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Mission Statement

The mission of the [Journal of Multidisciplinary Research](#) is to promote excellence in research leadership by providing a venue for academics, students, and practitioners to publish current and significant empirical and conceptual research in the arts; humanities; applied, natural, and social sciences; and other areas.

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Editorial

A warm welcome to the spring edition of the *Journal of Multidisciplinary Research* (JMR).

W. Edwards Deming once said that “Improvement is a never-ending process.” As we start our sixth year at the journal, we continue our growth and efforts to become a much better publishing choice for academics and practitioners. Past JMR publications featured research from around the world, and our aim is to provide a venue for high quality research while connecting the world.

As we continue to evolve as an academic journal, I am happy to announce that the JMR is now listed by the following organizations in their publications: Cision Directory, Google Scholar, PhilPapers in Canada, HEC (University) Paris Journal Finder, ZeitschriftenDatenBank in Germany, and Open University of Hong Kong.

Our current edition features thought-provoking articles from Zefat Academic College in Israel, Nova Southeastern University, St. Thomas University, and Marmara University in Turkey. This issue of the *Journal of Multidisciplinary Research* (Volume 6, Number 1) also features two book reviews: a book about secularism and religion in multi-faith societies, and a book that examines the growth, production, and eating of food through a theological lens. The “Life Forward” section has an interesting interview with Dr. Martin Nettesheim, an international law and Common Market expert and educator. In this issue, we also are featuring “spotlight artist” photographs by Isaac Zapata.

As we begin the new year, I wish you all a very productive and interesting 2014.

Onward,

Hagai Gringarten, Ph.D.
Editor-in-Chief



Outdoor Canopy – Lincoln Road (2013)
Photograph by Isaac Zapata

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From Financial Deficit to Democratic Deficit?

Nellie Munin

Zefat Academic College, Israel

Abstract

The current global economic crisis severely affected the European Union (EU), hitting some vulnerable economies in particular. Accordingly, the EU needed to take action quickly in order to help these economies pull out of the crisis. The mechanism the EU established to pull out of this crisis subjects any financial assistance to strict domestic budget, debt, and deficit discipline for the EU to monitor. This arrangement has been subject to criticism for being counter-democratic. Analyzing the mechanism of EU financial assistance and the decision-making process involved, this article reviews both sides of the debate, addressing legal and economic aspects involved. It reaches the conclusion that short-term and long-term considerations may differ in this respect. From a short-term perspective, this mechanism includes certain democratic elements of decision-making, although they reflect a different model of democracy than the domestic, majoritarian model. This difference is a result of globalization and economic integration. The justification for other, more professional aspects of this mechanism may be that the severe monetary reality necessitates interference by experts to prevent a total collapse of the democracy at stake. The article further draws the due limits for such intervention. From a long-term perspective, though, stability of the Eurozone and strengthening of the democratic aspects involved may necessitate additional economic and legal effort to diminish the “democratic deficit.”

Keywords: The EU, monetary union, the Euro, financial crisis, democratic deficit

Introduction

The roots of economic integration underlying the European Union (hereafter “the EU”) go back to 1957, when six founding countries established the European Economic Community (EEC). The idea behind this venture was to create a strong economic alliance through the gradual economic integration of its partners. In time, the EU progressed to become a union with 28 Member States, 18 of which adopted the common currency, the Euro, while integration

expanded to other fields of governance as well. In the process, the EU Member States gradually delegated a growing bulk of their sovereign powers to EU institutions. The growing degree of economic integration implies less ability of EU citizens to affect directly decision-making through majoritarian mechanisms common in traditional democracies. It further implies fewer independent instruments in the hands of domestic decision-makers to cope with crises. This frustration has long been a subject of political discourse within the EU as well as for broad academic discussion in the literature (Weiler, Haltern, & Mayer, 1995; Hix & Follesdal, 2006; Majone, 2012; Moravcsik, 2012; Gray & O'Callaghan, 2011).

The initiation of the Euro, a common coin for EU countries, more than a decade ago, upgraded the level of European economic and financial integration. To ensure the monetary stability of the countries that joined the Eurozone, the EU Member States founded the European Central Bank (ECB) and established legal and monetary mechanisms. These mechanisms proved to be insufficient to shield the Eurozone from the severe financial difficulties that many of its members experienced during the current global economic and financial crisis. Consequently, the new mechanism substantially tightened this regime.

EU treaties mention, among the EU's aims, democracy, the well-being of European peoples, and social welfare alongside economic development (Article 3(1) Treaty on the European Union (TEU), Article 9 Treaty on the Functioning of the EU (TFEU)). In practice, however, the tension between democracy and consolidation of policies, underlying the entire concept of the European Union, also affects the discourse regarding the new financial mechanism. Certain commentators criticize this mechanism for being anti-democratic (Habermass, 2011), but is it as counter-democratic as critiques argue? This article examines the conflicting arguments involved in this debate. It suggests that, at least in the short term, in the context of globalization affecting the changing perception of democracy and the role of states, this mechanism may represent quite a reasonable balance between democratic elements of decision-making and professional intervention by experts necessary to prevent further financial escalation of the countries in crisis, although, in the long term, further improvements of this mechanism, as well as complementary, tough policy decisions, may be necessary. Section 1 describes the new mechanism the EU established to overcome the financial crisis. Section 2 analyzes the democratic and counter-democratic legal dimensions of this mechanism. Section 3 examines the argument of "defensive democracy" and the limits of democracy in the current circumstances as well as the desired limits of external intervention in domestic affairs. Section 4 analyzes the democratic and counter-democratic economic dimension of this mechanism. Section 5 concludes.

Section 1: The Financial Crisis and the Mechanism to Pull Out of it

The financial crisis that started in 2008 hit the relatively vulnerable economies in the Eurozone in particular; this includes Greece, Portugal, Spain, Ireland, and Italy. Following a German requirement, the Maastricht Treaty (1993), establishing the European Monetary Union, set forth convergence criteria¹ to ensure the financial stability of the Eurozone countries.

¹ The criteria, which Article 140 of the Treaty on the Functioning of the EU (TFEU) and Protocol 13 thereof now specify, include *inter alia* a ceiling of inflation (2% a year), external debt (60% of the domestic GDP), and deficit (3% of domestic GDP).

However, long before the crisis, many of the Eurozone countries – including strong countries, such as Germany and France – were reluctant to fulfill these criteria (Rubini, 2010; Moravcsik, 2012). Nevertheless, EU authorities did not duly enforce these criteria due to political reasons.²

As the crisis hit, vulnerable economies in the Eurozone experienced financial shortage. Some of them suffered severe debts and deficits, consequently turning to external financial aid from the EU, its Member States, the World Bank, and the International Monetary Fund (“IMF”).

The EU first devised two temporary financial instruments to facilitate such financial assistance, the EFSF (European Financial Stability Facility) and the EFSM (European Financial Stability Mechanism) (see European Commission, 2013a; European Commission, 2013c). By the end of 2012, the permanent European Stability Mechanism (ESM) replaced them, offering a maximum lending capacity of €500 billion. By joining the ESM Treaty (“ESMT”), Member States undertook an irrevocable and unconditional commitment to provide their contribution to its authorized capital stock, in accordance with a contribution key (Annex I of the Treaty). ESM Members are not liable, by reason of their membership, for its obligations (Article 8 ESMT), since it is a separate legal personality (Article 32(2) ESMT). However, in case of losses that existing ESM capital cannot recover, the ESM authorities may issue a call for additional contribution to which the Members should obey (Article 25 ESMT). The ESM now covers all new bailout applications and deals for any Eurozone Member in severe financial difficulties, while the EFSF and EFSM continue to handle the transfer and monitoring of previous bailout loans for Ireland, Portugal, and Greece.

Financial aid by the ESM is subject to two preconditions (Article 13 ESMT):

1. Full ratification by the requesting country of the *Fiscal Stability Treaty* (also known as *Fiscal Compact*, hereafter, FCT),³ an intergovernmental treaty introduced with a new, stricter version of the previous Stability and Growth Pact, specifying domestic budget constraints that must be met: it defines a balanced budget as a general budget deficit less than 3.0% of the gross domestic product (GDP), and a structural deficit of less than 1.0% of GDP if the debt level is below 60%; otherwise, it must fall below 0.5% of GDP (Article 4 FCT). It reinforces the “debt brake” criteria as outlined by the Stability and Growth Pact (in line with the Maastricht Treaty), where it is defined at which rate debt-to-GDP levels above 60% of GDP should decrease to a level below that limit. Ratifying signatories are required to enact laws ensuring their national budgets to be in balance or in surplus (“the balanced budget rule”) within one year after the Fiscal Compact enters into force for them. The laws must also provide for a

² According to Article 126 and Protocol 12 TFEU, a country deviating from the latter ceiling was subject to a warning by the ECOFIN council, based on an EU Commission report, and if it did not take sufficient steps to recover the debt, the European Court of Justice could subject it to ongoing fines. The European Court of Justice (2004) criticized the avoidance of effectuating this procedure with regard to excessive deficits of France and Germany, eventually leading to a legislative amendment of this procedure.

³ Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union (TSCG) (European Union, 2013c). Paragraph (5) of the Preamble to the ESM Treaty acknowledges explicitly that the two Treaties “are complementary in fostering fiscal responsibility and solidarity within the economic and monetary union.” It fully binds the Eurozone Members, while only selective provisions from titles III (fiscal compact) and IV (economic policy coordination and convergence) bind other EU Members.

- self-correcting mechanism to prevent their breach (Article 3 FCT). Failure to enact these laws within a year would, following a warning, be referred to the European Court of Justice (ECJ). Non-compliance with an ECJ decision may imply fines of up to 0.1 percent of the GDP (The Preamble and Article 8 FCT).⁴
2. When applying for ESM support,⁵ the economy of the requesting country will be analyzed and evaluated on all relevant financial stability matters by the European Commission, European Central Bank (ECB), and International Monetary Fund (IMF) in order to decide the kind of support programs that should be offered. The country asking for this aid has to sign a Memorandum of Understanding outlining a program for the necessary reforms or fiscal consolidation to be implemented in order to restore financial stability. To ensure balanced domestic budgets, monitoring is exercised, subject to country-specific medium-term objectives and calendars of convergence. The signatories are obliged to “report ex-ante on their public debt issuance plans to the Council of the European Union and to the European Commission” (Article 6 FCT). Assessment of progress towards these objectives includes an analysis of expenditure net of discretionary revenue measures subject to the relevant EU legislation (particularly, European Council, 2011b).
- Title IV FCT further provides for coordination ex-ante of the economic policies of its signatories.

On 23 November 2011, the EU published the “six pack” package of legislation (European Council, 2011a, 2011b; European Parliament and European Council, 2011a-2011d), elaborating on the FCT provisions regarding ongoing surveillance of domestic budgets’ drafts by the EU authorities before national parliaments’ confirmation, to ensure they meet these budgetary constraints.

In addition, the World Bank and the IMF are involved in helping EU countries – even countries that are not Eurozone Members⁶ – to pull out of the financial crisis in the form of financial assistance, professional consulting, and participation in financial surveillance procedures taking place when countries ask for financial assistance.

Section 2: A ‘Democratic Deficit’?

The debate regarding the democratic (or rather, non-democratic) character of this financial mechanism involves legal and economic considerations.

⁴ Each ratifying state may submit a complaint to the ECJ against any other ratifying state.

⁵ In principle, support may take a form of loan. The ECB also may purchase bonds of the countries in crisis to stabilize their economies (European Central Bank, 2012).

⁶ For example, Romania, Latvia, and Hungary received assistance from the IMF and the World Bank. Ireland, Greece, Spain, and Portugal received assistance from the IMF (European Commission, 2013d). Paragraph (8) of the ESMT Preamble explicitly provides: “A euro area Member State requesting financial assistance from the ESM is expected to address, wherever possible, a similar request to the IMF.”

The Legal Dimension of the ‘Democratic Deficit’

While there is no single meaning of “democratic deficit” in the literature, in the general context of EU regime, this term seems to involve five main claims, referring to the limited involvement of the public in the decision-making processes (Hix & Follesdal, 2006, pp. 3-6; Majone, 2012, p. 5):

1. Increase in executive power (i.e., EU institutions, particularly EU Commission) and decrease in national parliamentary control.
2. Relative weakness of the European Parliament, despite gradual increase of its powers by successive reforms of EU Treaties.
3. No “European” elections: Although European citizens elect EU Parliament members and their governments that sit on the Council, and nominate EU Commissioners, elections are not about the personalities and parties at the European level or the direction of the EU policy agenda.
4. The EU agenda is too distant from the voters. According to commentators, even overcoming the two former problems would not solve this problem.
5. European integration produces “policy drift” from voters’ ideal policy preferences, enabling governments to undertake policies at the European level that they cannot pursue at the domestic level, where parliaments, courts, and corporatist interest group structures constrain them. Commentators refer to the monetarist framework for the European Monetary Union as a particular example.

The literature reflects two major approaches to the question of whether the EU regime in general suffers a “democratic deficit”: According to a more conservative approach (which seems analogous to the approach of the financial mechanism's critics), the lack of public involvement in the decision-making process, and the public's inability to affect the process has direct implications for their daily lives and forms a “democratic deficit” (Hix & Follesdal, 2006). According to a more liberal approach, the reality of a supra-national regime globalization and economic integration created, implies a new perception of governance, which partly relies on experts and “technocrats” who are not subject to democratic elections, as well as on non-majoritarian forms of governance. At the same time, this form of governance offers checks and balances, suggesting new standards for legitimacy and accountability to ensure that, all in all, democracy is respected (Majone, 1998; Moravcsik, 2002).

It is interesting to note that following the financial crisis even some of the scholars who formerly took the “liberalist” position regarding the “democratic deficit” somewhat deviated from these positions toward a more conservative approach (Majone, 2012; Moravcsik, 2012).

Nevertheless, this article suggests that globalization, particularly a high level of economic and financial integration, requiring a supra-national regime such as that of the EU, may make the distinction between the international and domestic legal orders increasingly blurred (Fukunaga, 2010, p. 32; Slaughter, 2004, pp. 5-14, 171-191; Koh, 1996, pp. 183-186).

However, the external involvement in domestic affairs emanating from globalization and market-integration, which undoubtedly jeopardizes democracy in its traditional sense to a certain extent, is a result of a free choice the countries involved make.

This article wonders to what extent the criticism over the “democratic deficit” embodied in the financial stability mechanism reflects “a sense of loss and disorientation from the collapse or erosion of familiar structures, fixed within the territorial nation-state model of human organization,” globalization invokes, particularly in times of crises (Howse, 2010, p. 8).

It further explores the tension between criticism regarding the allegedly “anti-democratic” nature of the financial mechanism set forth to pull Eurozone countries out of the financial crisis, and the trilemma globalization poses:

[W]e cannot simultaneously pursue democracy, national determination and economic globalization. If we want to push globalization further, we have to give up the nation state democratic politics. If we want to maintain and deepen democracy, we have to choose between the nation state and economic integration. And if we want to keep the nation state and self-determination, we have to choose between deepening democracy and deepening globalization. (Rodrik, 2011, p. xix)

Translated into EU context, this trilemma may imply that:

[a]s long as the majority of the citizens of the Member States oppose the idea of a European super-state, while supporting far-reaching economic integration, we cannot expect democratic politics to flourish at the European level. (Majone, 1998, p. 7)

Indeed, a substantial part of EU citizens as well as politicians and scholars believe the “democratic deficit” becomes a “serious issue as integration of EU countries proceeds” (Majone, 2012, p. 7).

In this light, a careful analysis of the different players involved in the Eurozone's financial control mechanism, and the mechanism itself will follow. Some questions underline this analysis (as well as the debate at stake):

- What is the effect of globalization on the financial reality in the Eurozone? May one avoid or ignore it?
- Does the perception of democracy in a global context, or in a supra-national system, differ from the traditional perception of democracy in a state context, and if so, how?
- Should the supra-national level, or rather the national level of government, be strengthened to improve economic and financial stability of the Eurozone countries?
- If decision makers opt for strengthening the supra-national governance, where should one draw the limits of its intervention in domestic affairs?
- To what extent should the involvement of professional experts, international organizations, and third countries be allowed in domestic affairs of countries suffering from the financial crisis?
- What should be the due division of powers between politicians and financial experts in the decision-making process and in the financial control mechanism?
- To what extent is it legitimate for political leaders of EU countries, the decisions of which undoubtedly contributed to the current crisis of the European economy, to strive for fully regaining this control?

- What should be the due balance between rights and responsibilities of states in a supra-national monetary system?
- Should the “democratic credit” given to stable economies differ from the credit given to shaky economies?

The Eurozone Players

The ECB practically governs Eurozone’s monetary policy. It is comprised of two bodies: an Executive Board composed of six members—the Governor, the deputy-Governor, and four other members who are monetary and banking experts; and a Governing Council, composed of all Governors of central banks in the Eurozone Member States. Both bodies consist of professional nominations. Article 130 TFEU commits their members to the general interest of the Eurozone.

In terms of functioning, Majone argues the following:

[t]he ECB is politically and socially "disembedded" because it cannot interact with a fully fledged European government, or even with a European finance minister, not to say an nonexistent European public opinion. Moreover, the absence of a European government with which to interact affects not only the legitimacy of the ECB but also its effectiveness. (Majone, 2012, p. 14)

Some commentators argue that the lack of a restraining government that has the option of overriding the central bank’s decisions – even though it is restricted to particular conditions and a well-defined procedure – transforms the democratic deficit into a democratic default (Majone, 2012, p. 15). Others argue that while the governor of Federal Reserve has a political counterpart in the Secretary of Treasury and the President of the United States, the political counterparts of the president of the ECB are

17 (now 18 – n.m.) heads of state or government, 17 (now 18 – n.m.) finance ministers, the president of the European Commission, and the Commissioner responsible for economic and monetary affairs. It follows that the president of the ECB will never be able to play a role with respect to the multi-headed governance of the euro zone comparable to that of the governor of the Federal Reserve vis-à-vis the US Federal Government. (Majone, 2012, p. 16)

As further discussed, the new mechanism seems to involve the governments of the Eurozone in the financial assistance process in a manner that might be a step in the right direction, according to this approach, although limited only to this mechanism.

In terms of policy, Germany was the dominant power behind the establishment of the ECB and the determination of its terms of functioning. “Berlin’s nonnegotiable demand in exchange for monetary union was a European central bank that would be even more independent in its design and even more anti-inflationary in its mandate than the old Bundesbank” (Moravcsik, 2012, p. 56). According to the “anti-democratic” argument, this requirement, for which the legal documents establishing the ECB provide, implies the adoption of German standards of wage discipline, government spending, and international

competitiveness. Right from the start, it imposed high risks on some European governments that were clearly unable to meet these standards, due to either their economic profile or their domestic political reality (Moravcsik, 2012). However, one should recall that governments freely chose to sign the Maastricht Treaty. Indeed, two countries—the United Kingdom and Denmark—obtained a *de jure* opt-out from the Euro, although they signed this treaty, while Sweden requested and obtained a *de facto* opt-out.⁷

Although the highly professional nature of the ECB's functioning seems to be undisputed, with growing responsibility the ECB assumed due to the crisis, supporters of the “*anti-democratic*” argument call for improving transparency of ECB operations and accountability to meet more democratic standards and social values EU Members share (Scotto, 2012; Everson & Rodrigues, 2012). Other commentators admit, however, that “[u]nlike most policy decisions taken in Brussels, the decisions taken by the ECB are widely advertised...Also the Bank's non-decisions, e.g. concerning variations in the discount rate, are often discussed in the media” (Majone, 2012, p. 6). Another support to the “*democratic*” argument, lies in the fact that the ECB operates subject to provisions of the Treaty on the Functioning of the European Union (TFEU) and the Statute of European System of Central Banks, and the European Central Bank annexed to it. EU heads of state (directly accountable to their voters) concluded these documents, which were subject to ratification either by memoranda or by the national parliaments of EU countries, both being national democratic procedures. Its Governing Council includes professional representatives from the Eurozone Member States, who vote according to a key for which an EU council decision provides (European Council, 2009). Furthermore, decision-making in monetary matters necessitates professional expertise. Professionals who are not democratically elected run even national central banks. In addition, the ECB's contribution, in terms of financial stability, is highly measurable, and thus, public review may easily measure it (Majone, 1998, pp. 15, 24). Unfortunately, the real problem may be “the absence of a European public opinion” (Majone, 2012, p. 17). This is a problem no democratic mechanism can solve.

The European Council is responsible for the high policy of the EU and was the motivating power behind the establishment of the mechanism described. Supporters of the “*anti-democratic*” argument express discontent with the Franco-German (or only German) dominance of the decision-making process. (Majone, 2012, p. 20). Others call for improving transparency of the Council's operations and accountability. However, the fact that it is comprised of the EU's heads of states, who are accountable to both national parliaments and voters, and should exercise their voting and political power in the Council, if not separately – then, as a group, that may counterbalance the Franco-German or German dominance, supports the “*democratic*” argument. As to transparency - high policy matters are usually not transparent, even in national politics.

