

Dr. Melissa Luke  
Re: Internal Control Roundtable

I have attached a copy of my doctoral dissertation case study regarding the effects of the Sarbanes-Oxley Act on small publicly traded companies for the Internal Control Roundtable. Although the study focused on sections 201, 203, 301, 402, 403, 406 and 409 of the Act, considerable data was accumulated on section 404 in chapters 4 and 5 of this study.

I can be reached at the following if any of the information contained will be helpful for the Internal Control Roundtable:

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THE IMPACT OF SARBANES–OXLEY AS PERCEIVED BY EXECUTIVE LEADERSHIP:

AN EXPLORATORY CASE STUDY

by

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## Abstract

The illegal acts perpetrated by corporate chieftains of publicly traded companies have created a need for the Sarbanes-Oxley Act of 2002. The current case study explored the effects of the Sarbanes-Oxley Act on the executive leadership of small sized publicly traded companies listed on NASDAQ in the 2004 accounting year. Individual interviews with executive leadership were conducted, a specifically structured survey questionnaire was used, and observations of NASDAQ and SEC documents were reviewed. The Management Organization Needs Assessment© and the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© questionnaire pertaining to the effects of Sections 201, 203, 301, 302, 402, 403, 406, and 409 of the Sarbanes-Oxley Act were employed.

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This dissertation is dedicated to the Cardinal.

God Bless to you all.



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## CHAPTER 1: INTRODUCTION

The illegal acts perpetrated by executive leaders in large public companies, such as Enron, Tyco, MCI WorldCom, Global Crossing, and Arthur Andersen, served to demonstrate a critical need for the creation of the Sarbanes-Oxley (SOX) Act of 2002 (Baugh, 2003). Congress created Sarbanes-Oxley in response to a number of high profile Fortune 500 corporate scandals and the loss of trillions of dollars in shareholder wealth (Green, 2004). The primary intention of the new federal law was to protect investors from fraudulent activities of publicly traded entities (Sarbanes-Oxley Act, 2002). The Act has not eliminated corporate fraud in its entirety, but research within this study shows how the Act may assist in monitoring the fiscal responsibility through all management levels within publicly traded entities. Most of the reporting requirements in the Sarbanes-Oxley Act will come into full effect on or before July 15, 2007 (Securities & Exchange Commission, 2005d). This single-case study explored the relationship between a selected set of sections of the Sarbanes-Oxley Act and its impact as perceived by the executive leadership on small cap publicly traded companies listed in the 2004 accounting year.

Several leading authorities in organizational studies suggest there may be a difference in the intent of the Sarbanes-Oxley Act and actual impact on small publicly traded companies with a market capitalization of less than \$250 million and their executive leadership (Green, 2004; Baugh, 2003; Securities and Exchange Commission, 2005b). The differences were identified as causing possible consequences for publicly traded companies and their executive leadership, in which the Securities and Exchange Commission is currently examining future revisions for Congress (Securities & Exchange Commission, 2005b). The Act includes 11 titles that encompass 67 sections passed by

Congress to reduce fraudulent activity in the publicly traded arena (Sarbanes-Oxley Act, 2002). The purpose of the current case study was to explore sections: 201, 203, 301, 302, 402, 403, 406, and 409 of the Act on small capitalized publicly traded companies (SCPTC's) and the impact the sections had on the organization's culture, as perceived by their executive leadership (Sarbanes-Oxley Act, 2002).

### Background

To comprehend the current impact of Sarbanes-Oxley (SOX) on the organizational culture of SCPTC's and their executive leadership, a brief review of related securities laws may be useful. Between 1998 and 2001, the Securities and Exchange Commission (SEC or Commission) reported that 1,596 securities professionals aided or abetted in violations of the Federal securities laws. The most frequent violations made by securities professionals were identified in the Antifraud Provisions of the Securities Act of 1933 and Exchange Act of 1934 (U.S. Securities and Exchange Commission, 2003). Violators included in the report were as follows: public accounting firms, public accountants, securities brokers, dealers, investment advisors and investment bankers who practiced before the Commission (U.S. Securities and Exchange Commission, 2003).

Chief executives in these most recent cases were found responsible for inflating corporate financial statements to shareholders and Wall Street analysts, when in reality the organizations were fraudulently concealing large amounts of debt and financial inaccuracies (Jorden, 2004). In direct response to illegal practices conducted by corporate executives from Enron, Arthur Andersen, MCI WorldCom, and others, the Sarbanes-Oxley Act was adopted by Congress and signed into law by President George W. Bush

on July 30, 2002 (Sarbanes-Oxley Act, 2002). The Act requires all entities operating within the realm of the Commission's jurisdiction must be in compliance "to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes" (Sarbanes-Oxley Act, 2002, p. 1).

Associate Professor L. Fletcher of the School of Accountancy at Georgia Southern University and Professor M. Miles of the Department of Marketing at Georgia Southern University (2004) agreed with the Law Firm of Gray Cary (2002) that eight sections of the Act may impact the executive leadership of SCPTC's and their organizational culture. As indicated in the *Journal of Private Equity* (2004), Fletcher, Miles, and Cary were the first to identify the eight specific sections of the Act might have a possible impact on SCPTC's. The eight sections identified in the journal were explored in the current study, and the remaining sections not included may deserve attention for future studies.

The Public Company Accounting Oversight Board (PCAOB) focuses on publicly traded entities, which have issued securities through a public offering and are traded on the open market through NASDAQ and the exchanges. The PCAOB is required by the SEC to monitor the effectiveness of the Sarbanes-Oxley Act and report any unintended consequences upon future findings (Sarbanes-Oxley Act, 2002). The PCAOB reviews proper implementation by auditors and accountants and monitors compliance composed by publicly traded companies to all sections of the Sarbanes-Oxley Act (2002). The PCAOB reports all findings to the Securities and Exchange Commission (SEC), which determines what sections of the Sarbanes-Oxley Act will be presented for review to Congress. The Sarbanes-Oxley Act does not apply to privately owned companies that

have not issued securities to the general public and are not reviewed by the PCAOB (Sarbanes-Oxley Act, 2002).

Sarbanes-Oxley is the most recent Act passed by Congress in which publicly traded companies must comply (Sarbanes-Oxley, 2002). According to E. Schein (1997), professor emeritus at the Sloan School of Management at MIT, a gap can occur between organizational elements, if the organization or leadership fails to adjust to the environment created by newfound change. Schein (1999) is known as the founding father in the field of corporate culture, and internationally consults on the subject matter to executive leadership. The impediments to change may include organizational culture driving the organizational behavior and espoused beliefs, values, and norms (Schein, 1997). Little research has been conducted to verify the controls are being used properly, or the regulatory agencies are reviewing the organizational culture of the SCPTC's and their executive leadership as discussed by Schein (1999; McDonnell, 2004; Green, 2004).

In response to public concern, Securities and Exchange Commission Chairman Donaldson introduced a new committee that examines SOX and its impact on smaller public companies. Donaldson announced the 21 members of the advisory committee in March 2005 (Securities and Exchange Commission, 2005b). This is important, since the driving force of the U.S. economy is built upon small to medium sized business, and job creation is directly tied to this factor (Fletcher & Miles, 2004). Murphy (2003) stated the unintended consequences affecting small cap companies due to the stringent standards of the Sarbanes-Oxley Act need to be addressed for corporate economic longevity (Fletcher & Miles, 2004). This exploratory case study examined the perceptions of the executive

leadership of SCPTC's and the selected sections of the Sarbanes-Oxley Act stated herein in the accounting year 2004.

### Problem Statement

The Sarbanes-Oxley Act was created to reduce fraudulent activities, improve the accuracy of financial disclosures, and raise the level of organizational corporate responsibility and accountability for all publicly traded corporations (Sarbanes-Oxley Act, 2002). This study examined the consequences of selected sections of the Act, particularly on SCPTC's and their executive leadership with a market capitalization of \$250 million and less (Block, 2004; Fletcher & Miles 2004; Green, 2004). Little research has been conducted on the impact that Sarbanes-Oxley has on these enterprises until this exploratory case study, and a concern arose that some small public companies have been affected for unknown reasons (Fletcher & Miles, 2004; Green, 2004; Securities and Exchange Commission, 2005b). If measurable unintended impacts on these publicly traded small cap corporations and their leadership were found, and these enterprises account for a large percentage of the U.S. workforce, Sarbanes-Oxley may have had a significant unintended impact on the growth of the U.S. economy (Fletcher & Miles, 2004). To facilitate an understanding of this phenomenon, an exploratory case study was imperative to identify and consider, if any, the impact of the Act on SCPTC's and how their executive leadership perceived this impact.

The purpose of this single-case study was to explore the extent of relationship between a selected set of sections of the Sarbanes-Oxley Act, and their impact as perceived by the executive leadership of SCPTC's listed in the 2004 accounting year on their respective companies. This study was conducted through a focused interview format

using the Management and Organization Needs Assessment©, the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002©, a structured survey questionnaire employing a Likert-type scale for range of response assessment (Appendix B), and structured observations of the National Association Securities Dealers Automated Quotation System (NASDAQ) Issuer Survey Sarbanes-Oxley Act of 2002 (NASDAQ, 2005) and the Sarbanes-Oxley Implementation Costs report compiled by A.R.C Morgan from data reported to the Securities and Exchange Commission (SEC) by SCPTC's as contextual background information to assist in the interpretation of the analyzed data collected (A.R.C. Morgan, 2005).

#### Purpose

The purpose of this single-case study was to explore, if any, the extent of relationship between a selected set of sections of the Sarbanes-Oxley Act, and their impact on their respective companies as perceived by the executive leadership of SCPTC's listed in the 2004 accounting year. This study was conducted through a focused interview format using the Management and Organization Needs Assessment©, the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002©, a structured survey questionnaire employing a Likert-type scale for range of response assessment, and structured observations of the National Association Securities Dealers Automated Quotation System (NASDAQ) Issuer Survey Sarbanes-Oxley Act of 2002 (NASDAQ, 2006) and the Sarbanes-Oxley Implementation Costs report compiled by A.R.C Morgan from data reported to the Securities and Exchange Commission (SEC) by SCPTC's were also used as contextual background information to assist in the interpretation of the analyzed data collected (A.R.C. Morgan, 2005). The insights from this analysis revealed

certain sections or areas of the Act passed by Congress are impeding SCPTC's and their executive leadership, which is not the original intent of the Act.

### Significance of the Study

#### *Significance of this Study's Contributions*

Since the enactment of Sarbanes-Oxley in 2002, no relevant studies have been conducted on the impact of Sarbanes-Oxley on SCPTC's (Securities and Exchange Commission, 2005b). As stated by Chief Accountant of the Securities and Exchange Commission D. T. Nicolaisen, accounting matters need to be reviewed, and has encouraged the study of the effects of Sarbanes-Oxley on SCPTC's by academics and outside researchers ("In the Public Interest," 2005).

There is no published research to date that explores the possible unintended consequence of the selected sections of the Act within this study, and this exploratory case study was conducted to identify and describe, if any, these conditions for the first time. The significance of this research assists in the understanding of how the executive leadership of small sized companies perceived the impact of Sarbanes-Oxley. The findings of this research may serve the leadership of Congress to understand the perceptions of the executive leadership of SCPTC's listed on NASDAQ in the 2004 accounting year. Future researchers and enterprise business owners may use the data to analyze further sections of the Act that may impact the organizational performance of organizational leadership for economic transitioning and other sections of the Act not considered in this study (Schein, 1997).

*Significance of this Study to Organizational Leadership*

This research pertaining to the field of organizational leadership may offer insight into the regulatory and self-regulatory organizations such as the U.S. Congress, SEC, and PCAOB. The organizational leadership research community has not created a testing method to examine the effectiveness and economic impact of Sarbanes-Oxley on the driving force of SCPTC's (Green, 2004). This exploratory case study may assist the U.S. Congress, Securities and Exchange Commission, and Public Company Accounting Oversight Board to analyze with greater validity and reliability the reform measures of the Sarbanes-Oxley Act of 2002 and the perceptions of SCPTC's executive leadership.

The results of this research were forwarded to the executive leadership of the Public Company Accounting Oversight Board that is currently reviewing all sections of Sarbanes-Oxley and the potential effects the Act may have on SCPTC's (Securities and Exchange Commission, 2005b). The results of this study may assist the Public Company Accounting Oversight Board's executive leadership decision-making process to maintain or change the selected sections of the Act included in this study. Schein (1997) stated a large portion of understanding an organization is based on its culture that assists the leadership decision-making process.

The Act was also created to help publicly traded companies adopt better management practices. The changes to the management of securities practices have been significant in complexity, cost of implementation, and consequences of non-compliance. This study may assist the leadership of publicly traded small cap companies to compare their perceptions of the consequences of the Act on their companies with the perceptions of the sample of leaders examined herein. Leaders may be better informed as a result of

the findings from this study, and may be able to use these results to make decisions that may improve the performance of their enterprises.

#### Nature of the Study

The nature of this exploratory case study was to examine the impact of the Sarbanes-Oxley Act on SCPTC's as perceived by their organizational leadership. An exploratory case study was appropriate for this type of research versus other methods, as it provides a description of a phenomenon in a real world setting using data-gathering practices and analysis for optimal results of situations that are not evident in a clear manner (Creswell, 2003; Yin, 2003). To meet acceptable validity and reliability standards, a process of analysis was conducted to treat the collected data (Creswell, 2003; Schein, 1999). Schramm (1971) stated in Yin (2003):

The essence of a case study, the central tendency among all types of case study, is that it tries to eliminate a *decision* or a set of decisions: why they were taken, how they were implemented, and with what result (p. 12).

The unique strength of the case study is the factor of overlapping data: direct observations, interviews, documents, and surveys (Yin, 2003). A survey within an exploratory case study can attempt to deal with phenomenon and context when embedded in the original design of the study (Yin, 2003). For the purpose of this research the enactment of the Sarbanes-Oxley Act implemented in 2002 will be treated as a single event.

Three methods of data collection were used to collect information from the organizational leaders of the SCPTC's included in this research study. These included a focused interview format, a structured survey questionnaire employing a Likert-type

scale for range of response assessment, and structured observations of the National Association Securities Dealers Automated Quotation System (NASDAQ) Issuer Survey Sarbanes-Oxley Act of 2002 (NASDAQ, 2006) and the Sarbanes-Oxley Implementation Costs report compiled by A.R.C Morgan from data reported to the Securities and Exchange Commission (SEC) by SCPTC's were also used as contextual background information to assist in the interpretation of the analyzed data collected (A.R.C. Morgan, 2005). The focused interview format will be in the form of the Management and Organization Needs Assessment© MONA, created by Dr. Timme Helzer (2003). MONA was used in this case study to gather focused information from organizational leadership about their compliance with the Act without manipulating their behavior in a particular way in their SCPTC setting (Creswell, 2003). MONA was based on Kelly's Psychology of Personal Constructs (PPC), which allows the interviewee to use their own reflection of thought, versus the interviewer voicing their personal opinion, which may produce bias, and was conducted using a random sample formula (Creswell, 2003).

To gather more specific information from the sample of organizational leaders about their small cap companies' compliance with specific provisions of the Act, a survey questionnaire using a Likert-type scale was employed with the executive leadership who participated in MONA. The Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© was distributed to the executive leadership of SCPTC's listed on NASDAQ in the 2004 accounting year with a market capitalization of 250 million and under and first answered the questions validated in MONA. Participants were expected to respond, using the five-point Likert-type scale, to 30 pre-validated survey questionnaire constructed to

elicit and collect their perceptions of the impact, if any, of Sarbanes-Oxley on their respective organizations.

Triangulation was used to increase the validity and reliability of the information collected in this study. According to Creswell (2003) triangulation promotes the validity of data, which allows the exploration of a variety of methods to understand a comprehensive explanation of data shown. Leedy and Ormrod (2001) described triangulation as “comparing multiple data sources in search of common themes” (p. 106). Companies surveyed for the triangulation process were publicly traded on NASDAQ in the 2004 accounting year. In order to adequately interpret the analyzed information collected from the focused interview and structured survey questionnaire, other focused observations were made with NASDAQ and A.R.C Morgan using SEC documents currently compiled during this study, as well as the revisions to the Act that are currently contemplated. The triangulation method used in this research assisted in a better understanding of the potential effects, if any, of Sarbanes-Oxley on small publicly traded companies in the 2004 accounting year.

