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RETURN ON EQUITY ESTIMATES AND FOUR-QUADRANT SQUARE POSITION: EVIDENCE FROM TAIWAN

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ABSTRACT

This study examines the extent to which security analysts' forecasts help improve our classifying the observations into the Damodaran's four-quadrant square box. Based on the square box, we show that companies classified into quadrant (I) by Historical Return on Equity (HROE) will move to quadrant (II) in the subsequent period. We find security analysts perform better than HROE in predicting the four-quadrant box outcome in the subsequent period. Our empirical result shows the Consensus Return on Equity (CROE) performs better than HROE in predicting the four-quadrant box in the subsequent period. Due to the fact that a firm's accounting earnings may deviate from its economic earnings, analysts may strategically pursue forecast accuracy, especially in the short term, at the expense of information users in the long term. Specifically, analysts' longer-horizon earnings forecasts may be more informative than current- and subsequent-year EPS forecasts as to the true value of a firm's long-term investment projects. Accordingly, analysts' longer-termed earnings forecasts outperform their current- and subsequent-year EPS forecasts in predicting the four-quadrant box in the subsequent period.

INTRODUCTION

T he value of a firm may be expressed as the sum of (1) its net assets, and (2) the net present value of its on-going and potential projects. Investors, nevertheless, may or may not benefit from analyst research reports in evaluating projects. Specifically, previous efforts to model such scenarios focus on two problems. First, management typically provides over-optimistic information to investors, especially when they involve themselves in large projects. Second, most analysts focus on short- instead of long-term prospects. Information regarding investment opportunities and returns on investment should be useful for investor's making earnings forecasts and cash flow projections. Making accurate and timely forecasts, nevertheless, may be a difficult task especially for firms engaging themselves in large investment projects (and thus large financing arrangements). Management of these firms may have incentives to coerce or to affect the analysts to provide unduly optimistic reports to the public.

Nevertheless, we expect some analysts may be more sophisticated than the others and act as more informed market participants. Due to the fact that a firm's accounting earnings may deviate from its economic earnings, analysts may strategically pursue forecast accuracy, especially in the short term, at the expense of informativeness. Analysts' longer-termed earnings forecasts may play a complementary role to current- and subsequent-year EPS forecasts in predicting the true value of a firm's long-term investment projects. We argue that more competent analysts are likely to differentiate themselves by conveying such value-relevant information. Firms with promising long-term projects but low concurrent cash dividends should

benefit the most from analysts who are able to foresee into longer-term prospects and better predict firm values. In this study, we aim to (1) identify more sophisticated analysts via ex-post evaluation of their performance by comparing among the analysts the frequency of longer-termed forecasts and comparing among the analysts the accuracy of the forecasts issued at the time and the actual outcome of underlying firms' investments, and (2) explore whether these identified analyst recommendations, especially for these deviating from the general market expectations at the time, were later proved to be in the right direction.

We analyze the effectiveness of cash dividend policy via measures developed by Damodaran (1999). Specifically, the setting uses free cash flows to equity (FCFE) to measure a firm's capacity to pay dividends and compare a firm's historical return on equity (HROE) to its cost of equity (RE) to measure its past project choices. Furthermore, one can identify firms with a cash surplus and firms with a cash deficit by FCFE－(Cash Dividend + Buybacks) and distinguish more profitable projects from the poor ones by the sign and magnitude of HROE－RE. Namely, this approach divides a square box into four quadrants to determine whether a firm's policy is effective. In our study, we trace the change in quadrant to which each firm is positioned and verify the appropriateness of our sample firms' dividend policies as shown in Figure 1.

Figure 1: Damodaran's Four-quadrant Square Box

		Historical Return of Equity (HROE) – Cost of Equity (R_E)	
		Negative	**Positive**
	Positive	(I) Cash Surplus, NPV < 0	(II) NPV > 0
FCFE –(Cash Dividend + Buybacks)	**Negative**	(III) Cash Deficit, NPV < 0	(IV) NPV > 0
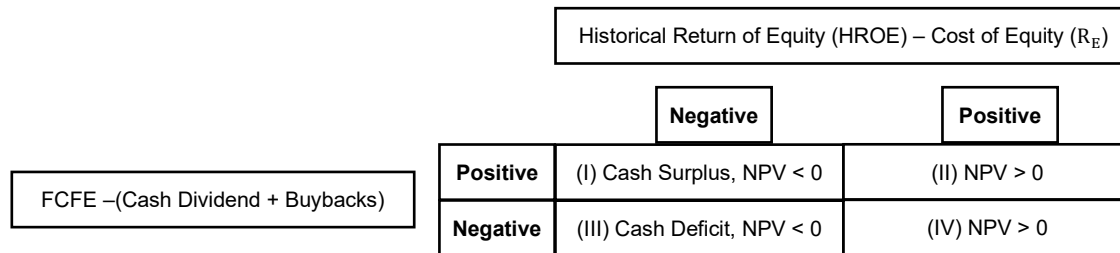
This figure shows quadrants based on appropriateness of sample firm Dividend Policies.

However, a firm's return on equity measures may be poorer (better) during (subsequent to) its acquisition of initial investment. Namely, HROE may sometimes under-estimate profitability. Thus, we also establish an alternative measure to HROE. Specifically, historical return on equity (HROE) may be substituted by consensus return on equity (CROE), calculated as the average of consensus analyst Fy1 and Fy2 forecasts deflated by beginning book value of equity. This measure serves to distinguish the more sophisticated analysts from others, if any, who concurrently provides different opinions regarding dividend or cash flows of the firms. This results in subsequent plot moves into the "good-project" quadrants in the square box. Likewise, we may find analyst reports conveying different opinions regarding firms within quadrant (II).

Next, we explore the characteristics of these seemingly better informed analysts. The research questions asked include, "Are these analysts experienced?" "Are these analysts leaders or followers?" "Are these analysts affiliated or unaffiliated?" "If they are affiliated analysts, whether the trading performance of their parent company's dealing department has excess returns?"

With a sample of firms that involve themselves in large capital investment, we also use the analysts' dividend per share forecast to measure analysts' forecast ability. Although dividends is a "smoothed" variable and are subject to manipulation by corporate managers and are affected by the holders of equity, we construct firm-specific control variables and industry-specific control variables to reduce the noise of dividend policy. We expect that analyst dividend forecast measures can provide us information as to the characters of the better-informed analysts.

The remainder of the paper is organized as follows. The next section presents the literature review and discusses the theoretical background. Section 3 presents the data and methodology. Section 4 presents the results and finally provides the conclusions in section 5.

LITERATURE REVIEW

Dividend Policy

Extant empirical studies appear to gradually relax the assumptions imposed by Miller and Modigliani (1961), who suggest that dividend policy is irrelevant to the wealth of investors in a perfect capital market with no information asymmetry and no taxes. If we relax the assumption of symmetric information and model that managers have superior information regarding the firm's future cash flows and they incorporate this information in setting dividends, outside investors should believe that dividends also convey information as to future earnings changes.

Bhattacharya (1979), Miller and Rock (1985), and John and Williams (1985) construct a classic study on signaling models. These models imply that a change in dividend policy is an indicator of a firm's future prospects and therefore dividend increase should be followed by improvements in profitability, earnings, and investment opportunities. Nissim and Ziv (2001) document that dividend changes provide information regarding earnings changes in subsequent years. They show that dividend changes are positively related to the level of future profitability, after controlling variables such as consensus analysts' earnings forecasts. They provide evidence in support of the signaling explanation of dividends hypothesis. These results imply there should be a positive relationship between dividend changes and subsequent security returns.

On the other hand, Benartzi, Michaely, and Thaler (1997) claim only limited support for the information content of dividends hypothesis. They document that earnings of dividend-increasing firms do not subsequently increase. They also find that firms that decrease dividends experience significant increase in earnings growth in subsequent years. Grullon, Michaely and Swaminathan (2001) find that firms that increase (decrease) dividends experience a significant decline (increase) in their systematic risk. Dividend-increasing firms in general do not increase their capital expenditures and experience a decline in profitability in subsequent years. Their findings suggest that increases in cash dividend may be a key element of a firm's long-term transition from growth to mature stages. The evidence provided by these two studies strongly contradicts the signaling models, regarding which dividend changes convey news regarding future cash flows. Specifically, dividend increases convey good news. Our project, nevertheless, contrast their work in that we focus on firms with significant capital expenditures.

Firms may adopt a residual dividend policy, which is a management policy of paying out the amount "left over" after deducting of capital expenditures from internally generated cash flows. Specifically, we adopt the definition of residual dividend policy by Lease, John, Kalay, Loewenstein, and Sarig (2000), who suggest that managers "manage" dividends and that dividends are less volatile than earnings. A more operational measure is provided by Damodaran (1999), who articulates that a firm's dividend policy tends to change with the firm's life cycle. For instance, high-growth firms with great investment opportunities pay no, or very low dividends, whereas stable firms with greater cash flows and fewer projects tend to pay out more of their earnings as dividends. He documents that stockholder pressure for dividends or buybacks is greater for firms reporting poor returns, and less for firms whose projects yield high returns. In our study, we observe a firm's level of cash dividend and buyback versus the free cash flow to equity and the quality of its investment projects. Via such measures, we also investigate the extent to which quality of the projects is revealed by consensus analysts' forecasts. This approach may add to our understanding the information conveyed by the firms' dividend decisions.

Analysts' Dividend Forecast

The forecasting superiority of analysts reflects their ability to process a broader information set than statistical models, which typically confine themselves to the past time series of earnings or other data sources from published financial statements. In contrast, analysts have access to a wider range of sources, including qualitative information.

The advantage of analysts' access to a richer information set is a theme that runs throughout the literature on analyst forecasts. Lang and Lundholm (1996) provide direct confirmation of the relationship between forecast accuracy and richness of the information set. Using analyst ratings of firm disclosure practices contained in the Report on the Financial Analysts Federation Corporate Information Committee, they show that their forecasts are more accurate for firms with voluntary disclosure practices of better quality. Given the importance of management as a source of information to analysts, Lang and Lundholm's finding is not surprising.

Our project also aims to explain and understand the bias in analysts' earnings forecasts. Rationales proposed for the existence of systematic optimism include behavioral heuristics, motivational reasons, and selective coverage. McNichols and O'Brien (1997) find analysts drop coverage of firms for which they have unfavorable expectations and initiate coverage of firms only for which they have positive expectations. Therefore, while analysts may report their true beliefs, unfavorable beliefs will be underrepresented, i.e., they are censored. Therefore, the sample mean is an upwardly biased estimate of the population mean. They conclude that censoring explains some of the reported bias.

The integrity of analyst research is primarily a public concern of information transmission between securities firms and investors. On October 23, 2000, the Securities and Exchange Commission (SEC) implemented Regulation Fair Disclosure (FD). FD requires that U.S. public companies that intentionally disclose material, nonpublic information to a select group also disclose it simultaneously to the public. Gintschel and Markov (2004) examine whether Regulation FD has reduced the informativeness of analysts' information outputs. They show a significant drop in price impact of analysts' earnings forecasts following the regulation, suggesting that analysts' forecasts become less informative. Jorion, Liu and Shi (2004) provide evidence consistent with the view that security analysts are less informative post Regulation FD. They show that rating agencies now have an advantage compared to security analysts.

Security Analysts May Differ in Their Forecasting Abilities

Results of prior studies are generally consistent with the notion that security analysts differ in their forecasting abilities. Stickel (1992) documents that members of the Investor All-American Research Team are more accurate in forecasting earnings and forecast more frequently. In addition, the upward forecast revisions of All-American analysts have a greater impact on stock prices than do Non All-Americans. Sinha, Brown, and Das (1997), replicating O'Brien (1990) with more stringent controls for forecast recency, find that systematic ex-post differences exist in analysts forecast accuracy. They also examine ex-ante forecast accuracy and find that analysts identified as superior in one period continue to be superior in subsequent periods while analysts classified as inferior in one period do not necessarily continue to be inferior in subsequent periods. While Stickle and Sinha et al. identify differences in forecast accuracy, they do not explain why the differences exist.

Mikhail, Walther, and Willis (1997) examine factors that contribute to analysts' forecast accuracy. Using a time series approach, they find a decline in analysts' forecast errors as an analyst's company-specific experience increases. However, the results of Mikhail et al. may not be generalizable since they limit their initial sample to analysts who continuously forecast the same firm for at least thirty-two quarters. This requirement excludes ninety-seven percent of potential observations. Moreover, their sample may be

subject to time-series clustering which may have affected their results. Jacob, Lys, and Neale (1999) investigate the contribution of experience and brokerage house variables on analyst forecast attributes including forecast accuracy, frequency, and horizon. They find that employer size is associated with forecast accuracy. They also find that forecast accuracy is positively associated with the degree of industry specialization of brokerage house and is negatively related with brokerage house turnover. However, Jacob et al. do not find evidence that forecast accuracy improves with experience. Clement (1999) also examines factors which influence analyst forecast accuracy. The results indicate that forecast accuracy is positively associated with analyst ability, analyst skill, and available resources. He also finds that forecast accuracy is negatively related to task complexity measured by the number of firms and industries followed by the analyst.

DATA AND METHODOLOGY

Research Questions

For firms or projects in their early stages, accounting outcome measures typically serve as suboptimal indicators of firm performance or prospects. Yet security analysts' forecasts may help improve our classifying the observations into the four-quadrant box. We conjecture that many companies classified into quadrant (I) by HROE will move to quadrant (II) in the subsequent period and that security analysts performs better than HROE in predicting the four-quadrant box in the subsequent period.

H1: CROE performs better than HROE in predicting the four-quadrant box in the subsequent period.

Due to the fact that a firm's accounting earnings may deviate from its economic earnings, analysts may strategically pursue forecast accuracy, especially in the short term, at the expense of information value for long term outlooks. Namely, analysts' longer-termed earnings forecasts may be more informative than current- and subsequent-year EPS forecasts as to the true value of a firm's long-term investment projects.

H2: Analysts' longer-termed earnings forecasts outperforms their current- and subsequent-year EPS forecasts in predicting the four-quadrant box in the subsequent period.

We conjecture that analysts need to take greater efforts to communicate with firm management in order to make forecasts of cash flows, which most typically relates more heavily with the firm's expansion projects or investment plans than earnings forecasts. We test whether the analysts who provide cash flow and cash dividend forecasts outperform those who exclusively provide earnings forecasts.

There may exist several plausible explanations to differentiate market reactions to firms' dividend announcements. We conjecture that a difference exists in predisclosure information sets available to investors, especially market participants' perception of analyses reports. Therefore, market prices may behave as if investors adopt Figure 3 (as follows) instead of Figure 2 in responding to the dividend decisions at earnings announcement date.

Figure 2: ROE-R_E Quadrants   Figure 3: CROE = R_E Quadrants

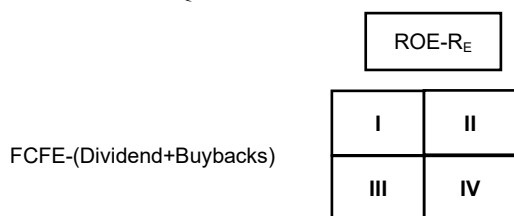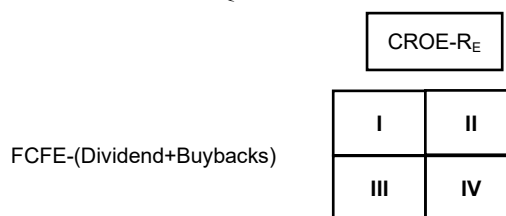|	ROE-R_E				CROE-R_E	
	I	II			I	II
FCFE-(Dividend+Buybacks)	III	IV		FCFE-(Dividend+Buybacks)	III	IV

These figures show quadrants for two measures of ROE. Figure 2 shows quadrants for ROE-R_E. Figure 2 shows Quadrants for ROE-R_E.

Benartzi, Michaely, and Thaler (1997) document that earnings growth rates of dividend-increasing (decreasing) firms do not increase (decrease) in the subsequent year. Consistently, we investigate whether there is a positive relationship between dividend changes and subsequent security returns. We conjecture that the market adopts the future earnings growth to complement current cash dividends payout when it determines securities prices. We use analysts' forecasts of return on equity to help evaluating the dividend decisions. We test market reactions by the four-quadrant box classified according to analysts' forecasts.

Among the observations classified into quadrant (I) by HROE, if the market overreacts to accounting earnings of the firms within quadrant (II) by analysts' forecasts, we expected to document a subsequent price drop. On the other hand, if the market underreacts to accounting measures of firms that may be classified into quadrant (II) by analysts' forecasts, we expected upward drift long after the announcement date.

<u>Modeling Volatility</u>

We begin our analysis by classifying the observations into the four-quadrant box.

$QUA_{i,t} = 1$ if firm i's ROE is less than its R_E and firm i is with cash surplus at year t.

$QUA_{i,t} = 2$ if firm i's ROE is greater than its R_E and firm i is with cash surplus at year t.

$QUA_{i,t} = 3$ if firm i's ROE is less than its R_E and firm i is with cash deficit at year t.

$QUA_{i,t} = 4$ if firm i's ROE is greater than its R_E and firm i is with cash deficit at year t.

The measures of excess return are specified as follows:

$$\text{Historical Return on Equity(HROE)}_{i,t} = \frac{\text{Net Income}_{i,t}}{\text{Book Value of Equity}_{i,t-1}} \tag{1}$$

$$\text{Cost of Equity}(R_E)_{i,t} = R_{f\,t} + \beta_{i,t} \times (R_{m,t} - R_{f\,t}), \tag{2}$$

where,

$$R_{m,t} = \prod_{j=-59}^{0}\left(1 + \left(\frac{\text{Index}_{\text{monthly, }j}}{\text{Index}_{\text{monthly, }j-1}}-1\right)\right) -1 \quad, \text{where } j = t \times 12 \tag{3}$$

$$\text{Accounting Measures of Project Quality}_{i,t} = \text{HROE}_{i,t} - R_{E\ i,t} = \text{Historical Excess Return(HER)}_{i,t}$$

$$\text{Jensen's alpha Measures of Project Quality}_{i,t} = a - R_{f\,t} \times (1-\beta_{i,t}) = \text{Market Excess Return(MER)}_{i,t}$$
where,

$$a = \text{Intercept from the regression } R_{i,t} = a + bR_{m,t} \tag{4}$$

We establish an alternative measure by consensus return on equity (CROE), the arithmetic average of all outstanding analysts' forecasts for a particular fiscal period, that is Fy1 or Fy2 or more than two-year-ahead earnings forecasts (Fy>2), deflated by beginning book value of equity. Data are restricted to cases where at least three analysts contributed to the consensus forecast and where dividend and earnings forecasts were made not more than six months after the previous earnings announcements.

Analyst Forecast Measures of Project Quality$_{i,t}$ = CROE$_{i,t}$-R$_{E\ i,t}$ =
"*Consensus Excess Return*"("*CER*")_"*i, t*" (5)

Analyst j's Forecast Measures of Project Quality = CROE$_{-j,i,t}$-R$_{E\ i,t}$, (6)

where -j is the set of all analysts except analyst j who forecasts ROE for firm i at year t, and n is the number of analysts in -j.

Consensus Return on Equity(CROE)$_{-j,i,t}$ = $\frac{1}{n}\sum_{m\in{-j}}$ CROE$_{m,i,t}$ (7)

The measures of cash surplus are specified as follows:

Free Cash Flow to Equity(FCFE)$_i$ = Net Incomes$_i$ - (CAPX$_i$ + DP$_i$) × (1-δ_i) - (Change in Non-Cash Working Capital$_i$) × (1-δ_i) - (Debt Repayments$_i$ - New Debt Issued$_i$) × $adj-factor_i$ (8)

Where,

CAPX is the abbreviation of Capital Expenditures.

DP is the sum of Depreciation & Amortization Expenses.

Change in Non-Cash Working Capital$_i$

= ΔNon-Cash Current Assets$_i$- ΔCurrent Liabilities$_i$,

where Δ is the first level difference in each variable.

δ_i = Weighted Debt Ratio(WDR)$_i$ = $\sum_{t=-4}^{0}\frac{t+5}{15}\times\frac{\text{Book Value of Debts}_t}{\text{BV of Debt}_t+\text{MktCap of Equty}_t}$ (9)

$adj-factor_i$ is used to adjust firm i's new debt issues covered principal repayments. Partition the sample by the level of newly issued debt.

Cash surplus$_{i,t}$ = $\frac{\text{FCFE}_{i,t}-(\text{Cash Dividend}_{i,t}+\text{Buybacks}_{i,t})}{\text{Total Assets}_{i,t-1}}$ (10)

Both (ROE - R$_E$) and (FCFE - Cash Dividend) measures may be substitute by analyst forecasted measures. We use accounting measures of cash surplus by financial reports and analysts' forecast measure of cash surplus by Consensus cash flow and Consensus dividend per share. We examine: 1. analyst performance in earnings and ROE forecasts, 2. analyst performance in cash flow forecasts, and 3. analyst performance in dividend per share forecasts.

Then we partition the observations into a four-quadrant box by accounting and analyst j's or consensus forecast measures for firm i at year t to obtain AQUA$_{j,,i,t}$ = N ,N = 1,2,3,4. and FQUA$_{j,i,t}$ = N ,N = 1,2,3,4., respectively.

We construct a transition matrix to show the probabilities of moving from state at time t to a possible future state at time t+1. We observe four measures of existing state x , including

AQUA_t, $\text{FQUA}_t^{\text{Fy1}}$, $\text{FQUA}_t^{\text{Fy2}}$, and $\text{FQUA}_t^{\text{Fy>2}}$. The $x' = \text{AQUA}_{t+1}$. We calculate the conditional probability, $\Pr(x' \mid x)$. Moreover, we focus on $\Pr(x' = 2 \mid x = 2)$ to identify which of the following measure performs better.

1. Consensus Return on Equity (CROE) performs better than HROE in predicting the four-quadrant box in the subsequent period.

We conjecture that $x = \text{FQUA}_t$ are more precise than $x = \text{AQUA}_t$. That is $\Pr(x' = \text{AQUA}_{t+a} \mid x = \text{FQUA}_t)$ is greater than $\Pr(x' = \text{AQUA}_{t+a} \mid x = \text{AQUA}_t)$ in statistic significant level, where $x' = x = \text{N}, \text{N} = 1,2,3,4$. We use Pearson's Q-statistic to perform a Chi-square test of goodness of fit.

2. $x = \text{FQUA}_t^{\text{Fy>2}}$, $\Pr(x' \mid x)$ is greater than $x = \text{FQUA}_t^{\text{Fy1}}$, and $\text{FQUA}_t^{\text{Fy2}}$ in statistic significant level, where $x' = x = \text{N}, \text{N} = 1,2,3,4$.

We anticipate that analysts' longer-termed forecasts outperform their current- and subsequent-year forecasts in predicting the four-quadrant box in the subsequent period.

<u>Logit Model</u>

We conduct a logit regression analyses for $Y_{j,i,t} = \beta' X_{j,i,t}$,

$Y_{j,i,t} = 1$ if quadrant of analyst j's forecast for firm i at time t hits the four-quadrant box in the subsequent period and $Y_{j,i,t} = 0$ otherwise;

β is a column vector of coefficients; and

$X_{j,i,t}$ is a matrix of observations on determined and control variables.

Determined variables are as follows:

$FOST\_Itrms_{j,i,t} = 1$ if analyst j provides cash flow and cash dividend forecasts. $FOST\_Itrms_{j,i,t} = 0$ otherwise.

We conjecture that analysts who provide cash flow and cash dividend forecasts appear to more accurately predict the four-quadrant box in the subsequent period.

$Y_{j,i,t}$ may be based on Fy1, Fy2, and Fy3. We anticipate the coefficient estimates of $FOST\_Itrms_{j,i,t}$ are more significant when $Y_{j,i,t}$ are derived by Fy >2.

$Freq_{j,i,t}$ is $ln(1 + N_{j,i,t})$, where $N_{j,i,t}$ is the number of longer-term forecasts (Fy >2) issued by analyst j for company i in year t. We use a variable $FOST\_Itrms_{j,i,t} \times Freq_{j,i,t}$ to examine the analysts who provide cash flow and cash dividend forecasts more frequently provide longer-term forecasts than those who exclusively provide earnings forecasts.

$Bold_{j,i,t} = 1$ if analyst j's forecast is above both his prior forecast and consensus forecast, or else below both; $Bold_{j,i,t} = 0$ otherwise.

Control variables are as follows:

$Size_{i,t}$ is the natural log of firm i's the market value of equity at the end of year t.

$SDROE_{i,t}$ is the standard deviation of firm i's yearly ROEs observations over the past five years.

$LEV_{i,t}$ is the firm i's (Long-term debt + Debt in current liabilities) / Total assets.
$Industy_{i,t}$ is a measure of the number of firm i's two-digit SICs in year t .

$SDFOST_{i,t}$ is the standard deviation of analysts' forecasts for firm i's if at least three analysts contributed forecasts in year t and where the dividend and earnings forecasts were made not more than six months after the previous earnings announcements. We check whether our results are robust to estimate cross-sectional time-series (fixed effects) logistic regressions. Like the traditional panel data regression, the fixed effects logistic regression is equivalent to having one intercept for each firm. We examine the panel data are satisfied fixed effects or random effect.

<u>Abnormal return (*AR*) — Four-factor Model</u>

We estimate the monthly abnormal return as the intercept from the following monthly time-series regression:

$$R_{p,t} - R_{f\,t} = \alpha_p + \beta_p(R_{m,t} - R_{f\,t}) + s_p\text{SMB}_t + h_p\text{HML}_t + w_p\text{WML}_t + \varepsilon_{p,t} , \qquad (11)$$

Where,

Small minus big (*SMB)* is the difference between the return on a portfolio of small stocks and a portfolio of large stocks and is a proxy for small firm risk. High minus low (*HML*) is the difference between returns on a portfolio of high book-to-market stocks and a portfolio of low book-to-market stocks interpreted by Fama and French (1993) as a proxy of earnings distress risk. Winner minus loser (*WML*) is the difference between the return on a portfolio of past stock market winners and a portfolio of stock market losers. The past stock market winners (losers) were defined as those stocks with the highest (lowest) 30% return over the 11 months through month t-2.

We use this model to assess whether any superior returns of investment banks' dealing activities with these bold analysts are due to better information or to their choosing stocks with these four characteristic factors. We suppose that investment banks with bold analysts' enjoy the cumulative abnormal returns in dealer activities. We conduct logit regression analyses adopting cumulative abnormal returns as the dependent variable for bold versus herding analyst forecasts with short- and long-windows, with other control variables adopted from Hypothesis 3.

Our methodology differs from that of Cooper et al. (2001), who focus on the timeliness of analyst earnings forecasts, in the following ways. First, we adopt stricter standards to identify the forerunners in both earnings forecasts and investment recommendations. Cooper et al. (2001) define an analyst as a leader if and only if his LFR exceeds one, whereas we identify the ones with LFR in the top (bottom) quintile as the lead (follow) analysts. Second, instead of using only one year to identify lead or follow analysts, our proposed sample period ranges from 1994 to 2004. Such a design helps in reducing the error of wrong identifications. Third, we exclude the observations with none or only one earnings forecasts or recommendation in the previous or subsequent year.

We adopt the four-factor model to obtain the abnormal return and calculate the cumulative abnormal returns (*CAR*) before and after the dividend announcement date. We categorize the observations by *FQUA* and *AQUA* to examine whether the *CAR*s from τ_1 to τ_2 are significant, where $\tau_1 = $ -20, -3, 0 and $\tau_2 = $ 0, 3, 20, 125, 250, 500. We anticipate that significant levels of t-test are more pronounced on the criteria of FQUA.

Data

We retrieve data for individual and consensus analyst earnings forecasts, long-term growth forecasts and dividend forecasts from the Institutional Broker Estimate System (I/B/E/S) Detail History tape for years 2011-2017. Accounting data comes from the quarterly consolidated financial statements on COMPUSTAT and/or laser disclosure. Data on individual security returns, trading volume and market index returns are drawn from the Center for Research in Securities Prices (CRSP) tape. Our sample consists of stocks being MSCI Taiwan Index constituents. The Index is a market capitalization weighted index that tracks equity market performance of the large and mid cap segments of the Taiwanese market. It covers approximately 85% of the Taiwanese equity universe. The number of securities is around 90 during our sample period. The 10 sector weights are shown as Table 1. We also examine all quarterly financial statements on DATASTREAM and TEJ. The final sample of 2,842 firm-quarters is yielded. Table 2 provides additional industry grouping information.

Table 1: Sector Weights-the Final Sample of 2,842 firm-quarters Is Yielded

Sector Name	Weight%
Information Technology	71.73
Financials	13.14
Materials	5.76
Industrials	2.6
Consumer Discretionary	2.39
Communication Services	2.1
Consumer Staples	1.49
Energy	0.35
Real Estate	0.25
Health Care	0.18
Total	100.00

This table shows summary statistics of the sample. The table shows composition of the sample by industry.

Table 2: Industry Group Name

Industry Group Name	Weight%
Semiconductors & Semiconductor Equipment	57.07
Technology Hardware & Equipment	14.66
Banks	7.08
Materials	5.76
Insurance	4.25
Telecommunication Services	2.1
Diversified Financials	1.81
Transportation	1.72
Consumer Durables & Apparel	1.39
Food Beverage & Tobacco	0.99
Capital Goods	0.88
Retailing	0.82
Food & Staples Retailing	0.5
Energy	0.35
Real Estate	0.25
Automobiles & Components	0.19
Pharmaceuticals, Biotechnology & Life Sciences	0.18
Total	100.00

This table shows descriptive statistics of the variables in the model.

RESULTS

We compare the forecast performance between accounting financial statements and security specialists. Table 3 shows descriptive statistics of the variables in the model. Figure 4 shows the percentage in Damodaran's four-quadrant square box. There are 60.25% observations in quadrant (II) with Cash Surplus and excess returns.

Table 3: Descriptive Statistics

Variables	Mean	Median	SD	Max	Min
Free cash flows to equity (FCFE)	3,072,521	318,605	11,219,796	319,613,491	(400,531,457)
FCFE per share	0.8021	0.3892	5.5903	24.5069	(177.37)
(Cash Dividend + Buybacks) per share	(0.6251)	0.0000	1.9571	1.9979	(30.00)
Cash Surplus per share	1.4882	0.8531	5.9353	33.3045	(177.37)
Historical return of equity (HROE)%	2.6755	2.6900	10.2118	60.5800	(391.86)
CAPM_Beta 3 Mos.	0.9323	0.9008	0.4866	19.5624	(58.38)

This table shows descriptive statistics of variables used in the analysis.

Figure 4: Damodaran's Four-quadrant Square Box

		Historical Return of Equity (HROE) – Cost of Equity (R_E)	
		Negative	**Positive**
Positive		(I) 17.05%	(II) 60.25%
Negative		(III) 7.82%	(IV) 14.88%
		Poor Projects	**Good Projects**

FCFE –(Cash Dividend + Buybacks)

Figure 4 shows the percentage in Damodaran's four-quadrant square box

Figure 5: shows Cash surplus vs. Excess Returns Without Four Outliers (Cash Surplus Per Share Is Less Than -162 and Excess Returns Are Less Than -252%).

Figure 5: Cash Surplus vs. Excess Returns
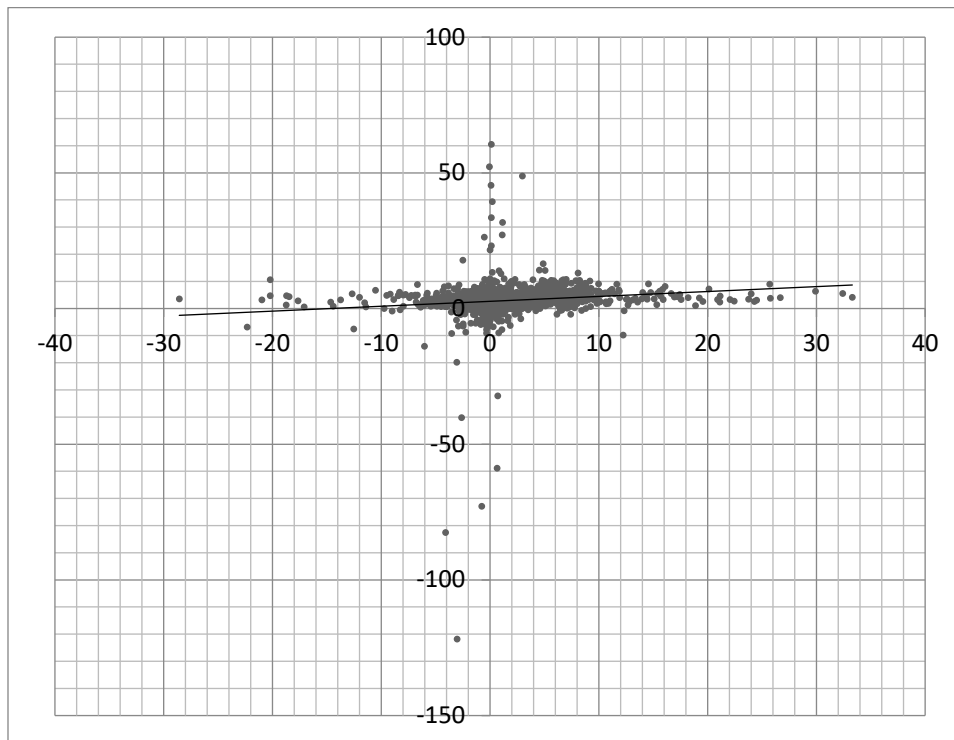
This figure shows the Cash Surplus versus Excess Returns.

Table 4 illustrates the difference in accounting measure HROEs and specialist measure CROEs. Model 2 shows R square 0.0110 more than in Model 1. Accordingly, we address the impacts of difference between HROE and CROE to control variables. In Model 3, the coefficient of firm size (0.121, p>0.01), Debt Ratio (0.092, p>0.01), MSCI Sector (-0.233, p>0.01) are not significant. However, the cross Sector × CROE (-0.294, p<0.1) is significant, explaining the firm excess return performance from quadrant (I) with negative present value projects to quadrant (II) with positive present value projects.

Table 4: Regression Results of Excess Returns

Dep. Variable-ROE-E(R)>0	1	2	3
Intercept	–0.113*	–0.134**	–0.134**
	(–1.89)	(–1.98)	(–1.98)
HROE	0.024		0.021
	(1.08)		(1.03)
CROE		0.049**	0.041**
		(2.02)	(2.00)
Size			0.121
			(0.92)
Debt Ratio			0.092
			(1.64)
Sector (Industries)			–0.233
			(–1.31)
Sector × CROE			–0.294*
			(–1.95)
Years			Yes
R^2	0.0086	0.0110	0.0370
Adj- R^2	0.0083	0.0107	0.0366
N	2,962	686	686

* p<0.1; ** p<0.05; *** p<0.01; numbers in the parentheses are t values.

The most striking aspect of the results is the industry Sector cataloging by MSCI in the causality relation between the specialists. CROE bias are larger in some industries to influence their forecast capabilities. However, after controlling the variable, Consensus Return on Equity (CROE) dynamic changes from quadrant (I) to quadrant (II) become a more significant leading factor in s the subsequent period than accounting financial measures.

CONCLUDING COMMENTS

Our empirical result shows that Consensus Return on Equity (CROE) performs better than HROE in predicting the four-quadrant box in the subsequent period. Due to the fact that a firm's accounting earnings may deviate from its economic earnings, analysts may strategically pursue forecast accuracy, especially in the short term, at the expense of information users in the long term. Namely, analysts' longer-termed earnings forecasts may be more informative than current- and subsequent-year EPS forecasts as to the true value of a firm's long-term investment projects. Analysts' longer-termed earnings forecasts outperforms their current- and subsequent-year EPS forecasts in predicting the four-quadrant box in the subsequent period.

Moreover, we explore that analysts need to take greater efforts to communicate with firm management in order to make forecasts of cash flows, which most typically relates heavily with the firm's expansion projects or investment plans, than earnings forecasts. The analysts who provide cash flow and cash dividend forecasts outperform those who exclusively provide earnings forecasts. They appear to more accurately predict the four-quadrant box in the subsequent period and more accurate longer-term forecasts than those who exclusively provide earnings forecasts.

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RELATIONSHIP BETWEEN INNOVATIVE LEADERSHIP AND EMPLOYEE SERVICE INNOVATION BEHAVIOR

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ABSTRACT

This study investigates if a climate of support for innovation acts as a mediator between innovative leadership and employee service innovation behavior. A total of 238 valid questionnaires were collected from insurance companies. Participants were asked to rate their service innovation behavior, their supervisors' innovative leadership, and the climate of support for innovation in their unit. The study used regression analysis to analyze the data. The results indicated that a climate of support for innovation acts as a mediator between innovative leadership and employee service innovation behavior. Finally, this study discusses the implications of these findings and offers direction for future research.

JEL: M31

KEYWORDS: Innovative Leadership, Employee Service Innovation Behavior, Climate of Support for Innovation

INTRODUCTION

Interactions between service employees and customers are critical in every transaction. To provide high-quality customer service, service employees represent an important role in innovative service implementation (Lee and Hyun, 2016). The rationale of employees' service innovation behavior is to gain customers' positive perception of the service organization (Yuan and Woodman, 2010). Toward this end, employee service innovation behavior deserves further investigation. Researchers have overlooked an opportunity to assist employees in developing service innovation behavior, which is crucial to an organization's capabilities as well as competitive advantages.

Some scholars maintained that leadership is an important precursors of employees' innovation behavior (Gong et al., 2009; Basu and Green, 1997). A prior study defined innovative leadership as leaders who help develop members' creative behavior (Khalili, 2017). Given the fact that leaders in service sectors highly value service quality, one may argue that such may encourage employee service innovation behavior, which in turn can lead to customer satisfaction. However, the relationship between leadership and employee service innovation behavior seems rather confounding and inconsistent in the findings. This suggests that leadership styles may have different relationships with employees' innovation behavior, depending on other variables (Rosing et al., 2011).

Work climate research investigates how employees perceive their work environment and how the perception affects them, such as work behavior (Kuenzi and Schminke, 2009). A work climate (i.e., climate of support for innovation) emphasizes innovation values and norms (Anderson and West, 1998). Scott and Bruce (1994) found that an innovation climate was a mediator between leadership and employee service

innovation behavior. A review of leadership literature to date reveals that leaders affect employees' attitudes or behavior by creating a work climate. We argue that to provide high-quality service, leaders with an innovative leadership style may encourage employee service innovation behavior by providing the employees with a climate of support for innovation. Thus, the research question is to explore if a climate of support for innovation acts as a mediator between innovative leadership and employee service innovation behavior.

This research makes some important contributions. Few empirical studies have investigated the relationship between innovative leadership and employee service innovation behavior. To the best of our knowledge, how innovative leadership influences employee service innovation behavior has not been investigated in the existing literature. Moreover, we propose a link between leadership and employee innovation service behavior. This study can help service organizations provide customers with better service quality, thereby gaining and sustaining competitive advantages.

The article will be conducted with a literature review related to research concepts, followed by a discussion of questionnaires used to collect data. We implement regression analysis to test our hypotheses and produce results. Finally, the conclusions and managerial implications of the article are discussed.

LITERATURE REVIEW

Innovative Leadership, Climate of Support for Innovation, and Employee Service Innovation Behavior

Innovative leaders use innovation and creativity to manage employees and work. They tend to explore new ways and procedures to improve organizational efficiency (Delanoy and Kasztelnik, 2020). Researchers (Mumford and Licuanan, 2004) noted the need for organizations to innovate in order to adapt to changes in the competitive environment. This need has led to a new focus on the role of leaders. For example, innovative leaders tend to adopt new technologies as well as procedures so their employees can act innovatively and stay competitive. By doing so, employees' knowledge will be transformed according to the leaders' expertise (Mumford et al., 2003).

An organizational climate for innovation includes encouragement via such elements as creativity, autonomy, and sufficient resources (Amabile et al., 1996). Extending this description, an innovation climate can be defined as the extent to which organizational norms and values stress innovation (West and Anderson, 1996). Support for innovation can be translated into expectations, approvals, and practical support, like introducing novel ways of doing things in the workplace (West and Anderson, 1996). Further, West and Anderson (1996) asserted that support for innovation might be conveyed by verbal communication, policy statements, and personnel documents. Further, Abbey and Dickson (1983) concluded that an innovation climate could be demonstrated by rewarding employees' excellent performance or by the organizational willingness to try new ideas. Based on prior research, perception of resource adequacy and support for an innovation climate act on employees psychologically because both lead to employee's beliefs about the intrinsic value of the projects they have carried out (Yang et al., 2021).