Title V FCT ensures that the heads of states of the Eurozone states (politicians accountable to their national voters) conduct Euro summits at least twice a year, to which the President of the ECB is invited. The aim of these summits is to coordinate joint action and discuss matters necessitating joint decision. In addition, informal meetings with the President of

⁷ Sweden joined the EU (being obliged to accept this treaty as part of adopting EU law as precondition) and thus could not opt out *de jure*. As a result of its *de facto* opt out, “the Swedish economy, which is heavily dependent on exports, has profited significantly from the weakness of the Krone. Recently, Sweden had the lowest budget deficit of all EU member states and one of the highest rates of economic growth” (Majone, 2012, p. 11).

the ECB and representatives of the EU Members, that joined the FCT but are not Eurozone Members, are foreseen (Article 12 (1) FCT), in order to reach a compromise between the two groups of States where necessary (Baratta, 2012, p. 22).

The European Parliament is responsible for EU legislation (e.g. the “six pack”), together with the Council of the EU. EU citizens democratically elect members of Parliament, although supporters of the “*anti-democratic*” argument argue that the elections do not refer to “European” issues (see above), and mention the steady decline in the turnout of voters in European elections, which reflects the shrinking popular interest (and maybe support) in the European project (Majone, 2012, p. 19).

The President of the European Parliament participates in the Euro Summits *if invited to do so*, thus, having a chance to present the position of the Parliament and try to convince the heads of states to adopt it. In any case, the President of the Euro Summit is obliged to present a report to the European Parliament after each Euro Summit meeting. Although it is an *ex post* report (criticized on these grounds), Parliament's understanding of the considerations underlying the Euro summits' decisions may improve their implementing legislation products.

A dialogue between the EU Parliament and national parliaments is foreseen (Article 13 FCT), through the coordination of a conference of representatives from these institutions “to discuss budgetary policies and other issues covered by this Treaty.” This new arrangement is a result of intensive public criticism, and lawsuits national constitutional courts (for example, in Germany) addressed, regarding the EFSF mechanism (Grathwohl, 2012). Although it does not facilitate direct effect by national parliaments on decision-making processes, it marks recognition of the importance of enhancing their involvement in decision-making at EU level (continuing the Lisbon Treaty’s approach). This is an improvement compared to the EFSF mechanism. While supporters of the “*non democratic*” argument may argue this is insufficient, supporters of the “*democratic*” argument would point the attempt to balance conflicting interests this arrangement reflects.

The Council of the EU is comprised of relevant ministers (in this case, most likely ministers of finance) from EU Member States. The “*democratic*” argument would mention that both the Parliament and Council are directly accountable to their voters, although supporters of the “*anti-democratic*” argument would note that the work of parliament enjoys a higher level of transparency than that of the Council’s work (Moravcsik, 2002, p. 612).

The EU Commission does not enjoy decision-powers, but has very strong powers to affect both decision-making and implementation processes, effectively scrutinizing the financial status of the Eurozone Members, and submitting proposals and recommendations for further action to decision-makers. Certain scholars assess the new mechanisms empower the Commission’s role; for example, by Article 7 of the FCT, under which the signatories commit to support the Commission’s proposals and recommendations with respect to a failure by a Eurozone country to maintain a balanced budget, unless a qualified majority of them subjects to such a proposal or recommendation (which is a narrow “*democratic*” way out of this semi-automatic support commitment) (Baratta, 2012, pp. 19, 26). Supporters of the “*non democratic*” argument would say that the Commission professionals are not democratically elected. Supporters of the “*democratic*” argument mention that the role of the Commission under this mechanism does not differ from its general role and function regarding EU matters, and its professional input is inevitable in both cases. Some argue the Commission is in a better position than other political institutions to take into account the general interests of the Eurozone and the EU, being more distant than such

institutions from the pressures of special interests and short-term political considerations (Majone, 1998, p. 23). Finally, many of the Commission's proposals are subject to decision-making by the Council and Parliament, or either of them, comprised of politicians accountable to their national voters.

Analysis of the Financial Stability Mechanism

Conclusion of the EMST and FCT

Formally, the EMST and FCT are international agreements that are separate from the EU system. Nevertheless, the amendment of Article 136 of the TFEU on March 25th, 2011, probably inspired their conclusion, adding the following paragraph to this article:

The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.

EU heads of states (politically accountable to national voters) decided the contents of the FCT and EMST. However, despite the European Parliament's struggle to be involved in the drafting process of the Treaties (Fasone, 2012), the Treaties accord to it only limited involvement and powers. Supporters of the “*non democratic*” argument (Maduro, De Witte, & Kumm, 2012) broadly criticize this minor role of the Parliament, since it is being perceived as an EU institution reflecting a more “*democratic*” representation of EU citizens in a majoritarian standard.

Supporters of the “*democratic*” argument may view this criticism as one based on a majoritarian perception of democracy that does not fully exist, even in most democratic polities, particularly in federal systems Majone (1998) suggests that non-majoritarian principles are particularly important in plural societies (such as those in the Eurozone) in terms of language, geography, economy, ideology, and size, as in such societies “strict application of majoritarian standards would only produce deadlock and possibly even disintegration” (p. 11).

The European Parliament is involved in the enactment of implementing legislation, such as the “six pack.” The assessment is that the Parliament will make use of the full powers accorded to it regarding ESM implementation (Baratta, 2012, pp. 1, 22). The dialogue between EU and national parliaments may indirectly affect the contents of such legislation.

In addition, in case of dissatisfaction with the Treaties, States may have *avoided signing* them altogether (as the UK and the Czech Republic did regarding the FCT). The two Treaties are international treaties, separate from the framework of EU law, due to inability to reach agreement on the amendment of EU primary law (Baratta, 2012, pp. 4-11).

As such, EU Members were not obliged to join them. Furthermore, they were subject to *ratification* in each signatory, either by its parliament or by referendum, both being democratic procedures. *Withdrawal* from the Treaties (or from the Eurozone, or from the EU) is always

possible.⁸ Supporters of the “*non democratic*” argument argue that the countries suffering a severe crisis, and in desperate need of the financial help that was conditional upon their signing of these Treaties, did not have a real choice to opt-out. However, a pragmatic counter-question may be as follows: Under the circumstances, could they expect any better alternative outside this framework?

Operation of the ESM

A Board of Governors, a Board of Directors, and a Managing Director operate the ESM. The *Board of Governors* is comprised of one Governor (and an alternate Governor in case of absence) each ESM Member appoints. Any Governor must be a member of the government of the appointing country having responsibility for finance. (Finance ministers who fulfill this role may be, in another capacity, the same individuals participating in the ECOFIN Council or in the Euro summits). They are politically accountable to their national voters. Their replacement is possible at all times. Such replacement may reflect non-satisfaction with their functioning. They are accountable to their national parliaments. In some cases, they will need prior approval from their parliaments for their decisions (Maduro et al., 2012, p. 11).

The *Board of Governors* *may* invite persons, including representatives of organizations and institutions, to participate in its meetings as observers on an *ad hoc* basis (Article 5 ESMT). Supporters of the “*non democratic*” argument criticize this provision for being totally subject to the Board's discretion, so that the Treaty does not include obligatory consultation procedures, no transparency rules, and no procedure for assessment of ESM's operations (Maduro et al., 2012). However, in defense of the “*democratic*” argument, one might say that this option enhances public transparency and allows stakeholders to introduce their interests to decision-makers. In addition, assuming that the ESM is an emergency mechanism, such obligations could have lengthened discussions and limited the ability of this forum to offer quick and efficient solutions to countries in crisis based on professional judgment.

Except for emergency voting, decisions are subject to mutual agreement (in circumstances specified in Article 5(6) ESMT), to qualified majority (80% of the votes cast, in circumstances specified in Article 5(7) ESMT), or to simple majority in all other cases. However, “[i]n respect of all decisions, a quorum of 2/3 of the members with voting rights representing at least 2/3 of the voting rights must be present.” (Article 4(2) ESMT). This provision ensures that a minority of Members would not enforce any decision. The Treaty determines the manner of voting with regard to each subject, thus reflecting an agreement by its signatories to the different categories, reflecting different levels of importance. Unanimity refers to the Members participating in the vote only. Article 4 ESMT stresses that “abstentions do not prevent the adoption of a decision” by unanimity. This provision prevents pragmatic veto of one Member (or a minority group) by abstention. All these elements support the *democratic nature* of the process in its broad sense.

⁸ Article 50 TEU foresees withdrawal from the EU. Withdrawal from the Eurozone may take place according to Article 56 of the Vienna Convention on the Law of Treaties, 1969. In 2012, the Irish Supreme Court (see Van Malleghem, 2012) and the Estonian Supreme Court (see Tomkin, 2012) examined Complaints regarding the constitutional implications of this mechanism. The German Constitutional Court subjected Germany's participation in this mechanism to certain constraints (Der Spiegel, 2012; Schmidt, 2012; Vranes, 2012).

Assistance through this mechanism is subject to a request by the country in need for it. Supporters of the “*non democratic*” argument criticize this condition since there is no way to force a process of recovery on a Member if it does not request assistance (Maduro et al., 2012, p. 10). On the other hand, supporters of the “*democratic*” argument may argue that taking into account the heavy commitments and responsibilities imposed on a country in need of help by subjecting itself to this mechanism, it seems fair (and more democratic) to allow such a country to opt for another, more convenient solution if feasible.

Once such a request operates the mechanism, the Board of Governors seems to enjoy a broad discretion, since it “may decide” which of the optional measures to adopt. The Treaty provides for no criteria or set of goals limiting this authority. The Board has the authority to interpret the Treaty and solve disputes with regard to it. Only if a Member State contests its decision it will submit the dispute to the ECJ. Supporters of the “*non democratic*” argument criticize this arrangement for not being subject to accountability tools similar to those that apply to EU agencies (Maduro et al., 2012, p. 10). However, supporters of the “*democratic*” argument may argue that it seems to follow only a non-majoritarian standard of accountability: to the political players accountable to their national voters have broad discretion to reach a diplomatic-type, flexible solution, before turning to legal procedures that are stricter and inherently non-majoritarian (Majone, 1998, p. 10).

A Member that fails to respect its obligations in relation to paid-in shares or calls of capital, or in relation to the reimbursement of the financial assistance, may lose its voting rights (Article 4(8) ESMT). Supporters of the “*non democratic*” argument may argue that this deterring sanction may have severe implications for the signatories heavily suffering from the crisis that signed the Treaty to get financial aid, but may find themselves deprived of their right to affect decision-making processes regarding this mechanism if financial shortages escalate. Nevertheless, supporters of the “*democratic*” argument may contend that these countries agreed to this sanction by concluding the treaty. Furthermore, domestic decision-makers may use the deterring effect as leverage to encourage the adoption of more cautious economic and financial policies inevitable for a country’s financial recovery, despite pressures domestic interest-groups assume.

The ESM’s *Board of Directors* is comprised of professional directors, each appointed by a Governor and having an alternate director in case of absence. This appointment is allegedly *not democratic*. However, supporters of the “*democratic*” argument may mention that the Governor, who is politically accountable, may replace these directors at any time. The Board also may invite different stakeholders to its meetings on an *ad hoc* basis for consultation (Article 6 (3), (4) ESMT). This provision implies at least some transparency and opportunity to present different public interests to the Board. Like the Board of Governors, supporters of the “*non democratic*” argument may criticize it on grounds of full discretion and a lack of transparency and accountability obligations, but the same counter-argument regarding the necessity for a quick, efficient and professional emergency solution may apply here as well.

In addition, their operation is subject to the political discretion of the Governors’ Board. The Board of Directors takes decisions by qualified majority, unless the Treaty states otherwise, a less flexible decision-making procedure, compared to that of the Board of Governors and necessitating broad agreement at all times. However, this broad agreement is a “*democratic*” element that prevents a pragmatic minority veto.

The *Managing Director* is a professional the Board of Governors appoints. The Managing Director is in charge of managing the ESM on a daily basis and is subject to the Board of

Directors, a function that is not commonly subject to democratic elections. Despite criticism, this mechanism seems to balance reasonably professionals and politicians accountable to their national voters.

Coordination of Economic Policies

Naturally, any obligation to coordinate economic policies, as provided for in the Treaties, potentially derogates from the independent discretion of decision-makers democratically elected in each Eurozone Member. Moreover, commentators argue that in the early stages of EU development, which the removal of national restrictions to the free movement of factors of production (“negative integration”) dominated mainly, separation between economics and politics was possible. Such separation is very difficult, if not impossible, in the current high stage of integration involving macroeconomic policymaking. They further argue the assumption—that economic integration underlying the European monetary union can achieve political integration—is false, and deepening this integration in order to pull out of the crisis is, thus, another mistake (Majone, 2012, pp. 12-13).

At the same time, supporters of the “*democratic*” argument may argue that the ratified international treaty formally providing for these obligations underwent a democratic approval procedure in the countries involved. In essence, such coordination of policies has been underlying the EU practice since its establishment. As such, coordination is inevitable for the achievement of economic and monetary integration, and those who opted for such a high level of integration should have anticipated it.

Domestic Legislation and ECJ's Intervention

The domestic budgets, as well as the necessary domestic legislation the FCT provided for, are subject to the democratic domestic legislation procedures. Domestic legislators decide the manner of Treaty principles' translation into domestic legislation is subject to the discretion of. Thus, Article 3(2) FCT provides that the automatic correction mechanism that domestic legislation should put in place to correct significant deviations from the mid-term deficit-ratio objective “shall fully respect the prerogatives of national Parliaments.” However, the Treaties dictate the content of domestic legislation, which EU institutions constantly review and control. Failure to enact the necessary domestic legislation within due course is subject to an intervention of the ECJ and to potential imposition of fines. These facts may support the “*non democratic*” argument, particularly in light of the active approach of the ECJ, which is sometimes criticized for insufficient self-constraint (Majone, 2012, p. 17). Nevertheless, according to the “*democratic*” argument, such approximation of laws is common in EU legislation and is inevitable for the enhancement of the economic and financial integration process to which the Eurozone Members committed themselves voluntarily.

ECJ's intervention in domestic affairs to ensure the conformity of implementation with the ESM legal framework may be perceived as *counter-democratic*, but in fact the Treaties, subject to democratic ratification, and EU legislation by the EU Council and Parliament, both comprised of nationally accountable representatives, provide for it. Even in democratic states, courts are inherently non-majoritarian but, nevertheless, are inevitable to ensure compliance with the law democratically established (Majone, 1998, p. 10).

In legal terms, the ESM is an “international financial institution,” which a separate international agreement established. As such, formally, it is not an agency of the European Union. However, its subscribers are EU Member States. The governance is in the hands of the ministries of finance of these Members. Its purpose is to give aid to Eurozone Member States (Maduro et al., 2012, p.10). An amendment of the TFEU enabled its creation. The ECJ is involved in enforcement of its rules. Thus, at least informally, it should be “subject to norms of transparency and accountability that are similar to those applying to the functioning of the EU institutions” (Maduro et al., 2012, p. 10). The FCT, which like the ESMT is formally as an international treaty, which is not part of primary EU law, similarly includes clear indications subjecting it to primary EU law, imposing constitutional constraints on all the institutions and mechanisms that are subject to it (Baratta, 2012, pp. 11-12).

According to the “*democratic*” argument, ECJ’s intervention is very common with regard to the application of any EU law (treaties and other legislative instruments) in the Member States, to ensure efficient and uniform implementation of EU law regarding economic integration through the disciplines regarding direct applicability of EU law and its superiority over domestic legislation. Jurisprudence developed these disciplines since the 1960’s, and now the TFEU explicitly recognizes (Craig & De Burca, 2011, pp. 180-216; Steiner & Woods 2009, pp. 85-132). Assuming the ESM legal framework is part of primary EU law, ECJ’s intervention seems apparent. At the same time, ECJ’s intervention under the two Treaties is limited; while in the case of the ESMT, it may intervene only if the Board of Governors did not solve a dispute. In the case of the FCT, it may intervene only if a party has allegedly failed to correctly transpose the balance of budget into domestic law in terms of timeframe and substance. The limitation of ECJ’s intervention seems to balance between the interest for a democratic mechanism and the necessity to solve severe cases of non-compliance or disagreement.

Another argument is the aim of the Treaties’ reference of disputes to the ECJ is de-politicizing the perspective of bringing a dispute before the ECJ in such circumstances, namely making this process automatic⁹ to a great extent. This intention is understandable in light of the history of hesitation to refer to the ECJ Eurozone Members who failed to fulfill convergence criteria, and may serve as a deterring element for non-compliance. Other violations of the Treaty are subject to ordinary international law rules (Baratta, 2012, pp. 16-17).

EU Legislation regarding Domestic Budgets' Control

The unprecedented intervention in domestic budgets the FCT provides for and the “six pack” legislation marks a new phase of financial and economic integration among the Eurozone countries. Critics of this intervention in domestic budgets argue it is *escalating the “democratic deficit”* underlying the EU regime by preventing domestic decision-makers, politically accountable to their national voters, from working toward a full achievement of domestic preferences and priorities through domestic budgets (Moravcsik, 2002; Kelemen, 2004; Offe & Preuss, 2006; Ponzano, 2012; Schmidt, 2012). According to the “*democratic*” argument, however, the current

⁹ On March 2nd, 2012, all signatories of the FCT agreed to annex to their *Minutes* six “Arrangements Agreed” aimed at enhancing the automaticity of the judicial control and provided that it would take place within three months of the Commission’s report regarding a Country’s failure to comply with these provisions.

financial crisis implies the inevitability of imposing external control over domestic budgets to prevent domestic politicians from surrendering to domestic pressures at the expense of a balanced and responsible budget approach (a fact that may have severe implications for the financial stability of the entire Eurozone, or EU). A further argument may be that EU control is meant to ensure only that the domestic budgets do not risk economic stability, while there is no intention to intervene in their details or in the domestic priorities they reflect, beyond that purpose. The “balanced budget” rule further embodies elements of flexibility, e.g., reference only to *significant* deviations from the rule and exceptional circumstances in which a country may temporarily deviate from this rule, moderating external intervention (Baratta, 2012, pp. 14-15). This condition considerably narrows the options for such “non-democratic” intervention.

Member States' Mutual Interference

Financial assistance a non-Eurozone Member gives to a Eurozone Member invokes the question of the legitimacy (and scope) of the involvement of the assisting country in further economic and financial stabilization processes in the assisted country. This question arises since non-Eurozone Members are less involved in decision-making processes by Eurozone mechanisms. ESMT allows for inviting representatives from these states to participate as observers in the meetings of the Board of Governors when discussing this stability support and its monitoring (Article 5(4)). It further entitles them to have access to all information in a timely manner and to obtain proper consultation (Paragraph (9) of the Preamble).

This involvement does not imply direct intervention in the assisted country's affairs, but rather limited, non-binding, interaction with ESM decision-makers. It thus balances the interests of the assisting and assisted countries in line with a “*democratic*” perception.

Another dilemma emanates from the fact that as rich EU Members help less economically stable Members pull out of the crisis, this help may have short- and long-term democratic implications. Supporters of the “*non democratic*” argument claim that in the short term,

[o]nly the biggest countries can throw their weight around like Germany, and demand that their own constitutional considerations take precedence over those of the EU as a whole. For most member-states, and in particular for those caught by the Eurozone crisis, their elected governments don't have a choice, which also means that the people's choice doesn't matter. (Schmidt, 2012, p. 111)

If this is correct, it folds far-reaching implications regarding the quality of consent underlying these international treaties. In any case, this move “has engendered a massive loss of trust in national governments” (Schmidt, 2012, p. 111). This may be particularly severe in light of the following assessment.

[T]he main strength of the project rests on the attitude of society that is, up to this point, silently coping with a very difficult economic situation and tough restructuring measures that are negatively affecting their purchasing power and living standards. (Lorca, 2012, p. 85)

Commentators argue that in the long run, this reality may change the current delicate balance of powers between EU (or Eurozone) Members by gradually increasing the dependence of certain countries on others, thus, potentially exposing the former to undesirable political pressures the latter assumed to change their positions regarding other aspects of the EU (or the Eurozone) in consideration for the financial support they offered to them. A counter-argument by the supporters of the “*democratic*” argument may be that the balance of powers between strong and relatively weaker economies underlines the EU and the Eurozone in general and, in a sense, the chance to obtain financial assistance from the former, served as an incentive for the latter to join these allies in the first place. In this sense, the current crisis and mechanism only emphasizes a link that already existed before the crisis in other respects. In addition, such assistance is optional and does not have to be opted for if other, better options exist. Finally, for small countries, the non-majoritarian model of decision-making, which the mechanism devised reflects, allows for more potential effect on the process, compared to a majoritarian model (Majone, 1998, p. 11). Re-examination of these arguments should take into account the economic conflict of interests described below.

External Help

While any step taken at EU level involves EU decision makers only, whether democratically elected or not, assistance international organizations, such as the World Bank and the IMF, offered is subject to an international process of decision-making where the Eurozone (or even EU) countries form a small part of the 188 Members in terms of voting power. In these organizations, the EU is capable of assuming its influence informally, behind the scene, since it is one of their more generous contributors. However, other powerful contributors, such as the United States, may counter-balance this informal effect. One way or another, this process is obviously remote from EU citizens in terms of their power to affect it directly or even indirectly. However, participation in these organizations is a result of concluding international treaties ratified domestically, and which may be withdrawn at any time. In addition, assistance from these organizations is optional.

