on one-tailed (two-tailed) tests for variables whose relation to the dependent variables is (is not) predicted.

found that the semester of the internship made a difference in the impact of the internship on the CPA exam performance. In addition, we also did not know whether the candidate completed an audit internship or a tax internship. Furthermore, we do not know whether a candidate completed a CPA review course prior to taking the CPA exam. The NASBA did not gather review course data, so it was unavailable to us for analysis. Each of these independent variables are appropriate items for future investigation.

A fourth limitation is the time frame of the study. We obtained a NASBA research grant that gave us access to individual candidate data from 2005 to 2013. The NASBA research grant is the only means by which individual candidate data can be obtained. Future researchers may wish to pursue a NASBA research grant to investigate whether the findings of the current study are stable, because the format and compositions of the CPA exam change over time.

In conclusion, our study is the first multivariate analysis to provide evidence that candidate performance on the modern CPA exam is significantly related to completion of an accounting internship. Specifically, we identify a positive relationship between an accounting internship and candidate performance on the AUD section of the CPA exam. Ours is the first multivariate analysis study to examine this issue, and we believe our finding is of significant interest to educators, practitioners, and others interested in the determinants of successful performance on the CPA exam. In addition, our study provides insightful information for accounting programs to incorporate an accounting internship into their curriculum.

ENDNOTE

1. This business school is AACSB accredited, and graduates regularly accept positions in public accounting firms (including the Big 4), where they will be required to sit for the CPA exam.

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The Professor Will See You Now: How Incentivizing Office Hours Can Increase Student Attendance

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Although research has shown that students benefit from visiting office hours in areas ranging from academic performance to strengthened relationships with peers and faculty, many choose never to attend office hours at all. An outgrowth of a state university's graduation initiative that focused on student retention, this pilot study was conducted in one professor's business law classes over a two-year period. This study investigated whether offering a small incentive would improve student attendance at office hours and lead to student success benefits identified in previous studies.

Keywords: Student Success, Office Hours, State University, Motivation
Disciplines of Interest: Business Law, Psychology

INTRODUCTION

In 2016, California State University, Northridge, created the Data Champions Program for the purpose of training faculty and staff to improve support for student success through the use of data tools and analysis of institutional data.[1] Individuals who became Data Champions would then contribute to the Graduation Initiative 2025 effort by developing plans to improve graduation rates and eliminate opportunity gaps. The idea for this study grew from that university's focus on student retention to increase graduation rates, with a goal of identifying one avenue that could lead to a higher student retention rate: attendance at office hours.

Students tend not to take advantage of office hours for various reasons, despite evidence that attendance at office hours can be beneficial in a number of ways. The first section of this paper will provide an overview of the impact of office hours on student retention through strengthening students' relationships

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with peers, faculty, and their institutions, as well as positively affecting students' academic performance. The second section will examine the factors that impact students' attendance at office hours and discuss recommendations to improve that attendance. Next, the third section will explain the methodology of the exploratory study examining student attendance at office hours that was performed in one professor's Business Law II classes over four consecutive semesters. The fourth section will explain the study's working hypotheses and results, and the fifth section will discuss the study's results and recommendations for future research and action.

Impact of Office Hours

Building Relationships

The relationships that students develop with faculty, peers, and administrators can strengthen a student's persistence and therefore increase the chances that they will graduate [Demetriou and Schmitz-Sciborski, 2011]. "The interactions students have on campus with individuals in academic, personal and support service centers can influence a student's sense of connection to the college or university as well as their ability to navigate the campus culture, meet expectations and graduate" [Demetriou and Schmitz-Sciborski, 2011, p. 4]. The typical college lecture class limits the interaction between faculty and students. Even if a professor calls on students in such a class, those brief exchanges are within the entire class's context and may not necessarily build a relationship between the instructor and the students called on. In contrast, office hours allow students to connect with their instructors on a more personal and positive level, thus strengthening a bond that can aid students' persistence in reaching their goal of graduation. Those faculty–student interactions, combined with taking advantage of resources such as office hours, can both encourage students to integrate into their educational community and positively impact retention rates [Demetriou and Schmitz-Sciborski, 2011]. The benefits of face-to-face interactions include relationship-building, which leads to a more personalized educational experience and can also lead to future collaborations with faculty members. Additionally, meeting with students in person can encourage instructors to take on mentoring roles that positively impact retention rates, especially for underserved students [Jackson and Knupsky, 2015, pp. 183–184].

Different motivational theories that identify causal factors can explain and predict student success measures, such as student retention. One theory states that students are more likely to persist when they feel in control, with students likely feeling in control "when the factors attributed to their outcomes are seen as internal, stable and controllable" [Schunk and Zimmerman, 2006, as quoted in Demetriou and Schmitz-Sciborski, 2011, p. 6]. For those students who feel a lack of control over their environment and academic success, attributional retraining helps students restructure their explanations for academic performance. The first component of the attributional retraining—modeling—involves a faculty member explaining how her or his thinking and ability level has changed over time. Office hours offer one opportunity for professors to discuss with students how perceptions of their own abilities have changed. This models for students that they also can change how they perceive their academic performance. Additionally, "[s]tudents who perceive faculty as respectful, approachable and available outside of the classroom are more likely to feel confident about their academic skills and to be academically motivated" [Demetriou and Schmitz-Sciborski, 2011, p. 9]. Informal conversations with faculty can even enhance how much a student enjoys learning [Demetriou and Schmitz-Sciborski, 2011]. One of the benefits of office hours is providing students the opportunity to forge connections with faculty members. Those connections can impact students in beneficial ways, from becoming more confident in their own abilities to greater persistence as a result of feeling more in control of their academic life.

A similar theory suggests that targeting students' perceptions of their growth versus fixed mindset can impact academic performance [Dweck, 2000]. Growth mindset refers to a person's belief that their own intelligence is malleable and can be improved, whereas fixed mindset refers to a person's belief that their own intelligence is immovable [Broda, Yun, Schneider, Yeager, Walton, and Diemer, 2018]. Literature examining the link between growth mindset and academic success focuses on two areas: (1) identifying whether there is a positive, predictive relationship between growth mindset and enhanced student success outcome measures, and (2) examining the effectiveness of interventions to increase growth mindset in students [Paunesku, Walton, Romero, Smith, Yeager and Dweck, 2015]. A meta-analysis of this literature suggests moderate empirical support for these two areas: there was a weak, positive relationship between a student's growth mindset and academic success, and a weak, positive relationship between interventions that target growth mindset and academic success [Sisk, Burgoyne, Sun, Butler, and Macnamara, 2018]. However, the relationship between growth mindset and academic success was especially strong for underserved students [Sisk et al., 2018]. During office hours, faculty could use the meeting time as an opportunity to address student misconceptions about their growth versus fixed mindset and enhance student success, and this type of intervention should be especially helpful for underserved students.

Attending office hours can benefit students in a number of other areas, including simply providing them with additional opportunities to practice conversing with a professional academician in a less formal setting than the classroom. Learning how to engage in academic speech constitutes one skill that can help students integrate successfully into the university environment [Limberg, 2007]. A combination of a more formal academic mode and an informal nonacademic mode, speech that occurs in office hours gives students "frequent opportunities to emphasize the social side of talk [Limberg, 2007, p. 177]." Talking to their professors at office hours helps develop the relationship between the institution and students by promoting contact between them, as well as positively affect the academic relationship between professors and students beyond a regular teaching environment [Limberg, 2007].

Research supports multiple benefits of increased informal student–faculty interactions, ranging from college satisfaction and retention to academic achievement and intellectual development [Pfund, Rogan, Burnham, and Norcross, 2003]. An additional benefit of having students make an office hour appointment teaches them skills they can use in the workplace: they have "to plan ahead, delay gratification, and tolerate stress and uncertainty [Jackson and Knupsky, 2015, p. 183]."

Academic Performance

In academia, there is a general understanding of a positive associations between academic success and attending office hours and between student–faculty face-to-face interactions and student satisfaction and retention [Guerrero and Rod, 2013]. "For most courses, one-on-one interaction with the person responsible for designing the course has the potential to dramatically improve a student's grade [Guerrero and Rod, 2013, p. 405]." In the late 1980s, Chickering and Gamson (1987) developed seven principles for good practice in undergraduate education. Encouraging student–faculty contact constituted the first principle, because "[f]requent student-faculty contact in and out of class is the most important factor in student motivation and involvement [Hess, 2002, p. 85]." Office hours nurture "the transactional function of imparting information to students in order to enrich their academic knowledge beyond what is covered by seminars or lectures [Limberg, 2007, p. 181]." The positive transactional, or task-oriented nature of office hours may lead to "solving students' concerns while fulfilling their requests and conforming to academic standards" [Limberg, 2007, p. 184].

One study with more than 400 participants examined seven political science courses over a four-year period. Findings showed that attendance at office hours is positively correlated with academic performance, even when controlling for a wide range of factors [Guerrero and Rod, 2013]. Although a majority of students never attended office hours, those who did could expect their grade in the course to increase by approximately 1.27 percent per visit [Guerrero and Rod, 2013]. Yet despite this positive correlation, oftentimes students have a negative perception of office hours and choose not to attend them [Guerrero and Rod, 2013].

Another study looked at the performance of psychology students in a statistics course. It investigated whether attending office hours in conjunction with a written reflection following the meeting would improve students' learning (measured by test performance) in the course [McGrath, 2014]. The study results did indicate as much, with the authors noting that student outcomes were best when the intervention of the meeting and reflection occurred earlier in the course (prior to the second test rather than the third) [McGrath, 2014].

Attendance at Office Hours

Factors Impacting Attendance

Despite office hours affording students a "prime opportunity for robust student-faculty interaction," [Pfund et al., 2003, p. 524] and even though direct faculty–student interactions can improve students' academic performance—as well as their satisfaction level [Joyce, 2017]—students rarely take advantage of the opportunity [Joyce, 2017]. When they do, the visits tend to be brief [Pfund et al., 2003, p. 524].

The question then arises: why do students fail to take advantage of office hours, despite the potential benefits? A variety of reasons may explain students' reluctance, ranging from having a personality type that is averse to asking for help, to being apprehensive or embarrassed, to not wanting to impose on an instructor's time [Guerrero and Rod, 2013]. "Misperceptions of ability" may also explain a lack of attendance, where poorly performing students view themselves as lacking competence and expect to fail in the future [Guerrero and Rod, 2013].

With most students not attending office hours even once during any given semester, faculty members must then convince students that office hours can provide them with something not available during a regular lecture [Guerrero and Rod, 2013]. Simply relabeling office hours as something else is an approach that can impact a student's willingness to attend them. One professor found that by reframing the time she had available to assist students as tutoring instead of referring them to office hours, twice as many students took advantage of tutoring as they did office hours [Joyce, 2017]. Modifying the name of office hours may be especially important for first-generation college students who may not have access to informal mentors to explain college jargon. One study that surveyed 45 four-year institutions identified that a specific educational barrier for first-generation college students was understanding college-specific terms. One interpretation of these findings was to modify the term "office hours" to "student hours" to help students recognize the true meaning of this event. The term "student hours" might help first-generation college students recognize that a faculty member is available for student meetings during the assigned hours [Whitford, 2018].

Another survey of undergraduates at a large public university identified factors that impact whether students attend office hours [Griffin, Cohen, Berndtson, Burson, Camper, Chen, and Smith, 2014]. With research showing that office hours have a beneficial impact on students, the authors investigated which factors affected the likelihood that a student would make use of them and what instructors could do to increase students' attendance at office hours [Griffin et al., 2014]. When surveyed, 66 percent reported never attending office hours, with only one-third reporting attending once during the semester [Griffin et al., 2014]. Factors that instructors had a great deal of control over, such as the use of in-class discussion and an instructor's approachability, had little to do with whether students used office hours [Griffin et al., 2014]. In fact, the survey showed that a student's perception that an instructor's feedback is useful is more important than that instructor's perceived approachability [Griffin et al., 2014]. Factors that impacted students' use of office hours—such as whether the course is required for the major or an elective and perceived convenience of time and location of the hours—for the most part were out of the control of instructors [Griffin et al., 2014].

Recommendations

Higher levels of informal contact with faculty have been shown to exhibit several positive effects on students: academic achievement, college satisfaction, retention, intellectual development, and personal growth [Pfund et al., 2003]. Nonacademic interactions between students and faculty have also been linked to positive student outcomes. The type of interaction is relevant, with in-person meetings preferable to email exchanges. Studies indicate that although students may prefer communicating via email or an online platform, electronic communication does not have the same benefits of communicating face-to-face [Guerrero and Rod, 2013]. Although computer-mediated communication between faculty and students has not been found to be comparable to face-to-face interactions, the two types of communication can be used in conjunction with each other to some effect [Guerrero and Rod, 2013]. "The interaction that occurs within office hours engages students in their own education. Although there are a number of factors at work that may effectively predict success, [the authors of one study] argue that instructors should consider engaging students face-to-face as a primary objective [Guerrero and Rod, 2013, p. 411]." With many colleges and universities limiting or eliminating in-person interactions during the global pandemic, face-to-face office meetings out of necessity had to occur on Zoom or other video conferencing platforms.

Professors can take a number of actions even when in-person meetings are not possible. These include offering virtual office hours at various times, sending reminders to students to encourage them to make an appointment (particularly targeting those students who are not performing well in the class) [Guerrero and Rod, 2013], and informing students of the research that shows they can benefit from attending office hours [Griffin et al., 2014]. Other strategies that can encourage students to take advantage of office hours include making attendance part of an assignment or counting it toward class participation and offering online options [Jackson and Knupsky, 2015]. The instructor in whose classes the data were collected used both of these strategies successfully once the global pandemic necessitated a shift to online instruction; attendance was a percentage of each student's grade, and students in one class received extra credit for coming to one-on-one Zoom office hours.

Current Study Overview

Although there are a multitude of explanations for why students do not attend office hours, our study focuses on two main factors: students feeling threatened by the potential experience of office hours, and students not recognizing the practical value of the experience. As suggested by the psychological science theory of WISE interventions [Walton and Wilson, 2018] we designed a precise and simple intervention targeted to address the reasons students are unmotivated to visit office hours. We provided a low-stakes incentive (extra credit) that was practical in nature (points toward grade). We examined the relationship between this low-stakes incentive, office-hour attendance, and student success outcome measures. We predicted that this intervention would help students perceive the true value of attending office hours, resulting in the following outcomes: we predicted that a low-stakes incentive (e.g. a minimal extra credit bonus) would increase attendance at office hours, and that this increase in office hour attendance would be greater for underserved students. To account for student aptitude differences, we controlled for students' midterm scores. We further predicted that office-hour attendance would predict increases in student success measures such as exam scores, growth mindset scores, and "sense of belonging" measures.

METHODOLOGY

Participants

Participants were 236 undergraduate students enrolled in one of seven lower-division business law courses at a large public university in Southern California, all taught by the same faculty member. Required for all students in the College of Business and Economics, the class introduces concepts in three broad categories: the court system, torts, and contracts. Because it was a required course, demographics in this particular class mirrored the demographics of the college as a whole. To normalize the distribution of grades, the business law department instituted guidelines for all faculty teaching the class regarding expected grade distribution. In practice, grade distribution has been generally consistent across all sections of the course—including those in this study—with a typical curve containing 25–40 percent A's and B's together, 45–70 percent C's, with D's and F's making up the remainder. The Department requires all exams to be a minimum of 50 percent essay, with the remainder whatever combination of multiple choice and short answer the professor chose. The courses included in this study all had two midterms and a final, with the essay portion making up 60–70 percent of the exams and multiple choice questions the remainder.

Data collection took place over four semesters. A total of 146 students reported their gender: 50 percent were male, 490.3 percent female, and one student reported being gender fluid. A total of 137 students reported their race or ethnicity: 38 percent identified as Latino/a, 37 percent White, 17 percent Asian/Pacific Islander, 6 percent Mixed, 3 percent Black. "Latino/a" included participants who indicated their race or ethnicity as Hispanic, Mexican, Latino/

a, Mexican-American, Chicana/o, Spanish; “Black” included participants who indicated their race or ethnicity was Black or African American; “White” included participants who indicated their race or ethnicity was White, Armenian, Jewish, Jewish/Caucasian; “Asian” included participants who indicated their race or ethnicity as Vietnamese, Pacific Islander, Pakistani, or Sri Lankan; “Mixed” included participants who indicated their race or ethnicity as White/Hispanic, White/Asian, mixed, Filipino/Chinese. The racial/ethnic composition of our sample size was similar to the demographics of the business law department at our university in 2020, with a few exceptions: this sample had a higher percentage of Asian American students (6 percent within business law majors versus 17 percent within our sample and a lower percentage of Latino(a) students (47 percent within business law majors versus 38 percent within our sample). A total of 147 students reported whether either of their parents had a bachelor’s degree: 44 percent of the participants’ parents had a bachelor’s degree.

Surveys

A list of survey questions, including demographic questions, is included in the Appendices. Survey responses were matched by respondents to assess changes in student perceptions of and attitudes toward office hours over time. The pre-survey measured perception of office hour attendance and behaviors, integration, support, and belonging at the university [Yomtov, Plunkett, Efrat, and Marin, 2017], and a student’s propensity toward a growth or fixed mindset [Dweck, 2000]. Integration and support refer to the extent that a student feels connected to the university and that they have a social network of allies within the university. The questions for office-hour attendance included: (1) “On average, how many times a semester do you attend office hours for all your classes?” with response options of 0–1, 2–3, 4–5, more than 5. (2) “Please indicate below how helpful you found office hours to be” on a 1 (not at all helpful) to 5 (very helpful scale. (3) “What best describes the reason why you attended office hours for a class?” with response options “To better understand the material,” “To protest a grade,” “To go with a friend,” “To visit with the professor,” “Other (please explain).” (4) “What best describes the reasons why you do not attend office hours for a class?” with response options “They didn’t fit into my schedule,” “The professor was unavailable when I could attend,” “Didn’t see the need/point,” “Intimidated by the professor or the thought of meeting one-on-one with him/her,” “Other (please explain).” (5) “How likely are you to attend office hours this semester, for this class” on a 1 (not at all likely) to 5 (very likely) scale. The questions were always asked in this order.

We used five questions adapted from Yomtov et al. (2017) to measure students’ sense of belonging at the university. All items were on a six-point scale, including the options of strongly disagree, disagree, somewhat disagree, somewhat agree, agree, strongly agree. The questions included: (1) “I feel integrated into the CSUN community,” “I feel an active part of the CSUN community,” "I feel a strong positive connection to CSUN," "I have at least one person who I can turn to for emotional support at CSUN," "I have at least one person who I can turn to for academic support at CSUN, "and "I expect to graduate from CSUN in 4 to 6 years." The questions were always asked in this order. "Sense of belonging" scores were calculated by summing student responses to the six "sense of belonging" items to create a composite score (*Cronbach's* $\alpha = 0.85$). The highest possible score was 6, indicating a greater sense of belonging. In this sample, scores ranged from 1 to 6.

We used eight questions adapted from Dweck (2000) and Shen, et al., (2016) to measure students' growth or fixed mindset on a six-point scale, including the options of strongly disagree, disagree, somewhat disagree, somewhat agree, agree, strongly agree. Growth mindset refers to a person's propensity towards believing that their own intelligence is malleable and can be improved [Broda et al., 2018]. Empirical findings suggest a weak, positive relationship between a student's growth mindset and academic success, especially for underserved students [Sisk et al., 2018]. The questions included: "You have a certain amount of intelligence, and you can't really do much to change it," "Your intelligence is something about you that can't change very much," "No matter who you are, you can significantly change your intelligence level," "To be honest, you can't really change how intelligent you are," "You can always substantially change how intelligent you are," "You can learn new things, but you can't really change how intelligent you are," "No matter how much intelligence you have, you can always change it quite a bit," "You can change even your basic intelligence level." The questions were always asked in this order. We reverse-coded items so that higher values indicated a stronger propensity toward growth mindset. We averaged all items to create two composite scores of "growth mindset," one for each participant for survey 1 (*Cronbach's* $\alpha = 0.92$) and one for each participant for survey 3 (*Cronbach's* $\alpha = 0.89$). Finally, students were asked four demographic questions, including age, gender, race/ethnicity, and whether their parents had a bachelor's degree. Students were asked several other questions for use in a different study.

In the second survey, students were asked, "How likely are you to attend office hours for this class" on a 1 (very unlikely) to 9 (very likely) scale. Each student was also asked, "Did you attend office hours for this class" If they answered "yes," they were asked to indicate how helpful they found the office hour visit to be on a 1 (not at all helpful) to 5 (very helpful) scale. Students were asked several other items for use in a different study and as filler questions to reduce students' ability to identify the purpose of this study.

In the post-survey, students were asked the same two questions from the second survey. Students were asked several other questions about attending office hours, including: (1) "On average, how many times this semester did you attend office hours for all your classes?" with response options of 0–1, 2–3, 4–5, more than 5. (2) "Please indicate how helpful you found office hours to be?" on a 1 (not at all helpful) to 5 (very helpful scale. (3) "What best describes the reasons why you attended office hours for this class?" with response options "To better understand material," "To protest a grade," "To go with a friend," "To visit with the professor," "Other (please explain)." (4) "What best described the reasons why you did not attend office hours for this class?" with response options "They didn't fit into my schedule," "The professor was unavailable when I could attend," "Didn't see the need/point," "Intimidated by the professor or the thought of meeting one-on-one with him/her," "Other (please explain)." and (5) "How likely are you to attend office hours for your classes next semester" on a 1 (not at all likely) to 5 (very likely) scale. Students were asked the same questions about sense of belonging and growth or fixed mindset that were asked in the pre-survey. The questions were always asked in this order. Students were asked several other questions for use in a different study.

Procedures

Classes were randomly assigned to an incentive or nonincentive group at the start of each semester. Students completed three surveys throughout the semester: one pre-survey before the first midterm, a second survey before the second midterm, and a final survey before the final exam. Each survey was administered in one class session that occurred no more than one week before the exam. A link to the survey was sent to participants via email before their class meeting. Students were given time in class (about 15 minutes) to complete the questionnaire. If students did not participate in class, they were offered the opportunity to complete the survey after the course, but before taking the exam.