#### Research Questions

The Sarbanes-Oxley Act was written and enacted to reduce fraudulent activities, increase financial disclosures, and raise the level of organizational corporate responsibility and accountability for all U.S. publicly traded corporations (Sarbanes-Oxley Act, 2002). The purpose of this exploratory case study was to identify and describe the impact, if any, of selected sections of the Sarbanes-Oxley Act on small capitalization publicly traded companies, as perceived by the leadership of these companies. The primary research question of the current study was: *How congruent are the basic*

*underlying assumptions expressed by the executive leadership of small capitalization publicly traded companies with the stated purposes of the Sarbanes-Oxley Act of 2002?*

By evoking, collecting, and analyzing the perceptions of a sample of the executive leadership of these companies regarding the Sarbanes-Oxley Act, this study may assist the leadership of publicly traded small cap companies to compare their perceptions of the consequences of the Act on their companies with the perceptions of the sample of leaders examined.

### Conceptual Framework

Congruity in an organization's culture may distinguish stronger firms from weaker firms in Western industrial civilization (Kotter & Heskett, 1992; Want, 2003). In order to adequately study the potential unintended effects, if any, of the Sarbanes-Oxley Act on SCPTC's and their executive leadership, a theoretical framework was needed to guide this work. The following three theories guided the study: (a) change and complexity theories, (b) organizational culture theory, and (c) leadership theory.

#### *Change and Complexity Theories*

*Change theory.* As with Darwin's theory of evolution, organizations go through constant change, restructuring, and adaptation. The information age has brought organizations into an era of rapid technological growth, new work environments, societal pressures for change, the elimination of multiple layers of management, increased corporate malfeasance, and many other issues not seen in prior ages (Senge, 1990). Perrow (1986) stated bureaucratic models are failing due to non-adaptability to change and reform and organizational hierarchies are collapsing such as Enron, Arthur Andersen, and MCI WorldCom. Senge (1990) argued organizations need to change from reacting

organisms to entities that are focused on creating a positive future as a whole. The intent of Sarbanes-Oxley was to have positive effects in the future direction of corporate governance, and how publicly traded entities react to corporate malfeasance. The adaptation process of the internal culture of these entities on their leadership may need to be examined and reviewed during the process for them to achieve the benefits intended by this Act (Schein, 1992; Green, 2004).

Critics of Sarbanes-Oxley have argued the Act is a short-term fix for a long-term problem (Fletcher & Miles, 2004). The culture of an organization cannot adapt to change immediately, and as Kurt Lewin stated, “You cannot understand an organization until you try to change it” (Schein, 1992, p. XV). Regulated change is occurring in publicly traded corporations with the inception of Sarbanes-Oxley, with corporations adding personnel and processes and change practices to achieve compliance with the Act (Green, 2004). The unintended consequences, if any, were not understood at the time of this study without analyzing how these changes may be influencing the decision making process of corporate executive leadership in managing this change.

*Complexity theory.* The systems for change exist, but may not be integrated with current management practices (Checkland, 2002). Merging government regulation into complex corporate systems such as publicly traded entities is a difficult process, and the outcome, positive or negative, can be determined by analyzing the current culture, environment and leadership process of these entities (Schein, 1998). The complexity and overwhelming amount of knowledge being provided in modern organizational settings is almost more than anyone can absorb without dissecting all of the components of the process first and foremost (Senge, 1990). The complexity of the Sarbanes-Oxley

regulations may or may not be producing some unintended consequences on small cap publicly traded companies, which this study further focused (Green, 2004).

### *Organizational Culture Theory*

The concept of organizational culture, as it applies to the implementation of Sarbanes-Oxley on small cap publicly traded organizations and their leadership in the U.S. helps define conditions of any corporation (Trice & Beyer, 1993). The Management and Organization Needs Assessment© (MONA) is a series of three focused interview questions used to describe corporate leaders' expected and actual SOX compliance performance, and the causes of any differences noted. The assessment asks what you are expected to achieve; what you are achieving; and are there any differences between the two. MONA is based on Kelly's Psychology of Personal Constructs, and was developed for the specific purpose of this study. As Trice and Beyer state, the concept of organizational culture may account for how an entity perceives and understands their work experience and environment, how behaviors are accepted or denied, and how groups may perceive commonly experienced events in different ways. Organizational culture must be identified at all distinct levels of a corporation's operation to clearly understand the complexity of the distinct levels, and understand how the culture manifests itself (Schein, 1997). According to Schein (1997), organizational cultures have three levels: artifacts, or the events, conditions and physical materials or evidence of support; espoused values, or the philosophy the organization's people say they believe in relative to the organization's purpose; and basic underlying assumptions, or the actual preferences and beliefs the organizations people act upon.

Level 1 includes the organization's visible operations and organizational structures. Level 2 is the espoused justifications, or philosophies, goals, and strategies. Level 3 is the unconscious beliefs, thoughts, feelings and perceptions that are taken for granted (Schein, 1997). This exploratory case study relied on the components of this conceptual framework to guide the investigation, analysis, and understanding of the possible affects that Sarbanes-Oxley may create, as perceived by the organizational leadership on SCPTC's. As a hypothetical example of the use of this conceptual framework in this study, the new law and company policies may be considered as tangible artifacts, while company statements of intended compliance serve as evidence of espoused values (Schein, 1997). The actual behavior of company leaders grow out of the basic underlying assumptions made by the company leaders as stated by Schein (1997).

Kotter and Heskett (1992) found through extensive research conducted across 22 industries in the for-profit sector, that the corporate culture could have a significant impact on the long-term economic growth and performance of an organization. Green (2003) stated understanding the effects of Sarbanes-Oxley on the corporate culture of an organization's performance is critical to financial success. This study carefully examined the perceptions of organizational leadership of the effects of the Sarbanes-Oxley Act of 2002 on SCPTC's within the context of Schein's (1997) three-level theory of organizational culture. It may be that several of the basic underlying assumptions acted upon by corporate leaders at Enron, Tyco, Global Crossings, Adelphia, and others were not in the best interest of shareholders, employees, customers, and the leaders themselves. For the purpose of this exploratory case study, it was important to also consider the

concepts of servant leadership and stewardship theory, and the decision-making choices corporate leaders have made regarding their company's compliance with SOX.

### *Servant Leadership and Stewardship Theory*

Business mediocrity has become one of the nation's biggest growing concerns. Servant leadership and stewardship has become a forefront issue, in which organizations are in need to find organizational purpose and direction (Block, 1996). Moral leadership and moral actions within an organization's framework, and the leadership requirements to transform an organization to a more fair distribution of profits and power is one of the intents of the Sarbanes-Oxley Act (Green, 2004). Block (1996) described stewardship as a set of principles, which create change within the organizational structure. A strong sense of ownership occurs when responsibility is placed throughout the organization. Promoting stewardship within an organization can lessen the chances of fraudulent activities (Block, 1996), and the Sarbanes-Oxley Act may assist with creating positive change towards stewardship. Block (1996) believed we are embarking on a new game in post modernism and stewardship, and the use of concepts with regards to creating meaning and reality as far as stewardship moves the leadership responsibilities from personal executive priorities, to those of the organizations.

This exploratory case study researched the possible unintended consequences of SOX on the executive leadership of SCPTC's, considering corporate leadership choices in the context of servant leadership and stewardship theory, which is the direct cause of the implementation of the Sarbanes-Oxley Act (Green, 2004). The methodology used to describe and identify the perceptions of corporate leadership of SCPTC's was a three step process. A focused interview with 23 executives who are personally responsible for SOX

within their respective organizations using MONA based on Kelly's Personal Constructs was first utilized. Second, the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002 survey questionnaire was conducted using a data base provided by Moss Adams Accounting firm powered by Zoomerang. To conclude triangulation methods data analysis of the National Association Securities Dealers Automated Quotation System (NASDAQ) Issuer Survey Sarbanes-Oxley Act of 2002 (NASDAQ, 2006) and the Sarbanes-Oxley Implementation Costs report compiled by A.R.C Morgan from data reported to the Securities and Exchange Commission (SEC) by SCPTC's (A.R.C., 2005) for pattern matching as described by Donald Campbell (1975) was conducted for a basis of theoretical theory (Yin, 2003).

#### Definitions

Specific terms and phrases that have specific definitions and meaning relative to government compliance, regulated corporate financial transitions, the field of organizational leadership, the specific population selected, and the legal terminology of the Sarbanes-Oxley Act of 2002 are defined herein. These terms necessitate a common understanding, acceptance and use of various operational definitions.

The following terms and phrases and their accompanying definitions are listed in alphabetical order:

*Audit Committee:* A body established by the stock issuer's board of directors for reasons of overseeing all financial and reporting methods and processes, and which audits and verifies the completeness and accuracy of the statements of the issuer (Sarbanes-Oxley Act, 2002).

*Executive Leadership Survey of the Sarbanes-Oxley Act of 2002*©: A 30-question survey using a Likert-type scale employed to collect self-report responses by executive leaders about how they perceive how executive leaders see their compliance with SOX requirements impacting their companies (see Appendix B; Helzer, 2005).

*Exploratory Case Study*: The initial examination and consideration of a particular situation or phenomenon in great detail (Leedy & Ormond, 2001).

*Issuer*: A publicly owned company, which registers their stock with the Securities and Exchange Commission and is traded on any respective securities exchange (Sarbanes-Oxley Act, 2002).

*Mandated De-listing*: NASDAQ and the U.S. exchanges have minimum requirements that must be met by the publicly traded company to remain in compliance. If the company does not meet these requirements, NASDAQ or the exchanges will mandate the company de-list (InvestorWords, 2005).

*Management and Organization Needs Assessment*© (*MONA*): A series of three focused interview questions used to elicit responses describing corporate leaders' expected and actual SOX compliance performance, and the causes of any differences noted. MONA is based on Kelly's Psychology of Personal Constructs (Helzer, 2005).

*Registered Accounting Firm (RAF)*: A public accounting firm that practices Generally Accepted Accounting Procedures, and is registered with the Board of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act, 2002).

*Private Company*: A company that is not publicly traded on the exchanges, and is not registered through the Securities and Exchange Commission (InvestorWords, 2005).

*Public Company*: A company that has issued securities through a public offering, and is traded on the open market through one of the exchanges (InvestorWords, 2005).

*Sarbanes-Oxley Act of 2002 (SOX)*: Created in the 107th Congress of the United States of America, enacted by the Senate and House of Representatives of the United States of America in Congress, a law written to “protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes” (Sarbanes-Oxley Act, 2002, p 1. ).

*Securities and Exchange Commission (SEC)*: A Federal agency that monitors the publicly traded securities industry and regulates their practices to protect the investing public from fraud, excessive risk, and monopolistic practices (InvestorWords, 2005).

*Small Cap Publicly Traded Companies (SCPTC's)*: Small publicly traded companies with a market capitalization of \$250 million and less traded on one of the securities exchanges or NASDAQ.

### Assumptions

It was assumed for the purposes of this study that the executives in the firms participating in the study were the most knowledgeable about the financial decisions made by their firm as regulated by SOX. It was assumed that the executives to the best of their knowledge and ability answered the structured survey questionnaire and focused interview questions in an honest and forthright manner, under conditions of anonymity and confidentiality provided by the researcher. This study was limited to those who agreed to participate on a voluntary basis without compensation. The subjects surveyed were required to meet deadlines and other constraints. The reliability and validity of the research was limited in part by the reliability of the survey and interview, both of which

had been pre-validated, and the validity of the methods employed to gather what information they are purported to collect. It was also limited in part to the veracity and accuracy of those corporate leaders of small cap public companies who were interviewed under conditions of anonymity and confidentiality guaranteed by the researcher as a part of the representative sample of this research study.

### Scope, Limitations, and Delimitations

#### *Scope*

This study surveyed the perceptions of the executive leadership of 23 publicly traded U.S. corporations with a market capitalization of \$250 million and under as to the possible affects of specific sections of the Sarbanes-Oxley Act on their respective organizations. The focus of this exploratory case study was on the description, if any, of the effects of sections 201, 203, 301, 302, 402, 403, 406, and 409 of the Sarbanes-Oxley Act on SCPTC's as perceived by their executive leadership. The sample was representative of approximately 4.5% of the SCPTC's population, and was conducted in a 30-day period by random sample. Only the responses of the executives who met the prerequisites of the study were included in the analysis of the collected information. Although there are other sections of the Act, they were outside of the scope of this research.

#### *Limitations*

The study is limited to the executive leadership of small cap publicly traded companies in the year 2004 and a 30-day period for responses. This study focused on Sections 201, 203, 301, 302, 402, 403, 406, and 409 of the Sarbanes-Oxley Act of 2002.

Only these sections were included in the study of the 67 sections of the original Act (Sarbanes-Oxley, 2002).

### *Delimitations*

Delimitations of this research included the fact that a new entity was established by the PCAOB to examine the same issues addressed in this research, and was being conducted in the same time frame, and access to these new research findings was not opened to the public to include in this study (Securities & Exchange Commission, 2005b). The Act's compliance deadlines for small publicly traded companies were extended twice during this study to the 2007 accounting year. Board of Directors, stockholders, and other stakeholders were not considered for this research. Executives that were in prison and convicted of corporate fraudulent activity were not included in this study due to time constraints, delays, and the criteria set by the International Human Subjects Research Standards.

### Summary

The primary purpose of the exploratory case study was to identify and describe the impacts of the Sarbanes-Oxley Act of 2002 on SCPTC's with a market cap of 250 million and under listed on NASDAQ in the 2004 accounting year, as perceived by their organizational leaders. The recent enactment of Sarbanes-Oxley in July 2002 and the phased in initial implementation provided very little time and experience for compliance performance information to become available on which to base research on the effects of Sarbanes-Oxley on the organizational strategies of small cap publicly traded entities (Securities & Exchange Commission, 2005b). It was not known on what basis decisions were not made and actions taken or not taken by the leadership executives of these

companies. The findings in this research may assist the U.S. Congress and SEC in reviewing the intended and actual impact of the Act and its possible revision for the improved benefit of investors and publicly traded entities. Chapter 2 discusses the current literature and the related germinal resources available on Sarbanes-Oxley and organizational leadership and development. All relevant studies that prompted this case study will have been included.

## CHAPTER 2: LITERATURE REVIEW

The recent enactment of Sarbanes-Oxley has created questions posed by regulatory agencies among others as to the unintended consequences of the Act now regulating the financial reporting of small cap publicly traded companies (Fletcher & Miles, 2004). This exploratory case study describes the historical events that occurred, which directly relate to the creation of the Sarbanes-Oxley Act, and the limited research available on the impact since the Act's creation in 2002. Chapter 1 contained a presentation of the problem, purpose, and background that led to the undertaking of this study. Chapter 2 includes a historical overview and current findings. It will also examine the current literature relevant to this case study. The following will be included in the literature review that may add significant insight to this case study: (a) an outline of the Securities Act of 1933 and Exchange Act of 1934, which provides the basis of change for most amendments of Sarbanes-Oxley, (b) statements of the titles and sections of the Sarbanes-Oxley Act included in the study, (c) discussions of the cost of compliance and the issues of reform, (d) displays the statistical data about public companies that returned to a private status, (e) presentations of comparisons of the effects of similar situations of the unintended consequences of Sarbanes-Oxley in the corporate sector, (f) and concludes with a summary of the organizational leadership issues introduced previously.

### Titles Searches, Articles, Research Documents, and Journals

The literature review for the purpose of this study was conducted using a variety of resources. The major database collections of several online libraries were utilized and dissertation databases. Literature used to conduct this study was obtained from peer-reviewed articles in scholarly journals, germinal books, and government websites.

Due to the very recent enactment of Sarbanes-Oxley and the limited time the Act has been in force, very few peer-reviewed sources were available at the time of this review to provide peer-reviewed references in every instance. Little research is available on the positive affects of the Sarbanes-Oxley Act due to its recent enactment (Securities & Exchange Commission, 2005b). Due to the nature of this study and the reliance in part on U.S. government documents, several included sources that were not peer-reviewed, which add significance to the body of knowledge and understanding of this inquiry were added. The Sarbanes-Oxley Act was enacted in the 2002 accounting year with a phased in-implementation requiring the first full year of full compliance in the 2007 accounting year (Securities & Exchange Commission, 2005d). Research on the effects of small publicly traded companies is limited (Securities & Exchange Commission, 2005b). Reference lists obtained from peer-reviewed journal articles, leadership sources, and books on Sarbanes-Oxley and organizational theory were used to explore the subject matter. Table 1 provides an overview of sources considered.