In some cases, the standards these organizations impose may serve transparency and accountability of decision-making bodies at EU level. Thus, for example, due to IMF standards, the ESM Treaty in certain circumstances (Paragraph (12) of the Preamble) enabled involvement of the private sector in decision-making processes.

Overall Evaluation of the Mechanism in Legal Terms

The mechanism described above aims at allowing for emergent financial assistance to countries which the crisis severely affected, in a context of economic emergency. Under these circumstances, at least in the short-term, this mechanism seems to reflect choices made democratically in a context of economic and financial integration, and thus not necessarily following a majoritarian model. The global and supra-national contexts necessarily involve additional layers of decision-making and coordination compared to those existing in a state. Thus, complex systems of indirect representation, selection of representatives, professional socialization, *ex post* review, and balances between branches of government impose accountability (Majone, 1996; 1998). The mechanism described above seems to reflect this modern format,

including elements similar to these establishing the democratic nature of the EU: constitutional checks and balances, indirect democratic control via national governments, the involvement of the European Parliament, “separation of powers, a multi-level structure of decision-making and a plural executive,” unanimity voting refrained in many cases, to prevent minority veto, the strong positions of the ECJ and the ECB. These elements are “consistent with the...practice of most advanced democracies” (Moravcsik, 2002, pp. 605, 609, 611).

Commentators suggest that as long as the tasks delegated to the European level of governance are precisely and narrowly defined, non-majoritarian standards of legitimacy should be sufficient to justify the delegation of the necessary powers (Majone, 1998). The European financial stability mechanism seems to follow this standard, providing for reasonable checks and balances. In terms of public transparency similarly to the EU model, it seems that the great number of players involved in the process prevent the creation of monopoly of information (Moravcsik, 2002, pp. 612-613).

As far as the mechanism empowers financial experts over politicians and the public, this choice may be justified in light of the failure of traditional domestic and the EU's more democratic mechanisms to prevent the crisis, as well as due to two advantages: reduction of legislative and majoritarian decision-making costs, and the shift of responsibility for future policy failures (Majone, 1998, p. 16; Moravcsik, 2002, p. 614). Still, the Commission's and ESM's experts' opinions are subject to a final political decision.

The mechanism examined seems to meet a high standard for the examination of the democratic nature of a supra-national regime, applying a redistributive policy: by their nature, one can reliably expect its institutions to take into consideration the best interest of the public (winners and losers of each policy decision), as understood following a public discourse (Hix & Follesdal, 2006). It combines professional and political decision makers in a process weighing all aspects of public benefit, taking place in a political environment and atmosphere where a public discourse (although not in formal frameworks) undoubtedly affects decision-making.

Section 3: “Defensive Democracy” and the Limits of Intervention in Domestic Affairs

Can democracy survive without sufficient financial resources?

This major question imposes a general counter-balance to the criticism regarding the counter-democratic character of the mechanism described, beyond the specific analysis of the players and mechanisms at stake. “Democracy” basically means the will of the people. One way or another, even elaborate democratic regimes the current reality dictates respect this principle. Nevertheless, sometimes “the will of the people” may lead a country, as well as its citizens, to a total financial collapse. Such a collapse may endanger the very existence of a democratic regime and even – in extreme cases – the very existence of a state, which cannot survive and pursue policy objectives without due financial resources (Stiglitz, 2006; Howse, 2010, p. 17). The question is where one should draw the limit to the “will of the people.” In the current context, the answer may be where “the will of the people” may cause a real and substantial threat to the very existence of the relevant democracy by endangering its financial stability or even threatening the European project as a whole (Armingeon & Baccaro, 2012). In that case, it may be preferable to adopt an assertive approach to defend democracy, particularly where the “will of

the people" may not reflect a thorough understanding of the monetary system, but a short-term, hedonist vision.

What should be the limits of external interference in domestic affairs in the name of financial stability?

This question reflects the other side of the coin. While some intervention and financial control may be justified, as explained above, it necessitates a careful drawing of the limits of this intervention. Any such intervention should be subject to a proportionality rule. This legal test implies limiting the steps taken to minimum intervention that would achieve the desired result, thus preventing any external intervention in a Member State's domestic affairs beyond that necessary to ensure its economic stability and the wise use of external financial aid to recover its economy. The tailoring of an individual action plan for each country in crisis seems to be a step in this direction, as is the limitation of the mechanism's implication to specific circumstances and conditions. The Cypriot experience, which is the first attempt to implement the ESM, reflects a strong public effect on the manner domestic decision-makers choose to meet the tough standards set on Cyprus as pre-condition for external financial aid: public pressure prevented the imposition of a 10% levy on bank deposits of less than 100,000 Euro. In this case, the space of maneuvering that countries have within the limits of external financial standards imposed on them reflects a proportional approach.

Determination of other pragmatic aspects of implementing this test is necessary: Should one limit external interference to adherence to international standards (where they exist, as in the case of IMF standards the ESMT provides for)? To what extent is a standard of behavior externally imposed effective? What is the role of domestic politicians in this process? And finally, speaking about democracy, where should the line be drawn between public involvement in shaping monetary or economic policy on the one hand, and the inevitable professional leading of this process on the other?

The financial crisis and future generations

Supporters of the "non-democratic" argument express a concern that treatment of the current financial crisis may involve a risk of creating severe future debts that would burden future generations (Habermass, 2011; Majone, 2012). This concern may be relevant not only to the countries that are in need of financial aid but also the countries helping them financially.

Supporters of the "democratic" argument may reply that, in this sense, financial considerations are no different to many other policy decisions EU leaders currently take in almost every field. An additional question may be as follows: Is there a real alternative?

Opposite to this opinion, commentators suggest that the strict disciplines the new mechanism provides for prevent "the elite governing a country from adopting unethical debt-creating policies to be put on the backs of future generations" (Baratta, 2012, p. 29).

Section 4: The Economic Dimension of the 'Democratic Deficit'

While the financial crisis some EU Members experience seems, at first, to be totally subject to their responsibility, whether due to their deviation from stability criteria EU treaties determine in terms of debts and deficits, or due to other irresponsible economic or political

behaviors attributed to their leadership, there are voices pointing towards the rich and strong EU Members as being at least partly responsible for these consequences (Zestos & Rizova, 2012, p. 78). France and Germany were among the first countries that violated the financial stability criteria back in the early 2000s, and that some of the countries the crisis severely affected had very small public deficits or debts (Ireland), or even a small surplus (Spain) before the crisis,¹⁰ and even Greece, which suffered a high deficit, enjoyed considerable growth before the crisis.¹¹ The gradual growing gap in the average unit labor costs between Germany, on the one hand, and Greece, Italy, Portugal, and Spain on the other, and a 40% underrated exchange-rate of German money due to the single currency, causing its huge trade surplus, which is the world's largest (Moravcsik, 2012, p. 59), may thus explain the crisis, at least partly.

Another reason commentators mention for the spillover of the crisis across Europe is that German and Dutch banks, which acted as mediators between the rest of the world (where they could borrow money) and the weak Eurozone countries (to which they landed), exposed themselves to excessive risks that domestic regulators did not duly restrain (Eichengreen, 2010; Moravcsik, 2012, p. 59), a behavior other Eurozone members paid for.

On the one hand, the economic and financial integration process resulting from EU-Eurozone membership has eroded the powers and governance instruments of the economies suffering from the crisis to react to it. For example, they are unable to opt for a rate of inflation exceeding (even moderately) the rate the Eurozone's financial stability requirements provide for, to encourage market activity, or to independently devalue their currency (Rogoff, 2013). On the other hand, since integration of EU-Eurozone market is still incomplete, these countries suffer insufficient labor mobility stemming from the fact that the EU did not yet obtain complete regulating authority regarding this issue (Krugmann, 2012a). A "remaining policy option deficit countries have...is to drastically cut wages, private economic activity and government spending, leading to a reduced level of aggregate consumption" (Moravcsik, 2012, p. 60). Raising domestic taxes would lead to the same results.

Consequently, in terms of results, commentators argue that the current crisis may reflect the failure of the "one-size-fits-all" approach:¹² "the eventual gains from harmonization should be weighed against the welfare losses produced by harmonized rules that are not tailored to national preferences except in a rough, average sense" (Majone, 2012, p. 8).

If this is true, one may view the financial crisis as a distributive conflict among Eurozone countries, necessitating not only the adjustment of the countries this crisis strongly affected but also of strong EU Members, such as Germany, to prevent factors such as loose lending standards in rich countries, price divergence, and gaps in unit labor costs from encouraging the current crisis or contributing to future crises.

If this is the case, the alleged "democratic deficit" discussed in the former section may be decisive, because those who dominate the decision-making process determine the definition of the crisis, its causes, and the manner of its treatment. They determine the extent of holding

¹⁰ The main reason for the crisis in these countries may have been their "shortsightedness in and lax regulation of the private sector, which bred imprudent banking policies in Ireland, insufficient competition in markets in Italy, and a housing boom gone bad in Spain" (Moravcsik, 2012, p. 58).

¹¹ Between 1999 and 2008, the Greek economy grew by almost a third, despite tough competition from emerging markets as well as from central and Eastern Europe (Moravcsik, 2012, p. 58).

¹² Some scholars argue that, in fact, the crisis enhances a process that already effectively started, of differentiated integration (Majone, 2012, pp. 21-26).

strong countries like Germany, at least partly, accountable to the crisis and, thus, requiring them to adjust their markets to the new reality. By determining the mechanism to pull out of the crisis, those that dominate the decision-making process determine to what extent economically weaker countries can have the democratic instruments to impose this requirement on strong countries, despite the financial assistance on which they depend. The definition of the crisis as a debt crisis or, alternatively, as a crisis to which banking and intra-Eurozone imbalances are responsible affects the optional solutions chosen: austerity in severely affected countries in the former case, or adjustments in all EU countries to close gaps in fields such as prices and lending policies, in the latter (Krugmann, 2012b).

Up to this point, judging upon the instruments the EU-Eurozone chose to pull out of the crisis, it seems financially strong countries succeed in imposing their terms, opting for austerity in severely affected countries, while avoiding deep overall adjustments in their own economies. However, in the long term, it is clear that “budgetary austerity, the micromanagement of national budgets, fiscal federalism, bailouts or large funds to stave off speculators are insufficient....[It would be necessary] “to distribute the costs of convergence more fairly...The burden must be shifted from Europe’s public sector and deficit countries to its private sectors and surplus countries” (Moravcsik, 2012, p. 55). At that stage, the weak countries may discover their collective power and use it in EU-Eurozone institutions where decision making is based, one way or another, on majority voting (similar to the process that took place at the WTO).

Conclusion

Similar to a global tendency, the controversy this article describes does not concentrate on whether globalization (and economic and financial integration) should persist but *about* their contents (Giddens, 2000; Howse, 2010). The reason may be that while some believe that creating the Euro was a mistake (Majone, 2012; Moravcsik, 2012), countries realize that sticking to it may have fewer severe consequences than the alternative (Moravcsik, 2012, pp. 62-63). In economic terms, this model still seems to be advantageous to the Eurozone countries (Eichengreen, n.d.).

This may explain why, in practice, despite the criticism, the EU-Eurozone Member States opted for a *higher* degree of economic integration following the crisis, implying stricter financial and economic constraints and more reliance on global entities.¹³ With regard to the short-term future, some commentators advocate intensifying the involvement of “national democracies” in this process, while others support further strengthening the role of the EU (Maduro et al., 2012, p. 1). The public discourse this article describes reflects the scale between these two views.

As an emergency instrument, this elaborate mechanism seems to reflect a careful balance of interests and an attempt to take democratic considerations into account to the extent possible under severe circumstances and the great responsibility decision-makers assumed.

Even according to a Euro-skeptic vision, the crisis made the consequences of decisions at the European level much more visible than before, thus, allowing for better evaluation “by

¹³ On 9 December 2011, the Heads of State or Government of the Eurozone Member States explicitly agreed “to move towards a stronger economic union.” See also paragraph (5) of the Preamble to the ESM Treaty. This tendency corresponds to the global tendency regarding the financial crisis, to strengthen global regulation and to strengthen the commitment to international standards (Howse, 2010, p. 18), as the ESM Treaty also reflects.

results" (Majone, 2012, p. 5). This evaluation may set a basis for future improvements of the mechanism, including improvements of its democratic dimension, which may be made either by improving the involvement of Member States in EU processes (Maduro et al., 2012, pp. 7, 13-46; Global Governance Program, 2012; Leaman, 2012, pp. 251-252; Husson, 2012, pp. 344-345) or by strengthening the democratic basis of EU (and Eurozone) institutions themselves (Baratta, 2012, p. 27). The choice among these options seems to necessitate a clearer definition of the long term goals of the EU-Eurozone, which EU leaders seem to have avoided by now (Majone, 2012, p. 18). In essence, this long-term EU challenge may be

making the European economies converge, that is, assuring that their domestic macroeconomic behaviors are sufficiently similar to one another to permit a single monetary policy at a reasonable cost. For this to happen, both creditor countries, such as Germany, and the deficit countries in southern Europe must align their trends in public spending, competitiveness, inflation and other areas. (Moravcsik, 2012, p. 54)

Leveraging the crisis to achieve a higher degree of economic and monetary integration, subject to convergence of economic policies as described above, by mutual consent of the Eurozone countries in a process that would take into account their respective interests, may imply a long run profit to all countries involved. In the meantime, further improvements of the mechanism are possible. Alternatively, as countries recover from the financial crisis, they may consider the option of regaining full democratic responsibility regarding their economic and financial affairs (e.g., by withdrawing the ESM); subject to the implication that such a step may have on their economies.

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Discussion Questions

1. To what extent is the allegedly “non-democratic” argument used to justify, or cover for, escape from national leaders’ responsibility?
2. What would be the necessary economic steps that the strong and weaker economies in the EU would have to take in order to enhance their economic integration, to pull out of the ongoing financial and economic crisis?

3. What legal instruments may ensure that the 'democratic deficit' involved in the enhancement of European economic and political integration would be gradually eliminated?

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Granting Stock Options as Part of CEO Compensation and the Impact on Earnings Quality

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Abstract

The objective of this research is to test the granting of stock options as part of CEO compensation to earnings quality. Agency theory posits a conflict between the CEO's own self-interest and that of the owners who seek to maximize the long-term value of their investment. To avoid this conflict, compensation should align and bond these parties.

The authors acquired the data from CompuStat and ExecuComp databases spanning the years of 2000 through 2009. The Dechow and Dichev (2002) model provides the earnings quality model for this study using the change in working capital with the error terms serving as the residuals. The hypothesis uses earnings quality as a proxy for management choices and as the predictive power of accruals. The first hypothesis indicated granting of CEO stock options has a positive association to earnings quality.

Keywords: CEO compensation, stock option grants, incentive alignment, agency theory, and earnings quality

Introduction

Due to the increased scrutiny on Chief Executive Officer (CEO) compensation and earnings, the stock options of CEOs is coming under additional accounting scrutiny with the

Financial Accounting Standards Board (FASB) issuing Statement of Financial Accounting Standards (SFAS) 123 (R). CEOs receive large amounts of compensation in the form of stock options, even if the company is not making earnings targets. Does the granting of CEO stock options affect earnings quality?

Agency theory has been the primary foundation for research in the relationship between firm performance and executive compensation. The compensation committee develops the compensation structure to converge the motivations of the shareholders and their agents avoiding the agency theory conflict of interest (Jensen & Meckling, 1976; Tosi, Werner, Katz, & Gomez-Mejia, 2000).

This study provides further empirical evidence of the association of granting stock options as part of the CEO compensation plan and earning quality. The more precise the earnings quality of the organization, the more indicative of future cash flows of the firm.

Question 1: Is there a positive relationship between granting CEO stock options and earnings quality?

CEO Compensation

Compensation plans are the payments firm owners make to executives who manage the business. CEO's compensation is comprised of salary, bonus, stock options, restricted stock, and other long-term incentives (Cheng & Farber, 2008). CEO salary and bonus represent a major proportion of the total compensation (Benston, 1985; Lambert & Larcker, 1987). The supplementary major components of compensation other than salary and bonus primarily represent compensation related to long-term performance measures or deferred compensation not explicitly linked to firm valuation. Stock options, stock appreciation rights (SARs), performance units and shares, restricted stock, and phantom stock provide for compensation based on a firm's valuation over several years (Kumar, Ghicas, & Pastena, 1993). Hence, a review of the equity compensation of CEOs provides a different variation of a long-term focus.

Agency Theory

Agency theory is the most basic agency structure, composed of two parties: a principal, who is the owner; and an agent (Holmstrom, 1979). The principal (owner) supplies the capital to the firm, while the agent provides the labor, which may involve effort as well as other decision-making responsibilities (Lambert, Larcker, & Weigelt, 1993). Agency theory is the study of the inevitable conflicts of interest that occur when individuals engage in cooperative behavior, which fundamentally changed corporate finance and organization theory, but it has yet to substantially affect research on capital-budgeting procedures (Jensen, 1993).

Earnings Quality

Earnings are high quality if earnings are persistent, an attribute based solely on the time series properties of earnings. Some define earnings as high quality if earnings accurately represent the economic implications of underlying transactions and events. Dechow and Dichev (2002) define earnings by relating current accruals to the last-period, current-period, and next-period cash flows from operations.

Capital-market based incentives, contracting incentives, and regulating incentives motivate managers to maximize their own interests and use their discretion over earnings opportunistically (Healy & Wahlen, 1999). Comiskey and Mulford (2000) define earnings as high quality if the contemporaneous cash flows are greater (less) than the recognized revenues or gains (expenses or losses), and low quality if the associated cash flows are less than (greater than) the recognized revenues or gains (expenses or losses). In contrast, Dechow and Dichev (2002) define earnings to be of equal quality for firms with high vs. low realizations of the sum of the error terms if the variance of the sum of the errors for the firms is equal. Earnings management allows management or those who have control over the accounting records to administer the outcome of the earnings toward the outcome they prefer (McNichols, 2002). Therefore, less active earnings management suggests higher earnings quality (Yang, 2006).

A decrease in option-based compensation reduces CEOs' incentives to take excessively risky investments, resulting in improved profitability (Cheng & Farber, 2008). The executive stock options are effective in generating positive future payoffs for the firm in terms of accounting earnings (Erickson, Hanlon, & Maydew, 2006). Executive compensation reduces shareholder agency costs and, in turn, enhances firm value (Kanagaretnam, Mathieu, & Ramanan, 2009). CEOs awarded with high equity compensation prefer higher earnings quality, as higher earnings quality relates to lower cost of capital or higher stock price (Francis, LaFond, Olsson, & Schipper, 2004, 2005). The lower cost of equity capital supports high CEO ownership and thus supports the theory of managerial ownership (Huang, Wang, & Zhang, 2009) and thereby increasing the firm valuation and earnings quality. Attaway (2000) finds a positive relationship between firm performance and stockholder equity as part of CEO compensation, thereby increasing earnings quality when CEO's are shareholders.

Hypothesis 1: Earnings Quality is positively associated with the granting of stock options to CEOs.

Methodology, Sample and Data Sources

The compensation data resides in the Standard and Poor's ExecuComp Database. CompuStat provides access to the company specific data required for the analysis. The study obtains Industry classification by SIC code and year distribution of the sample.

The study uses firm year observations from 2001 to 2009.

CEO Compensation Data

Prior executive compensation research predicates compensation contracts on either market return or accounting variables because both measures are comprehensive and complementary (Barro & Barro, 1990; Sloan, 1993). Jensen and Murphy (1990) regress the change in annual CEO compensation against changes in shareholder wealth. The percentage of Stock Option Awards ownership calculates as the Fair Value of Options divided by total number of common shares outstanding. In addition, stock ownership is the percentage of outstanding shares the CEO holds (%STKOWN). The different components of CEO compensation represent a continuum of shared risk between shareholders and agents (Finkelstein & Hambrick, 1989) and serves as an alignment of CEO as owners. The percentage of insider stock ownership (%STKOWN) functions as an independent variable.

