Douglas McGregor (1960–1964), Maslow’s student, studied worker attitudes. According to McGregor (1960), traditional organizations are based on either of two sets of assumptions about human nature and human motivation, which he called Theory X and Theory Y. Theory X assumes that most people prefer to be directed; are not interested in assuming responsibility; and are motivated by money, fringe benefits, and the threat of punishment. Theory Y assumes that people are not, by nature, lazy and unreliable; it suggests that people can be basically self-directed and creative at work if properly motivated.

Management is often suspicious of strong informal work groups because of their potential power to control the behavior of their members, and as a result, the level of productivity. In 1950 George C. Homans (1910–1989) developed a model of social systems that may be useful in identifying where these groups get their power to control behavior.

In 1959 another psychologist, Frederick Herzberg (1923–2000), examined sources of worker satisfaction and dissatisfaction. Herzberg cited achievement, responsibility, advancement, and growth as job satisfiers—factors that motivate workers. He also proposed that other aspects of the job environment called job maintenance factors—company policy, supervision, working conditions, interpersonal relations, salary and benefits—contribute to the desired level of worker satisfaction, although these factors rarely motivate workers.

Also in the 1960s, another behavioral science researcher, Chris Argyris (1923–2000), presented his immaturity-maturity theory (1964). He said that keeping workers immature is built into the very nature of formal organizations. These concepts of formal organizations lead to assumptions about human nature that are incompatible with the proper development of maturity in the human personality. He saw a definite incongruity between the needs of a mature personality and the structure of formal organizations.

More and more leaders in both for-profit and non-profit organizations recognize the importance of the goals of the behavioral science (human relations) movement. Those goals consist of fitting people into work situations in such a manner as to motivate them to work together harmoniously and to achieve a high level of productivity, while also providing economic, psychological, and social satisfaction.

SEE ALSO Management; Motivation

BIBLIOGRAPHY


Marcia Anderson

BENCHMARKING

SEE Standard-Based Work Performance

BENEFITS

SEE Employee Benefits

BONDS

Bonds are debts to the issuers, whereas they are investments to buyers. Such debts appear on balance sheets of the issuing entities as long-term liabilities. Bonds provide a source of funds for the issuer and a payment to the buyer in the form of interest. Both bonds and stocks are referred to as securities, yet the two are different types of investments.
BONDS: LONG-TERM AND VARIED

Bonds are generally considered long-term obligations. Nevertheless, since there is trading in the secondary market for some types of bonds, it is possible to buy and sell such bonds at any time. Bonds are issued by entities seeking funds for a variety of reasons.

Corporations issue bonds often for expansion purposes, when they have determined that extension of their long-term debt obligations is a better strategy than to expand their ownership base through the issuance of additional stock. Corporations are frequently motivated to choose bonds over expansion of stock owners for two basic reasons: The cost of interest is deductible as a yearly expense, and there is no dilution of ownership through the extension of the company’s liabilities.

The federal government issues bonds, along with short-term notes, for the expenditures required to operate the federal government and to pay off debt that is maturing. Municipalities and states issue bonds for capital expenditures that are perceived necessary to maintain the infrastructure of the entity. Such bonds provide funds to build local roads, stadiums, schools, and other public buildings.

Investors can choose from a wide variety of bonds. Among them are: corporate bonds, federal government bonds, municipal bonds, asset-backed bonds, mortgage-based bonds, and foreign government bonds. For each of these categories, there are variations. Additionally, there are bond funds related to government bonds, corporate bonds, and foreign government bonds. It is possible to buy bonds that are convertible into stock. The bond market is indeed complex and varied. For purposes of the discussion here, the focus will be on basic bond types: corporate, federal government, and municipal. There will follow a discussion of bonds as an investment for an individual.

CORPORATE BONDS

In a corporation, the board of directors is responsible for making the decisions related to a bond issue including determining how much money is to be raised, what type of bond will be sold, what the maturity date will be, and what the interest rate will be. Corporations with sound credit standing are able to issue bonds without pledging assets. Such bonds are called debenture bonds, or unsecured bonds. Companies with low credit standing often issue secured bonds, for which specified assets have been pledged as collateral.