Table 1:

*Overview of Major Literature Title Searches*

Topic of examination	Peer reviewed articles	Industry articles: Government documents	Books
Leadership	9	2	12
Sarbanes-Oxley	22	10	3
Organizational performance	8	2	12
Research methodology	2	3	9

## Historical Overview

Corporate officers and managers are directly responsible for the preservation of the shareholders' investment in a company (Jordan, 2004). Unethical corporate practices have moved Congress to enact the Sarbanes-Oxley Act to counter corporate malfeasance in the future (Jordan, 2004). Although there are many concepts on how corporate reform should be structured, numerous citations in the literature indicate that current corporate reform measures enacted by the Sarbanes-Oxley Act may have some unintended consequences on small cap publicly traded companies and their executive leadership (Fletcher & Miles, 2004). There are many reasons for the collapse of corporations. The most egregious acts, such as those committed by Arthur Anderson, MCI WorldCom, and Enron, have received the most attention (McDonnell, 2004).

Research conducted on Fortune 500 companies between 1995 and 2000 by Sanford Bernstein found that approximately 33% of all corporate profits during this time span were due to one accounting scheme, namely stock options (Bernstein, 2002). Statistically, 33% of prestigious corporate leadership may be involved in accounting malpractice in some form (Bernstein, 2002). Bernstein stated the primary area of failure recognized today in U.S. corporations is segregating or insulating the financial department of a corporation from the actual operations of the organization itself. Lack of accountability by corporate officers, directors, and managers with respect to the financial operations of the corporation has also been asserted as the reason for Sarbanes-Oxley (Green, 2004). Until recently, regulatory efforts have been focused on the accounting professions, instead of corporate leaders who are directly responsible (Green, 2004).

Sarbanes-Oxley was enacted and implemented to tighten corporate reform, reassure investors, and strengthen the economy, but Phillips (2002) believed the regulatory controls are basically short-term solutions that will not create a system that effectively works until more thorough research has been conducted on the implementation process and the organizations cultural environment. With the collapse of some of the worlds largest corporations and the indictments and convictions of some of today's corporate leaders revealed on a seemingly daily basis, the issues of leadership, organizational change, financial failure, ethics, and integrity have been brought to center stage (Baugh, 2003). In 2007, as Sarbanes-Oxley finalizes all implementation dates, there is a growing pressure on corporations to find financially competent CEOs and CFOs, but efforts by senior-level executives capable of moving into leadership positions of small publicly traded entities may be thwarted by the projected costs and legal liabilities imposed on them (Engle, Hays & Wang, 2004). The avarice, lack of integrity and failure of many executives may have been factors leading to the creation of one of the most restrictive Acts in corporate America since the Securities and Exchange Act of 1934 (Read, Rama, & Raghunandan, 2004). The financial mismanagement practiced by large corporations may have also adversely affected SCPTC's, which legally will be implemented to regulate all public companies by the Sarbanes-Oxley Act of 2002 by the year 2007 (Green, 2004). How Congress and public corporations will deal with these issues, and regain the public's faith in the future will be key to the recovery and growth of the economy, and the culture of an organization is one of the first areas that need to be reviewed (Block, 2004). As a result of the Sarbanes-Oxley Act of 2002, the following changes specifically selected for the purposes of the current exploratory case study have

been required of the executive leadership of publicly traded firms, which include, but are not limited to the following:

1. Auditor Independence: The practice and scope of auditing, pre-approval requirements, auditor rotation, reporting, conforming standards, conflicts, and regulatory authority's considerations.

2. Corporate Responsibility: Audit committees, conduct, bonuses and profits, penalties, insider trading, responsibilities of attorneys and investor funds.

3. Enhanced Financial Disclosures: Periodic reports, conflict of interest, principal stockholders, internal controls, ethics, and disclosures.

4. Analysts Conflict of Interest: Security analyst treatment by regulatory and self-regulatory agencies.

5. Commission Resources and Authority: Appropriateness, authorization, appearance before the Commission, penny stocks, and qualifications of securities brokers and dealers .

6. Studies and Reports: Public accounting consolidation, credit rating agencies, violators and violations, enforcement actions, and investment banks.

7. Corporate and Criminal Fraud Accountability: Alteration of documents and criminal penalties, debts, securities fraud statute of limitations, obstruction of justice, protection of employees, and criminal penalties.

8. White Collar Crime Penalty Enhancements: Conspiracy, mail and wire fraud, Employee Retirement Income, and corporate responsibility.

9. Corporate Tax Returns: Corporate tax returns and signatory rights of chief executive officers.

10. Corporate Fraud and Accountability: Tampering of records, temporary freeze of documents, sentencing guidelines, criminal penalties, and informant retaliation.

*The Securities Act of 1933 and Exchange Act of 1934*

The Sarbanes-Oxley Act of 2002, drafted by Senator Paul Sarbanes (D-Maryland) and Representative Michael Oxley (R-Ohio), implemented legislation that amended sections of the Securities Act of 1933 and the Securities and Exchange Act of 1934 (Sarbanes-Oxley Act, 2002). The Securities Act of 1933 was rushed through Congress shortly after President Franklin D. Roosevelt took office, and it was known to be the most revolutionary banking bill introduced to protect investors from fraudulent securities offerings in its time (Seligman, 1982). According to President Roosevelt (1933), the bill was the first part of an evolving trend to protect investors:

The Federal Government cannot and should not take any action which might be construed as approving or guaranteeing that newly issued securities are sound in the sense that their value will be maintained or that the properties which they represent will earn a profit...There is, however obligation upon us to insist that every issue to be sold in interstate commerce shall be accompanied by full publicity and information.

(Seligman, 1982, p. 53)

Similar to the Sarbanes-Oxley Act, the Securities Act of 1933 was created after wide spread fraudulent activities were revealed in the banking and securities industry. The Pecora Investigation, led by New York Attorney General F. Pecora, successfully unveiled political and corporate malfeasance (Geisst, 1997). Once the Pecora investigation determined that businesses which offered commercial banking and the

securities business together were costing individual investors millions in lost holdings in the debt and equities markets combined, the separation of the two banking systems was forced upon all financial entities (Geisst, 1997). The Securities and Exchange Commission was formed to oversee the reform, and the NASD was created in 1939 following the Maloney Act of 1938 to regulate the over-the-counter market, much like the PCAOB has now been created to monitor the reform of the Sarbanes-Oxley Act (Geisst, 1997).

Congress created The Securities and Exchange Act of 1934 to empower a governing board, and the Securities and Exchange Commission to regulate the securities industry, including the exchanges such as the National Association of Securities Dealers (NASD), the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), as well as brokerage firms, clearing agencies, and transfer agents among various other entities in the securities industry (Geisst, 1997). The Act of 1934 also monitored and prohibited certain activities which provided the Commission with power to discipline, and require publicly traded companies to meet certain reporting requirements to protect investors from insider trading and other fraudulent activities (Geisst, 1997). A majority of the Sarbanes-Oxley Act of 2002 is an amendment process of the Acts of 1933 and 1934 to tighten reform in areas that have not been addressed for over 60 years in the public accounting profession (Green, 2004).

#### *Changes Enacted by the Sarbanes-Oxley Act of 2002*

Changes have been made to the Securities Act of 1933 and Securities and Exchange Act of 1934 after the finalization of the Sarbanes-Oxley Act of 2002, which may, or may not affect the executive leadership and the culture of SCPTC's (Fletcher &

Miles, 2004; Green, 2004). The listed sections are not a complete list of changes in its entirety. Sections 201, 203, 301, 302, 402, 403, 406, and 409 of the Sarbanes-Oxley Act selected for inclusion in this study were reviewed. Experts who have identified these sections for review include the global law firm of DLA Piper Rudick Gray Cary, L. B. Fletcher, an associate professor in the School of Accountancy at Georgia Southern University, and M. P. Miles, a professor in the Department of Marketing at Georgia Southern University (Fletcher & Miles, 2004). According to these experts, the following Sarbanes-Oxley (2002) regulations may create burdens on small companies, and certain sections may need to be examined for possible unintended consequences:

1. Title II-Auditor Independence: Section 201: Services outside the scope of practice of auditors and Section 203: Auditor partner rotation.
2. Title III Corporate Responsibility: Section 301: Public company audit committees and Section 302: Corporate responsibility for financial reports.
3. Title IV-Enhanced Financial Disclosures: Section 402: Enhanced conflict of interest provisions, Section 403: Disclosures of transactions involving management and principal stockholders, Section 406: Code of ethics for senior financial officers, and Section 409: Real time issuer disclosures.

These sections under the Sarbanes-Oxley Act may or may not have had an effect on the executive leadership of small cap publicly traded companies. Each section is listed under its appropriate title, and has been identified by Fletcher and Miles (2004) and other professionals as possible sections that may be affecting small cap publicly traded companies as perceived by their executive leadership.

*Title II-Auditor Independence*

*Section 201: Services outside the scope of practice of auditors.* A registered public accounting firm may be approved for non-audit services such as tax services for an issuer if the function has met pre-approval requirements by the audit in advance, and deems it appropriate in consideration of the general public. In a case-by-case basis, the Board can exempt any parties from the prohibited activities as listed under Section 201 if they feel the exemption meets the requirements of protection for the general public, from the issuer, accounting firm, audit agency, or person. The following amendments have been added to the Securities and Exchange Act of 1934-Section 10A (15 U.S.C 78j-1). According to the Sarbanes-Oxley Act of 2002, prohibited activities for registered public accounting firms working with any issuer in an auditing realm as stated by the Commission cannot provide non-auditing services, which include:

1. All bookkeeping functions and services as they relate to the financial statements of the issuer or client.
2. Implementation and systems design of any financial information pertaining to the issuer or client.
3. Any valuation services, contribution-in-kind reporting, appraisals or opinions of fairness for the issuer or client.
4. No actuarial services of any kind can be offered to the issuer or client.
5. Outsourcing services for internal auditing.
6. Working with the issuers' human resource department on management functions.

7. Any investment advisory services, banking services, broker or dealer functions are not allowed to the issuer or client.
8. Expert services that are not related to the audit, such as legal advice are not allowed.
9. The Board can determine at any time what other services are deemed impermissible.

*Section 203: Audit Partner Rotation.* The Securities and Exchange Act of 1934 (15 U.S.C. 78j-1) Section 10A was amended in concern to audit partner rotation. Registered public accounting firms shall not offer an issuer audit services in the sixth year if the lead audit partner of the accounting firm provided audit services for the past 5 consecutive fiscal years (Sarbanes-Oxley Act, 2002).

*Title III-Corporate Responsibility*

*Section 301: Public Company Audit Committees.* The following amendments have been added to Section 10A of the Securities Exchange Act of 1934 (15 U.S.C 78f): Any issuer of a security is bound by the rules of the Commission through the national securities exchanges and associations to registered public accounting firms responsibilities.

The issuers audit committee will be held responsible for the oversight of all work completed by the registered public accounting firm in which the issuer employs. This includes compensation and resolution of any disagreement between management and the auditor practicing for the issuer. According to the Sarbanes-Oxley Act of 2002, the registered public accounting firm must report to the audit committee of the issuer.

1. The issuer's audit committee must be a member of the board of directors and maintain an independent status. To meet the criteria of independent status, members of the audit committee under the issuer's realm may not consult, advise, receive other compensation, or be an affiliated entity of the issuer. The Commission holds the right to exempt any of the responsibilities of the issuers audit committee in certain circumstances.

2. Audit committees will establish guidelines for complaints regarding accounting, controls and matters imposed upon the issuer. This includes complaints by employees who are anonymous or confidential.

3. Advisors and independent council can be obtained by the issuers audit committee as deemed necessary.

4. The audit committee shall inform the issuer of adequate funding to compensate the registered public accounting firm and any advisors hired by the audit committee.

*Section 302: Corporate Responsibility for Financial Reports.* The Commission requires all companies filing reports under the Securities and Exchange Act of 1934 section 13(a) or 15(d) (15 U.S.C. 78m, 780(d)). According to the Sarbanes-Oxley Act of 2002, all entities signing annual or quarterly reports, including but not limited to the principal executive officer, financial officer, or persons acting in a similar function must abide by the following:

1. The signor has reviewed the report.
2. The report is true in nature as far as the signor understands to the best of his or her knowledge, and contains no untrue or misleading data.

3. All information contained within the financial reports of the issuer concerning the material respects of the financial statements for the periods shown are true to the signing officers understanding.

4. Officers with signing rights maintain controls internally, design controls so that other officers in subsidiaries are aware of the process, review the effectiveness of the controls 90 days prior to reporting, and state their findings of the success ratio of the controls on the evaluation date.

5. The issuer's signing officers divulge all information to the audit committee and issuers auditors of any and all deficiencies seen regarding internal controls that would negatively affect the outcome of the report, and introduce any weaknesses, fraud, management discrepancies, or internal control deficiencies.

6. All corrections will be stated regarding the controls that could affect the report subsequent to the evaluation date.

#### *Title IV-Enhanced Financial Disclosures*

*Section 402: Enhanced Conflict of Interest Provisions.* The Securities and Exchange Act of 1934-Section 13 (15 U.S.C. 78m) has been amended regarding executives prohibition of personal loans, to include the following: It is unlawful for a director or officer of an issuer or subsidiary under the issuer of the Sarbanes-Oxley Act to extend any loans, arrange lines of credit, maintain credit, or renew past loans for personal purposes (Sarbanes-Oxley Act, 2002).

*Section 403: Disclosures of Transactions Involving Management and Principal Stakeholders.* The Securities and Exchange Act of 1934 has been amended in Section 16 (15.u.s.c. 78p) in the following areas: All beneficial owners maintaining more that 10%

of a registered equity security, which includes, but is not limited to principal stockholders, officers, and directors, are required to file statements with the Commission and any exchange the issuer is listed upon within ten days of ownership. All statements will be filed electronically, which will be posted on the Internet for general public access. It is the issuers' responsibility to post the statement on their own website within 24 hr of the original filing (Sarbanes-Oxley Act, 2002).

*Section 406: Code of Ethics for Senior Financial Officers.* A code of ethics must be maintained for all officers, including financial executives, comptrollers, principal officers and any persons acting in the same duty. The code of ethics will promote ethical and honest conduct among officers, and explain conflict resolution practices of professional and personal behavior. All reporting must include the accurate, fair and ethical behavior of officers, which is filed with the Commission under the issuer (Sarbanes-Oxley Act, 2002).

*Section 409: Real Time Issuer Disclosures.* The Securities and Exchange Act has been amended under Section 13 (15 U.S.C. 78m) of the following: All issuers will disclose in easily readable form any changes in financial condition, new trends, operation occurrences, and any like information that will assist in the general public and investors decision process of the company in a timely fashion (Sarbanes-Oxley Act, 2002).

Michael Oxley (R-Ohio) understands the costs to comply with the Act exceed those of the past; and Oxley stated, "Money is the language of business, and if Sarbanes-Oxley didn't cost anything, it probably wouldn't mean anything" (Barlas, 2004, p. 18). Sarbanes-Oxley has been criticized as a futile overreaction caused by a few firms and their egregious conduct in the United States marketplace (Green, 2004). Many countries

such as Australia, Canada, Chile, India, Mexico, and the EU are creating like policies (Ho & Wong, 2004). It is questionable if one approach will work for all companies, and may be unsuitable in some cases. Legitimate reasons as to why certain organizations should not follow specific expectations may exist, but these explanations have yet to be tested and verified (Ho & Wong, 2004). It is suspected that corporations are finding compliance with Sarbanes-Oxley is a daunting and expensive task. Proponents of the Act state the initial stages of compliance are the most complex, and the process over the course of the years will soon be simplified, and will provide companies with opportunities to focus more on corporate effectiveness and improvement (Rainey, 2004).