WRDS ExecuComp Database provides the CEO compensation data consisting of the following components: salary, cash bonus, stock options, restricted stocks, and others. The authors define cash as the sum of salary and annual bonus, consistent with previous studies (Attaway, 1997; Core, Guay, and Verrecchia 2003; Duru & Reeb, 2002; Jensen & Murphy, 1990; Nourayi & Daroca, 2008; Rajagopalan & Prescott, 1990). The aggregate of CEO compensation calculates as the sum of salary (SALARY), Bonus (BONUS), Black Scholes dollar value of stock options awarded (STK_OPT), and other stock based compensation (OTHER). Other stock based compensation is the sum of Share Appreciation Rights (SAR), the value of any phantom stocks (PHANTOM), and the value of any restricted stock options (RSTSTK). The summation equation below obtains the total CEO compensation:

$$\text{Total Compensation (TDC1)} = \text{SALARY} + \text{BONUS} + \text{STK_OPT} + \text{OTHER} + \text{LTIP} \\ \text{Payouts + All Other + Value of Option Grants}$$

The variable Total Compensation (TDC1) in this study serves as the deflator of the individual salary components. Additionally, this study includes all individual components of CEO Compensation, Salary (SALARY), Bonus (BONUS), Value of Stock Options Granted (STK_OPT), and Other Annual Compensation (OTHER) deflated by Total Compensation (TDC1). Previous studies positively link CEO cash compensation, namely salary and bonus, to firm valuation assessed from a shareholder (Agarwal, 1981; Ashley & Yang, 2004; Attaway, 2000; Gaver & Gaver, 1993, 1995; Lewellen and Huntsman (1970); Sanders & Mason, 1998) augment this argument.

The variables under consideration in this study are the ratio of equity compensation stock options to CEO Total Compensation. This study defines CEO stock options (STK_OPT) as stock option awards as a percentage of Total Compensation (TDC1) from the ExecuComp database. CEO stock options awards as part of the compensation regresses to the natural log form similar to that of Finkelstein and Hambrick (1989) and Boyd (1994), by dividing TDC1 total compensation for the CEO. The ExecuComp database, values stock option grants (STK_OPT) to the CEO during the fiscal year using the Black-Scholes (1973) model. The ExecuComp Annual Compensation database provides the Black-Scholes value of options granted for CEOs only.

Research Design

This study measures earnings quality to stock options granting in CEO compensation. Value-relevance research examines the association between a security price based dependent variable and a set of accounting variables. An accounting number displays value relevance if it is significantly related to the dependent variable (Beaver, 2002). This study tests the value relevance of earnings quality.

Earnings Quality Model

The earnings quality (EQ) model used in this study is that of Dechow and Dichev (2002) as below:

$$\Delta WC = b_0 + b_1 * CFO_{t-1} + b_2 * CFO_t + b_3 * CFO_{t+1} + \epsilon_t$$

The authors define earnings as the change in working capital (Δ) through the sum of (Σ) past present and future cash flows from operations, with the estimation error (ϵ_t) representing the residuals of the regression. The change in working capital and the proxy for CFO is Cash Flow from Operations for cash flow related to accruals. Where CFO_{t-1} is past cash flows from operations, CFO_t represents present cash flows from operations and CFO_{t+1} is future cash flows from operations. Additionally, the residuals from the regression reflect the error term. The residual represents the portion of the change in working capital accruals unexplained through the lagged, current, and future cash flows. The raw residual was the best measure of estimation error on a firm-specific basis. The residuals from the regression reflect the accruals that are unrelated to cash flow (Dechow & Dichev, 2002). The regression of the residuals represents the error term.

The dependent variable earnings quality (EQ) reflects the results of management choices. If the CEO or other management attempts to mislead investors by exercising earnings management to manipulate accruals to meet targets such as bonuses, or earnings forecasts, henceforth the accruals will be of low quality. The quality of earnings measurement is through the quality of accruals. The Earnings Quality proxies uses accrual quality as a proxy on the basis of the McNichols (2002) model. EQ is the predictive power of current operating income for future cash flows.

Earnings predictability is the extent to which current earnings or their components realize as future cash flows (Barth, Cram, & Nelson, 2001; Dechow, Kothari, & Watts, 1998). FASB defines earnings predictability and consistency with decision usefulness. Earnings are a premier source of firm-specific information for investors (Biddle, Seow, & Siegel, 1995; Francis, Schipper, & Vincent, 2003; Liu, Doron, & Thomas, 2002), hence inclusion as the dependent variable.

In this study, the earning quality measure is by the predictive power of accruals for future cash flows. Cash flow related to accruals compares subsequent cash flows to assess estimation errors; the higher the amount of errors, the lower the quality of the accruals and the lower the quality of earnings. The authors choose this approach because it does not differentiate between intentional and unintentional errors in accruals estimates and avoids misspecification issues prevalent in the traditional measure of earnings quality in which accruals decompose into their discretionary and nondiscretionary components (McNichols, 2002). Since CompuStat does not provide the necessary information to decompose these non-recurring items into the respective cash and accrual components, the exclusion of these items facilitates unambiguous assessments of cash and the accrual components of income from continuous operations (Sloan, 1996).

The model for earnings quality is that of Dechow and Dichev (2002) with operating cash flows (CFO) as the primary variable. Dechow and Dichev (2002) provide a model with additional proxies for earnings quality. Earnings predictability is a proxy mentioned by Dechow and Dichev for earnings quality. Accrual quality both discretionary and non-discretionary serves as additional proxies mentioned by Dechow and Dichev (2002) for earnings quality. The regression model of earnings quality is the Dechow and Dichev (2002) model which has taken the Jones (1991)

model and made modifications.

Also McNichols (2002) adds additional variables to the Jones model, such as Cash Flow from Operations (CFO) to the regression model. All of which are models and various proxies used to measure earnings quality. Operating Cash Flows (CFO) (CompuStat data item #308) is a component of earnings. Prior research demonstrates that the cash flow component of earnings is more persistent than the accrual component (Fairfield, Whisenant, & Yohn, 2003; Sloan, 1996). Previous studies indicate non-current accruals are given a lower weight in determining annual management compensation than cash flows from operations and current accruals (Kumar et al., 1993). Therefore, cash flow from operations (CFO) incorporates into this study to test earnings quality as the dependent variable.

The residuals of the regression with the change in working capital as the change of working capital from previous year and current year serve as the error term. The additional variables are cash flow from operations (CFO) for previous, current, and future periods. The regression produces residuals for each case, operating as the error term. Additionally, the final regression for all terms above including the estimation error yields the earnings quality proxy.

Data for the measures of earnings quality comes from the CompuStat database. If CompuStat information for any company in the population is missing or incomplete that company is not included in the sample population for that period. The research design is a regression model, consisting of both simple and multiple regression analysis. The multiple regression models examine the relationship between earnings quality and stock options as part of CEO compensation, with other independent control variables. The following regression model tests the hypothesis.

Hypothesis 1

$$EQ_t = \alpha + b_0 + b_1 SALARY_t + b_2 BONUS_t + b_3 STK_OPT_t + b_4 OTHER_t + b_5 \%STKOWN_t + b_6 LEV + b_7 ROE_t + \epsilon_t$$

The regression equation is at time t , where b_0 is the intercept, and b_1 to b_9 are the coefficients for each variable.

Financial Leverage (LEV) functions to predict firm performance and utilized as an independent variable in this study. Leveraged firms are risky and result in managers seeking safe investments at the expense of shareholders. Financial leverage whether positively or negatively relates to firm performance.

Prior studies use different measure of accounting earnings: return on equity (Baber, Janakiraman, & Kang, 1996; Baber, Kang, & Kumar, 1998; 1999; Lambert & Larcker, 1987), and return on assets (Core, Holthausen, and Larcker 1999; Core & Larcker, 2002; Sloan, 1993). Firm performance is measured using the accounting return on assets (ROA) (computed as the ratio of earnings before interest and taxes to total assets) and the return on Equity (ROE) as the annual stock market return on the shares of common stock (Core, et. al.,1999). Return on Equity (ROE) serves as a control and independent variable for this regression model. In addition, the independent variable of total assets is included in the study. Total Assets (TA) is the natural log of total assets. CompuStat, item #6 provides total assets information.

An additional variable in the regression is HIGH_TEC. This indicator variable is set equal to 1 for firms belonging to high tech industries such as Drugs with SIC codes 2833-2836, Computers 3570-3577, Electronics 3620-3674, Programming 7370-7374 and Research and Development services 8731-8734. The variable is set to zero in all other industries in the study.

Hypothesis 1 tests for a relationship between options granted and earnings quality, which can be a cause of a decrease in agency costs, effectively improving earnings quality. Hypothesis 1 tests the entire sample period from 2001 to 2009. Previous studies examine the relationship between CEO cash (salary and bonus) compensation and stock market performance measures finding a positive relationship (Barro & Barro, 1990; Finkelstein & Hambrick, 1989; Hubbard & Palia, 1995; Murphy, 1985; Rajagopalan & Prescott, 1990). The model to test hypothesis 1 is earnings quality as a function of stock options as a percentage of Total Compensation (TDC1) and control variables from prior literature.

Findings

First, we discuss the data collection of the sample. Second, the study reports the descriptive statistics for each variable (dependent, independent, and control variables). Then, the authors conduct several tests that examine the underlying assumptions of the regression model in order to determine the appropriateness of the regression model. Multiple regression analysis evaluates the relative influence of the major predictor variables. This study determines the significant differences through the analysis of the variance, and the presence or absence of differential predictability. Finally, the last section discusses the overall research findings.

Data Collection

The ExecuComp database provides the CEO compensation data. CompuStat provides other information about the firm such as firms' leverage position, total assets, and return on equity, and implied option expense. CompuStat and other ExecuComp databases housed the additional company data. The ExecuComp Annual Compensation and Company Financial and Director Compensation database provided most of the sample. Hypothesis 1 uses a quantitative data set that consists of data collected for the dependent and independent variables covering the years 2001 through 2009. The study eliminates all 2005 years from the sample due to the implementation of SFAS 123 (R). The study matches the ExecuComp data of the CEO with the relevant company data from CompuStat. This effort produces 8,231 in the sample. This screening process described reduced the sample to 3,599 for years 2001 through 2004 and 4,632 for years 2006 through 2009. Table 1 displays the frequencies and percentage of the total sample each year represents. The year 2007 represents the largest proportion of the sample with 15.2%. All years in the sample represent 10.7% to 15.2% of the entire sample.

Table 1
Composition of Sample by Years

Year	Frequency	% Sample
2001	890	10.8%
2002	883	10.7%
2003	917	11.1%
2004	909	11.0%
2006	1156	14.0%
2007	1251	15.2%
2008	1200	14.6%
2009	1025	12.5%
Total	8231	100%

In addition, Table 2 exhibits the analysis of the sample by SIC codes.

Table 2
Composition of Sample by SIC Code

Industry	2 digit SIC Code	Frequency	Percent
Basic Industry	10, 12, 14, 24, 26, 28, 33	1263	15.3%
Capital Goods	34	132	1.6%
Construction	16, 17, 32,	116	1.4%
Consumer Durables	30, 31, 36, 37, 39, 50, 55, 57	1658	20.1%
Food & Tobacco	20, 21, 54	324	3.9%
Furniture & Fixtures	25	72	0.9%
Labatory Equipment	38	578	7.0%
Leisure	27, 58, 70, 79	437	5.3%
Machinery & Equipment	35	632	7.7%
Other	99	22	0.3%
Petroleum	13, 29	419	5.1%
Services	64, 70, 72, 73, 75, 78, 80	1545	18.8%
Textiles & Trade	22, 23, 51, 52, 53, 56, 59	759	9.2%
Transportation	40, 41, 42, 44, 45, 47	274	3.3%
Total		8231	100%

Note. Industries by 2 digit SIC Code as defined by Durnev and Kim (2005).

The firms in this study operate within several different industries. This study eliminates from the sample, firms with SIC codes 4900 (utilities) and firms with SIC codes ranging from 6000 - 6999 (financial services), consistent with prior research. These firms are in regulated industries and experience an added degree of monitoring that differentiates their corporate structure from those of other industries. Consumer durables represent the largest industry in the sample with 20.1%. Additionally, other industries are only representative of .03% of the sample, furniture, and fixtures with only .09% of the sample. The industry classifications follow those defined by Durnev and Kim (2005).

Descriptive Statistics

Table 3 provides the descriptive statistics for the variables in this study. Additionally, Table 3 provides information on CEO compensation elements as deflated by TDC1. CEO compensation data include salary, bonus, stock options, and other forms of compensation.

Table 3
Descriptive Statistics for the Study

Variable	n	Minimum	Maximum	Mean	Std Deviation
EQ	8231	.00001	22.162	.12327	.39749
SALARY	8231	.00000	2.0681	.26091	.19073
BONUS	8231	.00000	1.0000	.09149	.13285
STK_OPT	8231	.00000	4.9204	.13319	.22823
OTHER	8231	.00000	1.0000	.04549	.09696
%STKOWN	8209	.00000	99.853	12.341	19.076
LEV	8231	.00000	3.3873	.18104	.18273
ROE	8231	-3942.51	1726.79	2.8804	117.561
TA	8231	1.6963	12.3970	7.30429	1.53288
HIGH_TEC	8231	0	1	.26	.438

The sample of 8,231 consisting of CEO compensation and company data reveals a mean earnings quality for all firms in the study is 12.3%. The mean salary for CEOs in the study is 26.1% of Total Compensation (TDC1) with an average bonus of 9.1%. CEO stock options as a percentage of Total CEO Compensation (TDC1) represent 13.3% percent.

The first hypothesis tested in this study is:

H1: Earnings Quality is positively associated with the granting of CEO stock options.

Variable Correlation

The Pearson Correlation Matrix table (Table 4) shows the correlation between the independent variables in the study. The Pearson correlations in Table 4 shows the relationships between variables were consistent with those of Dechow and Dichev (2002). The correlation matrix in Table 4 shows that the strongest correlation coefficient among the independent variables was -0.340 between stock options (STK_OPT) and percentage of stock ownership (%STKOWN). The second highest correlation coefficient was -0.267 between bonus as deflated by TDC1 (BONUS) and stock options (STK_OPT). A Pearson's correlation coefficient between +/- .25 and +/- .75 is considered to have a moderate degree of correlation (Norusis, 2010). All variables display a moderate degree of correlation. Lastly, the coefficients fall within the acceptable limit, which suggests there are no multicollinearity problems with the study. The Pearson correlations coefficient (reported in Table 4) suggests that multicollinearity is not severe for the independent variables in this study.

Table 4
Pearson Correlation Matrix for H1 Variables

Variable	EQ	SALARY	BONUS	STKO PT	OTHER	STKO WN	LEV	ROE
EQ	1.000							
SLRY	.113	1.000						
BONUS	-.008	-.047	1.000					
STKOPT	-.044	-.079	-.267	1.000				
OTHER	-.009	-.016	-.073	-.007	1.000			
%STKOWN	.003	-.201	.175	-.340	-.087	1.000		
LEV	-.026	-.045	.012	.035	.039	-.022	1.000	
ROE	-.086	-.061	.054	.006	-.010	.005	-.037	1.000

Note. p < .05.

Linear regression analysis assists to predict the dependent variable, Earnings Quality (EQ). ANOVA regression tests for a linear relationship between the variables by forming an F ratio of the mean square of the regression to the residual mean square and a test of the coefficients of regression analysis between variables.

Hypothesis 1 tests the positive association of earnings quality with the granting of stock options. Table 5 displays the analysis of the linear relationship with the independent variables; determining the percentage change in earnings quality. Table 5 reflects an R square of .021. Since this percentage is low, it suggests that earnings quality is not dependent on these control variables. In addition, the correlation coefficient for these variables is r=0.145. The results of the ANOVA regression, which tests if there is a linear relationship between the variables shows the F statistic of 23.305, which is greater than the critical value. Given that the significance level (0.000) is less than alpha (.10), resulting in the rejection of the NULL hypothesis. Therefore, there is support for H1 that a positive association exists between earnings quality and the granting of stock options.

A regression analysis of earnings quality as the dependent variable and independent variables reveals the statistical significance of SALARY, STK_OPT, LEV, and ROE. The control variables BONUS, OTHER, and %STKOWN, do not provide significance (Table 5). These control variables do not significantly influence the earnings quality in this study. However, there could be other control variables that would have a more significant impact on the earnings quality variable. Therefore, these findings support H1.

Table 5
Coefficients of Regression Results H1

Variable	Coefficient	t-value	Significance
Constant	.078	*** 6.699	.000
SALARY	.225	*** 9.498	.000
BONUS	-.028	-.817	.414
STK_OPT	-.054	** -2.546	.011
OTHER	.032	.710	.478
%STKOWN	.000	1.371	.170
LEV	-.049	** -2.042	.041
ROE	.000	*** -7.234	.000
R	.145		
R ²	.021		
F	25.305*		
Significance	.000		

Note: The dependent variable is EQ

*p < .10; **p < .05; ***p < .01

The negative t value of -2.546 for STK_OPT suggests a higher earnings quality (EQ) measure with respect to stock option granting by means of the negative sign. This finding suggests less accrual with a higher quality of earnings. The negative sign supports more stock option grants; there is less of the residual resulting from accruals and higher earnings quality. The lesser residual signifies less error in the earnings quality number. Therefore, this evidence supports H1. Earnings quality is positively associated with the granting of CEO stock options.

For H1, evidence supports this hypothesis. There is a statistically significant difference between earnings quality and the granting of CEO Stock Options. These findings suggest that earnings quality and the granting of CEO stock options is positively associated. The results support the alignment theory. Additionally, this study supports the findings of Morck, Shleifer, and Vishny (1988) whereas, inside ownership increases firm value. This study supports the findings of Agrawal and Mandelker (1987) showing the granting of stock options reduces executive shareholder agency costs with the improvement of earnings quality. The positive association to earnings quality suggests earnings persistence and less likely earnings management similar to the findings of Dhaliwal, Salamon, and Smith (1982). These findings augment (Kanagaretnam et al. (2009)) study of executive compensation reducing shareholder agency costs and enhancing firm value.

Research Findings

This study examines the effect of CEO equity compensation, namely stock options and the quality of earnings. There are several important research findings resulting from this study. The results of this study display significance for earnings quality and stock option grants as part of CEO compensation.

One would expect to find a relationship between earnings quality and the granting of stock options as part of CEO compensation, thus justifying the rewarding of executives based on earnings quality. The first important finding relates to the positive association of earnings quality to the granting of CEO stock options as part of CEO compensation. The study finds the granting of stock options in CEO compensation package is positively associated with earnings quality.

Conclusion

This research presents a framework for the understanding of stock options as part of CEO compensation structure relating to earnings quality. The study provides evidence of the bonding effect and moderating effect of governance by examining earnings quality and granting of stock options. Evidence supports the hypothesis.

This study contributes to the literature in the area of executive compensation by examining the relationship between the granting of stock options as an element of CEO compensation and earnings quality. However, as the suggestions for future research indicate, the nature of CEO compensation and its relationship to earnings quality provides an opportunity for additional exploration. Future researchers may address some of these issues in further investigations. All of these contributions to the literature are positive and help further the study of earnings quality and the granting of stock options.

There are several recommendations for future research on earnings quality and stock options as part of the CEO compensation. This study uses sample data on an annual basis; future researchers should consider using quarterly or monthly sample data to examine the relationship between earnings quality and granting of stock options as part of CEO compensation. More detailed data may enhance the accuracy of the research results.

With the enactment of Sarbanes-Oxley Act in 2002, the impact on the relationship between CEO stock option compensation and earnings quality might require additional exploration. Future studies may examine the Act and any possible effects to this relationship.

This study focuses on CEO compensation; future studies might include research on executive and employee compensation, which may provide more objective information about compensation. Investigating stock options grants to all employees, not just the CEO, can be an interesting future study. To see if other long term compensation components affect earnings quality, such as restricted stock and phantom stock for example, might be a future area to investigate.

Additionally, reviewing the compensation committee characteristics may be a future research opportunity. Compensation committee characteristics such as independence, existence, experience, and education background may affect the stock options and other components of the CEO Compensation. To study the compensation committee's impact on earnings quality could be a future exploratory study.

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Discussion Questions

1. What would you recommend upon reviewing earnings quality to the CEOs of corporations?
2. Based on the findings of this study, what recommendations would you have to companies in the process of establishing CEO compensation?
3. What further studies would be valuable to enhance this research?

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Exposure – Miami Beach (2013)
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Ethical Attitudes toward Marketing Research Practices: A Cross-Cultural Study

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Abstract

Every department within an organization should consider the ethical issues related to its functions. Marketing departments, in general, and marketing research activities, in particular, are not an exception in this regard. Marketing research ethics is one of the most ignored and superficially studied areas of the discipline. The purpose of this cross-cultural study is a comparative examination of ethical attitudes of business students toward marketing research practices. Two groups of business students completed a self-administered questionnaire of 17 scenarios related to marketing research ethics, 151 students from Turkey and 149 students from the United States. The discussion includes implications of the results for marketing research ethics in terms of distinguishing differences and similarities between the two countries.

Keywords: marketing research practices, ethics, Turkey, United States

Introduction

Recent scandals have put a strong spotlight on questionable business practices worldwide. Although the business literature includes coverage of ethical issues in general, ethical issues for specific disciplines like marketing research are becoming more important. Schneider and Holm (1982) found heavy usage of unethical marketing research practices. In addition, the globalization of marketing agencies and marketing practices and the internationalization of the firms providing marketing services make it a good time to shed some light on the ethical differences and similarities among nations by implementing cross-cultural studies. This study, based partly on

Zinkhan and Milberg's (1995) research, is an attempt to evaluate the differences and similarities between the attitudes of business students from the United States of America and Turkey toward marketing research ethics.