According to Amo and Kolvereid (2005), employee service innovative behavior is defined as employees' willingness to come up with creative ideas regarding services, products, and processes in the work environment. Employees with innovative behavior tend to find resources to reinforce novel ideas and are committed to service innovation to improve organizational performance (Kim and Lee, 2013). Hence, we believe this will contribute to both customer satisfaction and service quality.

Hypotheses

By establishing and keeping an organizational climate that nurtures creative efforts and facilitates learning, leaders are able to inspire organizational creativity (Yukl, 2018). Likewise, leaders may affect employee service innovation behavior by defining and shaping work contexts to help employees define problems, goals, or solutions (Redmond et al., 1993). In addition, leaders' unconventional behavior, such as role modeling, articulating a creative mission, and establishing creative group identity, are all conducive to followers' creativity (Azim et al., 2019).

In this line, we argue that leaders with innovative leadership welcome and reward creative ideas, which in turn gives employees autonomy and resources. In the end, a climate of support for innovation, including such elements as creativity, autonomy, and sufficient resources, is established. Thus, the first hypothesis is proposed.

Hypothesis 1: Innovative leadership is positively related to a climate of support for innovation.

A Prior study indicated that an innovative climate within an organization influences employees' motivation, which in turn affects their innovation behavior (Hunter et al., 2007). Given a climate of support for innovation, such as adequate creativity, autonomy, and sufficient resources (Lee and Kim, 2021), we argue that employees in such a climate are more intrinsically motivated, more willing to face challenges, and more satisfied with their work. As such, they explore new ideas and present them through innovative behavior and actions. Hence, the second hypothesis is proposed.

Hypothesis2: A climate of support for innovation is positively related to employee service innovation behavior.

Employees in a climate of support for innovation will be more likely to develop service innovation behavior, such as looking for creative ideas regarding services, products, and procedures in the workplace. Innovative leadership may help shape the climate of support for innovation, which thereafter can affect employee service innovation behavior. Thus, the third hypothesis is proposed.

Hypothesis 3: A climate of support for innovation mediates the relationship between innovative leadership and employee service innovation behavior.

The diagram of the research model is presented in Figure 1.

Figures 1 Diagram of Research Model
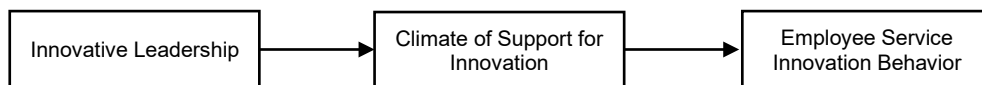
Note. This figure is the research model.

DATA AND METHODOLOGY

Sampling and Measure

Participants (insurance agents) were recruited from Taiwan insurance companies in May 2021. Insurance agents usually need to provide an insurance product to fit the customer's needs. To do so, they need to present employee service innovation behavior. The researchers asked the managers of those insurance companies to kindly help with the survey and collect the questionnaires. Participants were asked to rate

their service innovation behavior, their supervisors' innovative leadership, and the climate of support for innovation in their unit. A total of 238 valid questionnaires were collected. The sample includes 47% males and 53% females, with a mean age of 36.5 years.

All measures were reported on a 7-point Likert scale, ranging from 1 (strongly disagree) to 7 (strongly agree). Items for measuring innovative leadership were adapted from Karamitri et al. (2020). Participants were asked to evaluate their supervisor's innovative leadership and indicate the degree of their agreement. Items for measuring a climate of support for innovation were adapted from Anderson and West (1998). Participants were asked to evaluate their unit climate and indicate the degree of their agreement. Finally, employee service innovation behavior was measured with items based on Scott and Bruce (1994). Participants were asked to evaluate their service innovation behavior. As prior studies have suggested that participants' gender, education, and tenure (Wu et al., 2021; De Dreu, 2006) may influence employee innovation, we controlled the effects of these demographic variables. Variables, variable definitions, and units of measurement are presented in Table 1.

Table 1: Variables, Variable Definitions, and Unit of Measurement

Variables	Variable Definitions	Unit of Measurement
Innovative Leadership	Innovative leaders use innovation and creativity to manage employees and work.	Individual Level
Climate of Support for Innovation	Climate of Support for Innovation can be translated into expectations, approvals, and practical support like introducing novel ways of doing things in the workplace.	Individual Level
Employee Service Innovative Behavior	Employee service innovative behavior is defined as employees' willingness to come up with creative ideas regarding services, products, and processes in the work environment.	Individual Level

This table indicates the variables, variable definitions, and unit of measurement.

RESULTS

Table 2 presents means, standard deviations, reliabilities, and intercorrelations among the variables.

Table 2: Means (M), Standard Deviations (SD), and Correlations

Variable	*M*	*SD*	1(IL)	2(CSI)	3(ESIB)
1. Innovative Leadership (IL)	5.13	0.98	(0.92)		
2. Climate of Support for Innovation (CSI)	4.98	0.72	0.21**	(0.81)	
3. Employee Service Innovation Behavior (ESIB)	5.22	0.89	0.23**	0.38**	(0.95)
4. Age	36.5	0.87			

*This table sows summary statistics. Reliabilities (coefficient alpha) in parentheses on the diagonal. Sample size N = 238. Two-tailed tests.***, ** and * indicate significance at the 1, 5 and 10 percent levels respectively.*

SPSS macro (PROCESS) developed by Hayes (2013) is used to test the mediation model (Hypotheses 1-3). It is developed based on regression analysis. The following regression equation (1) was estimated to identify determinants of a climate of support for innovation. The following regression equation (2) was estimated to identify determinants of Employee service innovation behavior.

Climate of Support for Innovation = $\beta 0 + \beta 1$(Gender)$+\beta 2$(Education) $+\beta 3$(Tenure) $+\beta 4$(Innovative Leadership).   (1)

Employee Service Innovation Behavior = $\beta_{01}+\beta_{11}$(Gender)+β_{21}(Education) +β_{31}(Tenure) +β_{41}(Climate of Support for Innovation) +β_{51}(Innovative Leadership).　　　　　　　(2)

Ordinary Least Squares estimates were obtained. Table 3 shows the results. The parameter β_k (k=0,…, 4) indicates an unstandardized regression coefficient. Moreover, The parameter β_{k1} (k=0,…, 5) indicates an unstandardized regression coefficient.

As seen in Table 3, innovative leader style is positively related to a climate of support for innovation (β = 0.14, t = 2.39, $p < 0.05$). Hypothesis 1 is supported. A climate of support for innovation is positively related to employee service innovation behavior (β = 0.48, t = 5.86, $p < 0.001$). Hypothesis 2 is supported. The mediation effects (indirect effect through a climate of support for innovation = 0.06 is significantly different from zero (95% CI [0.01, 0.13]). The mediation model (Hypothesis 3) is supported.

Table 3: Regression Results for Simple Mediation

Variables	β	SE	t	p
Regressed on Climate of Support for Innovation **R2 0.27; Adjusted R2 0.26**				
Constant	4.18***	0.36	11.42	<0 .001
Gender	-0.14	0.09	-1.49	0.137
Education	0.04	0.07	0.61	0.546
Tenure	0.08	0.05	1.48	0.139
Innovative Leadership	0.14*	0.06	2.39	0.017
Regressed on Employee Service Innovation Behavior **R2 0.39; Adjusted R2 0.38**				
Constant	0.45	0.59	0.76	0.451
Gender	0.05	0.13	0.38	0.707
Education	-0.02	0.09	-0.28	0.783
Tenure	-0.01	0.07	-0.19	0.842
Climate of Support for Innovation	0.48***	0.09	5.86	< 0.001
Innovative Leadership	0.44***	0.07	5.87	<0 .001

*This table sows regression analysis results. Unstandardized regression coefficients are reported. Bootstrap sample size = 1,000. Two-tailed tests.***, ** and * indicate significance at the 1, 5 and 10 percent levels respectively.*

CONCLUDING COMMENTS

A review of the existing literature has revealed that little, if any, extant research on how innovative leaders affect employee service innovation behavior. To fill the gap, this study integrates the variable, a climate of support for innovation, into our conceptual framework. Interactions between service employees and customers are considered critical in every transaction. The results of this study match the ideas that service employees play an important role in innovative service implementation (Lee and Hyun, 2016). This study found that innovative leadership exerts a strong influence on a climate of support for innovation, which thereafter reinforces employees' innovation behavior.

This study used SPSS macro (PROCESS) developed by Hayes (2013) to test the mediation model (Hypotheses 1-3). It is developed based on regression analysis. Although the findings of this study yield some valuable insights, several limitations of this study should be recognized. First, this study does not include individuals' personalities as moderating effects. There are some individuals' personalities related to innovation behavior that is worthy of further investigation, such as openness to experience dimension of

the Five-Factor Model of personality (McCrae and Costa, 2004) or Gough's (1979) Creative Personality Scale. Second, the data were collected only from one industry, insurance companies. Therefore, future studies may consider collecting data from other service industries, such as banks or hotels, to test the robustness of the model.

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VALUE PERCEPTIONS OF CULTURAL-ENVIRONMENTAL SERVICES IN TACOTALPA, TABASCO

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ABSTRACT

This article analyzes tourist perceptions of cultural environmental services, tourism resources and activities as well as the environmental impacts in the tourist area of Tacotalpa, in the state of Tabasco in southeastern Mexico. The mixed methodology combines in-depth interviews of a qualitative nature and the application of a quantitative questionnaire from which a descriptive analysis of frequencies is carried out. Among the results, it stands out that visitors have a positive perception of the quality and aesthetics of natural landscapes in a way they consider inexpensive.

JEL: Z39

KEYWORDS: Environmental Services, Tourism, Economic Valuation, Perception

INTRODUCTION

The qualitative research described in this work analyses the Environmental, Cultural Services (ECS), of historical and socio-anthropological nature, from the premise that ecosystems provide a wide range of opportunities for recreational use in touristic practices, such as ecotourism, adventure tourism, sport fishing and hunting, bird watching, nature photography and water sports (Vázquez Navarrete et al. 2011). Tourism is a primary income-generating industry throughout the world. The World Travel and Tourism Council, in the *Economic Impact Research* of 2009, estimated the touristic sector and inherent activities represented more than 10% of the world Gross Domestic Product and job positions. Beyond the current situation induced by SARS-CoV-2, which, according to the World Tourism Organization, caused a plunge of 65% of the sector activities, tourism had always maintained a constant growth. Even during such an exceptional situation, global institutions and entities detect big potential in domestic tourism, especially towards those modalities less focused on the more consolidated destinations. The World Tourism Organization (2013) highlights that tourism encourages the participation of micro, small and medium enterprises (also known in Spanish as *Mipymes*). This occurs especially in regions with scarce productive alternatives, but with vast natural and cultural attractions, like in Southern Mexico states.

The objective of this research is studying tourists' perception, value bestowed on ecosystems and touristic resources, complementary productive activities and environmental impact in the touristic zone of the municipality of Tacotalpa, in the Mexican state Tabasco. This area, as stated by Alejandro Toledo and Farrera, in his book *Cómo destruir el paraíso* (*How to destroy the paradise*) (1983), suffered a devastating deforestation process. Deforestation was to such extent that nowadays there are just some remains of what it used to be, like the area where this study referenced. In the tropical ecosystems of Mexico the literature on the subject is incipient, there are almost no studies on the subject. The study area is part of the priority

terrestrial regions of Mexico, for the biological richness and its conservation, This new tool makes it possible to internalize the value of ecosystems that must be socialized from all areas, including land managers and those who make and approve public policies. This document is structured as follows. The next section provies a review of the literature on the subject of cultural environmental services (CES). The next section describes the place of study. The following section presents the results of surveys and interviews carried out. We highlight some fundamental issues in the assessment of CES. Finally, the main results are discussed with the data from the desk review, with emphasis on the valuation of tourism.

LITERATURA REVIEW

Environmental Services (SA, initials in Spanish) are the conditions and processes by which natural ecosystems and its species give life to the Planet, satisfying human society's needs, providing health and wellbeing (Braat; De Groot, 2012; Daily et al., 1999; Millennium Ecosystem Assessment, 2005). According to Costanza et al. (2014) and Baniya, Solhoy and Vetaas (2009), the estimated value of environmental services in the world in 2011 was 125 billion dollars. These authors also note a strong deficit due to the loss of ecosystems caused by the extraction and deforestation. For this reason, it is vital to maintain an equilibrated interaction between society, ecosystems and proper resource management, towards a sustainable and desirable future for humankind. Thus, de Groot, Wilson, & Boumans (2002, p. 396) established a detailed classification of 23 functions describing the processes and ES´s components, grouped into four functions: regulation, habitat, production and information. The most accepted ES classification system is Millenium Ecosystem Assessment (2005) that includes four categories. *Regulating* refers to the services that keep the environmental conditions in balance. *Supporting* relates to the basic ecological processes that ensure the proper functioning of the ecosystems and the flow of services. *Provisioning* represents the input supply to people of food, clothing, building, and the production of secondary products. In addition, *cultural* whose components are subject of this research and provide opportunities for cognitive development. Robert Costanza (1997, p. 254) was among the first to detail that Cultural Ecosystem Services (CES) comprise aesthetic, artistic, educational, spiritual and/or scientific values of ecosystems. Following this, the Millennium Ecosystem Assessment concluded that CES are "the nonmaterial benefits people obtain from ecosystems through spiritual enrichment, cognitive development, reflection, recreation, and aesthetic experiences" (2005, p. 40).

Conversely, for Galarza and Gómez (2005), value is determined by environmental functions that nature provides and are expressed in terms of price. As noted by these authors, there are functions that society values in a positive way, like those related to the production of economic goods or residues transformation, which can be integrated into the new ecosystem. In this sense, 'natural goods' are those which provide wellbeing for individuals, such as landscapes. Lecca and Huatuco (2015) define economic, environmental valuation as the group of techniques and methods that measure the benefits expectations and derived costs of some actions such as the use of an environmental asset, an improved performance or an environmental damage. The authors point out that availability of individuals to pay for these services comes from the preference of some goods and services over of others.

Machín Hernández and Casas Vilardell (2006) show that natural resource valuation allows to study the benefits that they have for society and it is also useful to improve environmental quality, costs inherent to the different intervention levels and, most of all, the environmental services. Likewise, Bustamante and Ochoa (2014) highlight that value resides in the characteristics of each ecosystem, including cultural valuation, in its spiritual and religious dimensions. Plieninger and Bieling, et al. (2013) suggest that when analyzing the Environmental Cultural Services (ECS) and studying the valuation as it is perceived by residents, the results are relevant to nature conservation and sustainable development of the ecosystems. ECSs is perceived unconsciously and, as such, individuals value them. Therefore, they are items to administrate and preserve in the common ground: Earth (Chan, Satterfield and Goldstein, 2012). For authors such as Kubiszewski et al. (2017) and Martínez-Harms et al., (2015) ecosystem services should be used for

management, conservation and countering ecosystem degradation worldwide. They consider it important to safeguard natural capital for future generations, to provide new opportunities for local economies and the direct and indirect contributions of ecosystems to human well-being.

However, the intangible and incommensurate characteristics of some of the values included in the cultural services category, are a major barrier that hamper their inclusion in concrete proposals of management and planning on the public agenda and in the decision-making (Chan et al., 2012). Following Gallagher's neurocognitive approach to place shaping, Groot (2002, pp. 401–402) highlights that natural ecosystems provide almost unlimited opportunities for spiritual enrichment, mental development and leisure such undomesticated habitat, because the sense of well-being is strongly tied to the experience of natural landscapes and species diversity since the early times of humankind.

Nature is a source of inspiration for science, culture and art. Cultural ecosystem services have been studied in various ways by authors such as Plieninger et al (2015) who shows it is relevant to observe the commitment of rural and urban residents who are committed to the conservation of public and community goods since they represent a cultural value. This value occurs because they carry out various activities from the traditional existing roles of CES such as: providing opportunities for ecotourism and outdoor recreation, promoting gardening and harvesting practices, and stimulating the emergence of collective landscape management. After reviewing a data base of 80 authors (La Rosa et al., 2016, p. 75) concluded that "limited attention has been given to Cultural Ecosystem Services, among different categories of ES, especially considering the relevant benefits that communities and urban planning processes can derive from them". Nonetheless, many authors insist on the importance of these type of analysis given it provides an instrument to preserve and improve human well-being (Aretano et al. 2013; Daniel et al., 2012; Darvill and Lindo, 2016). The most recent research carried out in the coast north of Dublin conclude that the natural environment contributes to subjective well-being and, consequently, on assisting local people in articulating environmental impacts and proposing solutions, which traduces in helping to preserve natural and cultural resources (Bullock et al., 2018).

Vázquez Navarrete *et al* (2011) state that the economic value of services that nature provides is a natural capital of some sort, which should be included in calculations of enterprises and governments, to help protecting them, since they are elements vital to life. Abson *et al.* (2014) point out that touristic environmental services, valuation must consider the existence of resources as well as costs established by service providers. From the position of tourism we mention authors such as (Croes, 2012; Rodzi, Zaki, & Subli, 2013) who point out that tourism brings with it an improvement in the quality of life of the communities and improvement in the economy of the same, reducing poverty and generating employment. This activity promotes and mobilizes services whose production and consumption occur at the local level, allowing the participation of micro, small and medium-sized enterprises (MSMEs) and regions with few productive alternatives, but rich in natural and cultural attractions, such as the southern states of Mexico (World Tourism Organization, 2013). The interest of tourism activity is currently directed towards the search for a healthy environment, a more authentic tourist product, a better distribution of the offer in the territory and incorporation of new spaces for the development of tourism. In this way, the territory will be conceptually addressed with a new tourist perspective: the natural and rural character of the space is valued differently. This search approaches nature in a more direct and active way, but at the same time more responsible, valuing and respecting the natural and sociocultural peculiarities of places visited, gives direction to the emergence of a different tourism (Bringas R. & González A., 2004).

Tourism projects require the direct participation of beneficiaries and others who may be impacted. Endogenous or local development is a process that combines economic and social sustainability, for public and private actors make investment decisions not only to improve the productivity and competitiveness of enterprises, but also to solve problems and improve the welfare of society (Arocena 2001). The argument of Vázquez Barquero (2007) is that to apply local development in a territory there must be a structural

change from the interior, which favors the entrepreneurial capacity and creativity and that must prioritize the vision of human development. A new generation of researchers concerned with finding effective responses to the challenges of poverty eradication, job creation and structural change, has the support of countries and international organizations such as UNDP and ILO, which are committed to sustainable development. For their part, endogenous development policies are supported by international organizations such as OECD, the European Union, the United Nations Development Programme (UNDP), ILO, the Inter-American Development Bank and the World Bank.

DATA AND METHODOLOGY

The Tacotalpa municipality is located in the south part of the state of Tabasco, Mexico. It has a territorial area of 738.52 km2 (Figure 1) and a population of 42,833 people (Instituto Nacional de Estadística y Geografía INEGI, 2016). It has humid-warm weather, with abundant rain throughout the year, an average yearly temperature of 25.6° C, maximum 29.2°C in May and a minimum of 20°C during December-January. The Pueblo Mágico of *Tapijulapa* is located in this municipality, as well as Oxolotán's botanical gardens, convent and museum. Tacotalpa is located in the highland area of the state, with a large amount of fluvial streams (Figure 1). There are more than 30 caverns and archeological areas discovered in the area, some of them are part of the touristic offer of the state.

Figure 1: Location of Tacotalpa, Tabasco, México

The Tacotalpa municipality is located in the south of the state of Tabasco, in the south of Mexico. It has a territorial area of 738.52 km2

In the ecological reserve Parque Estatal de la Sierra there are three types of vegetation: high and medium deciduous jungle, old acahual, 20-to-30-meter-high trees, like ironwood (*Dialum guianense*), zapote mamey (*Pouteria zapota*), naseberry (*Manikara zapota*), cachimbo (*Platymiscium*), mountain chesnut (*Sterculia mexicana*), cedrillo (*Guarea bijuga*), hog plum (*Spondias monbim*), botoncillo (*Rinorea guatemalensis*), wild cinnamon (*Croton glabellus*) and gogo (*Salacia elliptica*). The endemic fauna include lowland paca, gliding snake, chachalaca, hawks, howler monkey and jaguar (Rodríguez Ocaña, Muñoz Zetina; López Hernández, 2009).

The research follows a mixed methodology including in-depth interviews and participative observation, or semiotic analysis of advertising material, with the specificity of quantitative data gathered through questionnaires, to perform a non-representative, descriptive statistics analysis. Qualitative fieldwork was performed in 2016 during 6 months in the municipality of Tacotalpa. The questionnaire was applied to visitors of the Ecological Reserve *Parque Estatal de la Sierra* during June of that year. The questionnaire was conceived with a non-experimental design and as secondary complement to the qualitative in-depth interviews, which are the methodological compass of the research. The questionnaire enabled researchers to make a series of generally explanatory ideas about how subjects consider the current situation and gather perceptions about the values associated with the landscape.

The questionnaire consisted of 27 items and was applied to 100 visitors over the period of June 12th to 25th, 2016. It was administered to one of each 10 people at the entrance-exit of the park, and who showed interest in the research. There are no official statistics about the number of visitors, since records are not kept. According to the *Agenda de competitividad y sustentabilidad*, in 2013 9,347 tourists visited, what is known as Pueblos Mágicos, in the touristic destinations in Mexico (SECTUR, 2013). During the fieldwork, we checked the logs kept by park managers, in which the registered number of visitors were oddly rounded adding up to 12,000. Due to the inability to perform a consistent statistical sampling, we applied 100 questionnaires. The goal was to have even percentages and therefore, less room for errors or misinterpretations of the descriptive and complementary quantitative data. The results of the questionnaire are not analyzed in a statistically significant manner, but in a descriptive one. That is, they were interpreted in light of the qualitative data gathered during the in-depth interviews and the participant observation.

The objective of the research was explained to the interviewees, as well as the context it was performed in. Based on Aretano, Petrosillo, Zaccarelli, Semeraro y Zurlini (2013), the questionnaire is divided into three main sections: 1) personal information (origin, age, occupation and time and cost of travel, 2) respondent's valuation of the characteristics of the landscape, the structure and the changes perceived, and 3) a monetary valuation of the current outlook, according to the Declared Willingness to Pay (DAP, initials in Spanish). The DAP has been used by authors such as Galarza and Gómez (2005); Silva-Flores, Pérez-Verdín and Návar-Cháidez (2010). A Likert scale was used to measure these valuations. A Likert scale consists of a group of affirmative sentences about the opinions of the respondents. The indicators are the answers given, while the options to express those answers become the items of the scale (Hernández Sampieri, Fernández Collado; Baptista Lucio), 2014). In this case, the scale used was highly disagree, disagree, neutral, agree, and highly agree. We also performed an analysis of the semiotic content of the advertising material of the area, like touristic leaflets, books, posters and manuals, as well as content on the web page of the local council, Tacotalpa. We considered videos on YouTube uploaded by the visitors and recorded on their trips and/or sports activities.

RESULTS

A wide range of scientific disciplines, from biology to ecology, including basic sciences and engineering, as well as economic and social sciences take part in the study of environmental services. For this reason, each environmental service has a degree of progress in its theoretical conceptualization, quantification techniques and practical applications for its anthropogenic use. The results here derive from the application of 100 questionnaires, which were interpreted in light of the qualitative data gathered from the in-depth interviews and the participative observation performed. The origin of the questionnaire respondents indicates that locals mainly visit the area. Seventy-two percent of visitors are locals of Tabasco, while the rest come from the neighboring states of Chiapas and Campeche, and more distant states like Querétaro. During the fieldwork period, on one occasion we had the opportunity to interview a small group of foreign tourists, coming from Costa Rica. The gender distribution indicates that the questionnaires were applied to 59 men and 41 women.

The Parque Estatal de la Sierra is a place where one can take long hikes, where you can perform activities of extreme tourism including jungle trips by bike or on foot. The physical reality is evident in the age of visitors. The average age of the visitor is between 15 and 44 years. The type of touristic activities offered in the place determines this distribution. This is evident in the infrastructure of the park, as well as the analyzed advertising material, where activities like rappelling, camping, adventure hiking and others are promoted. The touristic material revolves around the motto *Adventure in the Highland.* The distribution by education level shows that 44% have a bachelor's degree, 23% have a high school education, 9% a master's degree, 8% a degree in technical education, 9% a junior-high school education and primary school education 7%.

With the data gathered from the questionnaire, we find that 33% of tourists were willing to pay between 200 and 500 pesos for the trip, and 25% were willing to pay 600 and 800 pesos, while 30% were willing to pay up to 900 to 1,200 pesos. Tourists often stay around to eat and buy reasonably priced souvenirs. Thanks to the mixed methodology used, we detected a name for the type of tourist who is not willing to spend a considerable sum of money, and who usually brings food and beverages with them, leaving just trash behind. He is known as *visitant (*visitor). Lastly, 6%, which includes the foreign tourists, stated that they were willing to pay more than 1,300 pesos and that if the infrastructure were appropriate, they would spend the night in the premises.

The next questions address the direct quantification of expense made (how much) during the touristic tours, as well as the trip time (when). The question refers to the trip expense and not to, as in the previous section, to the value of the landscapes they see, the ecosystems or the jungle that they hiked in. Consequently, 43% spent around 500 and 1,000 pesos, which indicated that those tourists came from a nearby location. Twenty-four percent said they spent 1,500-2,000 pesos, which was caused by transportation expenses, indicating the tourists came from more distant locations, and there was a food expense. Twenty-two respondents said they spent around 2,500 and 3,000 for their trip and 6 wer willing to pay more than 3,500 (Figure 2).

Figure 2: Expenses in Touristic Trips in Tacotalpa (in Pesos)
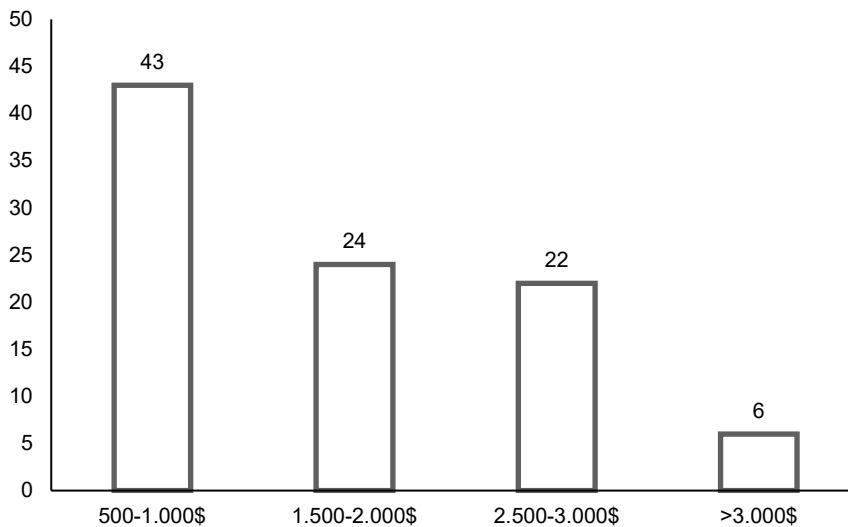
Transformation perception is one of the parameters considered as relevant to determine the valuation of ecosystems, from environmental-cultural services. Tourists were asked if the landscape has changed. This question, and the way it was formulated, confused those who did not know the place. This was evident in the 32% of answers marked as neutral. Fifty-two percent of the survey respondents stated that they highly

agreed or agreed on the landscape having changed, while 16 respondents disagreed or highly disagreed. Table 1 summarizes results of the questions asked of tourists.

Table 1: Percentage Table by Item and Preferences

Tourist Perception of Some Activities	A	SA	N	D	SD
About changes in the landscape	36.00%	17.00%	31.00%	12.00%	4.00%
Deforested landscape	37.00%	16.00%	23.00%	19.00%	5.00%
More farmland	43.00%	21.00%	19.00%	11.00%	6.00%
More natural areas	48.00%	22.00%	18.00%	3.00%	9.00%
Livestock as a 31roblema for conservation	33.00%	15.00%	20.00%	19.00%	13.00%
Tourism as an activity that gives profit	38.00%	45.00%	6.00%	2.00%	9.00%
3Landscapes give value to the community	40.00%	43.00%	6.00%	2.00%	9.00%
Value of ecosystems linked to cultural value and traditions	39.00%	29.00%	15.00%	7.00%	9.00%
The community as a place to meet plants	42.00%	29.00%	11.00%	9.00%	9.00%
Solid waste management	31.00%	13.00%	21.00%	28.00%	7.00%
Contaminated rivers	40.00%	17.00%	20.00%	20.00%	3.00%
Environmental impact drives away tourism	42.86%	27.55%	9.18%	11.22%	9.18%
Interest in being part of tourist activities	39.00%	25.00%	15.00%	15.00%	6.00%

A=Agree   SA=Strongly agree   N=Neutral   D=Disagree SD=Strongly disagree

The questionnaire also addressed the perception of tourists in regard of the level of the landscape deforestation: 37% agreed, 16% said they highly agreed, 19% disagreed, 5% highly disagreed, while 23% answered in a neutral way. About this specific matter, tourists were asked if they observed more agricultural land. The results show that 46% agreed with this statement and 20% highly agreed. This represents 66% respondents who perceive more agricultural land. On the other hand, 9% highly disagreed, 15% disagreed and 10% were neutral. In order to gain additional insights, we asked if the respondent perceived that cattle poses a threat to conservation. Conclusively, and according to the tourist's perception gathered from the questionnaires and confirmed with the interviews and field observations, livestock has a lesser impact than agriculture. Forty-three percent of respondents affirmed they either highly agreed or agreed with this claim, while 57% disagreed, highly disagree were neutral about it.
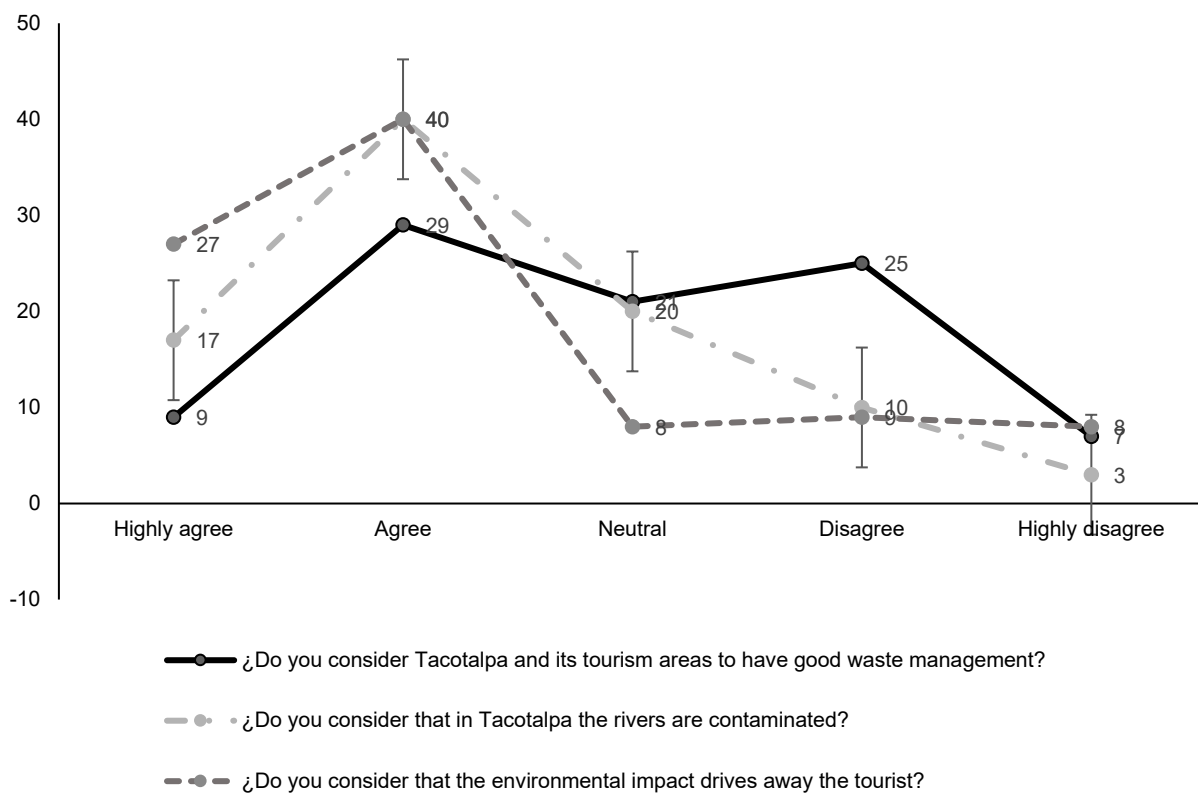
A topic of interest is the perception visitors have about the information that they receive regarding the plants and animals around. Conclusively, 73% of the respondents say they either agree or highly agree on the fact that there are places where detailed information is offered. On the other hand, 18% disagreed or highly disagreed, and 9% provide a neutral response. *El Jardín de Dios* (God's Garden) is a botanical garden with a naturopathic doctor practice, and it is the most popular among tourists. Nevertheless, on a hike around the Park, it is possible to find public and private places that also offer these services, such as Estación Biológica La Florida, which offers its services to schools and research institutions. The tourists center called Kolen Ha, in Villa Tapijulapa, provide expositions of orchids and bromelias.

Studying the effects of tourism is always complex, and even more so, asking about this to people who are doing touristic activities. Therefore, when asking respondents if they considered tourism as an important activity in the territory, 87% stated they agreed or highly agreed. Eighty-five percent said the landscapes give value to the municipality and 72% agree that the value of ecosystems is related to the cultural and traditional values of the local population. With regard to tourist perceptions about the natural landscapes, setting a value to Tacotalpa the response was 85%, from which 47% highly agreed and 38% agreed. This was the highest percentage in the questionnaire. When asking tourists about the landscape value and

ecosystems, and if it is related to the intangible cultural nature that makes up the inhabitants identity, 4% disagreed and 14% gives a neutral response.

Figure 3 shows the answer frequencies about environmental impact in the area of study. Regarding the question *how do you consider solid waste management to be?* Fifty-four percent of the respondents identify a good management, while 37% thinks otherwise. Based on observation and interviews, people from the smaller neighboring communities do not have roads that are adequate for garbage trucks or watercrafts to go in and take the trash out. For this reason, it is common to throw waste into the rivers and lagoons. In the best-case scenario, it is burnt. During our fieldwork, we witnessed several bags and containers are reused. For example, soda bottles are used for water transportation. Some are cut in half and the upper section works as funnel for gasoline while the lower part is used to remove water from fluvial *Cayucos* (rowboats). However, in these communities there is a greater presence of plastic and foil packages, as well as other non-reusable materials, which increases the stacking of this type of contaminants. Tourist perception about river pollution were not positive.

Figure 3: Environmental Impact Perception and Its Relationship with Touristic Activity

¿Do you consider Tacotalpa and its tourism areas to have good waste management?

¿Do you consider that in Tacotalpa the rivers are contaminated?

¿Do you consider that the environmental impact drives away the tourist?

Sixty-four percent of the interviewed visitors say rivers are polluted and 22% are neutral (Figure 2). Pollution in water bodies is a rising problem in Tabasco (Barbolla-Sala, De la Cruz, Piña, De la Fuente; Garrido, 2003). For this reason, there have been efforts to try to address this issue. Despite these efforts, no significant results have been achieved. In 2012, a high-technology water treatment plant was built in Pueblo Mágico Tapijulapa and, according to the authorities, it was one of the best in the State. Sadly, the plant only operated for a few days and currently is useless. Thus, the total amount of wastewater from communities and municipality goes to drainage and is discharged directly into the rivers, which is visible during touristic trips. Figure 2 also shows the frequencies of stated perceptions about environmental impact. Results show 72% agree or highly agree on the fact that environmental deterioration is a factor that repels visitors, while

28% disagree or highly disagree. To study touristic activities, a list of them was made. The most frequently mentioned activity (37%) was the sightseeing trip, especially those visiting rivers and waterfalls. Some 24% mentioned trekking as the activity they practiced the most, rappel 16%, cycling and walking 13%. The least mentioned activity was birds and insect watching. To study perceptions of the institutional implication, tourists were asked if they considered the municipality provided Tacotalpa inhabitants the economic opportunities needed. Sixteen percent did not know or did not answer. Sixty three percent stated they agree or highly agreed. The reason for this percentage is that most respondents were local in Tacotalpa and had firsthand knowledge of the work of municipal institutions (Figure 4). The strongest development opportunities listed were, 43% of respondents mentioned tourism, 27% mentioned farming and fish farming activities, 26% said handcrafts and 7% commerce (Figure 5).

Figure 4: Perception About Importance of Touristic Activity
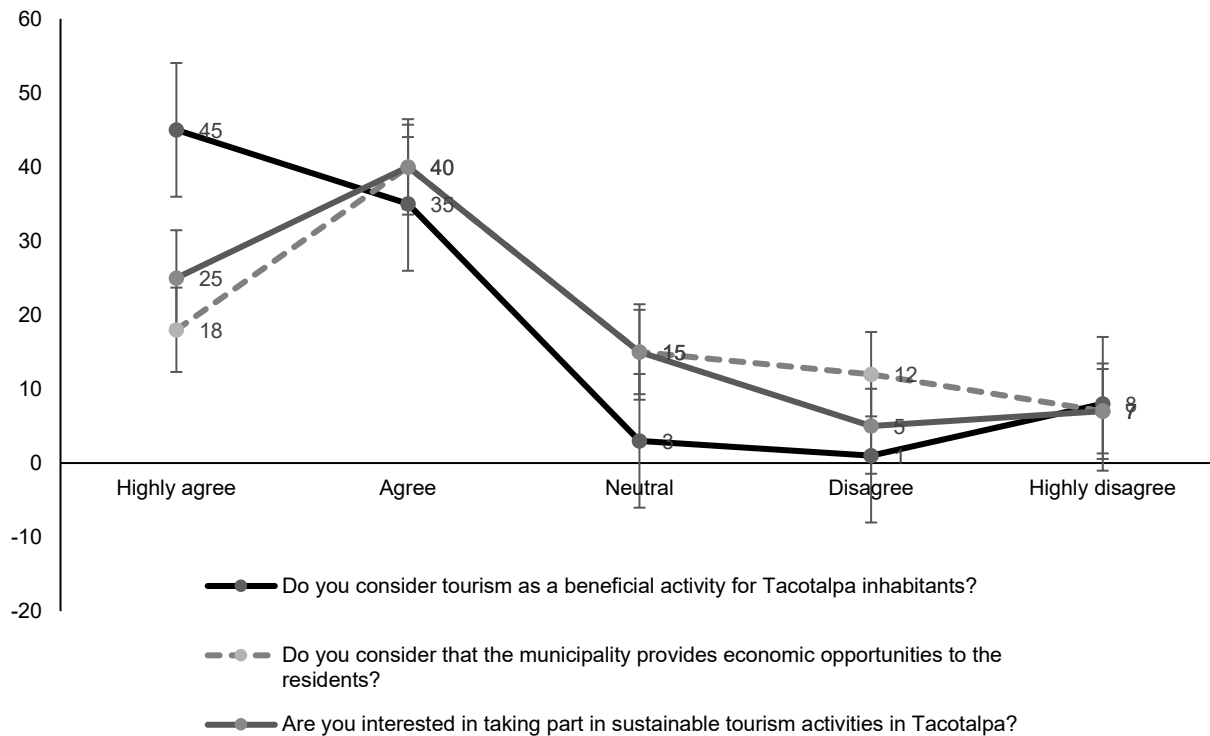
To identify the level of tourists' implication in the touristic development of the territory, respondents were asked if they would take in sustainable tourism activities in Tacotalpa. Seventy-one percent said to highly agree or agree (Figure 4), which highlights the trend of tourists wanting to preserve ecosystems.