Sarbanes-Oxley has notable costly effects, and the second year of compliance may be less costly and more comprehensive (Green, 2004). In many cases, public companies took a short-term solution approach to meet compliance deadlines (Swartz, 2004). Change is inevitable in organizational structure, and the new measures of Sarbanes-Oxley will become more simplified in time, just as have the implementation of the Securities Act of 1933 and Securities and Exchange Act of 1934 (Dittmar, 2004).

### Current Findings

#### *Costs of Compliance*

Fletcher & Miles (2004) believe the costs of Sarbanes-Oxley may reduce the benefits for many smaller publicly traded companies due to monetary reasons. Green stated (2004) corporate cultures may be changing after the implementation of SOX, and costs may be accountable for some portion of this: “Without a strong control culture and an effective monitoring program, there is a much greater chance that the company will experience a severe loss” (p. 46). Some believe increased accounting costs and measures

due to the implementation of Sarbanes-Oxley, which have been estimated by professional association accountants to cost more than a \$100,000 to establish, with an additional \$50,000 a year in maintenance fees, may be impacting the executive leadership of small cap publicly traded companies (Fletcher & Miles, 2004). According to some sources, 48% of publicly traded companies will pay at least \$500,000 in the initial year to remain in compliance (Engel, Hayes, & Wang, 2004). Some of the initial compliance costs are fixed regardless of company size or market capitalization, so the financial burden weighs more heavily on smaller entities with smaller market capitalization than larger corporations (Engel, Hayes & Wang, 2004). PricewaterhouseCoopers International Public Accounting Firm (2003) reported 31% of the auditing committees of companies that issue stock have engaged outside consulting practices to properly meet requirements of Sarbanes-Oxley. In 2003, discussions of 2,400 audit committee members in the KPMG Audit Committee Roundtable determined that approximately 44% of the audit committees would hire outside consultants for advice in the following year, which will increase costs as much as 100%, and could hinder corporate executive leadership and their companies (D'Aquila, 2004).

Foley & Lardener law firm estimated the costs for an Initial Public Offering (IPO) will increase approximately 100% due to increased compliance costs in conforming to Sarbanes-Oxley. The number of privately owned companies increased in 2003 after the first year the Act was implemented (D'Aquila, 2004). Small, medium and large publicly traded entities fall under the same Sarbanes-Oxley guidelines, and smaller companies may face disproportionately greater compliance costs than larger entities, which is a central point of exploration in this case study (D'Aquila, 2004).

Section 301 may have larger financial implications on the executive leadership of small to medium sized firms. Protiviti surveys reported that CFOs included in the survey indicate that approximately 38% of the companies, which issue stock, do not currently maintain an internal audit department. Conversely, approximately 9% of large organizations, which maintain over \$500 million in revenues annually, do not currently have an internal auditing department (D'Aquila, 2004). Surveys taken by PricewaterhouseCoopers in 2003 indicate 58% of executives find issues regarding compliance costly in smaller companies, versus 38% that believe compliance is costly for larger companies. The survey splits costs from small to large at under and over \$1 billion respectively. According to D'Aquila (2004), direct costs reported by Financial Executives International for companies ranging in annual revenues between 25 million and over 5 billion are as follows respectively for small to large companies annually:

1. Internal work: Range: 1,150 to 35,000 hour; Average: 12,000 hour
2. External work: Range: 846 to 6,197 hour; Average: 3,000 hour
3. Other fees: Range: \$52,000 to 1.5 million; Average: \$590,000

The 2004 Financial Executive Report on Sarbanes-Oxley conducted by Oversight Systems, a financial reporting company, found that in spite of high compliance costs and drastic changes in accounting methods, by and large financial executives are still in favor of the Act (Williams, 2005). The survey included 222 online surveys which were conducted through invitation of financial leaders and included companies with revenues between \$250 million or less to \$5 billion and over in annual revenues. Respondents were CFOs, controllers, treasurers, vice-presidents, or directors. According to Williams (2005), statistically, the sample was divided into the following categories:

1. Twenty five percent of the respondents reported more than 5 billion in annual revenues;
2. Twenty five percent of the respondents reported less than 5 billion in annual revenues;
3. Twenty two percent of the respondents reported between \$251 million and \$999 million in annual revenues
4. Twenty eight percent of the respondents reported less than \$250 million in annual revenues.

Surveyed individuals were asked how difficult they perceived compliance was in actuality, versus initial expectations. Only 13% of executives found SOX compliance more difficult than initially expected, 50% found the process difficult, 34% report the process easier than expected, and 3% found the process very easy. In the first year of compliance 54% of the executives found that they spent more time than expected with SOX related issues, and 40% found the time they allocated was appropriate (Table 2; Williams, 2005).

Respondents were questioned regarding their expectations of costs to maintain SOX in 2005 compared to 2004. As a percentage bases from the past year, more than 80% of the respondents believed their respective corporation's cost would decrease. Approximately 26% of the those executives in this category believed the costs would decrease as much as 50 to 74%, and 26% of the respondents believed the costs would decrease between 25 to 49% Less than 20% of the respondents believed the costs would remain the same as last years or more (Table 3; Williams, 2005).

Table 2:

*Executive Compliance Difficulty Survey Summary*

More difficult than expected	Process was easy	Process was very easy	Process was difficult	More time than expected was spent on the process	Time allocated was appropriate
0.13	0.34	0.03	0.50	0.54	0.40

*Note.* From Williams, 2005. *Strategic Finance*, 86(7), pp. 19, 23.

Table 3:

*Executive Maintenance Cost Survey Summary*

TOTAL: Expected to decrease regarding maintenance	Percent expected to decrease 50-74%	Percent expected to decrease 25-49%	Percent expected to remain the same
0.80	0.26	0.26	Less than 0.20

*Note.* From Williams, 2005. *Strategic Finance*, 86(7), pp. 19, 23.

In the case of the executives surveyed, approximately 77% hired 10 employees or less who are assigned to work full time to working on compliance procedures necessitated by Sarbanes-Oxley internally. Less than 4% of the organizations surveyed hired more than 11 full time staff for compliance measures of Sarbanes-Oxley and 57% of the executives agreed that the investment costs they implemented were a good investment for stockholders (Williams, 2005).

The increased shareholder value that Sarbanes-Oxley compliance has had on the executive's organizations was reported as a 37% belief that shareholder value increased due to the ethical nature of Sarbanes-Oxley, and investors felt more comfortable investing after the publicity of corporate fraud and malfeasance. Overall value and confidence in the market place was reported by executives to have increased an estimated 25%. Thirty-three percent of the executives stated that the cost burdens of SOX suppressed their organizations share price, and 14% reported that it negatively affected their dividend reimbursement due to decreased earnings. Approximately 79% of the respondents believed their internal controls were at least somewhat stronger to significantly stronger due to the Sarbanes- Oxley Act (see Table 4).

Conversely, 38% reported no change, and 2% found their controls weaker. Respondents reported that changes to internal controls were unchanged by 40%. Sixty percent of the executives reported that some form of change was implemented as to a more manual, system based or a combination of both in control compliance (Table 5; Williams, 2005).

Table 4:

*Executive Survey Responses - Employees*

Shareholder	Overall value	Cost burdens of	Negatively	Internal
value increased	and confidence	SOX suppressed	affected their	controls were at
due to the ethical	in the market	their	dividend	least somewhat
nature of	place have	organizations	reimbursement	stronger to
Sarbanes-Oxley	increased	share price	due to decreased	significantly
			earnings	stronger due to
				the act
0.37	0.25	0.33	0.14	0.79

*Note.* From Williams, 2005. *Strategic Finance*, 86(7), pp. 19, 23.

Table 5:

*Executive Survey Responses - Controls*

No change	Controls weaker	Internal controls unchanged	Some form of change was implemented as to more manual, system based or a combination of both in control compliance
0.38	0.02	0.40	0.60

*Note.* Executive reported or found. From Williams, 2005. *Strategic Finance*, 86(7), pp. 19, 23.

Professor Hermanson, co-founder of the Corporate Governance Center at Kennesaw State University stated:

Financial executives can justifiably complain about the costs and difficulty of complying with Sarbanes-Oxley, but even this group surveyed tells you they have stronger internal controls because of the law . . . The medicine was tough to take, but we see direct benefits to the company and shareholders. This is powerful validation of the legislation. (Beasley & Hermanson, 2004, p. 1)

Executives reported increased compliance benefits due to implementation of SOX in the following areas: Forty-six percent increase in accountability of financial reports by individuals within in the corporation; 33% reductions of fraud risk; 31% reduction of financial errors; 27% improvement in financial reporting and accuracy; 26% realized no benefits; 25% provided the audit board with more in depth information; and 20% changed the views of the investors in a positive way (Table 6; Williams, 2005).

Argumentation regarding increased costs may be valid, but statistically speaking benefits are also increasing with costs. Executives reported increased compliance benefits due to implementation of Sarbanes-Oxley and an increase in accountability of financial reports by individuals within in the corporation:

Table 6:

*Executive Opinions Survey*

Increase in accountability of financial reports by corporate personnel	Fraud Risk Reduction	Financial Errors Reduction	Improvement in financial reporting and accuracy	Realized no benefits	Provided the audit board with in-depth information	Changed investors views in a positive way
0.46	0.33	0.31	0.27	0.26	0.25	0.20

*Note.* From Williams, 2005. *Strategic Finance*, 86(7), pp. 19, 23.

Time constraints are a costly issue due to the implementation of Sarbanes-Oxley. Less than an hour per day is spent on the act's issues according to 33% of the respondents; while 32% spent at a maximum of 3 hr; and 14% spent up to 5 hr, and finally 22% spend more than 5 hr a day on compliance (Table 6; Williams, 2005). One hundred finance directors and comptrollers were polled by Parson Consulting of US publicly traded firms to determine the differences between large and small firms in respect to compliance (Salierno, 2004). Large firms, noted with a market capitalization of 1 billion or more, clearly focus on the financial reporting process, whereas small to medium sized companies with a market capitalization of between \$75 million and \$1 billion, are focusing on the process of the entire enterprise (Salierno, 2004). Some executives believe that Sarbanes Oxley was created by an overreaction to corporate fraud by 38%. Additionally, 52% of surveyed individuals believe that Congress had viable and good intentions when creating the Act, but many areas were not fully considered in detail such as costs associated with establishing the process. However, 28% believe Sarbanes-Oxley helps the welfare of the economy and investor confidence (Table 8; Williams, 2005).

Table 7:

*Executive Time Constraints Survey*

Less than an hour	Maximum of 3 hour	Up to 5 hour	More than 5 hour
0.33	0.32	0.14	0.22

*Note.* From Williams, 2005. *Strategic Finance*, 86(7), pp. 19, 23.

Table 8:

*Executives Opinion on the Sarbanes-Oxley Act*

Created by an overreaction to corporate fraud	Congress had viable and good intentions when creating the act	Sarbanes-Oxley helps the welfare of the economy and investor confidence
0.38	0.52	0.28

*Note.* From Williams, 2005. *Strategic Finance*, 86(7), pp. 19, 23.

The deadlines of implementation of Sarbanes-Oxley have been staggered, so as not to burden issuers with all compliance measures at once (Securities & Exchange Commission, 2005a). The sections selected for this study have already been implemented. The implementation of Section 404, which many believe may be one of the most costly and difficult sections to comply with, will not legally be implemented for many companies until 2007, and has yet to be studied in this area (Levinsohn, 2004). The Commission extended the financial reporting requirements to July 15, 2007 for firms with a net capitalization of 75 million and under (Securities and Exchange Commission, 2005d). It is far too early to analyze many of the affects of Sarbanes-Oxley on the economy and the cultural change within organizations until all compliance dates have been met (Costantini, 2004).

### *Reform*

Chief Accountant of the Securities and Exchange Commission Nicolaisen, stated accounting matters need to be kept simplistic, and regulations which are of even greater complexity have been introduced making the standards too rule based. He said it needs to be reviewed, and believes that the importance of auditing should not get lost in control requirements ("In the Public Interest," 2005). Nicolasian supported all the functions of the PCAOB, and believes that in due time they will be able to identify new ways to increase the cost-effectiveness of accounting principal's for organizations falling under compliance requirements of the Sarbanes-Oxley Act of 2002. Increased burdens on small to medium sized entities were discussed in the rule-making process during the proposal stage of Sarbanes-Oxley. The costs to smaller companies may be an issue, and Nicolasian stated this was a primary concern of his on which future research and focus will need to

remain (“In the Public Interest,” 2005). Internal controls on smaller companies and their auditors have been deferred to allow time to learn from larger companies and their new auditing practices. Nicolasion also encouraged the private sector to work on a framework in 2005 that would assist businesses that are less prepared to manage a complexity of compliance requirements than are their public counterparts. Monitoring and assessing the controls at the inception of Sarbanes-Oxley will help make international accounting measures a positive change for the future. Small to medium sized companies are a main priority in this study (“In the Public Interest,” 2005). In conclusion, the 2004 Oversight Systems Financial Survey reported that 81% of the executives believed that Congress did indeed need to revisit the Sarbanes Oxley Act of 2002 to consider future legislature revisions (Williams, 2005).

#### *Public to Private*

Green (2004) stated the culture may be changing in some organizations, and some public corporations may be returning to a private status. Small to medium sized companies have recently been inundated with new costs associated with the Sarbanes-Oxley Act (Sinnenberg, 2005). The cost associated with being a publicly run company have grown close to 130% in the last 4 years, and those costs are expected to increase (Sinnenberg, 2005). A majority of those expenditures are due to compliance and regulation of the Act (Sinnenberg, 2005).

Sinnenberg stated many small to medium sized companies may be facing additional costs anywhere from \$1 million to \$2 million in fees from legal services, litigation and accounting fees due to Sarbanes-Oxley. To add to the burden, qualified directors and auditors are becoming more difficult to locate due to SOX, and the 100%

increase in insurance costs for directors and officers liability insurance rates (Sinnenberg, 2005). Small to medium sized companies are trading at a historical low with little to no analyst coverage in many cases. One option available is to return to the private sector, in which compliance costs are less, and accounting standards are less stringent (Sinnenberg, 2005). Sinnenberg stated by changing corporate status from public to private, a company de-lists from the respective stock exchange they operate in, which eliminates all publicly owned stock, and avoids proxy and federal disclosure requirements. Typically a merger agreement, a tender offer, a reverse stock split, and a cash-out of any remaining shareholders, completes the process. The costs can be large, and proper funding needs to be in place. Expenses for the reverse, namely from public to private ownership status, can run anywhere from \$100,000 to \$2 million in accounting and legal costs (Sinnenberg, 2005).

Many of the changes imposed by Sarbanes-Oxley may push some executive leaders of smaller companies to return to a private status (Gibeaut, 2005). Some lawyers and analysts have stated they would not be surprised if a number of companies did not leave the public sector, leaving the big conglomerates and richest companies to dominate the economy. M&A Specialist Nathaniel L. Dolinar stated that something must be done to help small companies to remain public. After Sarbanes-Oxley passed, 80 companies went private in 2003, which is a 38% increase from the 48 listed in 2001. Foley & Lardner Law Firm surveyed small companies with revenues of \$1 billion or less, and found issuers costs of remaining public rose from \$1.2 million in the year prior to SOX to an estimated \$2.8 million in the 2003 budgets (Gibeaut, 2005). Eighteen months after Sarbanes-Oxley was passed, 142 firms filed going-private forms, whereas just 93 filed 19

months prior to Sarbanes-Oxley (Engel, Hayes, & Wang, 2004). Research conducted by USBX advisory services suggests that increased legal and accounting costs may force small cap companies to exit the public markets due to unmanageable costs (Cecil, 2003). Foley's partner, Thomas E. Hartman, who conducted the survey, believed there will be many more companies going private in the near future. Some other determining factors may not have been accounted for, in the recent reduction of smaller publicly traded corporations. A lack of analyst coverage, depressed share prices, and a decreased desire of investors purchasing high-risk securities may be determining factors (Gibeaut, 2005).