Literature Review

Marketing is one of the most vulnerable business disciplines from the standpoint of ethics. Desmond (1998) states the following:

Either marketers have been notoriously unsuccessful at raising trade to a more moral level or they have achieved this but have failed to market this startling truth to the general public. On this score, they are damned either way: in the first instance by turpitude, in the second by ineptitude (p. 173)

While marketing was always open to ethical questions by some critics, marketing research ethics is one of the most ignored and superficially studied areas of the discipline.

Hunt, Chonko, and Wilcox (1984), referring to Baumhart's (1961) classic study on business ethics, emphasize the majority of ethical problems revealed in this study are mostly (five out of eight) related to marketing activities. Noticeably, this 1961 study covered no marketing research issues. Instead, these five marketing related business ethics problems focused primarily on competitive actions and some sensitive marketing mix elements such as price. The lack of attention to marketing research ethics demonstrates that, even though marketing is one of the distinguishing business ethics areas, marketing research ethics is still a neglected area. The ethicality of research is as important as its methodology (Tybout & Zaltman, 1974, p. 357).

Ethical issues involved in marketing research contribute to the overall quality of research (Handa & Vohra, 2010). The quality of marketing research may suffer if researchers ignore ethical issues. According to Malhotra and Miller (1998), ethics is an important issue for marketing researchers. In addition, marketing and marketing research often are combined using electronic mediums like e-mail and the Internet. At the same time, customer and respondent rights and privacy are also important concerns leading to a need for ethical practices (Ferrell, Hartline, & McDaniel, 1998). Professional groups in the United States (American Marketing Association, American Association for Public Opinion Research, Marketing Research Association) and the European Union (European Society for Opinion and Market Research) have established ethical standards for marketers (Bush, Smith, & Bush, 2013) and marketing researchers. Maintaining professional membership requires marketing professionals to adhere to these standards. Yet, membership itself is not obligatory, and standards are not universal. In addition, expansion of traditional marketing with the Internet and across cultures indicates a need for further study of the ethical issues related to marketing research.

The international dimension of marketing, in particular, may create more confusing ethical problems for marketing researchers. Residents from one country may consider an action ethical, while residents from another country may consider that same action unethical (Craig & Douglas, 2000). Although the business ethics literature is replete with many cross-cultural studies, there is a comparatively lower interest toward the more specific topic of marketing research ethics. Akaah (1990) emphasized the lack of cross-national studies in marketing research ethics stating that "all research ethics studies have reflected primarily the attitudes or

viewpoints of ‘domestic’ (United States) marketing professionals” (p. 45). He pointed out that, despite some cross national studies on general ethics, there was a lack of cross national studies directly on research ethics. Ten years later, Giacobbe and Segal (2000) were still emphasizing this problem stating that “the dearth of research on this topic is particularly disturbing since earlier studies have concluded that culture exerts an influence on decision making processes and ethical attitudes and behavior” (p. 232).

Giacobbe and Segal (2000) compared Canadian and U.S. marketing researchers’ attitudes, perceptions, and intentions related to several areas of ethical concern. They examined the relationships between familiarity, ethical intention, and salience. Despite the observed similarities, they found that Canadian and U.S. marketing researchers partly differ in terms of attitude, intention, and behavior. Canada has a cultural and national identity distinct from the United States, and these differences may impact ethical attitudes of marketing researchers.

Zinkhan and Milberg (1995) surveyed 279 students in three countries (Spain, Switzerland, and the United States) to explore cross-cultural differences in ethical judgments about deception in survey research. Zinkhan and Milberg (1995) introduced five broad moral principles (beneficence, justice, non-maleficent, non-deception, and nondiscrimination) to help respondents think about the ethical dilemmas they face. The respondents, from Spain and the U.S., were graduate students, while the respondents from Switzerland were equivalent to undergraduates. They found that for all five scenarios, a greater percentage of U.S. respondents disapprove of the unethical activities than their counterparts in other countries. Spanish respondents were least likely to disapprove of unethical activities. This study supports the importance of studying ethical situations in research across countries. It is likely, therefore, that researchers would find differences between the reported attitudes toward marketing research ethics for respondents from the U.S. and Turkey.

H1: Significant differences in reported attitudes toward marketing research ethics exist between respondents from Turkey and the United States of America.

Although researchers may find it difficult to think of marketing research ethics separately from marketing ethics, many authors have studied ethics under different responsibility areas. For example, Ferrell and Skinner (1988) point out that since participants (data subcontractors, research firms, and corporate research departments) have different objectives; ethical topics in marketing research require a special analysis. Malhotra and Miller (1998) argue that “ethical dilemmas surrounding marketing research frequently revolve around the ‘stakeholders’ in the research, namely the general public, the actual respondents used in a study, the client, and the researcher” (p. 264). Ethical issues in marketing research come from the relationships between the people involved in the research process. This includes the respondent, the client, and the researchers (Akaah & Riordan, 1990). Each of these parties has its own responsibilities toward more than one party, most of the time in an intermingled network of relationships. Researchers should treat respondents fairly and honestly, and researchers should collect accurate and reliable data for the hiring client (Akaah & Riordan, 1990; Constantinescu, 2011).

One of the first studies to consider marketing research ethics is Crawford’s (1970) study. It is one of the most replicated studies in the marketing research ethics field. In his study, Crawford used 14 scenarios distributed to marketing executives and researchers to determine if these two groups reported differing attitudes. Crawford (1970) grouped the scenarios under the

headings of Selected Research Techniques, The Role of The Marketing Research Director, and Today's Social Concerns. Many later studies on ethical marketing issues also have used Crawford's scenarios. For example, Akaah and Riordan (1990) examined the changes in marketing professionals' research ethics using Crawford's (1970) study as the benchmark. Akaah and Riordan (1990) then extended Crawford's research by examining the influence of organizational factors as determinants of ethical judgments. Akaah and Riordan (1990) compared their findings to those Crawford's original study reported. They found 15 significant shifts (out of a total of 22 comparisons) in research ethical judgments. The present study includes four scenarios Akaah and Riordan (1990) cite.

Sometimes researchers may experience an ethical conflict among the parties involved in the marketing research process. If a researcher corrects one unethical situation, a second unethical situation may arise for another party. Marketing researchers may find it difficult to satisfy all groups and individuals concerned. For instance, Giacobbe and Segal (2000) emphasize that "the researcher has a direct and implied responsibility to several constituents (e.g., client, firm, self, respondent, other clients, public) simultaneously" (p. 229). The task of a marketing researcher should be finding a balance between the conflicting values. Researchers should consider that there may be mutual ethical considerations for each relationship (above). For instance, both researcher and participant have mutual ethical responsibilities to each other. Since each of these areas of marketing research are important in the study of marketing research ethics, the study of perceptual similarities and differences between the groups of students from Turkey and the United States toward each and every relationship among the research parties is of interest.

H2: Significant differences in reported attitudes concerning researcher - research participant ethics exist between respondents from Turkey and the United States of America.

H3: Significant differences in reported attitudes concerning researcher - client ethics exist between respondents from Turkey and the United States of America.

H4: Significant differences in reported attitudes concerning researcher - public ethics exist between respondents from Turkey and the United States of America.

Methods

Procedures

Respondents from two different university samples of business students in Turkey and the United States of America completed a self-administered questionnaire consisting of 17 scenarios related to marketing research ethics. All of the students were familiar with marketing and marketing research practices. Survey directions asked students to share their attitudes concerning marketing research practices. The instructions and the introduction letter did not refer to ethics. Research assistants distributed the questionnaires at the beginning of classes. Participation was voluntary, and anonymous, and participation or lack of did not impact student grades. All students who were present during survey distribution agreed to participate.

Researchers designed the sampling frame to ensure demographically (age, gender, education, and work experience) similar groups of respondents from each country by selecting matching course sections and programs. For example, traditionally aged (ages 18 to 22 years old) college students, with little or no work experience, are more likely to attend classes scheduled during the weekday. While older students, typically employed full time, are more likely to attend classes scheduled nights and weekends.

Researchers used the back translation method by translating from English to Turkish and then from Turkish to English before distribution to the Turkish respondents. Although this method has some limitations and problems (Craig & Douglas, 2000, p. 214), due to the sensitivity of wording of scenarios on ethics and different development levels of two countries under study, it was a required process. Researchers made minor corrections after the translations.

Sample

Research assistants collected a total of 300 surveys, 151 from Turkish respondents and 149 from U.S. respondents. The mean age of the students from the Turkish group was 23.15 (s.d. = 2.89), compared to 27.08 years (s.d. = 7.42) for the U.S. group. Slightly less than half of both the Turkish (44%) and U.S. (47%) groups were male. Eight U.S. respondents failed to report their gender. For the Turkish sample, 41.7% of the students were currently working. As for the U.S. sample, 69.1% of the students were currently working. The average work experience for working students was 3.06 (s.d. = 2.93) for the Turkish students and 3.13 (s.d. = 3.23) years for the U.S. students. In terms of education, the two groups were quite similar: 58% (58.3% Turkey; 57.7% U.S.) of both groups were undergraduate students while 42% (41.7% Turkey; 42.3% U.S.) of both groups were graduate students.

Marketing Research Scenarios

The purpose of this study was to determine how business students evaluate various ethical scenarios related to marketing research on a five point scale ranging from 1 (disapprove) to 5 (approve; Zinkhan & Milberg, 1995). The survey included seventeen marketing research specific ethical scenarios (see appendix). The scenarios included those previously studied or newly created to cover every relationship among the research parties (researcher - research participant; researcher - client; researcher - public). The reliability of the measures (Cronbach's alpha = 0.68) was marginally acceptable to consider the items grouped. However, researchers tested the items individually to be better able to uncover differences between the countries.

Results

Analysis

Before hypotheses testing, researchers analyzed the data to determine the relation between gender and respondent attitude towards unethical marketing research practices. The findings indicate that while overall male and female responses did significantly differ on some items (2, 3, 4, 6, 7, 11, 14, and 16), the observed differences are also within countries. That is, Turkish female respondents reported less acceptance of some (items 2, 5, 6, 7, 11, 16) unethical

research practices than did Turkish male respondents, and U.S. female respondents reported less acceptance of some (3, 4, and 14) unethical research practices than did U.S. male respondents. The preliminary findings also indicated that the differences between Turkish female and U.S. female respondents (items 2, 4, 5, 8, 15, and 17) and between the Turkish male and U.S. male respondents (items 2, 5, 8, 10, 13, 14, 15, and 17) were the same differences found when comparing the entire sample from Turkey to the entire sample from the U.S. Based on these findings and the close match in gender ratios between the two groups, researchers concluded that country scores combined for gender were suitable for hypotheses testing.

For hypotheses testing, researchers conducted a t-test (at the 0.05 probability level) to identify the differences in ethical attitudes between the Turkish and the U.S. students toward marketing research practices (see Table 1).

Table 1
Marketing Research Ethics by Country
Descriptive statistics and t-test of two means

Scenario	Turkey n = 151		U.S. n = 149†		t value	d.f.	P
	Mean	s.d.	Mean	s.d.			
1*	2.36	1.26	2.05	1.31	2.06	298	.04
2*	1.87	1.04	1.54	0.95	2.87	298	.00
3	3.87	1.14	3.69	1.39	1.24	298	.22
4	4.05	1.01	3.80	1.24	1.94	298	.05
5*	2.58	1.22	1.87	1.22	5.10	298	.00
6	1.54	1.06	1.40	0.97	1.20	298	.23
7	3.15	1.22	3.33	1.32	-1.25	298	.21
8*	3.03	1.23	2.39	1.35	4.27	298	.00
9	1.87	1.23	2.04	1.21	-1.18	298	.24
10*	3.02	1.17	2.62	1.29	2.83	298	.01
11	2.86	1.15	2.72	1.20	1.05	298	.29
12	1.99	1.10	2.11	1.19	-0.96	298	.34
13*	1.55	1.00	2.00	1.13	-3.65	298	.00
14*	3.24	1.31	3.54	1.30	-1.98	298	.05
15*	1.87	1.02	2.60	1.35	-5.24	298	.00
16	2.88	1.29	2.97	1.34	-0.56	298	.57
17*	2.36	1.04	2.85	1.08	-3.99	297	.00

†U.S. sample size for scenario 17 is 148. *Average response significantly different by country. Researchers calculated the sum of the test statistics assuming group variances are not equal.

Hypothesis 1

Hypothesis 1 proposed that there would be significant differences in reported attitudes toward marketing research ethics between respondents from Turkey and the United States of America. The results indicate that there were significant attitude differences between the Turkish and U.S. students for 9 of the 17 items (see Table 1). Turkish students reported significantly greater approval for items 1, 2, 5, 8, and 10 and U.S. students reported significantly greater approval for items 13, 14, 15, and 17. Given that the findings indicate significant differences in reported attitudes toward marketing research ethics for 9 of the 17 scenarios, the researchers find support for hypothesis 1.

Hypothesis 2

Hypothesis 2 proposed that there would be significant differences in reported attitudes concerning researcher - research participant ethics between students from Turkey and the United States of America. The results indicate that there were significant attitude differences between the Turkish and U.S. students for 4 of the 8 items (see Table 1) concerning the researcher – research participant relationship. Turkish students reported significantly greater approval for items 1, 2, 5, and 8. Given that the findings indicate significant differences in reported attitudes concerning researcher - research participant ethics for 4 of the 8 scenarios, the researchers find support for hypothesis 2.

Hypothesis 3

Hypothesis 3 proposed that there would be significant differences in reported attitudes concerning researcher - client ethics between students from Turkey and the United States of America. The results indicate that there were significant attitude differences between the Turkish and U.S. students for 3 of the 6 items (see Table 1) concerning researcher – client relationships. Turkish students reported significantly greater approval for item 10 and U.S. students reported significantly greater approval for items 13 and 17. Given that the findings indicate significant differences in reported attitudes concerning researcher - client ethics for 3 of the 6 scenarios, the researchers find support for hypothesis 3.

Hypothesis 4

Hypothesis 4 proposed that there would be significant differences in reported attitudes concerning researcher - public ethics between students from Turkey and the United States of America. The results indicate that there were significant attitude differences between the Turkish and U.S. students for 2 of the 3 items (see Table 1) concerning researcher – public relationships. U.S. students reported significantly greater approval for items 14 and 15. Given that the findings indicate significant differences in reported attitudes concerning researcher - public ethics for 2 of the 3 scenarios, the researchers find support for hypothesis 4.

Discussion

Researcher - Research Participant Ethics

Scenarios one to eight described the relationship between the researcher and the respondent. The U.S. students indicated lower levels of approval for those marketing research techniques that appeared to violate the individual privacy of the respondents. These scenarios (1, 2, and 5) all describe situations where the research techniques violate the respondents' confidentiality or anonymity. For the most part, the U.S. students placed higher importance on an individual's right to privacy and the right to select who has access to the research respondent's information. However, in one scenario, item 6, both the U.S. and the Turkish students indicated strong levels of disapproval. This case violated the personal privacy of a woman without her knowledge. This scenario differs from the earlier three examples because in the earlier scenarios, the respondent does initially agree to some level of participation. In these three scenarios (1, 2, and 5), the U.S. students reported that they believed using the respondent's information, beyond what the respondent had initially agreed to, was less acceptable than did the Turkish students. However, in scenario 6, the research respondent had not initially agreed to participate in a research study. Thus, the findings indicated that both the Turkish and U.S. students felt very strongly that it is not acceptable for researchers to secretly observe a woman while changing undergarments in a store dressing room. In fact, both student groups rated this item as the least acceptable of all 17 items.

Scenarios 3, 4, and 7 all describe situations in which the researcher uses some type of trick to mislead the respondents. In each of these cases, findings indicate no differences between the reported student attitudes from Turkey and the United States. In fact, on average, students reported that the use of misleading or the withholding of information by the researcher was an acceptable practice. Both the Turkish and U.S. students rated these three items (along with item 14) among the four most acceptable items.

The last item (item 8), which was based on the relationship between the researcher and the respondent, described a situation in which a phony research project obscured a sales ploy. Although this scenario may seem more appropriate for a sales ethics study, using research as a cover for selling is a marketing research issue in the literature. In this case, there were no actual research goals. The survey was a way to obtain entry into the respondent's home so the sales representative might pitch the organization's product. The Turkish students indicated significantly greater levels of acceptance for this sales tactic than did the U.S. students. It may be the U.S. students felt this sales ploy is a violation of individual rights similar to items 1, 2, and 5. In addition, the reason why Turkish students indicated significantly greater levels of acceptance for this item may stem from the fact that many firms in Turkey continue to practice similar sales techniques. Many firms in Turkey still are sales oriented, compared to a marketing orientation common in the United States of America. In this regard, it would not be unusual for Turkish students to face such a sales ploy in their daily life. In all four of these scenarios, the respondent initially agrees to one set of circumstances, only to have those circumstances changed later without approval.

Researcher - Client Ethics

Scenarios 9 to 13 and 17 described the relationship between the researcher and the client (person or organization who hired the researcher to perform specific research responsibilities). Three scenarios describe situations in which the researcher treats the client unfairly. In item 9, the researcher takes advantage of the client's lack of expertise with the research process and adds unnecessary statistical techniques to the proposal to inflate the bill. In item 11, the researcher accepts a job without having the necessary experience to do it well; and in item 12, the researcher submits a bid much lower than the actual anticipated expense in order to win the order. The results indicate that the Turkish and U.S. students shared similar attitudes, with both groups responding that these tactics are unacceptable. However, results indicate differences for item 10. Scenario 10 described a situation in which the client treated the research firms unfairly. In this situation, the client solicited research proposals for the sole reason to copy the presented ideas. In scenario 10, there was never the intent to actually hire one of the research firms submitting the proposals. In this situation, the students from Turkey reported this action was significantly more acceptable than did the students from the U.S. Again, it may be the students from the U.S. believed there was a violation of the individual rights of the research firms.

Items 13 and 17 also described the relationship between the researcher and the client. These scenarios describe situations in which the marketing research firm conducts or agrees to conduct research that lacks scientific rigor. In item 13, the request for the poorly designed research study comes directly from the client manager who desires to hire the research firm to justify a previous decision. The client manager knows he is not purchasing actual research in item 13. This differs from item 17, in which the researcher simply selects a scientifically inadequate sample and offers the results to the client, as if the conclusions are sound. For both of these items, the Turkish students indicated these practices are less acceptable than did the U.S. students.

Researcher - Public Ethics

Scenarios 14, 15, and 16 described the relationship between the researcher and the public. The scenario in item 14 describes a situation in which market researchers intend to collect data to market tobacco products to nonsmokers. In some areas of the world, it may be socially unacceptable to advertise cigarettes to draw nonsmokers. The results indicate the Turkish students believed this practice is less acceptable than did the U.S. students. Items 15 and 16 describe situations in which the research firm publicly releases misleading conclusions. In item 15, the conclusions are faulty because the sampling design is poor, and in item 16, the conclusions are misleading because of hidden results. For item 15, the U.S. students indicated that this practice is more acceptable than did the Turkish students. Turkey has experienced similar situations within their actual election process. In recent years, political parties (and political figures) are among the least trusted institutions. Political upheavals, bribery, and corruption have created a social reaction against politics in the eyes of the public. This may be the reason for Turkish students reporting significantly lower approval levels for item 15. Also, it would appear that the U.S. students' concern for the individual may not extend to the public at large. The results indicate no differences between the Turkish and U.S. students for item 16. Both groups indicated moderate levels of approval for withholding some of the research results from the public.

Of the 17 scenarios studied, four described situations in which the researcher fails to follow high scientific standards (13, 15, 16, and 17). In each of these scenarios, the researcher violates the professional standards of the marketing research profession. These violations may have been at the request of the paying client (as in item 13), or in an attempt to mislead the client (item 17) or the general public (items 15 and 16). The results indicate the Turkish students reported lower levels of approval for these practices. This study considered only three ethical areas of professional standards (respondent, client, public). This coverage may not encompass every area of importance for marketing research ethics. There may be situations in which the unethical action violates other professional standards. This topic of professional standards in the marketing research field may be an interesting area for future research.

In overall evaluation, one of the interesting findings is for most of the (7 out of 8) researcher - research participant relations scenarios, Turkish respondents indicated more approval than did U.S. respondents. All of the statistically significant differences for this category reflect more approval from Turkish respondents than from the U.S. respondents. In contrast, U.S. respondents indicated more approval than did Turkish respondents for all researcher - public ethical scenarios. This result suggests that Turkish respondents are more sensitive to researcher - public ethics, while the U.S. respondents are more sensitive to researcher - research participant ethics. In this regard, U.S. respondents are more worried about the violation of individual rights, and Turkish respondents show less tolerance to publicly related ethical issues.

Conclusions and Recommendations

Business students who were familiar with marketing and marketing research practices from Turkey and the U.S. evaluated 17 marketing research ethics scenarios. These seventeen scenarios included three subheadings: researcher - research participant ethics, researcher - client ethics, and researcher - public ethics. According to the results of this study, business students do not strongly support many of the respondents' rights. For example, neither the Turkish nor the U.S. students believed there was a problem with hiding the true intent of the research process. In addition, Turkish students placed little importance on the individual rights of privacy or anonymity of respondents once they agreed to participate in a marketing research study. The adage "buyers beware" or in this case "respondents beware" seems more representative of many of the students' attitudes shared in this study.