Figure 5: Perception About Importance of Touristic Activity
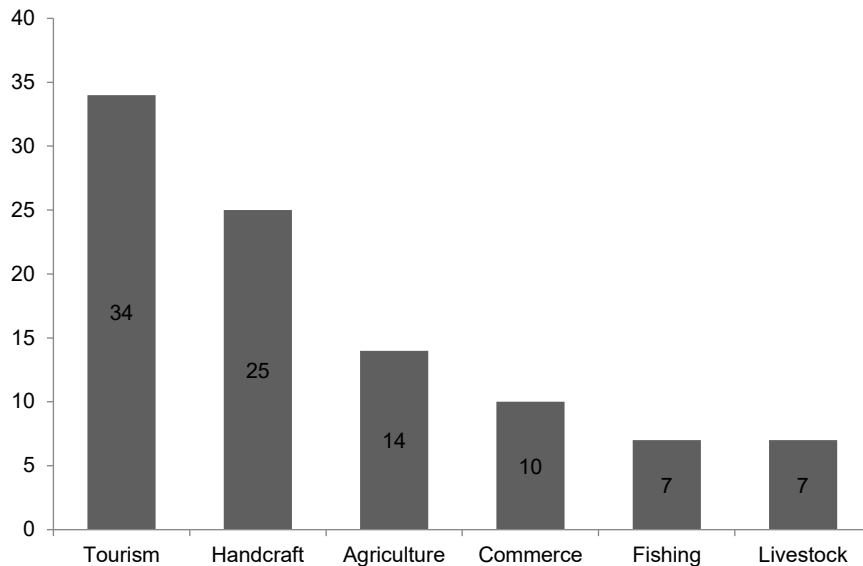
When asking if inhabitants of Tacotalpa municipality should continue transmitting their knowledge, traditions and lifestyle, 80% highly agreed or agreed, and just one respondent said no. Figure 5 shows perception about the importance of touristic activity. The last question was about festivities and other knowledge tourist had about culture. These live expressions are part of the intangible cultural heritage of the area of study. In this context, the answers that stands out are about Pesca de la Sardina (Sardine fishing) (48%), Desentierro del Santo Sepulcro (Exhumation of the Holy Sepulchre) (18%), use of medicinal plants (16%). Even when they are mostly known only in the municipality, other holy days and festivities such as Cambio de Mayordomo en Puxcatán (Butler Change in Puxcatán) (11%), Lavado de Ropa de los Santos en Xiconténcatl (Saint's clothes washing in Xiconténcatl) (7.3%), gather some tourists.

CONCLUDING COMMENTS

The results of this work highlight the fact that a sustainable planning of the touristic use of environmental resources, that has the participation and implication of the local communities, provides a measure that addresses socio-economic effects of the pandemic, especially in least favored areas. Consulted scientific literature and reports from world institutions concur in asserting that local resources are basic elements for achieving human wellbeing. They especially emphasize the importance of identifying tangible and intangible values that each community recognizes as its own, and having these holistically analyzed. Thus, communities can activate strategies that boost local development and, particularly, revitalizes the touristic activity in the territory.

Chan et al. (2012); Plieninger, Dijks, Oteros-Rozas; Bieling (2013) show that when research is carried out on Environmental-Cultural Services and their valuation, results obtained are relevant to preservation of nature and the sustainable development of ecosystems. In this respect, the promotion of sustainable tourism practices could be of great help. Moreover, Barro (2003) points out a close relationship between educational levels and economic growth. Similarly, there is a close relationship between economic income, since they allow tourists to engage in recreational activities. The information collected confirms this correlation between the level of education and the frequency of recreational activities.

This is also the reason for having a large percentage of visitors with a degree. Carbal Herrera, Muñoz and Cumplido (2015) consider the value of an environmental product is the price that people are willing to pay for a service provided by nature, and that influence the quality of life, including leisure and recreation. In

this sense, nature produces an environmental service, which is relevant to tourism since, in addition to rural and cultural values, it creates attractions. These attractions are related to emotions and feelings of tourists and are fundamental and inherent elements of a tourist destination. Tourism in rural areas involves the enjoyment of nature, often including silence and a quiet environment, so individuals must pay for receiving these benefits (Crosby, 2009; Galarza y Gómez, 2005; Robertson y Wunder, 2005; Zoderer, Tasser, Erb, Lupo Stanghellini y Tappeiner, 2016). For Lecca and Huatuco (2015), the Will to Pay (DAP) is based on the goods and services that a person consumes. That is, although it sounds reductionist, the value of a good is measured according to the amount spent for consumption. Research on the economic valuation of environmental services establishes the value of ecosystems in relation to the amount tourists invest in them (Costanza et al. 1997, 2014; Lecca y Huatuco, 2015).

Despite having a high rate of deforestation in the rainforest in Mexico since the 1960s, losing 120,544 hectares per year (CONAFOR, 2019), today there is an ongoing reforestation program in the study area, conducted by federal and state institutions. In this sense, research by Arizpe et al. (1993), Arreola Muñoz et al. (2011) and Toledo (1997), affirm the high evergreen forest has been one of the ecosystems most affected by human activities - mainly agricultural activities, livestock and forestry. This has caused a significant decrease in the primary vegetation of the study site and, ultimately, a negative effect on biodiversity. In our interviews with the local population, we found they consider livestock a cost-effective alternative and, consequently, there are more pastures where farmers can raise their animals, which ultimately represents a saving of money for them. This practice is widely practiced in southeastern Mexico, in places such as the Lacandon jungle and the Calakmul jungle (Gurri-Garía; Vallejo, 2007; Rodríguez Ocaña, 2004).

Issues relating to the natural areas of the area gave rise to a main theme of the questionnaire. On this, 69% say they agree or strongly agree to perceive more natural areas. These data confirm the information provided by government institutions on reforestation carried out by CONAFOR (National Forestry Commission of Mexico) in collaboration with some communities. From the interviews with tourists, we can deduce that they consider the road from the municipal capital to Tapijulapa, passing through the communities Oxolotán, Tomás Garrido and Cuitláhuac, among others, is a charming landscape, since it is covered by a rich vegetation and there are several rivers of great flow. Moreover, when in this jungle ecosystem it is rainy season and dozens of waterfalls are formed.

We find coincidences with the Van Berkel and Verburg (2012) claim that tourism and recreation promotion, over the basis of the characteristics and traditions present in the community, offer development options and allow income generation, which is complementary to agricultural production and, simultaneously, promote the conservation of ecosystems and cultural heritage. We found that, as Robertson and Wunder (2005) points out, that income generated by tourism provides incentives to communities to protect their natural assets, combining their own style of natural resource management. This in turn favors greater conservation. Nonetheless, if tourists perceives that tourism is beneficial to the territory, it is because they see potential in tourism and the local population accepts that possibility. The challenge is to address the lack of collaboration and understanding between institutions related to this activity, so it becomes possible to get better results.

On the other hand, nowadays a lot of importance is given to healthy tourism products (Boo, 1998; Bringas and González, 2004 and Wall 1997). Activities observed in this study area are relevant. In the scientific literature, there is a generalized agreement in asserting that touristic attractions are related to the inhabitants, their identity conscience and the importance given to the aesthetic, cultural, patrimonial and spiritual components of the experience. Not providing sufficient incentives to preserve the cultural landscape provokes territorial degradation, and therefore, degradation of the touristic offering as well (Van Berkel and Verburg, 2012). SECTUR (2014) claims there are touristic activities in which sustainability is privileged, as well as the preservation and evaluation of the environment, in TIS natural and cultural aspects,

which welcomes and sensitizes the travelers. Touristic landscapes must provide beauty and natural richness. Therefore, they must develop environmental services that complement the natural scenic beauty, so ecotourism centered in tropical ecosystems biodiversity can benefit from it.

Authors such as Fennell (2008) and Drumm and Moore (2002), as well as the World Tourism Organization (2017) claim that nature-based tourism is based on experimenting and learning from nature. Hence, it must be ethically managed, so it is low-impact, non-consumptive and locally-oriented. This strategy brings benefits to local inhabitants, protects natural areas, contributes to the preservation of such areas and safeguards cultural values, its diversity and heritage. This matches what is stated by Boisier (2004) who asserts that development of a territory is highly conditioned on the willingness and capacity of local players and it revolves around the value given to local potentialities. It occurs where the human being revalues the environment and its species (Weaver, 2001).

The results of this fieldwork show that 85% of the visitor agreed that natural landscapes have a very high value and were willing to pay a little more for the services that nature provides, such as internal wellbeing, leisure, recreation, adventure, spirituality and cultural identity. Research shows it is everyone's responsibility to find the most adequate strategies to boost this market. Results show that soil and water pollution problems negatively affect touristic development projects. Visitors conclusively reject deteriorated landscapes. Hence, environmental deterioration must be considered a priority of the municipality development plans. UNESCO (2011) asserts that intangible cultural heritage is an important fact to preserve cultural diversity against the increasing globalization.

A human and social dimension contributes to the understanding between cultures and promotes respect towards different lifestyles. It ensures the transmission of knowledge from one generation to the next. The social and economic value of this knowledge transmission is vital for preserving diversity among human groups. Cultural heritage belongs to everyone. Residents who hold that legacy must manage and care for it, for they are symbols of their people and give them a unique character and personality (Alvarado Rosas, 2015; Rodzi, Zaki and Subli, 2013; UNESCO, 2011). In this sense, other players and sectors manifested during the research. A sustainable tourism strategy has to necessarily be based on in these services and on the ecosystems they nourish from. It is the responsibility of all the parties to act on the wrongly managed productive activities, which according to the respondents, have provoked the improper use of natural resources and landscape transformation. Sadly, poverty rates, which persist in many communities of Tacotalpa, prevent the search of other economic and educational development opportunities that ease the pressure on the natural resources.

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CREATING POSITIVE WORKPLACE CULTURE TO REDUCE WORKPLACE BULLYING

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ABSTRACT

This research aims to highlight the problem of workplace bullying and provide suggestions for organizational processes that might prevent it from occurring. The study explains why workplace bullying exists and how certain organizational structures, cultures, or leadership styles can contribute to and reinforce negative behavior. This study includes both qualitative primary and secondary research sources. It provides recommendations for creating a positive work environment by applying organizational virtuousness practices that may inhibit or mitigate negative behaviors. The findings will offer diagnostic suggestions and proactive structural efforts that can help minimize the opportunity for bullying.

INTRODUCTION

Environmental pressures such as the COVID-19 pandemic, supply chain disruptions, and staff shortages have underscored the need for businesses to be agile, adaptable, and high performing to sustain and thrive through these competitive pressures. A bullying environment in the workforce reduces a firm's ability to be successful by reducing agility, adaptability, and high performance (Gercans, 2021). Historically, organizations have been reluctant or ineffective in confronting and addressing workplace bullying (WPB), resulting in higher human capital costs, employee resignations, a decline in company reputation, difficulty in replacing employees, and higher costs (Hodgins et al., 2020). Changing employee expectations of the firm and workplace and full employment has underscored the importance of diagnosing and solving bullying in organizations (Cooney, Marshall, & Zaharchuk, 2022). This paper aims to show how bullying limits an organization's ability to be high performing and provide diagnostic suggestions and solutions, both acute and proactive, to eliminate bullying.

This research will inform human resource personnel and organizational leaders about the benefits of creating a positive culture to minimize the potential for workplace bullying to develop. It will work to reduce the likelihood that workplace bullying will develop instead of treating the behavior after it has happened. The goal is to proactively create a high-performing environment that fosters teamwork, communication, employee development, and organizational virtuousness. The article will present current research with a summary of the literature review. It will then share the primary and secondary research data and methodology followed by a summary of results. The authors provide concrete recommendations for proactively developing a positive corporate culture to create productive environments conducive to maximizing business objectives.

LITERATURE REVIEW

 The American Psychological Association (2022) defines bullying as A form of aggressive behavior in which someone intentionally and repeatedly causes another person injury or discomfort. Workplace bullying happens when an employee or employees are repeatedly exposed over time to repeated aggressive behavior from another that can include negative acts, tormenting comments, social isolation, harassment, insults, and offensive remarks. Bullying can take the form of physical contact, words, or more subtle actions. (para.1) Bullying is not a boss chewing out an employee for a mistake or a one-time comment. Bullying is a repeated and long-lasting aggressive behavior, usually lasting 12 months or more (Einarsen, Skogstad, 1996; Sigursteinsdottir, Rafnsdottir & Jonsdottir, 2020).

Bullying is different from harassment in that harassment is defined as unwanted conduct creating an environment that is intimidating, hostile, degrading, humiliating, or offensive (Spencer, 2015). It can be challenging to distinguish bullying behavior from harassment. This research focuses on bullying, which is intentional, repeated, and designed to cause a specific person harm or injury. In contrast, harassment is more general and is focused on a particular type of person or behavior, such as harassment of women, harassment of blacks, or harassment of production workers.   The primary types of bullying that occur in an organizational context are verbal, relationship, and physical. Verbal bullying includes saying or writing mean things, name-calling, and making lewd sexual, harassing, or threatening comments. Relationship bullying involves damaging a person's reputation, spreading rumors, excluding, or embarrassing someone. Physical bullying can involve hurting a person or their possessions. Examples include hitting, pushing, spitting, or breaking personal property (What is Bullying, 2022).In the workplace, the context in which bullying occurs might include intimidation threats, social exclusion, spying, or other invasions of privacy. It can be related to work performance, for example, wrongful accusations, sabotaging work products, interference, stealing, or taking credit for ideas. Bullying can be retaliatory, exclusion from office activities, or denial of promotions. Bullying can also be institutional-when the workplace accepts, allows, or encourages bullying-for example, bullied doctoral candidates sometimes see it as a rite of passage to getting a doctorate (Ziani, 2021). Bullying is widespread in organizations and can be very personal. Studies show that bullying has a strong negative mental and physical effect on both victims and bystanders, impacting the survivors and their willingness to stay in the organization (Rospenda, Richman, & Shannon, 2009). Bullying is a universal phenomenon; however, national, and cultural factors may impact perceptions of bullying behaviors and how to deal with them (Salin, Cowan, et al., 2020).

Workplace bullying is a serious financial and operational issue. It can lead to a toxic work environment, negatively affecting employees' health, reducing productivity and morale, and resulting in higher turnover (Hollis, 2012; Keashly & Neuman, 2010; Persky, 2018). It is difficult to manage workplace bullying because it is not defined as illegal in most US states as it is in many other countries around the globe. There are few laws addressing bullying in the workplace, and it may be difficult to quantify the business impact, which would help organizations react more swiftly. This study suggests that creating a high-performance work environment can develop a foundation for positive interaction rather than fostering negative behavior. As Thompson, Baughan & Motwani (1998) indicate, high-performing team members use and should exhibit the following: listening skills, team spirit, commitment, managing conflict, empowering communication, and interpersonal skills. "Relationships that evoke a win/lose mental model need to be reframed into collaborative partnerships" (Thompson, Baughan & Motwani, 1998) The high performing team interaction requires group members to have social skills that counter workplace bullying behavior. "In today's COVID-19 world, however, it's becoming more prevalent among co-workers who disagree on wearing face masks and social distancing, and they view these practices as political statements and personal choices rather than practical health care guidelines (Falcone 2020, SHRM)." An essential step in combatting workplace bullying is determining organizational features that might enable bullying. Ziani (2021) notes many aspects of organizational culture may accidentally foster bullying and should therefore be revised. These elements

include: The quest for excellence (e.g., top chefs in the kitchen industry). An organizational culture that celebrates toughness (e.g., army, prisons, firefighters).

> *A socialization process that features initiation rituals (e.g., hazing).*
> *A large number of informal and casual behaviors that make it more difficult for some employees to distinguish "proper and professional" behaviors from "borderline and inappropriate" behaviors (para 22).*

The "quest for excellence" in an organizational culture that celebrates toughness, such as in doctoral programs or Navy Seal training, may accidentally create a bullying culture (Ziani, 2022). Hazing or initiation rituals, sometimes found in education or nursing, can facilitate a bullying environment. Those aspects of organizational culture can serve useful purposes; however, when many are present, it is important to be mindful that they can facilitate bullying. Surveying the population, particularly if done by an outside firm, may result in statistical tendencies that show bullying is occurring in the organization or that the characteristics of a bullying culture exist in the organization (Tolle, Sundburg, Bruhn & Hunt, 2020).

An approach to address workplace bullying that has not received much attention is proactively limiting the drivers that lead to or at least reinforce the negative behavior. These proactive approaches are not to replace responses shown to be effective in confronting a bullying problem but to augment by working to mitigate or minimize the issue taking root. There are several problem-solving methodologies built on the traditional model of problem identification, generating possible solutions, implementation, and evaluation (Nikols 2020). Most problem-solving methods are deficit-based, meaning once a problem is detected, there is a reaction to identify the cause of the problem. This approach is necessary within and outside organizations but can be of little use once the damage is done. The reaction approach functions as a lagging indicator, particularly with bullying, as the target and bystanders are often reluctant to bring the problem to stakeholders for help. An alternative approach is asset-based and uses the existing strengths of the organization and workforce to get out in front of workplace bullying and prevent the behavior when it does occur, to minimize the damage done to the target, bystanders, perpetrators, and the organization itself.

High-performing organizations and teams are not immune to workplace bullying, sexual harassment, collective bargaining, or day-to-day conflict. However, the characteristics often associated with high-performance work cultures and teams may provide strategies to make it difficult for bullying to become established. High-performing team characteristics, as described in the following sections, include widely distributed decision-making where autonomy is encouraged. High-performing team characteristics also include collaboration, accountability, the multi-directional flow of communication, and transparency. High-performing team characteristics do not include top-down, directed management which can inhibit information flow and communication (Flood & Klausner, 2018).

WPB involves hostile and abusive communications and behavior typically targeted to one individual in a patterned and escalating manner (Lutgen-Sandvik, Hood, Jacobson, 2016). WPB is also known to affect the target's and bystanders' psychological safety, physical and emotional well-being, and subsequent engagement and retention. Positive workplace behavior and organizational virtuousness (OV) are contradictory to the negative culture, behaviors, and environment workplace bullying presents and spreads throughout the workplace. While still a newer construct related to organizations, OV presents an opportunity to leverage positive workplace practices and norms that typify high-performance workplace cultures and teams to get out in front of workplace bullying before it starts or at least confront it more quickly before escalation occurs. Applying positive workplace behavior and organizational virtuousness to positively impact creativity, citizenship behavior, productivity, reduce stress and turnover has been well established. What is new is exploring the impact of positive behavior, notably OV characteristics as a mediating factor to minimize incidents of WPB.

A study by Lutgen-Sandvik, Hood, and Jacobson (2016) looked at this question and found mixed results. Overall, when WPB levels were low to moderate, as measured by the Negative Acts Questionnaire, OV factors did have a beneficial effect on WPB behavior. However, in organizations where bullying levels were high, the beneficial effects were reduced. This may be partly attributed to the negativity bias human beings possess, where negative interactions, events, and actions are emotionally experienced much more strongly than the same types of events on the positive side (Winn, 2021). This hints that positive workplace behavior and OV may not be effective without the corresponding systems and processes identified by the authors earlier in this article. There is another approach applying the characteristics of OV to address WPB in the healthcare sector. The initiative focused on applying compassion to colleagues and co-workers that caregivers delivered to patients. This is notable because WPB behavior shows a higher incidence in healthcare compared to other industrial sectors (Simpson, Farr-Wharton & Reddy, 2020). As this paper has noted, many efforts to address WPB have been made to reduce harm and respond to the situations after they were brought to the attention of appropriate decision-makers. However, the goal is to create a proactive approach to the problem by building competencies around organizational compassion, a key characteristic of the OV construct (Simpson et., al., 2020) The model chosen to build this competency is notice, empathize, assess, and respond (NEAR). Interestingly similar models of expanding compassion in the workplace are referred to as "compassionate" and/or "non-violent" communication (Ziola, 12/8/22 Virtual Presentation). The efficacy of this approach is that it is behavioral, fact based, and without judgment thus de-escalating emotion by providing a safe outlet for sharing difficult situations. With respect to WPB, the absence of perceived judgment is critical as embarrassment or shame often prevents or delays people from coming forward. Colleagues were coached in using the NEAR model to respond to managers and decision-makers to confront bullying behavior while emphasizing compassion for the perpetrator of WPB and the target. The approach was not to fix the problem immediately but to recognize, and confront it with empathy, problem-solve, and recommend resources for assistance.

DATA AND METHODOLOGY

This study used a combination of primary and secondary research. Primary research was conducted using in-depth interviews with employees in higher education during the Spring of 2018. Participants were recruited through personal and professional networks. Demographic information was collected for background and an interview protocol with prepared questions was used for consistency of discussion. Twelve interviews were conducted with administrators (4), faculty (5), and human resource personnel (3) to gain insight and experience with workplace bullying. The interviewees were from several different colleges that were all 4-year private, not-for-profit, small to medium, in suburban or small city locations. The interviews were confidential; thus, no identifying information was used on the bully or the target. Secondary sources provided material on high-performing work teams, organizational virtuousness, and case study examples of workplace bullying situations that were made public by published sources.

RESULTS

The Primary research provided new insights into how and why bullying occurs in higher education. Much of the prior research on workplace bullying in higher education was designed to measure the frequency of occurrence or investigate the impact that bullying had on the targets (Hollis, 2012; Keashly & Neuman 2010). There has been little research investigating the organizational structure and processes that impact and allow this behavior to continue (Keashly & Neuman, 2010). The participants experienced workplace bullying in the form of both verbal and emotional abuse. One participant, an administrator, noted she experienced "outright anger, yelling and throwing things." A human resource employee reported seeing behavior that "crossed the line and was disrespectful". Another human resource employee observed supervisors "calling down someone in a public meeting". The ability to address workplace bullying is driven by the employee's role and the perpetrator's power in the organization. A faculty member indicated she felt bullied but the bully "was in such a position of power and I did not want it to be held against me".

An administrator stated that they "could not respond honestly in a meeting where my supervisor was sitting right across the table".

Participants reiterated one of the primary tenets of leadership: leadership sets the tone for an organization. Leaders who are either laissez-faire or bullies themselves allow this behavior to fester unchecked.

RECOMMENDATIONS

Building a Proactive Bullying Prevention Program from Within

High-performance work environments may reduce workplace aggression; however, for maximum effect, it needs to be combined with active leadership to avoid undesirable negative consequences (Salin, Baillien, & Notelaers, 2022). Proactively establishing an employee code of conduct, regular training, coordinated HR policies, and engagement by the executive team can establish the message that bullying is unacceptable. Creating a corporate culture for high performance and establishing a positive atmosphere with an appreciation for all members of the organization results in better organizational performance (Yejee & Moonjoo, 2022). The opposite type of culture with abusive supervision is negatively related to organizational performance and creativity (Lee, 2022; Walsh, Persky, & Pinnock, 2019). HR leaders should be fluent in corporate financial measures and frame the effects of bullying in monetary terms so the seriousness of the issue can be appreciated (Colby, 2016).

Another approach to creating corporate culture norms that run counter to bullying behavior is using Organizational Virtuousness (OV). The construct of organization virtuousness emerged from the field of positive organizational scholarship, which emphasizes characteristics and practices in organizations that focus on building on strengths and excellence (Aubouin-Bonnaventure, Fouquereau, Coillot, Lahiani, & Chevalier, 2021). Cameron, Dutton, and Quinn (2003) focused on three key definitional attributes associated with organizational virtuousness: human impact, moral goodness, and social betterment. They argue that organizations are neither virtuous nor non-virtuous, but that values and states attributed to OV are emphasized throughout the organization. Positive human impact, such as building resilience, strength, and self-control with a meaningful purpose, is virtuous. Moral goodness represents what is true, right, and worthy of development. Social betterment extends beyond self-focus and emphasizes positively impacting others in our sphere of influence. The five characteristics of OV noted by Sharma and Goyal (2022) to be the transcendent or elevating behavior of employees in organizations include:

Organizational optimism is the degree employees trust their organization so they can thrive even during challenging times.
Organizational forgiveness refers to the acceptance of mistakes and the use of setbacks or failures as a point of learning and subsequent growth.
Organizational trust focuses on governing with respect, civility, and kindness.
Organizational compassion is where leaders and people genuinely care about one another, where empathy and concern for one another are openly expressed and addressed, and.
Organizational integrity is focused on honor, integrity, and trustworthiness.

For leadership to seriously consider and employ concepts around positive organizational behavior, specifically OV, there needs to be visible financial, operational, and employee return or benefit. A study by Winn (2020) indicates that there is such a relationship. This study of OV was conducted in the transportation industry using eight independent businesses. The organizations with higher OV scores, as measured by (compassion, forgiveness, trust, optimism integrity) showed higher productivity, quality of output, profitability, customer retention, and lower turnover (Winn, 2020). Another investigation looked at a larger sample of organizations across industries, including retail, healthcare, financial, and

manufacturing, using the same OV measures. Those scoring higher in OV demonstrated higher innovation, profitability, and customer retention, and less employee turnover than those scoring lower on the OV scales. The five factors of OV consistently demonstrate a strong correlation to prosocial behavior, including work, contextual and reverse work performance, well-being, psychological safety, and employee development (Abbas, 2022). There are additional processes, presented below, that companies can use to support a positive culture. Multi-rater feedback, also called 360-degree feedback, can effectively deliver information to the bully for improved performance and can also be effective in identifying bullying issues in specific departments (Walsh, Persky, Pinnock, 2019). Multi-rater feedback includes performance feedback to an individual from supervisors, co-workers, peers, and subordinates. An advantage of multi-rater feedback processes is that participants are more comfortable sharing difficult topics knowing they are not reporting independently. This process requires the leader and the organization to hold the perpetrator accountable for their behavior (Walsh et al. 2019).

The limitation of this multi-rater feedback is in smaller departments with one or two direct reports, the individuals providing feedback may be easily identified. Exit interviews can help an organization see trends in a department or with individuals. Exit interview data may help company HR leaders spot trends or issues which can be further investigated. Another option organizations might consider is having an outside resource, such as medical insurance or an ombudsperson, available to consult with employees before issues escalate. In addition to capturing information on bullying, this resource can provide victims of bullying with a safe environment to help treat their problems. The amplification effect of positive behavior has been demonstrated consistently in research and has provided a significant focus on positive psychology and positive organizational behavior. When people observe virtuousness, they are elevated by it, so they tend to replicate it (Abbas, 2022). Positive behavior is contagious and becomes part of the organizational culture and employee practice. In organizations, this amplifying effect spreads and expands and, eventually, becomes part of the structure and culture of the firm (Cameron and Caza, 2002). The amplifying effect of OV is associated with building social capital within organizations. Trust, empathy, integrity, and compassion enable people to share information more readily, confront difficult situations more openly, and be more forgiving when missteps happen (Heaphy and Dutton, 2007). These behaviors are the antithesis of the behaviors noted by workplace bullying.

The buffering effect is also associated with OV at the individual and group levels. Human virtuousness serves as a buffer against dysfunction and illness. Virtues such as courage, optimism, faith, integrity, forgiveness, and compassion have been found to protect against psychological distress and dysfunctional behavior and enable employees to respond better to individual and organizational trauma (Seligman, Csikzentmihalyi, 2000). Organizations experiencing downsizing are both an organizational and personal trauma to those laid off. The survivors of these events in organizations with OV showed a stronger resiliency response coming out of the downsizing. Employee engagement remained relatively stable, and productivity levels returned to pre-layoff levels faster than organizations with lower levels of reported OV (Cameron, et., al, 2003).

Diagnosing Workplace Bullying

Diagnosing workplace bullying is done retroactively after the bullying occurs or proactively before the organizational signs of bullying occur. Once the bullying has occurred, individuals who feel bullied often approach a manager, executive, another employee, or human resources (HR) to discuss and resolve the issues. However, because bullying involves an imbalance of power, the bullied individual may not take action to raise the issue and instead either leave the organization or the department. It is also vital to be aware of the "bystander" effect, where witnesses to bullying behavior are negatively affected, resulting in additional turnover and a financial drain on the organization (Drey, 2022). Depending on the HR leadership, being responsive to bullying may be problematic. If the HR leader is enabled, they may institute

an investigation and take action to resolve the bullying situation. However, HR leadership may not have the backing of executive leadership to respond effectively (Gelles, 2018). HR leaders may not be seen as effective, caring, or able to do anything about bullying. Given senior leadership in organizations is commonly compensated based on the financial improvement in the organization, bullies may be kept in their position despite this behavior because they contribute to the organizational bottom line and higher compensation for senior leadership (Walsh et al. 2019). This was the case with California's Silicon Valley Community Foundation (SVCF) organization. The HR Director reported to the Executive Director, who chose not to address the bullying behavior because of the money the bully was bringing into the organization (Gelles, 2018; Walsh et al. 2019).

If reporting to executive or HR leadership is not an option, individuals may engage with an outside attorney or law enforcement individual to resolve the situation. The organization's executive leadership may only discover a bullying issue when a lawyer representing their employee contacts the company. However, given bullying is not necessarily a crime, this may not necessarily be a legal problem. An effective way to proactively diagnose bullying is by evaluating the organization to check for structural factors that allow bullies to thrive. For example, using employee surveys, organizational climate surveys, executive performance metrics, social media reviews, and training programs to spot signs of workplace bullying. Facial recognition is a new technology that can effectively determine bullying responses (Liu, Wang, Yang, Shyi & Yen,2019). Although not widespread in organizations, it is a technique that can be useful in recognizing the physical characteristics of someone who has been bullied.

Organizations that monitor their company information on social media may find ongoing discussions about bullying on social media sites like LinkedIn, Twitter, Glassdoor.com, or other sites. By this time, the reputational damage to the company can be significant. As in the SVCF organization, the reporting in the New York Times led to upheavals, multiple resignations, and donor issues (Gelles, 2018; Walsh et al. 2019). Individuals have been known to take to social media to provide documentation using video or audio recordings to showcase bullied behavior. Bullying can be captured by a victim using a cell phone and discreetly recording the bullying. This has the advantage of capturing the incident and recording the action. This idea has limitations as the victim needs recording capability on a cell phone and the presence of mind to hit record when the bullying happens.

Instead of capturing bullying in the organization using a cell phone and recording the problem, some organizations are turning to artificial intelligence algorithms that monitor online communication. These can be installed on company computers and then used to identify online bullying. These products enable employees to collect information and report bullying in the workforce to their employers. This technology works through a computer algorithm with artificial intelligence designed to spot words and phrases associated with bullying (Griffiths, 2019; Van Hee, et. al. 2018). The technology is used in commercial applications such as "SPOT", an intelligent chatbot, and digital misconduct reporting tool, available (What is Spot?, 2022). SPOT works by interviewing employees and helping them submit reports to HR in a time-stamped interview that the employee can keep or submit to their employer. Another tool is "Botler AI" a Canadian intelligent chatbot that provides a secure and personalized first-response guide to traumatic violence, harassment, and misconduct. Botler's secure web application confidentially asks users trauma-informed questions to capture comprehensive details of the misconduct they have experienced, then provides the user with a personalized set of resources and action guidance on a per-case basis, including references to the law and referrals to legal services and information (Botler, 2022).

CONCLUSIONS

This research aimed to explore approaching the challenge of workplace bullying (WPB) from a proactive standpoint. WPB not only impacts the individuals involved, but it also negatively impacts the financial and operational effectiveness of organizations. Most research has focused on addressing this problem after it

occurred. This research proposes building workplace culture and operational practices to minimize and mitigate the behavior before it starts. This study explored the use of Artificial Intelligence (AI), and positive organizational practices, notably organizational virtuousness (OV). The theme was to identify positive workplace practices to create an organizational environment that lessens the likelihood of workplace bullying occurring, and when it does happen, to confront and address it effectively.

The unique focus of this research is to evaluate and offer proactive methods for combatting workplace bullying. The research suggests creating a high-performing culture where teamwork, creativity, risk-taking, and open problem-solving are emphasized. These elements along with a culture of virtuousness where states of empathy, compassion, forgiveness, and integrity are consciously modeled at all levels of the organization, form a positive peer pressure. These proactive approaches and known mechanisms used to confront WPB have great potential to address the problem sooner or reduce the incidences overall. This study used a combination of primary and secondary research. Primary research was conducted in the spring of 2018. Interviews were conducted with administrators, faculty, and human resource professionals. The participants were from the higher education field but represented a cross-section of private, not-for-profit, small to medium-sized institutions. Secondary sources provided material on high-performing work teams and organizational virtuousness.

The findings provide insights as to why and how bullying occurs in organizations. Participants reiterated the importance of leaders setting the tone for the organization and workplace culture. Notably, creating and reinforcing a positive-oriented workplace culture appears to discourage workplace bullying behavior and when it does occur organizations are more likely to confront and address the problematic behavior sooner. Solving the financial and operational problems associated with bullying starts with creating a high-performing organizational climate that is not conducive to bullying. Organizational virtuousness is an emerging area of research that aligns characteristics of a high-performing environment with the OV construct of behavior optimism, empathy, integrity, compassion, and forgiveness which is conducive to better financial and operational results. OV may not be the sole solution, but it offers an additional proactive strategy to complement other support mechanisms. This research indicates the power of preparation as a preventative measure against WPB. However, it is limited by the lack of empirical data evaluating the relationship between high-performing work teams or organizational virtuousness and workplace bullying. The authors acknowledge that current research shows the application of organizational virtuousness may not be enough to eliminate WPB. When WPB is entrenched in cultures, the adverse effects of this behavior can overwhelm positive organizational development and minimize efficacy. Further research should include a study on culture changes and how that affects employee behavior. The research should evaluate the role that high-performing workplace teams and OV cultures play in WPB. Additionally, combining proactive processes, such as technology and positive culture development, with OV is also worthy of future investigation.

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THE FAILURE OF THE TWENTIETH CENTURY EUROPEAN PERPETUAL PEACE PROJECT: THE SOCIAL CONSTRUCTION OF THE WEST VIA OPPOSITION TO RUSSIA

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ABSTRACT

This paper critiques the de facto equation of Europeanization with submission to U.S. hegemony. It traces the choices that allowed the EU to be equated as one of side of the same coin with NATO. France's 2009 rejoining the NATO command structure encouraged this perception. It comports with the claim that US liberal hegemony made the European integration process feasible. It highlights the consequences for conflict resolution of the Europeanization process being equated with attitudinal orientation towards accepting U.S. hegemony. Ukraine is a case study of this process on the level of indirect conflict between Moscow and Washington each seeking to contain each other. European integration's focus on developing vested economic and bureaucratic interests has tied it to U.S. hegemony. It facilitated the institutionalization of anti-Moscow influence tendencies in European integration. The paper adopts a process tracing methodological approach with a focus on the Cold War and the prevailing views that have emerged around it. The institutionalization of Euro-Atlantic integration includes the internalization of the assumption that the USSR, and later Russia, were imperialist aggressors. The US-led Euro-Atlantic community successfully, and relatively peacefully, contained it. Moscow's prevailing view does not share this problematic analysis regarding post-1945 Soviet foreign policy motivation.

> *"'Ukraine also shows that Brussels and the* [European Union] *peace project have failed,' said Heather A. Conley, president of the German Marshall Fund. Brussels — and Washington — did not understand what their outreach to Ukraine for eventual membership in NATO and the European Union would spark in President Vladimir V. Putin of Russia"* (Erlanger, 3/2023, paras. 17-18).

INTRODUCTION

On the eve of the full-scale Russian invasion of Ukraine in February 2022, this writer expected that Russian forces would carry out regime change in Ukraine relatively quickly. This writer was apparently in reputable company. For various reasons, the prevailing view at least in the US intelligence community shared this assessment (Risen and Klippenstein, 2022). The faulty expectation was that Russian military forces would occupy the capital Kyiv in a matter of days. The US government offered to Ukrainian president Volodymyr Zelensky to assist in his escape, which Zelensky famously rejected with the retort, "I need ammunition, not a ride." "So-called 'will to fight' is among the most difficult intangibles for intelligence to predict, former officials say, and it has failed time and again: in Vietnam, in Iraq, and now, in Afghanistan and Ukraine" (Lillis and Bertrand, 2022, para. 12). Several

factors contributed to this writer's own misprediction. In terms of historical analogies, this writer looked to Hitlerian Germany's occupation of the Sudetenland and then occupation of Czechoslovakia. Germany faced little military resistance from Czechoslovak forces. The Biden administration reiterated that the US would not deploy forces to Ukraine to deter a Russian invasion, not to mention actively engage in deadly use of force against them (Gordon, 2021). The Biden administration repeated that it would not initiate violence against Russian forces that would lead to a de facto if not de jure war between them (Biden, 2022). This writer wrongly expected that with these blunt, clear statements from Washington, the Ukrainians would view violent resistance as ultimately futile. Prior to the invasion, evidence of Ukrainian government difficulty since independence in 1991 in combatting systemic corruption and implementing economic reforms was prominent (Savchenko, Subbot and Demianchuk, 2018, Greta and Pankosz, 2016). This writer erroneously inferred that it implied a relatively low collective national morale potential for warfighting for national self-determination (Morgenthau, 1993). Ukraine's response to the existential danger of the invasion included an intensive acceleration in the reform process along with Ukraine's acquisition of EU candidate member status (Baczynska, 2023).

Until this writing, the Putin government continues to deny that prevalent and intense Ukrainian national identity exists among self-identifying Ukrainians. This denial is further evidence indicating that for the Ukrainian nation, Russia's invasion was an existential threat. More than a year after the massive violence escalation that began in 2014, Russian state media continued to reiterate the claim that Ukraine is a superficial identity that modern history created. According to *BBC Monitoring* of Russian state television, "Putin receives the chairman of the Constitutional Court, Valery Zorkin, to discuss the activities of the court. The presenter says that Zorkin gave Putin a copy of a 17th-century French map which clearly shows that there was no state called Ukraine at the time. Video shows Putin and Zorkin discussing the map, Putin saying that it was the Soviet government that created Ukraine" ("Programme Summary," 5/2023, para. 3). Ukrainian spontaneous mass popular mobilization to resist Russia's February 24, 2022, invasion highlights the autonomous community agency of Ukrainian nationalism (Norris and Kizlova, 2022). The Ukrainian public's demonstrated will to fight would spur Ukraine's western supporters to expand exponentially their crisis emergency military and economic aid infusions to Kyiv (King, 2023). Ukraine's western allies remain committed to avoiding direct intervention and consequent fighting with Russian forces despite the demonstrated high level of Ukrainian national morale (Karalekas, 2022).

Media reports describe the fighting as the largest land war in Europe since the Second World War (Editorial Board, 6/2023). Indigenous Ukrainian military hardware capabilities are significantly less relative to Russia. Casualty rates of dead and wounded now stand at many tens of thousands, on each side. The so-called West has been willing to allocate several tens of billions of dollars of economic and military aid to support the clearly demonstrated Ukrainian willingness to fight (Reznik, 2023). More than a year later, clearly Ukrainian resistance remains intense, sustained and effective. Iran has emerged as major arms supplier to Russia's invading forces in Ukraine amidst the Moscow's lack of preparedness for apparently unexpected tenacious resistance (Eslami, 2022). Kuzio (2022, para. 1) notes that "Russian imperial nationalist stereotypes of Ukrainians made them miscalculate." Kuzio (2022) is particularly interested in highlighting the failed predictions by Western analysts regarding the relative power resistance capability of Ukraine. The initial US underestimation of the national morale of the Ukrainians may stem from various historical scenarios. The South Vietnamese military received relatively abundant supplies and direct support from the US, but South Vietnam collapsed in a matter of months after the American withdrawal. The US client regime in Afghanistan collapsed even before the Americans could withdraw, as the prevailing view emerged that the US would in fact leave.

Explanations for the differences with the Afghanistan, South Vietnamese and Ukrainian cases would include noting that the US and its allies did not militarily install the Ukrainian authorities. Ukrainian nationalism shared a perceived common foe with the US: perceived Russian imperial influence. Ukrainian and Russian nationalists have elements of zero-sum conflictual dynamics in their claims to certain territories

(Mick, 2023). The relative power disparity between Ukraine and Russia would be another incentive for an external great power potential ally of Ukrainian nationalism to be derivatively stereotyped positively by Kyiv (Cottam and Cottam, 2001). This psychological balancing dynamic is a focus in folk wisdom, i.e., the enemy of my enemy is my friend. Militant Ukrainian nationalism's tendency towards allying with Hitlerian Germany during the latter phase of the Second World War reflected this instrumentalization ("Documenting the Ukrainian Nationalist Movements," 1981). Concomitantly, Russian nationalism would utilize this mid-twentieth century experience to justify its own tendency to downplay and deny Ukrainian nationalism as a national liberation movement (Apt, 2023). Russian nationalism shares this parallel with Zionist advocates' reference to the Mufti of Jerusalem, al-Husayni's collaboration with Hitlerian Germany against British imperial control of Palestine (Mattar, 1988). Afghan territorial community nationalism had established itself firmly in the religious symbolic and ideological base of the Taliban, placing the US as an adversary of Afghan self-determination.