J.C. Metzler, vice president of small firm interest of the American Institute of Certified Public Accountants, believed there are other factors possible causing the exit strategy of small business from the public sector (Dennis, 2004). Metzler's personal research shows that in terms of regulation, occupational safety and health regulations, liability insurance, labor rates, unions, pressure for lower prices and foreign competition are the key proponents for small companies returning to private ownership status (Dennis, 2004). The costs for complying with Sarbanes-Oxley are high, but the Act may not necessarily be the key factor for small businesses returning to a private status. The law came into effect when corporations were already burdened with other increasing costs that affected the financial statements and profitability of many small caps (Swartz, 2004). Market trends and negative economic conditions, lack of analyst coverage, and decreased share prices are incentives that need to be reviewed prior to determining the cause of public to private company status (Gibeaut, 2005).

Stanley Block conducted an empirical study surveying 110 companies that returned to a private status, and found the leading determinant for 60% of the respondents

was cost, which directly correlates with the Sarbanes-Oxley Act (Block, 2004). The movement of public to private corporations may have a significant impact on the stability and growth of the U.S. economy. As of September 2003, 6,800 companies had a market capitalization of \$250 million or less, which represents more than 75% of all public companies (Stockton, 2003).

### *Comparisons*

The Enron bankruptcy of 2001 and soon thereafter the U.S. Department forced the downfall of Arthur Andersen led to scrutiny in the accounting industry that has significantly changed the economy and the organizational cultural structure of corporate America (Block, 2004). The question regarding the effects on small publicly traded companies with a market capitalization of \$250 million and less is still to be determined (Fletcher & Miles, 2004). Empirical data conducted by Read, Rama, and Raghunandan (2004) does provide statistical proof that the small to medium sized auditing firms were effected by the changes, which closely represents the problems small firms are encountering. Small auditing firms stated increased costs due to Sarbanes-Oxley, and the inflated insurance policy premiums placed on auditing firms due to liability, did have a direct effect on their decision to cease auditing practices (Read, Rama, & Raghunandan 2004).

### Summary

A deeper analysis of the affects of the Sarbanes-Oxley Act on small cap publicly traded entities will assist organizational leadership understand important internal controls that Senge (1990) and Schein (1997) maintain are needed for creating new reform for efficiency, effectiveness, competitiveness. As stated by Hammer and Stanton (1999),

Schein (1997), Onken and Wass (1999), Senge (1990), Drucker (2000), and Green (2004), converting an existing organizational structure into a new one without reviewing the impacts of reform on the culture of the corporation will hinder future progress of the entity. The internal controls are only as good as the implementation process in building a solid framework for growth and vitality (Collins, 2001). The violations discovered in the Securities and Exchange Commission Report, that 1,596 securities professionals aided or abetted in securities violations, provided adequate data that new controls needed to be implemented within the publicly traded arena. An organizational theory as to the effects of the Sarbanes-Oxley Act has yet to be created (U.S. Securities and Exchange Commission, 2003). If Sarbanes-Oxley has a significant impact on the economy, and the organizational structure of NASDAQ and the U.S. Stock Exchanges systems' integration and internal controls must be reviewed to prevent failing bureaucratic models and inadaptability to current reform (Block, 2004; Checkland, 2002). This study may assist the leadership of publicly traded small cap companies to compare their perceptions of the consequences of the Act on their companies with the perceptions of the sample of leaders examined, and will assist Commission Chairman Donaldson and his task force in making future recommendations for amendments if needed (Fletcher & Miles, 2004).

### Conclusion

Chapter 2 presented a thorough review of the literature, which summarizes the initial problem, and includes a historical overview and current findings of the Sarbanes-Oxley Act of 2002 and organizational leadership issues. Literature showed a lack of empirical research regarding Sarbanes-Oxley, and any possible effects on the executive leaderships perceptions of SCPTC's on SOX. Congressman Oxley (R-Ohio) and Senator

Sarbanes (D-Md) are divided in their predictions in regards to the unintended consequences of Sarbanes-Oxley, but they both agree that the Act has assisted in restoring investor confidence (Koehn & Del Vecchio, 2004). Oxley has some concerns regarding the legislation, and believes that issuers may be motivated by risk aversion due to stiff penalties and fines. Sarbanes believes the rule is forcing companies to do their respective jobs correctly, and eliminates foul play (Koehn & Del Vecchio, 2004). Systems integration of publicly traded entities with the Sarbanes-Oxley Act of 2002 is of high importance, and small publicly traded entities are a forefront leading concern to the SEC and PCAOB (McDonnell, 2004). Chapter 3 describes and justifies the research methodology used to conduct the current study.

### CHAPTER 3: METHODOLOGY

All organizations have a structure, and the internal controls that maintain the structure are only as good as the implementation process it allows, a process that provides people the freedom and responsibilities to work within the framework (Collins, 2001). For these and other reasons, it may appear that today's organizational leadership is not maintaining these important controls, and the prevailing management practices of the past may not be working in the present (Senge, 1990). The Sarbanes-Oxley Act is intended to heighten awareness of fraudulent activities and assist in the scrutiny of examining corporate executives, but the Act may have been created with little knowledge on the effects of its impact on small publicly traded entities (Fletcher & Miles, 2004). As Senge (1990) stated, previous implementation strategies concerning corporate controls may be dated, and a deeper analysis of creating reforms within the corporate structure will need to be reviewed. Creating new regulations and controls for publicly traded corporations for the safety of shareholders may be necessary, but their implementation must have a positive impact on the efficiency, effectiveness, and competitiveness of publicly traded entities (Green, 2004).

Understanding an organization's culture, although hard to define, analyze, measure, and manage, assists researchers, managers, and leaders to become more aware of the process of change within an organization (Schein, 1997; Green 2004). The SEC and PCAOB have determined that SCPTC's need to be examined to discover the effects of Sarbanes-Oxley on these entities (Securities and Exchange Commission, 2005b). Planned change is difficult to understand without determining the resistance to the change, and the primary source may be the organization's culture (Schein, 1997). The

unintended impacts, if any, of Sarbanes-Oxley on SCPTC's has yet to be examined (Securities and Exchange Commission, 2005b). The cultural behaviors have not been considered, which according to Yin (2003) justified an exploratory case study for developing pertinent hypothesis for future study. Chapters 1 and 2 presented the importance of this study and its findings as it relates to organizational leadership and the effects, if any, of Sarbanes-Oxley on small publicly traded companies. Chapter 3 discussed the research design, data collection, method and instrument, sample, and data analysis method, which were employed in this study.

### Description of Methodology

#### *Research Method*

Sarbanes-Oxley is considered a single case event, and the recent enactment and its impact on SCPTC's is not yet known (Securities & Exchange Commission, 2005b). This exploratory case study was employed to gain and formulate recommendations for further research in organizational leadership, culture, and other sub-sets of the Sarbanes-Oxley Act not yet identified or described. For the purpose of this study, individual interviews with executive leadership were conducted, a specifically structured survey questionnaire was used, and observations of NASDAQ and SEC documents were reviewed. The Management Organization Needs Assessment© and the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© questionnaire pertaining to the effects of Sections 201, 203, 301, 302, 402, 403, 406, and 409 of the Sarbanes-Oxley Act were employed. Final triangulation and pattern matching was used through NASDAQ and SEC documentation analysis to identify any related theoretical propositions (Yin, 2003).

1. Twenty-three executive leaders of SCPTC's were randomly sampled from 457 companies and questioned by phone or e-mail using MONA to obtain an expected response rate of more than 4.5% of the population

2. Twenty-three executive leaders of SCPTC's were asked to complete a follow up survey for an expected response rate of more than 4.5% of the population

3. Data from NASDAQ and SEC documentation was reviewed upon release regarding any new findings of the effects of SOX on the executive leadership of SCPTC's for triangulation

Responses were collected and summarized with percentages and statistical indexes as described by Leedy and Ormrod (2001). From the selected sample, generalizations may be justified regarding the larger populations of companies and other organizations (Babbie, 1990). A focused interview format with a specifically structured survey with measurability of a range of organizational leaders, and structured observations of selected performance documents were the preferred triangulation method for this study. It not only allowed versatility to fit a specific population, but also employed the Likert-based Scale that has the capacity to generate relationships among data. In addition, it is an expeditious instrument when subject response time was a priority in the timeframe of this study (Babbie, 1990; Fowler, 1998). Sarbanes-Oxley is viewed as a contemporary event, and the case study was a recommended strategy by Yin (2003) and Babbie (1990) for this type of phenomena. Yin (2003) stated multiple data collection techniques within a case study may increase validity and reliability, and is the preferred method when examining contemporary events which behavior cannot be manipulated. A pure qualitative or quantitative approach was not selected based on Yin's

(2003) assessment that exploratory questions are more likely to lead to the use of case studies and experiments as the preferred research strategies. Regulators are currently in the process of reviewing the Act, and the dynamics of change in the industry are fast changing, which creates the need for rapid data collection (Securities and Exchange Commission, 2005b). The methodology used within this exploratory case study will attempt to start the process of describing and explaining this single case study phenomenon.

### *Research Design*

The research design consisted of individual interviews with the executive leadership of SCPTC's, a Likert-type scale-based survey questionnaire, and direct observations of NASDAQ and SEC documentation. An approximate 30 minute long open-ended structured interview with the executive leadership of randomly selected SCPTC's using MONA was conducted, followed by a 30 question Likert-type scale-based questionnaire. NASDAQ and SEC documents were retrieved for triangulation and cross-validation of the data collected in this exploratory case study. The focused interviews of MONA, based on Kelly's Personal Constructs was triangulated with the cultural artifacts, espoused values, and basic underlying assumptions found in the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002©, and was then analyzed with NASDAQ and SEC documents for pattern matching of specific sections of SOX.

### *Design Appropriateness*

The appropriate design for this type of research was an exploratory case study as described by Yin (2003) to identify and describe selected sections of the Sarbanes-Oxley

Act and the effects, if any, on SCPTC's, as perceived by their organizational leadership. MONA© and the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© were tested for predilections, predispositions and prejudices within the answering process to allow for unbiased responses as stated by Creswell (2003) with seven CFO's of small publicly traded companies for validity. Prior to this study, a tool for measurement of the effects of the Act, if any, was not available due to the newness of the Act. When first tested, the respondents found the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© unnecessarily limited their range of responses to capture a full spectrum and was too negatively based. The Likert-type based scale was modified with a new range of responses to capture an entire spectrum of responses.

The research conducted was of the highest ethical standards to create an unbiased approach to theory development. Babbie (1998) suggested that using surveys in research is perhaps the best method available for original data collection when trying to describe a population too large to study individually. The proposed research design appropriateness of using self-administered survey questionnaires is highly effective when studying the characteristics of a larger population, and assists in making refined assertions in accordance with the International Human Subjects Research Standards (Babbie, 1998). All criteria set by the International Human Subjects Research Standards were followed in the preparation and administration of the survey questionnaire, company data sheet, non-disclosure and confidentiality agreements, and the data collecting and treatment processes addressed later in this study. Copies of all documents are provided in the appendices.

## Population, Sampling, and Data Collection Procedures and Rationale

### *Feasibility of Design*

This case study was conducted in a 30-day time period to the executive leadership of U.S. NASDAQ small capitalized publicly traded companies, which were listed on the Securities and Exchange Commissions EDGAR database in the 2004 accounting year. Data from MONA was collected through telephone interviews, and The Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© questionnaire was conducted online through the database of Moss Adams Accounting located in Seattle, Washington and powered by Zoomerang© 1995-2005. Observations through NASDAQ and SEC documentation were obtained upon release.

### *Sampling*

The sample for this study was the executive leadership of 23 of the SCPTC's in the 2004 accounting year as indicated by NASDAQ. The responses from the executives of these companies were the basis for this research for an understanding of a larger population of 457 SCPTC's (NASDAQ, 2005) as stated by Creswell (2003) and Babbie (1998). The study used triangulation of this event by using MONA©, the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002©, and the examination of NASDAQ and SEC documents. Prior to conducting the survey, a pilot test was conducted applying the survey and following it up with an interview of the seven executive leadership respondents to verify the respondent's interpretation of the survey questions, and the survey questionnaire was modified as required for a new range of responses to capture the full spectrum. As Babbie (1998) stated, questions need to be tested prior to the distribution to protect against researcher bias and error.

*Informed Consent, Confidentiality, and Geographic Location*

*Informed consent.* As stated by Kathleen McKinney, informed consent “emphasizes the importance of both accurately informing your subject or respondents to the nature of the research and obtaining his or her verbal or written consent to participate” (Babbie, 1998, p. 444). Subjects were given the opportunity to cease involvement at anytime, and coercion was not used to force participation (Babbie, 1998). All respondents were required to complete a letter of informed consent in writing prior to answering the survey (see Appendix A). The letter included the right to privacy, protection from harm, and a professional code of ethics as required by all respondents (Babbie, 1998).

*Confidentiality.* The researcher was trained in the ethical practices of conducting research and completed the Human Subject Research Assurance Training. All information acquired by participants in this research will remain confidential. Data collected including names and identification information, which identifies the participants, was coded for anonymity during the study and fully removed in the findings of this study. The informed consent letter informed all subjects participating in the survey questionnaire that they were able to withdraw from the study at any point, participation was at free will, anonymity will be granted, and their responses would not reflect in the final dissertation.

*Geographic location.* The geographic location of this study was limited to the executive leadership of U.S. corporations, which were listed on NASDAQ in the 2004 accounting year. Structured interviews and survey questionnaires were conducted by telephone and e-mail, respectively in the United States.

### *Data Collection*

Data collection set the boundaries for this exploratory case study.

The participants in the study were selected by random sample from the SEC EDGAR database, and the researcher conduct an approximate 30-min personal interview with those who volunteered, according to the International Human Subjects Research Requirements. Participants of the study were of legal age, without a mental handicap, and had never been imprisoned. The data was collected using the MONA questions, and recorded by hand written notes and audiotapes when permitted. The purpose of the interview and data collection process prior to the interview was stated to increase validity. Interviewees were informed their personal opinions were valued, but only observable evidence from the research questions were recorded to avoid speculation, guesswork, or assumptions.

The collection of information through interviews and the establishment of a documentation process as stated by Creswell (2003) were implemented. Permission of the executive leadership of the survey took place prior to the survey and was conducted via e-mail. Upon completion, respondents who were willing to participate accessed the survey database Moss Adams Accounting agreed to provide at no cost to the researcher powered by Zoomerang© 1995-2005. Questionnaires completed in the allotted time period were identified in a master file for coding purposes, which is a process of organizing material into data segments for further review as stated by Rossman and Rallis in Creswell (1998). To encourage accuracy of responses and protection of respondents and minimize potential bias, respondent's survey questionnaires were coded for anonymity and confidentiality before any data segmentation and analysis was performed.

NASDAQ and SEC documentation during the time period of data collection was examined upon release.

### *Instrumentation*

The collection of data through the instrumentation of this exploratory case study was: How congruent is the Sarbanes-Oxley Act of 2002 with the cultural elements and espoused values of SCPTC's and their executive corporate leadership of the reported perceptions of executive corporate leadership of SCPTC's?

This exploratory case study may assist the leadership of publicly traded small cap companies to compare their perceptions of the consequences of the Act on their companies with the perceptions of the sample of leaders examined herein. For the purpose of this study, Schein's (1997) basic underlying assumptions were the depth of organizational culture that was addressed in MONA to the U.S. executive leadership of the SCPTC's who were listed on NASDAQ in 2004. If the SEC and PCAOB are to understand the full effects of the Sarbanes-Oxley Act, the culture of the organizations will need to be determined first to establish boundaries for future research (Schein, 1992; Green, 2004). Schein stated (1997) that in order to identify and describe differences, if any, in an organization's levels of culture, the following three-step process must be employed:

1. The artifacts of the organization need to be identified, which includes the phenomena that an individual feels, hears, and sees when encountering a new culture. These are the visible aspects of the organization seen by the average observer.

2. The espoused values need to be identified, which are the philosophies, strategies and goals that the organization is built upon; typically originating from the leadership within.

3. The basic underlying assumptions of the organization need to be identified, which are theories in use, which the organization neither confirms nor denies, but continually uses on a regular basis, and are typically very hard to change.

Upon analyzing an organization's culture, the functionality of the organizations when challenged with change may become more apparent (Schein, 1992). In this sequence with each corporate leadership interviewee, the following three MONA questions were employed:

1. What specific SOX compliance results has your company been expected to achieve through your leadership?
2. What specific compliance results has your company achieved through your leadership?
3. If there are differences between the expected and actual compliance results, what evidence of the causes of these differences do you have?