This study provides evidence that U.S. respondents are more sensitive to individual rights, whereas Turkish respondents are more sensitive to public rights. Considering the internationalization of many marketing research firms that mostly practice a "follow your client" approach, marketing research firms should reassess the ethical priorities of their host countries.

Like many other studies, this study has some limitations as well. Researchers tested the scenarios separately, rather than using the grand mean of all items combined. Statistically, single item measures are not ideal. Half the differences found in the items were higher for Turkey and the other half higher for the U.S. A combined grand mean would have blurred these differences, returning a result of no differences between the two countries. In addition, using a convenience sample of business students is also a limitation of this study. However, using student subjects is not an uncommon method in cross-cultural ethics research (see Brody, Coulter, & Mihalek, 1998; Zinkhan & Milberg, 1995; and many others). An understanding of perceptual and attitudinal differences between students of different countries and different cultures is important

in considering the globalization of economies. Although researchers have studied the ethical perceptions of students in many areas, marketing research ethics is one of the most neglected fields in this regard. As future industry leaders, students will greatly impact business operations, and the marketing research field is no exception in this regard.

Although the authors tried to cover all of the marketing research ethics theory, it is possible that the authors missed some ethical dimensions in this study. For example, Schmidt, Krause, and Solgaard (2012) discussed the benefits of marketing research using latent fingerprints as evidence of reading print media over that of survey methods directly asking respondents if they had read the advertisement. However, Schmidt et al. (2012) did not address the potential ethical issues concerning the technique. Another limitation of this study is disregarding the curriculum (whether there are any ethics courses or not) and disregarding the emphasis of ethical issues in marketing research courses (see Ferrell & Keig, 2013 and Handlin, 2012 for a recent discussion of marketing ethics education). Even though there were research related courses at both universities, the coverage of ethics varies depending on the lecturer, course, and textbook. Thus, researchers were unable to compare the coverage of research and research ethics for the students from Turkey and the U.S. in the realm of this study. This is another area which may benefit from future research.

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Appendix

1. The Director of a Marketing Research Firm has collected information from a sample group for a certain project. Later on, a new firm has requested information about this sample group (which includes their names, addresses, phone numbers, e-mails and demographics) to use for its future marketing campaign. The Director of the Marketing Research Firm has given this information to the new company. (Source: Developed by the authors).
2. A Project Director went to the Marketing Research Director's office and requested permission to use an ultraviolet ink to secretly write the name of the respondent on the questionnaire for a mail survey. The Project Director pointed out that although the cover letter promised confidentiality, respondent identification was needed to permit adequate cross tabulations of data. The Marketing Research director gave approval. (Source: Crawford, 1970; as used in Zinkhan & Milberg, 1995).

3. In order to decide whether consumers choose brands by taste or psychological factors, a soft drink company conducted a blind test with four unmarked glasses of Cola. Participants were to taste them first and then choose their favorite one. Although most of the participants stated that each glass of Cola was different, and they were sure that they had found their favorite brand; actually all of the 4 glasses of Colas contained the same brand. (Source: Adapted from Churchill, Jr., 1999).
4. The Marketing Manager of a manufacturing company wants to increase its selling price and has hired a marketing research firm to conduct a survey to determine the maximum price that customers would be willing to pay for the product. Considering that answers to this survey might change if the goal and sponsor of this research is explained to the respondents, the Marketing Manager requests that the goal and the sponsor of the survey remain anonymous. The Marketing Research firm accepts this request. (Source: Adapted from Churchill, Jr., 1999).
5. In a study intended to probe deeply into the buying motives of a group of wholesale customers, the Marketing Research Director authorized the use of the department's special attaché cases equipped with hidden tape recorders to record the interviews. (Source: Crawford (1970; as used in Zinkhan & Milberg, 1995).
6. One of the products of X Company is brassieres. Recently, the company has been having difficulty making decisions on a new product line. Information was critically needed regarding how women put on their brassieres. The Marketing Research Director therefore designed a study in which two local stores installed one-way mirrors in their dressing rooms. Observers behind these mirrors successfully gathered the necessary information. (Source: Crawford, 1970; as used in Zinkhan & Milberg, 1995).
7. A Marketing Research Department wanted to interview a sample of customers about their reactions to a competitive product. They decided to invent an innocuous name (i.e. "The Marketing Research Institute") to interview people. This name change effectively camouflaged the identity of the sponsor of the study and resulted in higher response rate. (Source: Crawford, 1970; as used in Zinkhan & Milberg, 1995).
8. A new Sales Manager was appointed for an encyclopedia company. The Sales Manager observed that a common way for encyclopedia representatives to get into homes was to pretend they were taking a survey. After finishing the survey, they switched to their sales pitch. This technique seemed to be very effective and was used by most competitors. The new Sales manager decided to adopt this survey/sales-pitch tactic for her sales force. (Source: Zinkhan & Milberg, 1995).
9. The Director of a Marketing Research firm realizes that its client, a medium sized firm, does not have an in-depth knowledge about marketing research procedures and marketing research techniques. In order to inflate the bill, the Research Director offers some unnecessary advanced statistical techniques in the research proposal. The Client Firm accepts the research proposal. (Source: Developed by the authors).
10. A General Manager of a mid-sized firm wants to introduce a new product into the market and does not know what kind of research would be suitable for this action. The General Manager requests proposals from some Marketing Research Firms. After examining the proposals and learning what to do, the General Manager rejects all the proposals and starts the research with an inside team based on the ideas included in the proposals. (Source: Adapted from McDaniel & Gates, 2002).

11. A Construction Firm requests research to describe industrial customer profiles from a Marketing Research Firm which specializes in consumer research. The Marketing Research firm has never done this type of research before and is inexperienced in this area. However, the Director of the Marketing Research firm accepts the job. (Source: Developed by the authors).
12. The Director of a Marketing Research firm has under quoted a price of \$5000 U.S. which is very low for a focus group in terms of average market prices. Knowing that this is a low bid, the plan is to add the extra costs such as, renting video and audio equipment and payments to participants, to the bill afterwards. (Source: Adapted from McDaniel & Gates, 2002).
13. The General Manager of Firm X asks a Marketing Research Firm to conduct a survey to justify his decisions. The Executive of the Marketing Research firm says "Don't worry. You'll get a research report supporting your decisions as soon as possible." (Source: Developed by the authors).
14. In order to finalize the theme of a new advertising campaign which will target nonsmokers, a tobacco company hires a Marketing Research Firm. The Director of the Marketing Research Firm accepts the business and starts nationwide marketing research. (Source: Adapted from Burns & Bush, 2000).
15. A Research Firm conducting a survey for a political party just directs its research in areas where this political party is more popular compared to the others. Afterwards, the Research Firm sends the results of this research to newspapers upon request from its client. (Source: Developed by the authors).
16. A Manufacturer of pain killer branded "B" had its Marketing Research Department conduct a survey among doctors to investigate the medicine doctors would be most likely to recommend when treating a patient with a cold. The question asked doctors to pick the one product they would most likely prescribe for their patients. The distribution of responses was as follows:

Competitor Brand	A 100
Our Brand	B 300
Competitor Brand	C 100
<u>None of the Three</u>	500
Total	1000

The Firm used these results as a basis for an extensive ad campaign that claimed: "In a national survey, doctors recommended our brand three to one over competitor brand A and competitor brand C for cold treatments." (Source: Adapted from Churchill, Jr., 1999).

17. Working on detergent consumption patterns, XYZ Marketing Research Company executes four focus group studies with ten people each for a client. The Marketing Research Firm prepares a report based on the above mentioned four focus group studies with a generalized style as if the results of these four focus groups reflect the attitudes of all consumers. (Source: Developed by the authors).

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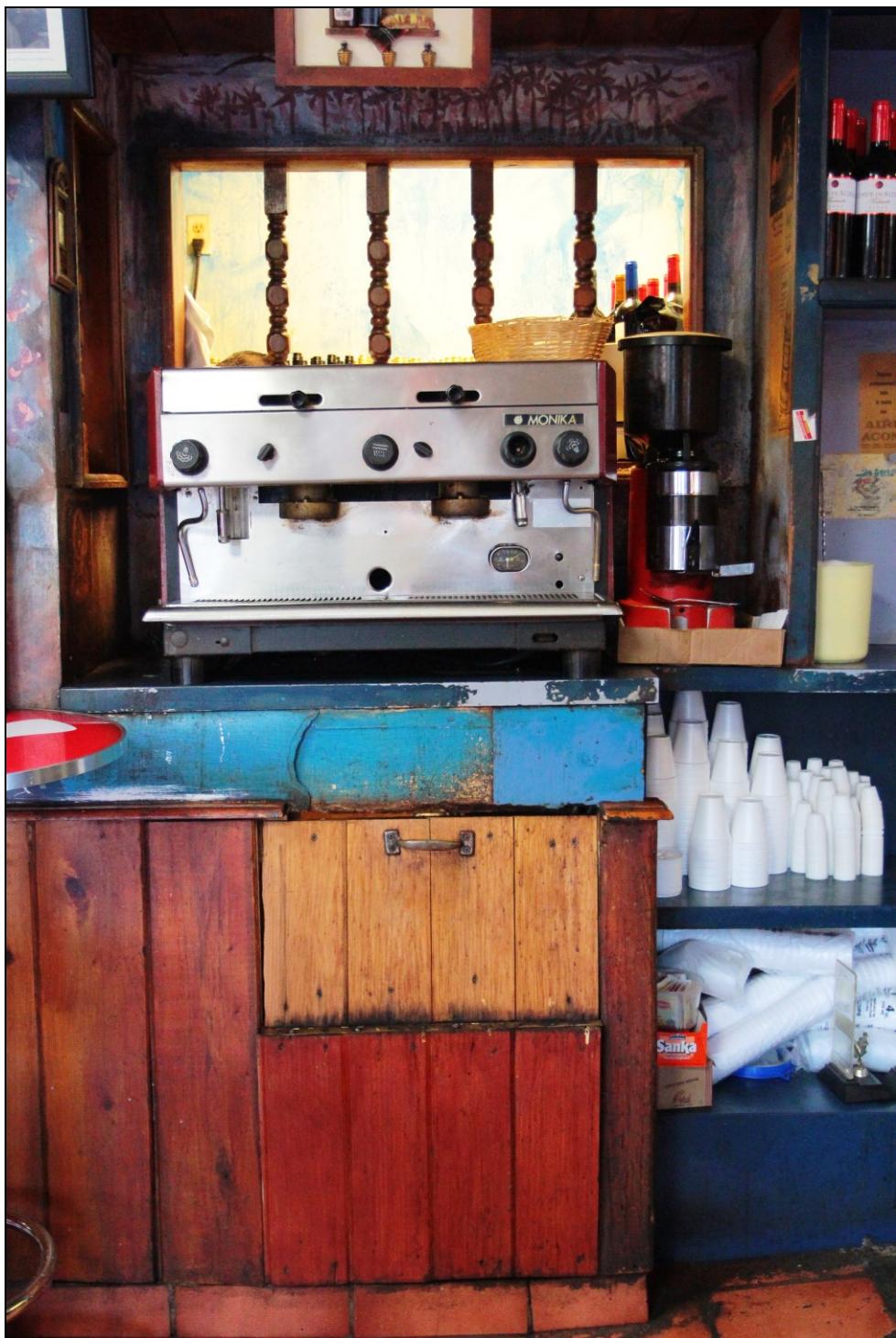
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Discussion Questions

1. Consider each of the scenarios presented in the appendix; which describe marketing research techniques you find unethical?
2. Why do you think marketing research ethics is an under-studied field?
3. Based on the results of this study, what recommendations would you have for international marketing researchers?
4. Can you think of other marketing research practices that might be unethical?

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A Case Study on Adjustment to Divorce among Older Hispanic Adults in Miami-Dade, Florida

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Abstract

The number of older Hispanic adults who experience divorce in late-life is growing. Nonetheless, the literature has failed to represent this population by publishing general research methodologies that cannot successfully and accurately describe their reality. Mental health professionals find contradicting and confusing views regarding their experience of divorce. This article presents a qualitative case study based on the perspectives of 12 older Hispanic adults in Miami-Dade, Florida, who experienced divorce in late-life. An analysis of the data reveals that older Hispanic adults perceive their divorce as a challenge and the best alternative to a dysfunctional relationship as well as the only way to reach peace and happiness.

Keywords: family life, divorce adjustment, older Hispanics, challenges, religiosity

Introduction

Research on divorce has been a major topic of controversy and scholarly interest for decades (Amato, 2010; Zhang & Van Hook, 2009). One of the reasons for this interest is the serious consequences of divorce and the elevated number of individuals it affects nationwide. Experts claim that a quarter of all first marriages end in disruption by their eighth year (Pinsof, 2002), and half or more of all marriages end sometime after that (Rohde-Brown & Rudestam, 2011).

In 1998, about 85% of all relationships ended in divorce after 20 years of marriage, just in the state of Florida (Pinsof, 2002). Now, more than 23% of the total population is divorced in the city of Miami alone (U.S. Census Bureau, 2011). Experts predict that up to 65% of all marriages in the nation will end in divorce (Christenson, Zabriskie, Eggett, & Freeman, 2006; Rohde-Brown & Rudestam, 2011). Many of these divorces will take place within the Hispanic population as Hispanics continue to increase in numbers and stressors for this population group

affect marital stability (Amato, 2010; Zhang & Van Hook, 2009).

Wu and Schimmele (2007) affirmed that older adults are divorcing more than ever before even though the likelihood of being married is supposed to increase with age. In 2001, approximately 300,000 people in the United States age 55 or older experienced divorce or separation. In 2004, 64% of those 65 and older ended their marriages after ten or more years, while 32% did the same after 20 or more years.

Regardless of the seriousness of the problem and the large body of literature on the subject of divorce (Amato, 2010; Krumrei, Mahoney, & Pargament, 2009; Meltzer, 2011), the literature has failed to represent Hispanics and older adults in research and has published general research methodologies (e.g., longitudinal studies) that cannot successfully and accurately describe the reality of these groups' experiences with divorce (Silverstein & Giarrusso, 2010). The present study bridged this gap by increasing knowledge concerning the experience of Hispanics who experience divorce in late-life and by using case study as the research method that enabled participants to tell their stories in their own words.

Literature Review

Most literary publications focus on the negative aspects of divorce (Hughes & Waite, 2009; Meltzer, 2011); however, many experts affirm that adjustment post-divorce is possible (Amato, 2010; Qualls, 2008). More than adjustment, there is potential for growth and development (Leighman, 2009; Meltzer, 2011). There is also a chance for self-fulfillment and happiness after divorce (East, Jackson, Obrien, & Peters, 2010). Experts disagree about the specific contributors to adjustment. Some explain that certain realities, such as initiating the divorce, foster adjustment (Wang & Amato, 2000) while others maintain that adjustment is not related to who initiates the divorce (Sweeper & Halford, 2006). Experts agree that more than half of the married Hispanic population eventually divorces (Oropesa & Landale, 2004; Pinsof, 2002) and that this number will continue to increase as older adults end their marriages to fulfill new life goals (Wu & Schimmele, 2007).

Wu and Schimmele (2007) explained that, until recently, first marriages that ended in divorce lasted an average of about eight years with an average age of 39 for males and 37 for females. Despite the number of years married, these ages are now increasing and people are divorcing at older ages. Up to 7% of divorced individuals are between 55 and 59 and 4% of them are over 60. In 2001, approximately 300,000 Americans age 55 and older were divorced or separated and the numbers will increase as older adults grow apart from their spouses, decrease their levels of commitment, and ultimately want a personal change (Amato, 2010; Wu & Schimmele, 2007). At the turn of the century, about 85% of all relationships ended in divorce after 20 years of marriage in the state of Florida (Pinsof, 2002).

The number of divorcees will continue to increase within the Hispanic population due to immigration and acculturation issues (Amato, 2010). Immigration increases marital instability among Hispanics as they marry into different ethnic or racial groups (Amato, 2010). Acculturation equally contributes to divorce as Hispanics adopt Western (more individualistic) values and cultural practices emphasizing self-fulfillment and happiness and disregarding traditional values placed on the family unit (Christenson et al., 2006).

Outcomes of Divorce

Divorce is a stressful transition in life involving emotional crises, behavioral changes, and overall chaos (Amato, 2010; Bodenmann et al., 2007). Divorce affects individuals by destroying relationships within the family unit, frequent arguments and conflicts between spouses, emotional and financial losses, and a number of other negative life events, such as having to move (Amato, 2010; Goodkind, Gonzales, Malcoe, & Espinosa, 2008; Padilla & Borrero, 2006). Many divorced individuals suffer from unhappiness, poor self-concepts, and social isolation (Amato, 2010). They report symptoms of physical and mental health issues, including anxiety and depression (Amato, 2010; Hughes & Waite, 2009; Sweeper & Halford, 2006).

In contrast, individuals who experienced extreme distress during their marriage show reduced symptoms of depression after divorce (Amato, 2000). Those who struggled with frequent conflicts and problems during the marriage can function generally well later. More than reduced distress and improved functioning, Amato (2010) affirmed that divorce involves benefits and positive changes including higher levels of autonomy and personal growth for divorced individuals.

Family Stress and Coping as the Theoretical Approach to Divorce Adjustment

According to Wang and Amato (2000), the *family stress and coping theory* stipulates that divorce adjustment involves the following: (a) the ability to cope with stressors, (b) the availability of social resources, (c) decreased level of attachment to the ex-spouse, and (d) positive perceptions regarding the divorce experience. These conclusions guided data collection and analysis in the present study.

Stressors for Hispanics. Immigration and acculturation are periods of extreme stress for first-generation Hispanics; however, not every Hispanic has the flexibility or tolerance of new practices (e.g., economic independence for women) to succeed in the new cultural and social environments encountered in the U.S. (Christenson et al., 2006). Researchers affirmed that the number of stressors increased with the time Hispanics spent in the U.S. as they seek services they cannot receive and opportunities they cannot reach (Goodkind et al., 2008). Among all Hispanics, immigrant women suffer higher levels of stress than men (Dew, 2009). Women suffer greater economic losses during divorce (Dew, 2009). They also suffer from cultural conflicts as well as family and household issues such as parenting and working outside the house (Salgado de Snyder, Cervantes, & Padilla, 1990).

Resilience among Hispanics. Parra-Cardona, Cordova, Holtrop, Villarruel, and Wieling (2008) encouraged family therapists to be aware of the powerful “sense of resilience,” which increases Hispanics’ sense of commitment and “constitutes a unique motivation in their lives that fuels their sense of resolve in the midst of adversity” (p. 170). The authors asserted that, instead of focusing on the hardship or challenge, foreign-born Hispanics are able to adapt to stress and adversities in the U.S. resulting from acculturation, discrimination, and changes in gender roles among others. According to the scholars, Hispanics develop resilience by devising new and diverse life goals, imagining a better life in the future, committing themselves to pursuing new goals, and developing social relationships for support.

Social Resources for Hispanics. Russell and Taylor (2009) explained the positive relationship between social support among older Hispanic adults and their ability to adjust post-

divorce. The researchers drew data from a community-based research that involved four ethnic groups in Miami-Dade County, Florida, including Cubans and other Hispanics. Results showed that perception of support received from family and friends affected how older Hispanic adults reacted to living alone and to the chances of suffering from depression. Vukalovich and Caltabiano (2008) proposed that participation in community group interventions improves adjustment to divorce by providing needed social and emotional support.

Attachment and Adjustment. Mandelbaum (2011) stated that adjustment and personal happiness after divorce are possible only when the divorced individual forms a new bond (or attachment) to another person. Mandelbaum explained that divorced individuals must go through a process of detachment from the ex-spouse, reorganization of life goals, mourning the loss of the attachment figure, and re-stabilization of internal working models in order to adjust.

Perceptions and Adjustment. Sweeper and Halford (2006) conducted a longitudinal study measuring the influence of perceptions on divorce adjustment. The researchers measured three psychological challenges for divorcees: the loss of an intimate partner, loneliness, and coordination of parenting tasks. Other experts added that adjustment depends on the individual's perceptions of divorce in general and perceptions of loss in particular (Baum, 2003; Bernstein, 2007).

Accepting losses. According to Bernstein (2007), individuals reach adjustment when they are capable of overcoming losses, developing relationships with low to no attachment to the ex-spouse, making sense of the experience, and ascribing new meaning to the divorce experience. Bernstein also emphasized that the ability to forgive oneself and others promotes divorce adjustment and feelings of self-worth.

Cultural Challenges

Hispanics' cultural values, attitudes, and practices either help or hinder their recovery from stress. These include machismo, familism, and religion. The researcher examined these cultural practices.

Machismo. Pardo, Weisfeld, Hill, and Slatcher (2012) define machismo as a collection of personality traits that relate to masculinity. Specific gender roles shape these traits. Machista individuals need to be tough or the only decision maker. Oropesa and Landale (2004) argued that the Hispanic culture has changed its views regarding marriage as a "rigid, hierarchically organized institutional arrangement characterized by extreme gender segregation" (p. 914) in which husbands dominate and wives obey. According to these experts, Hispanic couples now develop more companionate and modern relationships in which they trust and help one another while satisfying emotional and sexual needs.