In early 2022, if the Ukrainians could demonstrate the sufficient degree of national morale necessary to persuade the US that this aid would be effective, then Ukrainian would receive much more. The events since February 2022 have demonstrated this assumption to be correct and US-led Western alliance aid has flowed (Vlahos, 2023). The Afghan and South Vietnamese cases imply that the willingness of the US to provide military aid to the Ukrainians would not itself imply the latter's willingness to resist. Evidence of nationalist resistance to Moscow's attacks against Ukrainian sovereignty clearly present. Ukrainian nationalist public opinion sentiment had long constrained the political decisional latitude of Kyiv senior foreign policy decision makers to compromise with Moscow. These issues included Ukraine's territorial sovereignty. Kyiv officials were politically unable to compromise on Ukraine's sovereignty via the 2015 Minsk I and II agreements that would have granted confederal status to the Donbas as per Moscow's demands (Sanders and Tuck, 2020).

Moscow's 2014 seizure of Crimea and its intervention in the Donbas "helped to consolidate the modern Ukrainian nation and its civic consciousness" (Potočňák and Mares, 2022, 5). Potočňák and Mares (2022, 5) highlight that this consolidation included a critical pro-Western orientation including an explicit anchoring of Ukraine in "a Western geopolitical orientation in its constitution." Ukraine "signed significant agreements with the EU, and cooperated with NATO in many practical ways" [*sic*]. Reactions to Russia's February 2022 invasion hardened Ukrainian nationalist public opinion against compromises over the Donbas and recognizing Moscow's sovereignty over Crimea. "As sociological polls demonstrate, the vast majority of Ukrainian society (82% of respondents) does not want peace at any cost, in particular, due to territorial concessions or loss of parts of the country as a condition of a so-called "peaceful compromise". Even in the country's east, which suffers most from Russian aggression, most citizens support this position. At the same time, people fully understand that the desired victorious peace as a common good will not be quick or easy" [*sic*] (Stepanenko, 2022, 17).

This study examines how did the EU become part of this perceived support system for European national social liberation movements resisting a perceived Russian imperial threat. A similar support system did not exist in 1938-39 for lesser powers under German threat. Czechoslovak capabilities versus Hitlerian Germany were significantly more diminutive in comparison to the Russia-Ukraine dyad. Ukraine's national morale had a greater boost despite explicit US statements of non-intervention on the eve of the Russian attempt to occupy Kyiv. By its existence, the so-called West intensified Ukrainian nationalism. Ukrainian nationalists could plausibly, and ultimately, correctly believe that if they had the will to resist Moscow with massive deadly force, they would gain Western economic and military supplies. They were correct. From an ontological, "constructivist" perspective, the West clearly exists as a community in the Ukrainian prevailing view into which Ukraine aims to enter (Specter, 2022, 252). On the basis of belief in the West, Ukrainian government policy is making existential decisions to determine the fate of the Ukrainian nation against a Russian irredentist threat. This threat denies Ukrainian national legitimacy (DeDominicis, 2022).

This paper begins by reviewing some of the foundational literature on geostrategy including status quo, imperial and prestige policies, with the emphasis on the last as applied to Russia. It contrasts prevailing assumptions regarding the nature of the development of the postwar international system that prevails in Washington and Moscow. It highlights the consequent divergences in political strategy prescriptions including appeasement versus containment and détente. The last applies to a conflict spiral, i.e., an international conflict with mutual misperception of belligerency as rooted in ultimate imperialist aggrandizement intent. It highlights Moscow's inferred prevailing view that the US utilizes the EU as a vehicle for European subregional US imperialism. Its policy recommendation focuses on developing autonomous EU diplomatic bargaining leverage capabilities by supporting Chinese mediation efforts in the Russo-Ukraine war. It requires overcoming the likely objections of US administrations and their supporters in the EU.

LITERATURE REVIEW

This study suggests that the relative decline of Russia is not likely to be easily managed, not only by Russia and its allies, but also by the other major powers. Hans J. Morgenthau developed a foreign policy typology in his great power focused international relations theory of realism. Wadlow (2001, 82-83), summarizes Morgenthau's theory, i.e., "politics as a struggle for power; maintaining, increasing, demonstrating power; politics of status quo, imperialism and prestige. This triptych was at the base of all his analysis." Wadlow quotes from an unaccepted grant application that Morgenthau submitted to the Guggenheim Foundation in 1938: "This aspiration for power can assume three different guises: maintaining the power that has already been acquired, increasing it or demonstrating it.... Foreign policy is nothing but the will to maintain, to increase, or to demonstrate one's power, and these three manifestations... find their basic empirical expressions in a policy of the status quo, a policy of imperialism and a policy of prestige." The prestige type of foreign policy was comparatively less elaborated by Morgenthau.

> *"Less well developed was the type of policy likely to be pursued by a state which was declining in terms of relative capability base. Morgenthau advances a third type of policy, that of 'prestige', which could have been but inexplicably was not developed to accommodate this situation. Morgenthau turned naturally to psychological concepts to explain state behavior. He could, in the case of a declining power, easily have argued that a policy to maintain the image of the actor at its former capability level for as long as possible would be a natural policy for the declining actor to pursue. Since such policies would likely focus largely on maintaining a previous prestige level, they could well be described as policies of 'prestige'"* (Cottam 1994, chapter 2, 81-82).

The policy of prestige reflects a great power exercising a level of international influence that surpasses its relative aggregate power capabilities. Morgenthau highlights that the relative power capability decline of a great power is not typically reflected immediately in a commensurate decline in relative international influence. Ross notes (2013, 283) "Morgenthau's 'policy of prestige' is subject to special volatility partly because it involved unpredictable emotions, such as trust, love, humiliation, and awe." Great powers typically do not decline gracefully. Nation states are particularly collectively prone to perceive more intense external challenges and stereotype their source, congruent with intense collective affect that associates with it (Cottam and Cottam, 2001).

> *"The threat perceived by the actor with a declining relative capability, however, is far less easily falsified, especially in the nationalist era. Examples of once great states that gracefully adjust to irreversible decline are difficult to come by. Still peaceful, if not graceful, acceptance of decline has occurred in this era, and in any case as we have argued, if the 'policy of prestige' were developed further, the patterns associating with capability decline would be reasonably well handled by political realism"* (Cottam 1994, chapter 2, 91-92).

This paper proposes that the essence of a prestige policy by a declining great power manifests as the instrumental derivation of a perceived opportunity for influence expansion in a third, lesser state. Intervention in Ukraine is an example. This derivative intensity of this perceived opportunity correlates in response to a perceived threat from another great power (e.g., the US) by the declining great power (e.g., Russia). Former colonial and neo-colonial possessions may be more prone to stereotyping as more readily vulnerable to assertive intervention to reassert great power peer status by the declining state actor. By way of comparison, French President Charles de Gaulle emerged amidst postwar France's catastrophic efforts to re-assert its great power status in its former empire. He identified French military independence as necessary for French national greatness, i.e., "grandeur" which in turn required a French nuclear force amidst the Cold War (Davis, 2008, 663). De Gaulle supposedly personified the nationalist forces that threatened French sovereignty emanating from different sources including European integration (Moravcsik, 2000). The de Gaulle phenomenon apparently constituted a nationalist response to the downgraded influence of postwar France. France, like the other western European states, witnessed a dramatic downgrading in its level of international political influence. National defeats came to pass in Vietnam (1954), Suez (1956) and Algeria (1954-62). Subsequently, the leadership role of de Gaulle in sum allowed France to exploit the Cold War environment to raise France's prestige in international affairs. France's tactical formula included portrayal of itself as a balancer between Washington and Moscow through leading Europe, extending from "the Atlantic to the Urals" (Trachtenberg, 2012, 83). Its continued reliance upon the NATO political alliance and on the US-dominated capitalist global political economy allows the observer to characterize this balancing as soft. Bailey (2017, 255) includes de Gaulle's public distancing of Paris from Washington as contributing to an international political environment supportive for Cold War détente policies. De Gaulle's behavior made West German Chancellor Willy Brandt's *Ostpolitik* more feasible as a strategic initiative. "Changes came from elsewhere too: by the end of the 1950s French leader Charles de Gaulle had taken steps to decouple European integration from the broader US-led Western alliance. He developed an independent French nuclear deterrent in 1960 and by March 1966 had taken France out of NATO's military structure."

De Gaulle's public differentiation of France from the US was more symbolic than substantive (Al-Kassimi, 2023). France did withdraw from NATO military command structures and ordered the closure of US military bases. De Gaulle sought to portray France under his leadership as a third, autonomous force in international relations, while remaining within the North Atlantic community. Raymond Aron thus critiqued de Gaulle for recklessly promoting an image of France in the world that was "contrary to reality" (Curtis, 2004, 17). Kenneth Waltz (1954) initially proposed the conceptualization of causation in international relations in terms of three levels of analysis: 1) the foreign policy decision maker level, 2) collective state level and 3) the international systemic level. This study proposes an analysis of relevant trends at the state level. It particularly focuses on Russian nationalism and its relevance for shaping Russian behavior towards its state targets and competitors. It proposes that Ukrainian resistance to Russian nationalist irredentist imperialism receives institutional support through the existence of so-called Euro-Atlantic structures. In sum, it constitutes the so-called West, of which the EU-NATO is the core. "The Western Group includes Europe, North America, Australia, New Zealand and the East Asian countries of Japan, South Korea, and Taiwan. Its members all have high technological, industrial and cultural capacities" (Fasslabend, 2023, 4).

The Cold War: Behavior Patterns and Contrasting Explanations

The US and the USSR engaged in a cold war, defined as intense competition short of direct military campaigns for influence over world affairs in the nuclear setting. At its most intense, they each saw this competition in zero-sum terms, i.e., the other side's gain is the counterpart's loss. They conducted this war in ways which resembled very little the wars of the past. The Cold War contest became a competitive struggle for influence preeminence within states which they regarded as having strategic significance. They were vital potential or real allies in containment of the Other (DeDominicis, 2021). The advent of nuclear

weaponry led to a fundamental change in international behavior due to unacceptability of direct use of force against the so-called superpowers. Clear patterns of behavior emerged in the course of this Cold War nuclear-era contest. Two features defined the Cold War's unique kind of competition for influence: 1) critically important engagements or battles occurred at the non-violent level, 2) the US and the USSR demonstrated a willingness to accept defeat in these engagements to a degree which would have been unthinkable in past wars. In the past, conflicts as intense as the Cold War led to general, full-scale war. While accentuated in the nuclear setting, hybrid warfare as the consequence is itself not new. Intense conflict between nuclear powers functionally consists of "competitive interference" in the internal politics of states (Cottam, 1967). Covert and informal interventions tactics provided at least a veneer of plausible deniability so as to lessen public opinion pressure for a belligerent response against the offender. It lessened the possibility of loss of political control over crisis dynamics (DeDominicis, 2019). The Cold War antagonists conducted their conflict within the domestic political processes of other states, at times lethally within the so-called Third World states. In sum, they, 1) they used the domestic politics of third states as the typical arena of engagement, and 2) they struggled for influence preeminence in states which they regarded as having strategic significance. They were vital potential or real allies in attempted containment of each other. External powers continue to ally with local minorities seeking patronage to achieve national political self-expression, e.g., Kosovar Albanians and Russophile Ukrainians. The intensity of great power conflict correlates with their interest in responding to these solicitations from prospective clients engaging in their own competitive interactions with their local adversaries.

Clear patterns of behavior emerged in the course of this Cold War nuclear-era contest and similar patterns in other intense Great Power conflicts persist today. First, each superpower's functional so-called sphere of influence included those countries in which the adversary would accept defeat in a battle for influence in its domestic political process. The adversary saw that counter actions might have a serious escalation potential for leading to a direct superpower nuclear military conflict. Second, the US and the USSR tolerated a surprising degree of diplomatic independence by small states in their respective spheres of influence. Third, an anomaly of the US-USSR Cold War was evident. The USSR tolerated American projections of influence deeply into what would appear–according to the geopolitical realist school–to be obviously within the Soviet sphere of influence. The US demonstrated far less tolerance for similar Soviet efforts in the Western Hemisphere (e.g.: Nicaragua, Grenada). Russian Foreign Minister Sergei Lavrov referenced the comparative belligerency of the US and Russia during and after the Cold War. He intended to justify Russian intervention in Ukraine purportedly to protect the Russophile population there.

> "*Hundreds of thousands of people were killed in Iraq and cities were razed to the ground. No weapons* [of mass destruction] *were found. Tony Blair in his memoirs said that they made a mistake, but it can happen to anyone. All of that was done to the countries located on the other side of the ocean. I'm not even talking about the reasons the Americans came up with for intervening the Dominican Republic or Grenada. President Reagan was talking about a threat to the lives of US citizens. Just a threat. There were thousands of Americans there. They invade countries, topple governments, etc.*" [*sic*] ("Russia's Lavrov Blames West," 2022, para. 98).

With the disintegration of the Warsaw Pact and the collapse of the USSR, Washington undertook a series of campaigns that eliminated Soviet Cold War-era allies, labelled as so-called rogue states (DeDominicis, 2018). They included the post-Tito pro-Moscow Milosevic-led regime in Serbia, the Baathist Saddam Hussein-led regime in Iraq and the Gaddafi-led regime in Libya. The Putin government intervened in Syria in 2015 to support the Assad-led regime that was under threat where Moscow still has a naval base. Today both Russian and US soldiers are present on its territory. A critical issue in this study is whether the prevailing worldview in Moscow in 2022 saw threat versus opportunity in the external international environment. Russia the nation state under the Putin regime appears notably more belligerent than the old Soviet regime. One necessary factor for explaining the comparative sluggishness of the USSR in responding to American influence expansion onto its border states lies in the USSR itself. The USSR was a

multinational state, with roughly half of population ethnically Russian. The 15 titular national Soviet republics contained a host of other primary intensity self-identification ethnic, sectarian and racial ingroups minorities. The Soviet governing apparatus relied primarily on coercion to maintain the integrity of the Soviet state. It did so but in combination with accommodation and reconciliation of national political self-expression demands among often conflicting groups, e.g., Russian and Ukrainian (Sasse, 2017). Spreading Soviet Communist ideology and influence was attractive to elements of the ruling elite, but it was a comparatively secondary issue for the mass public. With Gorbachev's downgrading of coercive control, the disintegration of the Soviet Union due to liberal nationalist social movements underscored the continuing attraction of ethnic nationalism. It contrasts with the US, which is a settler colonial immigration-founded, territorial community-based nation state (Cottam and Cottam, 2001). By 2022, appeal to Russian sovereignty nationalism against purported challengers, foreign and domestic, had become a primary component of the political control regime under Putin's leadership (Tepe and Chekirova, 2022). Coercion has become another primary mechanism in the control regime (Matveev and Zhuravlev, 2022).

The Soviet authorities ultimately failed in constructing a prevailing, primary intensity self-identification of the modal Soviet citizen with the Soviet territorial community. The significance of this distinction is evident in the more pronounced tendency of the US to project power globally during the Cold War. As a nation state, the US collectively was more prone 1) to perceive the external environment in terms of threats and opportunities for the American nation state; 2) to stereotype the sources of those perceived challenges, and 3) to overestimate its relative power capabilities (Cottam and Cottam, 2001). Unlike the multinational USSR, post-Soviet Russia more closely resembles the foreign policy behavior patterns of a nation state.

Ukrainian Nationalism and the (so-called) West

This analysis continues into Ukrainian nationalism's effective large scale military resistance against its more powerful neighbor and why both Moscow and the West were generally surprised by it. This resistance appeared despite explicit US administration statements that it would not militarily intervene to aid the Ukrainians in self-defense. A comparative power analysis of the Ukrainian and Russian state power capabilities immediately pre-February 24, 2022, would have shown a significant disparity. It might have predicted that Ukraine would not be able to maintain its control over the territory it had controlled post 2014. Going further to retake territories lost in 2014-15 to reclaim sovereign control over its 1991 boundaries might seem hopeless. Such an analysis would have incorporated Morgenthau's concept of national morale. For example, Crimea is not only a historical romantic symbol of Russian national identity, but its Slavic population today is broadly sympathetic to Russian sovereignty (Tavberidze, 2023). Since annexing Crimea in 2014, Moscow has used its coercive authority to further cement local pro-Russian control over the province (Barros and Stepanenko, 2023).

Regarding Ukrainian national morale, Ukraine's population of 44 million made it the largest east European state (after Russia) in 1991 before the beginning of its partition in 2014. Russia's occupation of Crimea was bloodless, but the annexation of parts of Donetsk and Luhansk was not. It would precipitate a violent conflict that led to 14,000 deaths and up to 2 million displaced people and refugees before the full-scale Russian invasion on February 24, 2022 (Sakhanienko, Kolisnichenko and Rosenbaum, 2021). Intensifying hostility between Moscow and Kyiv was a concomitant with increasing cooperation between Kyiv and the Euro-Atlantic alliance. It, apparently, led to Moscow's decision to eliminate Ukraine as a sovereign state actor in international relations. The initial attempt failed. The multifactorial explanation for this failure would perhaps include implementing available scenario planning, even if unlikely to succeed. To quote the noted neo-conservative, US Defense Secretary Donald Rumsfeld, "You go to war with the army you have-not the army you want or might wish to have at a later time" (Rieff, 2012, 34). Others have noted American neo-conservative aims in early 2003 with self-justificatory claims of imminent critical threats from Baathist Iraq to justify militarily imposed regime change (Benhamou, 2015). Parallels are apparent in Moscow's

justificatory irredentist claim of threat to Russophiles due to alleged neo-Nazi domination of Ukraine to attempt its own militarily imposed regime change in Kyiv (Boucher et al., 2022).

The predominance of the self-serving stereotype of Ukraine as degenerate and ripe for rapid regime change to return it to the so-called Russian world fold is evident. Moscow's lack of preparation for an extended struggle is apparent. For example, Moscow did not withdraw its $300 billion in foreign currency reserves deposited in Western banks before the invasion. It allowed them to become vulnerable to being frozen and inaccessible due to Western sanctions (Aris, 2023). Inferring that the prevailing view in Russia would be that this occupation would be relatively low cost seems difficult to accept given events since 2014. The belief in its efficacy may have derived from an ultimately self-serving and flawed delusionary assumption that the US-led Western alliance alone instigated and fueled Ukrainian resistance. In other words, Ukrainian resistance is tenacious because the West both inspires it and supplies it. De facto occupation of Ukraine through installation of a client regime that would permit Russian surveillance and border control would cut off this spiritual and material metaphorical oxygen.

Moscow's self-serving stereotype-shaped perception that Ukrainian national identity/national morale was superficial was evident in the stage of the invasion. "The Russians invaded Ukraine with 190,000 troops at the very most," according to Professor John Mearsheimer. "They made no effort to conquer all of Ukraine. They didn't even come close. There is no way they could have conquered Ukraine with 190,000 troops. And they didn't have the troops in reserve to do that. When the Germans invaded Poland, in 1939, they invaded with 1.5 million troops. That's the size army you need to conquer a country like Ukraine, occupy it and then incorporate it into a greater Russia. You need a massive army. This was a limited aim strategy" (quoted in Sayers, 2022, para. 5).

The genesis of the Ukrainian belief that the West has a de facto inherent tendency to oppose Russian state influence includes the foundation and development of European integration. The backbone of this integration is a vast network of governmental and non-governmental bureaucratic, civil society and economic vested interests founded during the Cold War. European integrationist authorities encouraged neo-functional spillover (Visoka and Doyle, 2016). These systemic reinforcement tendencies continue despite the emergence of various shades of significant Eurosceptic public opinion at least since fall of the Berlin Wall (Taggart, 2020). U.S. postwar hegemony is the international political environment within which postwar European integration has initiated, functioned and developed. This US hegemonic environment emerged from the prevailing view of relatively intense postwar threat from Moscow to manifest itself in the strategy of containment. Concurrently with the intent of west European leaders, this containment framework dynamically shaped the political opportunities and obstacles for European integration. On the level of political volition, postwar Germany relied upon the security hegemony of the US to ease the fears and insecurities among postwar Germany's neighbors (Collard-Wexler, 2006). Postwar Germany's reconstitution, reconstruction and reunification utilized U.S. hegemony as a critical enabling international systemic factor (Cho, 2003). U.S. hegemony was a critical factor in the Europeanization of postwar Germany (Beichelt and Bulmer, 2020).

Various political figures have expressed misgivings regarding the implications of U.S. hegemony, perhaps most notably French president Charles de Gaulle (Gfeller, 2010). French president Francois Mitterrand's European security policy proposals reflected also misgivings regarding post-Cold War ultimate US post-Cold War hegemonic intentions in Europe (Bozo, 2008). A Gaullist, Nicholas Sarkozy, in 2009 reintegrated France into the NATO command structure from which de Gaulle had withdrawn France in 1966 (Rieker, 2018). France's shift reflected the apparent self-image of relative inefficacy in opposing U.S. hegemony. This strategic shift emerged despite Paris' warnings and opposition to the G.W. Bush administration's decision to invade and occupy Iraq in 2003 ("Iraq: March 6-19," 2003). The opposition of Paris negatively affected foreign direct investment into France due to international investor unease in response to the public tensions between Paris and Washington (Arnold, 2005).

Twenty years later, French president Emmanuel Macron referenced the intra-EU schism over responding to Washington's appeal to its NATO allies to participate in the 2003 Iraqi invasion (Rose, 2023). He acknowledged Paris' controversial implicit claim to EU leadership in that crisis. Macron implied that east European rejection of Paris' 2003 appeal stemmed from the greater threat that eastern European states perceived from Moscow. This perceived threat necessitated close alliance with the US. Macron declared that Paris would not repeat the mistake of failing "to listen" to eastern Europe (Rose, 2023, para. 3). Macron again called again for the eastern European EU member states to support constructing "strategic autonomy," i.e., a European "pillar" within NATO (Abboud, 2023, paras. 6, 11). He mollified the east Europeans regarding their distrust over Paris' more conciliatory initial approach to Moscow in early 2022. Paris' initial response to the Russian invasion appeared to reflect an inference that Moscow's motivation included elements of complexity that could possibly allow for a negotiated settlement. While affirming in 2023 the hardline stance of some east European members, Macron noted that the EU could not continue to rely on an eternally firm US commitment to European security.

In sum, the EU has continued to utilize its close US alliance to reduce foreign policy as a major demand on national resources in the form of military budget allocations. "Before a European defence policy can be formulated, defence spending priorities have to be determined. Defence choices are the result of national preferences and views of the threat which will differ between European member states. Nations will also have incentives to free ride and shift costs to the larger nations" [*sic*] (Hartley, 2023, 5). It also reflects the decline of nationalistic collective attitudinal predispositions in continental Western Europe states to perceive significant threats from the external international environment. Capability generation of European military security autonomously from the US is generally not an effective public opinion electoral support appeal. For decades, French leaders periodically have called for what today Macron labels European "strategic autonomy" but persistently have lacked the political capacity to move towards it (Anderlini and Caulcutt, 2023). One obstacle has been persistent German skepticism towards French proposals that even risk suggesting a distancing of the EU from its foundational reliance on US-NATO security in Europe (Erlanger, 2/2023). It corresponds with a de facto default on the US alliance to ease any fears regarding European economic dependency on Germany. Controls that France and others place on Germany through the EU are important as well, but apparently are not perceived as sufficient, e.g., in Warsaw. Nationalism is significantly stronger among the east European EU members. Poland, for example, under the Law and Justice Party in power since 2015 relies on its US alliance to support its cooperation with its allies. French president Emmanuel Macron's conciliatory approaches to Beijing led Polish senior officials to reaffirm their US alliance as the foundation of their security (Cohen, 2023). This reliance facilitates the ruling rightwing Law and Justice Party to utilize appeals to latent, but salient Polish suspicion towards Germany to win votes ("Poland Formally Demands," 2022). It is secure in the notion that such appeals have U.S. hegemony as political guardrails with the raging war in neighboring Ukraine.

The integration of eastern Europe into the EU has intensified U.S. hegemony over EU policy. In this sense, EU enlargement has had a negative trend effect on the EU as a peace strategy for Europe. This eastern Europe focus on the US alliance reflects is orientation towards a reliable security coalition to compensate against the expansion of Russian influence in their region. The extent of lingering suspicions regarding Germany is a question that seems to be minor if at all in significance. Suspicions of German neo-colonialism through German foreign direct investment and exports seems to be politically relatively insignificant (Lankowski, 2015). The question remains as to whether these suspicions of Germany within the EU member states would remain latent if the US were to withdraw from NATO. The ability of the EU to develop an autonomous security policy for collective self-defense and military power projection remains daunting. Potential conflicts and fractures among the 27 EU member states remain a challenge. The counterfactual as to whether a re-elected Trump administration would have lessened or removed the prospect of the Russian invasion that occurred in February 2022 is an interesting thought experiment. Some who downplay the threat of Trump to the NATO alliance note that Trump's political weakening by so-called Russiagate and electoral defeat left Putin without an interlocutor. "Putin felt that he was without partners, in a sense like

Stalin had found himself 'alone' after Roosevelt and Churchill were gone" (Ellison et al., 2023, 204). Others note that during the latter term of the Trump administration, US commitments to support Ukraine including through lethal weapons sales became predominant in diplomatic messaging. This trend contradicted 2016 presidential candidate Trump's public statements that Ukraine was more of a European problem than an American one (Sanders and Tuck, 2020).

Russian vs. Ukrainian Nationalism

The author has argued elsewhere that Moscow's perceived opportunity in Ukraine was derivative of its perceived threat from the West. Moscow and Washington compete for influence in Ukraine (DeDominicis, 2022). Washington has a strong commitment to maintaining the support of eastern Europe to U.S. hegemony, which Germany accepts. It incentivizes Kyiv's support for the European status quo under US hegemony, even if the likely outcome includes a scenario for the de facto partition of Ukraine. Kyiv and Ukrainian nationalism will integrate into the Euro-Atlantic community while the Western alliance will likely de facto acquiesce to Moscow's annexation of the borderlands it has annexed. Russia and Russian nationalism will be thus contained along with China and Chinese nationalism, which will ally along with Iran and Iranian nationalism. A Korea-type scenario has emerged in commentary in reports on Russian mass media broadcasts. Russian media referenced a Swiss newspaper report that the US authorities have proposed to Moscow that Russia accept the annexation of 20% of Ukraine's post-1991 territory in return for a ceasefire. Washington and Moscow denied the report (Reuters, 2023, Van Brugen, 2023). Moscow and Kyiv have both indicated that they refuse to negotiate. If Moscow is refusing to negotiate, then the US will likely continue to support Ukraine defensively but likely without providing sufficient resources to expel Russian forces from Ukraine's 1991 borders. To reach a ceasefire, in the prevailing view of the fighters, a hurting stalemate has to be achieved that is ripe for resolution (Ifediora, n.d., 6). Achieving it is very difficult in the midst of battles in which regime survival depends on the outcome. The competition for global public opinion support includes media portrayals of the alleged crimes of the other side in the conflict. The politically attentive Russian public is apparently polarized, with many acquiescors and accommodators to Putin's regime fleeing the country to avoid being mobilized for this war (Nechepurenko, MacFarquhar and Isai, 2023).

DATA AND METHODOLOGY

2023 Washington's Prevailing View of Russian Intentions

Implicit differences in terms of appropriate political strategic response to Russia's invasion have their foundations in differing inferences of the ultimate intentions behind Russian belligerency. The *New York Times* editorial board, for example, argues that Moscow's escalation of belligerency in February 2022 was due to Moscow's perception of political weakness in the West. According to this worldview, Moscow viewed the West as lacking the will and determination to oppose Moscow's attempted assertion of control over Ukraine:

> *"Isolated from anyone who would dare to speak truth to his power, Mr. Putin ordered an invasion of Ukraine last year, convinced that the Ukrainians would promptly shed their 'fascist' government. The start of the war stunned Russians, but Mr. Putin seemed convinced that a West wasted by decadence and decline would squawk but take no action. He and his commanders were apparently unprepared for the extraordinary resistance they met in Ukraine, or for the speed with which the United States and its allies, horrified by the crude violation of the postwar order, came together in Ukraine's defense"* (Editorial Board, 1/2023, para. 13).

The prevailing view in Washington appears to be that Moscow and Kyiv will not seriously negotiate over a ceasefire at the time of writing. Negotiations are unlikely until such time as a prevailing view emerges

within each capital that ongoing fighting is more costly, at present and in the future, than a ceasefire. In sum, Moscow and Kyiv must view the fighting as in effect a hurting stalemate (Touval and Zartman, 2001). The US prevailing view is that attrition will eventually exhaust Kyiv and Moscow after months, perhaps years, of ongoing fighting, with casualties on each side consisting of hundreds per day. Kyiv and Moscow would have to conclude that maximal objectives that they are voicing are unachievable. In Moscow these demands are international recognition of the annexation of the four complete provinces of Donetsk, Luhansk, Zaporizhzhia and Kherson, along with Crimea to Russia. In addition, a "rump" Ukraine must demilitarize and accept international legal status as a neutral state, i.e., it may not join NATO (Hodge and John, 2022, para. 13). On the Ukrainian side, complete return to the 1991 borders of Ukraine and the removal of Putin from office, plus war reparations, appear to be its maximal demands, along with EU and NATO membership. The Putin regime has appeared implicitly to signal its willingness to negotiate the partition of Ukraine. The pro-Western territory focused around Lviv acquiescing to the loss of the territories east of the Dnipro to Moscow would be part of this formula. Moscow's response to the integration of Kyiv into the Euro-Atlantic system would be the test of the accuracy of the inferences in this analysis that Moscow's perceives threat to Russian national unity. Putin himself noted that the annexation of Galicia to Ukraine by Stalin is the ultimate source of Ukrainian nationalist hostility to Moscow.

> *"What did we believe at one time? We believed that OK, the USSR ceased to exist. But, as I said at yesterday's Defence Ministry Board meeting, we thought our common historical roots, our cultural and spiritual background would be stronger than what pulls us apart, and such forces have always existed. We assumed that what unites us was stronger. But no, it was not so, due to the assistance of outside forces and the fact that people with extreme nationalist views came to power basically after the collapse of the Union."*

> *"And this division was growing worse all the time with the help of these forces and despite all our efforts. As I once said – at first we were pulled apart, separated and then set against each other. In this sense, they have achieved results, of course, and in this sense it has been something of a fiasco for us. We were left with nothing else. Maybe we were deliberately brought to this, to this brink. But we had nowhere to retreat, this is the problem."*

> *"They were always fully involved; they did their best. I do not remember now, but you can read up on it in history books. One of the deputies of the tsarist State Duma said, if you want to lose Ukraine, add Galicia to it. And this is what happened in the end; he turned out to be a visionary. Why? Because people from that part behave very aggressively and actually suppress the silent majority in the rest of that territory."*

> *"But again, we believed that the underlying foundations of our unity would be stronger than the trends that are tearing us apart. But it turned out this was not the case. They began to suppress Russian culture and the Russian language, tried to break our spiritual unity in totally barbaric ways. And they pretended that no one noticed. Why? Because, as I said, their strategy was to divide and rule"* [*sic*] [emphasis BD] ("*Russia's President Putin Uses Term 'War' for First Time in Press,*" 2022, paras. 42-45).

Former Russian president and prime minister Medvedev has also made statements regarding Moscow's willingness to accept the partition of Ukraine.

> *"Dmitry Medvedev, the deputy head of Russia's Security Council and a longstanding close ally of President Vladimir Putin, has said that new 'special international norms' are needed to hold talks on ending the war in Ukraine."*

> *"'They are again recalling the principles of international law as the basis for negotiating. The universal principles of the public law of peoples are certainly important, but the problem has always been in their interpretation. For example, at least two of the seven principles contained in the UN Charter are obviously understood differently by us and by the countries hostile to us. This is the principle of self-determination of nations (when it comes to the former republics of Donbas and other former territories of Ukraine). And the principle of conscientious fulfilment of international obligations (when it comes to the Minsk agreements),' Medvedev wrote on his Telegram channel on 18 January."*

> *"'Therefore, what is necessary for new negotiations is not so much a unified understanding of the principles of international law but agreement on two legal aspects. First, recognition (or at least tacit acceptance) of the results of self-determination of the people of the former territories of Ukraine, which are embodied today in the internal law of Russia – in its Constitution. And second, the development of special international norms designed for the current situation and future international relations. As it was, say, during the preparation of the UN Charter in 1945. In fact, this is the creation of new international rules that complement the system of jus cogens [preceding two words in Latin] norms,' he added."* [*sic*] ("Putin Ally Calls for New International Rules for Ukraine Peace," 2023).

Medvedev has made intensely belligerent statements previously, apparently for domestic public opinion mobilizational aims. The above statement portrays Moscow as a great power supporter of the post-1945 status quo. The US-led hegemonic expansion into Ukraine is consequently an implication that the US is the revisionist power. It aims to subordinate indirectly Russian national significance to secondary status, despite Moscow being one of the founding UN Security Council permanent members. Again, a formula test for Moscow's intentions appears to be acquiescence to partition with Moscow acquiescing to western Ukraine's integration into Euro-Atlantic structures. The Putin government stereotyped Ukraine as a "degenerate" actor as apparently did most Western intelligence agencies (Cottam and Cottam, 2001, 117). The prevailing view that Russia would relatively quickly seize control of the capital and, perhaps, install a Russian client, proved to be a gross miscalculation (Euractiv, 2022). This analysis argues that a critical factor was nationalist stereotyping. The Putin government consequently has mired Russia in an attritional conflict with Ukraine receiving critical military and economic aid from Euro-Atlantic allies. Putin has to justify the invasion he launched in February 2022 or risk being toppled and potentially worse, both for him and his regime's core supporters.

NATO Post-Cold War Containment of Moscow

The February 24, 2022, Russian invasion of Ukraine temporarily pushed the preoccupation with China down the agenda for EU-NATO cooperation. Recently (January 2023) the leaders of the member states of EU reaffirmed EU-NATO unity. They described the enhancement of the EU security capabilities as a strengthening of the North Atlantic alliance's capabilities (European Council, 2023):

> *"Our mutually reinforcing strategic partnership contributes to strengthening security in Europe and beyond. NATO and the EU play complementary, coherent and mutually reinforcing roles in supporting international peace and security. We will further mobilize the combined set of instruments at our disposal, be they political, economic or military, to pursue our common objectives to the benefit of our one billion citizens"* (para. 9).

As noted, the nuclear setting continues to reinforce patterns of influence competition that first became evident during the Cold War. Moscow and Washington compete indirectly for influence over the polity of a third actor (Cottam, 1967). In one pattern, a great power intervenes directly with military force while the other publicly provides only military aid to the third, arena target polity. These dynamics played out on a

comparable scale in in Korea, Vietnam and Afghanistan. The characterization of the US and Russia as great powers contrasts with predominant Cold War-era narratives that they were so-called superpowers. Post-Soviet Russia's GDP has been compared in size to that if Italy, due primarily to the size of its export commodities sector. Its deployed nuclear weapons capability gives it the capacity to participate as a primary protagonist in scenarios leading to the devastation of human civilization through threat of accidental escalation (Cottam and Gallucci, 1978). Avoiding uncontrolled military conflict escalation leading to utilization of nuclear destruction remains the primary, but not the only, foreign policy imperative, as it has been since 1945. The US response to Moscow's February 24, 2022, invasion of Ukraine functionally aims to contain Russian irredentism. It assumes that Russian belligerence is due to frustrated great power status recognition of Russia's hegemony at least over the territories of the former Soviet Union. It does not assume that the prevailing view in Moscow perceives an indirect, but intense threat to Russia through US-led globalization of Ukraine via its European integration variant (DeDominicis, 2022). This perceived "diabolical enemy" stereotype views the greater polity challenge being American-led globalization (Cottam and Cottam, 2001, 106). In this definition of the situation, the observer sees US foreign policy motivation as belligerently aggressive. It is a diabolically clever, cynically rational actor engaged in a long-term plan to dominate the international community (Cottam 1977). In this prevailing stereotype-driven worldview, the US succeeded in destroying the USSR. Moscow perceives the US today as aiming to subvert and disintegrate Russia through the attraction of so-called Europeanization of the former Soviet territories. Ukraine, according to the prevailing Russian narrative of its national history in 2022, is the most vulnerable and attractive target as the cradle of Russian civilization. It is also the most vulnerable target for Europeanization due its political geography, i.e., the NATO/EU would make Ukraine into an "anti-Russia."

In Putin's words, "For a long time, external forces have been implementing a project near our borders to create from our neighbour, Ukraine, a de facto hostile state, an 'anti-Russia.' They funnelled weapons into it for eight years, condoned aggression against the peaceful population of Donbass and indulged in every way in planting neo-Nazi ideology" [*sic*] ("Putin Addresses," 2023, para. 21). In August 2022, Russian Security Council secretary Nikolai Patrushev stated, "By organising a coup d'etat in Kyiv in 2014 and starting the accelerated transformation of Ukraine into the so-called anti-Russia, the Anglo-Saxons set out not only to create a springboard for pressure to be put on our country, but also to create a precedent for the further fragmentation of the Russian ethnic group in order to completely eradicate it" ("Russia Fighting Ukraine's Western-Installed Puppet Regime," 2022). Patrushev's primary intended target audience in this TASS Russian language report was domestic. Foreign audiences would inevitably respond that it is propaganda to control the Russian public because the European Union's primary aim is to promote peace in Europe. Moscow might respond that whatever rhetorical differences the EU leaders have with US policy, they never restrain the US, and end up eventually not only acquiescing, but supporting US policy. For example, in Vedomosti business daily:

> *"Vedomosti (business daily) –-'French President Emmanuel Macron, who has returned from a meeting with Chinese President Xi Jinping, stressed that the Europeans are not interested 'in speeding up the solution of the Taiwan issue'... Macron noted the need for Europe to gain 'strategic autonomy'..."*

> *"'In terms of relations with Washington, one can really see 'Gaullist' notes in Macron's statements, in particular, the mention of 'strategic autonomy' and the refusal to get involved in new conflicts under the American leadership. Here one can recall both the Cold War and the issue of the invasion of Iraq in 2003, says Pavel Timofeev, the head of the Department of European Political Studies at IMEMO RAS. But in fact, we are not talking about any 'anti-Atlantic rebellion', the expert says."*

> *"'Yuri Rogulev, director of Franklin Roosevelt's Foundation for the Study of the United States, agrees. He stressed that France's de facto foreign policy is being built in line with Washington's course, which is evident from Paris' behaviour in the Ukrainian crisis and participation in the*

supply of weapons to Kyiv. Macron only pretends to play 'the Frond', Rogulev believes." […] [*sic*] ("Russian Press Previews," 2023, para. 22-24).

Patrushev's characterization encapsulates the "social competition" strategic approach that prevails in Moscow regarding the conflict with the North Atlantic community over Ukraine (Cottam and Cottam, 2011, 92-93). In sum, a social competition strategy has a zero-sum conflictual interaction as its prevailing worldview. Ukraine has become this target of social competition due to Russian national irredentist claims to a region that had been part of the Russian empire. Ukraine became formally sovereign with the disintegration of the USSR into its fifteen constituent republics. Irredentist conflicts are particularly prone to social competition strategic approaches. The revisionist power characterized the allegedly occupied or colonized area as part of the nation that is unjustly separated from the patron-state and oppressed.

Moscow's Prevailing Worldview

The prevailing worldview in Moscow as of 2023 views the EU as essentially the institutional framework for US hegemonic coordination of the national power resources of its NATO allies. This Russian government prevailing view contrasts with some Western academic literature portraying the EU's Common Security and Defence Policy (CSDP) from a neo-realist perspective. The latter sees the CSDP as an EU attempt at "balancing" against the US in the post-Cold War unipolar environment. Other literature views the EU as lacking the power capability to act in the military arena independently of the US. The CSDP in fact enhances US-EU security cooperation to make a "more effective and enduring NATO" (Erciyas and Soydemir, 2022, 8). This latter perspective is closer to Moscow's worldview. Far from viewing the EU as balancer or hedger against the US, Moscow sees the Trump administration as illustrating the weakness of the EU. French president Emmanuel Macron highlighted this weakness by describing NATO during the Trump administration as experiencing "brain death" due to "a lack of strategic coordination and leadership from the United States" (Erlanger, 2019, para. 1). One 2021 observer infers that the start of trends leading to Macron's pronouncement emerged with the Obama administration's "transatlantic departure" with its heralded "pivot" to Asia (Da Cruz and Antonio, 2021, 15).