The study questionnaire used a survey for triangulation purposes to cross-validate with the MONA interview data, to what extent, if any, are small cap publicly traded companies and their organizational leadership affected by sections 201, 203, 301, 302, 402, 403, 406, and 409 of the Sarbanes-Oxley Act of 2002. Likert created the 5-point Likert Scale (Appendix B) in which respondents to the survey to which the scale is attached are asked to choose a number on the scale, which most closely corresponds to their response to the survey question. The range in response to the basic question includes

the following choices: 1 = very little, 2 = little, 3 = some, 4 = great, and 5 = very great (Bluedon, 2003). Leedy and Ormrod (2001) suggested a survey is a proper approach to use in the study of a single moment. The researcher commissioned Dr. Timme Helzer to create the survey questionnaire specifically for this study since a tool was not available prior. Dr. Helzer has granted permission for use of the copyrighted MONA and Executive Leadership Survey of the Sarbanes-Oxley Act of 2002 in this study (Appendix C; Helzer, 2005). These instruments were selected over others due to the recent implementation of SOX, and the limited past research and instrumentation tools available for this study. The survey employs a Likert-type scale to record executive's responses, measuring their extent of agreement with unambiguous survey statements, within the indicated ranges of discrimination (Bluedon, 2003). This survey instrument was preferred over others to avoid bias in response rates, and was appropriate for expedited research (Bluedon, 2003). NASDAQ and SEC documentation was reviewed for final triangulation.

#### *Instrument Reliability*

The survey questionnaire was pilot tested for reliability. A pilot test was conducted on the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© for reliability prior to use with all subjects in this study with seven executive leaders. The purpose of the 30-question survey was to measure how executive leaders perceive the impact of compliance to SOX on their companies. The reliability of this study was tested to ensure the results and findings were likely be the same if replicated in an external future study. Morse & Richards (2002) describe reliability as an increase in confidence levels that allows a higher level of dependency and trust for further research. Respondents in the testing were asked how they interpreted each survey question to

verify the reliability of the questionnaire as described by Creswell (2003) in the experiment. The MONA, the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002©, and government documents analysis were applied to all executives and their companies participating in this sample. Only those executive leaders who had complete sets of triangulated data were included in the analysis phase of this exploratory case study.

### Data Analysis

Creswell (2003) stated data analysis involves understanding the findings, and creating an understandable format in which to examine the information. In most case studies, data analysis is conducted during the collection process (Yin, 2003). The data was analyzed at the conclusion of all interviews in this exploratory case study.

A master identification file was created for all MONA interviews and the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© survey questionnaires for data analysis. The information acquired in MONA and the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© questionnaire were broken down subdivided by level of culture into distinct segments for each area respondents answered. The data was then analyzed to determine organizational leadership attributes as they apply to the effects of SCPTC's and the affects of Sarbanes-Oxley by level of culture that corresponds to the level of culture being addressed. NASDAQ and SEC documents were used for pattern matching to find any related theoretical proposition as stated by Campbell (1975) in Yin (2003). The appropriateness of this technique for the research design allowed variables to be isolated in the study, and used a standardized procedure to collect statistical data to draw conclusions (Leedy & Ormrod, 2001). The responses were

tabulated to illustrate any relationship between the selected sections of the Sarbanes-Oxley Act and the decision making process made by executive leadership. Chapter 4 explains the statistical findings of the data presented.

### Validity

Validity is defined as drawing meaningful and useful inferences from results (Creswell, 2003). Once the data was collected, the validity of the present data obtained from utilizing the three instruments was discussed.

#### *Internal*

“Internal validity is the freedom from bias in forming conclusion in view of the data” (Leedy, 1997, p. 34). Internal validity threats are “experimental procedures, treatments, or experiences of the participants threaten the researcher’s ability to draw correct inferences from the data (Creswell, 2003, p. 171). Three executive leaders who participated in this study were not used since they declined to take the survey after completing the MONA interview.

#### *External*

External validity is concerned with whether a conclusion can be “drawn from a sample be generalized to other cases” (Leedy, 1997, p. 34). External validity threats arise when incorrect inferences are drawn “from the sample data to other persons, other settings, and past or future situations” (Creswell, 2003, p. 171).

### Summary

The impact of Sarbanes-Oxley on SCPTC’s executive leadership cultural environment was analyzed at the artifact, espoused value, and basic assumptions levels by collecting data through individual interviews of executive leadership, a survey

questionnaire with a Likert-type scale to record self report responses of the corporate leaders, and pattern matching techniques of NASDAQ and SEC documentation to locate any related theoretical propositions in this exploratory case study. Chapter 4 presents the data analysis. Kelly's approach of self-reflection was used to reduce bias (Stewart, 2001), and triangulation was employed to improve the reliability.

## CHAPTER 4: RESULTS, ANALYSIS AND FINDINGS

This research explored how congruent are the basic underlying assumptions expressed by the executive leadership of small capitalization publicly traded companies with the stated purposes of the Sarbanes-Oxley Act of 2002. Chapter 3 presented the research methodology and design used to collect and analyze data in this exploratory case study. Chapter 4 describes the analysis of the data in the following categories: (a) situation assessment, (b) key factors, (c) events, and (d) findings.

### Situation Assessment

Congress created the Sarbanes-Oxley Act due to the loss of trillions of shareholder wealth and equity (Green, 2004). The primary purpose of the new federal law is to protect investors from fraudulent activities of publicly traded entities (Sarbanes-Oxley Act, 2002). The current research identifies the views of the executive leadership of publicly traded companies who are by law required to comply with the Act. The research conducted focused on how congruent the basic underlying assumptions expressed by the executive leadership of small capitalization publicly traded companies are with the stated purposes of the Sarbanes-Oxley Act of 2002.

The researcher or Brigitte's Technology Consulting and Research Firm (see Appendix D) contacted potential participants by phone or e-mail. The executive leadership who oversees the implementing of the Sarbanes-Oxley Act in their respective organizations of 23 small sized U.S. publicly traded companies was selected for this study. Participants were asked to complete the MONA© conducted by the researcher and complete the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© (see Appendixes). Three participants were excluded for not completing the process of taking

the survey after the MONA interview. The participants' demographic include the leadership level within the organization, gender, years of respective experience, the highest-ranking position within the company and the firm's net yearly capitalization for the 2004 accounting year. All participants held top executive positions directly relating to Sarbanes-Oxley compliance issues in a wide range of industries. Executives' experience ranged from 8 months to 20 years, working within organizations with a net capitalization of 5M to 204M in the 2004 accounting year (see Table E1 in Appendix E). The code "P" followed by the number indicates the participants' responses (e.g., Participant 1 is P1).

#### Key Factors

Two key factors deserve special attention in this study. One is the extension of compliance dates for small companies with a net capitalization of 75 million and under. The second is a general lack of knowledge of what exactly is expected of small sized publicly traded companies by the PCAOB and the SEC due to the recent enactment of SOX. The Securities and Exchange Commission offered a 1-year reprieve in March of 2005 on a 5-0 vote to small publicly traded companies with a market capitalization of 75 million and under. These companies are not ordered to comply with the complete Act, primarily section 404 dealing with internal controls until July 2007 (Securities & Exchange Commission, 2005d). This exploratory case study began prior to this reprieve.

Participants P1, P2, P4, P5, P14 and P19 revealed their expected and actual results towards SOX compliance had been met in some ways, but it was based on their own interpretations of what they thought was expected by the law. A full year of compliance has not been required for small to medium sized companies to comply with Sarbanes-Oxley to date, and interpretations are being used to ". . . fill in the gaps and wait to see

what others do first” (P20, 2005). “We can not afford to support the learning curve, and will wait for modifications from others before we start the process” (P13, 2005).

Telephone interviews and referral to a link to the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© hosted by Moss Adams Accounting Firm and powered by Zoomerang© 1995-2005 by email were used to collect data. Participants were aware MONA was a two-fold process in accordance with completing the survey for a doctoral dissertation on the effects, if any, of Sarbanes-Oxley on small to medium sized publicly traded companies. Participants were informed verbally their information would remain confidential, and Moss Adams Accounting Firm would not solicit their respective companies after completing the survey. Participants were informed a copy of the approved doctoral dissertation would be forwarded to them by e-mail.

#### Events

The research in this exploratory case study used triangulation data collection techniques. The primary data were collected through telephone interviews and a survey with 20 executive leaders of publicly traded companies directly responsible for the organizations SOX compliance. Two other sources were used for documentation and triangulation: The NASDAQ Issuer Survey Report of the Sarbanes-Oxley Act of 2002 released April 13, 2005 (NASDAQ, 2005) and the Sarbanes-Oxley Implementation Costs: *What companies are reporting in their SEC Filings*, published by ARC Morgan created from the SEC database on February 2005 (A.R.C. Morgan, 2005) The two data collection tools proved insightful in data analysis and interpretation of the telephone interviews and survey.

Each participant was informed at the beginning of the interview all confidentiality existed within the responses and to speak openly about thoughts regarding the questions. The process was explained to the participants, in which they had unlimited time to respond to the questions, and the proceeding survey would take approximately 5-10 more minutes after the telephone interview. Each session was based on trust and confidentiality.

### Findings

The observable or factual data shared by participants' perceptions are reviewed in this section. Data include: (a) common themes, (b) cross-validation of findings, and (c) comparison NASDAQ and SEC documentations.

#### *Common Themes*

Common themes were identified in the data analysis stage as to similarities and dissimilarities in the respondents' answers to MONA, the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002, and NASDAQ/SEC documentation analysis. Common themes include: tangible artifacts, espoused values, and basic underlying assumptions.

*Observations of tangible artifacts.* Due to the recent enactment of Sarbanes-Oxley, 85% of the participants stated they were trying to gain full compliance and understand the criteria for the Act. Of the remaining 15%, 10% planned to wait for other small publicly traded companies to determine precisely what was expected by the law, while waiting for other companies to comply first. The remaining 5% decided to return to the private sector stating, "Although Sarbanes-Oxley is not the only reason we are returning to a private status, the Act and the costs associated with compliance is

responsible for 80% of our decision process” (P7, 2005). Of the 85% of the participants who determined gaining full compliance and understanding criteria were tangible artifacts, 30% were focusing on systems and process; 25% were improving internal controls, and 10% were improving documentation. P17 is working on all four areas respectively, while P5 and P6 stated they were working on all areas with the exception of focusing on process (Appendix F).

*Espoused values.* Forty-five percent of the participants had completed the documentation process required by Sarbanes-Oxley at the time of this study and were prepared to meet the original June 2006 deadline, in which 44% of those executives found the process useful. “We had a bad internal issue with fraudulent activity, and we needed to tighten our controls anyway” (P2, 2005). Firms with a net capitalization of 75 million and under were offered a year reprieve from filing, which 85% of the respondents within this study qualified for the extension. More than half of the participants stated many of the controls were already in place prior to Sarbanes-Oxley, and only 10% found the process a waste of time and money. P5 stated their controls were already in place, and a little “rigor” was all that was needed to comply completely with the Act (Appendix G).

*Basic underlying assumptions* Little variance between the expected and achieved results from the respondents was found, in which 80% stated there was none, and 15% of the participants stated it changed their organizations leadership mind-set in a positive fashion. Some participants are still speculating on exactly what is required by the Act, and 50% are still working on the process. “We are about 90% completed, but a little fine tuning is needed” (P16, 2005) (Appendix H).

These data were collected through the MONA telephone interviews, and were valid organizational artifacts, espoused values, and basic assumptions as described by Schein (1997). The congruent nature of the basic underlying assumptions expressed by the executive leadership of small capitalization publicly traded companies as with the stated purposes of the Sarbanes-Oxley Act of 2002 will be cross-validated by the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002 to improve reliability of the qualitative data.

#### *Cross-Validation of Findings*

Employing triangulation in a case study among multiple data collection techniques improves the reliability level of the research data (Yin, 2003). A survey within a case study can attempt to deal with phenomenon and context when embedded in the original design of the study (Yin, 2003). The participants were asked to complete The Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© after the MONA process. Participants were expected to respond, using the 5-point Likert-type Scale, to 30 pre-validated survey questions that are constructed to elicit and collect their perceptions of the impact, if any, of Sarbanes-Oxley on their respective organizations. Only participants who completed MONA and the survey are included in the analysis.

A panel of experts selected sections 201, 203, 301, 302, 402, 403, 406, and 409 as potential threats to small to medium sized organizations (Fletcher & Miles, 2004; Grey Cary, 2004):

*Section 201.* Sixty percent of the respondents acknowledged no impact addressing auditor independence, while 35% felt a negative impact and 5% felt positively.

*Section 203.* Eighty percent of the respondents acknowledged no impact addressing audit partner rotation, while 10% felt some negative factors, and another 10% felt very negative.

*Section 301.* Section 301 encompasses five areas concerning public company audit committees: (a) responsibilities for securities issuer's audit committee for oversight to all work, (b) securities issuer board directors maintenance and independence status, (c) audit committee addressing accounting and other complaints imposed by the issuer, (d) advisors and independent council, and (e) advisory and independent council obtained by the issuers audit committee.

1. Thirty-five percent found no impact; 20% found a negative impact, and 45% found a positive impact.

2. Fifty-eight percent found no impact; 11% found a negative impact, and 32% found a positive impact.

3. Sixty-five percent found no impact; 5% found a negative impact, and 30% found a positive impact.

4. Eighty-five percent found no impact; 5% found a negative impact, and 10% found a positive impact.

5. Sixty-five percent found no impact; 20% found a negative impact, and 15% found a positive impact.

*Section 302.* Encompasses six areas concerning corporate responsibility for financial areas: (a) financial reports have been reviewed by the signor, (b) the financial report is true to the best of the signors knowledge, (c) all material respects are true to the signors knowledge, (d) signing officers maintain, design, and review internal controls, (e)

signing officers divulge any weaknesses or fraud to the audit committee that would negatively affect the report, and (f) corrections regarding controls will be stated by the evaluation date.

1. Sixty-five percent report no impact; 10% report negative impact, and 20% report a positive impact.

2. Seventy-five percent report no impact; 5% report a negative impact; 15% report a positive impact, and 5% report a very positive impact.

3. Seventy-five percent reported no impact; five percent report a negative impact; 10% report a positive impact, and 10% report a very positive impact.

4. Fifty percent reported no impact; 30% report a negative impact, and 20% report a positive impact.

5. Eighty percent report no impact; 5% report a negative impact, and 15% report a positive impact.

6. Seventy percent report no impact; 15% report a negative impact, and 15% report a positive impact.

*Section 402.* Eighty-five percent report no impact, and 15% report a negative impact

*Section 403.* Sixty-five percent report no impact; 25% report negative impact, and 10% report a positive impact

*Section 406.* Fifty-five percent report no impact; 15% report a negative impact; 20% report a positive impact, and 10% report a very positive impact

*Section 409.* Sixty percent report no impact; 25% feel a negative impact, and 15% report a positive impact

Questions (Q) 22-30 of the Executive Leadership Survey of the Sarbanes-Oxley Act went outside sections 201, 203, 301, 302, 402, 403, 406, and 409 to discover effects, if any, of the Act on small to medium sized publicly traded companies.

*Q22.* Respondents were asked if there was an effect on the organization preparing and maintaining full compliance due to the costs of compliance. Only 15% of the respondents stated there was no impact, whereas 50% found negative effects, and 35% stated very negative effects.

*Q23.* Addresses the capacity to comply by making additional changes in accounting staff, legal expertise, accounting equipment and contract services. Twenty-five percent of the respondents stated no impact, 40% stated a negative impact, and 25% stated a very negative impact. Only 10% of the respondents stated a positive impact.

*Q24.* Respondents were asked the degree of impact the executives work schedule has endured due to SOX. Thirty percent stated no impact, 45% stated a negative impact, and 25% stated a very negative impact.

*Q25.* Respondents were asked what the shareholders value was perceived to be due to the ethical nature of SOX. Sixty-three percent of the respondents stated there was no impact, and 37% stated a negative impact.

*Q26.* Respondents were asked what impact has occurred in accounting accuracy in financial reporting. Eighty percent stated there was no impact, 5% stated an impact, and 15% found a positive impact.