The introduction of the incentive occurred after students received feedback on their exam grades. Students in the incentive group were offered a one-point extra credit incentive for attending office hours once their first midterm exam was returned. The instructor wanted to offer an incentive to everyone, especially those who needed the office-hour visit most. Students who received at least a C were offered one point of extra credit in a grading category worth 10 percent of their final grade, whereas students who received below a C were offered one point of extra credit in a grading category worth 20 percent of their final grade. As applied, the extra-credit point in both categories had virtually no impact on a student's final grade, given that it was only one point.

The nonincentive group was not offered any extra credit for their exam, but they were encouraged to attend office hours at the same time the incentive was introduced. Please see Figure 1 for a timeline of the procedures.

For those who came to office hours, the instructor met with them one-on-one for approximately 15–20 minutes. The first thing asked was how they studied for the exam. Then, the instructor and student would discuss methods for improving their scores by emphasizing the necessity of being more active in

Figure 1. Timeline of Administering the Surveys, Incentives, Midterms

their studying instead of looking at things passively. The instructor would explain to each student that the more senses they used during studying, the better: they heard the lecture, they wrote the notes, they read from the textbook, and now they needed to do things like make flashcards, make their own outline of the material, and have someone quiz them because it helps to learn the material by explaining it to someone else. Before they left, the instructor would give them a post-it on which she would hand-write notes that included the following pieces of information:

1. Make flashcards of important concepts covered in class.
2. Quiz yourself and have someone quiz you from the flashcards.
3. Create an outline of the material to see the big picture, that is, how the concepts relate to each other.
4. Practice writing out in paragraph form an explanation of some of the significant concepts.
5. Rewrite an answer to one of the homework problems and bring it back to office hours for feedback from the instructor.

STUDY RESULTS

Effectiveness of the Incentive and Impact of Race and Ethnicity

In our first research question, we were interested in examining whether a one-point incentive to students' exam scores would increase their office-hour attendance. The one-point incentive to students' exam grades had a positive impact for those in the incentive group in comparison with those in the nonincentive group. A one-point incentive increased the proportion of students who attended office hours in the incentive group ($n = 73$; 50.3 percent) in comparison with those in the nonincentive group ($n = 31$; 34.1 percent; $z = 2.45$; $p = 0.007$).

We examined whether the relationship between office-hour attendance and incentive differed depending on students' race or ethnicity. Given the uneven sample sizes in the different racial and ethnic groups, we report the raw descriptive statistics. Latino/a students were impacted most by the incentive: 100 percent ($n = 7$) of Latino/a students in the nonincentive group did not attend

Table 1. Attendance at Office Hours by Incentive as a Function of Students' Race or Ethnicity

Student Race/ Ethnicity	Incentive Groups	*N*	Attended (%)	*N*	Did Not Attend (%)
Latino/a	Incentive	23	51%	22	49%
	Nonincentive	0	0%	7	100%
White	Incentive	23	60.5%	15	39.5%
	Nonincentive	6	50%	6	50%
Asian	Incentive	7	50%	7	50%
	Nonincentive	3	33%	6	67%
Mixed	Incentive	2	50%	2	50%
	Nonincentive	1	25%	3	75%
Black	Incentive	3	75%	1	25%
	Nonincentive	0	0%	0	0%

office hours, whereas 51 percent ($n = 23$) of Latino/a students in the incentive group attended office hours. White students were impacted least by the incentive: 50 percent ($n = 6$) of White students in the nonincentive group attended office hours, whereas 60.5 percent ($n = 23$) of White students in the incentive group attended office hours. We could not compute the Black students' frequency of attending in the nonincentive group because there were no Black students in the nonincentive group. For all other values, please see Table 1.

Impact of Incentive on Well-Performing Students

To see whether the incentive increased office hours even for students who performed well on the first midterm, we examined whether the incentive increased office-hour attendance after controlling for students' scores on their first midterm. A hierarchical logistic regression was performed. A null or naive model correctly classified 55.9 percent of participants because a higher percentage of participants did not attend office hours. The final model contained two predictor variables (first midterm and incentive group) and was statistically significant, χ^2 $(1, 236) = 14.51$, $p < 0.001$. The first midterm and incentive group distinguished significantly between students who attended and did not attend office hours. The final model explained between 5.8 percent (Cox and Snell Square) and 7.8 percent (Nagelkerke R Squared) of variance in office-hour attendance, and correctly classified 61.9 percent of students. Supporting the effectiveness of the incentive, the strongest predictor of office-hour attendance was membership in the incentive group, with an odds ratio of 2.24. Students who were in the incentive group ($n = 132$) were more than two times more

Table 2. Logistic Regression Predicting Likelihood of Attending Office Hours

	B	SE	Wald	df	*p-Value*	Odds Ratio	95.0% CI for Odds Ratio Lower	Upper
Midterm 1	−0.02	0.01	7.65	1	0.006	0.97	0.951	0.992
Incentive Group	0.81	0.74	3.12	1	0.005	2.2	1.28	3.94

Note: CI, confidence interval; df, degrees of freedom; SE, standard error.

likely to attend office hours than those who were in the nonincentive group ($n = 104$), even after controlling for first midterm scores, whereas the odds ratio of 0.97 on midterm 1 was less than 1, indicating that for every additional point on a student's first midterm score, they were 0.97 times less likely to attend office hours, controlling for incentive group. Please see Table 2 for each model in the hierarchical logistic regression.

Impact of Office Hours on Student Success Measures

We examined whether attending office hours impacted student success outcome measures, and whether this impact was similar for students of different racial and ethnic backgrounds.

Higher "sense of belonging" scores indicated greater sense of belonging. We performed a 2 (office hour attendance: yes, no) × 2 (survey: 1st survey, 3rd survey) Mixed Analysis of Covariance (ANOVA) on sense of belonging, with the survey as the within-subjects variable. There was a significant main effect of the survey on sense of belonging: $F\ (1,117) = 75.52$, $p < 0.0001$, $\eta_p^2 = 0.392$.

Sense of belonging was greater at Survey 1 ($M = 20.94$, $SE = 0.44$) than Survey 3 ($M = 14.22$, $SE = 0.44$). No other effects were statistically significant: all Fs < 1.

A 2 (office-hour attendance) × 2 (Survey) Mixed ANOVA was performed to investigate students' growth mindset scores. There were no statistically significant effects: Fs < 1.

A 2 (office-hour attendance) × 3 (midterm: 1, 2, 3) Mixed ANOVA was performed to investigate exam scores. There was a significant interaction between office-hour attendance and midterm on scores: $\lambda\ (1,233) = 3.05$, $p = 0.049$; $\eta_p^2 = 0.03$. Those who attended office hours had a significantly lower first midterm score (Mean [M] = 68.27, Standard error [SE] = 1.30) than those who did not attend office hours (M = 72.52, SE = 1.16), $p = 0.016$. No other

Table 3. Mean and Standard Error of Exam Scores

	Office Hour Attendance				
	Attended Office Hours		Did Not Attend Office Hours		
Exams	**M**	**SE**	**M**	**SE**	***p-Value***
1st Midterm	68.28	1.30	72.52	1.16	.01
2nd Midterm	70.39	1.46	70.27	1.29	.94
3rd Midterm	69.05	1.56	70.34	1.38	.53

Note: M, Mean; SE, standard error.

comparisons were statistically significant; see Table 3 for values. There were no other statistically significant effects: all *F*s and $\lambda < 10.2$.

Attitudes towards Office Hour Attendance

Several exploratory analyses were conducted to examine the relationship between the incentive and student attitudes toward attending office hours. Students reported that they found office hour visits helpful. When asked to indicate how helpful they found the office-hour visit to be on a 1 (not at all helpful) to 5 (very helpful) scale, participants responded on average above the midpoint on the second ($M = 4.20$, standard deviation [SD] $= 0.86$) and third surveys ($M = 4.11$, $SD = 1.20$).

Second, we compared the average of participant responses to the question, "How likely are you to attend office hours for your classes next semester" on a 1 (not at all likely) to 5 (very likely) scale between those who attended office hours and those who did not. Those who attended office hours reported a greater likelihood of attending office hours in future semesters ($M = 3.82$, $SD = 1.14$) than those who did not attend office hours ([$M = 3.15$, $SD = 1.10$], $t[193] = -4.09$, $p < 0.001$, *Cohen's* $d = 0.59$).

Students who attended office hours in this study ($M = 1.74$, $SD = 0.83$) reported attending office hours a number of times in prior semesters that was similar to that of students who did not attend office hours in this study ([$M = 1.52$, $SD = 0.62$], $t[146] = 1.82$, $p = 0.071$, *Cohen's* $d = 0.30$).

Students who did not attend office hours throughout the semester reported a lower likelihood to attend office hours for this business law class ($M = 2.72$, $SD = 1.09$) in comparison with those who did attend office hours ([$M = 3.25$, $SD = 1.29$], $t[146] = 2.66$, $p = 0.009$), Cohen's $d = 0.44$).

The most frequently reported reason that students did not attend office hours was the inability to fit office hours into their schedule ($n = 94$; 39.8

percent). Another common response was that students did not see the point or need to attend office hours ($n = 55$; 23.3 percent). Other less common responses were that the professor was unavailable ($n = 7$; 3 percent), or that the students were intimidated to meet with the professor ($n = 13$; 5.5 percent).

Spring 2020: Impact of Incentive on Attendance at Virtual Office Hours

In Spring 2020, data were collected from two upper-division business law courses ($n = 71$), with one class randomly assigned to receive the office-hour incentive. Although students did complete the pre-survey, due to the COVID-19 pandemic no other survey data were collected. However, the instructor recorded the number of students who attended virtual office hours in the incentive versus nonincentive groups. As with in-person office hours, the incentive increased attendance at virtual office hours. In the incentive group, 56.8 percent (21 out of 37) of students attended office hours. In the nonincentive group, only 29 percent (10 out of 34) of students attended office hours. This difference was statistically significant, $z = 2.321$, $p = 0.01$ The results did not appear to be impacted by the fact that making an appointment for virtual office hours—sending an email to the instructor, who would respond with a Zoom meeting ID—was more involved than simply making an appointment or just stopping by the instructor's office.

DISCUSSION OF RESULTS

A minimally invasive extra credit incentive increased office hour attendance by 16 percent when administered during an in-person course. When forced to switch to remote online instruction during the pandemic, this same incentive increased virtual office-hour attendance by 27.87 percent. This increase in attendance held constant even after controlling for students' baseline performance on their first midterm exam. The increase in attendance differed depending on student ethnicity: the effect was strongest for students who identified as Latino/a and weakest for students who identified as White. Our findings add empirical support to the recommendations from other studies [Yomtov et al., 2017]. A simple intervention of extra-credit points increased attendance at office hours. This finding held true even when students could only meet online for office hours during a global pandemic.

Attending office hours was positively associated with the following student success measures as anticipated. Aligning with our hypotheses about student success outcomes, visiting office hours was associated with an increased intention to attend office hours in a future semester. This latter finding suggests that exposing students to a positive experience in office hours predicts their plans to attend office hours in the future, suggesting long-term student success benefits.

We were surprised to find that attending office hours was not significantly predictive of a student's change in "sense of belonging," growth mindset, or midterm scores across the semester. In fact, sense of belonging lessened over time for all students. One potential explanation for why attending office hours was not related to students' reported sense of belonging or their growth mindset in our study is that the method of interacting with students during office hours was not targeted toward these specific psychological experiences. In this study, we controlled for the method and content of student interactions during office hours. During each interaction, the student and instructor developed a personalized study plan. Other studies have found that students' sense of belonging within the university and their growth mindset can be impacted by targeted interventions, such as asking students to reflect about their personal values (i.e., a "value affirmation" exercise) or reading an essay and writing a reflection about how student concerns regarding sense of belonging to their peers and the university can have long-term impacts on GPA [Tibbetts, Harackiewicz, Canning, Boston, Priniski, and Hyde, 2016; Walton and Cohen, 2011]. These findings are especially true for students from underserved backgrounds, such as first-generation college students. One explanation is that first-generation college students tend to experience a cultural mismatch between their interdependent values and the more independent values affirmed by higher education institutions [Phillips, Stephens, Townsend, and Goudeau, 2020]. Thus, interventions that help first-generation students affirm and grow their independent values can increase student success. Future studies investigating office-hour interventions could examine the impact of different methods for interacting with students during office hours and how they differentially impact student success for first- or continuing-generation students. For example, faculty might guide students in reflecting on their own beliefs about intelligence when examining an exam's study strategies.

Our intervention could have been successful because of its design, because of the specific instructor who administered the intervention, because of the type of students who were enrolled in this upper-division business law course, or a combination thereof. For example, the upper-division students in our sample demonstrated a relatively strong "sense of belonging" scores at survey 1 (an average of 20.94 on a 1-36 scale, with higher values indicating higher sense of belonging). Lower-division students might begin their semester with lower "sense of belonging" or growth mindset scores, increasing the malleability of their student experiences in comparison with their upper-division peers. Future studies should replicate these methods across lower- and upper-division business law courses with varied faculty.

The fact that we found Latino/a students benefited most from our intervention is promising, given that Latino/a students are classified as "traditionally underserved" students. Understanding the relationships among race, office-hour attendance, and student success outcomes is critical, given the well-documented achievement gap. However, we are cautious to generalize our results to all students who are traditionally underserved by the higher education system. We had a relatively small sample of students from other traditionally underserved backgrounds, especially Black students. Future researchers should use a sampling procedure that ensures an equal number of participants are included from each student racial group.

Future studies could also examine more about the impact of this incentive on virtual instruction. Preliminary results from a single semester suggest that our incentive increased attendance at office hours in comparison with a nonincentive condition, even during a pandemic. We anticipate that the incentive would increase virtual office-hour attendance regardless of instructional mode, given these pilot findings. Future studies should also investigate whether attending office hours virtually similarly predicts student success outcome measures as attending in-person. One study that examined the relationship between online learning and student engagement found that as an instructors' online presence increased, student online engagement also increased [Dixon, 2010]. A faculty member who hosts office hours and encourages students to attend those office hours is likely to have a greater online presence.

Another promising line of future research is identifying the causal mechanisms between office-hour attendance and student success measures. Although we did not find that office-hour attendance predicted student success measures, other studies have documented this relationship. The fact that we did not replicate this finding suggests that future research is needed to understand why and under what conditions attending office hours impacts student success.

Related to student success measures, future studies might refine measurements for sense of belonging. The purpose of the "sense of belonging" questionnaire was to measure a student's integration and support at the university. For example, one question asked students whether they agree with the statement that "I have at least one person who I can turn to for academic support at [this university]." However, the questionnaire did not ask specifically about a student's relationship with the faculty in their course. It is possible that students in our sample did not perceive that they could reach out to a faculty member after a course has ended. Students may not recognize that a faculty member could talk with them during office hours if they're not enrolled in their course, or perhaps feel that they are bothering the faculty member when they are no longer enrolled in the course. This interpretation is supported by the finding that first-generation students in particular may struggle to feel part of campus culture [Phillips et al., 2020]. Our sample consisted of a majority of first-generation college students. Future studies could investigate this hypothesis by asking about a student's relationship with the professor rather than with the university broadly. Further, researchers could investigate the impact of faculty messaging during office hours. For example, faculty might conclude office-hour interactions by inviting students to reach out to them for future questions.

Finally, the sense of belonging as a psychological construct could be examined from multiple perspectives in future studies. We focused on measuring a student's sense of integration and support by the university. Another promising construct to examine is "subjective sense of fit" to the university. Phillips et al. (2020) define subjective sense of fit as "how students experience their own fit in the college environment more generally" and found that first-generation students tended to have a lower subjective sense of fit than their continuing-generation counterparts. Further, the subjective sense of fit negatively predicted student GPA. Future studies should consider examining sense of fit in relation to office-hour attendance and how these interact in predicting student success.

CONCLUSION

Small incentives can have large impacts on factors positively affecting student success outcomes, such as attending office hours. Our findings apply specifically to upper-division business law courses at Hispanic-Serving Institutions with a majority of first-generation college students enrolled. Future studies should continue examining why and under what conditions attending office hours can impact other student success measures, such as GPA and sense of belonging.

Faculty and student interactions are important to a student's academic success. This study highlights how offering an incentive as motivation to attend office hours can increase the number of students who do so. Although the incentive offered had little to no impact on the students' grades, it nonetheless served to increase the number of student–instructor interactions throughout the semester. Those interactions then gave the instructor the opportunity to connect with students who would have otherwise dismissed the idea of attending office hours. Once the students came to office hours, the instructor was then able to help them develop more effective study habits while simultaneously showing the students that the instructor could be a resource for them.

This study highlights the importance of engaging underserved students in business law courses and of providing students a chance to get to know and engage with their instructor. In return, instructors can positively impact student outcomes such as student retention and academic success. For instance, in our study, the instructor provided a personalized study plan to each student who attended office hours. These interactions may help to increase Latina/o student engagement and retention. More research that includes Black students is needed.

Finally, students who attended office hours reported that they would continue to attend office hours for their courses in the next semester. Future studies should follow up with students as to whether or not they continued to use office hours as a resource and what effect attending office hours has on student success, long-term.

ENDNOTE

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Appendices

Note: Some questions were asked in our surveys that are not included in these appendices. Those questions were asked for use in a different study.

Survey 1 Items

1. On average, how many times a semester do you attend office hours for all your classes?
   - ○ 0–1
   - ○ 2–3

- 4–5
- More than 5

2. Please indicate below how helpful you found office hours to be.
    - 1 Not at all helpful
    - 2
    - 3 Neutral
    - 4
    - 5 Very helpful
3. What best describes the reason why you attended office hours for a class?
    - To better understand the material
    - To protest a grade
    - To go with a friend
    - To visit with the professor
    - Other (please explain) ________________________________
4. What best describes the reasons why you do not attend office hours for a class?
    - They didn't fit into my schedule
    - The professor was unavailable when I could meet
    - Didn't see the need/point
    - Intimidated by the professor or the thought of meeting one-one-one with him/her
    - Other (please explain) ________________________________
5. How likely are you to attend office hours this semester, *for this class*?
    - 1 Not at all likely
    - 2
    - 3 Neutral
    - 4
    - 5 Very likely

Demographic Questions

1. Age
2. Gender
3. Race/ethnicity
4. Do either of your parents have a bachelor's degree?
    - Yes
    - No

Integration and Belonging Scale.

- This scale was asked on Survey 1 and Survey 3.
- Instructions: Please respond to the following statements to tell us about your experiences as a CSUN student.
- Response Options: Strongly Disagree, Disagree, Mostly Disagree, Mostly Agree, Agree, Strongly Agree
- Items:
  1. I feel integrated into the CSUN community
  2. I feel an active part of the CSUN community
  3. I feel a strong positive connection to CSUN.
  4. I have at least one person who I can turn to for emotional support at CSUN.
  5. I have at least one person who I can turn to for academic support at CSUN.
  6. I expect to graduate from CSUN in 4 to 6 years.

Fixed versus Growth Mindset Scale.

- This scale was asked on Survey 1 and Survey 3
- Instructions: Using the scale below, please indicate the extent to which you agree or disagree with each of the following statements by filling out the number that corresponds with your opinion.
- Response Options: Strongly Disagree, Disagree, Mostly Disagree, Mostly Agree, Agree, Strongly Agree
- Items:
  1. You have a certain amount of intelligence, and you can't really do much to change it.
  2. Your intelligence is something about you that can't change very much.
  3. No matter who you are, you can significantly change your intelligence level.
  4. To be honest, you can't really change how intelligent you are.
  5. You can always substantially change how intelligent you are.
  6. You can learn new things, but you can't really change how intelligent you are.
  7. No matter how much intelligence you have, you can always change it quite a bit.
  8. You can change even your basic intelligence level.

Survey 2 Items (Both items were also asked on Survey 3.)

1. How likely are you to attend office hours for this class?
   - Response options: 1 (very unlikely) to 9 (very likely)

2. Please indicate below how helpful you found office hours to be.
    - 1 Not at all helpful
    - 2
    - 3 Neutral
    - 4
    - 5 Very helpful
    - I did not attend office hours

Survey 3 Items

1. What best describes the reason why you attended office hours for this class?
    - To better understand the material
    - To protest a grade
    - To go with a friend
    - To visit with the professor
    - Other (please explain) ____
2. What best describes the reasons why you did not attend office hours for this class?
    - They didn't fit into my schedule
    - The professor was unavailable when I could meet
    - Didn't see the need/point
    - Intimidated by the professor or the thought of meeting one-one-one with him/her
    - Other (please explain)____
3. How likely are you to attend office hours for your classes next semester?
    - 1. Not Likely
    - 2
    - 3. Neutral
    - 4
    - 5. Extremely Likely

Homers, Strikeouts, Touchdowns, and Fumbles: Business Lessons from Sports

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This article shows how to use numerous examples from sports to illustrate many business issues. Sports presents interesting case studies because, unlike in the rest of the business world, where issues such as analytics, negotiations, and financial constraints are discussed behind closed doors, many are addressed in a very public forum in sports. This approach allows instructors to engage students with essential concepts in teaching business using real-world examples from professional sports.

Keywords: Business Analytics, Strategy, Salary Cap, Negotiations
Disciplines of Interest: Business Analytics, Management, Economics, Marketing, Finance

INTRODUCTION

Sports in the United States and around the world is a multibillion-dollar industry. Numerous books have been written on the business of sports [Conrad, 2017; Horrow, Burton, and Krzyzewski, 2019]. These books tend to look at the economics and structure of various sports. Sports are an interesting industry to study because they provide valuable lessons for understanding business in general. One of the unique characteristics of sports like baseball, basketball, and American football is that sports franchises also face many of the issues that non-sports businesses encounter. The difference is that these issues, which play out behind closed doors in most industries, play out in public, often in real time, in many sports. Another advantage of sports is that seasons have clear end points that allow us to evaluate how the team performed for that season, and each season stands alone in gauging the success or failure of the team. For example, a team that wins a championship once every five years and finishes last in the other four is likely a success, whereas a company that posts extraordinary earnings once every five years and losses in the other four is not.

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In this paper, we use examples from sports to illustrate various issues faced in the business world. Disciplines such as statistics are often viewed by students with disdain. Yet, these same students who loathe statistics seek them out as sports fans or to make better decisions in fantasy sports leagues. Drawing on topics that students enjoy such as sports allows the instructor to engage students on the topic and then segue to applications in business.