Macron more recently reiterated oft-repeated French calls for the development of EU strategic autonomy. Little evidence exists of its effectiveness in shaping the prevailing view in Moscow towards perceiving substantive differentiation of the EU from US-led NATO. One Belarusian observer associated with the opposition to Lukashenka critiques the prevailing view in Moscow and Minsk as viewing Warsaw and Kyiv as "mindless puppets of Washington" ("Highlights: Belarusian Media," 2022, para. 5). Despite Macron's condemnation of the absence of US leadership under the Trump administration, the EU appeared unable to organize a viable compensatory response. It did not effectively adopt a soft balancing, or hedging, strategy towards the US. "[H]edging strategies are adopted when states fear abandonment and seek to reduce their dependence on other states, either by cultivating alternative partners and projects, or self-insure against the possible betrayal of trust by other states" (Nielsen and Dimitrova, 2021, 703, referencing Ringsmose and Webber, 2020, 301). The EU remained collectively passive. Among the obstacles was the generally stronger commitment of the newer east European members of NATO/EU to orienting their military security policies towards Washington. "Because of this insurmountable structural cleavage, the EU will experience, for a long time from now on, a gap between the political will of unity, formally expressed by European leaders and the actual capacity to adhere to the idea of 'strategic European autonomy'" (Naumescu, 2020, 33-34). Macron's November 2019 corpse-like characterization of NATO generated rejections of varying intensity. They came, among others, from the Turkish president, the German Chancellor and the NATO Secretary General, Jens Stoltenberg. Among other rejoinders, Stoltenberg responded, "But the European Union cannot defend Europe. European unity cannot replace transatlantic unity.

A strong NATO and a strong European union are two sides of the same coin. Both are indispensable for the continued freedom and prosperity of Europe" (NATO, 2019, para. 27, referenced in Sarcinschi, 2019). The

EU functionally defaulted to placing its bets on Trump's removal from office. This bet paid off, but it can lead an observer to speculate as to whether Trump's re-election, if it had happened, would have lessened Moscow's perception of challenge from the US/NATO/EU. Nielsen and Dimitrova (2021) note the January 2019 *New York Times* (Barnes and Cooper) report that Trump raised privately the prospect of the US withdrawing from the NATO alliance. Although the justification was the drain on US resources, clearly Trump did not perceive Russia as a major threat to US interests, as Trump understood them. Moscow's conflict with Kyiv escalated publicly in spring 2021, a few months after Biden's inauguration (Kramer, 2021). The Trump US administration had distanced itself from active involvement in Moscow-Kyiv negotiations over the Donbas conflict (Kramer, 2019). Trump's interest in Ukraine declined following the revelations surrounding his July 25, 2019, call to newly elected Ukrainian president Volodymyr Zelensky. Trump sought to use US aid to leverage Kyiv to announce an investigation into US businessman Hunter Biden, active in Ukrainian business circles. He thereby aimed to besmirch the reputation of his looming presidential election rival, former US vice-president Joe Biden, the father of Hunter. In the Obama administration, Biden had oversight responsibility for Ukraine and had been actively engaged in promoting particular reform policies there (Kramer, 2020).

According to this perspective, Joe Biden represents the reassertion of the primacy US foreign policy establishment, founded and cultivated during the Cold War. Notoriously referred to as "the Blob," it is "the bipartisan, Washington-based, foreign policy elite that believes maintaining the United States' global dominance is essential to ensuring American safety and international peace" (Beinart, 2022, para. 5, Lyall, 2021). Reynolds (2020, 44) notes that "the more influential critics of Washington's foreign policy consensus argue […] that a broad bipartisan conglomeration of interlocking bureaucracies, think-tanks, and lobbies constitutes the Blob." The developing institutionalization of the functional assumption that post-Soviet Moscow remains a foreign policy challenge came to characterize the prevailing view in post-1991 Washington (Maitra, 2021).

Prevailing in this establishment worldview is the attitudinal assumption that Moscow would seek to re-establish the regional hegemony it lost following the 1989-91 Eurasian Communist collapse. A foundational component of this worldview is that post-Cold War Washington should respond to the appeals of the post-Communist European polities. The US should take the lead in containing Moscow's presumably revanchist influence by expanding NATO (Allin, 2022). Amidst the US nationalist response to the September 11, 2001, terrorist attacks on the US mainland, US defense secretary Donald Rumsfeld would highlight these east European allies (Sedivy and Zaborowski, 2004). Labelling them as "New Europe" for their support of the US in its impending 2003 Iraq invasion, he contrasted them with obstructionist, resistant "Old Europe," focused on Paris and Berlin ("Iraq: January 4-February 4," 2003, 30, 32). Beinart (2022) highlights the high marks the US foreign policy establishment has given to containing Russian expansion into Ukraine by providing military aid to Kyiv.

EU individual leaders and collective policy patterns provide evidence as to their respective functional self-understandings of the NATO/EU alliance regarding its ultimate foreign policy intentions. These self-understandings may differ from the prevailing view of NATO/EU ultimate intent as perceived by the targets of NATO and EU strategy, including Moscow. The Putin government apparently shares Stoltenberg's characterization of NATO and the EU being two sides of the same coin. This analysis infers that Moscow's prevailing view sees the functional intent of the Euro-Atlantic alliance is, at best, to subordinate Russia to a second-rate global power status. Russia is, at best, to submit to US hegemonic predominance as per postwar west European nation states, i.e., as per a European mid-range power. At worst, the aim is to dismember Russia, with the American-led Euro-Atlantic community acquisition of Ukraine the main wedge for accelerating this disintegration. The assumption is that permitting NATO's integration of Ukraine, even a partitioned Ukraine, would constitute appeasement of an aggressive, imperialist US. As with Munich in 1938, such appeasement will only make the appeased aggressor more aggressive.

The Russian authorities articulated this worldview through its control over Russian broadcast media, e.g., in response to Henry Kissinger's proposal to this effect, Kissinger's "trap." According to one Russian pro-regime pundit, "Without restoring some order in the [Russian] elite and in the authorities, the number of these manipulations will only grow, and the number of people who would be internally ready to go where Kissinger calls them [...] will grow'" ("Russian State TV," 2022, para. 11). In this enemy image of the US in the nuclear setting, the immediate threat comes from internal actors within the Russian polity that would functionally serve as subversive American agents. As incentivized by the nuclear setting, this subordination occurs indirectly. A critical component is permanently dislodging Ukraine from Moscow's sphere of influence via the EU and its civilian power capabilities. In this worldview, the EU acts as the handservant of US hegemony in Europe.

The perception of threat as the prevailing view in Moscow is further evident in the domestic control formula that the regime authorities implement. Aside from coercion, the public opinion influence formula aims, functionally, to inoculate domestic public opinion from foreign news sources, i.e., maintain national morale. Western reports regarding a range of issues, e.g., Russian targeting of civilian infrastructure, are matched quickly by Russian state broadcast and social media claims. The latter circulate assertions of Ukrainian targeting of civilian infrastructure in Russian-held areas. Foreign news reports disseminating into Russia of Russian military targeting of Ukrainian infrastructure thereby can be more readily questioned as disinformation. The current common dismissal is that these reports are lies and fake news, thereby buttressing public opinion support for the authorities. They propagate Russian claims in multiple globally-employed foreign languages (Hanley, Kumar and Durumeric, 2023b). For example, the claim of secret US biological weapons laboratories in Ukraine remains a theme in Russian state propaganda (Hanley, Kumar and Durumeric, 2023a). It speculatively calls to mind the debunked claim of the G.W. Bush administration that Saddam Hussein's Iraq was developing such weapons in the lead-up to the 2003 US led invasion (Mills, 2011). This mirroring/mimicking of Western news reports occurs continuously as recounted in *BBC Monitoring Service* daily publications. On a tactical military level, Russian claims of destruction of the latest deliveries of Western weapons systems to Ukraine may also serve to buttress Russian military morale (Zabrodyski, et al., 2022).

The EU's rhetorical emphasis on its identity as a "civilian superpower" includes human rights promotion as a predominant theme (Moravcsik, 2003, para. 41). Romanova (2016) highlights the analytical importance of focusing on the subjective perception of "normative power Europe" by a particular target state, whether Russia or otherwise (2016, 1). Romanova (2016) affirms that the Russian state's ultimate collective foreign policy motivation is to gain status equality with the EU and the US in international relations. Romanova (2016) notes that Putin's rejoinders to EU critiques of Russia's human rights record have highlighted EU complicity with the US in establishing "secret prisons and torture in Europe" (2016, 308).

The Putin regime authorities had long been skeptical of EU expansion of its influence into the former Soviet states before the beginning of the Russo-Ukraine war in 2014 (Ferguson 2018). One observer noted that the increasing trans-Atlanticism of EU policy under US "'leadership'" [*sic*] has spelled "the death of Europe as the subject of its fate" (Sakwa, 2019, 564, 569). Another observer noted the strongly supportive response of "the West" to the 2014 liberal democratic revolution in Ukraine, in contrast to an Armenian mass movement 5 years earlier (Grigoryan, 2020, 1). Grigoryan argues that differentiating factor was that the former was intensely hostile to Moscow's influence, whereas the latter was not.

Maass (2020) illustrates that Moscow was skeptical of the EU's ability to act as a coherent, effective actor in implementing its "state-building" project in Ukraine. Moscow's effectiveness in overriding EU policy aims by partitioning parts of eastern Ukraine in 2014 was a primary cause for the EU's inability to achieve its stated goals. Maass notes that in 2013 in the leadup to the EU's Eastern Partnership summit with Ukrainian President Victor Yanukovych in Vilnius, Moscow pressured Kyiv and Brussels for a trilateral trade agreement to include Russia. Thereby, Moscow would maintain its economic vested interests in

Ukraine while Ukraine would gain the economic benefits of integration into the EU single market. When the EU demurred, then Yanukovych announced that he would not sign the economic association agreement with the EU in November. Moscow had ratcheted up economic sanctions on Ukraine threatening Yanukovych's political support base in the industrialized Donbas region (Herszenhorn, 2013, Smale, 2013, Roth, 2013). His decision triggered protests that escalated to scores of deaths and his flight from Ukraine to Russia.

RESULTS AND DISCUSSION

Russia's traditional conservative values affirmation response is part of the emerging authoritarian populist political regime that perceived opportunity and now threat emanating from Ukraine. The perceived threat from the US was the context that created the derivative perceived opportunity in February 2022 emanating from Ukraine. The conflict spiral crisis that has emerged has its foundations in these Soviet-era bureaucratic security apparatus vested interests, which now associate with post-Soviet Russian nationalism. Their US counterparts' association with American nationalism remains, with the elimination of Trump's challenge to them. European integration's foundations include these Western-counterpart bureaucratic security apparatus vested interests. Nationalist Euroscepticism can challenge this so-called establishment, as the Brexit phenomenon demonstrated. For those EU member state actors in which nationalism is not as salient, then they will tend to support EU integration. Current debates regarding how to respond to Moscow's dramatic escalation of its violent conflict with Ukraine include differences in the perception of ultimate Russian motivations. These 2022 differences focused, for example, on whether or not the US should take the lead in providing heavy tanks to Ukraine. Germany's commitment to US hegemony also reflects its prospective acquiescence to its allies providing heavy tanks. Germany's prevailing assessment of its own foreign policy tactical aims include a commitment to maintenance of US hegemony. US hegemony necessitates acquiescing to a US commitment to increasing NATO military supplies to Ukraine, to which Germany would agree. Germany balks at appearing to take the lead in organizing the Western response to Moscow's invasion. Notable has been the US response to the invasion at its one-year point. The US at first refused to provide Abrams tanks to Ukraine, after Berlin repeated its insistence to not being the first Western state to provide this type of military aid (Schmidt, Tanno and Otto, 2023).

The EU's close association with the US among the respective prevailing views in target states such as Russia, China and Iran make Euro-Atlantic based activists vulnerable to stereotyping. In this enemy stereotype of the Euro-Atlantic community ultimately under Washington's direction, public reports of disagreement or tensions between NATO member-state leaders emerge. They are ultimately insignificant. In this enemy stereotype of US hegemony, individual leader idiosyncratic dissent that reaches media reports is epiphenomenal and ultimately inconsequential. This predispositional characterization applies to the US as well as to its alleged client/allies such as France. Trump's occupation of the White House did not alter the thrust of US foreign policy towards containment of Russia. A leader such as Trump that might have threatened this thrust would generate an American polity response that would remove him from power, i.e., Trump's electoral defeat in 2020.

In this enemy stereotype prevailing worldview, a similar dismissal of individual leader dissent within all-encompassing US hegemony applies to France as well. Russian state-controlled broadcast media reminded domestic viewers that French president Emmanuel Macron repeatedly communicated personally via telephone with Russian president Vladimir Putin. Macron sought to dissuade Moscow from its full-scale 2022 invasion and then continued in attempting to persuade Putin to order a stop. "Macron himself with his endless phone calls to the Kremlin got nowhere" ("Russian TV News," 2023, para. 16). This same state-controlled news broadcast on April 7 characterized France as a "vassal" of the of the US: "this is what happens when a vassal tries its hardest to formulate an independent policy, it doesn't really work out" ("Russian TV News," 2023, para. 19). France's supposed demonstrated genetic incapacity for agency explains Macron's alleged failure to persuade Chinese president Xi Jinping to pressure Moscow during

Macron's state visit to Beijing. Notably, commenting on his just-completed state visit in Beijing, Macron declared on April 13 that being a US ally did not require being a "vassal" to the US (BBC, 2023, para. 3).

> *"Yet Mr. Macron was widely criticized for his comments after visiting China's president Xi Jinping in April, when he said that Europe should not be 'followers' on Taiwan or 'adapt ourselves to an American rhythm and a Chinese overreaction.'"*
>
> *He said that it would be 'a trap for Europe' to get caught up in crises 'that are not ours.' Europeans should continue to develop their own strategic autonomy and become a 'third pole' in the world order, and not risk becoming 'vassals' in a U.S.-China confrontation. Like Mr. Scholz, Mr. Macron downplayed any rivalry and said that China was 'a strategic and global partner'"* (Erlanger, 6/2023, paras. 13-14).

A few weeks later, Macron would warn Russia that it was becoming a "vassal state" of China (Nakazawa, 2023). According to the theoretical framework of this analysis, Macron's statements imply that Macron views a conflict spiral as the foundation of the escalating conflict between Moscow and Washington. In sum, Moscow as well as Washington are responding belligerently to a perceived threat from the Other, i.e., the Other's belligerency is due to perceived degenerate weakness in Self. Self must therefore respond with the requisite resolute will and determination to disabuse Other of this perceived degenerate weakness. This framework implies that Macron's statements were possibly signals to Moscow that France does have a capacity for autonomous agency. This capacity is only feasible if Moscow politically reinforces Paris' diplomatic leverage within NATO by responding positively to mediation efforts through compromise towards a ceasefire. According to Moscow's prevailing worldview, this absence of agency capacity derives from the stereotyped nature of European Union polities. These forces that now threaten to subjugate Moscow have their foundation not in the individual foreign policy decision makers themselves. Liberal capitalist polities utilize non-state actors. They include multinational corporations and human rights NGOs, to become the Western polity agents for undermining Russian national morale via so-called color revolutions. National morale is one of the core components in Morgenthau's conceptualization of power (Morgenthau, 1993). Notably in relation to the title of this study, Emmanuel Macron in October 2022 presented an original print copy of Immanuel Kant's *Perpetual Peace* strategic plan for Europe to Pope Francis ("Rare Book," 2022). This Russian state media report mocked Macron's gift, claiming, incorrectly, that it was apparently looted by Second World War combatants from a library in Lviv.

Characterization of the post-Cold War international relations system as unipolar is a Weberian ideal-typical characterization. This perspective allows for elucidation of behavior patterns to observe and analyze. Drezner (2019) highlights the characterization of Schweller and Pu (2011) of the international system in which a rising power challenges the hegemonic leader of the status quo. Balancing by the challenger will appear to be a revisionist strategy according to the hegemonic discourse of the status quo leader. This insight stands in contrast to the characterization of balancing a status quo defense strategy, which in fact only applies within a multipolar international system. In 2022, the rise of China and its affirmation of its alliance with Russia appeared to conform with a balancing strategy against the US and is European allies. The expansion of Euro-Atlantic institutional structures provoked a violent response by Moscow, with the escalating conflict intensifying Russia's collaboration with China. One noteworthy inference from the application of this model is that it also confirms that the prevailing worldview in Moscow does not see the EU as another pole in a multipolar world. The intense if not always salient nationalist predispositions among various EU member states that has become manifest particularly since Brexit implies that the EU never had this capacity. For example, U.S. hegemony is the framework which permits extended, institutionalized collaboration between Warsaw and Berlin (Zerofsky, 2023). The reassertion of conflict with Moscow indicates that Moscow's prevailing view infers a similar conclusion. In Moscow's view, European integration is significantly a project of U.S. hegemony. It as an elaborate system of institutions ultimately supporting U.S. hegemony in the form of American-led globalization in the European region.

A hedging strategy has been defined as a state's reaction to changing power distributions in international relations, located on a continuum between balancing and bandwagoning. It is a response to strategic ambiguity due to uncertainty regarding the foreign policy behavior implications of a shifting comparative power capabilities among states (Koga, 2018). The cognitive revolution in international relations theory emphasizes the recognition of bounded rationality in international relations theory (Herrmann 1988, Hafner-Burton, Hughes and Victor, 2013). Its relevance is evident in the impact of uncertainty regarding the further elaboration of this concept of hedging. Koga (2019) elaborates on sub-variations of hedging patterns of foreign policy behavior again reflecting the impact of uncertainty regarding various trends on current and future power balances. During the Trump administration, the willingness, ability or both of the EU to engage in hedging was not evident. Had Trump been re-elected in 2020, perhaps the ensuing crisis may have pushed the EU to develop a greater autonomous power capability. Such an outcome is a hypothetical scenario that is difficult to prove. The conclusions of this study include that as of 2023, the EU has not demonstrated the capacity to act as great power. To rephrase, it has not convincingly demonstrated the power capability, including the internal public opinion influence capacity, to establish its own foreign policy aims autonomously. Its high-level foreign policy aims remain constrained within parameters established by of the US, and the US interaction with other great powers, e.g., China and Russia. One high-profile attempt that the EU leadership made to oppose the US was in the lead up to the US-led invasion of Iraq in 2003, an attempt that abjectly failed.

A Path Forward

A détente strategy may manifest itself in a pattern of the EU balancing against the US and Russia by participating in China's Belt and Road Initiative. Concurrently, the EU can also demur from following the US lead should Washington favor Ukraine joining NATO. The EU can prepare for the need to promote a détente between the US, Russia and China. It needs to adopt a more autonomous role in relation to the US in order to shape US, Russian and Chinese political perceptual and attitudinal trends within these polities. China can potentially play a role in utilizing its diplomatic bargaining leverage to persuade Moscow to view the war in Ukraine as a hurting stalemate. The US and its allies would have to utilize their diplomatic bargaining leverage to bring around Kyiv to this point of view. In this scenario, the US and its allies will continue to pledge military support to Ukraine. Kyiv would perceive that the West providing sufficient resources for Kyiv to achieve its maximum objectives is not politically feasible as Russia mobilizes. Kyiv's prevailing view that Russia is politically vulnerable to state collapse would fade while Kyiv's expenditures in costs seem not to be providing more than a military stalemate.

In this scenario, the European Union will acquiesce to the US-led strategy. They will rationalize it by maintaining the alliance. Russia will more likely arrive at the hurting stalemate position as Russia integrates with Asia. The battle front becomes a ceasefire line and a de facto border to which China contributes peacekeeping monitoring forces through a UN Security Council authorization. Russia keeps the territory it occupies. Ukraine accedes to the EU and NATO, much like Cyprus did and Moldova will do with a so-called frozen conflict on its territory. Moscow has to come to conclude that gaining Odessa and linking with Transdnistria to a landlocked Ukraine is not achievable. Russia is also isolated from the West and throws in its globalization focus on Asia amidst the emerging Soviet 2.0 worldview of a conspiratorial Anglo-Saxon global system. In this stereotype, the latter currently utilizes economics and soft power to assimilate and subordinate Russia.

The UN Security Council is a twentieth century framework for the immediate postwar status quo institutionalization of a multipolar international system. Multipolar systems are more amenable than unipolar and bipolar systems for the adaptation by defensive national great powers to pursue "social creativity" strategies (Cottam and Cottam, 2001, 92-93; Evans, 2015, 404; Mazloomi et al., 2018). Social creativity involves reaffirmation of Self's status equality by pursuing alternative, substantive strategic

means of international status acquisition and recognition. Moscow has repeatedly reasserted its aim to establish a multipolar world system. It aims through cooperation with China functionally to bandwagon against the West until the purportedly expansionist United States is contained. Moscow articulated this approach in its most recent foreign policy strategy, portraying itself as a "self-reliant civilization state" ("Summary of Russian Press," 2023, para. 46). "In the 2023 concept, Russia, China, India and the United States are named 'sovereign centres of world development (read–- the poles of that same multipolarity)'" ("Russian Press Ponders," 2023, para. 19).

The EU should strive for international social creativity opportunities through promoting multipolarity. It will require elements of containment of the US. At least one EU member state major power leader is again calling for ending unanimity in favor qualified majority voting in the Council of the European Union for determining EU foreign policy positions (Kauffmann, 2023). This decision rule change would apply in deciding the EU's Common Foreign and Security Policy and on taxation policy. It would conceivably contribute to a positive trend in global perception of the increasing autonomous agency of the EU as an international actor. Greater taxation authority would presumably be useful for raising revenue to build more effective diplomatic bargaining leverage instruments, e.g., a European military arm. This same report highlights the skepticism of other EU member state leaders to the likelihood of such a consensus to change the rule ever emerging. Analogously, to increase the possibility of distancing the EU more effectively from the US in the view of Moscow and Beijing, the European Parliament should have the right to initiate legislation. At a minimum, these evolutionary policy developments would be incremental progress in the right direction of increasing global perception of EU autonomy vis-à-vis NATO.

The Russian conception of the world order that they advocate to the international community is, according to Russian Foreign Minister Sergei Lavrov, "a more just, polycentric world order based on international law and UN centrality" ("Foreign Minister Lavrov," 2023, para. 12). Other comments by Lavrov and other leaders, such as Dmitri Medvedev, together indicate a world order which the UN Charter articulated at the end of the Second World War. The UN Security Council would constitute a framework for institutionalizing the wartime alliance into a postwar institutional framework for a global concert of great powers. The permanent five members were formally equal in legal status with their respective veto power. Resuscitation of this framework would necessitate the rebuilding of Russian relative power capabilities through collaboration with China. The high-level tactical aim would be to redress the global diplomatic bargaining leverage which the US currently enjoys. In sum, Russia seeks to reestablish a comparative diplomatic bargaining leverage relative capacity comparable to that which the old Soviet Union enjoyed. The Soviet claim to global leadership of the anti-imperialist struggle again is a theme of Putin's leadership. Moscow seeks collaboration with China and India, as well as Iran and other states resistant to US efforts to contain Russian influence expansion. The US and its developed country allies/clients, i.e., the West, together constitute the "golden billion" that claims global hegemony ("Putin Outlines," 2022, paras. 10-11).

The desired future configured in Moscow's so-called sovereign centers strategy appears to be a recreation of the multipolar world order. In sum, it is an imitation of the so-called concert of Europe to a global stage. An enforcement of Chapter VII of the UN Charter with a focus on the UN Security Council system would be the institutional framework. This Russian, so-called sovereign centers strategy is apparently a containment-type strategy oriented towards the US as a perceived threat. The prevailing view in Moscow is that the EU is not an alternate pole in this system. In this worldview, the EU has evolved into an institutional framework for coordinating European resources in support of US centered aspirations towards global unipolarity (Meijer and Brooks, 2021). The EU is one part of one of the sovereign center/poles under the US hegemonic domination. Russia's hegemonic dominance would lie over the Orthodox Slavic world. Predispositions towards perceived threats from China over Russian influence in Central Asia have mitigation predispositions from the shared perceived threat from Washington in Beijing and Moscow.

Prescriptively, the EU would return to behavior today that parallels with that prevailing during the latter stages of the US-EU Cold War. The intensity of threat that the EU perceived from Moscow was significantly lower than the US prevailing view in the first term of the Reagan administration. The EU sought economic benefits from increasing trade with the Soviet Union. It led to the construction of the oil and gas pipelines from the USSR to Western Europe beginning in the 1960s that are particularly problematic since February 2022 (Shagina, 2021). The functional assumption was that Europe's expanding trade ties with the USSR would counteract tendencies towards a conflict spiral between the European Community and Moscow. This assumption appears to have been valid during the Soviet era.

Despite the reinvigoration of conflict between Moscow and Washington at the end of the 1970s, Moscow did not perceive a significant threat from Europe per se. On the one hand, in the early 1980s. the European Community did not oppose the US deployment of the Pershing II intermediate range ballistic missiles in Europe despite popular opposition (Panova, 2006). The west Europeans evaluated their US alliance as critically important for supporting intra-European cooperation. On the other hand, the integration of postwar West Germany into the European Community alleviated perception of threat despite modern German history (Pfennig, 2001). It was evidence supporting the functional prevailing view in Gorbachev's Moscow that the Cold War was a conflict spiral. In other words, it was based upon mutual misperception of threat, leading to Gorbachev's détente strategy towards the West. While visiting Moscow, US president Ronald Reagan in 1988 acknowledged that his 1983 depiction of the Soviet Union as an evil empire was no longer valid (Meisler, 1988, Balzacq and Jervis, 2004).

The prevailing view in Moscow of Ukraine as the scene of the source of derivative opportunity to counteract the overarching threat from Washington derives from the enemy image that prevails today. This threat is all-encompassing, and the nuclear setting incentivizes perceiving the threat indirect and informal as well as covert to some degree, involving a critical role for non-state actors, e.g., international NGOs. The Putin regime's prevailing view today as evolved to display a neo-Stalinist worldview of perceived threat from "the Anglo-Saxons" heretofore dominating the global political economy ("Lavrov," 2023, para. 3). It justifies the authoritarian control of the Russian polity in combination with appeals to authoritarian nationalism. These economic and cultural/civilizational ties and dependencies of Russia with the West have become part of the political threat from Washington. They supposedly help set the groundwork for so-called color revolutions. In this enemy stereotype-informed worldview, these color revolutions are the vehicle for neo-colonial subversion and subjugation. Ohanyan and Kopalyan (2022, 29) differentiate the popular instigation of the 2018 Armenian so-called "Velvet Revolution." They contrast it with research that highlights the leadership of "top-down by the political elites, or the externally funded NGO sector, as has been the case in post-Soviet color revolutions" (Ibid.). The Putin regime's politically prevailing view is that vulnerable domestic actors for collaboration with the external threat include the Westernized Russian bourgeoisie. Describing Western actors purportedly threatening Russia through Ukraine and elsewhere, Putin claimed that "'[t]hey will try to bet on the so-called fifth column, on national traitors, on those who earn money here, but live there'" […]"'And ''live'' not even in the geographical sense of the word, but in their thoughts, in their slave-like consciousness'" (Troianovski, 2022, para. 20). So-called oligarchs whose wealth and influence derives from direct participation and exploitation of international commercial and financial flows are particularly suspect.

Moscow made non-governmental organizations a legal target in 2006 following the Orange Revolution in Ukraine. Repression against them intensified concomitantly with the subsequent deterioration in US-Russia relations (Gilbert, 2020). Within Moscow's prevailing view, liberal political and economic constituencies have vested their interests in Western economic, political and cultural power centers. According to this enemy stereotype, they have become fifth column conduits for neo-colonial subversion and subordination of Russia. According to President Putin, a month after the start of the full-scale invasion:

"But any nation, and even more so the Russian people, will always be able to distinguish true patriots from scum and traitors and will simply spit them out like an insect in their mouth, spit them onto the pavement. I am convinced that a natural and necessary self-detoxification of society like this would strengthen our country, our solidarity and cohesion and our readiness to respond to any challenge."

"The so-called collective West and its fifth column are accustomed to measuring everything and everyone by their own standards. They believe that everything is for sale and everything can be bought, and therefore they think we will break down and back off. But they do not know our history and our people well enough" [*sic*] [emphasis BD] ("Putin Gives Speech on Ukraine, 2022, para. 53-54).

The more internationalist bourgeois constituencies within the Russian polity are, in this worldview, vulnerable to serving as de facto agents of informal, covert subversion serving Western power centers. Figure 1 below highlights that a nationalist is by definition relatively more prone to perceive foreign influence within his or her national polity as excessive, even intolerably so. The definition of the international environment will shape the consequent perception of allies and adversaries. For example, a postwar German nationalist in Bonn would likely view US influence favorably against threatening Soviet control, i.e., the enemy of one's enemy is one's friend. The current Russian nationalist prevailing view portrays the regional European international political economy as under US orchestration. Russian pro-Western bourgeoisie business orientation functionally serves as a vehicle for cooptation of the Russian polity into greater sensitivity and vulnerability to US diplomatic bargaining leverage. It serves functionally to incentivize the steady assimilational subjugation of the Russian polity to subservience to Washington. In this prevailing view in Moscow of the enemy stereotypical threat, this covert, informal form of US-led polity colonial targeting of Russia is the form of imperialism in the postwar nuclear setting. The imperial subjugation of Russia cannot occur through direct military conquest, but rather through targeting the broader Russian polity via Euro-Atlantic political economic assimilation. It reflects a reformatting and updating of the prevailing view within Stalinist Moscow. Putin has replaced it with a state-led corporatist pragmatic approach more similar in nature to the Chinese corporatist system that has emerged since the late 1970s.

"Figure 1 is an inclusive typology of the forms of imperial control that reflects the rise mass popular political awareness in the modern era incentivizing occupying powers to engage in what today is called neo-colonialism. It consists of informal, indirect control to obscure the foreign ultimate authority over local government policy as so perceived by local nationalists. Other constituencies, e.g., business classes, may not resist this foreign domination if they perceive the latter as protecting and promoting their economic interests. The traditional elite threatened by the radical pro-change nationalistic forces may also collaborate with the foreign imperial power. The latter is a colonizing power if the local nationalist citizenry views it as aiming to assimilate and erase the nationalist's primary, terminal self-identity community." (DeDominicis, 2023).

Figure 1: "Variance in Perceptions of Foreign Policy" From *Foreign Policy Motivation: A General Theory and a Case Study*, By Richard W. Cottam, © 1977. Reprinted By Permission of the University of Pittsburgh Press.
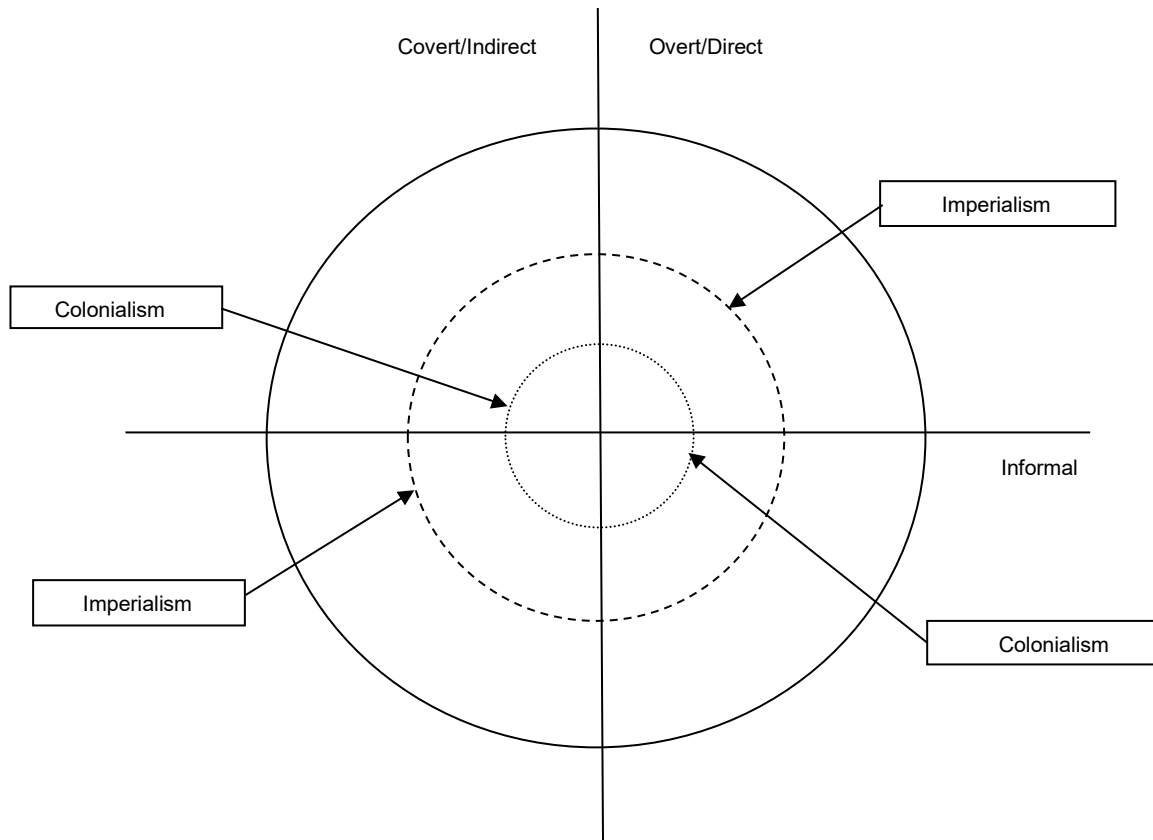
Figure 1 above is copied from the author's application of the theoretical framework of Cottam (1977) to the analysis of the impact of Soviet neo-colonial control of Bulgaria on the Bulgarian state evolution. It highlights that in the postwar era, imperial intervention is typically cloaked under a formal legal or informal covert format to lessen the public profile of the foreign locus of control over local policy, thereby reducing costly indigenous resistance to the imperial power. Eastern European autarkic economic policy orientations reached their peak in the Stalinist period, as Moscow's rejection of Marshall Plan aid highlighted (Lazor and Morawski, 2014). Putin's regime espoused a parallel view of the roots of European integration serving a US hegemonic framework through the Marshall Plan ("Programme Summary," 6/2023, paras. 21-25).

Youth groups whom the Moscow authorities stereotypically perceive as vulnerable to Western consumerist offerings and lifestyle trends are also suspect as channels for subversion of the polity. The Russian Education and Science Ministry directed that "Soviet-style compulsory military training courses and patriotic education were to be reintroduced to Russian universities" in 2023 ("Russian Universities," 2023). Universities are to generate curricula that will achieve "universal competence in countering extremism, terrorism and corrupt behaviour" [*sic*] (Ibid.).The Ukraine conflict became the crisis inflection point for the Kremlin to break off the Russian polity from these alleged subversion channels and threats.

The self-servingly perceived alliance with the Chinese authorities stems partly from the inference that a similar worldview prevails in Beijing. The latter heretofore had effectively exploited the national economic development opportunities that globalization provided to China. Beijing had perceived a derivative opportunity to exploit the latter stage of the US-Soviet Cold War which re-intensified in the latter half of the Carter administration. Bureaucratic inertia continued to allow Beijing to partner with the so-called developed countries in regulating globalization. The September 11, 2001, attacks led to US Middle East interventions in response to them. These military occupations of Iraq and Afghanistan continued into the so-called Arab Spring regime challenges. They continued to distract Washington from intensifying its international influence competition with China even as rhetoric in the Obama administration included the

so-called pivot to Asia. The disruption of Donald J. Trump's election and interference in alliances continued to divert US attention from Beijing. The focus continued towards Russia as the Mueller investigation into allegations of collusion between the Trump campaign in the lead-up to the 2016 US presidential election epitomized. Partly for domestic political electoral considerations, the Trump administration placed high-profile trade sanctions on China in January 2018 which the Biden administration has not reversed.

CONCLUDING REMARKS

This paper has attempted to outline the prevailing views in Moscow, Brussels and Washington regarding so-called globalization's role in the Russo-Ukraine War. It highlighted the indirect nature of political competition and competitive political interference in third actors due to the imperatives of the nuclear setting. It illustrates that the European Union has not persuasively demonstrated its capacity to occupy a convincing balancer role in a multipolar international political system. Moscow's prevailing view is that it rather appears to function as a coordination mechanism supporting US global hegemony. Putin's Russia has consequently allied the Beijing to counter the diplomatic bargaining advantage of the so-called West. The latter seeks functionally to ally with Ukrainian nationalism against Russian irredentism.

The EU ideally should overcome US resistance and agree to the deployment of peacekeeping forces including Chinese forces along with ceasefire line in Ukraine. The remaining part of sovereign Ukraine should gain entry into NATO and the EU. Ukraine and Russia should integrate into the Chinese Belt and Road initiative. The main obstacle to this strategy for a durable ceasefire would likely be the US. This formula for a test would be part of a larger ceasefire strategy that included utilization of the UN Security Council institutional setting to include China in its implementation. Again, the main challenge here is the US; Washington appears resistant to accept China's role as a formal party in European security arrangements. Kyiv's de facto acceptance of the partition of the 1991 territorial borders of Ukraine would be politically very difficult to make de jure. It would mean that Crimea as well as currently Russian-occupied areas of Ukraine remain on the Moscow-controlled side of the demilitarized zone (DMZ). Chinese use of its economic and military diplomatic bargaining leverage to maintain the ceasefire would require cooperation by Brussels and Washington.

In return for this acquiescence, social creativity side payments to Ukraine would include accession to NATO and the EU. The accession of Cyprus to the EU with one-third of its territory under Turkish occupation since 1974 established a legal precedent. China would also employ its formidable economic resources to leverage Moscow to accept the status quo. Moscow is likely to remain frozen out of Euro-Atlantic trade and financial flows for the foreseeable future; China would be Moscow's lifeline for international trade and development. Integration of Ukraine as well into Beijing's Belt and Road Initiative would also be a source of leverage over Kyiv as it rebuilds from war devastation. Brussels and Washington's perception that China maintains its commitment to support the existing international institutional political economic order is necessary for this formula to be politically plausible. Formal recognition Moscow's annexation of the territory it currently controls in Donetsk, Luhansk, Zaporizhzhia, Kherson and Crimea is implausible, as is Ukraine having officially neutral status. This analysis implies that a durable ceasefire requires concrete security guarantees that an international peacekeeping force including Chinese components would be a condition. Western support for NATO-EU Ukrainian accession would require that Ukraine accept the ceasefire line as a de facto international border, analogous to the demilitarized zone in Korea. The institutionalization of Moscow's de facto recognition of the demilitarized zone would rely upon Chinese diplomatic bargaining leverage. China remains a necessary economic and security ally for Moscow. For Washington to accept China's role in this regard, Washington's prevailing view would necessarily be that China is a status quo power, i.e., that China does not intend to supplant US hegemony.

The EU could play an active role in shaping critical US constituency views regarding Chinese ultimate foreign policy intentions. As indicated above, at least the prevailing 2022 view in Paris appears to reflect

this estimation of Chinese foreign policy motivation being ultimately defensive. This view is apparently not shared in other EU capitals, e.g., in Vilnius. The theoretical framework of this analysis points towards Vilnius' perception of threat from China inferentially stemming from Lithuania's perception of threat from Moscow. In Vilnius' prevailing world view, Beijing presumably enables a threatening Russia through its ongoing economic trade with Russia.

Should Trump win re-election in 2024, a test of the capability of the EU to develop so-called strategic autonomy will present itself. This framework implies that the EU's eastern European states will not permit the development of an EU strategic autonomy that is vulnerable to potential suspicions that may emerge in Washington. Specifically, they would oppose Chinese influence if the US views it as a zero-sum competitive challenge to US influence. NATO represents the institutionalization of US primacy, so the development of the EU's capacity will risk provoking in Washington that EU strategic autonomy threatens to undermine NATO.

Rather than permit distancing their own distancing from Washington's security guarantees, the EU's Eastern European states would likely respond. Should NATO disintegrate under a new Trump or neo-Trump US administration, they would counter by seeking bilateral security agreements with Washington. This security architecture would resemble the so-called hub-and-spokes framework of bilateral security alliances between Washington and its East Asian allies. This projection assumes that the East European EU member state capitals would not place their primary security arrangements in security guarantees that Paris and Berlin would provide. Escalating conflicts between Brussels on the one hand, and Warsaw and Budapest on the other hand, appear to confirm this inference.

