Dr. Melissa Luke
Re: Internal Control Roundtable

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

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

Dr. Melissa Luke
Boise State University
Adjunct Professor
Collage of Management and Economics
melissaluke@boisestate@edu
208-794-1832

THE IMPACT OF SARBANES–OXLEY AS PERCEIVED BY EXECUTIVE LEADERSHIP: AN EXPLORATORY CASE STUDY

by

Melissa Luke

A Dissertation Presented in Partial Fulfillment

of the Requirements for the Degree

Doctor of Management in Organizational Leadership

UNIVERSITY OF PHOENIX

March 2006

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Melissa Luke

University of Phoenix - Online

March 2006

Approved:

TIMME A. HELZER, Ph.D., MENTOR

HENRY T. RADDA, Ph.D., COMMITTEE MEMBER

SHANKER MENON, Ph.D., COMMITTEE MEMBER

Accepted and Signed:	_____	_____
	Dr. Timme A. Helzer	(Month, Day, Year)
Accepted and Signed:	_____	_____
	Dr. Henry T. Radda	(Month, Day, Year)
Accepted and Signed:	_____	_____
	Dr. Shanker Menon	(Month, Day, Year)

_____ _____

Dawn Iwamoto, Ed.D (Month, Day, Year)
Dean, School of Advanced Studies
University of Phoenix

Abstract

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

ACKNOWLEDGMENTS

It was with great pleasure to have the opportunity to have Dr. Timme Helzer serve as a mentor to guild me through the doctoral academic journey. Special thanks also go to my committee members, Dr. Henry T. Radda and Dr. Shanker Menon, for their expedited reliable feedback and commitment to support this research project. I appreciate the corporate executives who took the time from their busy schedules, which allowed me the capability to conduct this research project with great precision. Without their input this study would not have been possible. Many friends and family deserve special attention; however, the recognition would be far too long for acknowledgement. Thus, I would like to first extend my appreciation to my doctoral team Fidelis, which consists of Lionel Rawlins, Thuong Nguyen, Linda Jackson, and Joe Montenaz. The team will remain faithful to the end. I would also like to thank my endearing friends Queen Kathleen, Amber Myrick, Mike and Debbie Sprague, Dodi and Jerry Drazinski, and Brett and Leanne Plummer. A day never past that these wonderful people let me go without a fine dinner or a glass of wine through the doctoral process. To keep the habit ongoing, I do not think I will inform them I have completed the process. I also extend a word of encouragement to my dear friend, Everett Meyers: Someday you too will complete your dissertation (smile). My family who has so greatly supported me through the process includes Shari and Irene DePartee, Candy Lee, and Margaret, Bill, and Joan Luke. Each has played an intricate role in the completion of my dissertation through love and support.

This dissertation is dedicated to the Cardinal.

God Bless to you all.

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CHAPTER 1: INTRODUCTION

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

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

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

Background

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

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

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

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

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

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

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

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

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

Problem Statement

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

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

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

Purpose

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

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

Significance of the Study

Significance of this Study's Contributions

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

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

Significance of this Study to Organizational Leadership

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

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

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

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

Nature of the Study

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

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

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

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

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

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

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

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

Research Questions

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

underlying assumptions expressed by the executive leadership of small capitalization publicly traded companies with the stated purposes of the Sarbanes-Oxley Act of 2002? By evoking, collecting, and analyzing the perceptions of a sample of the executive leadership of these companies regarding the Sarbanes-Oxley Act, this study may assist the leadership of publicly traded small cap companies to compare their perceptions of the consequences of the Act on their companies with the perceptions of the sample of leaders examined.

Conceptual Framework

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

Change and Complexity Theories

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

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

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

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

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

Organizational Culture Theory

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

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

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

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

Servant Leadership and Stewardship Theory

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

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

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

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assumptions

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

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

Scope, Limitations, and Delimitations

Scope

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

Limitations

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

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

Delimitations

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

Summary

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

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

CHAPTER 2: LITERATURE REVIEW

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

Titles Searches, Articles, Research Documents, and Journals

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