BUSINESS LESSONS FROM SPORTS

In the United States, the vernacular of sports has become commonplace in business because sports have become such a large part of American culture. References to sports like "knocking it out of the park" or "fumbling the ball" are commonly heard from business executives. However, sports provide more than colorful phrases that can be used to liven up a business meeting; they furnish valuable lessons that students can apply to any business.

Business Analytics and Play-Calling

Many students view statistics as a necessary evil, a course required for graduation because they cannot see the applications of statistical techniques to better decision-making. This view may be a product of the difficulty of the course or textbooks that illustrate the topic with what students likely find as meaningless examples, including drawing balls out of a bag with and without replacement. However, viewing how teams in various sports have used the power of statistics to make better decisions and improve their chances of winning illustrates the importance of using analytics for better decision-making.

Analytics is an integral part of both business and sports [Alamar and Oliver, 2013; Camm, Cochran, Fry, Ohlmann, and Anderson, 2018; Fried and Mumcu, 2016; Green, 2021]. Businesses spend significant resources collecting and analyzing data to make better decisions. Yet, the proprietary nature of the data and analysis leaves those outside the company with little or no idea how analytics influences operations. On the other hand, much of the research conducted by sports teams is on display for everyone to observe.

Sports analytics first gained attention with Michael Lewis's bestselling book, *Money Ball* [Lewis, 2004]. The book, which later was made into a movie starring Brad Pitt, detailed the Oakland Athletics' use of analytics to compete in major league baseball. Oakland, a small-market team with limited revenues, could not compete for superstar free-agent players who commanded top-of-the-market salaries. However, using sabermetrics, the empirical analysis of baseball, the team successfully competed with wealthier franchises by identifying players undervalued by the market.

Although both businesses and sports teams employ analytics to optimize decision-making, companies face various strategies depending on the type of industry and their long-term goals. On the other hand, sports teams have one goal: to score more than their opponent. Teams in the same sport all play by the same rules. In business, results from management decisions may take years to observe; however, decisions by coaches can be seen directly, and the results are observed immediately.

Consider baseball. Before the *Money Ball* era, baseball managers decided when to replace a pitcher based on how well the pitcher performed and perhaps some gut instinct. Today, the decision is often preordained by analytics that suggest that the pitcher is less effective the third time that hitters from the other team face him or after he has thrown more than a certain number of pitches. Many of the strategies that used to be considered "best practices" in baseball have been analyzed using statistics and, in many cases, are used far less often. Consider some of the following examples.

CASE 1 – THE SACRIFICE BUNT AND STOLEN BASES

In baseball, the sacrifice bunt was once considered a strategy for teams to "manufacture runs." For example, moving a base runner from first base to second base gave the base runner a chance to score on a base hit, or moving a runner from second base to third with less than two outs gave the runner a chance to score on a long fly ball. For much of the history of baseball, teams employed this strategy of sacrificing an out to move the runner. However, analytics has revealed that giving up an out to move a runner does not increase run production, and the number of sacrifice bunts in baseball fell from 1,620 in the 2005 season to just 776 in the 2019 season (a drop of 52.1 percent).

Stealing bases was regarded as another strategy for increasing run production. However, analysis has shown that attempting to steal bases is not a productive strategy because runners sometimes get caught stealing, and the outs tend to be more detrimental than the gains from a runner advancing to the next base. Over the years, the number of stolen base attempts has fallen from 3,097 in 1985 to 2,280 in 2019 (a drop of 26.4 percent) [Bechtold, n.d.].

In 2023, Major League Baseball (MLB) changed several rules that could favor base stealing. First, they changed the size of the bases from 15 square inches to 18 square inches, thus making the bases slightly closer to one another. Second, they limited the number of times a pitcher can throw to a base to hold the base runner to two. Finally, in the third attempt, the throw must lead to an out or the throw is a balk, and the runner is awarded the next base. Only time will tell whether these changes alter the desirability of attempting to steal a base. However, comparing opening days from 2022 and 2023 indicates that the change may have shifted the advantages to baserunners. In 2022, nine stolen bases were attempted, and five attempts were successful, a success rate of 55.5 percent. In 2023, base runners succeeded on nineteen of twenty-one attempts, a success rate of 90.4 percent.

In basketball, Phil Jackson, the coach of eleven National Basketball Association (NBA) championships, criticized building teams around the three-point shot. However, the Golden State Warriors used the three-point shooting of Stephen Curry and Klay Thompson, two of the best three-point shooters in league history, to win four NBA championships. The mathematics of the three-point shot is precise: making 34 percent of three-point shots, for example, results in a higher score than making 50 percent of two-point shots. In the 2020–2021 season, 139 players made at least 34 percent of their three-point attempts, with 49 hitting 40 percent or more. Today, three-point shooting has become so commonplace that analysts and fans often lament how boring the game has become with teams throwing up so many three-point shots [The Hoops Geek, 2021].

CASE 2 – THREE-POINT SHOT

In the 1979–1980 season, the NBA introduced the three-point shot. During the first five seasons, teams attempted fewer than three three-point shots per game, making a dismal 26 percent. By 2021, teams averaged 34.6 three-point shots per game, making 36.7 percent of these shots [The Hoops Geek, 2021].

Romer (2006) extended the use of analytics to optimize the play-calling of National Football League (NFL) teams and the decision to try for a first down versus kicking on fourth down. Before Romer's study, teams nearly always kicked on fourth down, either a field goal attempt if the team was close enough to the opponent's end zone or a punt if they were not. His findings were that teams kicked too often, diminishing their chances of winning.

CASE 3 – GOING FOR IT ON THE FOURTH DOWN

Data show that teams are beginning to follow Romer's analysis. For the most part, teams' attempts to go for it on fourth down rather than kick or punt have risen from 2010 to 2020. From a low of 0.840 attempts per game in 2011, the number of fourth-down attempts increased by more than 65 percent to 1.285 in 2020 [Orr, 2021].

In the NFL, the league implemented the two-point conversion in 1994. After a touchdown, teams can kick an extra point or try to run or pass the ball into the end zone for two points from the two-yard line. For nearly two decades, teams chose to kick for one point rather than attempt the two-point conversion. Before the 2015 season, the kick was approximately 20 yards, and teams nearly always decided to kick for one point, rather than risk the two-point conversion, except at the end of the game when they needed the extra point.

CASE 4 – CHANGING RULES, CHANGING STRATEGY

In 2015, the NFL changed the rule on where the ball was placed when a team was kicking the extra point from the two-yard line to the fifteen-yard line. This change lengthened the kick from 20 yards to approximately 32 yards. In the five years before the rule change, teams made 99.5 percent of their kicks. However, in 2015, the longer extra point was successful 95.2 percent of the time, thus changing the calculus between the one-point and two-point decision. Before the rule change, teams needed to succeed 49.75 percent of the time on the two-point conversion to make it the optimal choice, with an actual success rate of 48.2 percent from 2000 to 2014. The rate dropped to 47.6 percent following the rule change. Before the rule changed, the expected value of the one-point kick was $1 \times 0.995 = 0.995$ points. The expected value of the two-point conversion was $2 \times 0.482 = 0.964$ points, thus making the kick the optimal strategy. Following the rule change, the expected value of kicking dropped to $1 \times 0.952 = 0.952$ points, thus making the two-point conversion optimal [Boyd, 2017], [Heyen, 2020].

Changes in rules apply not only to on-field strategy but also to business strategy. For example, professional sports had railed against sports betting since 1921, when Baseball commissioner Kenesaw Mountain Landis permanently banned eight Chicago White Sox players accused of throwing the 1919 World Series. Later, Hall of Famers Willie Mays and Mickey Mantle, both of whom had retired, were banned from baseball when they were hired by casinos to work as greeters and to sign autographs. However, changes in the law made professional sports leagues rethink their aversion to gambling.

CASE 5 – LEGALIZED SPORTS BETTING

On May 14, 2018, the U.S. Supreme Court struck down the Professional Amateur Sports Protection Act, thus allowing states to make their own sports gambling laws. Before that, professional sports leagues were critical of the possibility of legalized sports betting. Today, one can find many former professional athletes, like Peyton and Eli Manning and Barry Sanders, starring in commercials for casinos. In addition, all the major sports leagues and teams have partnerships with betting sites [James, 2022].

Collective Bargaining

Collective bargaining occurs in many industries but usually quietly and behind closed doors. However, in sports, it takes place in a public forum, with many issues, such as schedules and rule changes, being of interest to fans. Work stoppages can take two forms: a lockout, where owners lock workers out of the facility; and strikes, where workers choose not to work and picket the business to draw attention to the bargaining issues. There are several differences between the two. First, a strike is initiated by the workers, whereas a lockout is initiated by management. In the case of a strike or lockout, management may hire replacement workers, sometimes referred to as scabs, willing to cross the picket line.

Again, sports provide a window into another aspect of a business. In most collective bargaining, outsiders know little and often have little vested interest in the contract terms. However, in sports, the terms may affect fans. For example, in the 2021 season, the NFL expanded the number of games by one to seventeen and reduced the number of preseason games from four to three. Football fans are likely to get greater utility from watching regular season games where the team's top players compete and impact the standings than a preseason game, which may include lower-quality players hoping to make the team. In addition, season ticket holders are required to buy preseason tickets, even though the utility they receive is generally not commensurate with the costs, and the demand for reselling these tickets is usually limited. In 2022, MLB implemented the designated hitter for the National League; it had been in effect since 1973 in the American League. National League fans are likely to have strong opinions about the rule change, with traditionalists lamenting the change, whereas others will relish the likelihood of increased run production. Other changes have included increasing the number of teams making the playoffs and the number of playoff rounds.

In most businesses, using replacement workers may have little impact on the public. For example, replacement workers in a factory may have lower productivity, but if the goods are still available, consumers are unlikely to notice. However, the quality of replacement players and referees in sports is on display for all to observe.

CASE 6 – 2012 REPLACEMENT REFEREES

In 2012, a labor dispute between the NFL and the NFL Referees Association resulted in the NFL's hiring replacement referees at the beginning of the season. The result was several weeks of what most fans and the NFL considered poorly officiated games. This situation culminated on September 24, in a Monday Night Football game between the Green Bay Packers and the Seattle Seahawks, when an end-of-game interception by the Packers was ruled a touchdown for Seattle. Not surprisingly, this debacle led to an agreement between both sides on September 26.

The Salary Cap

Maximizing shareholder value is considered the goal of management. In sports, we can translate this concept into a goal of maximizing the number of wins for a team. In corporate finance, maximizing the firm's value can be attained by accepting all projects that add value to the firm, that is, those with a positive net present value (NPV). In reality, firms likely face constraints on the amount they can or are willing to spend on capital projects. In sports, teams face similar conditions, known as a salary cap, which limits the amount a team can spend on players. There are two types of salary caps: a soft cap, where the maximum salary can be exceeded if the team pays a "luxury tax" to the league; and a hard cap, where the maximum salary cannot be exceeded. MLB and the NBA are governed by soft caps, and it is common to find teams in large markets with wealthy owners choosing to pay the tax. Alternatively, a hard cap governs the NFL. In 2022, each NFL team's cap number was $208.2 million. There are, however, ways that teams can manage the cap hit that the team takes in a particular season. For example, teams can free up cap space in the current season by renegotiating contracts with players and turning some of the money into signing bonuses, which allows them to spread the hit over several years, essentially borrowing against the future.

The hard salary cap in the NFL makes for an interesting study of how teams maximize wins subject to a constraint. As previously mentioned, the quarterback is generally regarded as the team's most important player, and his salary usually reflects this fact. Therefore, paying a quarterback too large a fraction of the team's salary cap limits their ability to sign other good players.

In the past, teams often drafted quarterbacks, expecting them to sit on the bench and learn for a few years before moving them into the starting lineup. Today, teams try to rush rookie quarterbacks into the starting lineup, with the hope of winning while still on rookie contracts, which limits the amount they earn.

CASE 7 – RULE OF 14

"Super Bowl runners-up since 2001 have spent an average of 7.17 percent of their cap on the quarterback. The average quarterback salary rank for those teams is just one spot below that of victorious franchises, 17th, with the cap number for the signal-callers to fall at the final hurdle just under $6,00,000 less than that of the winners at $9.28 million.

Of that group, only two quarterbacks, Peyton Manning (in 2009 – 17.24 percent and 2013 – 14.16 percent) and Matt Ryan (2016 – 15.3 percent) accounted for more than 14 percent of their team's salary cap." [McGee and Worsell, 2022].

McGee and Worsell (2022) conclude that, to have a chance to win the Super Bowl, teams need to keep the quarterback's share of the salary cap to 14 percent or below.

CASE 8 – TOM BRADY

During his 20-year career with the New England Patriots, Brady led them to an unprecedented nine Super Bowls, winning six. During his years with the team, Brady was willing to accept team-friendly contracts that allowed the Patriots to sign other quality players. Even with all his success, Brady was never the highest-paid player in the league or even on the Patriots. Prioritizing winning over earnings was at least one reason for the Patriots' success. Brady's willingness to accept a discount on his salary may also have been helped by being married to supermodel Gisele Bundchen, who has been reported to be worth around half a billion dollars. Although the couple divorced in 2022, the two were married for half of Brady's playing days with the Patriots.

Negotiations

Negotiations between two or more companies provide another example where sports can shed some light on business deals. Nalebuff (2022) points out that successful negotiations can include asking for terms the other side may not care about. Businesses sometimes engage in deals with other companies that appear perplexing. For example, a profitable company may pay what seems to be a very high price to merge with a company that has significant losses. The transaction may appear unwise to an outsider, yet the deal may be profitable because losses may yield substantial tax savings to the acquirer.

In sports, deals between teams are widely analyzed by the sports media, and the logic and nuances of the deal are discussed. For example, when teams trade players with one another, we expect each team to receive players of comparable value. However, sports teams, like businesses, may value different things. For example, consider two teams: Team A has a superstar player in the middle or later part of his career and a weak roster; Team B has a strong team that it believes is a star player away from potentially winning a championship. Team A may wish to free up salary cap space by trading away the high-priced superstar for young, unproven players or draft picks. As another example, a team may have abundant talent at a particular position. It may be willing to give up a quality player for a lower-rated player who fills a team's need.

Globalization

Maximizing shareholder wealth is widely regarded as the fundamental goal of the firm. To increase wealth, corporations are looking to boost growth. Once a firm has saturated the domestic market, it can look to expand into foreign markets. Multinational corporations, such as Coca Cola, Toyota, and Daimler-Benz, have long pursued growth by expanding into other markets. Today, American sports leagues are trying to tap into the global market to expand revenues.

CASE 9 – THE National Basketball Association (NBA)

Basketball is a global game, and the NBA is working to improve its global reach through three central pillars. First, they have retooled their broadcasting strategy. Second, they have opened NBA Academies around the world. Finally, they have placed an emphasis on social media to penetrate new markets [Ziba and Austin, 2021].

CASE 10 – Major League Baseball (MLB)

The World Baseball Classic (WBC) is another attempt to grow the game internationally. The WBC was proposed in 2006 by the World Baseball Softball Confederation, MLB, the Major League Players' Association, and various professional and players associations worldwide. There have been five WBCs in 2006, 2009, 2013, 2017, and 2023, with the next one scheduled for 2026. In 2023, viewership for the WBC increased by 69 percent over the 2017 tournament [Wikipedia contributors, 2023].

CASE 11 – The National Football League (NFL)

The NFL has also been looking to expand its reach globally, with games played in London, Mexico, and Germany. In 2021, the International Committee of the NFL ratified a plan that granted eighteen teams access to twenty-six International Home Marketing Areas. The program also has all 32 teams playing at least one international game in the next eight years [NFL, 2021].

INCORPORATING THESE CONCEPTS INTO THE CLASSROOM

One of the significant advantages of using sports to illustrate business concepts is that sports seasons run for finite periods, allowing instructors to evaluate decisions made by teams during that season. In addition, each season brings fresh new examples that can be incorporated into the classroom in numerous ways. Professors who are sports fans might introduce recent decisions made by sports teams, either on the field or in human resource allocation to the classroom for discussion. Those instructors who are not sports fans might ask students to share with the class the decisions made by their favorite teams. The issues faced by teams can be used to motivate business topics via some of the following questions.

Questions

1. In Cases 1 to 4, we presented some examples of how analytics has changed strategies in sports. How do you think Amazon, Ford, Shop Rite, or Best Buy incorporate analytics into their decision-making?

   Both Amazon and Ford likely keep track of the mix of products people purchase in different markets. This tracking allows Amazon to determine the best places to locate distribution centers and identify which products to stock in each center. Likewise, Ford would use similar information to determine the quantity of various models of automobiles to ship to different dealerships.

Amazon keeps track of its customers' purchases, allowing it to make recommendations based on what others have purchased.

Most grocery stores and retailers like ShopRite and Best Buy have rewards programs that allow them to keep track of their customer's purchasing habits. These programs allow them to target advertising and coupons.

2. In Case 4, we discussed how a change in the rules altered the calculus of the decision to go for a two-point conversion. In Case 5, we discussed how a decision by the U.S. Supreme Court changed the landscape of sports betting. Are there changes in regulations or societal norms that have changed business strategy?

   In 1987, the FCC repealed the 1949 fairness doctrine, which required licensed radio and television broadcasters to present fair and balanced coverage of controversial issues to their communities, including by granting equal airtime to opposing candidates for public office. This regulatory change allowed broadcasters to focus on a target audience. One of most successful beneficiaries of the change was Fox News, which was founded in 1996 to target a more conservative audience ["Fairness Doctrine: History, Provisions, Repeal, & Facts"].

   Decades ago, it was taboo to see interracial, same-sex couples, or people with disabilities in advertisements, TV, or film. Today, changing societal norms have allowed advertisers, media producers, and businesses to reach out to a broader audience with less fear of offending the mainstream.

3. Business productivity, growth, and success depend on the optimal division and specialization of its labor force, including CEOs, managers, and workforce. Provide some examples of how sports teams and businesses use this concept of properly allocating labor resources.

   In sports, teams often have players specializing in one aspect of the game. For example, in baseball, teams sometimes have defensive specialists who enter in the later innings of a game to protect the lead. Pitchers also specialize, with some starting games, others as closers, and still others as middle-inning relievers. In football, several players perform specific tasks for the team, such as long snappers, punters, placekickers, or pass-rushing specialists.

   In journalism, writers usually focus on a specific area to gain expertise and to cultivate contacts. For example, at larger media organizations like *The Wall Street Journal*, *The New York Times*, or ESPN, journalists may have specific areas they cover, like taxes, football, or baseball, rather than reporting on all of business or numerous sports.

   In finance, loan officers may focus on a specific area, like commercial real estate lending or residential mortgages. In addition financial analysts usually focus on specific industries, such as financial services, entertainment, or the auto industry.

Physicians may become highly specialized by focusing on hip surgery rather than orthopedics or general surgery.

4. In Cases 7 and 8, we presented some examples of the impact of the salary cap in football, which constrains how much money teams can spend on players. In the NFL, teams face a "hard cap," which cannot be exceeded. However, in the NBA and MLB, teams face a "soft cap," which allows teams to exceed the cap number by paying a luxury tax. Discuss some of the financial constraints that businesses face.

   Financial institutions and bondholders lend money to firms based on a risk profile that includes the firm's debt. These lenders may use debt covenants to limit the amount of new borrowing the firm can undertake. For example, they may place limits on the debt-to-equity ratio to keep the firm from excessive borrowing. This practice may place a "hard cap" on firm borrowing.

   In theory, firms should undertake all positive net present value projects to maximize the firm's value. However, suppose firms need to go to the capital markets to raise additional funds via equity or bond offerings. In that case, they may view this as a "soft cap," given the negative signal continually raising money may imply.

5. In sports, it is common for a team to accept a player they are not interested in to complete a trade. For example, a team may accept an older player on an expensive, although expiring, contract to obtain the player or draft picks they covet. Are there examples from the business world where firms have accepted some undesirable terms to complete a transaction?

   In 1987, Chrysler Corporation agreed to buy American Motors Corporation (AMC) for about $1.5 billion, including the 46% of AMC owned by Renault. At the time, Chrysler had been looking to enter the growing sport utility vehicle (SUV) business and determined that acquiring a name brand would be more cost-effective than starting a new division. Although Chrysler was likely uninterested in most of AMC's assets, the acquisition allowed them to acquire AMC's Jeep division and immediately compete in the SUV market.

Instructors can use the above questions and examples to stimulate discussion about business topics. Alternatively, instructors can challenge students to develop their own questions and examples from business and sports.

SUMMARY

One of the great assets that titans of the academic world and business have is the ability to draw parallels from other fields and to exploit that knowledge. For example, in business, Fred Smith used the concept of "hub and spoke," pioneered by the airline industry to create the overnight delivery business. In economics and finance, Nobel Prize winners Harry Markowitz, Robert Merton, and Richard Thaler all drew on other fields to create their seminal works. Markowitz recognized that statistics could be used to construct investment portfolios. Merton applied the tools used to track the trajectory of rockets in continuous time to option pricing theory. Thaler drew on psychology to help create the field of behavioral economics.

Similarly, sports provides instructors with numerous examples that can be used to engage students in many business practices and how to recognize similarities in seemingly unrelated fields. Sports are distinct from other businesses because team strategies and human resources are played out in a public forum. This pedagogical approach allows instructors to provide current, real-world examples of many practices that are essential to business. Instructors can use examples to promote discussion or as written assignments. Examples can be tailored to the course being taught. In addition, instructors can improve engagement by using local professional teams and the colleges' teams to illustrate key points. Students who are sports fans are likely to enjoy delving into the practices of sports teams. Whether interested in sports or not, all students will learn that sports teams are just another type of company that faces the same issues as other firms [Beaton, 2019]. In addition, students who know little about sports will broaden their backgrounds, something that will benefit them when engaging with clients who are fans.

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Adapting the Field-Based Consulting Methodology for Use in Undergraduate Marketing Education: A Case Study

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This paper describes an adaptation of "field-based consulting" methodology and its application to two undergraduate courses. This was done to overcome the challenges faced when students with little real-world experience cannot confidently work with external clients and offer feedback. Instead of real-world business owners this project involved "to-be business owners" from an entrepreneurial marketing course who used consulting teams from an integrated marketing course. Qualitative feedback gathered from students in the courses showed a high level of engagement with the project and with each other. This case study shows marketing educators the opportunities that exist for considering adapted teaching methodologies.