The EU is unlikely to move to qualified majority voting to decide the EU's Common Foreign and Security Policy. Paris' rhetorical quest for EU strategic autonomy is likely to remain a chimera unless the US withdraws from Europe. Should Trump win re-election in 2024, Warsaw's renewed appeals to American nationalism would include strengthening Poland's function as a base for US unilateral action in the region. In sum, a Trump administration would more likely adopt a US foreign basing strategy more like the format it has established in the Middle East as well as East Asia. Bilateralism, i.e., the hub-and-spoke arrangement between the US and its East Asian allies, would prevail, with multilateralism, of either a NATO or EU variant, undergoing marginalization. The other scenario route of institutionalizing and expanding Euro-Atlantic hegemony to all the Council of Europe area minus Moscow and Minsk is the likely fallback. It is France's advocacy of the so-called European Political Community. To rephrase, it appears to default to institutionalize the pursuit of what Moscow suspects has long been the functional strategic aim of Euro-Atlantic integration. In sum, it involves incentivizing long term self-activated regime change in Moscow without direct military intervention.

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BIOGRAPHY

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COVID-19 FISCAL STIMULUS AND POST-PANDEMIC GROWTH OF INCOME AND EMPLOYMENT IN THE UNITED STATES

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ABSTRACT

The COVID-19 Pandemic compelled a large segment of the population to be confined to their homes for more than a year. As a result, the unemployment rate went up significantly affecting those below the median income level more than the population above the median income level. To minimize the negative effects of the Pandemic, the U.S. government provided $5.6 Trillion in several stimulus packages. In this paper, we analyze the impact of the COVID-19 fiscal stimulus on the employment and income of the lowest quintile of income earners. Three conclusions emerge from our analysis. First, contrary to many predictions, the U.S. economy recovered from the COVI-19 Pandemic-induced recession in a short period of time. Secondly, the Pandemic relief programs targeted to low- and medium-income population helped reduce the income inequality of the lowest 20 per cent of the population. Thirdly, the impact of total COVID-19 funding to the States enhanced the growth of employment while some states grew at a higher rate than the national average growth rate due to the unique industrial structures and the enhanced efforts of these states in attracting jobs.

JEL: E62, E65, G18

KEYWORDS: COVID-19, Fiscal Stimulus, Income Inequality, GDP Growth, Employment Growth

INTRODUCTION

On January 9, 2020, The World Health Organization (WHO) announced "a Mysterious Coronavirus-Related Pneumonia in Wuhan, China" which later became known as the Coronavirus Disease 19 or COVID-19 caused by Serious Acute Respiratory Syndrome or SARS-CoV2 virus. On January 21, 2020, the Centers for Disease Control (CDC) confirmed the first known case of COVID-19 in the U.S., still known as 2019 novel Coronavirus. The COVID-19 virus progressed fast and affected many countries of the world leading the WHO to declare it a "Global Health Emergency" on January 31, 2020. On March 11, 2020, the WHO declared COVID-19 a Pandemic (https://www.ajmc.com/view/a-timeline-of-covid19-developments-in-2020). On March 13, 2020, United States declared COVID-19 a National Emergency.

The COVID-19 Pandemic resulted in shutting down many sectors of the economy, thereby creating an unequal burden on the working-class population. March-April 2020 may be regarded as the high point of the Pandemic when most regions of the country and major industries suffered employment loss. By the end of April 2020, the unemployment rate went up to 14.7%. The Bureau of Labor Statistics reported "The unemployment rate in April 2020 increased by 10.3 percentage points to 14.7 percent. This is the highest rate and the largest over-the-month increase in the history of the data (available back to January 1948)." (https://www.bls.gov/opub/ted/2020/unemployment-rate-rises-to-record-high-14-point-7-percent-in-april-2020.htm)A large segment of the U.S. population gradually adapted to remote work and the unemployment rate started to go down; however, the overall unemployment rate remained at an elevated level of 6.3% in January 2021 (https://www.bls.gov/news.release/archives/empsit_02052021.pdf). According to the Bureau

of Economic Analysis, "Measured from the fourth quarter of 2019 to the fourth quarter of 2020, real GDP decreased 2.4 percent during the period (https://www.bea.gov/sites/default/files/2021-02/gdp4q20_2nd.pdf). The decline of the Real GDP and loss of employment affected the younger segment of the population with lower educational and technical skills, women workers, and ethnic groups more than the educated and skilled workers. In the early months of the Pandemic, unemployment was concentrated in industries that provide in-person services such as leisure and hospitality industry and health care services. A CNBC report dated May 8, 2020 stated that in April 2020, the leisure and hospitality industry lost 47 per cent of total positions (https://www.cnbc.com/2020/05/08/these-industries-suffered-the-biggest-job-losses-in-april-2020.html).

The government's policy measures to deal with the Pandemic were influenced by two specific goals: to reduce income inequality, particularly for the bottom 20 percent of the population, and to reduce the poverty rate. The purpose of this paper is to analyze the impacts of the fiscal policies pursued by the government during the Pandemic in reducing income inequality and increasing employment growth. The paper is organized into four main sections: literature review, a brief description of the stimulus package, effect of fiscal stimulus on income distribution and effect of fiscal stimulus aid to states on employment. Sources of data have been cited in each statistical analysis. The analysis and results derived are based on the author's own work. The paper makes important contributions to the body of knowledge on fiscal incentives, especially when such incentives are designed to improve income distribution and enhance employment growth. The remainder of the paper is organized as follows: The following section provides a literature review and some background information. The paper proceeds by discussing the data and methodology used in the analysis. Analysis is included in the results section. The paper closes with some concluding comments and suggestions for future research.

LITERATURE REVIEW AND BACKGROUND

Fiscal stimulus policies pursued by many nations during recessionary times predate the COVID-19 Pandemic. The economic principle guiding the stimulus package owes its origin to the works of John Maynard Keynes (Keynes,1933, 1936). The economy of the United States and many economies of the world suffered greatly during the Great Depression, which lasted in the United States for more than decade from 1929 to 1941. The epoch-making book of Keynes "The General Theory of Employment, Interest and Money" was published in 1936 but his ideas were influenced by the events of the Great Depression. In December 1933, Keynes published "An Open Letter to President Roosevelt" in which he argued, "public authority must be called in aid to create additional current incomes through the expenditure of borrowed or printed money" (http://www.la.utexas.edu/users/hcleaver/368/368KeynesOpenLetFDRtable.pdf). President Roosevelt restored to deficit financing for many of his New Deal provisions.

The fiscal stimulus packages have been generally successful in recovering from recent recessions. As Figure 1 shows, real GDP had declined during the past two recessions, namely the Great Recession of 2008 and the COVID-19 Pandemic. Congress enacted aid packages or fiscal stimulus packages of various types during both of these recessions, which resulted in the positive growth of real GDP. As described later, due to the severity of the COVID-19 Pandemic, the stimulus packages were significantly larger both in financial terms and in scope. As a result, the recession due to the COVID-19 Pandemic was significantly shorter, lasting only two quarters.

Figure 1: Annual Growth of Real GDP: 2007-2022
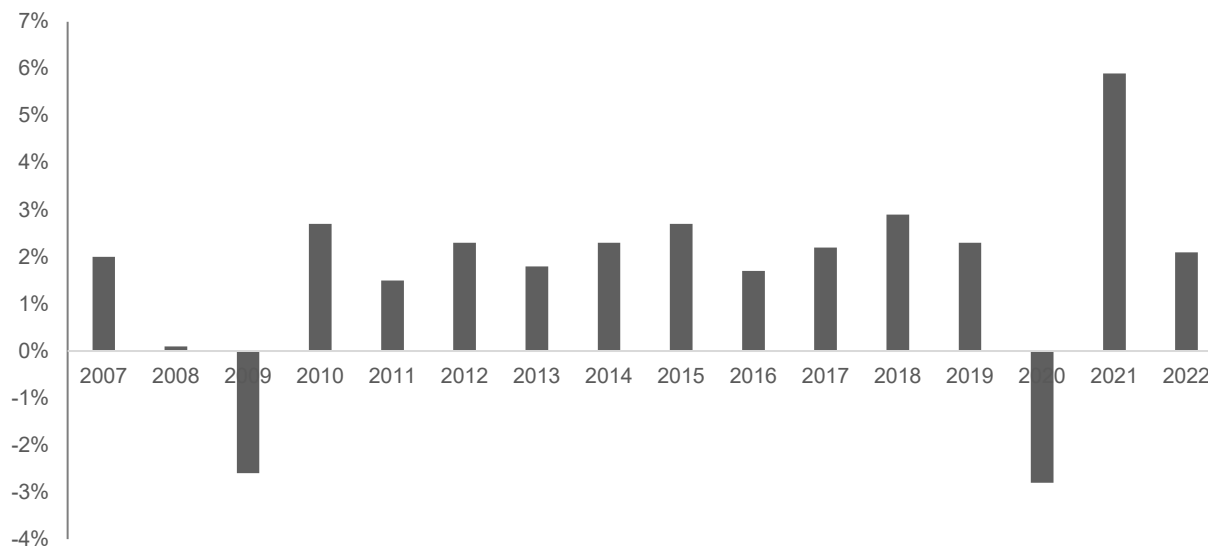
Source: https://www.statista.com/statistics/188165/annual-gdp-growth-of-the-united-states-since-1990/.Note: Data were included for the period from 2007 to 2022 from the above source.

During the Great Recession of 2008 which began in December 2007 and lasted until June 2009, various types of fiscal stimulus were provided by various nations depending on the severity and the timing of the recessions. Even though economists expressed different views on increased government spending by borrowing (Seidman, 2012), many countries including the United States have provided fiscal stimulus during recessionary times. In February 2008, at the beginning of the Great Recession, the U.S.

Congress passed the Economic Stimulus Act of 2008, which, among other provisions provided tax relief of up to $1,200.00 (https://www.congress.gov/bill/110th-congress/house-bill/5140) to eligible tax payers. The total cost of the Bill was $152 Billion. During the same year, the U.S. Congress enacted another fiscal stimulus package known as Troubled Asset Relief program (TARP) "to purchase, and to make and fund commitments to purchase, troubled assets from any financial institution" (https://www.govinfo.gov/content/pkg/BILLS-110hr1424enr/pdf/BILLS-110hr1424enr.pdf). The TARP was an innovative investment program where the government salvaged several big companies by buying their non-profitable or troubled assets and later recouping the fund by selling those assets back. The TARP program continued until mid-December 2014 with a total investment of $426.4 Billion. At the end of the investment program, the U.S. Government through the Treasury Department earned $441.7 Billion by selling those assets back, booking a profit of $15.3 Billion (https://en.wikipedia.org/wiki/Troubled_Asset_Relief_Program).

Fiscal stimulus provided during the COVID-19 Pandemic surpassed any such campaign in terms of total funding approved by the Congress in six legislative Acts. The government's early policy measures to ease the Pandemic crisis and to provide financial support to the low-income population included the following campaigns: three vaccines authorized for Emergency Use; aggressive vaccination campaign; stimulus package to boost demand and targeted support for low-income workers.

The fiscal policies for addressing the Pandemic, namely, stimulus package to boost demand, and targeted support for low-income workers constituted the highest fiscal measures adopted by the U.S. Government. Six fiscal stimulus packages dating back to March 6, 2020, pumped nearly $5.6 Trillion into U.S. Economy. The impact of these stimulus packages has been unequal among population groups (Lohbosko and Luhby,

2021). The following is a brief overview of the fiscal measures which dates back to the period before the WHO declared COVID-19 as a global Pandemic on March 11, 2020.

Table 1: COVID Pandemic Stimulus and Funding Levels

Stimulus	Date	Funding
Stimulus One: Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (Also known as Phase One)	March 6, 2020	Total funding for this stimulus package was $8.38 Billion. Main provisions included research for a vaccine; aid to State and Local Governments and preventing the spread of the disease.
Stimulus Two: Families First Coronavirus Response Act (Also known as Phase Two)	March 18, 2020	Total funding for this stimulus package was $3.4 Billion. Main provisions included school lunches in lieu of School Closures; sick leave for companies employing less than 500 employees; $1 Billion for unemployment insurance and free COVID-19 test
Stimulus Three: Coronavirus Aid, Relief, and Economic Security Act (The CARES Act)	March 27, 2020	Total funding for this stimulus package was: $2.3 Trillion – largest stimulus package. Main provisions included; one-time, direct cash payment of $1,200 per person, plus $500 per child, additional $600 of unemployment per week until July 31, 2020; $500 billion in government lending to companies affected by the Pandemic; $367 billion in loans and grants to small businesses via Paycheck Protection Program (PPP) and expanded Economic Injury Disaster Loan (EIDL) program; $60 billion for schools and universities; $130 billion for hospitals and health care providers and $150 billion in grants to state and local governments.
Stimulus 3.5: Paycheck Protection Program Flexibility Act, 2020	April 24, 2020 Modified June 5, 2020	Total funding for this stimulus package was $484 Billion. Main provisions included 24 weeks for business to spend aid (up from 8 weeks); Allowed businesses that received PPP loans to delay paying payroll taxes and Increased loan maturity of PPP loans to five years.
Stimulus Four: Stimulus and Relief Bill, attached to the main Omnibus Budget Bill.	December 27, 2020	Total funding for this stimulus package was $900 Billion. Main provisions included direct payments of $600 per person, 16 and younger; individual Income of $75,000 or less per year and eleven weeks of expanded unemployment benefits starting on Dec. 27, 2020
Stimulus Five: Stimulus and Relief Bill, attached to the main Omnibus Budget Bill.	March 11, 2021	Total funding for this stimulus package was $1.9 Trillion, Second Largest Stimulus Package. Main provisions included direct cash payments of up to $1,400 for individuals earning less than $75,000 a year, plus $1,400 per dependent. The amount of the payment decreases for people with income over $75,000, phasing out completely for individuals with an income of $100,000 a year. Increase maximum annual Child Tax Credit from $2,000 a child to $3,000 per child ages 6 to 17, and $3,600 for each child under the age of 6. Immediate effect but phases out more than $150,00 joint or more than $112,500 head of household, $300 a week in expanded unemployment insurance through Sept. 6, 2021, $130 billion in funding for K–12 schools and $25 billion for SBA to make grants for "restaurants and other food and drinking establishments."

This table shows COVID pandemic relief measures along with associated funding.

Effects Of Fiscal Stimulus and Expected Growth of the Economy

Spanning over more than a year, the COVID-19 Pandemic disrupted production by shutting down the supply chains. The Pandemic also reduced aggregate demand since a large segment of the population did not have the pre-Pandemic purchasing power. The fiscal incentives described above seemed to boost demand. However, the high influx of financial support also led to a high inflation rate. Naturally therefore,

a question loomed large: will the temporary supply-shock inflation halt permanent recovery? The massive fiscal stimulus provided by the government was not seen favorably by many economists and research institutions. The Federal Open Market Committee (FOMC), International Monetary Fund (IMF), Congressional Budget Office (CBO), Blue Chip and Organization for Economic Development and Cooperation (OECD), all predicted a slower GDP growth rate and a longer time for recovery after the Pandemic (Furman, 2022). However, as shown in Figure 2, the actual GDP growth immediately following the COVID-19 year (2020) surpassed all predictions. At the peak of the Pandemic, real GDP had declined in only two consecutive quarters, quarter 1 and quarter 2 of 2020.

Figure 2: Quarterly Real GDP Growth Rate (%), 2019-2021
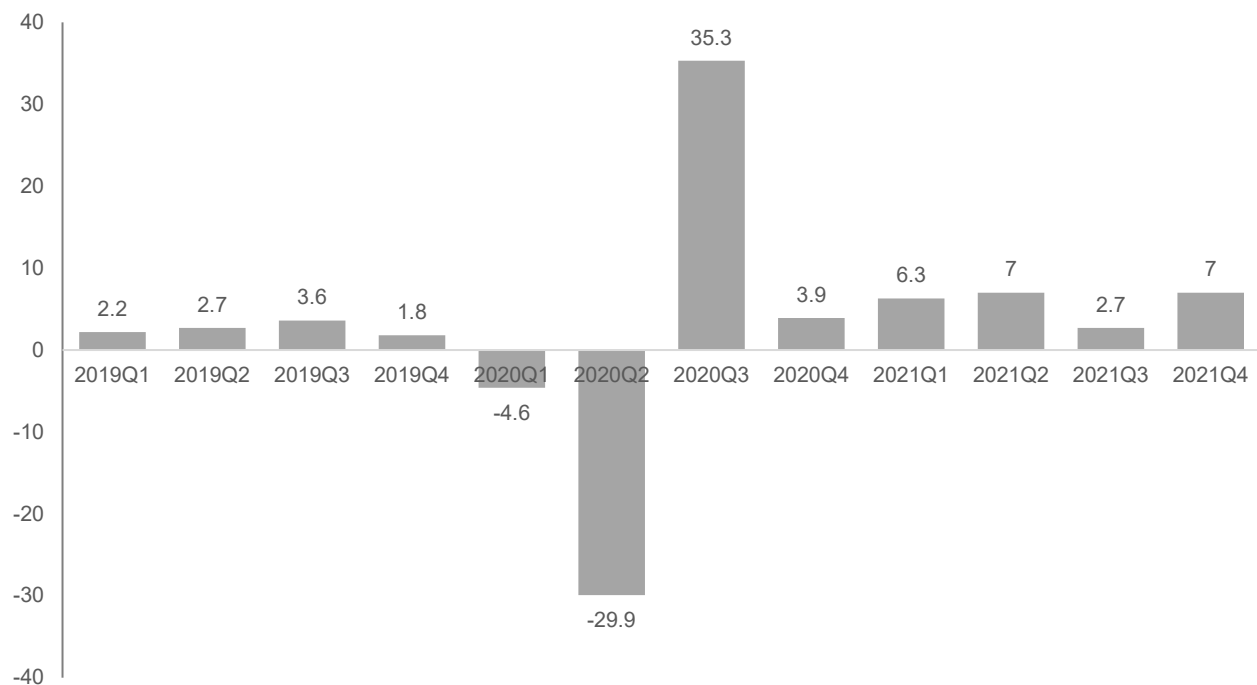
Legend: Horizontal axis: Quarter 1 2019 to Quarter 4, 2021. Vertical axis: Per cent growth rate. Source: https://www.statista.com/statistics/188185/percent-change-from-preceding-period-in-real-gdp-in-the-us/
Note: Data included are from Quarter 1, 2019 to Quarter 4, 2021.

Fiscal Stimulus and Income Inequality

Income inequality has persisted in our society for a long period of time for various reasons (Deaton, 2013). As Figure 3 shows, the share of income received by the lowest 20 per cent income earners or (lowest quintile) has remained flat from 1971 to 2021. A moderate growth is noted for the second and third quintile of income earners, but the income received by the top 20 per cent or the fifth quintile of income earners have risen much faster.

Figure 3: Mean Income (Current Dollars) by Quintile: 1971-2021
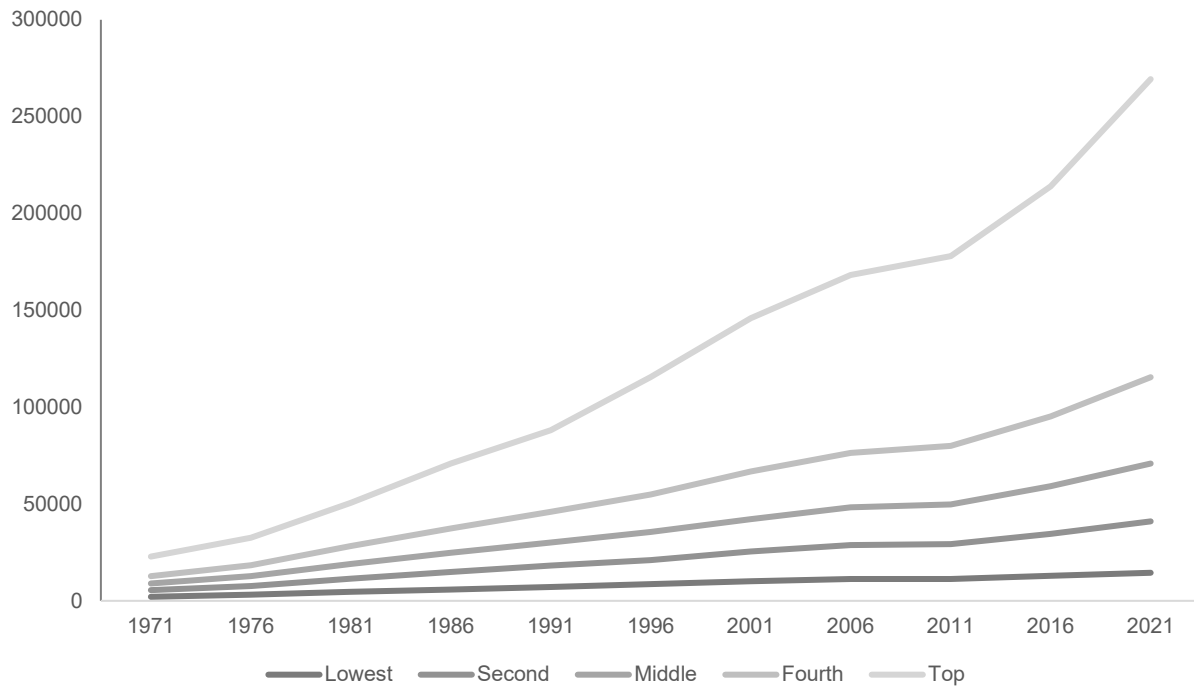
Source: https://www.taxpolicycenter.org/statistics/household-income-quintiles   Note: Income distribution is shown for five -year interval from 1971 to 2021. Distribution of income is shown by progressively higher trend lines from the bottom 20 per cent of income earners or the lowest quintile to the top 20 percent of income earners or the highest quintile.

In a seminal paper titled "Inequality in the Time of COVID-19", Ferreira (2021) observed "Inequality is a notoriously challenging concept on which to make definitive statements." Ferreira further observed, "With both extreme poverty and billionaire wealth on the rise, the pandemic's effect on inequality may appear obvious". This observation is borne out in Figure 4 The Gini Index is a generally accepted measure of determining overall inequality of income distribution in a society. As Figure 3 shows, the U.S. Gini Index varied between .46 to .49 during the period 2000-2021. The index was fairly stable at .48 for a relatively long period of time from 2011 to 2016. The Index went up to .49 in 2020, which validates Ferreira's observation of a rise in Billionaire wealth. However, the policy measures adopted by the U.S. government in providing targeted fiscal assistance through the Fiscal Stimulus packages to the low-income population appears to have a positive impact as seen by the Gini index being constant at .49 during 2020-2021.

Figure 4: Gini Index, 2000-2021

Source: https://www.statista.com/statistics/219643/gini-coefficient-for-us-individuals-families-and-households/
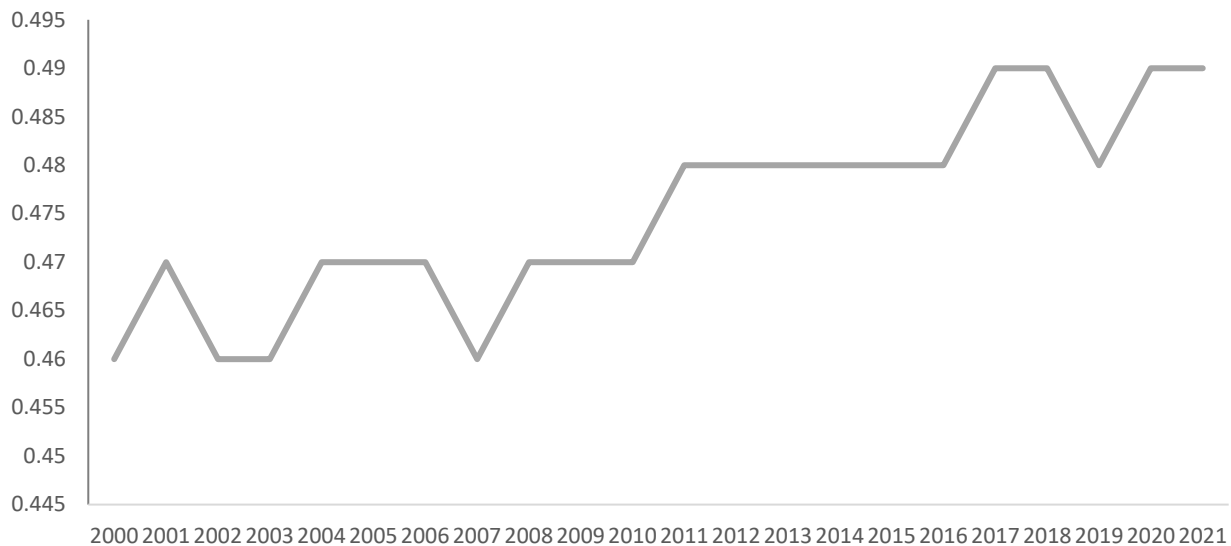
A second measure of reduction of income inequality through Fiscal Stimulus packages is noted in the distribution of income by quintiles of U.S. population. Table 2 shows the share of aggregate income received by the bottom four quintiles increased in 2020 compared to 2019. Historically, the lowest income quintile has performed at or near 3.5 percent of aggregate income. Compared to 2019, the share of aggregate income of this group increased by 10.52 per cent, the highest increase among all five quintiles.

Table 2: Share of Income Received by Quintiles of Population During 2019-2020

Post-tax Income By Quintile*	% Share of Aggregate income 2019	% Share of Aggregate Income 2020	% Change 2019-2020
0-20	3.8	4.2	10.52
20-40	9.5	9.9	4.21
40-60	15.2	15.5	1.97
60-80	23.2	23.4	0.86
80-100	48.2	47.1	-2.28

Includes income from COVID-19 Relief Program   Source: https://www2.deloitte.com/xe/en/insights/economy/issues-by-the-numbers/covid-impact-on-income-inequality.html

Post-Pandemic Employment Growth

According to the U.S. Bureau of Labor Statistics the Civilian Unemployment Rate peaked at 14.7 percent in April 2020 (https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm). Attributed to a number of targeted fiscal stimulus programs such as the Federal Pandemic Unemployment Compensation, Pandemic Emergency Unemployment Compensation, Pandemic Unemployment Assistance, Other Emergency Unemployment Funding and the Payroll Protection Plan (PPP), significant employment opportunities were created for communities based on their unique industrial mix. Consequently, the unemployment rate gradually started to go down reaching its current level of 3.7 percent as of May 2023.

DATA AND METHODOLOGY

Data analyzed in this study have been drawn from government publications including the Bureau of Labor Statistics and the Bureau of Economic Analysis, and private research organizations such as the Peter G. Peterson Foundation, Statista, and Deloitte insights. All sources have been cited at appropriate places.

As stated earlier, one of the objectives of this paper is to analyze the impact of COVID-19 fiscal stimulus to employment growth. The economy of the United States is diverse, and the growth of employment occurs in various economic sectors in response to local and state initiatives. The Bureau of Labor Statistics (BLS) of the U.S. Department of Labor collects and disseminates employment statistics on a regular basis. There are several formats in which the BLS disseminates employment and unemployment statistics including the growth of jobs in the 50 states and the District of Columbia. Employment and unemployment statistics are also disseminated by several research organizations, which are referenced below as sources of data.

With a view to analyzing the growth of employment generated by the COVID-19 "State by State Funding for Major Coronavirus Programs", the Shift Share model of employment growth was used to gage the impact of COVID-19 Economic Relief provided to the 50 states and the District of Columbia. As Buck (1970) explains, the Shift Share technique is an appropriate approach to decomposing the growth of employment occurring in a region due to three factors: national growth (NG), the unique industrial composition of a region or the industrial mix (IM) and the local competitiveness of a region, or competitive share in attracting jobs (CS). There are three components of employment growth: growth due to national employment growth, growth due to the unique industrial structure of a region, and growth due to the ability of a region in attracting employment. In this study, the "region" or the unit of analysis is the State (50 States and the District of Columbia). Knudsen (2000) and Mondal (2002-03) extended the model to analyzing regional employment growth by decomposing the total employment gain in a defined region. Hustedde, Shaffer and Pulver (1984) provide a step-by-step measure of decomposing the employment growth into national growth, industrial mix and competitive share components. The following illustrated definition of the Shift Share model is adapted from Mondal (2009):

"$SS + NG + IM + CS$ (1)

Where,

SS = Shift Share
NG = National Growth
IM = Industrials Mix
CS = Competitive Share.

and

$NG = \sum[(E_{oi})\delta]$
E_{oi} = Base year local (state) employment in sector i. i=1,2...k (number of sectors)
δ = National average employment growth rate.
$IM = \sum[(E_{oi})(\Omega_i - \delta]$
Ω_i = National employment growth rate in sector i.
$CS = \sum[(E_{oi})(\Omega_i - \beta_i]$
β_i = local employment growth rate in sector i."
The above definition of the Shift-Share model indicates that in a given year, employment growth in some States would exceed national average employment growth than some other States because of the unique industrial composition and the ability of those states in attracting employment. Using employment data available from the Bureau of Labor Statistics (BLS), we have analyzed the impact of COVID-19 funding

to States on the growth of nonfarm employment. According to the BLS data updated as of June 17, 2023, nonfarm employment in the United States grew by 2.6 percent from May 2022 to May 2023, (https://www.bls.gov/web/laus/statewide_otm_oty_change.htm).

During the same period, nonfarm employment in the following 16 states grew at a rate equal to or higher than the national average employment rate: Arkansas, Delaware, Florida, Hawaii, Idaho, Indiana, Kentucky, Massachusetts, Nevada, New Hampshire, New Mexico, Oregon, South Carolina, Texas, Utah and West Virginia.

Since the objective of this paper is to examine the impact of COVID-19 targeted funding on employment growth rate, we analyzed the impact of such funding by framing the following hypothesis:

H_o: COVID-19 Relief Fund distributed to the States increased employment growth rate

Using the Bureau of Labor Statistics data (https://www.bls.gov/web/laus/statewide_otm_oty_change.htm) for statewide employment growth and the comparable data published by Peter G. Peterson Foundation (https://www.pgpf.org/understanding-the-coronavirus-crisis/coronavirus-funding-state-by-state), we ran a Regression with the following specification:

$$EG = \alpha + \beta_1 \, COVID + \beta_2 \, Dummy$$

Where:

EG equals the growth rate of total employment of 50 States and the District of Columbia from May 2022 to May 2023,

COVID is the Coronavirus Relief Fund Spent by the 50 states and the District of Columbia in 2022

DUMMY is a dichotomous or dummy variable, which is equal to 1 if the employment growth rate in a state equals or higher than 2.6 per cent and 0 otherwise.

RESULTS OF REGRESSION ANALYSIS

The a priori expectation for H_o is both β_1 and β_2 will be positive. The statistically significant and positive sign for β_1 will indicate COVID-19 Relief Fund spent by respective states increased employment growth, and the statistically significant and positive sign of β_2 will indicate employment in some states grew at a higher rate than the national average employment growth rate due to unique industrial mix and the enhanced efforts of those states in attracting jobs.

Table 3 shows the regression results. The results confirm that the Coronavirus funding to the states and the District of Columbia contributed to employment growth. Further, consistent with the Shift Share model, 16 states posted higher than national average employment growth rate due to the unique industrial mix and the competitive advantage in attracting jobs.

Table 3: Regression Statistics

	Coefficient	Standard Error	t-Stat
Intercept	1.746	0.119	14.714
COVID	1.810	0.840	2.154*
Dummy	1.146	0.180	6.361**

This table shows regression results. $R^2 = 0.478$, N = 51 (50 states and the District of Columbia), *Significant at .05 **Significant at .01. Source of data for Regression: Employment data: https://www.bls.gov/news.release/laus.nr0.htm Note: data used was for the period following the COVID-19 year, 2021-22. COVID-19 Funding data: https://www.pgpf.org/understanding-the-coronavirus-crisis/coronavirus-funding-state-by-state

CONCLUDING COMMENTS

The U.S. government spent approximately 5.6 trillion dollars in fiscal stimulus to deal with the COVID-19 pandemic. A significant part of various stimulus programs was targeted toward the low-income population for boosting demand and for generating employment growth opportunities. In this study, we briefly described the fiscal stimulus packages starting on March 6, 2020, and continuing until March 11, 2021. Three conclusions emerge from our analysis. First, contrary to many predictions, the U.S. economy recovered from the COVI-19 Pandemic-induced recession in a short period of time. Secondly, the Corona Virus Pandemic relief programs targeted to low- and medium-income population helped reduce the income inequality of the lowest 20 per cent of the population by 10.53 per cent. Thirdly, a Regression analysis conducted on the impact of total COVID-19 funding on employment growth in each of the 50 States and the District of Columbia shows there is a statistically significant positive relationship between the COVID-19 funding and employment growth. These conclusions contribute to the body of knowledge on fiscal stimulus provided during a Pandemic.

In this paper, we analyzed the impact of COVID-19 stimulus packages on income distribution and employment growth. Our analysis was focused on a relatively short period of time; from the onset of COVID-19 Pandemic in March 2020 to May 2022. Income inequality is a complex issue, and even though our findings lead to the conclusion that the conscious policy decisions of the government, particularly the fiscal policies helped reduce income inequality during and immediately after the Pandemic, such an analysis covering a longer time period may shed more light on the income inequality issue. Secondly, we used the Shift Share model with a view to decompose employment growth; however, conclusions were derived from the Competitive Share component only. A future study on the employment growth pattern of the United States using state data is recommended for a deeper understanding of the employment growth issue.

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RESIDENTIAL MORTGAGE-BACKED LOAN SECURITIZATION: BREACH OF CONTRACT EVIDENCE

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ABSTRACT

A financial company's failure to fulfill its obligations related to the securitization of around 6,000 residential mortgage loans sold to a Trust for more than one billion dollars resulted in a breach of contract. The financial company had made several commitments regarding the accuracy of the information given to borrowers, including promises to rectify any non-conformance or repurchase defective Mortgage Loans. It had also guaranteed that it would notify the Trust of any breaches it discovered. An investigation of the Mortgage Loans found that at least 3,000 did not conform to the Mortgage Representations, impacting their value. Additionally, around 2,500 Mortgage Loan Files were unreviewable due to missing documentation. The Trustee informed the financial company about the breaches and demanded that they be remedied, but the company failed to cure any breaches, provide any missing files, or repurchase any defective loan. As a result, the Trust suffered a loss of about half a billion dollars, indicating that the financial company had no intention of complying with its contractual obligations. Therefore, the Trustee must be reimbursed for the losses incurred.

JEL: K10, K12

KEYWORDS: Loan securitization, Residential Mortgage Back Security (RMBS), Breach of Contract

INTRODUCTION

An action for breach of contract was taken against an Investment Company for failure to comply with its contractual obligations associated with around 6,000 residential mortgage loans that the Financial Company purchased and later on sold to a Trust Company of more than a billion dollars. The mortgage loans were securitized through the issuance of Certificates commonly known as Residential Mortgage-Backed Securities (RMBS). In connection with the sale of the Mortgage Loans, the Financial Company made numerous representations and guaranties concerning the integrity of the information provided, the underwriting standards employed, the accuracy of the information provided to the rating agencies and other aspects of the of the transaction. These representations were critical to the Securitization because investors were not able to conduct loan-by-loan examination before purchasing the Certificates. Investors, in other words, relied on the Mortgage Representations to assess the quality and risk of each Mortgage Loan. If the Financial Company had not provided these representations and guaranties the Securitization would not have been consummated. Also, the Financial Company agreed that if any of the Mortgage Loans failed to conform to the Mortgage Representations the Financial Company would promptly cure the breach or repurchase any defective Mortgage Loans.

Further, the Financial Company promised that if it discovered any breaches, it would provide notice of such breach. In other words, from the very start of the Securitization process the Financial Company had an immediate and ongoing obligation to notify the Trust Company of any breaches of the Mortgage Representations that it discovered. This investigation revealed that the Financial Company breached the

Mortgage Representations. Also, the Financial Company failed to fulfill its notice obligations. An analysis of the Mortgage Loans revealed that at least 3,000 of these loans do not conform to the Mortgage Representations and that this affected those Loan's value. The analysis of the Mortgage Loans also revealed numerous material misrepresentations and misstatements in the Loan Files and Loan Schedule. Further, more than 2,000 Mortgage Loan Files could not be reviewed could not be reviewed because these files were missing or they were incomplete. In other words, the Financial Company did not properly document the files. Given these circumstances, the Trustee notified the Financial Company of the numerous breaches and missing documentation and demanded that the Financial Company cure the breaches and provide the missing documentation. The Financial Company has failed to provide a cure, to provide a single missing file, or repurchase a single defective loan. As a consequence, the Trust has suffered over half a billion dollars in losses. This paper reviews the history of RMBS loans to provide background on the loan, analyzes the mortgage loans and provides conclusions on the outcome. To analyze the Mortgage Loans, a random sample was utilized of 6,000 Mortgage Loans separated into two groups, and then by active and liquidated loans. This results in presenting defect rates, defective loans and repurchase damages ($ millions) by analyzing three different scenarios. This expands upon literature on mortgage loans and contracts by analyzing the data to understand the loss the Trust suffered based on the company's failure to fulfill its obligations, breaching it's contracts and also failing to cure any breaches. Reimbursement must be provided to the Trustee for the losses incurred. Literature review on Residential Mortgage Back Securities, an analysis of 6,000 mortgage loans held by the Trust company to determine the likely repurchase damages, as well as a discussion of the results are presented.

LITERATURE REVIEW

There has been pronounced fluctuation in RMBS throughout many decades, which has become the focus of research in this area. According to Griffin (2021), RMBS grew to over one trillion plus between 2003 and 2007. Since the market crisis, the issuance of RMBS has dramatically changed in reference to the volume (Kudenholdt, 2017). In the article by Herndon (2023), loan modifications of privately held RMBS from 2008 to 2014 added billions to the household debt. Following the 2008 economic crisis, disputes related to RMBS litigation arose (Gottlieb et al., 2016), in addition to many defaults and losses in RMBS (Lehman et al., 2011). As described by Petersen et al. (2012), since the mortgage crisis, the risks associated with subprime residential mortgage securitization have been a major focus. Geidosch (2014) investigated RMBS deals that led to the subprime crisis, noting these as toxic deals. The study by Lehman et al. (2011) investigated RMBS losses, describing macroeconomic factors as a performance indicator. In addition, Residential Mortgage-Backed Securities and concerns related to these forms of debt have been ongoing for some time. Kruger and Maturana (2021) investigated misreporting in the residential mortgage backed security market citing RMBS investors being unaware of appraisal misreporting and the need for reliable information for RMBS investors. The current research into RMBS helps to understand areas of litigation, as well as concerns related to deals surrounding RMBS.

Residential Mortgage Back Securities (RMBS) are loans secured by mortgages on residential properties that obligate borrowers to pay principal and interest. Underwriting is the process by which a loan originator decides to make a loan to a borrower. Underwriting is designed to ensure that the barrower is sufficiently creditworthy to repay the loan, the interest rate provides a sufficient return relative to the risk of the loan, and the loan is made against a property with sufficient value to ensure repayment of the loan. Usually, a bank or a mortgage company aggregates the mortgage loans from various originators into a pool that will be placed into a trust. The seller typically reviews the loans to ensure that the loans comply with the seller's standards and the loan's characteristics are as represented by the originators. A common form of securitization involves the creation of a trust to which the sponsor transfers the mortgage loan pool. This transfer is done in two steps. The sponsor transfers the mortgage loans to an intermediary, the depositor, which then transfers the loans to the trust.

After receiving the portfolio of mortgage loans, the trust issue RMBS using the pool of loans as collateral. Investors acquire an indirect ownership interest in the mortgage loan pool and the right to receive the income flowing from the mortgages through the purchase of these securities. RMBS are issued pursuant of registration statements filed with the US Securities and Exchange Commission (SEC). These registration statements include prospectuses, which explain the general structure of the investment, and prospectus supplements, which contain detailed descriptions of the mortgage loan pool securing each RMBS issuance.