*Q27.* Respondents were asked what their perception of investor confidence was due to the requirements of SOX had on their organizations. Sixty-five percent of the

respondents stated no impact, 20% stated a negative impact, 5% stated very negative, 5% stated positive, and 5% stated very positive.

*Q28.* Respondents were asked what kind of impact changing the companies status to a private organization would have due to SOX regulations. Ten percent stated no impact; fifty percent stated a negative impact, 25% stated a very negative impact, and 15% stated a positive impact.

*Q29.* Respondents were asked the overall impact SOX has had on their organization, including changes in the investing public, cost of compliance schedule of work, shareholder value, personnel and equipment, as well as internal accuracy and productivity. Only 16% of the respondents stated no impact, whereas 80% stated a negative impact, and 10% stated a very negative impact.

*Q30.* Respondents were asked if there was a change in pre-tax profits due to the changes incurred by SOX. Ten percent stated no change, 80% stated a negative change, and 10% stated a very negative change.

### Comparisons

Documentation from NASDAQ and the SEC created by A.R.C Morgan will also be reviewed for further findings found outside this research for more insight in this section. Previous sections in this chapter have presented the findings of the tangible artifacts, espoused values and basic underlying assumptions of the executive leadership of small to medium sized publicly traded companies. Following MONA©, the statistical results were presented from the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002©. The following information presented in this section will assist in triangulation of all elements presented in chapter 4.

*NASDAQ Issuer Survey*

The NASDAQ Issuer Survey of the Sarbanes-Oxley Act was compiled after the inception of this study, and was completed April 13, 2005 (NASDAQ, 2005). The primary purpose of these two studies was to learn more about the impact Sarbanes-Oxley was immediately having on the issuers listed on NASDAQ (NASDAQ, 2006). Seventy percent of the respondents were either the CEO or CFO of their respective companies (see Appendix E1), and the surveys were designed to gain knowledge as to the regulations of SOX implementation within NASDAQ issued organizations (NASDAQ, 2006). The findings of these studies, which had 454 and 321 respondents respectively, were forwarded to NASDAQ traded companies and legislation (NASDAQ, 2006).

Results of the two studies found that 74% of the participants believed the Sarbanes-Oxley Act was needed and necessary. Issuers were confused as to what exactly the law requires, and would like a more in-depth explanation on definition and scope. The companies who complied in the initial stages paved the way for others, but at a drastically higher price. Fifty-eight percent of the participants in the study believe that audit controls will improve from Sarbanes-Oxley implementation, and find it a positive movement, which will improve investor confidence.

Costs of implementation appeared to be the biggest burden in the report including auditing, legal, compliance, opportunity and consulting.

Much of the complaint around costs is that smaller companies bear a relatively larger share of the burden. As a percent of revenue, companies that have revenues less than 100 million spent 11 times more than companies with revenues \$2 billion or more. Many stated that their

budgets increased several fold during the implementation or that they wished they had delayed the implementation to allow clearer definitions.

(NASDAQ, 2006 p. 4)

Opportunity costs were also listed as a main obstacle. Corporate executives found implementing the Sarbanes-Oxley Act was far more time consuming than expected, and became a major distraction to priorities and other responsibilities (NASDAQ, 2006).

*SEC Findings Produced by A.R.C Morgan*

A.R.C Morgan analyzed approximately 280 companies through the Securities and Exchange Commissions filings and public announcements related to costs (A.R.C. Morgan, 2005). Their analysis indicated that many companies waited as long as possible before implementation due to costs and misunderstandings of the correct legal procedures. Testing controls was a more lengthy process, and the costs more than doubled over what was expected in the initial stages in some cases.

To put an average fee against the dollar value of sales using the US\$ 1 million for US \$1 billion our findings indicate for smaller companies (less than US\$ 2 billion) it is closer to an average cost US \$1.8 million for US \$1 billion in sales. The larger the company, the less the costs. . . (p. 6)

Andrew Bailey, Deputy Chief Accountant for the Securities and Exchange Commission stated, “We are all incurring the costs of lost public trust, a trust that cost nothing to lose, but requires significant expenditures of time, talent, and money to reclaim” (A.R.C. Morgan, 2005, p. 7).

## Summary

This study explored how congruent the basic underlying assumptions expressed by the executive leadership of small capitalization publicly traded companies were with the stated purposes of the Sarbanes-Oxley Act of 2002. The researcher conducted the study through three methods of data collection, which were analyzed in accordance with the methodology outlined in chapter 3 to validate findings. The analyzed results were presented in an incremental process in chapter 4, and the conclusions of the findings and recommendations for further study are presented chapter 5.

## CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

This exploratory case study was used to consider the congruence, if any, between the basic underlying assumptions (beliefs that motivated actions) expressed by a sample of executive leadership of small capitalized publicly traded companies, in complying with the Sarbanes-Oxley Act of 2002 (a federal Act to improve corporate financial accuracy and reporting), and the purposes of the Sarbanes-Oxley Act, as stated by the U.S. Congress. Previously in Chapter 3, a triangulated methodology was used to collect sample data by interview, survey, and observation. In Chapter 4, these data were then compared for congruency with a series of key sections of the Act that had been selected by a panel of experts for their likely impact on the target population of small capitalized publicly traded companies. Through this study it was found that compliance with the Act had little or no impact on the companies included in the sample, as reported by their executives who were responsible for their companies' compliance with the Act. The significance of these findings are presented in Chapter 5, and includes final conclusions drawn from the literature review, reconsideration of methodological approach and analysis, limitations of the study, recommendations for further research on this subject, and key implications for the U.S. Congress, Securities and Exchange Commission, executives responsible for Act compliance, and public accounting and law firms assisting these kinds of companies with compliance requirements.

### Problem Statement

This study examined the perceived consequences of selected sections of the Act, particularly on small cap publicly traded companies and their executive leadership with a market capitalization of \$250 million and less (Block, 2004; Fletcher & Miles 2004;

Green, 2004). Little research was conducted previously on the impact of Sarbanes-Oxley on these enterprises until this case study, and a concern remained that some small public companies have been affected for unknown reasons (Fletcher & Miles, 2004; Green, 2004; Securities and Exchange Commission, 2005b). This study was used to identify and describe measurable unintended impacts on these publicly traded small cap corporations and their leadership since these enterprises account for a large percentage of the U.S. workforce (Fletcher & Miles, 2004).

This study used a triangulated data gathering approach through a focused interview format using the Management and Organization Needs Assessment©, the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002©, and a structured survey questionnaire employing a Likert-type scale for range of response assessments. Structured observations of the National Association Securities Dealers Automated Quotation System (NASDAQ) Issuer Survey Sarbanes-Oxley Act of 2002 (NASDAQ, 2006) and the Sarbanes-Oxley Implementation Costs report compiled by A.R.C Morgan from data reported to the Securities and Exchange Commission (SEC) by SCPTC's were also used as contextual background information to assist in the interpretation of the analyzed data collected (A.R.C. Morgan, 2005). An analysis of the findings through this extensive research led to the conclusion that the selected sections in this case study had little to no impact on the executive leadership of SCPTC's, and that further research needs to be conducted in 2007 when the Act is fully implemented.

## Conclusions

The basic underlying assumptions expressed by the executive leadership of small sized capitalized publicly traded companies listed on NASDAQ in the 2004 accounting year appear to be congruent with the stated purpose of the Sarbanes-Oxley Act of 2002. A large percentage of the executive leadership who participated in the survey regarding the effects of sections 201, 203, 301, 302, 402, 403, 406, and 409 as potential threats to small to medium sized organizations showed little to no impact on the effective compliance of these sample of companies, as perceived by their key executives. The accountable SCPTC executive's analysis of the NASDAQ and SEC documentation showed a general consensus of satisfaction particularly on smaller companies with the Act, with the exception of the cost of implementation and the time allocated to the compliance process by corporate executives, which also appeared to be a greater burden on smaller companies than larger ones. The Act has been scrutinized by many as being a burdensome and costly problem for publicly traded companies and their corporate executives (Green, 2004). Data stated within this study shows it has been a positive step towards reducing fraudulent activity. The Act has cost publicly traded companies over billion's of dollars to comply with as identified in this study, and continual future examination of Sarbanes-Oxley appears warranted by the researcher in all areas of the Act.

## Literature Review

This exploratory case study began in January of 2005, with limited scholarly research available on the actual affects of the Act on the executive leadership of small publicly traded companies. The Act was created in June of 2002, the first comprehensive

set of compliance changes since the SEC Acts of 1933-34. Compliance deadlines shifted several times due to the political pressure from the business sector (Green, 2004).

Because of the instability of the research field on this topic, no scholarly research findings on this subject were published prior to this exploratory case study, despite a barrage of speculation within the private sector, regulatory agencies, and between political parties. By January 2005, the only qualified group of scholars, Fletcher, Miles, and Cary to have written on the subject had identified eight sections of the Sarbanes-Oxley Act to be the most likely to have some impact on small capitalized publicly traded companies required to comply with the Act. It was on this basis that these eight sections were used in this exploratory case study.

It is not known why section 404 was not included by Fletcher, Miles, and Cary in the selected sections, but the research indicates in this case study that section 404 in direct relation to costs and time may be a warranted area of study for future scholars. Second, the deadlines imposed by the PCAOB were extended twice during this study, which allowed for variance in executive's perceptions that could not be controlled for in this study because many executive leaders of small publicly traded companies had not complete the process of compliance. The literature review and documentation of both popular and professional media specifically about the Sarbanes-Oxley Act available at the time of this study indicated a broad base of concerns about the possible unintended consequences of this Act to impede the continuing growth of the small the medium sized business sector towards the Act, which this case study did not identify through extensive research. In this exploratory case study, it is the first time a scholarly approach was

applied to this subject, and the limited scholarly literature was all that was available at the time for Fletcher, Miles and Cary to consider.

### Methodological Approach

This exploratory case study was conducted to initiate scholarly inquiry and identify propitious recommendations for further research in organizational leadership, organizational culture, and other sub-sets of the Sarbanes-Oxley Act not yet identified or described. An exploratory case study was selected over other methods due to the recent nature of the Act and limited historical resources available to the researcher. As Yin (2003) explained:

How and why questions are more explanatory and likely to lead to the use of case studies, histories, and experiments as the preferred research strategies. This is because such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence. The case study relies on many of the same techniques as a history, but it adds two sources of evidence not usually included in the historian's repertoire: direct observations of the events being studied and interviews of the persons involved in the events...the case studies unique strength is its ability to deal with a full variety of evidence-documents, artifacts, interviews and observations-beyond what might be available in a conventional historical study. (pp. 6-7)

For the purpose of this study sections 201, 203, 301, 302, 402, 403, 406, and 409 of the Sarbanes-Oxley Act were identified. Government regulators are reviewing the Act, and the need for a valid research instrument was needed to identify and describe these events for future research and recommendations (Securities and Exchange Commission,

2005b). The tools in this case study were tested and validated for reliable data collection and further research on specific sections of the effects of the Sarbanes-Oxley Act to identify and describe further possibilities of the affects on the executive leadership of small publicly traded companies. The research tools created to identify and describe the events in this exploratory case study were found to be highly effective and easily understandable by the researcher and the participants.

#### Analysis of Data

The analysis of data in this exploratory case study on the selected sections of the Act showed little to no effect on the executive leadership of small cap publicly traded companies. The analysis did provide adequate rationale to conduct the same study in the 2007 accounting year when companies are expected to be in full compliance with the Act. Questions 22, 23, 24, 28, 29 and 30 of the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002© indicate costs and time allocation for maintaining full compliance of the Sarbanes-Oxley Act may effect the perceptions of the executive leadership of SCPTC's, which was outside the scope of this study. Section 404; Management Assessment of Internal Controls (Sarbanes-Oxley Act ,2002) may need to be examined for possible impact on the executive leadership of SCPTC's in regards to cost and time constraints. This exploratory case study may have been improved by adding section 404 to the selected sections examined.

#### Scope and Limitation

##### *Scope*

This study surveyed the perceptions of the executive leadership of 20 publicly traded U.S. corporations with a market capitalization of \$250 million and under as to the

possible affects of specific sections of the Sarbanes-Oxley Act on their respective organizations. The sample was representative of approximately 4.5% of the SCPTC's population, but responses were limited due to the change of compliance dates and the completion of the Act's requirements by many of the executive leaders of the SCPTC's surveyed which extended into the 2007 accounting year.

#### Future Research

Future research recommendations are provided with care given to the limitation of the study, data, and analyses of data to the following: (a) replication of the current study, (b) SCPTC's leadership, and (c) organizational leadership.

#### *Replication of the Current Study*

The inception of this exploratory case study took place in January 2005. A one year reprieve was granted to small companies with a net capitalization of 75 million and under to the 2007 accounting year and many changes to the Act occurred during the 12-month period the researcher analyzed and explored the data available. Data and findings may change if the study were to be duplicated in the 2007 accounting year or forward. The sections selected in this case study appeared to have little or no impact on small to medium sized companies, and section 404 was outside the scope of this research. Future researchers may want to focus strictly on section 404, and the effects, if any, on small to medium sized publicly traded companies in the 2007 accounting year. Section 404 monitors management assessment of internal controls, which places responsibility on management for adequate financial reporting and internal control procedures (Sarbanes-Oxley Act, 2002). This section may affect the SCPTC executive leadership perceptions of time and cost restraints as identified in this study.

Findings showed little adverse effects on the perception of executive leadership in small to medium sized organizations, with the exception of costs of implementation and the time allocated by corporate leadership to comply with section 404. These areas were outside the scope of this study, but further insight in these areas would assist the executive leadership of publicly traded companies and government organizations such as the PCAOB and the SEC with further revisions.

#### *SCPTC's Leadership*

Since the enactment of Sarbanes-Oxley in 2002, no relevant scholarly studies had been published on the impact of Sarbanes-Oxley on SCPTC's (Securities and Exchange Commission, 2005b). This research may provide a guideline to study future sections of the Act under different timelines as the Act nears all the expected compliance dates. Prior to this study, there was no published research to date that explored the possible unintended consequence of the selected sections of the Act within this study, and this exploratory case study identified and described these conditions for the first time. The significance of this research assists in the understanding of how the executive leadership of small to medium sized companies perceived the impact of Sarbanes-Oxley. Future researchers and enterprise business owners may use the data to analyze further sections of the Act that may impact the organizational performance of organizational leadership for economic transitioning and other sections of the Act not considered in this study (Schein, 1997).

#### *Organizational Leadership*

Prior to this study the organizational leadership research community had not created a testing method to examine the effectiveness and economic impact of Sarbanes-

Oxley on the driving force of SCPTC's (Green, 2004). The methodology and findings of this exploratory case study may assist the U.S. Congress, Securities and Exchange Commission, and Public Company Accounting Overview Board to analyze with greater validity and reliability the reform measures of the Sarbanes-Oxley Act of 2002 and the perceptions of SCPTC's executive leadership on sections outside the scope of this study or a replication in 2007 of the selected sections in this study. This study provided the leadership of publicly traded small cap companies the ability to compare their perceptions of the consequences of the Act on their companies with the perceptions of the sample of leaders examined herein. Leaders may be better informed as a result of the findings from this study, and may be able to use these results to make decisions that may improve the performance of their enterprises.

#### Research Question

The primary research question of the current study was: How congruent are the basic underlying assumptions expressed by the executive leadership of small capitalization publicly traded companies with the stated purposes of the Sarbanes-Oxley Act of 2002? This study concludes by evoking, collecting, and analyzing through appropriate applied behavioral science research methods that the basic underlying assumptions expressed by the executive leadership of SCPTC's are congruent with the Act. The congruency between the basic underlying assumptions about compliance as expressed by executive leadership of SCPTC's and the selected sections of the Act should be re-examined in the 2007 accounting year when the next compliance deadline becomes effective.

The worthy research direction for future study may be to use the Management and Organization Needs Assessment interview questions to collect information on the perceptions of the executive leadership directly related to the elimination of fraudulent activities within an organization. The researcher believes a new research question would add to the organizational leadership community: How congruent are the basic underlying assumptions expressed by the executive leadership of small capitalization publicly traded companies to eliminate fraudulent activities with the stated purposes of the Sarbanes-Oxley Act of 2002?