Keywords: Education, High-Impact Learning, Field-Based Consulting, Qualitative, Undergraduate
Disciplines of Interest: Marketing, Entrepreneurship, Entrepreneurial Marketing, Integrated Marketing Communications

INTRODUCTION

Higher education has undergone several significant changes through the past decades. Continued efforts to increase student engagement, motivation, and learning has led faculty to continuously innovate the way they teach. This increase in the use of more active learning methods has been a result of the recognition among faculty and higher education administrators that the students need to develop a broader set of skills and abilities than what has been focused on in the past. These include skills such as being flexible, working collaboratively in teams, being able to adapt to changing technologies, and remaining lifelong learners [Hawks, 2014]. More specifically, business schools have been called on to increase the relevancy of materials taught in the business classroom.

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The case study presented in this paper originated from an interest to both increase student engagement with the course materials and to provide students with a more hands-on experience with the same. However, the two courses in which this project was being implemented both involved undergraduate students with limited to no work experience, so it was difficult to involve actual business clients with the students in these courses. The challenge for faculty teaching undergraduate marketing courses is how to overcome the challenges inherent in field-based student consulting (or, client-based projects), given the relative inexperience of the students. Marketing research professionals have in-depth discussions on the topic of how experiential learning (of which field-based consulting is a form) can be used properly only when students have some prior experience or familiarity with the subject matter [Spencer and Van Eynde 1986]. Given this challenge, field-based consulting has had limited use in undergraduate marketing education. This paper is an attempt to overcome this challenge and to demonstrate how student coursework can mimic a real-world, field-based, consulting experience.

The students in two undergraduate courses (Management of Integrated Marketing Communications [IMC] and Entrepreneurial Marketing) were assigned a joint project. In this project, the student teams in the Management of IMC course acted as consultants to the student entrepreneurs in the Entrepreneurial Marketing course (who were working on a marketing plan for their new entrepreneurial venture). In doing so, the student entrepreneur(s) took the place of the real-world business owners whom the consulting teams would work with. This student field-based consulting project aimed to overcome the barrier of limited usefulness that happens because "students generally lack prior or practical knowledge" [Alam, 2014, p. 117].

REVIEW OF LITERATURE

Traditionally, teaching methods in higher education focused on the student being a passive learner, receiving knowledge that is being transmitted to them by their educators, usually delivered in the form of a lecture [Prosser and Trigwell, 2000]. However, with the many changes that higher education has undergone in recent years, including access to new technologies that allowed for fully online teaching, we have seen many changes to how teaching and learning happen. These changes include moving to taking a "knowledge facilitation approach" to teaching. The aims of such an approach are to challenge the traditional concepts of learning and encourage students to construct their own understanding [Kember and Kwan, 2000]. The use of case studies, group projects, and even simulations are all examples of teaching and learning activities that encourage the student to be the creator of their knowledge, rather than a passive recipient of lecture-based instruction.

The flipped classroom is one of the most popular teaching methodologies of the twenty-first century. Publications in popular media and academia have talked of the many benefits of this approach over traditional lecture-based teaching methods. It is important to note that the flipped classroom can take many forms. The term usually refers to classes where all content is delivered outside of the classroom (using directed readings, podcasts, or even video lectures), and time in class is used to engage in more active learning. A course's relative emphasis on student-led learning over lecture during class is the key to differentiating flipped and lecture-based instruction [Bredow, Roehling, Knorp, and Sweet, 2021]. Higher education institutions now focus increased emphasis on teaching students to be flexible, work collaboratively in teams, adapt to new technologies, and become lifelong learners. Flipped learning has been associated with increased student motivation and engagement [O'Flaherty and Phillips, 2005] and has a positive effect on students' development of professional skills [Gianoni-Capenakas, Laravere, Pacheco-Pereira, and Yacyshyn, 2019]. Despite the popularity of this teaching methodology, it has faced much criticism, too. Researchers have argued that this active learning methodology may be more suitable for higher-level undergraduate courses and/or graduate courses. They argue that lower-level undergraduate students may require more foundational knowledge to be imparted by the instructor in a face-to-face lecture setting and may not have the self-regulated learning skills required to make the active learning model work [Wigfield et al., 2011].

Experiential learning (another name for active learning) that combines direct experience that is meaningful to the student with guided reflection and analyses [Chapman, McPhee, and Proudman, 1995] has long been favored by faculty in higher education. Its effects on courses in healthcare [Karabulut-Ilgu, Cherrez, and Jahren, 2018], on engineering [Chen, Lui, and Martinelli, 2017], humanities [Cheng, Ritzhaupt, and Antonenko, 2019] are all documented.

Field-based consulting is one such active learning methodology in which a team of students acts like real-world consultants. This consulting-based approach provides students with experiential learning of the course content and helps them learn group dynamics, problem definition, research methodology and application, and presentation skills. It also encourages them to become lifelong learners who can handle ambiguous situations [Cook and Belliveau, 2006]. Research has identified the four main benefits of using student consulting projects. The primary benefit that this field-based consulting methodology provides is that it allows students to gain confidence by selling themselves and their ideas as consultants. Second, the business owner, too, stands to benefit from the recommendations that the student consulting teams make [Cook and Hazelwood, 2002].

The use of such field-based consulting projects has been particularly high in the entrepreneurial classroom, where students have been able to apply what they learn in the classroom to the small business firms for whom they act as consultants

[Borstadt and Byron, 1993; Dietert, Halatim and Scow, 1994; Hatton and Ruhland, 1994]. In fact, research has also shown that student consulting projects have impacted decision-making in small/entrepreneurial firms to a "moderate to great" degree [Borstad and Byron, 1993]. However, almost all the work that has been done implementing such projects in the classroom has been done mostly on the graduate level. Research done by marketing educators using this methodology in the marketing classroom have also shown that its use led to increased student motivation and engagement [Lopez and Lee, 2005], research and consulting skills [Bove and Davis, 2009], and employment opportunities [Bove and Davis, 2009]. Research has also shown that students in client-based consulting projects showed greater objective learning outcomes through higher course grades than students who participated in non-client–based learning projects [Tofighi, 2022].

In-depth discussions on the topic of experiential learning (of which field-based consulting is a form) show that it can be used properly only when students have some prior experience or familiarity with the subject matter [Spencer and Van Eynde, 1986]. Because most undergraduate students have little or no experience in the subject matter, field-based consulting has seen limited use in undergraduate education.

This paper is an attempt to overcome this challenge and demonstrate a real-world, field-based, consulting experience. This adapted field-based consulting project aimed to overcome the barrier of limited usefulness that happens because "students generally lack prior or practical knowledge" [Alam, 2014, p. 117].

OBJECTIVES/IMPLEMENTATION

The undergraduate (introductory level) Entrepreneurial Marketing course "considers the special challenges and opportunities involved in developing marketing strategies from the 'start-up phase,' through growth and maintenance phases" (definition taken from the course description as it appears in the university catalog). Most students who take this course are either majoring in or aim to earn a certificate in entrepreneurship, with the goal of opening their own business someday. In this course, they learn about the basics of marketing and aim to create a marketing plan for their own business.

The undergraduate Management of IMC course "Includes the use, organization, planning, and preparation of the various components of the IMC plan, and its economic and social effects" (definition taken from the course description as it appears in the university catalog). Before the adapted project (discussed in this paper) was implemented, this course relied heavily on the traditional lecture format, which, though perfect for the purpose of introducing all associated theory, does not allow for any "learning by doing."

The students in these two undergraduate courses (IMC and Entrepreneurial Marketing discussed above) were assigned a joint project. In this project, the student teams in one course—Management of IMC—acted as IMC consultants to the student entrepreneurs in the Entrepreneurial Marketing course (who were working on a marketing plan for their new entrepreneurial venture). In doing so, the student entrepreneurs were the real-world business owners whom the IMC teams would work with. Each IMC consulting team helped the entrepreneurs conduct research to clarify their ideas regarding their customer segment, its appropriateness, and their chosen marketing mix; finally, the Management of IMC team created an IMC plan for them that integrated all aspects of the marketing mix itself.

In the past, the biggest challenge with the Entrepreneurial Marketing course has been the lack of experience the students had with the idea of launching a business and most importantly thinking like a business owner. For most of the students, the personal story was clear; they knew exactly what product or service they wanted to sell was and why. They had either experienced a lack of product/service that could meet their or a dear one's needs or they had a skill/talent they wanted to do more with. It was the rest of the details of the marketing plan that seemed a challenge to them. The students found it hard to think about the importance of who would buy their product (beyond their close family and friends), which made thinking through the parts of a marketing plan challenging for them.

The Management of IMC course traditionally involved lectures and asked student teams to complete an IMC assignment in which they gathered information about what communication activities a given company had implemented to market a certain brand, product, or service. To do this, each student team was assigned a brand, with all teams in the class working on different brands from within the same industry. Although this was a good project, the only requirement was to be good at gathering data on an established company/brand's IMC activities. Changing the final project to being one where the student team worked as consultants for an entrepreneur allowed the teams to not only create an IMC plan from scratch but to also understand the challenges associated with working in a team, working/reporting to a business owner, and managing expectations.

Table 1 details the deliverables that each course was asked to produce.

Three examples are shared below and have been chosen to indicate the differences in the journey that each student entrepreneur and their consulting team went through.

Example 1: Student entrepreneur A had worked in a struggling local café for several years and believed that with a little more attention to detail and concern for the customers, the café could do better. She wanted to open a café in her hometown with the goal of promoting local food, coffees, and wines and becoming a venue where local artists would be able to perform (music, showcase art, etc.).

Example 2: Student entrepreneur B believed in conscious consumption and bought most of her clothes and accessories from secondhand stores. This experience made her aware of the fact that clothes suitable for people who wear plus-sized

Table 1. Deliverables by Course

Entrepreneurial Marketing Course		Management of IMC Course	
Expected outcomes	**Additional Details**	**Expected Outcomes**	**Additional Details**
Personal Story that led to business idea	Write in detail the reason behind why you wish to start this business. Meet with IMC consultants and share details. Keep Journal to note thoughts post interactions with IMC consulting team.	Preliminary research on business idea.	Interviews with 20 people. Assess attractiveness of idea. Keep Journal to note thoughts post interactions with Entrepreneur.
SWOT analysis	Present SWOT analysis (based on entrepreneur's viewpoint) to IMC Consultants. Consultants may conduct focus group interviews with potential target customers to better understand the relevance of the message within the SWOT analysis. Keep Journal to note thoughts post interactions with IMC consulting team	Interview with entrepreneur	Understand the Entrepreneurs reason for starting this business. Conduct focus group interviews with potential target customers. Agree/Disagree with SWOT done by entrepreneur. Make proposals. Keep Journal to note thoughts post interactions with Entrepreneur
Competitor analysis	Present competitor analysis (based on entrepreneur's viewpoint) to IMC Consultants. Keep Journal to note thoughts post interactions with IMC consulting team.	Independent competitor analysis	Complete a competitor analysis for the business. Session with entrepreneur to compare notes
Target market analysis	Present target market analysis (based on entrepreneur's viewpoint) to IMC Consultants. Keep Journal to note thoughts post interactions with IMC consulting team.	Propose target market for entrepreneur's business.	Describe the ideal customer segment for this product.
Product strategy	Present Product strategy (based on entrepreneur's viewpoint) to IMC Consultants. Keep Journal to note thoughts post interactions with IMC consulting team.	Begin working on final IMC plan	Session with entrepreneur to hear more about the product strategy they have in mind and why. Any recommendations for changes/new ideas should be made during these sessions.

Table 1. (Continued)

Entrepreneurial Marketing Course		Management of IMC Course	
Expected outcomes	**Additional Details**	**Expected Outcomes**	**Additional Details**
Pricing strategy	Present Pricing strategy (based on entrepreneur's viewpoint) to IMC Consultants. Keep Journal to note thoughts post interactions with IMC consulting team.		Session with entrepreneur to hear more about the pricing strategy they have in mind and why. Any recommendations for changes/new ideas should be made during these sessions.
Place strategy	Present distribution strategy (based on entrepreneur's viewpoint) to IMC Consultants. Keep Journal to note thoughts post interactions with IMC consulting team.		Session with entrepreneur to hear more about the product strategy they have in mind and why. Any recommendations for changes/new ideas should be made during these sessions.
Promotional strategy	Receive final IMC plan and observe presentation by IMC consulting team. Provide written feedback to IMC consultants on parts of their IMC plan you agreed or disagreed with and justify every opinion.	Final IMC plan	Present final IMC plan to entrepreneur and faculty. Make sure to tie in each background research work that led to the choice of the IMC plan components. Justify every recommendation.

Note: IMC, Integrated Marketing Communications; SWOT, Strength, Weakness, Opportunity, and Threat.

clothing were hard to find and led to her business idea of opening a secondhand store selling only plus-sized clothing.

Example 3: Student entrepreneur C was an artist and wished to turn her art into a viable business that is profitable and would allow her to live a comfortable life.

Each student entrepreneur was assigned a consulting team with whom they would work on building the following:

1. Conducting a demand analysis
2. Defining the "target segment"
3. Completing a SWOT (Strength, Weakness, Opportunity, and Threat) analysis from "potential" customer perspective
4. Establishing a promotional strategy (including identifying suitable promotional tools)
5. Maintaining an interaction journal.

Each consulting team was to have weekly meetings with their assigned student entrepreneur and maintain detailed records of said meeting in their interaction journal. The purpose of this journal was to keep track of the suggestions being made by the consulting team, how many of those were being accepted and implemented by the student entrepreneur, and which suggestions were being rejected and why. The idea from maintaining such a journal that encourages reflection is supported by research that shows "...it is the reflection process that turns the experience into experiential learning" [Joplin, 1981]. At the end of the term, this document showed the differences in level and approach of and toward interactions among the different participant groups.

FINDINGS

Student Entrepreneur A — The consulting team helped her conduct research with her target audience, which confirmed that there was indeed an interest in a café that would serve local food, allow local artists to perform, and be open to suggestions from customers on new menu items to include from time to time. The consulting team had an easy time working with the student entrepreneur. The team understood the entrepreneur's vision for their business, was on board with the idea, and helped clarify plans with what they learned during research.

The student entrepreneur wrote in her final comments: "I am so happy that this project was done the way it was. When I started thinking of my marketing plan, I knew exactly what I wanted to do and how my business should be. But to have another group who could bring me research that supported my idea made me feel good about my idea. Any doubts I had about my idea not being good enough are not in my mind anymore. Most of all, I really liked the amount of energy and love the consulting team put into my idea too."

Student Entrepreneur B — The collaboration between the assigned consulting team and this entrepreneur was a little bit challenging. One example of the friction in their working relationship is what happened when the entrepreneur presented the idea for a name. They wanted the business to be called THICC clothing. The consulting team conducted a very simple survey research with a group of 25 people, all of whom fit the criteria for being this business's target segment. The survey showed an overwhelming negative reaction to the name. But the consulting team could not convince the student entrepreneur to change the name. This friction continued when the question arose about whether the business should sell clothing only for women, or also for men, or be inclusive of all genders. The research showed that more than 90% women said they would prefer to shop at a location that sold only women's clothing. The owner, however, decided that they wanted to create a business that would sell clothing for all genders. The consulting team had a hard time getting on board with the student entrepreneur's vision for their business, and much interference had to be run by the instructor in trying to get all parties to reach a solution.

This group called on the instructor to step in often and resolve conflicts. The journal entries detailed both the frustration and the learning that happened at each interaction. Here is one of them (written by a member of the consulting team): "We know that this project is probably how real life works too. Surely, we will have to deal with clients who are difficult, who think they know what is right or wrong. But this is really hard."

Student Entrepreneur C — This was probably the most amazing success story to come out of this joint project. Student entrepreneur C was an artist who worked on portraits that are commissioned. She charged in the middle range of what an artist with limited experience would be able to charge. One of the first concerns brought to her by the consulting team was that she needed to identify a unique selling proposition—something that made her different from every other artist who does portraits. They did research with a target market that was interested in buying portraits and found much interest in artists who also work on portraits of pets (besides people, special occasions, etc.). The student entrepreneur was very receptive to this idea and had the consulting team begin creating a social media profile for her, focusing on portraits of both people and pets. It so happened that during the consulting team's subsequent conversations with interested customers, they stumbled on someone who was into cosplay. This potential customer mentioned that it would have been nice if there were artists who specialized in cosplay portraits and who could visit cosplay conventions and create on-the-spot portraits. The consulting team brought this idea to the student entrepreneur, who was able to completely revise the business idea and work on this unique niche that the team had helped identify.

This result is a great example of how collaboration led to the entrepreneur's idea becoming greater than what it had been when the course and this project started. The journal entries were further proof of how well this collaboration worked.

This student entrepreneur noted in her comments, "I thought I would be one of those starving artists who would have to borrow from family and friends to pay bills. When I took the marketing class, I hoped I would learn something that would help me launch a good business, something that made sense, something that did not look like a complete joke. But this project made it even better. It helped me work with a team who listened to me, understood what I don't know, and helped me fix that. I think I could really launch this business and actually make money!"

RECOMMENDATIONS

By bringing related courses together, faculty in the marketing program could implement joint projects such as the one discussed in this paper. Because most courses in the marketing program focus on one or a few aspects of the marketing mix, it is helpful to have two (or maybe more) courses work together, with each focusing on one or few aspects of the marketing mix and then combining it to form a coherent marketing plan or strategy.

Another example of where such a project could be created would be in the Introduction to Marketing and International Marketing course. Most introductory-level marketing courses involve a simple final project, usually one that requires student groups to create a marketing plan. And although the introductory-level marketing course is taken by most all students in the business school, the International Marketing course is usually reserved for students majoring in (or having an emphasis in) marketing. In addition, the introductory marketing courses do not spend much time focusing on international marketing because that is not an objective of the course or simply for lack of time. So, if we were to create a joint project where the introductory marketing course hired the students in the International Marketing course as their consultants, we would be able to not only bring in a new teaching methodology but also make sure students (in introductory marketing) got a basic idea of how international marketing works.

Using this methodology allows undergraduate students to experience a teaching methodology that is rarely used in undergraduate courses but is not only the closest version of what real-world work will look like but also a favored teaching methodology in many graduate programs. By using this methodology, we are both preparing our undergraduate students to work well with potential clients in the workplace and to be successful in their graduate level courses.

Student feedback about this project has been shared in the section above. Although there was no doubt that much learning had happened in the knowledge areas, what occurred alongside it made students aware of how relationships with outside consultants work and how different individuals react to different situations, thereby enhancing interpersonal skills. Its ability to provide students with this "deep understanding of why events occur and how people may reach to events" [Miner, 1984] is one of the reasons experiential learning (of which field-based consulting is a form) is held in high regard by marketing instructors. In addition, for its effectiveness in teaching both content and skills, this is an adapted teaching methodology that should be implemented more frequently in undergraduate marketing courses.

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Gen Z Rising: Emerging Implications for Business Education

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Members of Generation Z (Gen Zers) are now the majority cohort on campuses, and their share will increase in the coming years. They are unique in their characteristics and needs—even in comparison with the immediately preceding generation of Millennials. Based on an extensive literature review, we identify several factors that have shaped Gen Zers—with technology being a dominant common denominator. We then describe Gen Zers' key differentiating characteristics—use of technology, social ineptness, increased mental health disorders, need for guidance, and a different value system. Finally, with constructivist learning as a theoretical foundation, we make recommendations to serve their unique needs in business education. These include offering flexible education, engaging them with technology, engaging them with "non-technology," devising an education that aligns with their value system, and providing them with support and guidance.

Keywords: Generation Z, Gen Z Characteristics, Gen Z Learning Preferences, Student Values, Student Mental Health, Student Engagement, Technology and Teaching, Gen Z Educational Needs, Flexible Education
Disciplines of Interest: Marketing, Management, Information Systems, Accounting, Economics and Finance

INTRODUCTION

"The Internet went down, and we had nothing to do, so we went to sleep."

—Gen Zer, 20

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Persons within a generational group are bonded by defining events related to such factors as war, culture, politics, technology, economics, globalization, and family [Mannheim, 1952]. These events create values shared by generations and remain fairly stable throughout their lifetime [Kuron, Lyons, Schweitzer, and Ng, 2015]. Such shared values influence how generations navigate their lives. For example, those who came of age during the Great Depression (The Silent Generation) have strived for financial security their entire lives. Generation Z (also known as Gen Zers, Gen Z, iGen, Homelanders, or Digital Natives) includes those born between 1995 and 2010 [Francis and Hoefel, 2018]. They outnumber any living generation, comprising roughly 32 percent of the world population [Gherini, 2018]. Gen Zers have been strongly influenced by technology immersion since birth. No other generation has lived in an era in which digital technology has been so encompassing. It is invisible to them, because smartphones, social media, and a hyper-connected world have always been a part of their life. They have experienced much in their brief lifetime [Merriman, 2015]—exponential technological advancement, growing diversity, racial unrest, endless wars in Iraq and Afghanistan, geo-political instability, gun violence, climate change, the Great Recession, and the COVID-19 pandemic, followed by another unstable economic period.

Many compare them to Millennials born between 1980 and 1994 [Francis and Hoefel, 2018], but they are truly distinct. Millennials can be entitled, parent-supported, connected, self-interested, and optimistic. Gen Zers are responsible, entrepreneurial, interactive, not spontaneous, not conservative, and open-minded [Mohr and Mohr, 2016]. Millennials were transitioning to technology; Gen Zers live it. As a result of immigration trends into Western nations such as the U.S., Germany, France, Australia, and the U.K. [World Population Review, 2023], Millennials were the most racially diverse generation in these countries, but Gen Zers are even more so. Choice overload is the leading stressor for Millennials; for Gen Z, it is phone separation [Claveria, 2017]. The favorite website of Millennials is Amazon; for Gen Z, it is YouTube. Gen Z has also had access to online resources that Millennials did not, which has allowed them to easily learn new skills. They have used these resources to learn alone, and they prefer solitary learning, in comparison with Millennials, who prefer to learn in teams [Seemiller and Grace, 2017]. Although Millennials are known for having multiple careers, Gen Zers are more focused on finding stable work or working for themselves [Schwabel, 2014].