To administer the trust's funds and deliver payments due each month on the certificates to the investors, a trustee, a master servicer, and a security administrator are named. The servicer manages the collection of proceeds from the mortgage loans. The servicer is responsible for collecting the borrowers' mortgage loan payments. The servicer's duties include making the collection efforts on delinquent loans and initiating foreclosure proceedings. The credit quality of the certificates directly depends on the credit of the loans in the collateral pool. This is because the cash flow from the loans collateral pool of a securitization is the source of the payments to the holders of these certificates issued by the trust. Special attention is given to the likelihood that borrowers will honor their mortgage payments and the value of the underlying property in case the borrower defaults. Loan files provide critical information regarding the loans' credit quality. These files are compiled by the lender during the loans' origination. Files typically contain the borrower's loan application and documents verifying the borrower's credit reports, an appraisal of the property that will secure the loan and provide the basis for measurement of the loan's credit quality (loan to value ratios). It also provides a statement of the property's occupancy status. Further, the loan file contains the record of the originator's or lender's investigation of the documents and information provided by the borrower, as well as notes from the underwriter setting forth the rationale for the advancing the loan to the borrower. The originator of the loans also makes detailed representations and warranties about the characteristics of each loan. This to ensure that the credit quality of the loans in the collateral pool is as the parties agreed. These representations and warranties are made to the trustee for the benefit of the investors in the certificates issue by the trust. Because investors cannot perform loan-by-loan analysis of certificates, the certifications and warranties are a critical aspect in the securitization process. This way, investors determine the risk associated with and quality of, each mortgage loan in the collateral pool ("Sampling/Opinion Surveys," 2004).

METHODOLOGY

The Trust company hold approximately 6,000 Mortgage Loan. Loan were separated in to two groups: Group 1 and Group 2. Table 1 below shows mortgage loans held by the trust company.

Table 1: Mortgage Loans Held by Trust Company ($)

	Group 1	Group 2	Total
Original outstanding Principal Balance	700,000,000	500,000,000	1,200,000,000
Principal Payments	300,000,000	250,000,000	550,000,000
Principal losses	250,000,000	250,000,000	500,000,000
Outstanding Principal Balance	120,000,000	100,000,000	300,000,000

This table shows the mortgage loans held by the trust company separated in two groups and total. This includes four categories, the original outstanding principal balance of each group, the principal payments of each group, principal losses of each group and the outstanding principal balance of each group. The table also shows the totals for each category.

The procedure consisted in drawing random samples (1948,1960,1977,1998,2004,2008) of approximately 6,000 Mortgage Loans, from groups 1 and 2, active and liquidated. As the literature indicates, sampling is relevant and appropriate technique in cases, used for many years (Stock & Hochstim, 1948; Deming, 1960; Cochran, 1977). The data collected for this study derived from confidential files. The years selected were from those years that were available for use for this research. These samples were then used to calculate

unbiased estimates of associated population characteristics (Levy, P.S. & Lemeshow, S., 2008) such as defect rates. They were also used to calculate damages to the Trust. And they were used to extrapolate the sample defect rates to the population. To determine damages a Monte Carlo simulation (Metropolis & Ulam, 1949; Metropolis, 1987; Sobol, 1994; Liu, 2001; Robert & Monte, 2004; McLeish, 2005; Rubinstein & Kroese, 2007; Shonkwiler & Mendivil, 2009) was used. The Monte Calo method is a tool used often in risk management, which utilizes simulation for modeling (Glasserman, 2003).

RESULTS AND DISCUSSION

Defect rates in the samples and associated populations were analyzed and shown in in Table 2, defective loans in the samples and associated populations are shown in Table 3. Finally, three scenarios were considered to calculate repurchase damages, shown in Table 4. Table 2 presents the liquidated loans with two groups, with defect rate of 93% with total loans in population of 1,800 and 97% with total loans in population of 1,000. In addition, the active loans are presented with two groups, with defect rates of 88% with total loans in population of 750 and 92% with total loans in population of 365.

Table 2: Defect Rates in the Samples and Associated Populations

Population	Loan Group	Defect Rate (%)	Totals Loans in Population
Liquidated Loans	1	93	1,800
	2	97	1,000
Active Loans	1	88	750
	2	92	365

Table 2 shows the defect rates in the samples and associated populations. Within this table are the populations presented by liquidates loans and active loans. There are two loan groups in each population and the defect rate is also presented. The total loans in population are presented for both populations, liquidated and active.

As presented in Table 3, the defective loans are presented are presented with two populations and two groups for each population. Liquidated loans presented 1,700 extrapolated defective loans in population from a total loan in population of 1,800 and 1,000 extrapolated defective loans in population from total loans in population of 1,000.

Table 3: Defective Loans in the Samples and Associated Populations

Population	Loan Group	Extrapolated Defective Loans in Population	Totals Loans in Population
Liquidated Loans	1	1,700	1,800
	2	1,000	1,000
Active Loans	1	633	750
	2	336	365

Table 3 shows the defective loans in the samples and associated populations. Within this table are the populations presented by liquidated loans and active loans. There are two loan groups for each population and the extrapolated defective loans in population are presented. The total loans in population are also included, both for liquidated loans and active loans.

To calculate damages, 3 scenarios were considered. Scenario 1 included purchase date for all defective loans is assumed 90 days after the closing date. Scenario 2 included purchase date for all defective loans is assumed 90 days after the date of the First Breach Notice. Scenario 3, Scenario 3: Purchase date is assumed 90 days after the date of the First Breach Notice for all Defective Loans listed in the First Breach Notice and 90 days after the date of the Second Breach Notice for all other Defective Loans. As shown in Table 4, the repurchase damages are presented between three scenarios and two loan groups for each scenario. Scenario 1 totaled most likely repurchase damages of $470,000,000 and $430,000,000 for a total of $900,000,000. Scenario 2 totaled most likely repurchase damages of $450,000,000 and $400,000,000 for a total of $850,000,000. Scenario 3 presented most likely repurchase damages of $450,000,000 and $400,000,000 for a total of $850,000,000.

Table 4: Repurchase Damages ($ millions)

Scenario	Loan Group	Most Likely Liquidated Loan Repurchase Damages $M	Most Likely Active Loan Repurchase Damages $M	Most Likely Repurchase Damages $M
1	1	370	100	470
	2	330	100	430
	Total	700	200	900
2	1	300	100	450
	2	300	100	400
	Total	600	200	850
3	1	350	100	450
	2	300	100	400
	Totals	650	200	850

Table 4 shows the repurchase damages ($ millions) for the three different scenarios that were considered. For each scenario, there are two loan groups, as well as a total group. Also presented for each loan group is the most likely liquidated loan repurchase damages, the most likely active loan repurchase damages and the most likely repurchase damages. Totals are presented for each scenario.

Samples are sufficiently large to draw conclusions about the corresponding population and specifically to make scientifically reliable estimate of the Defect Rates. The Liquidated and Active Defect Rates were also used as inputs to determine Repurchase Damages. Sample sizes produce a 95% confidence interval with a maximal margin of error for the Defect Rates of plus or minus 5%. These are accepted sample size and level of precision in RMBS cases.

CONCLUSION

The current study was conducted using random sampling of confidential RMBS loan information for the source of data. This was randomized and followed the Monte Carlo method of simulation to determination the information and if the data collected indicated any issues. This included analyzing the data by running the sample with the Monte Carlo method with the three parameters and analyzed to determine that yes, there is an indication of breach of contract. Thus, this presents legal implications for the parties injured by the breach of contract. This paper is not without limitations. Randomized sampling, in general, creates a limitation in the research as additional data can be analyzed to determine further concerns with the breach of contract. This also creates an area of opportunity for future research, to analyze additional data and consider additional parameters. By re-considering the data and analyze the procedure to see if it captured all the nuances of the data, including certain microeconomic variables that may need to be considered or missing. Future research could also consider additional scenarios. In conclusion, the samples identified, the procedure used, and the analysis of the results are sufficient to draw reliable conclusions about the Defect Rates and to calculate Repurchase Damages. The margins of error associated with the Defect Rates is sufficient and appropriate for this analysis. They relate to the precision of the analyses. The margin of error relates to the width of the 95% confidence interval around the Defect Rates and Repurchase Damages. The analysis shows that a trade-off exists between precision and sample size. The sample sizes used are sufficient and reliably determine the Defect Rates and the associated Repurchase Damages.

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FACTORS THAT INFLUENCE PATIENT HOSPITALS CHOICES: EVIDENCE FROM TAIWAN

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ABSTRACT

This study conducted an in-depth discussion on factors that influence patient hospitals choices in Taiwan. The paper conducted an electronic questionnaire survey based on the perspective of those who have been to hospitals or who care for patients to assess satisfaction with past medical treatment. Some 250 questionnaires were sent out and we effectively collected 211 questionnaires. Descriptive statists shows that the recommendation of relatives and friends have the greatest influence on decision-making factors of people's medical treatment, accounting at 56%, followed by the distance to medical treatment accounting at 15%. Chi-square analysis revealed that age, marriage and occupation were significant in whether they were willing to recommend relatives and friends to hospital. The study found that unmarried men aged 18-24 years and students were least likely to recommend relatives and friends to seek medical treatment in a hospital. Regression analysis revealed the presence of famous doctors and perfect referral services had a significant effect on people's medical treatment decision-making. People are willing to choose hospital for medical treatment when there are famous doctors stationed in hospitals and perfect referral services.

JEL: I18, L52

KEYWORDS: Hospital, Famous Doctor, Referral Services

INTRODUCTION

Taiwan National health insurance, since 1995, gives people rights to seek medical treatment. In recent years these rights have been better protected. The demand for nearby medical treatment increases daily. The demand for higher service quality is increasingly obvious, in recent years. In the face of customer demand and the increasingly fierce competitive market, the hospital management team began to discuss the two aspects of public satisfaction and hospital marketing strategy. These two aspects are continuously become more important. The factors considered by the public when choosing hospitals include medical distance. Through questionnaire surveys, we analyze the correlation of these factors to better understand the formation of people's medical decisions. A better understanding of these issues will help hospital managers formulate business strategies and measures to improve the quality and efficiency of medical services in hospitals.

The classification of hospitals in Taiwan refers to the evaluation level approved by the Ministry of Health and Welfare. Classification includes factors such as the quality of diagnosis and treatment, the number of hospital beds, medical devices, and the number of specialists. At present, Taiwan's hospitals are divided into three levels. The first level is a local hospital, which provides basic medical services such as general diseases, obstetrics and gynecology, and pediatrics. The second level is hospitals, which have more complete diagnostic and treatment equipment and technology; and provide more complex diagnosis and treatment services. The third level is the medical center, the largest medical institution in the country, providing the highest level of specialized medical and teaching and research functions. In

addition, there are many private hospitals and clinics that offer a range of medical services. At present, there are 293 hospitals in Taiwan, including 29 medical centers, 76 hospitals and 188 hospitals.

This study examines secondary medium-sized hospitals, rather than a broad discussion of large tertiary medical centers or small primary hospitals. Taking a small range as a factor to observe people's medical decision-making is closer to most people's localized medical behavior and ideas. We examine medium-sized hospitals, to understand the real cross-disciplinary needs of people. On the other hand, hospitals often have fewer departments, the number of doctors is relatively insufficient, and the hardware equipment and innovative technology of hospitals is relatively insufficient.

The objective of this study is to achieve the following two objectives through questionnaire surveys, including: 1. Clarify factors that people consider when choosing hospitals and the differences in importance. 2. Providing research results allowing hospital organizations to systematically assess the needs of consumers. We examine marketing strategies and identify better services to meet the needs of the medical population, promote graded medical care, properly allocate valuable medical resources, and identify those conditions for patients. Patients should be willing to go to the nearest small and medium-sized hospital for medical treatment, rather than rushing to the medical center to register for medical treatment, resulting in overcrowding of medical centers hospitals.

This study hopes to encourage the public to support graded medical care and make prudent use of limited medical resources. By doing so, acute and severe patients can enjoy the best care of medical centers. Hospitals can do emergency and long-term medical care, and hospitals can take care of people's health for minor diseases such as rehabilitation and long-term prescription medication.

LITERATURE REVIEW AND BACKGROUND

This section examines domestic and foreign literature on the factors of people's choice of hospital and graded medical care.

This section begins by examining foreign research. Researchers Yoram Wind & Lawrence (1976) argue that important factors affecting people's choice of medical treatment are the distance between the hospital and the patient's home, the reputation of the attending physician, the physical appearance of the hospital, and daily medical costs. The combined approach of the hospital, familiarity with the attending physician, and care of the nursing staff should be considered. Scholar Robert et.al (1983) pointed out that the important factors affecting people's choice of medical treatment are continuity, relative relationship, continuity or integrity, availability, convenience, cost, expertise and compassion. Rajshekhar et.al (1983) describes the distance/convenience of the hospital from home, the presence of specialized doctors, the reputation of the hospital, modern equipment/technology, a polite attitude of medical staff, cost of care, doctor's recommendation, recommendation of relatives and friends, and the shape of the hospital.

Berkowitz & Flexner (1981) identified four decision-making factors for people to choose hospitals: quality of care, cleanliness of facilities, attitude of staff, and reputation of hospitals. Boscarino & Steiber (1982) ranked factors considered by the public as convenience, physician, professionalism, and equipment. WoLinsky & Kutz (1984) proposed the order of consideration factors for public medical treatment was prior medical experience, novel equipment, word of mouth, and convenience of medical treatment. The National Research Corporation (NRC) found 14 considerations in 1984-1986 including personnel quality, emergency medical quality, and quality of care.

Joynt and Jha, (2013) explore characteristics of hospitals receiving reduced penalties in hospital grading systems and how these measures affect the quality of care in hospitals. Zhang and Baicker (2014).

Correlation between hospital grading and Medicare coverage was assessed, and how Medicare influenced patients' medical choices and outcomes. Werner and Konetzka (2009) examined the effects of hospital quality and care on medical outcomes, particularly when hospital quality incentive programs are implemented in health insurance programs.

The discussion turns to domestic research. Yanliang (1983) argued that distance from the hospital, the scale of the hospital's equipment, the atmosphere and environment of the hospital, the hospital's charging level, the convenience of the hospital's medical hours, the hospital's service and the hospital's history will affect people's choice of medical treatment. Scholar Zhang Wenying (1987) found that factors affecting people's choice of medical treatment include doctors' medical ethics, doctors' reputation, hospital convenience, doctors' service attitude, the completeness and modernization of hospital equipment, the length of registration waiting time, the number of full-time doctors in the hospital, the existence of designated physician system, and the existence of appointment registration system.   Also relevant are the level of charges, the joint methods of the hospital, the length of the outpatient time, the length of the drug collection time, the internal environment of the hospital and the exterior building of the hospital. Zeng Lirong (1988) believes that medical insurance, reputation, convenient transportation, recommendation by relatives and friends, good equipment, excellent medical skills, good habits, good service attitude and good quality of medicines are all important factors affecting people's choice of hospitals.

In addition, the research of Robbert (1983) et al. pointed out the priority of factors that people pay attention to medical treatment varies with the geographical region, disease and user characteristics of the people. For example, patients with acute and severe diseases pay more attention to the relative relationship of physicians and professional skills of physicians. Patients with chronic diseases pay more attention to continuity. Patients under the age of 30 pay more attention to the relative relationship, and older patients pay more attention to the continuity and prolongation of medical treatment.

The development and operation of hospitals is not a simple matter. This study uses a questionnaire survey with scientific systematic and meaningful statistical analysis, to understand the real needs of local people for medical treatment. We examine the development of characteristic medical treatment for the region, in addition to solving the problems of the local people. Competition in the medical market can be simultaneously improved, along with the hospital reputation to achieve the goal of sustainable operations.

After the implementation of universal health insurance by the government, the domestic medical environment has changed drastically, and the people's medical choices have shown freedom and diversification. Medical institutions have begun implementing the concept of operation and management, the establishment of brand image, the purpose of attracting more medical customers, so that the medical cause can survive. Is also an important topic for medical institution managers to explore.

This study explores differences in the basic characteristics of medical patients, the choice of medical treatment and the perception of the brand image of medical institutions. The differences in people's medical behaviors, their medical choices, and perceptions of the brand image of medical institutions. Finally, we examine whether factors of people's choice of medical treatment are related to factors that constitute the brand image of medical institutions.

DATA AND METHODOLOGY

Our data considers central Taiwan where there are 15 hospitals.   A total of 250 questionnaires were sent out electronically and 211 valid questionnaires were collected. To ensure the authenticity and representativeness of the questionnaire, we surveyed people living in Taiwan over the age of 17 as the

population. Sample questionnaire subjects were relatives who personally went to a hospital or relatives and friends who had sought medical treatment in a hospital. The questionnaires addressed general outpatient clinics (internal, external, obstetrics and gynecology) in hospitals. The questionnaire was distributed and collected from March to August 2023. The questionnaire was electronic, the voices of the elderly or those who were not good at using electronic tools such as mobile phones or computers could not be collected.

RESULTS

The results begin with some descriptive statistics. Table 1 describes the sample descriptive statistics.

Table 1: Sample Descriptive Statistics

Characteristic	Number	%
Gender		
Women	105	49.8
Men	106	50.2
Age		
Under 18 Years of Age	2	0.9
18-24 Years Old	48	22.7
25-34 Years Old	18	8.5
35-44 Years Old	33	15.6
45-54 Years Old	68	32.2
55-64 Years Old	36	17.1
Over 65 Years Old	6	2.8
Marital Status		
Unmarried	77	36.5
Married	134	63.5
Highest Education		
Elementary School	1	0.5
High School	28	13.3
College or University	148	70.1
Doctor or Master	34	16.1
Occupation		
Work	16	7.6
Business	45	21.3
Service	75	35.5
Military Public Education	18	8.5
Housekeeping	7	3.3
Student	41	19.4
Agriculture, Animal Husbandry	2	0.9
Retire	7	3.3

Table 1: Sample Descriptive Statistics (continued)

Characteristic	Number	%
Through What Channels Did I Know About Hospital?		
Referral	5	2.4
Recommended by Friends and Relatives	118	55.9
Flyer	7	3.3
Participanted in Hospital Activities	12	5.7
Web Search	25	11.8
Stay Nearby	32	15.2
Other	12	5.7
Would You Like to Visit Hospital Again?		
Not	18	8.5
Be	193	91.5
Would You Like to Recommend Relatives and Friends to Hospital?		
Not	55	26.1
Be	156	73.9

Table 1 shows descriptive statistics for our sample. Male and female respondents are equally distributed.

Based on the analysis of the sample surveyed, we concluded that gender distribution of respondents is even, which helps to ensure gender equality is considered in future health services. Middle-aged people (45-54 years old) are the majority of the sample, but the participation of young people (18-24 years old) is also considerable, providing potential opportunities for a long-term patient base. Education is skewed towards higher education, which may reflect a higher demand for medical information. Married people make up about 65 percent of the sample. Married individuals may need to consider the needs of family members in their medical decisions. Service industry workers make up 35 percent of the sample, and occupations can affect the demand for and availability of healthcare. Some 55 percent of respondents learned about the hospital through recommendations from relatives and friends. They were relatively loyal and satisfied with the hospital, showing trust and support for the hospital.

Recall an objective of this study is clarify the factors that people consider when choosing regional hospitals and the differences in importance between these factors. Based on data in Table 2, the study found no significant difference between gender and the factors considered by people in choosing regional hospitals. There was no significant difference between men and women in the rate of referral to relatives and friends. Age has an important impact on people's health care considerations. In particular, 18-24-year-olds seem to be less willing to recommend friends and relatives to the hospital, while 45-49-year-olds show a higher willingness to do so. This reveals significant differences in considerations used by patients in different age groups when choosing a regional hospital. Marital status has an important impact on people's health considerations. Unmarried people were less willing to recommend friends and relatives to the hospital, while married people are more likely to do so. This may reflect the relevance of married people who are more focused on family health and medical decisions. The highest level of education has no significant impact on people's medical considerations. However, we observed the highest proportion of respondents with a college or university degree, while a lower proportion of respondents with a high school vocational education or below.

Occupation has an important impact on people's health considerations. In particular, service workers are

most willing to recommend relatives and friends to this hospital, while students are less willing to recommend it. This suggests that different occupational backgrounds may influence patients' perception of hospital choices. Hospital access has no significant impact on people's medical considerations. These differences reveal different considerations when recommending hospitals. Therefore, understanding the impact of respondents' age, marital status, and occupation on their healthcare decisions is critical for hospitals and institutions. They can use this information to clarify the important factors and differences among people's choice of regional hospitals. This helps healthcare organizations better meet the needs of different populations and provide more targeted services.

Table 2: Chi-Square Analysis

Characteristic		Would You Like to Recommend Relatives and Friends to Hospital?		Sum	Pearson Chi-Square
		Not	Be		
Gender	Women	24	81	105	0.291
	Men	31	75	106	
Age	Under 18 Years of Age	1	1	2	0.000***
	18-24 Years Old	28	20	48	
	25-34 Years Old	8	10	18	
	35-44 Years Old	3	30	33	
	45-54 Years Old	9	59	68	
	55-64 Years Old	6	30	36	
	Over 65 Years Old	0	6	6	
Marital Status	Unmarried	35	42	77	0.000***
	Married	20	114	134	
Highest Education	Elementary School	0	1	1	0.124
	High School Vocation	3	25	28	
	College or University	45	103	148	
	Dr. Master	7	27	34	
Occupation	Work	2	14	16	0.000***
	Business	11	34	45	
	Services	12	63	75	
	Military Public Education	4	14	18	
	Housekeeping	1	6	7	
	Student	24	17	41	
	Agriculture, Fishery, Animal Husbandry and Mining	0	2	2	
	Retire	1	6	7	
Through What Channels Did I Know About Hospital?	Referral	1	4	5	0.355
	Recommended by Friends and Relatives	29	89	118	
	Flyer	3	4	7	
	Participated in Hospital Activities	3	9	12	
	Web Search	4	21	25	
	Stay Nearby	13	19	32	
	Other	2	10	12	
Subtotal		55	156	211	

Results in Table 2 show no significant difference between gender and the factors considered by people in choosing regional hospitals. Also, there was no significant difference between men and women in the rate of referral to relatives and friends. Age has an important impact on people's health care considerations. Occupation has an important impact on people's health considerations. In particular, service workers are most willing to recommend relatives and friends to this hospital, while students are less willing to recommend it*, **, And *** Indicate Statistical Significance Levels Of 10%, 5%, And 1%, Respectively.

Table 3: Factors That Influence Patient Choice Hospital

Factors	T-Statistic	Salience
Physician Professionalism (Constant)	2.432	0.016
There Are Famous Doctors Stationed	5.626	0.000***
Service Attitude of Medical Staff	1.811	0.072
The Equipment Is Novel	1.297	0.196
Innovative Medical Technology	1.756	0.081
Complete Outpatient Department	-1.353	0.178
There Is Cross-Disciplinary Integrated Treatment	0.499	0.654
Perfect Referral Service	-2.917	0.004***
The Number of Beds in The Ward Is Sufficient	1.944	0.053
Convenient Transportation and Transportation Service	-0.114	0.909
Convenient Medical Treatment and Nearby Care	1.352	0.178
Free Health Check-Up Service Is Available	0.76	0.448
Health-Related Events Are Held	1.356	0.177
Reasonable Charges	0.092	0.927
The Hospital Environment Is Clean	-0.12	0.905

*Table 3 shows that the existence of famous doctors has a significant impact on people's medical choices. *, **, and *** Indicate statistical significance levels of 10%, 5%, and 1%, respectively*

Table 3 reports regression results. According to the research data in Table 3, the existence of famous doctors has a significant impact on people's medical choices. Famous doctors have popularity, expertise and rich experience, attracting a large number of patients. Therefore, hospital organizations should actively attract and promote the joining of famous doctors. A positive T value indicates that more famous doctors join which will help enhance the professionalism of doctors. Well-developed referral services also have a significant impact on people's choice of care.

When a hospital provides efficient and high-quality referral services, patients are more inclined to choose that hospital because they know that if further treatment or professional diagnosis is required, they can be smoothly referred to other specialist hospitals. This provides an additional sense of security for patients to feel that their health is being properly taken care of in all circumstances. The T value of a perfect referral service is shown as a negative number indicating the higher the degree of professionalism of the physician, the lower the demand for a perfect referral service. Key factors in the results are related to the second research objective, which will help hospital organizations better understand patient needs, develop targeted marketing strategies, and provide better services to meet patient needs, while achieving more rational medical resource allocation and promoting the goal of graded care. This will provide regional hospitals with more competitive and efficient medical services, helping to enhance the healthcare experience and cater to communities with different needs.

Because age has a significant impact on people's attitudes toward referrals, hospitals can develop more targeted advocacy strategies for different age groups to reach a wider audience. Given the high rate of unmarried people being reluctant to recommend, hospitals can provide more personalized services and advocacy to meet the needs of this group.

Since career has a significant impact on the attitude of medical recommendations, hospitals can develop corresponding communication strategies according to the needs of different occupational groups to attract more patients. The professionalism of doctors, the presence of famous doctors and the improvement of referral services have a significant impact on people's medical choices. Hospitals should

continue to emphasize these aspects to enhance their professionalism and service quality.

CONCLUDING COMMENTS

This study provides insight into the multifaceted factors influencing people's attitudes towards medical recommendations. These results will help healthcare organizations develop more targeted advocacy and service strategies to ensure more people have access to high-quality care, while also highlighting the indispensability of elite physicians and referral services to enhance a hospital's reputation and professionalism.

This study, which is limited to people in central Taiwan, should be expanded to examine factors of medical choice for people in the north and south. In addition, the sample size was only 211 valid questionnaires. If more people are interviewed, the results of the analysis should be more representative. Also, the survey covers a single point in time.   A longer sample period might be more revealing.

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BUSINESS MODELS OF THE TOURISM INDUSTRY: EVIDENCE FROM TAIWAN

Lisheng Hsu, Feng Chia University

ABSTRACT

Over the past twenty years, tourism factories in Taiwan have become a successful business model of traditional industries that want to enhance corporate value and develop brand awareness. These tourism factories are working factories that incorporate a tourism component. This study finds that family business in tourism factories is based on the previous generation of leaders due to their own technical expertise and adherence to the corporate philosophy. The next generation of leaders can also add tourism and online performance benefits to their existing base by operating through the innovative business model. This approach allows for an increase in corporate value and brand awareness in family business. The tourism factory business model's rapid absorption of new information and continuous optimization of the status quo can lead to greater success in five major aspects of an innovative business model.

INTRODUCTION

In the context of continuous changes in the global economic environment and Taiwan's economic development process, small and medium-sized manufacturing has always played an important role. Because the government's development policy adjustment and related regulations are relatively slow, the traditional manufacturing industry that once played an important role in Taiwan's economy is no longer prosperous. To survive, they have chosen to develop abroad, resulting in increasing degradation of industrial competitiveness. The remaining enterprises must continue to innovate and transform to survive and sustain their development. The quality of life of the people is slowly improving. The demand for leisure industry tourism is also gradually rising.

Under the guidance of Taiwan's policies, traditional factory innovation and service transformation has been ongoing for more than 20 years, assisting the development of tourism factory products, cross-field resource integration, and digital transformation. The process involves combining local cultural and technological characteristics, human and historical resources, gourmet agricultural products, and then relying on the development of surrounding tourist attractions and regional related industries. Each develops a unique win-win model and cultivates tourism factories to have cross-domain value-added, brand marketing, and cultural and creative design. In addition, they improve digital capabilities and contribute to local revitalization of the tourism industry. They work under the core concept of promoting the concept of sustainability, quality, friendliness, life and knowledge of tourism, the tourism factory creates and optimizes unique themes, friendly spaces, corporate images, and quality services that meet consumer expectations (Ministry of Economic Affairs, 2017).

The "experience economy" was first proposed by scholars Pine and Gilmore (1998), arguing that the time course of world economic development can be divided into four stages. The first stage is the agricultural economy era, the second stage is the commodity-based industrial economy era, the third stage is the service

economy era based on service quality, and the fourth stage is innovation based on the experience economy era, operating from designed consumer experiences. It is a new way of thinking for enterprises creating value.

Selling experience services is not only appealing to emotions, building customer brand loyalty, and increasing customer repurchase rate, but also a super salesman of enterprise products, such that good experiences become the common memory and identity of the community (Ou Suhua, 2021). Experiential marketing contributes to consumers' brand loyalty, which is reflected in consumers' willingness to repurchase, recommendations to others, tolerate price fluctuations, and cross-purchase (Gronholdt, Martensen, & Kristensen, 2000; Parasuraman, Berry, & Zeithaml, 1991; Zeithaml, Berry, & Parasuraman, 1996). In this era of globalization and intensified market competition and the current social pattern of service and experience economies, the second or next generation of enterprises will take over the development of sustainable enterprises. Creative value-added aspects of the traditional life industry have become the foundation for its corporate transformation. Through the creative expression of cultural aesthetic design characteristics, the traditional life industry can be modernized and developed to meet the needs of the times.

This research presents the business model architecture in a nine-grid manner through the theoretical basis of innovative business models (Osterwalder & Pigneur, 2010). This is called the business model canvas with five aspects of product innovation: customer (target customer group, sales methods, customer relationship), infrastructure management (corporate resources, corporate activities, partners), financial viewpoints, and online digital platforms. This approach integrates the original nine-square grid elements and two new elements of today's online community, publicity sales and online membership marketing services. This research takes a perspective between the two generations of enterprise inheritance as its main direction. I conduct in-depth interviews with both the previous generation and the next generation of leaders, and then compare and analyze the interview content of the two generations. At the same time, the research mutually verifies the theoretical basis of the literature to provide a preliminary analysis of the results.

Results show the next generation of enterprises seems to be more interested in the operation of tourism factories. This research explores how to best inherit and continue the value of the company and maximize its benefits through the innovative model of the tourism factory. We summarize the successful innovation business model of Taiwan's distinctive tourism factories and continuously optimize the direction and strategy of Taiwan's current tourism-factory business model. The research provide suggestions on cross-domain transformational strategies for enterprise innovation in the world. The remainder of this paper is organized as follows: The next section examines the related literature and develops the scope of this research study. In the following section, we provide a discussion of the data and methodology utilized in the study. Rankings and analysis are provided in the results section. The paper closes with some concluding comments and suggestions for future research.

LITERATURE REVIEW

Armstrong (2006) argued that opportunities and threats in SWOT analysis (Weihrich,1982) can be summarized by combining political, economic, social and technological (PEST) analysis (Aguilar,1967) with external overall environmental factors and then compared and discuss them one by one. This combination can be used as a basic tool for enterprise and environmental analysis. This study discusses and analyzes the current development status of tourism factory operators in the context of government regulations and guidance programs corresponding to the theoretical basis of PEST-SWOT model analysis. Next, I explore the five aspects and eleven elements of innovative business models one by one, finally presenting the innovative business model of the Taiwan tourism factory (Figure 1). There exist many modes of development enterprise innovation or transformation. The tourism factory business model can be analyzed with the PEST-SWOT model, which fully explores the beginning and transition of the entire

tourism factory in the overall environmental development process of Taiwan.

Figure1: Literature Research Framework
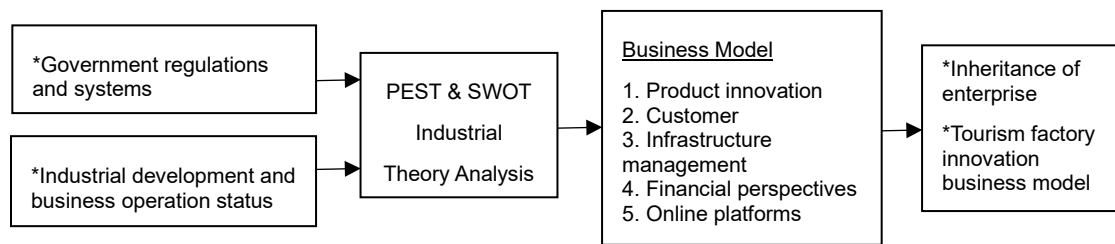
This figure shows the current development status of tourism factory operators in the context of government regulations and guidance programs corresponding to the theoretical basis of PEST-SWOT model analysis.

The concept of factory tourism in Taiwan is similar to that of industrial-heritage tourism and Japanese factory tourism. However, it has evolved into a "tourist factory" model for a small range of single enterprises because the scale of the industrial environment and development area are relatively different from those in Taiwan. Industrial heritage tourism has been developed abroad for decades. In response to the needs of tourism and local revitalization, it has gradually developed into a new type of local culture and experience tourism operation. The approach often uses abandoned traditional industrial plants or areas in the reconstruction process. It also retains and activates the original corporate culture spirit combined with local characteristics (Qiu Shangyuan, 2012).

Some domestic enterprises with a smaller production scale, including Taiwan Tobacco and Liquor Factory, and the cement mining industry have outdated and uneconomical production modes. These firms have transformed traditional factories or deactivated sites through reconstruction, incorporating tourism perspectives and design value-added elements. This has brought a new form of in-depth industrial tourism to the traditional scenic tourism industry. The Taiwan government has promoted the development of tourism factory policies for 20 years because of industrial development trends and responses to changes in the tourism market. Resources and markets of each small and medium-sized enterprise are limited, so the purpose and method of transforming from the earliest traditional manufacturing industries into tourism factories is different from traditional purposes and methods of investing in tourism. The overall presentation of the tourism factory is the specific display of the enterprise operator's corporate philosophy, future development direction, and ideal goals. This includes how to locate target customer groups and plan the best services, products, circulation lines, travel ranges, etc. to maximize brand benefits and revenue.

Because small and medium-sized enterprises have limited resources, they have rearranged their combined advantages and disadvantages to discover the survival entry point of enterprises in the market. Therefore, the transformation of tourism factories must make good use of superior resources and unique markets of their own manufacturing industry. They must plan the most distinctive experience venues and repackage products or services from the perspective of life aesthetic design of tourism and services. The innovative transformation of tourism factories is one option for enterprise resources and market diversification through more digital intelligence and cross-domain design value-added enterprises. Tourism factories can also allow enterprises to develop other new industrial markets so that diversified development of enterprise resources can have a maximum effect. This approach can improve overall operating efficiency.

Taiwan's small and medium-sized enterprises account for more than 90% of its total enterprises, of which family businesses account for the majority. The second generation has assumed the responsibility for enterprise growth and transformation to carry out various corporate innovation and change. After starting a business from scratch with the first generation of family members, the subsequent second, third, and fourth generations continue operation and management of the enterprise. In the face of the overall market

environment, raw material costs, lack of manpower, various government regulations, fee increases, and fluctuations and impacts of various uncertain factors all test the successor's management of the enterprise. In addition to tangible assets, other issues that must be considered include how to systematically pass on corporate value, brand spirit, and business thinking to the next generation. In terms of the tourism factory model, it is worth discussing how to make corporate inheritance smoother and more complete.

The tourism factory uses the PEST model to analyze four factors: political, economic, social, and technological. This is part of external environment analysis in market research, which can give an overview of different factors in the overall environment. PEST analysis has developed to meet different needs of different times, so there are more aspects and factors to be discussed such as the legal aspect (PESTL) and natural/environmental considerations (PESTLE), depending on the needs of the enterprise. This study discusses the PESTLE analysis, so we summarize the six aspects one by one (Xie Mingyu, 2015).

1.Political factors: Government has played an important role in the transformation and development of tourism factories in recent years. The Government has launched many regulations and programs, including industrial innovation regulations, legal guidance on land use, cross-domain innovative value-added plans for promoting small and medium-sized enterprises, and industrial transformation and upgrading plans with specific regions. Taiwan's tourism promotion policy, due to the development of consumer trends such as industrial tourism and in-depth experience tourism, tourism factories have also been included in the tourism market on and off the island. The role of the local cultural story hall is valued because enterprises and tourist factories have operated in the area for many years. In terms of agricultural policy, enterprises and tourist factories have become an important base for the promotion and production of agricultural products, agricultural leisure tourism, and community-building in Taiwan. With respect to the promotion of Taiwan's education policy, the tourism factory is an experience-driven field with knowledge of both industrial culture and production technology. The education policy provides knowledge and professional and technical education in addition to school textbooks. It has thus become a safe place for primary and secondary school education and career exploration.

2. *Economic factors:* Taiwan's stable economic development, income growth, and improvement of the quality of life have resulted in a significant increase in demand for and quality of leisure tourism catering services. This has also contributed to the establishment of tourism factories, as the number of tourists visiting factories and income performance have shown positive growth. The pandemic has greatly affected economic development and the tourism industry in the past two years. Government subsidies and tourism revitalization measures have assisted the industry. As a result, tourism factories have not been closed due to pandemic-related losses. During the pandemic easing and the rise of travel to Taiwan, tourism performance has grown to new higher records. However, compared to pandemic-related border controls, foreign tourism markets have stagnated in the past two years. The travel agency industry, hotel industry, catering industry, and tour bus industry have also lost money, causing many tourism-related businesses to close, lay off employees, or refocus their business direction. These refocus efforts include moving to online e-commerce or developing other special experiences in sightseeing and in-depth tourism. Additionally, the leisure mode of Taiwanese people who go abroad every year has changed to tourism or consumption on the island, so various travel agencies have redeveloped more new highlights and itineraries with high-priced and high-quality Taiwan sightseeing. The tourism factory has become one of its highlights. In the pandemic, the stay-at-home economy and online shopping consumption mode have grown strongly. The tourism factory has also adjusted its business and sales direction with digital transformation and cross-domain value-added strategies.

3.Social factors: Enterprises must often adjust management practices and systems with respect to social factors. With the advancement of the times, consumers not only enjoy beautiful tourist attractions, but also hope that they can obtain more life knowledge and fun experiences while traveling. The tourism factory is

just the right place for such experiences for all ages. In addition to slowly changing their sales and service model due to the pandemic, tourism factories have also responded to changes in the domestic travel market and customer demand for online services, all of which must keep up with consumer demands and sustainable development. In addition, the industry must slowly implement the planning and execution of social corporate responsibility measures. They must support local industries, social care, and social responsibility to protect the underprivileged and contribute to the villages by employing local and second-time-employed women. In addition, tourism factories must properly preserve and revitalize Taiwan's cultural assets of the industry such as the preservation and display of industrial historical and old cultural relics.

4.Technological factors: Fiercer competition in the industrial globalization market and the shortage of manpower due to low birthrate have become major issues in enterprise operations. The application of digital intelligent technology is one of the most effective methods to address these limitations. With changes in shopping and tourism patterns, borderless digital marketing and e-commerce operations became indispensable business strategies for enterprises and tourism factories. One must consider how to make the tourism factory relying on on-site interactive experiences continue to grow. The key to providing online digital experience venues and convenient shopping experiences is that consumers must continue rituals of the original physical experiences and successfully switch to online virtual immersive experience play. Through social marketing and key opinion leader (KOL) marketing to create topics and increase network traffic, the number of visitors to the offline experience of the tourism factory and the revenue of online shopping services may increase (Yuhao,2019).

5. Legal factors: There exist some fake tourist factories in Taiwan that have not been verified and licensed by the Institute of Industry and Research Institute and the Bureau of Industry. These use the name of tourism factories to solicit business because the service content and quality of fake tourism factories are inconsistent. These substandard operations cause tourists and travel agencies alike to complain. The government will likely set up punitive regulations for the protection of tourism factory names to curb and punish illegal operators who steal them. In addition, because the tourism factory exists alongside production and tourism, it is necessary to face both the management regulations related to industrial production manufactured by the enterprise and the management-related regulations of tourism services of the tourism factory. There are still some controversial regulation problems, such as the housing use tax rate of the front shop and the back factory, and regulations on the use of indoor building materials and space. In the future, the government can set up special laws to protect the development of tourism factories and make them one of Taiwan's highlights in world industry.

6 *Environmental Factors:* These are various activities, services, products, business practices, and interactions with the external environment or other industries. The projects considered include environmental pollution, green power and energy saving, carbon reduction production and services, and sustainable development, event planning, service process, product design, etc. Corporate social responsibility (CSR), and Environmental, Social and Governance (ESG), and the United Nations' Sustainable Development Goals (SDGs) have gradually become the focus of tourism factory evaluation and development. Among them, environmental protection and sustainability such as green buildings, energy conservation, carbon reduction, wastewater and waste treatment are important. The government promotes environmental education site certification so tourism factories can provide environmental education courses to consumers after re-inventory of the company's environmental protection resources. Sustainable tourism ensures that all tourism activities should have the least negative impact on the economic and social environment and bring the most economic benefits and feedback to local tourist destinations.