1. What critical results are you expected to achieve on a regular basis to eliminate fraudulent financial management and reporting practices covered by the Sarbanes-Oxley Act within your organization?
2. What results are you actually achieving on a regular basis to eliminate these fraudulent activities within your organization?
3. If there are differences between the actual results and the expected results, what are the causes of these differences?

Once these “expected” and “achieved” areas have been identified, the executive leadership of an organization may be able to determine if their perceptions of fraudulent financial management and reporting practices are congruent with those of the Sarbanes-Oxley Act.

### Summary

Chapter 5 presented the interpretations of the data collected, conclusions, and recommendations for future research. The focus of interpretation was on how congruent the basic underlying assumptions expressed by the executive leadership of small

capitalization publicly traded companies are with the stated purposes of the Sarbanes-Oxley Act of 2002. Triangulation was used in the process to identify and describe the effects, if any, of the Sarbanes-Oxley Act on the perceptions of executive leadership of SCPTC's. These findings indicate the basic underlying assumptions of SCPTC executive leadership are congruent with the stated purposes of the Sarbanes-Oxley Act of 2002.

Recommendations for future research were presented with additional insight provided to the SCPTC's leadership and the organizational leadership community. Duplicating the exact study in the 2007 accounting year may provide a change in data. Conducting a new study on section 404, costs of implementation, or executive opportunity costs in regards to time enforcing implementation appear to be needed for further executive leadership research. Executives in leadership positions may find the current research useful to analyze or compare their current organizational environments with the leadership examined in this case study for a better understanding of the perceived effects of the Sarbanes-Oxley Act on other SCPTC's.

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APPENDICES

## Appendix A

## Informed Consent Form

Address

City, state, zip

Date

Dear \_\_\_\_\_ :

I am a student at the University of Phoenix-Online working on a Doctoral degree. I'm conducting a research study on the effects of Sarbanes-Oxley on small publicly traded companies, as perceived by their leadership. The purpose of this quantitative correlational research study is to examine the unintended consequences, if any, of the Sarbanes-Oxley act on small publically traded companies with a market capitalization of 250 million or less listed on NASDAQ in the 2003 accounting year.

I am soliciting participants who are CEOs and CFOs of small publicly traded companies with a market capitalization of 250 million or less listed on NASDAQ in the 2004 accounting year.

If you choose not to participate or to withdraw from the study at any time, you can do so without penalty or loss of benefit to yourself. The results of the research study may be published but your name and organization's name will not be used.

In this research, there are no foreseeable risks to you. Although there may be no direct benefit to you, the possible benefit of your participation is contributing knowledge that relates to diversity in leadership and bring attention to issues regarding the unintended consequences, if any, of the Sarbanes-Oxley Act on small publicly traded companies with a market capitalization of 250 million and under.

The return of a completed anonymous questionnaire is considered your consent to participate. If you have questions concerning the research study, please call me at 208-794-1832.

Sincerely,

Melissa Luke

## Appendix B

## Instrument

---

**Executive Leadership Survey of the Sarbanes-Oxley Act of 2002**

Questions marked with an asterisk (\*) are mandatory.

---

1

\*What is the title of your position held within the organization?

2

\*What is the top executive position in your organization?

3

\*How long have you been performing responsibilities of your current position?

4

\*What was the approximate net capitalization of this company as reported in the 2004 accounting year?

---

The Sarbanes-Oxley Act of 2002, referred to as SOX, was enacted as an extensive update of the Securities Regulations Acts of 1933 and 1934. Implementation of SOX requires publicly traded companies that issue securities instruments to comply with a number of new financial reporting regulations.

The purpose of this 26-question survey is to collect information about how executive leaders see their compliance with SOX requirements impacting their companies.

Complete confidentiality of all responses to this survey will be scrupulously maintained in accordance with the International Human Subjects Research Standards.

---

SOX Section 201 addresses auditor independence, and lists a number of non-auditing activities of registered public accounting firms working with any securities issuer that are prohibited from being offered by the auditing firm.

Choose one of the five options that is closest to your answer to each of the following questions and click the appropriate button.

---

5

Question: What kind of impact has your company's compliance with this section of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

SOX Section 203 addresses audit partner rotation by requiring that registered public accounting firms shall not offer a securities issuer audit services in the sixth year if the lead audit partner of the accounting firm provided audit services to your firm in the past five consecutive years.

---

6

Question: What kind of impact has your company's compliance with this section of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

SOX Section 301 addresses public company audit committees, and requires that any issuer of a security is bound by the rules of the Securities and Exchange Commission through the national securities exchanges and associations to the following subsections:

a) The securities issuer's audit committee is responsible for oversight of all work done for that company by the registered accounting firm retained.

---

7

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
-

b) The securities issuer's audit committee must be a member of the board of directors and maintain an independent status.

---

8

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

c) The securities issuer's audit committee will establish guidelines for addressing accounting and other complaints resulting from matters imposed by the issuer.

---

9

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
- Negative
- No impact
- Positive
- Very positive

---

d) Advisors and independent council may be obtained by the issuer's audit committee as deemed necessary.

---

10

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

e) The audit committee shall inform the issuer of adequate funding to compensate the registered public accounting firm and advisors retained by the issuer.

---

11

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
- Negative
- No impact
- Positive
- Very positive

---

SOX Section 302 speaks to corporate responsibility for financial experts, and requires that all persons signing annual or quarterly reports, including but not limited to the principal officer, financial officer, or persons acting in a similar function must abide by the following rules.

a) The financial report has been reviewed by the signor.

---

12

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

b) The financial report is true in nature as far as the signor understands it to the best of his or her knowledge, and contains no untrue or misleading data.

---

13

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
- Negative

- No impact
  - Positive
  - Very positive
- 

c) All information contained with the financial reports of the issuer concerning the material respects of the financial statements for the periods shown are true to the signing officers understanding.

---

14

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

d) Officers with signing rights maintain controls internally, design controls so that other officers in subsidiaries are aware of the process, review the effectiveness of their controls 90 days prior to reporting, and state their findings of the success ratio of the controls on the evaluation date.

---

15

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

e) The issuer's signing officers divulge all information to the audit committee and issuer's auditors of any and all deficiencies seen regarding internal controls that would negatively affect the outcome of the report, and introduce any weaknesses, fraud, management discrepancies, or internal control deficiencies

---

16

Question: What kind of impact has your company's compliance with this subsection of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

f) All corrections will be stated regarding the controls that could affect the report subsequent to the evaluation date.

---

17

Question: What kind of impact has your company's compliance with this section of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

SOX Section 402 addresses enhanced conflict of interest provisions, and asserts that it is unlawful for a director or officer of a securities issuer or the subsidiary under the issuer of SOX to extend any loans, arrange lines of credit, maintain credit, or renew past loans for personal purposes.

---

18

Question: What kind of impact has your company's compliance with this section of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

SOX Section 403 speaks to the disclosure of transactions involving management and principal stakeholders, and requires that all beneficial

owners maintaining more than 10 percent of a registered equity, including principal stockholders, officers, and directors, are required to file statements with the SEC and all exchanges the issuer is listed upon within 10 days of ownership.

---

19

Question: What kind of impact has your company's compliance with this section of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

SOX Section 406 addresses the code of ethics for senior financial officers, and requires that the code must be maintained for all officers, including financial executives, comptrollers, principal officers and any persons acting in the same duty.

---

20

Question: What kind of impact has your company's compliance with this section of SOX had on your company?

- Very negative
- Negative
- No impact
- Positive
- Very positive

---

SOX Section 409 speaks to real time issuer disclosures, and stipulates that all securities issuers will disclose in easily readable form any changes in financial condition, new trends, operation occurrences, and any like information that will assist in the general public and investors decision process of the company in a timely fashion.

---

21

Question: What kind of impact has your company's compliance with this section of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

The remaining questions relate to other possible impacts your company's compliance with the Sarbanes-Oxley Act may have had on your company.

---

Costs of Compliance: National securities industry associations, major accounting firms, and government agencies have conducted research estimating a change in expenses will be paid in preparing for and maintaining full compliance with the requirements of SOX.

---

22

Question: What kind of impact has your company's cost of compliance with all requirements of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

Capacity to Comply: Industry research has led to the assumption that to meet the additional compliance requirements of SOX, companies will make additional changes in accounting staff, legal expertise, and accounting equipment and contract services.

---

23

Question: What kind of impact has your company's changes in personnel services to comply with all requirements of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

Schedule of Work to Comply: Numerous surveys of publicly traded companies have indicated companies have changed their schedule of

work in preparing for and maintaining their company's compliance with SOX

---

24

Question: What kind of impact has your company's schedule of work to comply with all requirements of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

Shareholder Value: Securities industry research has shown a change in shareholder value as a result of the perceived ethical nature of SOX.

---

25

Question: What kind of impact has your company's compliance with all requirements of SOX had on your company's value AS PERCEIVED BY SHAREHOLDERS?

- Very negative
- Negative
- No impact
- Positive
- Very positive

---

Accounting Accuracy: Surveys of securities industry companies indicate a change in the overall accounting accuracy of their company's financial reporting as a result of their preparation for and maintenance of compliance practices required by SOX.

---

26

Question: What kind of impact has your company's accounting accuracy in compliance with all requirements of SOX had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

Confidence of Investors: National securities industry associations, major accounting firms, and government agencies have conducted research to measure the impact of SOX on the confidence of the investing public.

---

27

Question: What kind of impact has the investing public's view of your company's compliance with all requirements of SOX had on your company?

- Very negative
- Negative
- No impact

- Positive
  - Very positive
- 

Changing Company Status: Securities industry research indicates a possible change among companies of smaller capitalizations from remaining publicly traded companies to becoming privately held entities, thus avoiding compliance with SOX.

---

28

Question: What kind of impact would a change of this kind in your company's status have on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

Overall Impact: The impact of SOX on publicly traded companies has been extensive, including changes in the investing public, cost of compliance, schedule of work, shareholder value, personnel and equipment, as well as internal accuracy and productivity.

---

29

Question: What kind of total impact of preparing for, implementing and maintaining full compliance with the requirements of the Sarbanes-Oxley Act had on your company?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

Pre-Tax Profits: It has been widely reported that some publicly traded small cap companies, going to the expense of implementing measures to be in compliance with the requirements of the Sarbanes-Oxley Act, have noted a change in their overall operating costs.

---

30

Question: What kind of impact of your company's compliance with SOX has there been in your company's pre-tax profits, reported in your organization's financial statement for the 2004 fiscal year?

- Very negative
  - Negative
  - No impact
  - Positive
  - Very positive
- 

Thank you very much for your participation in this survey.



## Appendix C

## Letter of Consent to Use Instruments

Dr. Timme Helzer

Post Office Box 3856 • Portland, Oregon 97208

Phone/Fax (503) 285-2119 • Helzert@Comcast.net

Melissa Luke, doctoral student in the School of Advanced Studies at the University of Phoenix Online, has Dr. Timme Helzer's permission to use only for the collection of data and reporting of findings for her doctoral dissertation the *Executive Leadership Survey of the Sarbanes-Oxley Act of 2002*©, and the MONA© created March, 2005.

**Timme A. Helzer, Ph.D.**

---

Timme A. Helzer, Ph.D.  
April 11, 2005

## Appendix D

### Solicitation for Participants Correspondence

To the Chief Executive Officer (CEO), Chief Financial Officer (CFO), or individual responsible for Sarbanes-Oxley compliance issues [NASDAQ Small Capitalized Publicly Traded Companies (SCPTCs)]:

My name is Dr. Brenda Nelson-Porter, CEO and Founder of Brigitte's Technology Consulting and Research Firm. Through the direction of Doctoral Candidate Melissa Luke, I am emailing in regards to research of the Sarbanes-Oxley Act of 2002 and was inquiring if I could have a few moments of your time.

This is not a prospecting inquiry and is completely research based. We would like to ask if we could take 10-15 minute to answer the following questions regarding compliance issues that have been expected to achieve through the leadership at your current organization.

1. What specific compliance results has your company been expected to achieve through your leadership?
2. What specific compliance results has your company achieved through your leadership?
3. If there are differences between expected and actual compliance results, what evidence of the causes of these differences do you have?

In addition, Moss Adams Accounting located in Seattle, WA is conducting the Executive Leadership Survey of the Sarbanes-Oxley Act of 2002 through the direction of Miss Luke: <http://www.zoomerang.com/survey.zgi?p=WEB224P7LZQZL6>

The respondents' name and organization will remain completely undisclosed, and upon completion, a thorough analysis of the results will be provided for your review and documentation.

This participation is voluntarily. If you wish to participate, please complete the 3 questions and return via email and provide the phone number to your direct line for any follow-up questions. Then proceed to the online survey. Thank you for your assistance.

Respectfully,

Dr. Brenda Nelson-Porter, DM, MIT, BAS, CPP, CEO and Founder  
Brigitte's Technology Consulting and Research Firm  
[www.brigittes.com](http://www.brigittes.com)  
[brigittebrenda@aol.com](mailto:brigittebrenda@aol.com)  
770-251-6765 (w) / 365-7577 (c)

## Appendix E

## Participants' Demographics

Participant	Sex	Title	Tenure in current position	2004 Net Cap
P1	M	Director of Finance	1.5 years	\$8M
P2	M	Marketing Manager	3 years	Private
P3	M	Senior Vice President (VP) & CFO	5 years	Market Cap \$85M; Book equity \$35M
P4	M	CFO	2 years	\$20M
P5	M	VP Finance & Administration	4 years	\$33M
P6	M	VP Finance & CFO	5 years	\$11,800,000 total stockholder equity
P7	M	CFO	15 years	\$35M
P8	M	CFO	3.7 years	\$42M
P9	M	CFO	3 years	\$40M
P10	M	CFO	3.5 years	\$75M
P11	M	Controller	20 years	\$9.5M (book)
P12	M	VP & CFO	12 years	\$31M (market)
P13	M	CFO	8 months	\$5,275,000
P14	M	CFO	5 years	\$25M
P15	M	President and CEO	12 years	\$204M
P16	M	CFO	9 years	\$22M
P17	M	Controller	3 years	\$27M
P18	M	CFO	5 years	\$47M
P19	M	CFO	1 year	\$36M
P20	M	CFO	7 years	\$60M
				\$10M

*Note.* Top executive position in the organization includes President, Chief Executive Officer (CEO), and/or Chief Financial Officer (CFO). *M* in the 2004 Net Cap column denotes millions.

## Appendix F

## Tangible Artifacts

Participant	To gain full compliance and understand criteria	Focus on systems and process	Improve internal controls	Improve documentation	Decision to privatize	Has not started any process
P1	X	X	X			
P2	X					
P3	X	X				
P4	X	X				
P5	X		X	X		
P6	X		X	X		
P7					X	
P8	X					
P9	X	X				
P10						X
P11	X					
P12	X					
P13	X					
P14	X					
P15	X					
P16						X
P17	X	X	X	X		
P18	X					X (Began but stopped)
P19	X					
P20	X	X	X			X
Total	17	6	5	3	1	4
Percentage	85%	30%	25%	15%	5%	20%

## Appendix G

## Espoused Values

Participant	Completed documentation	Found process useful	Found process a waste of time & money	Not an accelerated filer	Many controls already in place
P1	X	X		X	
P2	X	X		X	X
P3				X	
P4	X	X			X
P5	X			X	X
P6				X	
P7			X	X	
P8			X	X	
P9				X	X
P10				X	
P11	X			X	X
P12	X	X		X	X
P13	X				X
P14	X			X	X
P15				X	
P16					X
P17				X	X
P18				X	
P19	X			X	
P20				X	X
Total	9	4	2	17	11
Percentage	45%	20%	10%	85%	55%

## Appendix H

## Basic Assumptions

Participant	No variance in expected and achieved	Changed the mind-set positively	Still in the process of meeting expected results internally
P1	X	X	
P2			
P3		X	X
P4	X	X	
P5	X		
P6	X		X
P7	X-Going Private		
P8			X
P9			X
P10	X		X
P11	X		
P12	X-More timely & costly		
P13	X		
P14	X		
P15	X		X
P16	X		X
P17	X		X
P18	X		X
P19	X		
P20	X		X
Total	16	3	10
Percentage	80%	15%	50%