Based on the above analysis, it is evident that Gen Z students are significantly different from Millennial students. In some ways, students can be viewed as customers [Guilbault, 2016]. Thus, business educators need to understand Gen Z differences better to teach in ways that engage them. Historically, business educators have been slow to adapt to the evolving needs and learning styles of previous generations [Bunch, 2020]; thus, current business education may be entrenched in a mindset suited for previous generations. Finally, Baby Boomers constitute the majority of business faculty [Zippia, 2022]. As a result, a generational gap has emerged that must be addressed [Mohr and Mohr, 2016]. This gap—combined with the fact that Gen Zers are the largest cohort moving through college—makes it imperative to have a better understanding of Gen Z students and appreciate the implications for business education. The objectives of this study are:

1) To describe the major factors that shaped Gen Z.
2) To specify the resulting characteristics and needs of Gen Z.
3) To outline key strategies for business educators to better address the needs of Gen Z students.

This study is significant because it presents the first comprehensive framework outlining the educational needs of Gen Z students. It contributes to the literature by reviewing information about Gen Z and evaluating it for changes needed in business education. It highlights the divide between the needs and preferences of Gen Z and the design of business education and current pedagogical approaches. Additionally, it offers practical recommendations to offer a more effective educational experience for Gen Zers.

MAJOR FACTORS SHAPING GEN Z

In this section, we discuss the important factors that shape Gen Z. In determining the factors to present, we looked across multiple research streams for findings that converged.

Technology

Sparked by science and technology, the pace of technological change has accelerated [Butler, 2016]. According to the law of accelerating returns, technology speeds up over time because every technology builds on the previous ones. Additionally, as technology becomes effective, it attracts more investment and talent, further increasing its growth. We are now in a period of mass disruption; in the 21st century, we will not experience 100 years of progress but 20,000 years of progress [Kurzweil, 2005; Reedy, 2017]. Information, communication, and computing technologies are now part of every societal domain and support every facet of human activity while continuously changing. The global adoption of the Internet, smartphones, robotics, and artificial intelligence (AI) are a few examples.

Gen Z has never known a world without the Internet, cell phones, and digital music. With smartphones and laptops providing stable digital access to 94 percent of the country [FCC, 2023], Gen Z has had connections to more information than any other generation at their age [Seemiller and Grace, 2017]. Anything they want—knowledge (e.g., Google), music (e.g., Spotify), gaming (e.g., PlayStation Store), video (e.g., YouTube and Netflix)—is on demand and customized. Access to resources allows them to learn everything at a time of their liking easily. Two-thirds of Gen Zers agree that technology makes them feel like anything is possible

[Singh, 2014]. Gen Zers view new technology as an extension of themselves rather than an addiction or compulsion [Vigo, 2019]. Within technology, social media immersion is a defining aspect of Gen Z; 90 percent of Gen Zers report using social media. As a result, they are skilled at creating and posting content. They depend on it and are in constant contact with their "friends," but this comes at a significant cost (discussed later). Taylor Fang (2020, 36–37) writes, "Our phones are like extensions of our bodies, always tempting us. Algorithms spoon-feed us pictures. We tap. We scroll. We click. We ingest. We follow. We update. . ..We can't enjoy a sunset without posting the view on Snapchat. . .."

Another defining aspect of Gen Z technology use is video gaming. A 2018 study found that 92 percent of teen boys play video games, in comparison with 83 percent of teen girls [Perrin, 2018]. Sixty-eight percent of Gen Z males say gaming is an integral part of their personal identity and they play for enjoyment and connectedness [Team Whistle, 2019; Neys, Jansz, and Tan, 2014]. Gen Zers spend 25 percent of their leisure time outside of work playing video games (vs. 21 percent for Millennials) [Jakob, 2021]. Eighty-one percent of them reported playing video games in the past six months (vs. 77 percent for Millennials) with an average weekly play time of 7:20 hours (vs. 6 hours and 50 minutes for Millennials) [Jakob, 2021]. Beyond playing video games, watching and chatting about eSports (broadcast video game tournaments) on social media giants like Twitch and YouTube, gaming has grown rapidly among Gen Zers [Auxier & Patterson, 2022].

Technology also has a significant impact on how Gen Zers communicate. As mentioned above, most of the Gen Zers own smart devices and access them multiple times a day. They enjoy electronic methods of communication such as texting, apps, and social media [Fong, Lucchi, Trench, Lope, and McDermott, 2019]. Unlike face-to-face communication, which must occur in real time, these modes allow each communicator to control the time and place of communication. Although Gen Zers are native to digital communication tools, they are open to face-to-face communication—contrary to Millennials, who prefer digital platforms for communication [Vigo, 2019].

More pertinent to education, Gen Z prefers videos to text. Ninety-five percent watch YouTube every day, and two-thirds of the videos they watch are instructional materials. They communicate in bite-size pieces, and research suggests that their brains have evolved to process more information at faster speeds and less depth [Crist, 2017], but keeping their attention is challenging. They "talk" in emojis, symbols, pictures, and videos. They do not like waiting for a response and demand instant information [Cilliers, 2017]. Overall, their communication style is significantly different from the norms at the turn of the century.

Parenting

To understand Gen Zers, one must look to their parents. Mostly, Gen Xers are raising Gen Zers. Renewed threats of terrorism, gun violence, and a focus on well-being have increased the anxiety of parents (Gen X), which they transfer to their kids [Fass, 2018]. In general, Gen Zers are more afraid and risk averse [McLaren, 2019]. At the same time, "helicopter" parenting has evolved into "drone" parenting [Sachs, 2016]. In both cases, parents are actively involved; but whereas helicopter parents were physically present, technology has helped drone parents to maintain a distance but still monitor and communicate with their children—constantly—via SMS and apps such as Find My Friends and ParentSquare. This monitoring has translated into an expectation for greater and constant support among Gen Zers.

The Gen X parents of Gen Zers are better educated than the Boomer parents of Millennials; 43 percent of Gen Zers are living with one parent who holds a bachelor's degree or more, whereas only 32 percent of Millennials (at the same age) had a parent with these qualifications [Fry and Parker, 2018]. As a result, Gen Zers place greater importance on a college degree, guided by parents who put pressure on them to get professional experience in high school [Singh, 2014].

Economic Uncertainty

Gen Zers have been developing their personalities and life skills in a socioeconomic environment of chaos, volatility, and complexity. Many of them grew up during the Great Recession and saw its effects and aftereffects on their parents. During this period, 74 percent of Americans were personally affected, many losing their homes and jobs. In 2009, the unemployment rate reached 10 percent [U.S. Bureau of Labor Statistics, 2011]. In 2011, the poverty rate rose to 15 percent [Danziger, Chavez, and Cumberworth, 2010]. Gen Z saw their Gen X parents navigate the Great Recession with worries about credit, debt, mortgage, paying bills, and jobs. The Internet and social media offered intimate details of these struggles, instilling greater fear and worry. A 2014 survey of 16 to 19-year-olds found that 67 percent were concerned about the cost of college, 64 percent were worried about finding a job, and 60 percent were concerned about having enough money [Northeastern University, 2014]. The economic fallout from the COVID-19 pandemic has already hit Gen Zers harder than Millennials and older generations, and half of them reported that they or someone in their household had their pay cut or lost their employment [Parker and Igielnik, 2020].

Although college is considered a must [National Center for Education Statistics, 2022; Fry and Parker, 2018], college debt is a major concern. Student loan debt is now the second highest consumer debt category, second only to mortgage debt. The average student loan debt for the Class of 2018 was $29,200 [Friedman, 2020]. Among households where the head is age 25 and younger, 43 percent have outstanding debt; those who are better educated and have more professional occupations have even greater debt [Fry, 2014]. This indebtedness has impacted Gen Zers' views. They do not define financial success as being rich, but as being debt-free [Hoffower, 2019]. They are more interested in financial security than Millennials, are more likely to choose a major based on the (pragmatic) prospects of a job following graduation and are not interested in taking risky propositions [Piore, 2019].

Going beyond college, the future is more unpredictable. Technology is recasting the job market at a frenetic pace. AI, robotics, and other new technologies have begun to displace millions of jobs and create an emphasis on STEM (science, technology, engineering, math). This lack of predictability is likely to be further fueled by global connectedness, where if a job can be outsourced at a cheaper rate, it will be. Individuals now require continuous learning and must constantly retrain and upgrade their skills to remain competitive [Pew Research Center, 2016; Kelly, 2019].

Diversity

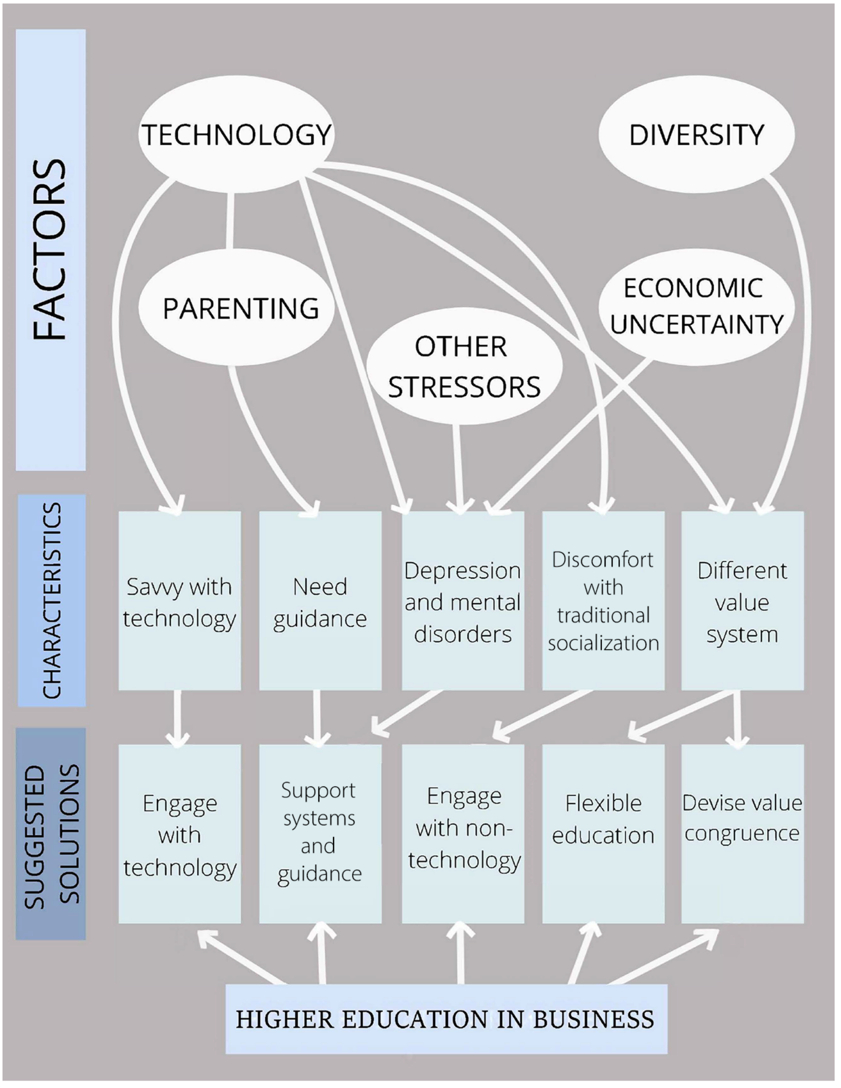
Gen Z is the most racially and ethnically diverse cohort. Baby Boomers are 82 percent White, whereas Gen Z are 52 percent White. The largest growing contingent is Hispanic, which represents 4 percent of Boomers and 25 percent of Gen Z [Parker and Igielnik, 2020]. This diversity has exposed them to a plethora of cultural perspectives [Singh, 2014]. They are less likely to recognize previous categories and tend to mix and match identities that appeal to them. More than 80 percent of Gen Z teens report having friends whose race differs from theirs [Graham, 2018], a large increase over their Millennial predecessors; and they have been leaders in the Black Lives Matter movement [Bellan, 2020].

Other Stressors

Sixty-two percent of Gen Zers feel that the current political climate is a significant source of stress [American Psychological Association, 2018]. Other stressors for Gen Z include climate change (58 percent feel anxious about it), concerns for campus safety due to increased mass shootings (46 percent), bullying (35 percent), personal debt (33 percent), housing instability (31 percent), and hunger (21 percent). Some of these statistics are not easy to relate to for people from other generations, but they define Gen Zers' mindset.

We now discuss how these factors have transformed Gen Zers. Please refer to Figure 1 for an overview of our framework. Although it is not intended to be a structural model to be tested empirically, it serves a useful purpose of providing an overview of this manuscript.

Figure 1. Gen Z Factors, Characteristics, and Implications for Education



GEN Z: KEY CHARACTERISTICS

In discussing the common characteristics of Gen Z, we focus predominately on findings where there has been research convergence.

Savvy with Technology

As a result of their technology immersion, Gen Zers are confident with technology and use it to further their learning. In general, they enjoy spending time on their smartphones, laptops, and other devices, researching what's on their minds [Twenge, 2017; Zhitomirsky-Geffet and Blau, 2016]. This ability to use technology to learn anything, combined with a fear of layoffs and disruptions, has led seventy percent of Gen Zers to want to start their own company [Fleischer, 2019].

Although this generation is savvy with technology, they are also living in a situation of information overload. The term "Pancake People," coined by playwright Richard Foreman in 2003, can be used to describe them as spread widely and thinly. They have a lot of information at their fingertips but lack the depth of a multi-layered psyche [Schott, 2011]. When (they go) online, they enter an environment that promotes shallowness. They scan instead of "read" and practice hurried and distracted thinking, which leads to superficial learning. As a result, they never process information into schemas that make up their long-term memory. Thus, their intelligence can lack depth and makes them flat thinkers [Carr, 2011]. Additionally, studies indicate that the brains of Gen Zers are structurally different due to their exposure to and immersion in a technology-driven environment. The part of the brain that processes images is more developed; they decipher sophisticated visual imagery more naturally but have a lower ability to process longer lectures or readings [Lewis and Rohloff, 2021].

Gen Zers expect on-demand, low-cost access to information in bite-size pieces [Fong et al., 2019]. A lifetime of having instant answers available online has led to this expectation in all human and digital interactions.

Discomfort with Traditional Socialization

It is not an uncommon sight to see youngsters today sitting across a table but communicating with each other via their phones. Gen Zers tend to rely on digital media for socialization. They were raised with smartphones in their hands, where everyone was always accessible and physical social interaction was limited. This communication style puts them at odds with the more personal communication style of their teachers, who are more likely to be Gen X and Boomers. In a study of entry-level position listings, oral and written communication skills were the two most required transferable skills [Schlee and Karns, 2017]. It is interesting, however, that, although many feel challenged in communicating face-to-face, 51 percent of respondents from Gen Z claimed that they would enjoy in-person communication [PR Newswire, 2014].

With technology as a mediator, Gen Zers are now more connected as individuals rather than being socially embedded in groups [Rainie and Wellman, 2012]. Gen Zers are less likely to enjoy camaraderie in teams and fear that group members will not perform their duties on team projects. As such, at a time when business schools are focusing more on teamwork, they are predisposed to working alone, especially in a university setting [Mohr and Mohr, 2016].

Depression and Mental Disorders

Ninety percent of Gen Z adults age 18–21 have recently experienced at least one symptom of stress, such as feeling depressed (58 percent), lack of motivation or interest (55 percent), and anxiety (54 percent) [American Psychological Association, 2018]. Thirty-seven percent of Gen Zers have received or are currently receiving treatment from a mental health professional [American Psychological Association, 2018]. Twenty-three percent have been diagnosed with depression—much higher in comparison with previous generations [American Psychological Association, 2018]. A 2019 study found that, since 2011, among undergraduate students, rates of depression, anxiety, and attempted suicide increased, with many doubling over the period [Duffy, Twenge, and Joiner, 2019].

Several related explanations exist. First, heavy (in comparison with light) users of technology are twice as likely to be depressed. Declines in face-to-face interaction and increases in virtual time are contributing factors. In comparison with previous generations, college-bound seniors spend an hour less a day in in-person social interaction, despite no changes in homework and extracurricular time and less paid work [Twenge, Spitzberg, and Campbell, 2019]. Social media has been blamed. Forty-two percent of Gen Zers feel that social media has a direct impact on how they feel about themselves [Fleischer, 2019]. In recent studies of Facebook usage, it was found that there is a positive relationship ($r = 0.42$) between time spent on Facebook and depression [Maglunog and Marison, 2019].

Second, studies show that physical activity has an inverse relationship with depression [Motl, Birnbaum, Kubik, and Dishman, 2004]. Spending time on social media leads to a more sedentary life that has been linked to mental disorders and a lack of social support. A recent study showed that 40 percent of college students fell into the physically inactive category [Xu, Liu, Chepyator-Thomson, and Schmidlein, 2018].

Third, sleep is another potential factor, which is also impacted by digital media usage. Media use has consistently been related to delayed bedtime, and lack of sleep is highly correlated with mental health risks in college populations [Eisenberg, 2019].

Finally, college is considered a period in which depression and anxiety can easily occur, due to maturational changes and adjustments to a new life, often away from home [Xu, Liu, Chepyator-Thomson, and Schmidlein, 2018]. Students also face issues of financial difficulty, poor academic performance, and difficult interpersonal relationships, which make them particularly vulnerable to anxiety and depression [Andrew and Wilding, 2004].

It is worth noting that the majority of the contributing factors to mental health discussed above have worsened during and after the COVID-19 pandemic. There is a higher incidence of depression, anxiety and posttraumatic stress, which has further exacerbated the mental health of students [Cellini, Canale, Mioni, and Costa, 2020; Christensen, Bond, and McKenna, 2022; DeFilippis, Impink, Singell, Polzer, and Sadun, 2022; Pandya and Lodha, 2022].

Need for Guidance

Being in constant contact with and under surveillance of their parents, Gen Zers are accustomed to parental guidance. They also seek guidance from others [Twenge, 2017]. Gen Zers desire greater direction from their professors and see their instructors as learning facilitators who guide them in developing practical skills [Schlee, Eveland, and Harich, 2019]. Part of guiding them is providing relevant experiences, like internships. Seventy-nine percent of Gen Zers believe that colleges should integrate internships and other professional opportunities into their programs [Northeastern University, 2014].

A Different Value System

As a result of the threats they perceive (economic, guns, climate change, college debt, war, etc.), they hold a more pragmatic view of the world than Millennials. Although many of the threats have contributed to mental health issues, they have also emboldened them; they need to fix the world that previous generations have harmed. As a result of their parents' layoffs during the Great Recession, their trust in corporations is low. They are also witness to corporate and government abuse of the environment, and they do not trust corporations to act in the best interest of society. Sixty-five percent of Gen Zers try to learn the origins of anything they buy, and 80 percent refuse to buy goods from a company involved in a scandal [Francis and Hoefel, 2018]. Thus, they define companies not only by their products but also by their ethics, practices, and social impact [Gomez, Mawhinney, and Betts, 2019].

Their paycheck is most important to them, followed by a desire to have purpose, happiness, and enjoyment in their work, which they believe should make a positive impact on the world [Seemiller and Grace, 2017]. Because they are self-learners and have had tools to manipulate and customize content, they are a creative generation and want to personalize everything; and as previously mentioned, they are entrepreneurial. Sixty-three percent say they want to learn about entrepreneurship, and in reference to college, nearly three out of four said that colleges should allow students to design their own courses of study [Loveland, 2019].

Because of the diverse world in which they live, Gen Zers are radically inclusive. Seventy-three percent agree on marriage equality, and 74 percent support equal rights for transgender people. Fifty-five percent favor U.S. citizenship for all, regardless of birthplace. They are the most progressive generation of our time, more tolerant than previous generations and compassionate towards marginalized groups. They refuse to define themselves in one way [Francis and Hoefel, 2018].

IMPLICATIONS FOR BUSINESS EDUCATION

In the previous sections, we outlined the factors influencing Gen Zers and how they shaped this generation. Although these changes have been studied in a variety of fields, higher education has been slow to adapt even as Gen Zers are now flooding the gates [Parker and Igielnik, 2020]. In this section, we discuss several implications of our findings by providing recommendations to improve business education to suit the needs of the new generation of students and enhance its efficacy. Figure 1 provides an overview of our recommendations.

It is important to note that the recommendations presented should not be interpreted as a capitulation to the preferences of Gen Z, but rather as means to enhance their educational experience and learning. Although we have focused on what the universities need to do, it is equally important that Gen Z students adjust to a world they are not accustomed to. Otherwise, they may see unforeseen challenges when they transition into the "real world." College is a perfect opportunity to prepare for this transition. They should see it as such and make necessary adjustments in their own outlook and behavior.

Flexible Education

Gen Z students need greater flexibility. They were born with ubiquitous on-demand content, so they want more say in what they learn [Khan, 2012]. They are also faced with a very dynamic future in the workplace; careers, jobs, and job contents are continuously evolving. So, education is increasingly transitioning from one-time degrees to continuous learning; offering rigid programs is a disservice. The COVID-19 pandemic demonstrated that universities can adapt to a more flexible delivery mode in a short period. Many schools maintained that flexibility on re-entry, predominately to meet the expectations of Gen Z for flexibility and to retain them [Chillakuri, 2020; Srinivasan, Ramos, and Muhammad, 2021; Texas Tribune Events Staff, 2022]. Flexibility is needed at multiple levels—how the instruction is imparted in specific courses, the mix of courses, and the ability to customize their entire education, not only across courses on a campus, but across campuses. Existing dual degree and cross-university programs are limited execution of this idea, allowing students greater choice across different specializations [Culver, Puri, Spinelli, DePauw, and Dooley, 2012]. Although the last category may be challenging due to both financial and jurisdictional issues, building partnerships across universities will certainly help create a far richer experience, and different universities can develop their own specialties. Therefore, we recommend starting fluid programs within schools and then expanding them to cross-campus programs.