SWOT theory is used to analyze strengths and weaknesses of the company's tourism factory and opportunities and threats in the external environment, which is mainly used to analyze the competitive strength and weakness of the enterprise itself. Through the SWOT analysis method, the process of

understanding the enterprise itself and competitors from the environmental market perspective is used to help the enterprise analyze and evaluate the internal and external environmental conditions at the same time, and then develop a corresponding strategy method. Dyson (2004) provided a SWOT enterprise internal and external situation strategy analysis and a further strategy matrix method for cross-analysis discussion, as shown in Table 1.

Table 1: Tourism Factory SWOT Cross-Analysis

	Strengths Within the Enterprise (S)	**Weaknesses Within the Enterprise (W)**
Opportunities outside the enterprise (O)	**Proactive Strategy (SO)**	**Improvement Strategy (WO)**
	Quickly establish your unique in-depth industrial tourism successful business model.	Due to the space limitation of the site, it can be connected with other nearby fields and attractions to cooperate with the diversion.
	Participate in more publicity activities related to the public sector to quickly enhance brand awareness.	it is necessary to actively seek effective support or guidance from the resources of other non-competent ministries through associations.
	Cooperate with the tourism industry to strive for performance.	To do a good job in the docking business between field service operation and travel industry, operators need to change their business thinking and business staffing.
	Find travel agencies suitable for the venue, and take the initiative to establish a long-term close customer relationship and transaction feedback model with travel agency operators	Develop more interesting experience itinerary or highlight modes so that consumers can return multiple times.
Threats external to the enterprise (T)	**Buffered Policy (ST)**	**Defensive Strategy (WT)**
	Cooperate with various governments. subsidy policies and counseling programs to reduce the external risks and threats of independent development.	Complete special law management (fake tourism factory).
	Develop experiential products, festival gift boxes, and establish online and intelligent marketing, and strive for direct online shopping and group buying performance.	Strengthen measures to persuade or ban fake tourist factories that have not passed the evaluation.

It is directly recommended that pseudo-sightseeing factories apply for adjustment to qualified sightseeing factories. |
| | Because the quality of experience and tour service is continuously optimized, it can maintain its uniqueness. | Educate consumers to find qualified sites that truly pass the evaluation. |

The table shows 1.) SO positive strategy: internal strengths (S) facing external opportunities (O), to maximize their own strengths in the external opportunities. 2.) WO Improvement Strategy: Internal weaknesses (W) facing external opportunities (O), using external opportunities to actively improve their weaknesses. 3.) ST buffer strategy: internal strengths (S) and external threats (T) to face the situation, should use their own strengths to reduce the loss of external threats to harm. 4.) WT Defensive Strategy: When a company's internal weaknesses (W) face external threats (T), it should minimize the exposure of its weaknesses and avoid external sources of threats and strive for new opportunities.

Tourism factories are retested by the government every three years. Tourism factories must continue to improve and optimize their experience services and content such as "unique theme, friendly space, corporate image, experience facilities and service quality", and satisfactory services. They must meet the consumer expectations that seek innovation and change and who will share the satisfactory experience process on their own social media. These social media posts have become an inevitable marketing method of tourism factories along with feedback from customer satisfaction surveys.

This study collates tourism revenue, number of visitors, and number of Taiwan tourism factories from 2017 to 2022, as shown in Table 2. It shows the Taiwan tourism factory has shown substantial growth in revenue, number of visitors, and number of factories in the past six years. In the three years of severe pandemic changes, as of 2020 there are still 10 sightseeing factories established. The number of visitors only slightly

decreased by about 10% in 2021 because of government's travel restrictions for nearly 5 months. The annual number of visitors has also dropped sharply by about 6.5 million, a decline of about 34%. At the same time. five new tourism factories were established. The total number of established tourism factories in 2022 equals 165, representing the transformation and development direction of Taiwan's manufacturing industry in terms of tourism factories. Comparing 2018 and 2022, the number of visitors decreased by about 2.88 million in 2022, but annual tourism revenue increased by NT$1.5 billion, so the unit price of customers increased by about NT$129 (as shown in Table 3). Results indicate that consumers are willing to stay and spend more in the sightseeing factory.

Table 2: Tourism Factory's Tourism Revenue, Number of Visitors and Number of Factories

Annual	Tourism Revenue (NT$ billion)	Number of Visitors (million / person)	Number of Factories
2017	5.06	23.00	135
2018	4.7	19.88	136
2019	5.2	21.00	146
2020	5.09	19.00	156
2021	4.71	12.54	161
2022	6.0	17.00	165

This table is provided by the Industrial Technology Research Institute (ITRI) after compiling the annual data of all tourism factories and is reformatted for this study. ITRI is the main unit that counsels the Taiwan Tourism Factory Program.

Table 3: Tourism Factory's Tourism Revenue, Number of Visitors and Unit Price of Customers

Annual	Tourism Revenue (NT$ Billion)	Number Of Visitors (Million / Person)	Unit Price of Customers (NT$)
2018 (Before the Pandemic)	4.7	19.88	236
2021 (In the Pandemic)	4.71	12.54	376
2022 (After the Pandemic)	6.2	17.00	365
Differences during the pandemic	+1.5	-2.88	+129

This table is provided by the Industrial Technology Research Institute (ITRI) after compiling the annual data of all tourism factories and is reformatted for this study. Unit Price of Customers = Tourism Revenue/ Number of Visitors

The number of tourist factories is growing rapidly, and its business model has become a top option for Taiwan's manufacturing transformation and innovation. A good business model refers to the overall solution that maximizes the value of all parties and integrates internal and external elements that make up the operation of the enterprise. It meets customer needs and realizes the value of all parties (customers, employees, partners, shareholders and other stakeholders) while enabling a system to achieve sustainable profitability goals. The innovative business model diagram (Osterwalder & Pigneur, 2010) contains nine elements: target customer group, value proposition, channel, customer relationship, revenue stream, key resources, key activities, key partners, and cost structure. Dubosson,

Ostrwalder, & Pigneur (2002) proposed that four dimensions of business model architecture include product innovation, customer relationships, infrastructure management, and financial aspects. In addition, in the past ten years, the rapid development of online platform software, hardware and mobile social media has led to the operation of online marketing communities and online shopping (including live streaming and group buying) through consumer mobile phones and big data collection methods. This has fully changed the strategic thinking of enterprises in advertising, sales models, and precision marketing. Business model innovation is the new means and methods used by an organization to create, deliver, and capture value. The keys to a successful innovative business model can be summarized as:1.) Can be continuously operated (Repeatable); 2.) Profitable; 3.) Can be scaled (Scalable); 4.) Must be executed by the right executive team (Team).

Taiwanese consumers are gradually changing the way they obtain consumer information. They have moved from earlier word-of-mouth marketing and TV broadcasting to KOL (key opinion leaders) and social media (Facebook, Instagram) marketing operations. Travel destinations must pay close attention to the comments left by consumers on Google Maps, as it has become the most important and immediate reference for consumers before traveling to a travel destination. Consumer reviews on Google absolutely affect consumers' willingness to go shopping. Enterprises have begun to pay attention and set up specialists for all social media and Google operations and information feedback, especially the network reputation of tourism factories.

DATA AND METHODOLOGY

First, through the PEST industry analysis theory, we explore the current status and interrelationships of the operation and development of Taiwan's tourism factories the political, economic, social, technological, legal, and environmental aspects. Then, through the SWOT industry strategy theory, we explore the interrelationships of the strategies of Taiwan's tourism factories in terms of the enterprise's internal competitive advantages and disadvantages and the threats of external opportunities. Finally, by utilizing the original nine lattice elements of the innovative business model and integrating the two new elements of online social promotion and sales and online member marketing services, we explore how Taiwan's tourist factories can reposition their core values and optimize their resources, as well as how they enable their companies to successfully complete their generational succession.

The target of this study was members of the Taiwan Tourism Factory Association (TTFA). We consider five major industries classified by the Industrial Technology Research Institute (ITRI) as tourism factories, and consider the balance of sampling among all members who joined the Association between 2005 and 2023. A total of six representative in-depth interviews were planned, and each tourism factory arranged interviews with members of two generations of the enterprise. We refer to Ma (2013) and Chen (2015) for the format and outline of interviews in this study. Based on the literature review and establishment and analysis of business models, interview questions were set to focus on the five major aspects of innovative business models. Namely we consider product innovation, customer relations, infrastructure management (corporate resources, corporate activities, and partners), financial perspectives, and online platforms. Two interview outlines and questions, one for the previous generation and one for the next generation, were compiled based on the five major aspects of innovative business models, and one-on-one in-depth interviews were conducted with a total of 12 interviewees from 6 companies. Table 4 shows the information of the interviews in this study.

Table 4: Interview's Time for two Generations of Operation in Tourism Factory

Year of Joining TTFA	Sample's Code (Area)	Interviewee's Title and Relationship	Age	Interview Date
2010	A (Taichung)	Previous: General Manager Wang(M)	65	20221125
		Next: Manager Hsu (D)	29	20221126
2011	B (Changhua)	Previous: Chairman Xiao (F)	77	20221122
		Next: General Manager Xiao (S)	50	20221122
2020	C (Tainan)	Previous: Chairman Hsieh (F)	62	20230203
		Next: Special Assistant Hsieh (S)	30	20230203
2005	D (Taichung)	Previous: Chairman Wu (F)	82	20230126
		Next: Assistant Manager Wu (D)	47	20230126
2010	E (Yilan)	Previous: Chairman Lai (F)	56	20221208
		Next: Store Manager Lai (S)	37	20230125
2016	F (Chiayi)	Previous: Chairman Yu (F)	60	20221124
		Next: Manager Yu (S)	35	20221124

The meaning of the bracketed abbreviations is explained below:(M)=mother, (D)=daughter,(F)=father,(S)=son. Each interview lasted about 3-4 hours.

RESULTS AND DISCUSSION

The results reveal that tourism factories have an important reference for innovative business models when enterprises invest in new factories and new bases. Transforming the business model of tourism factories can enhance corporate value and brand awareness, as well as adjusting and optimizing the original business focus of the parent company. This leads to more competitive and sustainable development in the future. In the meantime, we illustrate the results according to the five aspects of the innovative business model below:

1. Product Innovation Aspect: Through the tourism factory model, the parent enterprise can optimize the product and service process innovation making the development of new products more efficient. Through the characteristics of tourism factories, we reduce the cost of market research and the failure rate of new product development.

2. Customer Relations Aspect: Clients have changed from distributors to travel agents, and consumers have changed to tourists. More branding can enhance the loyalty of the original customer group, and increase the new target customer group, thereby increasing brand value and popularity.

3. Infrastructure Management Aspect: Allowing enterprises more clearly combine local culture, environmental protection, and carbon reduction, local revitalization, and social responsibility will more actively make corporate resources more effective, corporate activities more diversified, and let partners become more active participants in achieving sustainable development goals.

4. Financial Perspectives Aspect: Cash income and other service income provided by the tourism factory are different from existing product sales methods of the parent enterprise. This helps improve gross profits and service quality. Most business operators continue to invest in the field to optimize manpower and construction. The sooner enterprise resources increase investment in the tourism factory and the performance development of group guests, personally participating in the development of travel agencies with the business operator, the faster the growth of performance revenue for the tourism factory.

5.Online Platform Aspect: Understanding of ideas and operation methods of network platforms in the tourism factory business model must be integrated between the two generations. According to interview data, the less old people understand the direction and substance of online marketing strategy, the more young people want to actively participate, and the more vigorous their execution ideas will be. Cost-based manufacturing management thinking makes the human and budgetary resources of tourism factories on the online platform relatively passive and unvalued compared with other service or technology industries, including the poor attention of business operators. Because listed companies have more human and financial resources to operate, they pay more attention to the publicity and advertising benefits and operation of online platforms.

Another result relates to the inheritance of the tourism factory from the parent enterprise. Through the sightseeing factory business model, it can be clearly understood that business operators are well aware of the two key directions in which the enterprise needs to develop in the future. One is the future key direction of the company's internal operations such as attaching importance to continuous brand optimization, strengthening product quality and R&D innovation, doing a good job in customer service, improving international sales capacity, and developing more new markets and new customers.

The second key direction is the enterprise's external future such as linking local industry, humanistic history, and agricultural product development, playing an important role in local economic creation, as well as doing a good job in industrial tourism and technical education. There is a general lack of succession planning by the previous generation of business operators. The previous generation of operators expects the next generation to make up for the shortcomings of their own operating conditions, including e-commerce, local

revitalization, marketing activities, and international marketing. At the same time, it is also expected that the next generation of enterprise operators can innovate and develop and operate sustainably so the parent enterprise can grow steadily.

A complete company system is formulated to fully communicate and distinguish clear work rights and responsibilities. In the absence of such a system, conflicts and disputes between the generations and the actual performance and development of the entire tourism factory business model arise. These conflicts fully test the family governance and business management wisdom of the previous generation of business operators. In addition, the next generation of company operators work harder than conventional manufacturing company operators who do not usually operate tourism factories. Indeed they must go to work on holidays and attend tourism-related activities.

CONCLUDING COMMENTS

The main purpose of this study is to analyze and explore key factors of the innovative business model of tourism factories by existing or traditional enterprises. We wish to identify successful innovative business models of tourism factories in Taiwan with special characteristics. We conduct in-depth interviews with two generations of the interviewed enterprise operators and data collection. This study utilizes the research methods of interview data analysis and case studies of 12 two-generation operators from six existing tourism factories that have been officially certified and evaluated. The results corroborate with the theoretical basis of literature review, to obtain the results of the study on the five major aspects of the heritage and innovative business models of the tourism factory enterprise.

The previous generation of leaders' technical expertise and adherence to the corporate philosophy, the next generation of leaders can increase the benefits of tourism and internet performance. It can increase enterprise value and brand awareness through operation of the tourism factory innovative business model on the basis of the existing foundation. At the same time, the company will be able to move forward in sustainable development.

A regional tourism service network provides offline experiences and online shopping and services, identifying new highlights for traditional sightseeing spots and linking regional development to local revitalization. Tourism factories with local economic characteristics can usually specifically and subtly represent the natural resources and humanistic economic history of a region or present the development background and evolution of an industry. These are the nutrients and basis for innovative business models, making Taiwan's tourism factories one of the most competitive tourism brands in the world.

The significance of the tourism factory business model for managers is summarized as follows. First, it provides a stable and mature reference experience and method for the transformation of traditional industrial enterprises and the inheritance of family businesses. The model tests the temporary response of business operators in response to changes in the world situation in terms of disease or war. Second, it can help traditional industries that want to enhance corporate value and develop brand awareness. In particular, results in the food industry are remarkable. Third, it provides an experimental field for enterprises to test marketing activities or develop new products because the tourism factory is a highly suitable retail field to collect and obtain authenticity, immediacy, or reduction of R&D and marketing test information. Fourth, serve as a start-up accelerator for traditional family enterprises to enter online shopping and social media marketing to meet consumer demand and improve the quality of field services. Ordinary enterprises must require in-depth research and establishment of relevant manpower to start operating online shopping and social media marketing.

The paper provides suggestions for corporate innovation transformation and family business inheritance.

Successful business inheritance is an important key factor for Taiwan's family business to continue to operate. Two generations of leaders each apply their own expertise. The previous generation of business operators bring technical expertise and adherence to corporate philosophy. The next generation of business operators bring quick absorption of new information and eagerness to change the status quo and adopt innovation characteristics.

Second, traditional enterprises should change from the manufacturing management mode of the parent enterprise to the service industry management mode. The transformation is difficult and takes some time to explore compared with other innovative business models. In addition, it is important for business operators to participate in the operation and service of tourism factories, quickly respond to the service needs of new clients and consumers, immediately adjust the service process and field circulation, and provide the most suitable service quality and commission refund system. Adherence to these guidelines helps the tourism factory model quickly increase performance income.

Third, after 20 years of continuous innovation and optimization of the tourism factory business model, several representative successful industry cases have been developed, including the pharmaceutical industry, the skin care industry, and the food industry. The general manufacturing industry's trajectory for successful transformation into a tourism factory is as follows: "Business operators must develop a new tourism factory business model that suits their own industry and is relatively easy to succeed by considering the core purpose of the parent company to set up a tourism factory, analyzing the industrial background and product profit structure of the parent enterprise, and then considering the development strategy for the performance of individual tourists and group tourists" .The six samples provided in this study cannot fully represent all the characteristics of the industry. If a quantitative method can be used to study the existing 162 tourism factories, it will be more representative of the innovative business model of Taiwan's tourism factories.

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IS A DIVERSIFIED PORTFOLIO BETTER THAN A 60/40 PORTFOLIO? A 10-YEAR COMPARISON STUDY OF A UNIVERSITY ENDOWMENT

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ABSTRACT

The following examines the performance of an actively managed university endowment and compares the result to the return of a passive, index-based investment comprised of 60 % U.S. equities and 40 % U.S. bonds. From 2013 to 2022, the results show that the endowment underperformed the passive 60/40 index fund in each of the last 1-, 3-, 5-, and 10-year periods. The compound annualized growth rate (CAGR) over the 10-year period was 6.5% for the actively managed endowment compared to 7.8% for the 60/40 index fund. Incorporating novel asset classes into an actively managed portfolio does not guarantee better returns than investing in a low-cost 60/40 index fund.

INTRODUCTION

University endowments consist of cash and other financial assets that executives and trustees intend to hold in perpetuity. Charitable donations by individuals, corporations, or foundations are the main source of funding, but the board of trustees can also elect to add unrestricted gifts or surplus funds to the endowment. For most institutions, the income generated by an endowment supports research, teaching, scholarships, and the overall mission of an institution. Universities typically follow an investment policy that stipulates how much money can be drawn from the endowment each year. For most institutions, the spending rate is approximately 5% of the market value of the assets even when the market is volatile. Many Ivy League universities have billions of dollars in endowment assets, and a 5% spending rate can generate a large amount of available resources (Phung, 2022). Therefore, the size of an endowment can be important for the overall financial health of a higher education institution. An important part of endowment management is asset allocation, which is the strategic distribution of funds across various asset classes such as stocks, bonds, real estate, etc. The goal is to construct a portfolio that generates a high investment return while at the same time minimizing risk. According to Markowitz' (1952) modern portfolio theory, the challenge of constructing an investment portfolio is to balance expected returns with their contribution to risk (Brown, Garlappi, & Tiu, 2010).

University endowments are typically well diversified; thus, an examination of whether an actively managed and well diversified endowment can outperform a basic 60/40 portfolio appears justifiable. Currently, most of the acquired endowment used for this study is managed by a nonprofit organization (NP) that provides investment services to 501(c)3 organizations. The NP offers several investment solutions, and the university board of trustees chose to invest in a "fund of funds" whose goal is to generate a positive return and long-term growth from a variety of investments. The investments include U.S. large-cap and U.S. small-cap equities, international developed markets equities, emerging markets equities, and fixed income.

In addition, the fund of funds includes a real assets fund and an alternative investment fund. The real assets fund consists of global infrastructure equities, commodities, real estate, TIPS, oil and gas interests, and agribusiness. The alternative investment fund includes long/short equities, floating rate bank loans, and merger arbitrage. The percentage allocation of each asset class is noted within the Data and Methodology section. This paper presents an alternative to outsourcing the investment function to professional money managers for university administrators and trustees. An actively managed endowment typically consists of multiple asset classes with the goal of outperforming selected benchmarks. However, as this paper demonstrates, very few investment companies can do so. Clients would have been better off investing in a low-cost index fund, such as a 60/40 portfolio. Actively managing investments requires skill, and investment companies charge a minimum of 0.66% (Boyte-White, 2023), whereas an index fund that tracks the S&P 500 can be obtained for as little as 0.03%. In this example, where the S&P 500 is the benchmark, the actively managed fund must consistently outperform the S&P 500 by 0.63% just to cover its fees. Therefore, aiming to earn the benchmark year after year, while paying a small index fund fee, may be a more worthwhile goal for university administrators than relying on an active investment manager to generate above-average returns.

Few academic studies examine university endowment performance, with most relying on data from the National Association of College and University Business Officers (NACUBO) annual survey. This study contributes to the literature by comparing the investment returns of an actively managed and well-diversified endowment to those of a passive 60/40 portfolio over a 10-year period from 2013 to 2022. In addition, the study contributes to the existing literature by challenging the conventional wisdom of diversification in endowment management and highlighting the potential benefits of passive investment strategies. It also underscores the importance of asset allocation and the need for regular performance evaluation in portfolio construction. This study is organized as follows: the next section is the literature review with a discussion of how diversified portfolios and traditional 60/40 portfolios have been addressed in academic journals and news media. Examples of active versus passive investment strategies and the impact of fees are presented. Following the literature review is the data and methodology section where data are presented to answer the research question. The results and discussion section contains the findings of the study and the limitations of the study. The last section provides concluding remarks and ideas for future research.

LITERATURE REVIEW

The pros and cons of asset diversification have received considerable attention in the literature. Proponents of holding a diversified portfolio point to risk mitigation by spreading investments across a variety of asset classes, industries, sectors, companies, and geographic areas. The goal is to pick investments that have a low correlation. When one asset class has a negative return, another asset class might perform better and thereby provide a more consistent investment return. Diversification can protect against losses and might create investment opportunities. Opponents of asset diversification point to potentially lower portfolio returns caused by high management and transaction fees. It requires professional skill and expertise to manage many investments. Furthermore, not every risk can be avoided by diversification. Market risk caused by inflation, interest rates, or geopolitical disturbance is a factor that every investor should be aware of (Lioudis, 2022). Ilmanen and Kizer (2012) argued that investors should consider factor diversification instead of asset class diversification. The factor viewpoint involves a shift in focus from dollar allocations to risk allocations. Factors to consider include equity, size, value, momentum, term, and default premiums. Factor diversification has been shown to generate excess returns in general and, in particular, during severe market downturns. Asness, Israelov, and Liew (2011) studied the short-term and long-term impact of asset diversification and found that the benefits of diversification become evident over time. When a big selloff occurs, losses in most asset classes and markets are well distributed, and the effect of diversification is weak. Over extended periods of time, however, well diversified portfolios – especially the ones including international equities – will return superior results.

The traditional 60/40 portfolio has been popular with investors because it combines historically superior stock returns with lower risk fixed income investments (Matthews, 2019). In general, the returns of bonds and stocks are negatively correlated: bonds usually have a positive return in times when equities lose money during a market crash. In 2019, the 60/40 portfolio came under attack because of lower returns from bonds (Napach, 2019). In addition, stock market returns were limited because of high equity prices and above-average growth that appeared unsustainable. Portfolio advisors recommended a larger allocation to alternative investments such as private equity, emerging markets, infrastructure investments and U.S. real estate. The assumption that stocks and bonds have a negative correlation proved to be wrong in 2022 when both asset classes produced negative returns, and many investment professionals predicted the end of the 60/40 portfolio (Benjamin, 2023). In the aftermath of the pandemic businesses and consumers saw price increases in many areas. Lockdowns in China aimed to fight COVID-19 depressed production and caused supply-chain disruptions. Russia's invasion of Ukraine and the subsequent sanctions by most western countries against Russian goods drove up oil and other commodity prices. Furthermore, the war sparked concerns about Europe's economies (Krauskopf, 2022). To fight the ensuing high inflation, the Federal Reserve raised interest rates which caused bonds and stocks to fall at the same time. Rising interest rates decrease the price of existing bonds and increase overall bond yields (Campbell, Viceira, & Pflueger, 2023). Equity investors feared that rising interest rates would hurt growth and push the economy into a recession. The rise in bond yields presented an alternative to equity investing and made riskier high-growth stocks less attractive (Krauskopf, 2022).

Considering the 2022 market turmoil, researchers at Vanguard evaluated whether higher inflation could lead to greater correlation between equities and bonds and thereby undermine the benefits of asset diversification. To examine this, Vanguard simulated the returns of two portfolios. The first portfolio consisted of 60% global equities and 40% global bonds, representing the company's basic assumptions about asset class correlation and returns over the next 10 years. The second portfolio contained 10% commodities in the equity section and 8% TIPS (treasury inflation protected securities) in the bond section. This approach was designed to anticipate an environment of high inflation for an extended period and high correlation. The results showed that the traditional 60/40 portfolio was more volatile than the inflation-hedged 60/40 portfolio, but the expected annualized 10-year returns were similar. The study also found that the asset allocation has a greater impact on long-term returns than inflation or correlation (Vanguard, 2023). Markowitz (1952) has contributed enormously to the field of investment management. His work is known as "Modern Portfolio Theory." While Markowitz' theoretical assumptions are complex, the general idea is that it is difficult to outperform benchmarks, and investment managers who do so have effectively diversified their portfolios and have taken on more risk (Mangram, 2013). Mean-variance optimization modelling as developed by Markowitz is difficult because expected returns for various assets classes cannot be calculated with accuracy. Instead of a mean-variance optimization strategy, Chaves et al. (2010) used a risk parity methodology and compared the results to other simpler asset allocation approaches such as a 60/40 equity/bond portfolio. Under the risk parity approach, each asset class is equally weighed by its risk contribution to the portfolio. A major advantage of risk parity weighting is that expected return assumptions do not need to be devised. The study revealed that the risk parity performance in comparison to other asset allocation models is strongly influenced by the asset classes and the period included. Overall, the risk parity investment strategy did not consistently outperform an equal-weighted portfolio or a simple 60/40 portfolio.

The benefits of the 60/40 portfolio strategy became evident in a comprehensive study of university endowments. Hammond (2020) used 58 years of the National Association of College and University Business Officers (NACUBO) endowment return data and assessed the effectiveness of the endowment management with respect to long-term return objectives and annual return needs. The data were grouped into small, average, and large endowment cohorts. Over the 58-year period, the average endowment failed to achieve its annual return need, its long-term return objective, and underperformed the 60/40 benchmark. Over a 50-year period, all three cohorts yielded disappointment with respect to the annual return need and long-term objective, and only the large cohort outperformed the 60/40 benchmark. From 2010 to 2019,

small, average, and large endowments bested the annual return need and long-term objective; however, all three failed to outperform the 60/40 benchmark. A traditional 60/40 portfolio is often passively managed with an index or exchange traded fund (ETF). The active vs passive investment strategy discussion and which investment style is superior has been going on for decades. With an active investment strategy, a portfolio manager selects individual securities with the objective of outperforming a benchmark. This approach requires a considerable amount of research and managerial skill. The investor incurs a transaction fee every time a security is purchased or sold in addition to an investment advisory fee. Over time, even small fees can have a significant impact on a portfolio's return (Investor.gov, 2019). With a passive investment strategy, an investor buys a fund that replicates an index such as the S&P 500 or Dow Jones Industrial Average. The investor holds every security included in the index without being exposed to the risk of a single security. Index funds or ETFs typically have lower fees than actively managed mutual funds. In 2022, the average expense for an ETF was 0.16%, an index fund yielded an average cost of 0.05% while the actively managed mutual funds yield upwards of 0.66% (Boyte-White, 2023).

Investors need to decide whether to pursue an active or passive strategy. S&P Dow Jones Indices publish a scorecard that measures the performance of actively managed funds against their respective benchmarks. The U.S. scorecard for 2022 shows that in the important U.S. large-cap equities category only 49% of active investment managers outperformed their benchmark. The declining markets in 2022 clearly made managers' talent more valuable because in the less volatile year 2021 only 22% of U.S. large-cap fund managers beat the S&P 500. Over the 20-year period ending in 2022, only 5.2% of U.S. large-cap managers consistently outperformed their benchmarks. The fact that most investment managers fail to add value for their clients makes passive investing extremely popular (SPIVA U.S. Scorecard, n.d.).

Inflows into passive investment vehicles have increased steadily since their inception in the seventies. Many investors are no longer trying to beat the market and are satisfied with the returns of their chosen benchmarks for a lower fee. In 2022, global inflows into passive funds amounted to $747 billion, while investors withdrew $1.2 trillion from actively managed funds. Passive funds increased their global market share to 38% (Englundh, 2023). Investors are acquiring passive funds in good times and bad. This paper extends the literature on endowment management by comparing the investment results of a passively managed index fund to an actively managed portfolio.

DATA AND METHODOLOGY

This study examines whether a diversified endowment outperformed a traditional 60/40 portfolio from 2013 to 2022. The NP provided the endowment performance report for the 10-year period ending December 31, 2022, used for this study. The results were then compared to a 60/40 passively managed index fund. Many investment companies offer 60/40 funds, and so for this study, the Vanguard Balanced Index Fund Admiral Shares (VBIAX) was identified for comparison purposes. According to Vanguard, "the fund invests roughly 60% in stocks and 40% in bonds by tracking two indexes that represent broad barometers for the U.S. equity and U.S. taxable bond markets". This fund has an expense ratio of 0.07 % (Vanguard, n.d.). In comparison, the NP charges 0.60% for actively managing the endowment. Table 1 shows the asset classes and their respective percentage allocation of the actively managed endowment. The NP offers several investment solutions, and the university board of trustees chose to invest in a "fund of funds" whose goal is to generate a positive return and long-term growth from a variety of investments. The "fund of fund" allocates 63% of total assets to equities and the remaining 37% to a mix of alternative assets and fixed income.

Table 1: Actively Managed Endowment Asset Classes and Allocation

Asset Classes	Allocation
Large-Cap Equity	31.5%
Small-Cap Equity	9%
International Equity	16.5%
Emerging Markets Equity	6%
Real Estate	5%
Alternative investments	5%
Real Assets	5%
Fixed Income	21%
Oil and Gas	1%

This table presents the assets classes of the actively managed endowment and their respective percentage allocation. The university board of trustees chose to invest in a "fund of funds" whose goal is to generate a positive return and long-term growth from a variety of investments. The "fund of fund" allocates 63% of total assets to equities and the remaining 37% to a mix of alternative assets and fixed income.

Prior to 2021, the alternatives and fixed income had an allocation of 10% and 24%, respectively. Effective 2021, the NP reduced the allocations to 5% and 21%, respectively and added 3.5% to international equity, 1.5% to large-cap equity, 1% to real assets, and 2% to emerging market equities. The real assets include global infrastructure equities, commodities, real estate, TIPS, oil and gas interests, and agribusiness. The alternative investment fund includes long/short equities, floating rate bank loans, and merger arbitrage. The percentage allocation to each asset class is unknown. Table 2 shows the 1-, 3-, 5-, and 10-year investment returns of the actively managed portfolio and the investment returns for each asset class net-of- fees. The NP provided the investment performance data. Return data for the oil and gas assets was not available. The actively managed and well diversified portfolio includes assets with a low correlation. When one asset class is not performing well in one year, another asset class is supposed to perform better and cushion the portfolio return. Table 2 shows that in 2022 only one asset class, real estate, moved in the opposite direction when all other asset classes produced negative returns. Over the 10-year period, emerging market equities, alternative investment, and real assets were a drag on the portfolio.

Table 2: Investment Returns

	1-Year 12/31/21 to 12/31/22	3-Year 12/31/19 to 12/31/22	5-Year 12/31/17 to 12/31/22	10-Year 12/31/12 to 12/31/22
Overall Portfolio Return	-17.5%	2.2%	4.3%	6.5%
Large-Cap Equity	-28.3%	4.1%	8%	11.7%
Small-Cap Equity	-16.5%	7.9%	9.5%	12.4%
International Equity	-14.0%	-1.2%	0.3%	4.5%
Emerging Markets Equity	-22.1%	-3.4%	-1.3%	0.4%
Real Estate	10.7%	10.1%	6.5%	6.1%
Alternative Investments	-9.3%	2.1%	2.9%	3.2%
Real Assets	-5.7%	3.8%	2.6%	1.3%
Fixed Income	-12.6%	-1.7%	0.5%	1.3%
Oil and Gas	N/A	N/A	N/A	N/A

This table shows the 1-, 3-, 5-, and 10-year investment returns of the actively managed portfolio and the investment returns for each asset class net-of-fees. During the volatile year 2022, real estate was the only asset class that generated a positive return. Both equities and fixed income – asset classes which usually move in opposite directions – lost value during 2022.

Portfolio Visualizer software was used to model the Vanguard Balanced Index Fund Admiral Shares (VBIAX) 1-, 3-, 5-, and 10-year investment returns. Table 3 shows the return of the 60/40 portfolio net-of-fees. The index fund invests approximately 60% in U.S. equities and 40% in U.S. bonds and is passively managed. The assets are periodically rebalanced to maintain the 60/40 allocation. The fund is broadly

diversified to minimize risk exposure to any particular security. Like the actively managed endowment, the passive 60/40 portfolio lost value in the volatile year 2022.

Table 3: Vanguard Balanced Index Fund Admiral Shares (VBIAX)

	1-Year 12/31/21 to 12/31/22	3-Year 12/31/19 to 12/31/22	5-Year 12/31/17 to 12/31/22	10-Year 12/31/12 to 12/31/22
60/40 Portfolio Return	-16.9%	3.8%	5.5%	7.8%

This table illustrates the return of the 60/40 portfolio net-of-fees. The index fund invests approximately 60% in U.S. equities and 40% in U.S. bonds and is passively managed. The assets are periodically rebalanced to maintain the 60/40 allocation. The fund is broadly diversified to minimize risk exposure to any particular security.

RESULTS AND DISCUSSION

The passive 60/40 index fund outperformed the actively managed endowment in each of the last 1-, 3-, 5-, and 10-year periods. Table 4 shows a comparison of the compound annualized investment returns of the actively managed endowment versus the 60/40 portfolio. Both investment returns are shown net-of-fees. The actively managed endowment and the passive 60/40 portfolio are subject to investment management fees of 0.60% and 0.07%, respectively. The university would have been better off with a passive 60/40 index fund throughout the examined period. Even a professionally managed and well diversified portfolio could not beat a passive index fund.

Table 4: Comparison of Investment Returns: Performance of Actively Managed Endowment vs 60/40 Index Fund Net-of-Fees

	Vanguard Balanced Index Fund	Actively Managed Endowment Return	Difference
1-Year	-16.90%	-17.50%	0.60%
12/31/21 to 12/31/22 (Period 1)			
3-Year	3.40%	2.20%	1.20%
12/31/19 to 12/31/22 (Period 2)			
5-Year	5.50%	4.30%	1.20%
12/31/17 to 12/31/22 (Period 3)			
10-Year	7.80%	6.50%	1.30%
12/31/12 to 12/31/22 (Period 4)			

This table shows a comparison of the compound annualized investment return of the actively managed endowment vs the 60/40 portfolio. The passive 60/40 index fund outperformed the actively managed endowment in each of the last 1-, 3-, 5-, and 10-year periods. The university would have been better off with the passive index fund from 2013 to 2022.

A comparison of two investment portfolios that are subject to different investment fees is of limited value because the investment performance of the portfolio with the higher fee will be reduced. Table 5 shows the total investment performance of the actively managed endowment and the passive 60/40 portfolio without the impact of fees. The investment returns of the actively managed endowment were increased by 0.60% to show the total return gross-of-fees. The investment returns of the passive 60/40 portfolio were increased by 0.07% to show the total return gross-of-fees. Eliminating the impact of investment fees highlights the skills of investment managers to select securities. Even without the impact of fees the investment returns of the actively managed endowment were less than the investment returns of the passive 60/40 portfolio. All the time and effort spent on market research did not produce higher returns than a traditional passive 60/40 portfolio.

Table 5: Comparison of Investment Returns: Performance of Actively Managed Endowment vs 60/40 Index Fund Gross-of-Fees

	Vanguard Balanced Index Fund	Actively Managed Endowment Return	Difference
1-Year 12/31/21 to 12/31/22 (Period 1)	-16.8%	-16.9%	0.1%
3-Year 12/31/19 to 12/31/22 (Period 2)	3.5%	2.8%	0.7%
5-Year 12/31/17 to 12/31/22(Period 3)	5.6%	4.9%	0.7%
10-Year 12/31/12 to 12/31/22 (Period 4)	7.8%	7.1%	0.7%

This table shows a comparison of the compound annualized investment return of the actively managed endowment vs the 60/40 portfolio gross-of-fees. Even without the impact of fees the investment returns of the actively managed endowment were less than the investment returns of the passive 60/40 portfolio.

To demonstrate the superior investment return of the passive 60/40 portfolio and the impact of investment fees, we present the growth of a hypothetical ten million endowment from its inception on January 1, 2013, through December 31, 2022. Figure 1 shows the portfolio growth of a hypothetical ten million endowment assuming the investment returns of the actively managed endowment versus the 60/40 portfolio shown in Table 4. Both investment returns are net-of-fees. The actively managed endowment and the passive 60/40 portfolio are subject to investment management fees of 0.60% and 0.07%, respectively. The passively managed endowment would have grown to $21.1 million, and the actively managed endowment would have grown to $18.7 million. The passive 60/40 portfolio would have earned almost $3.4 million more from 2013 to 2022.

Figure 1: Comparison of Two Hypothetical Investment Portfolios Net-of-Fees
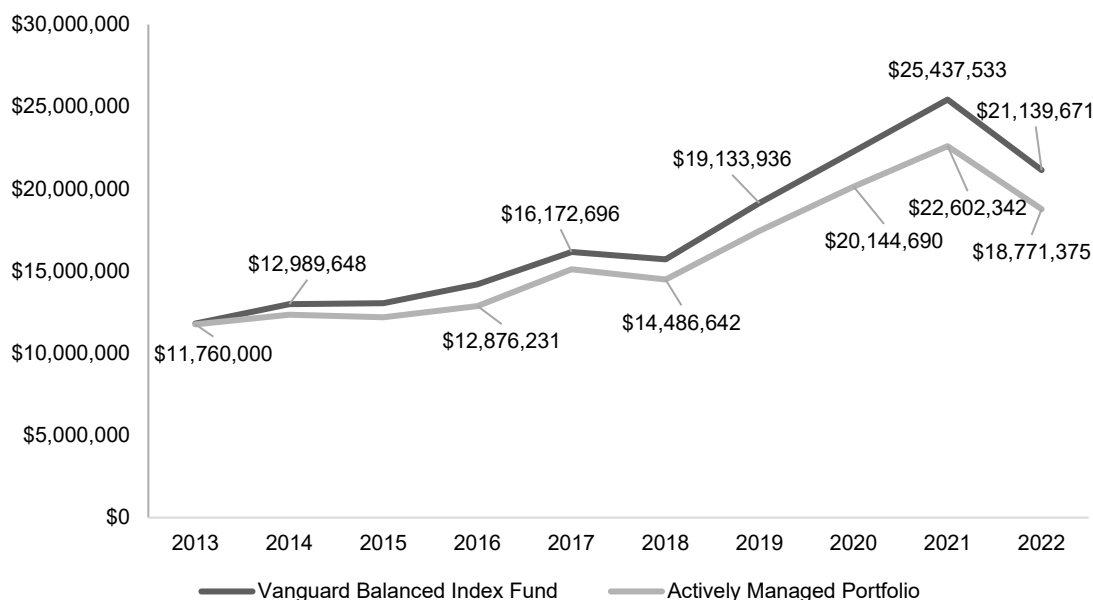
This figure shows the portfolio growth of a hypothetical ten million endowment assuming the investment returns of the actively managed endowment versus the 60/40 portfolio. The actively managed endowment and the passive 60/40 portfolio are subject to investment management fees of 0.60% and 0.07%, respectively. The passive 60/40 portfolio would have earned almost $3.4 million more from 2013 to 2022.

Although the study covers a decade of investment returns, it is limited due to the investing environment during this period. In the aftermath of the 2008/2009 fiscal crisis, the Federal Reserve Bank lowered interest rates to near zero to stimulate the economy. The resulting low bond yields encouraged many investors to look to equities for investment returns. The decade between 2013 and 2022 produced above average equity returns in the United States which may have impacted the results of this study.

CONCLUSION

Based on the findings of the study, it can be concluded that incorporating novel asset classes into an actively managed university endowment does not guarantee better returns compared to investing in a low-cost 60/40 index fund. The results show that the endowment underperformed the passive 60/40 index fund in each of the last 1-, 3-, 5-, and 10-year periods. The compound annualized growth rate (CAGR) over the 10-year period was 6.5% for the actively managed endowment compared to 7.8% for the 60/40 index fund.This conclusion has important implications for managers of university endowments. It suggests that a diversified portfolio may not necessarily lead to better investment performance. Instead, managers should consider the benefits of a low-cost passive investment strategy, such as investing in a 60/40 index fund. This approach can help minimize fees and potentially achieve comparable or even superior returns compared to actively managed portfolios.The analysis covers a specific 10-year period, which may not capture the full range of market conditions and investment cycles. Additionally, the study focuses on a specific university endowment and may not be generalizable to other institutions or investment contexts. Future research could explore the performance of different asset allocation strategies and their impact on endowment returns over longer time periods and across a broader range of institutions.

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