Familism. Familism emphasizes the creation and maintenance of cooperative and close family relationships and makes Hispanics value marriage more so than other population groups, including non-Hispanic Whites (Ganong & Coleman, 2006; Oropesa & Landale, 2004). Christenson et al. (2006) affirmed that Hispanics consider the family as "the single most important institution" (p. 476). Older generations of Hispanics transmit this emphasis on the supportive role of the family and the community to younger generations (Parra-Cardona et al., 2008). Coleman, Ganong, and Rothrauff (2006) added that the concept of the family (*la familia*) means Hispanics place the needs of the family above individual wants and needs. Familism also relates to loyalty, solidarity, cohesion, and reciprocity with nuclear and extended family members

as well as viewing the family as an important source of emotional support (Cabassa, Lester, & Zayas, 2007).

Religion and Adjustment

Religion (or spirituality) is a powerful determinant of adjustment for most divorced individuals (Arango-Lasparilla et al., 2009; Krumrei et al., 2009). Religious commitment and affiliation can benefit the divorcees' health and well-being by helping them find the strength to endure (Lehrer, 2004) as well as purpose and meaning in challenging circumstances (Ellison, Wolfinger, & Ramos-Wada, 2012). It influences the way in which people appraise and respond to stress (Ellison et al., 2012).

Religious struggle or coping. Krumrei et al. (2009) claimed that the effects of religion could be either positive or negative. Even though some divorced individuals consider their divorce a sacred loss or desecration (the loss of something that comes from God) and experience spiritual struggles (believing God was punishing them), the majority engage in "adaptive spiritual coping" (p. 373). This coping contributes to better adjustment after divorce and involves engaging in worshiping rituals, prayers, nature walks, and joining a religious group.

Religion and Hispanics. Experts recognize Hispanics' religious commitment and involvement (Arango-Lasparilla et al., 2009; Hernandez et al., 2007). The literature shows that divorced Hispanics take religious practices and beliefs seriously and deeply when in pain. Hispanic divorcees turn to their community churches in times of hardship and grief. Participating in religious services and activities serve as coping tools when they are in need of healing emotional and mental pain, when they are trying to make sense of stressful experiences, and when trying to find healing and comfort.

This literature review confirmed that adjustment to divorce is challenging, but achievable for older Hispanic adults. According to the literature, contributors to adjustment are the ability to adjust to the stress of divorce, the accessibility of social resources, and the perception of the divorce experience. The present research study provided needed answers to fill in remaining gaps in the literature.

Methodology

According to Yin (2003), case studies are *empirical inquiries* that allow for an intensive examination of each individual unit or case. It is the preferred approach when: (a) the researcher wants to investigate *how* something happened or why it happened; (b) the researcher is unable to manipulate events, contexts, or behaviors; (c) the emphasis is on a current phenomenon within a real-life setting; and (d) the boundaries between the phenomenon and its context are not clear. The present study met these requirements and was, therefore, the appropriate research method to accomplish its purposes.

Participants

The researcher selected a purposeful population sampling consisting of eight women and four men (Creswell, 2008). Participants were first-generation Hispanics of average financial stability and level of education (Table 1). They were both male and female living in Miami-Dade

County; individuals who: (a) were older than 55, (b) had experienced divorce after being married for at least 15 years, and (c) had been divorced for a minimum of five years – to allow a better outlook of how adjustment had been reached. All of the participants in this study practiced the Catholic religion and recognized it as crucial in their recovery process.

The researcher recruited participants from a religious divorce support group of the Agape program in a local Catholic church. The Agape group offered weekly meetings, frequent religious retreats, and occasional workshops emphasizing self-work and self-betterment.

Instruments

The researcher used a protocol to guide individual interviews. A student researcher developed and used the protocol in a similar multiple case study dissertation exploring divorce adjustment (Leighman, 2009). The protocol generated answers to the research questions proposed in the present study. Questions included how they described their experiences during their divorce, how their appraisals or perceptions influenced their decisions and behaviors, whether they reached recovery and adjustment, and what skills they relied on to cope or recover. The protocol increased insight on how Hispanics who experience divorce in late-life understand and perceive the process of divorce. It also identified the challenges older Hispanic adults face and the contributors to their adjustment years after their divorce.

The researcher also used an observational guide or checklist to guide observations during support groups. The list included description of the physical setting, topic of group discussion and particular events or activities (i.e., what occurred in the group). The list also included personal reactions from participants, interaction of the research subjects with other group members, and researcher's personal thoughts, insights, and themes identified.

Both the protocol and the observational guide served to collect data. However, Hood (2006) and Leighman (2009) consider the researcher to be another tool for collecting data. As the human instrument in this study, the researcher collected and clarified disclosures, interacted with participants, guided discussions, and interviews then summarized disclosures and overall findings. These three instruments helped gather data during this research study.

Procedure

The researcher contacted the coordinator of a religious support group called Agape, explained the purpose of the study, and scheduled a visit to the site. The site was a room in a Catholic church where divorced Hispanics met once a week. The researcher conducted an informal meeting during the first visit to explain the benefits of the study to the participants, make arrangements to maintain confidentiality of data, and explain how she was going to use and report the results (Creswell, 2008). The researcher identified potential participants for the study both current and past members of the group.

The researcher approached prospect participants meeting the inclusion criteria to explain the Informed Consent form and answer questions and concerns. The consent form explained in writing the purpose of the study, the approximate time the interview would take, their voluntary participation, plans for using the study's results, and possible risks associated with the study. The researcher allowed a week for undecided potential subjects to make a decision and return the signed form if they decided to participate. The researcher explained that she would select to

participate in the study the first 12 individuals returning the signed consent. She repeated the process until she achieved the sample size.

The researcher arranged to meet with each of the 12 participants individually to conduct face-to-face interviews. The researcher saw participants at either their homes or a private location such as their offices, a place without interruptions or distractions (Creswell, 2008). The researcher used the protocol selected to guide the interviews. The researcher used open-ended questions and probes to elicit a detailed account of each participant's story (Yin, 2004). The researcher completed each interview within one hour. When the researcher completed interviews, she visited the support group to conduct observations.

The researcher conducted the observations at night and followed a regular meeting agenda with specific date, time, and topic of discussion the group coordinator selected. Observations lasted for the duration of the group, about two hours each visit. The researcher conducted a total of four observations over a period of two months in order to obtain the best knowledge and understanding of the individuals, their experiences, and the context (Creswell, 2008). The researcher completed the checklist during observations. These notes also contributed to data saturation as they provided the researcher with enough amount and depth of data during each observation (Onwuegbuzie, Leech, & Collins, 2010).

Data collection. The researcher wrote field notes during the fieldwork after each interview and observation. The field journal included details about the setting, each person being interviewed or observed, the date, time, and duration of the meeting (Creswell, 2008). The researcher also included nonverbal communication such as hand gestures, posture, and facial expressions to allow a better connection between participants' feelings, attitudes, and verbalizations (Onwuegbuzie et al., 2010). The journal also included emotions expressed, including sadness and anger (Onwuegbuzie et al., 2010).

Field notes the researcher took during group observations also included detailed explanations and descriptions of the topics of discussion, what occurred in the group, the interaction between participants, and agreements or disagreements among group members. The researcher also noted the number of participants who agreed, disagreed, or did not voice any opinion (Creswell, 2008). This allowed a better understanding of group dynamics and a better identification of themes and categories that emerged from the data the researcher collected (Onwuegbuzie et al., 2010). In the field journal, the researcher also reflected on personal thoughts, interpretations, and common themes—all of which added to the accuracy of the findings (Hancock & Algozzine, 2006; Tuckett, 2005). The researcher transcribed data verbatim later.

Data analysis. The researcher analyzed the data as Attriade-Stirling (2001) and Yin (2003) outlined. The researcher read transcriptions multiple times to identify main ideas. The researcher then analyzed and coded text using categorical coding with enumeration. This coding system is suited for the analysis of verbal data (e.g., interviews) and better illustrates responses that are naturally categorical (Altheide & Schneider, 2012). This allowed for the recognition of common patterns or categories, which then quotes from the text supported. After treating each transcript this way, the researcher developed a matrix or visual depiction of the data. The researcher composed narratives later.

During narratives, the researcher wrote open-ended answers in response to the questions in the protocol (Creswell, 2008; Yin, 2003). The researcher considered the answers (about two or three paragraphs each) as part of the study database and resembled comprehensive, detailed

examinations of each case (Creswell, 2008). The researcher did not edit the narratives, but made them available for others who wanted to review them and corroborate conclusions made (Yin, 2003). The researcher validated data through the use of three different types of data collection or triangulation (Creswell, 2008). These included interviews made face-to-face with each participant, four observations of the religious support group, and a field journal in which the researcher noted her insights and feelings.

Trustworthiness. Triangulation of the data and member checking established trustworthiness. It involved corroborating findings from different types of data, including individual interviews, group observations, and the field journal (Creswell, 2008). The researcher also shared transcripts and drafts of the findings with the participants during a meeting the researcher arranged at the group coordinator's home (Creswell, 2008). The researcher asked participants their opinion regarding the accuracy of the findings and their interpretations (Creswell, 2008). The researcher also encouraged participants to contribute additional perspectives on the issue of adjustment to divorce thus increasing the study's trustworthiness (Baxter & Jack, 2008; Yin, 2003).

Results

The data the researcher collected and analyzed from interviews she transcribed, the observations she made, and her field notes produced different themes. The researcher verified, discussed, and corroborated the most common emergent themes during the meeting with participants to ensure accuracy. After coding and verification, the researcher classified emergent themes as either challenges to adjustment or contributors to adjustment.

Challenges to Adjustment

The 12 Hispanic participants in this study were first generation immigrants. As such, they were no strangers to facing challenges. The researcher acknowledged these challenges during interviews and observations.

Significant losses. Research participants identified the challenges they faced during their divorce. These challenges included numerous losses such as the loss of income, the loss of the family unit, and loss of security and stability (Table 2). Participants acknowledged significant losses, particularly during the first three years of the divorce process. One female participant recognized the loss of her dream. "The life I had planned in my retirement within 12 or 15 years with my grandchildren...that big house that was meant to be filled with grandchildren....(all gone)." Four female participants compared the pain suffered as the pain a death caused.

Deteriorated psychological status. None of the participants identified acculturation stress or reduced coping skills as challenges to their marital stability. Nevertheless, they recognized certain stressors adding to the pressure of trying to acculturate to their new life in the U.S. These stressors included limited job opportunities, loss of social support systems, language barriers, new living arrangements, and concerns about their overall well-being.

Research participants recognized that stressors during divorce impacted their psychological status (Table 3). The breakup of the family unit, the distance from family members (e.g., children), and the loss of life plans were among the stressors that affected their mental and emotional status. The deterioration of their psychological status manifested itself through feelings

of sadness, guilt, shame, and loneliness.

Deterioration of their psychological status also showed through signs and symptoms of depression, which included irregular eating and sleeping patterns. Some of the participants sought and found professional help among psychiatrists and mental health counselors. The experiences with mental health practitioners were positive and contributed to the reduction of symptoms and overall adjustment to divorce.

Religious struggle. The 12 participants were raised in Catholic families and all, except one, married in the Catholic Church. Five of them were involved in their community churches during their marriage. Participants either worked at the community church, or organized family events, or participated in religious retreats. One of them sang in the church choir. Another one supported the church with monthly donations. Eight participants reported experiencing religious struggles. The struggle impacted their involvement and participation in religious activities negatively. Despite their struggle, none of the 12 participants reported feeling rejected by their church or any other religious entity (e.g., priest).

Despite recognizing painful losses, a deteriorated psychological status, and a struggle with deeply held religious beliefs and practices, participants also were able to recognize what had helped them adjust after the first three years post-divorce. They identified what they used as coping strategies to help them recover. The researcher considered these contributors to adjustment.

Contributors to Adjustment

Older Hispanic adults who divorce in late-life use different resources and coping skills that lead to gradual adjustment (Table 4). Among these contributors are seeking psychological help, reduced attachment to the ex-spouse, a high level of resilience, and positive perceptions of divorce. Major contributors to adjustment are the availability of social resources and religious coping.

Psychological help. Seven participants sought psychological help from mental health professionals to address signs and symptoms of depression. One asked the local priest for help before the divorce. Later, the participant sought help from a psychiatrist and a mental health counselor to stabilize symptoms of depression and anxiety. Through counseling, they processed their losses and feelings regarding the divorce.

Reduced attachment. Participants denied worrying about their marriages or their ex-spouses. They were able to develop an identity separate from that of husband or wife which they had assumed with marriage. All 12 participants acknowledged equally the lack of attachment, even the one participant who classified his relationship with his ex-spouse as “divine.” Half of the participants reported keeping a civilized relationship with the former spouse. Detachment from the former spouse was evident in the participants’ ability to form new bonds or attachments to new friends. It was also evident in their ability to form new romantic relationships.

High level of resilience. Findings show that Hispanics who experience divorce in late-life are resilient. Some participants recognized resilience as part of their temperament. A 69-year-old female participant whose husband asked for a divorce after 26 years of marriage and who battled cancer afterwards, revealed the following: “I have a strong temperament...a temperament that does not give up... I’ve gone through everything...illness, separation when I came from Cuba...(and) the separation in my marriage.”

Positive perceptions. Hispanics' initial response to divorce is negative and intense because important life goals and interests have been lost. Gradually, they are able to make sense of their experiences. Instead of focusing on their losses, pain, and suffering, they learn to perceive the divorce as an opportunity to grow psychologically, to feel empowered, and to start anew.

Psychological growth. A participant explained his decision to learn and grow while another one commented the following: "I did not know how to write a check...I did not know what was paid and what was not...but I've had to take charge...I've had to learn...and now I am an expert!" Four females learned they were not to blame for the divorce: "At the beginning...that feeling of guilt...but you learn to accept it later." A female explained: "I have learned a great deal after the marriage...I should have done this, he should have done that....but...well...that I have learned later."

Self-fulfillment. Participants reported feeling fulfilled and realized. One of them stated the following: "I have learned to value myself...(and) to say, 'I can do it. It can be done'...and I have been able to do it...even though I was in such darkness." Another one commented on how fulfilled he felt with the acquired knowledge: "We were those people who...were on the floor...but that helped us to get up...to learn that there are many things that happen...(We must ask) what am I going to learn from that? What happened? Not why did it happen."

New identity. Participants developed a new identify after divorce. A female commented on her free and empowered self after the divorce: "I was free...now I am me...before, I was nobody." Another one stated the following: "(Before) I was always the woman behind the man."

Availability of social resources. Findings show the availability of social resources helped in the recovery process. Participants sought support from a network of family and friends. Some developed new friendships. Although five participants mentioned the need for economic stability (i.e., job and income) as a contributor to recovery, 10 of the 12 participants agreed the support they received from others was more important than money. Participants agreed they needed people to relate to and interact with. Others found it by entering into a new romantic relationship. Half of the participants entered a new romantic relationship after the divorce and agreed the new partner helped in the process of recovery by reducing their feelings of sadness, loneliness, and emptiness. Despite recognizing its benefits, however, eight participants (seven females and one male) reported they preferred being alone.

Religious coping. Findings show older Hispanic adults turn to their religious entities and community churches to relieve emotional pain. They overcome distress by becoming involved in religious practices and activities. They pray to God and join a religious support group, such as Agape (Table 5). Participants' statements reflected that believing in God brought comfort, support, and strength while helping them overcome feelings of sadness, guilt, and loneliness. Their strong religious beliefs and long-lasting relationship with God helped them cope and overcome crises and chaos. One participant explained: "Well, thanks to God, I have always known the Lord and I have never gone against Him."

Eventually, participants became involved in church activities the Archdiocese of Miami sponsored to help divorcees recuperate from divorce. Participants visited local churches, participated in spiritual retreats, or joined Bible classes to help them recover. Although some experienced religious struggle and negative outcomes (e.g., guilt), results showed that religious coping was related to positive outcomes such as personal growth and emotional well-being. These outcomes helped participants make a positive appraisal of the divorce experience.

When asked what she thought contributed to her adjustment, a female participant

responded as follows: "As long as God is there for me...He takes me by the hand and I hold onto Him...I look back and say, 'Well, Lord...you were always there for me because otherwise...where would I be?"

Discussion

Results of this study indicate that older Hispanic adults perceive their divorce as a challenge. They recognize the loss of important goals and interests. Their mental and emotional statuses receive negative impact. They also struggle with long-held religious beliefs and practices. Nonetheless, Hispanics focus on the positive outcomes of the experience. This includes psychological growth, newly found freedom, and newly established relationships. They also perceive the divorce as an opportunity to devise new goals, develop new identities, and eventually reach self-fulfillment.

Results indicate that Hispanics identify their divorce as the best alternative to a dysfunctional relationship and the only way to reach peace and happiness. Those who join a religious support group (e.g., Agape) report an insightful and rewarding experience. They find comfort, understanding, and long lasting friendships.

Through group membership, Hispanics feel involved, supported, and understood. They feel less lonely and more secure. They also feel engaged in the religious community. This provides balance and healing by bringing about religious meaning and purpose to their divorce. These conclusions corroborate findings of experts (McCage, 2003; Jenkins, 2010; Yarnoz, Plazaola, & Etxeberria, 2008) regarding the positive effects and the therapeutic value of participating in a religious support group because of the potential for unity through group identity and ritual.

Findings show that Hispanics are eventually able to reach adjustment post-divorce. They report feeling 'relatively free' of any symptoms of mental health (e.g., depression). They also report ability to function properly in the completion of their daily roles and responsibilities. They report adjustment. Older Hispanic adults who divorce in late-life are able to reorganize life goals and re-stabilize internal working models in order to adjust (Mandelbaum, 2011). They are able to reach acceptance, self-love, and self-exploration.

Divorce for older Hispanic adults in Miami-Dade is related to personal choice, self-fulfillment, and self-betterment (Darling, Coccia, & Senatore, 2012). It is also related to developing and maintaining healthy relationships. Findings also confirm suggestions of other experts that the search for a happier, peaceful life outweighs any stress experienced as those who reported extreme distress or struggled with frequent conflicts during the marriage showed improved functioning, higher levels of autonomy, and psychological growth (Amato, 2010; Miller, 2009; Wu & Schimmele, 2007). Instead of focusing on hardships and adversities, Hispanics are able to adapt to their new life as single individuals by devising and committing themselves to the pursuit of new goals, seeking a better future, and developing social relationships for support.

Divorced Hispanics also engage in positive religious coping (Ellison et al., 2012). They take religious practices and beliefs seriously and deeply during periods of stress and suffering. Religious practices and affiliations serve as coping tools when in need of healing emotional and mental pain, when trying to make sense of stressful experiences, and when trying to find healing and comfort. Religion and spirituality also benefit divorcees by helping them find the strength to endure as well as meaning in their challenging circumstances (Ellison et al., 2012). They also

influence the way in which divorcees appraise and respond to the stress of divorce.

Implications, Limitations, and Future Research

Results of the present study benefit the Hispanic population who has divorced in late-life by increasing their perceptions of the experience and providing constructive suggestions on how they can reach adjustment. The study also provides new insights to help mental health professionals understand, assess, and treat this population group. With knowledge they gain from this study, mental health practitioners can contribute to the development of effective interventions and programs to fulfill this population's psychological needs. Practitioners must consider the importance of religion and religious involvement for this segment of the population. Furthermore, this study also has contributed to the literature by adding to the limited qualitative research available to students and researchers on the topic of divorce adjustment among Hispanics.

Limitations. According to Creswell (2008), both interviews and observations involve limitations and constraints. Self-reports during interviews only reflect the interviewees' version or perspective of the divorce experience, not that of the former spouse. Participants' stories may be false and answers may not be clear during interviews. Therefore, gathered data from interviews may be misleading or deceptive.

Conducting observations at specific sites and settings are added limitations (Creswell, 2008). In this case, the study took place in one Catholic Church in Miami-Dade County, in just one community or region in the state and the country. Results, therefore, may not apply to other sites, settings, or regions. It may also be difficult to develop rapport during group observations, especially if the participants are not used to formal research (Creswell, 2008). Equipment issues could become a problem too.

A small sample size is another limitation of the present study as the patterns the researcher identified and the conclusions she reached may not be transferable to the remaining divorced Hispanic population (Creswell, 2008; Leighman, 2009). There was also a potential for the researcher to control totally the research study, which can hinder its trustworthiness (Berrios & Lucca, 2006). Besides, conducting a case study means the findings can provide only one possible interpretation, instead of the only interpretation (Yin, 2004).

Ethical considerations. Ethical risks and issues are greater in qualitative research than other research methods because of the close involvement of – and shared responsibilities between – the researcher and the participants (Creswell, 2008). To reduce the impact of ethical issues, the researcher followed the guidelines Nova Southeastern University's Institutional Review Board sets forth to protect human subjects during research studies. The researcher also provided each participant with an Informed Consent form before she interviewed him or her. This informed participants that they could withdraw from the study at any given moment if it was in their best interest, explained what they could expect, and helped them understand the risks and benefits associated with the study.