Several universities already offer some level of customization of degrees [College Choice Staff Writers, 2020]. The COVID-19 pandemic was also an accelerating factor, forcing many institutions to become more flexible to retain their Gen Z students. We recommend greater customization. Personalized education can be achieved by offering fluid programs and courses: more courses to choose from, greater flexibility in choice of major and minor, more course choices within a major or minor, and even the choice of topics that are covered in a course. Fluidity is particularly important for students at the two extreme poles of identity exploration. At one extreme, there are students who have made up their mind about their career path and want to diversify their learning for a specific career path. They need a more flexible program that develops essential skills for that career. At the other extreme are students who are actively exploring their identities and have not identified who they want to be. They do not want to be stuck in a fixed curriculum structure before they expose themselves to a variety of courses [Kroger and Marcia, 2011; Schwartz, Beyers, Luyckx, Soenens, Zamboanga, Forthun, Hardy, Vazsonyi, Ham, Kim, Whitbourne, and Waterman, 2011]. Fluid programs help students articulate their education that is more in line with their desired career paths and needs.

At the course level, educators need to make a conscious decision to evaluate the merits of synchronous learning, online and hybrid courses with recorded lectures, flipped learning, and flexible online office hours as some of the ways to boost student learning through flexibility [Engel, Heinz, and Sonntag, 2017]. What we are proposing is in line with what is commonly referred to as self-directed learning [Rashid and Asghar, 2016], where students take the initiative to decide their learning needs and goals, identify resources, choose learning strategies, and evaluate outcomes.

Engage with Technology

Gen Zers have an aptitude for learning digitally because they grew up with digital technology. They favor online learning content that is readily accessible. The common phrase, "Technology is technology only for people who are born after it is invented," best describes their relationship with technology. What is considered technology to the instructors from "older" generations is a way of life for Gen Zers. Below we highlight several ways that educators can incorporate technology in education.

Gamify It

Because Gen Zers prefer working alone [Mohr and Mohr, 2016] but are open to working with others [Vigo, 2019], they need a learning environment that allows them to interact with others, experience freedom, and have fun. We also provided evidence for a significant rise in video game and eSport consumption among Gen Zers, in comparison with that of older generations. Although the proliferation of video games and eSports in their lives may have ramifications for their mental health and functioning, it is possible to harness it to nudge learning [Alter, 2017]. Gamified education not only fulfills Gen Zers' desire to use technology but also satiates their desires for autonomy, freedom, social interaction, immediate feedback, and status, thereby increasing their engagement with education.

Gamification is the use of video game elements to make non-gaming systems more game-like. It has become a popular way to nudge behavioral change in a variety of contexts such as health, education, and business [Alter, 2017; Landers, 2014; Kim, Song, Lockee, and Burton, 2018]. Gamified education increases motivation and engagement [Su and Cheng, 2015], improves collaboration skills [Verzat, Byrne, and Fayolle, 2009], promotes creativity, and leads to behavioral change [Tsay, Kofinas, and Luo, 2018]. Game genres frequently used in education include role-playing, simulation, and alternative reality games. In addition to these genres, business educators can incorporate other elements of video games, such as rewards, status badges, missions, and avatars in their teaching [Kim et al., 2018].

Use Videos

As discussed earlier, video is the preferred medium of Gen Zers. The rich multimedia experience of videos can grab their attention, addressing their lowered attention. Videos engage them by increasing their emotional response [Mayer, 2001]. They also offer students greater flexibility by allowing them to access content anytime/anywhere [Forsey, Low, and Glance, 2013]. Additionally, videos can lead to deeper learning and better recall of information [Mayer, 1997]. In line with this, recent research also suggests that Gen Z students prefer video case studies to written ones [De Beule et al., 2019].

Although prior research suggests the importance of videos in improving student learning [Granitz, Kohli, and Lancellotti, 2021], educators have not fully embraced this approach. One major reason is that educators still rely on conventional methods that are text-centric [Sweeney and Hughes, 2017]. There is a need for developing more video and other multimedia content that is easy to search and use.

Technology-Enhanced Learning Environments

There are other ways to incorporate recent technology into business education. Technologies such as the Internet of Things (IoT) and wearable technologies such as virtual reality (VR) and augmented reality devices are evolving rapidly and finding their ways into education [Crittenden, Biel, and Lovely, 2019; Timms, 2016]. Here, we briefly mention a few examples. Virtual reality and augmented reality can be used to create immersive environments. For example, in a finance course, students can engage in financial derivative training using a simulation offered by a financial services firm [Burney, 2018]; VR avatars can be used to teach negotiation [Ding, Brinkman, and Neerincx, 2020]; instructors can use smart robot co-workers (cobots) to monitor class activities, measure student engagement, and provide real-time feedback [Timms, 2016]; and artificial intelligence can be used to monitor student engagement with materials, such as textbooks, outside the classroom [Popenici and Kerr, 2017].

Engage with "Non-Technology"

Earlier we mentioned that Gen Z students outperform older generations in areas such as image processing. However, there are areas in which they need more support to be prepared for their careers. It has been demonstrated that they have shorter attention spans and tend to process information in a shallow manner. Thus, it is crucial to use non-technology methods and materials in ways that deal with these issues. For example, in a traditional lecture setting, information should be presented in bite-size pieces to deal with low attention spans. Instructors should also engage students with traditional teaching when technology does not lend itself to learning. For example, because they want to learn subjects that are useful for their future careers, a careful explanation of how a traditional writing assignment will make a difference in their future success can increase their engagement with it [Mohr and Mohr, 2016].

Gen Zers have poor face-to-face social skills [Schwieger and Ladwig, 2018]; however, higher education is an opportunity to develop these. At the course level, instructors can use practices such as turning desks toward each other, incorporating interactive games, and organizing field trips to encourage students to have social interaction with their peers, instructors, and people in their future workplaces. At the college level, networking with companies and alumni to provide training and internship opportunities and supporting and empowering student organizations can improve students' social skills [Alfeld, Hansen, Aragon, and Stone, 2006; Sanahuja Vélez and Ribes Giner, 2015].

Moreover, Gen Zers experience the world around them through technology, which can limit the richness and depth of what they learn as they navigate the world. Therefore, educators should incorporate more experiential learning elements in their teaching to make up for their lack of experience. Setting up mentorships, study abroad programs, as well as internship opportunities can effectively improve their learning through experience [Gault, Redington, and Schlager, 2000].

Flipping the classroom has been gaining in popularity, and we believe this practice needs to be encouraged. This student-centered approach makes students active learners by giving them more flexibility (e.g., learning at their own pace), freedom, and control [Albert and Beatty, 2014]. It is more engaging than a traditional lecture [Koponen, 2019] and promotes social interaction with the instructor and other students. It also boosts learning [Kantanen, Koponen, Sointu, and Valtonen, 2019]. Finally, materials that students review before class sessions can incorporate more engaging multimedia content. For example, in studying social media marketing, students can peruse and evaluate the social media content of major influencers, such as Huda Kattan and Kylie Jenner.

Devise Value Congruence

As discussed earlier, the value system of Gen Zers is significantly different from previous generations. They oppose organizations that do not act in the best interest of society. There is substantial evidence that person–organization value congruence leads to positive outcomes for individuals and organizations [Hoffman and Woehr, 2006; Kristof-Brown, Zimmerman, and Johnson, 2005]; higher education cannot be an exception. Arguably, this congruence is more pertinent to business education.

Business schools need to build trust and emphasize a culture of inclusiveness, social impact, and a focus on sustainability. The education itself should be tailored toward flexibility, social engagement, and entrepreneurial orientation. Below, we provide some recommendations that help business educators tailor their instruction to fit the values of the new generation.

Business educators can boost entrepreneurial spirit by tapping into student creativity [Yar Hamidi, Wennberg, and Berglund, 2008]. For example, Gen Z students are adept at content creation, and educators can use this to get them involved in content development, even for their own courses. Students can contribute to a wide range of instructional materials, such as course websites, videos, visuals, and class activities.

To prepare them better for their careers, educators should offer coursework in partnership with the industry [Lange, Rosengren, Colliander, Hernant, and Liljedal, 2018]. Industry experts can be involved in pedagogy in various ways, such as designing the coursework, holding the course onsite, and helping with student assessment. This approach would be especially relevant if educators work with businesses that practice values congruent with Gen Z. Some rapidly growing business areas that would fit with their values include those of sustainability, diversity, equity and inclusion, and environmental, social, and corporate governance [Kimbrough, 2022; Makower, 2021; Southern, 2023]. Forming education and recruitment partnerships with these organizations would also be highly effective and would also feed into Gen Z's desire for an education that is relevant to getting jobs, thereby providing them with the financial security they want.

Business education can also boost value congruence through active involvement in addressing societal problems. Designing courses and course projects that help improve people's lives in their local communities can help them use their education to promote social change [Aksoy Jazaieri, Loureiro, Milligan, Nesteruk, and Sisodia, 2019; Beitelspacher and Rodgers, 2018]. Business curriculums should be designed in ways that promote inclusive practices to support students from a variety of ethnicities and socioeconomic classes. For example, Grier (2020) recommends a course project to enhance understanding of inclusion from a social justice perspective.

Support Systems and Guidance

There is a need for ongoing support from mentors and peers for effective learning. This support is more critical for Gen Zers during college education because they have been constantly guided by their parents and expect real-time feedback. This makes the role of instructors more prominent. As a result, just like future managers and bosses, instructors must be able to provide adequate feedback and closer supervision to Gen Z students.

Moreover, instructors need to go beyond the traditional responsibilities and make college a place for comprehensive development—not just pure academics [Klobes, 2018]. Nora and Crisp (2007) identify four domains of mentoring: psychological support, career goals, academic knowledge support, and role modeling. For multiple reasons discussed earlier, Gen Zers experience greater mental health disorders and depression than older generations, which has taken a toll on their academic success (e.g., by lowering their graduation rate). This is a serious concern. Business education can offer a life-changing experience beyond the realm of job-related coursework, a legacy practice that needs to be changed.

Additional courses can be offered that provide a more holistic education that takes well-being into account and covers physical, intellectual, and emotional dimensions of life [Miller, 2020]. We recommend developing skills related to a more mindful way of life, increasing happiness, fostering time management, living a more meaningful life, making personal finance decisions, and many other skills. In the past, universities in general and business schools in particular have incorporated multiple new topics such as ethics, social responsibility, cultural awareness, career preparation, and professional skills. This has been done through new general education or new core business classes. So, the past has shown that change is possible. Additionally, holistic education does not have to manifest as an entire class. For example, limited interventions such as learning communities and mindfulness programs have successfully met the goals of reducing depression and anxiety [Slavin, Schindler, and Chibnall, 2014]. Alternatively, these interventions can be incorporated into various business courses related to consumer behavior, brand management, organizational behavior, leadership, project management, personal finance, etc. The flipped classroom has freed up classroom time that can be used for these activities.

In addition, mentoring sessions can motivate Gen Z students to plan and prepare for their future [Tyran and Garcia, 2015]. Research has established the benefits of such interventions for student mental health and success [Slavin, Schindler, and Chibnall, 2014]. Although educators might find it challenging to add mentoring to their already busy schedules, there are multiple approaches to mentoring using alumni, business executives, staff (a mentoring office), and senior students. Additionally, not every student on campus requires mentoring, and schools can develop criteria to determine which segments of students need mentoring. Finally mentoring can be done in groups where one mentor meets with several students at once [Sorte, Aguiler-Roca, Henry, and Pratt, 2020]. We strongly recommend a more active role of business schools, not only in improving academic performance but also in developing their students' life skills that help them cope with anxiety, depression, and other common mental disorders.

CONCLUDING DISCUSSION

We argue that although every generation can be perceived as different, Gen Z is indeed uniquely and significantly so. Several factors have contributed to this, chief among them is the exponential growth in technology, which has altered the landscape of individual and societal behavior in various ways. To support our assertions, we do a thorough review of the literature in several related areas that have an impact on Gen Zers.

We then make recommendations to address the needs of Gen Zers. Some of these are accelerated versions of current practices, whereas others are quantum changes. Some of this may seem formidable (e.g., actively collaborating across university campuses, self-directed learning) and others as unconventional (e.g., expanding the role of instructors to be more watchful of the mental well-being of students). However, we believe that such a discussion is critical to the future of higher education in business. Not all recommendations need to be adopted by all schools; universities can choose what's more pertinent to their mission, population, and issues.

Creating organizational change is not easy. We recommend starting with practices already in place that can be implemented quickly, e.g., recommendations under "Engaging with Technology." Others, such as offering more flexible education, will require radical change and may take longer to implement.

Looking across several organizational change models [Armenakis and Harris, 2009; Kotter, 1996], we conclude with a few remarks. First, business schools should create an understanding of the need for change. This study provides some key evidence that can be cited to initiate change, e.g., the case for more flexible education. The AACSB also regularly publishes evidentiary articles on the future of business schools [AACSB International, 2023]. Next, business schools should create a vision and communicate it. The communication of vision must come from the top (deans), and e.g., requisite research evidence must be shared. Behaviors that lead to change must be rewarded and publicized. For instance, departments in business schools that offer students greater flexibility in their degree design may be given recognition or monetary rewards. Finally, business schools should extend this to bigger goals and support challenging endeavors that can accomplish the change.

We argue that business education should take these recommendations into account when crafting its short-term and long-term plans. Some of these recommendations are more pressing and are easier to implement. Others might need radical changes that can be pursued in the long run.

As an epilogue, we would like to add that the COVID-19 pandemic has underscored many of the key points we raised. Arguably, students were better prepared than many faculty for the technology-based platform. They have readily adapted to virtual learning. However, they are missing the social interactions of the campuses and getting *even more* stressed about their education and preparedness for the workplace. The pandemic has also emphasized the need for flexibility in program design and course delivery, the need for better engagement with students, and easy access to psychological health care. So, we believe that our recommendations are aligned with the current needs of the post-pandemic world and the foreseeable future.

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Doing Good versus Being Good: A Case Study of Overhead Ratios in Nonprofit Organizations

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This case describes a marketing communications issue involving Kelly Myers, the Vice President of Marketing and Public Relations at a large, nonprofit hospital. The issues she faces primarily involve the tension between overhead expenses and donations. The case details several issues that nonprofit research hospitals face. A background of donative charities, current practices, and recent scandals in the field is provided. The reader is asked to formulate recommendations for marketing communications to potential donors that account for rising overhead ratios and the resulting issues associated with them. The suggested audience for this case study are upper-level undergraduate and graduate students.

Keywords: Nonprofits, Communications, Marketing, Management, Overhead, Charity Scandals
Disciplines of Interest: Marketing, Strategy, Marketing Management, Marketing Communications

INTRODUCTION

Kelly Myers was finishing her final meeting at work on Wednesday. Kelly had recently taken on more duties because her commitment to St. Michael's Children's Hospital had recently resulted in a promotion. She had frequently felt empty at her previous job in the for-profit world, eventually leaving because she wanted to have a direct impact on people's lives. Though Kelly ultimately took a significant pay cut to join the team at St. Michael's, she never regretted her decision. She was finally getting to do what she had always wanted to do—pursue a career where she could feel she was making a positive change in the world. Kelly's new role was Vice President of Marketing and

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Public Relations, which came with a host of new responsibilities. It was a job Kelly was honored to take on because St. Michael's Children's Hospital was the top research hospital for children in the southeastern United States. Kelly felt great purpose not in only her work, but in St. Michael's overall mission. St. Michael's continued to be a leading research and treatment facility for children with cancer and had gained national and global attention. However, this added attention came with significantly more scrutiny and pressure. Although for-profit firms have a core objective of financial performance, nonprofit organizations have two: fulfilling their social mission and solvency [Topaloglu et al., 2018]. Unfortunately for St. Michael's, many people focus too much on the first objective, not realizing nonprofits need to spend money on noncause–related expenses to continue to operate effectively. Despite the scrutiny and pressure, Kelly was ready for the challenge. Her job responsibilities included leading branding and marketing communications, and she was expected to use quantitative and qualitative research to guide the marketing strategies of the organization. She knew execution of the marketing plan is vital to establish and maintain relationships with physicians, providers, and potential donors, so understanding how to balance the needs of all parties would become one of the most important parts of her roles.

Mark Roberts, Kelly's boss, and chief marketing officer (CMO), stopped by Kelly's office as her last meeting was ending. Kelly had developed a great working relationship with Mark already, because he and all other C-suite officers shared her passion for the cause and had been extremely helpful as she grew into her role. Mark explained that he had just had a year-end discussion with the board of directors and fellow higher-ups in the company, and they were expressing concern about the financial reports for 2021. There seemed to be some trends over the past few years that needed to be addressed. Kelly responded, "What exactly is the issue?" Mark explained that over the last three years in particular, the overhead costs had significantly increased, reaching 60 percent of total revenue in fiscal year 2021. He went on to explain, "As an organization, only slightly over 40 percent of our fundraising and grants are going to the care and treatment of our patients. Our revenues are increasing, but our expenses are growing faster" (see Table 1).

The board was concerned that the increasing overhead rate might become unpalatable to key individuals they rely on for donations. In recent years, several reputable nonprofits and charities have been caught not telling the whole story of where their funds go, creating a feeling of mistrust among the general public, particularly as it relates to overhead expenses. These examples often included paying board members and high-level employees exorbitant salaries and using very small percentages of donations toward their actual causes. Although many executives and managerial level employees took pay cuts to work toward St. Michael's mission, the hospital's reputation is essential to its success and the board is afraid that the increasing overhead may result in many

Table 1. St. Michael's Financial Report for 2019–2021

St. Michael's Financial Report	2019	2020	2021
Revenues			
Total Donor Support	$ 2,650,600	$ 2,956,624	$ 3,366,889
Insurance Recovery	$ 150,000	$ 219,800	$ 290,792
Research Grants	$ 110,000	$ 114,400	$ 118,976
Net Investment Income	$ 203,467	$ 211,606	$ 220,070
Other	$ 23,792	$ 24,744	$ 25,733
Total Revenue	$ 3,137,859	$ 3,527,174	$ 4,022,460
Direct Expenses			
Patient Care Services	$ 1,474,794	$ 1,587,230	$ 1,729,658
Indirect Expenses			
Research	$ 467,866	$ 533,765	$ 754,313
Education, Training, and Community Support	$ 229,880	$ 258,434	$ 295,499
Fundraising	$ 709,940	$ 862,187	$ 921,277
Administrative and Other	$ 255,379	$ 285,558	$ 321,713
Total Indirect Expenses	$ 1,663,065	$ 1,939,944	$ 2,292,802
Overhead Rate	53%	55%	57%

Note. All numbers in $000s.

of their donors being hesitant to continue supporting St. Michael's. Thus, it will be vital for the future success of the organization to figure out how to handle this issue. Kelly, beginning to feel the pressure, asked Mark what the organization needed from her. Mark expressed that the primary concern for officers and directors was the future of the hospital if overhead ratios continued to rise. There was also some dispute among the board members on how this information should be relayed to the public. Kelly, as vice president of marketing and public relations, needed to find a way to manage the reputation of the organization in the face of mounting distrust of charities and expectations of donors. Mark said, "Kelly, I want you and your team to come up with a plan to present to the board next week that will be honest but also make us look as resourceful with our funds as possible and dedicated to our mission. We don't want to lose our donors." Kelly, realizing the enormity of this project, agreed and set to work on a plan.

Donative Charities

There are a broad range of donative charities in America and across the globe. Organizations that are classified as public charities include churches;

hospitals; and qualified medical research organizations affiliated with hospitals, schools, colleges, and universities [National Council of Nonprofits, 2015]. Other criteria include a set program for fundraising and receiving contributions, which can come from a variety of different sources, including governments, private donations, corporations, and many other entities. Although financial models can be complex, transparency is a growing requirement because charities must follow and document these donations as if they were a public company to maintain their tax-exempt status. The government created the tax-exempt incentive because donative charities, nonprofit organizations, and other foundations provide significant benefit to society through efforts to solve various multifaceted social issues. Unfortunately for many charities, the increase in visibility into these donative charities and their financial expenditures has illuminated isolated issues with inefficient spending and fraudulent activities, regrettably casting a black cloud over the entire industry. When these types of activities occur, donors often feel that the charities have taken advantage of them by promising one thing—that the money will go toward helping the needy—and delivering something completely different. The reputational damage to a nonprofit when a scandal occurs can endure even if an organization is cleared of wrongdoing. For example, in 2016, Wounded Warrior Project was accused of spending lavishly on conferences and travel for employees and even after being cleared of the accusations suffered a lasting drop in donations for years while they rebuilt relationships and their reputation [Wounded Warrior Project, 2016].

Research and Nonprofit Hospital Centers

Though research and nonprofit hospitals also receive donations, they differ from most donative nonprofits because they also generate revenue through their operations. It is common for hospitals that their research centers operate as nonprofit entities—in fact 9 of the top 10 hospital systems in the United States are nonprofits (see Table 2).

Nonprofit hospitals provide essential services to families and communities and primarily collect revenue through three sources: payments from patients at time of service, and reimbursements from both private insurance carriers and some federal funding programs. In addition, many hospital systems operate research centers that receive grants from various public and private entities to develop breakthroughs in medical science. These reimbursements, grants, and donations drive the majority of aid in supporting the operations of nonprofit hospital systems. However, medical research is extremely expensive. In the United States, medical research expenditures exceeded $50 billion in 2018 [Brewer, 2022], accounting for more than 10 percent of research hospital revenue [Sather, 2021]. Nonetheless, many nonprofit hospital centers continue to conduct research aimed at improving characterization, diagnosis, and treatment

Table 2. Top 10 Hospital Systems in the United States

Hospital	Rank	Nonprofit
Mayo Clinic, Rochester, MN	1	Yes
Cedars-Sinai Medical Center, Los Angeles, CA	2	Yes
NYU Langone Hospitals, New York, NY	3	Yes
Cleveland Clinic, Cleveland, OH	4	Yes
Johns Hopkins Hospital, Baltimore, MD	5	Yes
UCLA Medical Center, Los Angeles, CA	5	No
New York-Presbyterian Hospital-Columbia and Cornell, New York, NY	7	Yes
Massachusetts General Hospital, Boston, MA	8	Yes
Northwestern Memorial Hospital, Chicago, IL	9	Yes
Stanford Health Care-Stanford Hospital, Stanford, CA	10	Yes

of a broad spectrum of diseases and conditions. In addition to research, the United States' hospitals spent more than $120 billion in development through investment in structures and equipment in 2018. These expenditures are but a small percentage of the hospital expenditures for healthcare services (over $800 billion in 2020). However, it is rare for annual[1] donors to want to contribute to general healthcare expenses, instead desiring to contribute to causes related to a particular disease or condition. Thus, when faced with the high overhead rates and expenditures related to operating a hospital, some donors can become concerned with how donor dollars are being used.

Financial Reporting within Nonprofit Organizations

In an effort to improve how nonprofits communicate their financial performance and condition to stakeholders, in 2016 the Financial Accounting Standards Board released new guidelines for nonprofit financial reporting that simplified the financial statements and enhanced the level of disclosures in the notes [Fitzsimons et al., 2018]. These standards help donors, grantors, creditors, and others assess a nonprofit's stewardship of donations, management, and overall financial position. Additionally, the Better Business Bureau offers reporting on the top charities so that stakeholders have complete visibility of how funds are purposed [Better Business Bureau, 2015]. In addition to overall financial health reporting, there has been mounting pressure to show the direct path that individual donation dollars take once given to the organization. These new standards help alleviate concerns donors typically have when evaluating nonprofits. By improving disclosure, a prospective donor can get a better glimpse of how much of their dollar is being used for the specific charities' purpose or mission. Specific organizations such as Charity Navigator are dedicated to evaluating nonprofits to provide prospective donors information that might help them determine the best return on their donation dollars. This evaluation allows donors and prospective donors to understand the exact distribution of their dollars, because the breakdown of overhead is quite different within charities and not-for-profits.

Overhead Ratio within and outside the Organization

Overhead concerns drive many decisions in business operations. However, it is important to note that there is a distinct difference in how overhead is defined in the nonprofit sector. In for-profit organizations, overhead typically does not include expenses such as salary or any other direct costs associated with creating a product or service, whereas within a nonprofit organization, the definition of overhead is essentially any dollar that does not go directly to your service or mission [National Council of Nonprofits, 2015]. By definition, a nonprofit—percentage-wise—has a higher level of overhead. Why is this important? Because this is how a donor or prospective donor can determine how much of their dollar will help whatever cause an organization is trying to aid or solve. Further, some donors will look solely at the overhead ratio to determine whether to donate. This becomes a challenge for nonprofits that operate in particular environments or causes that are costly, such as hospitals. Medical practice overhead on average is between 60 and 70 percent [99MGMT, 2022]. Examples of essential hospital overhead expenses include support staff (doctors, nurses, administrators, etc.) salaries, medical and surgical supplies, building costs and rent, IT services (electronic medical records, billing, telephone systems, etc.), laboratories, equipment, liability and malpractice insurance, promotion, marketing, and much more. Although some donors understand these requisite overhead expenses, others feel that every dollar they donate should be allocated or purposed toward directly helping those in need. These instances of miscommunication and misunderstanding are where many donor/nonprofit issues occur. Combined with news reports of some charities acting fraudulently and misleading donors and shareholders, the climate for donations has become much more difficult.

Scandals

Nonprofit organizations and charities, like all other institutions, are not immune to scandals, and unethical and unlawful practices. Scandals have occurred throughout history at both small and large nonprofit organizations. A few notable scandals related to health care charities are briefly mentioned below:

Louisiana State University

In 2019, a booster for the Louisiana State University (LSU) football team pleaded guilty to embezzling from Our Lady of the Lake Foundation in Baton Rouge, Louisiana [Schlabach, 2019]. This foundation raises money for Our Lady of the Lake Regional Medical Center, and from 2012 to 2018, an LSU booster embezzled more than $810,000 from the foundation by submitting false payment authorization vouchers and checks to himself. This money was paid to individuals who did not work for the foundation, including the parent of a football player who started for LSU from 2012 to 2015. The money was also used to pay for charter flights, purchase tickets to sporting events, and purchase gift cards. The booster was sentenced to 33 months in prison in late 2019.

Wounded Warrior Foundation

The Wounded Warrior Project (WWP) is a nonprofit organization that provides support to individuals (as well as their families and caregivers) injured during military service. The WWP is one of the top 50 charities in the United States from a revenue standpoint, earning from $18.6 million to $272 million in the years 2007 and 2015, respectively. However, in 2016 the charity saw a precipitous decline in revenue following negative news coverage by CBS and *The New York Times.* These reports criticized the organization for its inefficiency and high levels of spending on issues not directly related to the cause [Varner, 2016]. Specifically, the WWP was accused of spending lavishly on conferences and travel for employees. This alleged misappropriation of funds had a predictably severe impact on WWP as donations fell by $70 million (20 percent) by the end of 2016 [Wounded Warrior Project, 2016]. Further, two top executives were terminated, and a congressional inquiry followed [Seck, 2019]. However, an independent report from a nonprofit expert, Doug White, later that year vindicated the WWP of any wrongdoing [Seck, 2019]. Despite this vindication, the reputational damage led the WWP to see an even steeper decline in donative revenue, by 30 percent, by year-end 2017.

Sanford Health

Sanford Health is a healthcare system in Sioux Falls, South Dakota, consisting primarily of Sanford Health, Sanford Medical Center, and Sanford Clinic. In 2016, two whistleblowers alleged that Sanford Health submitted false claims to federal healthcare programs and performed unnecessary spinal surgeries to receive reimbursements from Medicare, Medicaid, and other federally funded programs. Further, they alleged that a neurosurgeon for Sanford was performing unnecessary surgeries that required implantable devices sold by a company that the surgeon owned. In 2019, Sanford was required to pay $20.25

million in a settlement with the U.S. Attorney's Office for the District of South Dakota, of which $3.4 million went to the whistleblowers [U.S. Department of Justice, 2019].

Though the nonprofit entity was not always at fault in these scandals, in each case the nonprofit incurred material financial and reputational damages. Further, scandals such as these can have a pronounced effect on other nonprofits in their attempts to attract donations. These examples illustrate the importance of effective communication for nonprofit operations. As part of their marketing efforts, there has been increasing pressure for these and other nonprofit organizations to transparently communicate their overhead expenditures. However, there are potentially deleterious effects when organizations comply with these requests for transparency because they may be adversely affected by donors' lack of understanding regarding nonprofit overhead. Despite this concern, the prevalence of scandals and their impact on donations in nonprofit organizations requires the utmost trust, transparency, and communication between nonprofits and donors.

St. Michael's Donor Data Collection

In light of the increasing overhead levels, Kelly decided that she first needed to collect data from potential donors to understand how they felt about overhead issues. Kelly brought her two assistants together and brainstormed how they might go about collecting the information they would need. They decided that there were two main pieces of information they needed: First, if overhead levels continue to rise, is there a point at which the donors will stop contributing to St. Michael's? Second, what are donors' concerns about overhead in general?

Kelly and her assistants set about creating a survey that would allow them to collect the information they needed. They decided to collect this data from a panel of potential donors. Because her organization was very well known, they created a fictional charity for the survey that supported a similar humanitarian cause. They would have each of their respondents look at the same charity, but they would change the overhead rate of the charity to see how the participants' perceptions of the nonprofit changed as the overhead rate increased.

After creating the survey, Kelly sent her two assistants to collect the data. Kelly ended up with 637 responses that gave her an idea about how these potential donors felt about the increasing overhead rates that a fictional charity was experiencing. As she expected, as overhead rates increased, fewer individuals would be willing to donate to the charity (see Table 3). Given that St. Michael's already had an overhead rate approaching 60 percent, this information convinced Kelly that one of two things needed to be done: overhead costs needed to be controlled, or communication needed to be improved to potentially increase the number of donors at higher levels of overhead.

Table 3. Intentions to Donate at Different Overhead (OH) Levels

OH Rate	0%	25%	50%	75%
Would Donate	73.3%	57.0%	47.4%	35.8%

Though Kelly understood that donors would not donate as much when overhead levels were higher, she did not quite understand why. However, when Kelly looked further into the survey data she received, she began to get a clearer picture of what the underlying issues were that people had as the overhead ratios increased (see Figures 1–5). Specifically, donors mentioned five areas where perceptions of the organization were being affected: first, donor trust in the organization; second, organizational greed; third, the ability of the donor to make a difference; fourth, the ability of the charity to provide care; and finally, organizational efficiency. All were significantly affected by the overhead rate associated with the fictional nonprofit. As overhead levels rose, the nonprofit was viewed as greedier, less trustworthy, more inefficient, and less able to effectively accomplish their goal. This perception in turn meant that donors felt less individual impact through their donation as overhead levels rose. The similarity of the fictional nonprofit to St. Michael's was troubling for Kelly. The participant data on these five concerns would most likely mirror that of St. Michael's donors. Kelly realized this data would explain why the risk becomes higher that donors will find a different nonprofit to which to donate as overhead levels increase at St. Michael's. She looked through all the data and realized that to combat any growing unwillingness to help the charity, she would have to effectively address and ameliorate each of the five primary concerns that the participants expressed regarding higher overhead levels.

Kelly's Decision

Kelly finished looking over the survey results and began to question what should be put in her report for Mark and the executive board. The five underlying concerns of the potential donors needed to be addressed, but how should she to do it most effectively? As she looked at the data, she realized that the donor concerns could really be split into three distinct categories: nonprofit reputation, donor impact, and nonprofit operations. The question remained, then, which of the three categories should Kelly recommend that St. Michael's prioritize in their communication plan? Should the proposed communication plan focus on influencing donors' perceptions of personal impact? Or should it focus on improving perceptions of organizational efficiency and effectiveness in the operations of St. Michael's? Or should it instead focus on protecting the reputation of

Figure 1. Trust in Charity at Varying Levels of Overhead

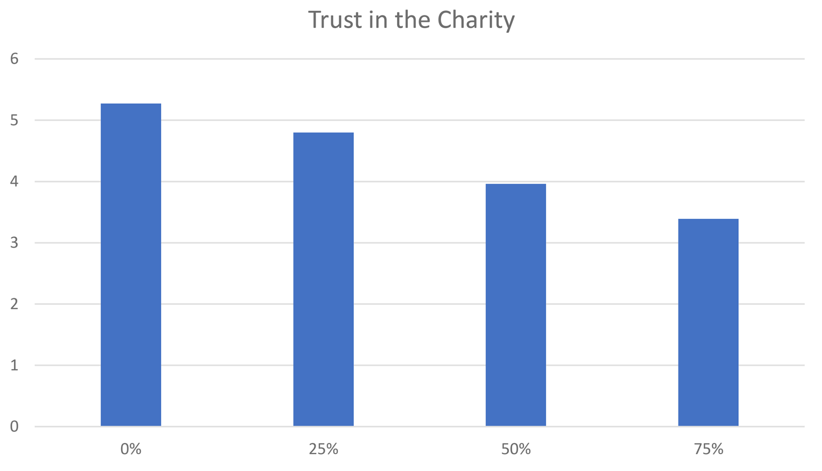
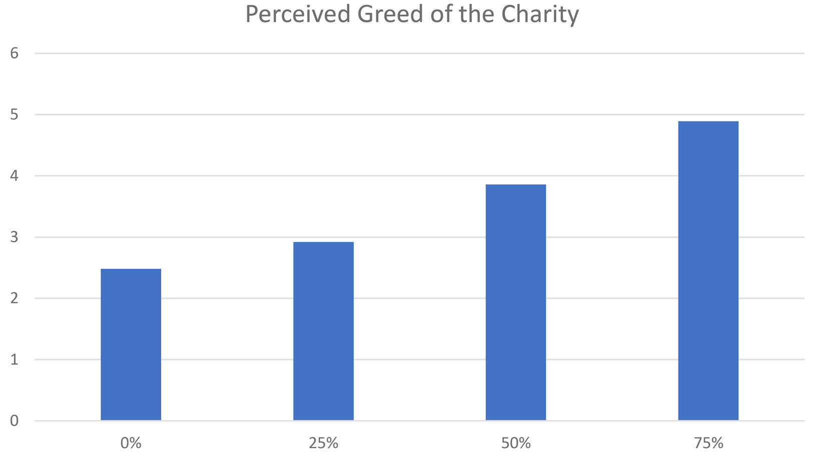


Figure 2. Perceived Greed of the Charity at Varying Levels of Overhead



St. Michael's from perceptions of greediness and lack of trustworthiness? In addition, with many tools at her disposal for reaching potential donors, Kelly knew she had many different options for how she would actually communicate with donors. Before she could decide, she'd need her team to generate solid arguments for each of the three options. Kelly looked at the clock on the wall. She knew her team had a long week ahead. She took a deep breath and turned back to the data.

Figure 3. Perceived Ability to Make a Difference at Varying Levels of Overhead

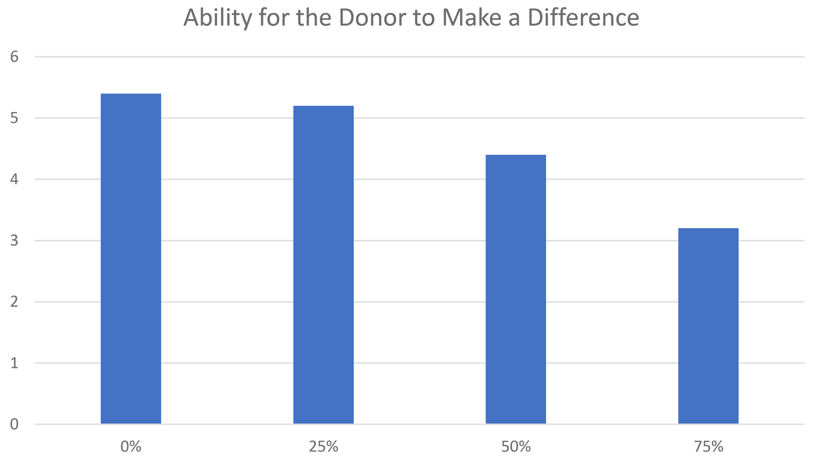


Figure 4. Perceived Ability of the Charity to Provide Care at Varying Levels of Overhead

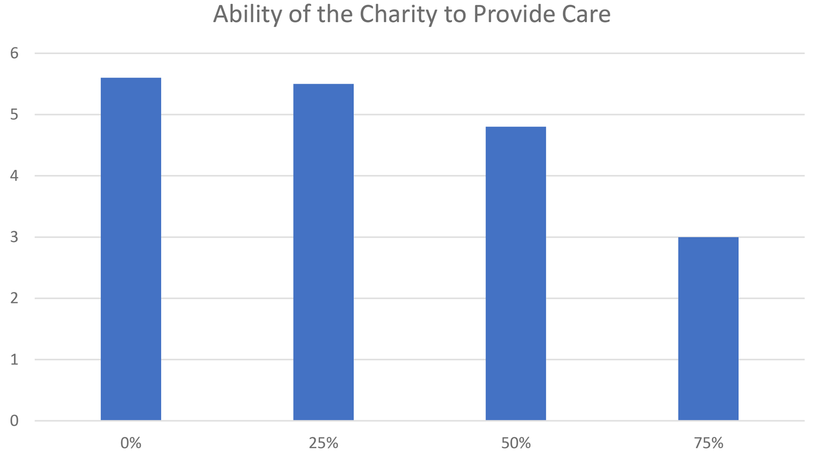
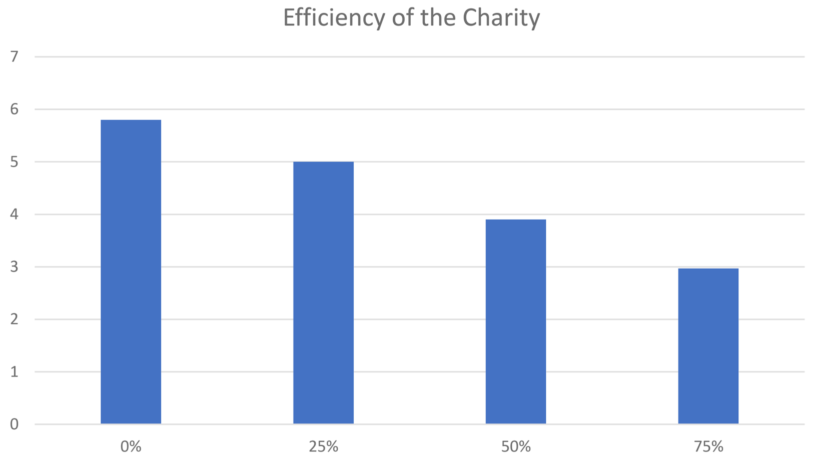


Figure 5. Perceived Efficiency of the Charity at Varying Levels of Overhead



Example VP of Public Relations and Marketing Job Responsibilities

Manage hospital website, social media, and other digital communications.

Manage all aspects of business operations that include sales and marketing, advertising, administration, financial oversight, and inventory/procurement management.

Work one-on-one with the director of development to design and increase fundraising efforts.

Create an internal customer relationship marketing (CRM) strategy to assist with donor retention.

Develop, create, and implement new marketing materials, media plans, CRM plans and merchandizing.

Form partnerships with local volunteer organizations to provide opportunities for community outreach programs.

Develop a nationally distributed online magazine/e-newsletter.

TEACHING NOTES

Synopsis

This case is set in a fictional nonprofit hospital called St. Michael's, which is structured very similarly to many nonprofit hospitals in the United States. Kelly Myers, Vice President of Marketing and Public Relations, is faced with deciding how to handle the communication of increasing overhead rates in the face of increasing scandals in the industry. We learn that expenses are rising faster than revenues, leading the board to increase the pressure on Kelly's boss, the CMO of the organization, to suggest solutions to the challenges they will soon be facing.

The costs associated with running a nonprofit hospital are inherently high, and the more that the ratio of costs to revenues increases, the more unattractive the nonprofit looks to many potential donors. It is not surprising that Kelly is uncertain exactly how to handle this situation, because it is the struggle that almost all charities face—balancing doing good vs. being good. When people find out that a nonprofit is behaving like a for-profit organization, many issues are raised. Included among these issues are perceptions that the organization is greedy and cannot be trusted. People want to feel good about donating by envisioning the impact of their donation, in this case thinking about helping another individual get better. But when money from the donation goes toward things like salaries or general operating expenses, the donors do not get to feel as good about themselves. They may feel taken advantage of in these situations and become resistant to helping in the future. Additionally, donors may feel that these are signs that the organization is inefficient and incapable of solving the problems it has promised the donors will be tackled. The data presented in the case reflect actual results from research conducted by the authors.

There are several issues worthy of discussion in the case, with most grounded in nonprofit marketing and management. Given the dependence of nonprofits on donations to operate, there are a number of communications and advertising/fundraising issues that are fruitful for student discussion. Below are a few questions to provide to the students to help shape class discussion.

Suggested Discussion Questions

1. What is the best way to communicate a rise in overhead cost for St Michael's?
2. How can a nonprofit organization as a whole change the messaging around overhead cost?
3. What other metrics or data could be used or published besides overhead rate to help evaluate a charity?
4. Do you think overhead is a fair assessment tool for charities and nonprofit organizations?

TEACHING NOTES

1. What is the Best Way to Communicate an Increase in Overhead Cost for St Michael's?

This question gets the students to start thinking strategically. There are several ways this discussion can be addressed. Two potential ways could be from an operational standpoint, considering what tools Kelly can use to communicate to potential donors or to focus the discussion on the content of the communications she designs.

From an operational standpoint, the case provides the job description of a VP like Kelly, which gives potential strategies the students can discuss. Students can research and discuss the pros and cons of using a more localized strategy through working with volunteer organizations and other community outreach programs to ask for support from the community the hospital operates within or on a more national level, with website/social media, television, or other digital advertising strategies. Emphasis can be placed on understanding that larger donors typically will come from the local area or have ties to the area and require more personalized and relationship-oriented selling, whereas smaller donations from a larger pool of donors can be accessed through national media campaigns that focus more on increasing reach and awareness. With respect to the frequency or timing of communication, a recommendation could be to not communicate solely at the end of the year. Throughout each year, quarter, and month, having demonstrated ethical practices and showing clear visibility may improve the perception of overhead costs among potential donors. Seeing smaller portions at a time can help the donor to not focus on large sums of money being "taken from the cause." More important, the transparency of where the money will be spent can ease concerns that the organization is being wasteful or greedy, because donors tend to be averse to donations going toward salaries, for example.

From a content standpoint, Kelly may want to break the overall overhead expenses into "investment" and "operational" overhead when communicating. Kelly could make a distinction between indirect costs that allow for helping *more future patients and/or society as a whole*—such as fundraising and research. This structure could provide a chance to show the delayed effects of the overhead: for example, additional fundraising brings in significantly more donor support that allows for them to provide even more patient care services. That approach would reassure donors that the money may not go to a patient now, but it eventually will be delivered to a patient, This strategy would allow her to make sure that current and potential donors see that even if the impact may not be what they envisioned as they considered the donation—to help someone suffering right now—they still can feel good in the knowledge that they are making a difference in aiding the charity with providing care to those in need. In addition, Kelly can point out from the financial report provided in the case that although overall costs such as these are rising, the "operational" overhead that donors are usually averse to, such as salaries, remain constant and proportionally low when compared to the other categories of expenses such as fundraising, research and education—in this case, around 8 percent of the revenues that are brought in. These types of recommendations can help her in addressing all three of the mentioned issues in the case for managing the reputation and communicating the impact that both the donors and hospital are having.

One topic to keep constant throughout the discussion of this question and of all these questions is the ethical communication. There is a fine line when creating a public image between informing and manipulating donors. Many of the proposed solutions that will come up during the discussion can be used to manipulate donors and lead to those types of scandals that are discussed in the case. It is important to challenge students to make creative but also ethical recommendations.

2. How Can a Nonprofit Organization as a Whole Change the Messaging around Overhead Cost?

As previously mentioned, not all overhead is created equal. Scholarly work such as that of Portillo and Stinn [2018] has shown that when broken out, donors do not feel the same way about all types of overhead. The nonprofit professionals who need to deal with how donors feel learn very quickly that although overhead can turn off potential donors because they lose the sense of potential gratification from making a difference in the donation recipients' lives, showing the potential donor that they are still able to make a difference—but possibly in a way they hadn't originally envisioned—can assuage doubts about whether the charity is actually being good. This strategy can offset those feelings that the charity is greedy and taking advantage of donors and keep the trust they have worked to develop. This approach can also be used to show that the organization is neither inefficient nor losing its capacity to provide the support to all those suffering with health issues who may not be able to afford the necessary treatments.