Although the researcher could not ensure confidentiality for information the subjects shared during observations in the support group, the researcher minimized this risk by avoiding the use of names in any research document. The researcher limited the reporting of findings to quotes, descriptions, and themes not attributed to individual participants (Morrow, 2007). The researcher assured participants that she would not establish a relationship between them and the

findings she reported (Creswell, 2008).

In addition, transcription of the collected data was done on a personal desktop computer and saved in a Microsoft Word document. The researcher saved and encrypted with a password the transcription. The researcher was the only person with knowledge of the encrypted password and with access to the transcripts.

The researcher was attentive to any signs of discomfort that emerged while participants disclosed painful emotions such as grief or shame (East et al., 2010). When this happened, the researcher paused and provided support as appropriate. The researcher continued later when participants felt better. If participants needed further help, the researcher suggested the name of a professional for participants to see but reminded them they had to pay for the services themselves.

Potential researcher bias. The researcher's own reasons for wanting to conduct a study on a specific phenomenon as well as the experiences and perspectives in which these were grounded were all a source of bias (Creswell, 2008; Yin, 2003). To manage bias, the researcher kept a personal journal to note thoughts regarding how the study affected the researcher, concerns about the impact of the study on the participants, and possible biases and ethical issues that arose at different stages of the study (Glesne, 2011). Furthermore, the researcher attempted to understand how she influenced what the interviewee said, and how to productively (and ethically) use this influence to have participants answer research questions (Morrow, 2007).

The researcher also shared findings with the support group coordinator. The coordinator had guided these groups for more than 13 years and was able to recognize discrepancies between what was real and what was the result of researcher's bias. Last, the researcher's more than 10 years of experience providing counseling services within the Hispanic community could attest to the respect, sensibility, and empathy she held toward this population group.

Suggestions for Future Research

The stories of the interviewees' former spouses would be most informative and interesting. The research questions when interviewing the former spouses would include the same questions used during this study (Leighman, 2009). This would allow a better understanding of the challenges and contributors to adjustment for the former spouse.

Another study could take place from the perspective of other Hispanic groups (e.g., second generation, non-immigrants). This would allow a better understanding of the contributors to adjustment (Leighman, 2009). It would show, for instance, whether resilience is a contributor to adjustment common to all Hispanics or just common among immigrants.

The Hispanic adults in this study reported feeling adjusted and able to devise new life goals, despite going through a debilitating life experience. There must be other Hispanics who have not reached adjustment, even decades after their divorce. A study of the lives and perceptions of these non-adjusted Hispanics would help determine why some Hispanics make a successful recovery while others do not.

Another insightful study would be an in-depth investigation of the expectations Hispanic males and females held concerning divorce, and how these expectations are either fulfilled or not during the marriage. Researching the difference between feelings of guilt and shame between genders is another suggestion. It would be interesting to know if men feel the guilt and the shame as much as women do, or if, perhaps, men's guilt and shame result from being distant from the

children and their inability to provide for them.

There are vast possibilities for future research studies on the topic of divorce adjustment among Hispanics. There are also vast possibilities that the stories that will emerge from these studies will be worth the effort. This research study is evident proof.

The story of older Hispanic adults who divorce in late-life in Miami-Dade is an insightful one. It is a story worthy of any researcher's time, effort, and dedication. It is a story of faith, resilience, flexibility, and adaptability when facing adversities. In the words of one participant, "...that theme, 'Adapt, Improvise, and Prevail'—do you want anything better than that?"

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Appendix

Table 1
Demographics

Interviewee	Sex, Age	Country of origin	Years married	Years divorced	Marital status at time of immigration
I1	M, 65	P.R.	21	15	Married
I2	F, 56	Cuba	30	6	Married
I3	F, 57	Cuba	15	23	Single
I4	M, 76	Cuba	33	30	Married
I5	F, 57	Cuba	25	10	Single
I6	F, 59	Cuba	26	9	Married
I7	M, 76	Cuba	29	15	Single
I8	F, 67	Cuba	37	11	Single
I9	F, 63	Cuba	34	8	Single
I10	F, 62	Cuba	29	12	Single
I11	M, 70	Cuba	17	5	Married
I12	F, 69	Cuba	39	5	Single

Note. P.R.=Puerto Rico.

Table 2
Significant Losses

Type of loss	Interviewee	n
Loss of significant income	I1, I2, I4, I5, I6, I8, I9, I10, I11	9
Loss of the family unit	I1, I3, I4, I5, I6, I7, I8, I11, I12	9
Loss of friendships	I1, I3, I4, I7, I9, I11	6
Loss of dreams and expectations	I1, I2, I3, I5, I6, I8, I10, I11, I12	9
Loss of stability and security	I1, I2, I3, I8, I10, I11, I12	7
Loss compared to death	I2, I3, I5, I6	4

Note. n = number of participants

Table 3
Deteriorated Psychological Status

Feelings	Interviewee	n
Sadness and depression	I1, I2, I6, I8, I10, I11, I12	7
Guilt	I3, I4, I6, I10	4
Shame	I2, I8, I10	3
Loneliness and emptiness	I1, I3, I4, I6, I7, I8, I12	7
Sought psychological help	I1, I2, I5, I6, I8, I9, I10	7

Note. n = number of participants

Table 4
Contributors to Adjustment

Contributor	Interviewee	n
Psychological help	I1, I2, I5, I6, I8, I9, I10	7
Reduced attachment	I1, I2, I3, I4, I5, I6, I7, I8, I9, I10, I11, I12	12
Resilience	I1, I2, I3, I4, I5, I7, I8, I11, I12	9
Positive perceptions	I1, I3, I4, I5, I7, I8, I11, I12	8
Social resources (i.e., friends)	I1, I3, I4, I5, I6, I8, I9, I10, I11, I12	10
New romantic relationship	I2, I3, I5, I7, I10	5
Religious coping	I1, I2, I3, I4, I5, I6, I7, I8, I9, I10, I11, I12	12

Note. n = number of participants

Table 5
Religion and Spirituality

Experience	Interviewee	n
Religious Coping		
Involvement before divorce	I1, I2, I3, I5, I6, I7, I8, I10, I12	9
God brings peace and healing	I1, I2, I4, I7, I8, I10	6
Divorce perceived as God's will	I1, I5, I7, I10, I12	5
Agape Support Group		
Psychological growth	I1, I2, I3, I5, I6, I7, I8, I10, I12	9
Healing and comfort	I1, I2, I5, I8, I10, I12	6
Support from new friends	I1, I2, I3, I4, I5, I8, I10, I11, I12	9

Note. n = number of participants

Definition of Terms

Adjustment. Wang and Amato (2000) assert that "Adjustment involves believing that the divorce was a good idea, perceiving positive outcomes of divorce, no longer being preoccupied with the former spouse and marriage, and psychologically 'moving on' with one's life" (p. 667).

Hispanics. Also called Latinos, are those born in (first generation) or descendants of those born in (second generation) a Caribbean, Central, or South American country (Oropesa & Landale, 2004). The terms are used throughout the present study to conveniently identify these immigrant groups. First generation Hispanics are also referred as Hispanic immigrants in this study.

Acculturation. According to Christenson et al. (2006), acculturation is the process of adapting one's culture of origin to the new, dominant one in the United States as changes in the immigrant's behavior and attitudes evidence. Acculturation can affect the stability within the Hispanic family. Low levels of acculturation among first generation immigrants mean higher risks of divorce, compared to bicultural families, due to all stressors the lowly acculturated family must experience (Christenson et al., 2006). In contrast, second and third-generation of immigrant

Hispanics increase their incidence of divorce by valuing personal freedom, self-fulfillment, and self-actualization as part of their cultural ideals and norms (Oropesa & Landale, 2004).

Late-life. Toossi (2002) refers to those 55 and older when describing the baby boomer generation. In their article, *Uncoupling in Late-Life*, Wu and Schimmele (2007) also consider those who are 55 years of age and up as belonging to 'late-life'. This population group will also be referred as 'older adults' throughout this study.

About the Author

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Discussion Questions

1. How do Hispanics who divorce in late-life perceive the process of divorce?
2. How do Hispanics understand and make meaning of their divorce?
3. What are the perceptions of Hispanics who participate in a religious divorce support group?
4. What are the challenges this population faces?
5. What are the contributors to adjustment for this population group?

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Life Forward

Professor Dr. Martin Nettesheim *International Law and Common Market Expert and Educator*



Professor Dr. Martin Nettesheim is Professor of Law at the University of Tübingen Law School since 2000. He is chaired Professor for German Public Law, Public European Community Law, International Law, and International Political Theory, and Director of the Tübingen University Center for International Economic Law (TURCIEL). He studied law at the Universities of Freiburg, Berlin, and Ann Arbor (Michigan). He also holds a degree in Economics. Professor Nettesheim has taught courses at various universities (Berkeley, Miami, Athens, Nanjing, and Kyoto). He has served as Dean of the Law School (2003-2005) and is a Member of the Board of the Center for Studies in Federalism at the University of Tübingen. He chairs the Working Group on European Constitutional Law within the Association of German Professors of Public Law. Professor Nettesheim has published comprehensively in the areas of EU Law, International Economic Law, and German Constitutional Law. He is editor of a multi-volume commentary on the Treaties on the European Union (Grabitz, Hilf, & Nettesheim, *Das Recht der Europäischen Union*) and author of a comprehensive introduction to EU law (Oppermann, Classen, & Nettesheim, *Europarecht*). His current projects include a book about

democratic theory in settings of multi-level governance and a publication about the protection of personal privacy.

Interview by
Gaby Schoepflin, LL.M. (Cand.)
Co-Editor-in-Chief, *Intercultural Human Rights Law Review*

1. You are a visiting professor at the St. Thomas University (STU) School of Law and its Intercultural Human Rights Program. What keeps you going back to that school?

It is a combination of factors. I find this program highly interesting. I think it is an important contribution to the academic field and something at the forefront of legal education. I want to contribute to the academic environment, but I also profit from the input of my students who come from areas of the world that I may not really know and who bring perspectives I do not really get when I am in Germany or when I teach at Berkeley. It is about both giving and receiving.

2. The course you are teaching focuses on International Economic Law and Human Rights. What is the relevance behind the connection? In other words, why is it important to study human rights in the context of the economy? Specifically, could you comment as it relates to Miami as a gateway to the Americas?

It is important to look at human rights per se as an institution of public international law. However, if you do not study the economic, cultural, and social environment in which these human rights play their role and have to be effectuated then you will not get the full picture. My purpose here is to show students how human rights are emerging as an interpretive and delimiting factor in the operation of the international economic system: markets, trade, investments, and business operations.

I feel Miami is at the center of one part of the international economic environment. I think it is a gateway between the United States and South America, and can perhaps become a gateway toward Africa at some point, when Africa emerges.

3. What made you decide to focus on this field of study, and why is it important?

I was already interested in economics when I did my studies in law. In the German system, you can actually pursue two different fields of study at the same time. So, I studied law and economics as separate fields. At some point, I had to decide what I wanted to do, and so I became a professor of law. But, that did not keep me away from continuing to be interested in economic issues. When you look at my main field of expertise, common market, European Common Market, International Common Market, these are dynamic areas and vibrant fields of academic discussion.

4. As a Catholic Institution, STU focuses on social justice. How would you appraise the status of our overall society from the point of view of a global economy?

By heart, I am an optimistic person, so I am not adhering to these general philosophical ideas of inevitable progress that have been so prevalent in the 19th century. But I think, looking at the world, that we see progress and the integration of poor countries. We see how countries that have been in abject poverty are slowly progressing. We also see that concern for living conditions all over the world has increased in the developed countries. So, the emergence of these integrative markets has led to concern, and I think that justifies an optimistic picture. I do not want to say that everything is fine and great, so we just have to continue working on the problems that exist.

5. Do you have any suggestions as to what improvements can be made in the pursuit of a more just and balanced society to help ensure that human rights are both protected and respected in a globalized economy?

You will not be surprised to hear that I believe economic freedom is something that one cannot thrive and grow without. So, my first step would always be to see that conditions for the operation of the market are improving. However, and it immediately comes with a caveat, that is only the first step, and of course, you must make sure the operation and the results of the markets are administered in a fair way. I come from a social network environment in Europe, with a social welfare system, where it is self-evident that you cannot just let the markets operate in an unconstrained way. But, I think that if countries open their markets, they create the economic means for helping the poor and those who are in need.

6. What has been an important experience or learning in your life that has made an impact on your career?

I have found it very interesting to contrast the American liberalism and personal responsibility thinking with the much more paternalistic and governmentally oriented view in Europe. I am not saying that one is necessarily better than the other, but I think you learn a lot by just living in these two different environments and seeing how the different approaches lead to different outcomes. Obviously, we are also talking about dynamic environments in which we have seen movement from one side to the other side.

Also, we need to share our experiences in Africa, South America, and Asia; in particular Brazil, Nigeria, and China, where societies are confronted with the problems that really need to be addressed: poverty, health problems, and so on.

7. Do you have any key role models, mentors, or individuals that have influenced you along the way? Who, and why?

I have met a lot of interesting people. But, I am not in a position to mention any concrete names. I am more driven by ideas than by concrete persons. I am someone who thinks in abstract terms. In class, I talk more about abstract structures and ideas.

8. What do you see are the challenges that students of law and specifically human rights face today? And, what words of encouragement would you give them?

In terms of their professional career, I would start by saying that I want to congratulate them [the students] for their focus on human rights. I truly think this is one of the defining difficulties of the 20th century – not just in terms of advancement of human rights, but in the sense that public debates are increasingly framed in terms of human rights. So, I think everybody who is in this program has made a perfect first choice and has shown clear vision of what is going on.

9. Who is Professor Nettesheim outside of his Professor role?

[Laughs] I hope to be a good family father; I have a daughter who is eight years old. I am also active in German politics, not as a party member, but I think that you have to contribute to the civil society in which you operate. And, I like to exercise, run, play tennis, and ski.

10. Any final words or anything else you'd like to add?

The United States is a great country. I love to be here; it is in itself so diverse, comparing California to Florida and Northeast to Midwest, Texas, and so on. However, I would recommend spending sometime abroad and seeing how things are in other countries, in other continents, and starting to question what you have here. As I said, everything is great, but I think you get so much more sapience, balanced, and well-justified perspective when you are able to question it from abroad. That would be my advice.

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Book Review

Book Details

Sen, R., Wagner, W., & Howarth, C. (2014). *Secularism and religion in multi-faith societies: The case of India*. Briefs in Political Science. New York, NY: Springer, 83 pages, paperback, \$54.99, ISBN 978-3-319-01921-5.

Reviewer

Tani P. Wilson, Ph.D.

Synopsis and Evaluation

The social psychological understanding of religiosity and secularization has been changed dramatically. Specifically, when, as of late, Muslim immigration has pushed Western communities to re-think, at least partially, the traditional separation of church and state. This revolutionary shift raises the question of a dichotomist conception that ultimately sharply divides secular-religious beliefs, since the public became exposed to whatever level of benevolence governments have shown in reference to their religious public attitudes. Societies often position these events – putting pressure to integrate minority groups; thus, from the same perspective of thinking, there is an idea that becomes popular, which is that groups of faith have a monolithic influence over their members. This book questions those thoughts, as it shows studies identifying recent competing representations of secularism as a social-psychological phenomenon, as it identifies the dimension about the secularization of religious institutions – their organization within puzzling problems – and builds a research design that reaches beyond the divisions of knowledge and understanding examining the Hindu-Muslim conflict in India as it links to the related issues of religion and secularism in multi-faith societies.

The authors present a research design that reconstructs specific knowledge from respondents of both genders living in the city of Mumbai regarding three main anchoring points: communication, representations, and the day-to-day living of a shared faith. The text points to the different ways in which people open themselves to modern ideas or prefer to adhere to traditional belief systems. The text also indicates the importance of taking a deeper look, going past the situation of conflicting ideology, in which scientific research is able to permeate a culture only on a gradual basis, as new ideas run upstream, counter to longstanding cultural beliefs. The text also discusses the ways in which people are prone to take conflicting viewpoints of a certain issue depending on various cultural situations.

This book is an excellent resource for the formulation of policies focusing on conflict resolution, an inspiration for interventional thinking, which radiates new ideas for the development of a theoretical body in social psychology.

In the Author's Own Words

Considering the aspects of a multi-faith, technologically adept, and experienced society, this book promotes a deep discussion of why, despite inherent difficulties, social groups aim for interaction and the challenging ideas of "communicative action." The book calls for a review of the conceptualization of religion and secularism as separate "bipolar" representations, and its conclusions correlate with conflict management, specifically interfaith conflicts in the range of "nation-states" (p. 76).

Reviewer's Details

Tani Pedreira Wilson came originally from the School of Psychology at the Federal University of Bahia, Brazil. Her Master's degree is in Education from Florida International University, in the U.S.A., and her Ph.D. is in Social Representations and Communication from the Sapienza University, in Rome, Italy. Her area of expertise is in Social Psychology.

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Book Review

Book Details

Ayres, J. R. (2013). *Good food: Grounded practical theology*. Waco, TX: Baylor University Press, 233 pages, hardcover, ISBN 978-1-60258-984-1.

Reviewer

Jonathan C. Roach, Ph.D.

Synopsis

Jennifer Ayres' *Good Food: Grounded Practical Theology* examines the growth, production, and eating of food through a theological lens. Her goal is to give "the analysis, theological reflection, and practices" to inspire "Christians in the United States to respond faithfully to the global food system" (p. xi). Ayres, who is an assistant professor at the Candler School of Theology at Emory University, addresses a variety of food related subjects, including corporate farms, food economics, nutrition, hunger, soil degradation, animal abuse, climate change, exploitative farm labor, food transportation, food safety, and Christian table fellowship.

While Ayres addresses biblical texts that "describe faithful relationships to land, animals, agriculture, labor, and the poor" (p. 3), the majority of the book presents a serious moral discussion of modern food production and consumption in the United States. Ayres understands that food is essential to human life and treats it as a critical problem for theological reflection. She explains "a grounded practical theology of food makes its home in the mundane, excavating theological and moral significance in each bite taken, each hour labored, and each seed planted" (p. 5). She argues that "the first step toward food justice is an analysis of the global food system" (p. 7) and acknowledges that the average Christian feels a deep sense of despair as he or she begins to understand the complexity of the problems within the food systems.

In part one of the book, Ayres analyzes the people, places, and policies of the global food system. She addresses not only farmers and field labors but also the role and impact of consumers across a variety of issues—from malnourishment to obesity in both urban and rural contexts. She examines the commodification of food and agriculture, and the impact of policies, including free trade treaties, the Farm Bill, and food stamps benefits on the global food system.

In the second section of the book, Ayres explores issues of food justice, including "prioritizing the hungry, seeking justice and dignity for those who work the land, caring gently for the earth, and reestablishing bonds of interdependence with the sources of their food" (p. 75).

She illustrates several innovative, justice-seeking responses from rural Iowa; the South side of Chicago; Cuentepec, Mexico; and Warren Wilson College in North Carolina. She concludes that “healing the food system is not solely a matter of addressing intellectual or even theological gaps...It requires, quite literally, getting one’s hand dirty – planting, cooking, harvesting, feeding – and a willingness to persevere even in the midst of a broken food system” (p. 158).

Evaluation

This text is a well-researched academic monograph, but is still easy to read and understand for a general audience. The extensive endnotes and bibliography provide an important road for scholarship in the area of food and theology. Ayres successfully supplies not only the ethical analysis and call to action but also the deep spiritual reflection needed to produce a work of practical theology. Despite a variety of recent publications on the subject of food and theology (Jung, 2009; Wirzba, 2011; Groppe, 2011; and Méndez-Montoya, 2012), Ayres’s work is more comprehensive and in-depth, covering a wider range of food issues rather than focusing on the consumption and eating of food. I highly recommend *Good Food: Grounded Practical Theology* for everyone from local adult church groups to graduate students and faculty in theology, ministry, and ethics.

In the Author’s Own Words

“Despair creeps in when one realizes that an independent farmer cannot make a sustainable living selling produce at a price that the working poor can afford to pay. Despair creeps in when hunger grows in the same rural communities that are producing the most food. Despair creeps in when one is confronted with an ecosystem that is groaning under the weight of human intervention and in which animals are subject to cruel and inhumane treatments for their entire short lives. And despair creeps in when one confronts the reality that U.S. farm and trade policies stack the deck against indigenous farmers in other parts of the world...The quest for good food necessarily, then, entails a degree of risk, and a willingness to dwell with ambiguities” (p. 8).

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Review's Details

The Reverend Jonathan Roach is the Library Administrator at St. Thomas University. He holds a Ph.D. in practical theology from St. Thomas University, a Master of Library and Information Science from Wayne State University, and a Master of Divinity from Ecumenical Theological Seminary. He is ordained clergy in the National Association of Congregational Christian Churches and currently is working in the area of clergy burnout within a contextual theology of work.

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