3. What Metrics or Data Could Be Used or Published besides Overhead Rate to Help Evaluate a Charity?

Nonprofit fundraising professionals have many tools that will track and forecast a charity's effectiveness besides overhead rate. For example, Charity Navigator [2022] recommends that, for charities without a rating, three pieces of information should be looked at: the charity's financial health and breakdown of expenses and support, evidence of the charity's commitment to accountability and transparency, and finally the results of the charity's work. A good way to demonstrate the results of the charity is the impact level, which can include number of homes or people treated in comparison with the prior year, for example.

4. Do You Think Overhead is a Fair Assessment Tool for Charities and Nonprofit Organizations?

One topic you can discuss with students is the metric of "Return on Mission" (ROM). If a student discusses the data in terms of number of people or homes assisted by the organization from the previous discussion question, you can segue into ROM, a recently proposed metric that will help charities to demonstrate their effectiveness in turning dollars into impact [Urban, 2018]. In this article, Andrew Urban discusses using ROM as an improved metric instead of using a more traditional return on investment (ROI). In addition to possessing the benefits of ROI, ROM also measures ROI against program delivery statistics and organizational criteria to support mission delivery, and ROM does not rely on outdated and simplistic overhead ratios (program vs. overhead expenditures). Beyond this measure, discussion can focus on the fact that not all charities and charitable causes are created equally. The trade-off typically occurs between effective performance and cost, that is, the ability to reach and impact more individuals against the increases in costs necessary to do so. Discussion can center around their preference for wide-reaching charities with higher overheads vs. many lower-overhead, more narrow-reaching groups or organizations attempting to solve the same societal issues. Additionally, there is an opportunity here to discuss economies of scale and the potential impact on future overhead rates. As nonprofits invest in organizational competence and operational excellence, overhead expenditures will not increase proportionally to the number of people served. Thus, at a certain point the overhead per person served could become negatively U-shaped.

ENDNOTE

1. Most hospitals have three distinct fundraising programs: annual giving programs, major gift programs, and planned giving programs [see Totten, 2022].

Annual giving programs, the subject of this paper, are the largest (number of donors) and most predictable form of fundraising for hospitals. These programs seek out new and previous donors to establish yearly donations to the hospital and cover general expenses.

Major gifts are investment-level and relationship-driven donations and typically cover hospital wings, technology acquisition, or program expansions; however, these are unpredictable in frequency.

Planned gifts are often bequests under wills, life insurance, or retirement plan assets. They, too, are unpredictable in frequency and often cannot be immediately used.

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T & T Coastal Services, Inc.: Leased Assets Case Study and Teaching Notes

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The case provides students with the opportunity to assess the impact of leasing assets on the financial statements as a whole and to perform a financial analysis demonstrating the effect of the lease standard (ASC 842) on financial ratios—all from the lessee's perspective. This case is designed for use in courses that cover ASC 842, including graduate-level financial accounting, undergraduate advanced accounting, intermediate accounting, and undergraduate and graduate finance. This case study takes the student through a checklist for ASC 842 implementation, as well as the calculations, disclosure requirements, and an analysis to determine the effects of implementation on the financial statements and debt ratios.

Keywords: ASC 842, Leasing Standard, Operating Lease
Disciplines of Interest: Financial Accounting, Finance

INTRODUCTION

"This new leasing standard, ASC 842, is really going to mess with our numbers. I do not understand why the FASB had to make these changes! We have a 10-year lease for this vessel! Adopting ASC 842 means adding a significant liability to the Balance sheet! We need this vessel! I'm concerned the addition of a lease liability to the Balance Sheet may cause us to violate the bond covenants for the bonds we sold in 2020. What a mess!" said Tommy Pitre, the CEO of T & T Coastal Services, Inc. Sam Richard, the CFO of the company, tried to reassure Mr. Pitre. "Everything is going to be fine, boss. Lenders and investors are aware of the changes to the leasing standard and the potential effect on debt ratios. They will most likely either renegotiate the bond covenants or accept adjustments to the company's debt ratios, eliminating the effects of the leasing standard changes. I'm not worried about it! But I'll

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get you all the information you need for reassurance!" "It's going to cost time and money if we have to renegotiate the bond covenants! I know it and you know it!" exclaimed the CEO.

Company Background and Management Team

T & T Coastal Services, Inc., is a privately owned corporation formed in 2008 to provide offshore transport services off the coast of Louisiana in the Gulf of Mexico. The company transports supplies and personnel to offshore drilling platforms using various types of water vessels and helicopters. The company owns crew boats that are capable of transporting personnel and supplies to offshore oil and gas platforms. However, the company also currently leases a platform supply vessel (PSV), which is a ship specially designed to carry supplies and equipment to the oil and gas platforms. These ships range from 160 to 330 feet in length. T & T Coastal also leases helicopters to transport personnel on an on-demand basis. The company leases the PSV on a long-term basis—usually up to 10 years at a time. The helicopters are leased on a short-term basis, sometimes for just a few hours. The oil industry is cyclical by nature. If oil prices fall, investment decreases, output decreases, and the need for personnel and supplies declines. T & T Coastal has ridden the oil industry roller coaster since the company's inception and is well aware that entering into long-term lease agreements is a gamble because from one year to the next it is difficult to predict demand for offshore supply services.

CEO

Mr. Tommy Pitre, Sr., CEO of T & T Coastal, Inc., started working in the oilfield industry directly out of high school at the age of 17. It was 1969, and Louisiana's oil production was at its peak. Mr. Pitre started his career as a roustabout—a position at the very bottom of the oilfield totem pole. He has lived firsthand the peaks and valleys of the oil business and has managed to work his way up to starting and owning his own business. Although he knows the oilfield industry inside and out, he does not completely understand some of the accounting rules the business is required to follow.

CFO

Ms. Sam Richard, CPA, is the CFO of T & T Coastal, Inc. She has over twenty years of industry experience, though not all of it has been in the oil industry. She does understand the ups and downs of the oilfield industry and has, for nearly five years, assisted Mr. Pitre in financially navigating those ups and downs. She, too, is worried about the new leasing standard's potential effects on the bond covenants related to the recent bond issuance but has kept that concern to herself until a complete analysis can be performed.

The CFO's Meeting with the Accounting Staff

> "Ok, everyone, we all know that the new leasing standard (ASC 842) is scheduled to go into effect for private companies very soon. Adoption of ASC 842 is mandatory and will be effective for all private companies for fiscal years beginning after December 15, 2021. Early adoption of the standard is permitted. You're also all aware that we recently had a bond issuance, and along with that we have several bond covenants that we must not violate. I am requesting that you all work together and perform a thorough analysis of the implications of the impending adoption of ASC 842. We need this vessel and are actually considering leasing a second vessel! You must carefully consider the consequences of your conclusions and recommendations. We don't want any surprises! You will be provided with all information necessary to perform an in-depth analysis. I've provided you with a worksheet to get you started (See Exhibit 1). Any questions? No? Then, get started."

ACCOUNTING INFORMATION

T & T Coastal's financial statements for the years ending December 31, 2019 and 2020 are presented in Exhibits 2–4 and are prepared using U.S. Generally Accepted Accounting Principles (GAAP) standards. The controller has requested the accounting staff perform an analysis regarding the effects of Accounting Standards Codification (ASC) 842 on the existing financial statements. The type of lease must be determined, and the effects of implementation analyzed. Furthermore, the CFO is particularly concerned about how the leasing standard changes will affect existing bond covenants because T & T Coastal acquired a substantial amount of debt in 2020 to finance the purchase of a new warehouse and office building. Bond covenants may have to be renegotiated.

1. The company has 1 (one) long-term lease for a PSV named Trey Lynn that began on January 1, 2017. The lease does not transfer ownership to the lessee at the end of the lease term. There is no option to purchase the leased asset at the end of the lease, and the asset is not of a specialized nature.
2. The lease payment is $750,000 per year due at the beginning of each year. The first payment was made on January 1, 2017. The incremental borrowing rate of T & T Coastal is 4 percent, and the implicit rate of the lessor is unknown by T & T Coastal.
3. The expected and guaranteed residual value of the leased asset at the end of the lease term is $5.5 million.
4. The fair value of the leased asset at the end of 2020 is estimated to be $15 million.
5. At the end of 2020, the remaining life of the leased asset is estimated to be 25 years, and T & T Coastal depreciates all assets using the straight-line basis.

6. Helicopters are leased on an as-needed basis. The cost to lease a helicopter with a pilot fluctuates. The average is $1,500 per hour for a six-seat helicopter. T & T Coastal does not have a long-term contract with any helicopter provider.
7. For the years 2019 and 2020, T & T Coastal treated the PSV lease as an operating lease and the helicopters as short-term leases.
8. On March 31, 2020, the company issued $5 million worth of $10,000, 2 percent, 10-year bonds at par to ultimately finance the purchase of a larger warehouse and office space.
9. Bonds issued in 2020 have several bond covenants that involve debt limits and requirements for net income and cash flows from operating activities. Sam is concerned that if the bond covenants are violated because of the implementation of ASC 842, it will be costly for T & T Coastal to renegotiate the bond covenants (although she did not express her concern to the CEO).
10. Ignore all potential inflation effects.
11. The current financial statements and other information are provided in the Exhibits.

CASE REQUIREMENTS

1. Discuss the current accounting for leases using GAAP ASC 842.
2. Explain the difference between a finance-type lease and an operating lease. How is the classification of a lease determined under ASC 842?
3. Discuss the implications of a guaranteed residual value as it relates to the leased asset described in this case.
4. Based on the information provided in the section "Accounting Information", determine what type of leases T & T Coastal Services, Inc. have. Address both the helicopter and PSV leases. Explain your conclusions.
5. Prepare the amortization schedule(s) for the long-term lease identified in the case.
6. ASC 842 requires companies to transition to the new lease standard using a modified retrospective approach and allows for the use of the comparative method to accomplish the transition. The comparative method requires the new lease standard to be applied as of the earliest comparative period presented. Consequently, students should prepare a set of financial statements (Income Statement, Balance Sheet, and Cash Flow Statement) for 2019 and 2020, which include the lease(s) and how the lease(s) would be accounted for using ASC 842.
7. Perform a ratio analysis comparing the original financial statements and the financial statements prepared in item #6 above. The student should calculate, at a minimum, all ratios provided in the bond covenants.

8. As part of the analysis, if T & T Coastal Services, Inc., were to continue with the lease, provide the 2021 journal entries that would be made to record the addition of the lease to the balance sheet, the lease payment, and the 2021 lease expense for the long-term leased asset.
9. Based on the results of the analysis from item #7, prepare a memo providing recommendations to the CEO. Students should address the potential bond covenant violations as well as the overall financial impact on the company.

Exhibits.

Exhibit 1. Lease Determination Worksheet

LEASE DETERMINATION WORKSHEET

Asset Description: ______________________________

LEASE CLASSIFICATION TEST

		YES	NO
1	Does the asset transfer to the lessee at the end of the lease term?		
2	Is there are Bargain Purchase Option that is reasonably expected to be exercised?		
3	Is the lease term at least 75% of the asset's economic life?		
4	Is the Present Value of the lease payments at least 90% of the fair value of the leased asset?		
5	Is the asset of a specialized nature and usefulness limted to the lessee?		

75% Test = the lease term divided by the economic life of the asset.
90% Test = the Present Value of the lease payments (plus the Present Value of the guaranteed residual value) divided by the fair value of the leased asset.

Type of Lease (If the answers to the above questions are all "NO", then this is an Operating Lease.) ____

	Term	Payment
Lease term (Years or Months) and Payment		

	Renewal Term
Is there a formal renewal option? If so, include the renewal period in the calculation.	

If the renewal option will not be exercised, explain why.

____
____
____
____

	Total Term

<u>RIGHT-OF-USE-ASSET AND LEASE LIABILITY CALCULATION:</u>

Implicit rate of interest (from Lessor) or Incremental Borrowing Rate of Lessee:	
Amount paid by Lessee for Direct Costs to acquire the Lease. (Added to Right of Use Asset.):	
Lease payment made in advance. (Added to Right of Use Asset.):	
Incentive payments made to Lessee by the Lessor. (Subtracted from Right of Use Asset.):	
Present Value of remaining lease payments. (Added to Right of Use Asset and Lease Liability.):	
Present Value of difference between guaranteed residual value and expected residual value (if guaranteed exceeds expected). (Added to Right of Use Asset and Lease Liability.):	
Present Value of bargain purchase option (expected to be exercised). (Added to Right of Use Asset and Lease Liability.):	
Present Value of termination penalty. (Added to Right of Use Asset and Lease Liability.):	
TOTAL LEASE LIABILITY:	$ -
RIGHT-OF-USE-ASSET:	$ -

Exhibit 2. Income Statement (in Thousands)		
	12 Months	**12 Months**
For the Fiscal Year Ending:	**12/31/2019**	**12/31/2020**
Revenue	$ 37,691.00	$ 40,620.00
Other Revenue	3,447.00	3,818.00
Total Revenue	**41,138.00**	**44,438.00**
Cost of Goods Sold	10,455.00	14,496.00
Gross Profit	**30,683.00**	**29,942.00**
Selling, General & Admin Expenses	12,752.00	13,214.00
Rent Expense	8,850.00	8,490.00
Depreciation	155.00	147.00
Other Operating Expenses Total	**21,757.00**	**21,851.00**
Operating Income	**8,926.00**	**8,091.00**
Interest Expense	(10.00)	(92.00)
Interest and Investment Income	27.00	65.00
Goodwill Impairment	0	(116.00)
Gain (Loss) on Sale of Equipment	0	2.00
Income Tax Expense	(1,878.00)	(1,828.50)
Net Income	**$ 7,065.00**	**$ 6,121.50**
Per Share Items		
Basic EPS	$7.06	$6.12
Weighted Avg. Common Shares Out.	1,000.00	1,000.00

Exhibit 3. Balance Sheet (in Thousands)			
	Dec-31-2019	**Dec-31-2020**	**Difference**
ASSETS			
Cash And Equivalents	$2,700.00	$8,785.90	6,085.90
Short Term Investments	1,275.00	1,310.00	35.00
Total Cash & ST Investments	**3,975.00**	**10,095.90**	6,120.90
Accounts Receivable, Net	1,168.00	1,128.00	(40.00)
Total Receivables	**1,168.00**	**1,128.00**	(40.00)
Inventory	1,715.00	1,850.00	135.00
Prepaid Expenses	327.00	655.00	328.00
Other Current Assets	733.00	765.00	32.00
Total Current Assets	**7,918.00**	**14,493.90**	6,575.90
Gross Property, Plant & Equipment	4,493.40	9,433.40	4,940.00
Accumulated Depreciation	(1,040.00)	(1,165.00)	(125.00)

(Continued)

Exhibit 3. Balance Sheet (in Thousands)			
	Dec-31-2019	**Dec-31-2020**	**Difference**
Net Property, Plant & Equipment	**3,453.40**	**8,268.40**	4,815.00
Notes Receivable	0	250.00	250.00
Goodwill	1,566.00	1,450.00	(116.00)
Deferred Tax Assets, LT	65.00	37.00	(28.00)
Total Assets	**$13,002.40**	**$24,499.30**	11,496.90
LIABILITIES			
Accounts Payable	$955.00	$1,015.00	60.00
Accrued Expenses	37.00	62.00	25.00
Interest Payable	0	84.00	84.00
Current Portion of LT Debt	38.00	39.00	1.00
Unearned Revenue	255.00	164.00	(91.00)
Income Taxes Payable	3,108.00	2,860.50	(247.50)
Total Current Liabilities	**4,393.00**	**4,224.50**	(168.50)
Long-Term Debt	258.00	5,219.00	4,961.00
Pension & Other Post-Retirement Benefits	1,210.00	954.00	(256.00)
Deferred Tax Liability, Noncurrent	3,461.40	4,300.30	838.90
Total Liabilities	**9,322.40**	**14,697.80**	5,375.40
Common Stock	1,000.00	1,000.00	-
Retained Earnings	2,680.00	8,801.50	6,121.50
Total Equity	**3,680.00**	**9,801.50**	6,121.50
Total Liabilities and Equity	**$13,002.40**	**$24,499.30**	11,496.90

Exhibit 4. Statement of Cash Flows (in Thousands)		
	12 Months	**12 Months**
For the Fiscal Period Ending:	**12/31/2019**	**12/31/2020**
Net Income	**$7,065.00**	**$6,121.50**
Adjustments to reconcile net income to cash:		
Depreciation & Amortization	155.00	147.00
Goodwill Impairment	-	116.00
Gain on Sale of Equipment	-	(2.00)
Change in Short Term Investments	(27.00)	(35.00)

(Continued)

Exhibit 4. Statement of Cash Flows (in Thousands)		
	12 Months	**12 Months**
Change in Acc. Receivable, Net	(37.00)	40.00
Change In Inventories	(190.00)	(135.00)
Change in Prepaid Exp.	(20.00)	(328.00)
Change in Accounts Payable	37.00	60.00
Change in Unearned Revenue	68.00	(91.00)
Change in Other Net Assets	(1,217.00)	440.40
Net Cash Provided by Operating Activities	**5,834.00**	**6,333.90**
Purchase of Warehouse & Other Equipment	(3,891.00)	(5,000.00)
Sale of Equipment	-	40.00
Other Investing Activities, Net	-	(250.00)
Net Cash used by Investing Activities	**(3,891.00)**	**(5,210.00)**
Change in Long-Term Debt	(36.00)	4,962.00
Net Cash used by Financing Activities	**(36.00)**	**4,962.00**
Net Change in Cash	**$1,907.00**	**$6,085.90**

Excerpts from Bond Agreement/Covenants

5.1. Limitations on Indebtedness

Borrower shall not, without the prior written consent of Lender in each instance, issue any evidence of indebtedness or create, assume, guarantee, become contingently liable for, or suffer to exist indebtedness in addition to indebtedness to Lender, other than Permitted Indebtedness and customary unsecured trade payables incurred in the ordinary course of business, provided the same are not evidenced by a promissory note, are paid within sixty (60) days of the date incurred, and are limited, in the aggregate, to an amount equal to $1,000,000.

5.3. Investments

Borrower shall not make investments in, or advance to, any Person. Borrower will not purchase or otherwise invest in or hold securities, non-operating real estate or other non-operating assets or purchase all or substantially all of the assets of any entity other than in connection with an acquisition approved by Lender in writing, which approval shall not be unreasonably withheld, conditioned, or delayed.

5.5. Capital Expenditures

Borrower shall not, directly or indirectly, make or commit to make capital expenditures by lease, purchase, or otherwise, except in the ordinary and usual course of business for the purpose of replacing machinery, equipment or other personal property which, as a consequence of wear, duplication or obsolescence, is no longer used or necessary in Borrower's business.

5.13. Leases

Borrower shall not amend, modify, or supplement any Lease in any way that would materially increase Borrower's obligations or materially decrease Borrower's rights or materially impact the value of the Lease as collateral for the Loan without the Lender's prior written consent in each instance, which consent will not be unreasonably withheld or delayed.

5.17. Ratio Limits

The Debt Service Coverage Ratio (Net Operating Income/Total Debt Service) where (Total Debt Service = Interest $\times$ (1 $-$ tax rate) $+$ Principle) must equal or exceed 1.2. The Interest Coverage Ratio (EBITDA/Interest Expense) must equal or exceed 3.0. Liabilities-to-Equity must not exceed 1.5. The Current Ratio of the firm must equal or exceed 1.5 times. Operating Income (EBIT) to Total Debt must equal or exceed 1.5 times.

T & T COASTAL SERVICES, INC.: LEASED ASSETS CASE STUDY TEACHING NOTES

Learning Objectives

1. Understand the reasons for the implementation of ASC 842.
2. Understand the implications of ASC 842 implementation.
3. Understand the basic concepts of ASC 842.
4. Understand how lease classification is determined.
5. Understand the process for accounting for an operating lease.
6. Demonstrate the accounting process for an operating lease (i.e., journal entries).
7. Understand the effects of ASC 842 on the financial statements (i.e., financial analysis).
8. Demonstrate the effects of an operating lease on the financial performance of the firm.

This case provides an opportunity for instructors to discuss the mission of the Financial Accounting Standards Board (FASB) and the implications of the new leasing standard, ASC 842. The FASB's mission is to "establish and improve financial accounting reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards" (FASB 2022).

Criticism by financial statement users, academics, and standard setters prior to ASC 842 included issues surrounding data transparency and ASC 840 standard complexity. Companies were criticized for not providing financial statement users with clear, concise information regarding companies' leasing activities, particularly the liabilities arising from lease contracts. Most leasing activities were conducted off balance sheet and were reported in the notes to the financial statements.

The purpose of ASC 842 is to make information regarding leases more readily available to users of the financial statements. Consequently, all long-term leases are now capitalized, and the leased asset and the associated liability are recognized on the balance sheet.

Critics of ASC 842 have expressed concern about the new standard's effect on existing debt and bond covenants. However, Paik et al. (2015) find that lenders consider operating leases in structuring debt agreements. This is not to say that the implementation of ASC 842 will not affect debt and bond covenants. But, in companies that are highly involved in leasing assets, lenders most likely consider the lease contracts when structuring loan agreements.

Other issues concerning ASC 842 include the guaranteed residual value. In a long-term contract, a guaranteed residual value provides the lessor with certainty that the fair value of the leased asset will not fall below a certain amount. Lessees may provide such guarantees to obtain a lease that they may otherwise not be able to acquire or to obtain more favorable pricing for the leased asset. If the lessee anticipates that the residual value will be less at the end of the lease term than what has been guaranteed, the present value of the difference must be included in the calculation of the lease liability for measurement purposes because there is the possibility that the lessee will owe an additional amount to the lessor at the end of the lease. For the lease classification test, the present value of the entire amount of the guaranteed residual value is included in the calculation of the lease liability.

REFERENCES

FASB (Financial Accounting Standards Board). (2022). About the FASB. Retrieved August 19, 2022 from https://www.fasb.org/info/facts

Paik, D.G.H., et al. (2015). The Relation between Accounting Information in Debt Covenants and Operating Leases. *Accounting Horizons* 29(4), p. 969-996.

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