Issuance Process. Corporations generally do not sell directly to the public; rather, they sell their entire issues to an underwriter, often an investment bank, which acts as “middleman” for the corporation and the bondholders. (Sometimes more than one underwriter participates in the sale of an issue, especially if the value of the issue is high.) The issuing company also engages a trustee, generally a bank or trust company, to monitor the sale to ensure that all the details of the bond indenture are honored by the underwriters.

The contract for a purchase of bonds is called a bond indenture, which provides a description of the bond issue as well as the rights of both the buyer and seller. The buyer, for example, may have the right to convert a bond into stock. Sellers often state options, which modify the basic agreement. For example, a common option is the right to retire a bond before its maturity date. Such bonds are called callable bonds. Before the possibility of paperless transactions, bond certificates were issued, but now transactions tend to be book entries only.

Bonds have a predetermined rate of interest called the stated or contract rate, which is established by the board of directors. The actual interest rate, however, determined at auction, is referred to as the market rate. The market rate may equal the stated rate, or it may be higher or lower. The bond that sells at the stated rate is considered to have sold at par value. If the market rate is higher, the bond is sold at discount, which means that the buyer will pay less than the face value of the bond, therefore earning interest at a rate higher than the stated rate. If the market rate is lower, the bond is sold at a premium, which means that the buyer is paying more than the face value of the bond, and earning less than the stated rate. Although there may be a difference between stated and market rates, the actual interest paid is based on the stated rate and the face value of the bond. Interest is usually paid semiannually.

Bonds are registered in the name of the person who purchased them. The registered owner receives the interest on the interest payment date. If a $1,000 bond carried interest at a contract rate of 6 percent, the registered owner would receive a check for $30 semiannually. Since electronic processing began, the book entry means that the holder holds a virtual bond. The corporation’s computer files merely contain the names and addresses of those to whom interest checks will be sent on the appropriate dates. Additionally, with the ability to transfer funds electronically, corporations are able to deposit interest payments directly into their bondholders’ bank accounts.

The Nature of the Bond Market. The bond market is dominated by institutional investors, such as insurance companies, mutual funds, and pension funds, but bonds can be purchased by individual investors as well. Bonds are traded both in the primary market, which is the initial...
sale of the bonds, and in the secondary market, which is the sale of bonds subsequent to the initial sale by the issuer or underwriter. While the stated rate is the same throughout the life of the bond, the effective rate varies with the buying and selling of corporate bonds in the secondary market.

An investor who wishes to buy or sell corporate bonds must contact a broker or dealer who might carry that particular bond in inventory. A dealer who does not have that bond would contact another dealer who did. Many major newspapers report information about bonds, both corporate and U.S. government bonds.

Rating of Corporate Bonds. There are three organizations that rate corporate bonds: Fitch Investors Service, Moody’s Investors Service, and Standard & Poor’s Corporation (S&P). Each has a ranking system. For example, S&P uses AAA as the highest ranking, meaning in general that bonds so ranked are issued by corporations that are judged to have extremely strong capacity to pay interest and to repay the principal. S&P’s lowest ranking is D, which indicates that the corporation’s bonds are in default, and payments are in arrears. Between the two are AA, A, BBB (all indicating levels of adequate assessments), with AA being higher than A, and A higher than BBB. Bonds rated BB, B, CCC, and CC are predominately speculative, with the lower ratings often referred to as junk bonds or high-yield bonds. C is reserved for bonds no longer paying interest.

FEDERAL GOVERNMENT BONDS

The U.S. federal government borrows large amounts of money in order to meet its obligations. The U.S. Treasury issues a number of debt obligations in addition to bonds. Securities with maturity dates of less than a year are called Treasury bills (or T-bills); those with maturities from one to ten years are called notes; those with maturities exceeding ten years are generally called bonds. There are I bonds and EE bonds, however, that may be redeemed at any time after a twelve-month-minimum holding period. Collectively, the issues of the U.S. Treasury are referred to as Treasuries.

Federal government bonds are auctioned according to a schedule that is posted at the Treasury’s Web site (http://publicdebt.treas.gov), after announcements at press conferences. The bonds available are varied. A description of a limited number of what is available follows:

Thirty-Year Treasury Bonds. The U.S. Treasury sells thirty-year bonds twice a year. These bonds pay interest every six months until maturity. The bondholder receives face value at maturity. Price and yield are determined at auction. Both noncompetitive and competitive bids are accepted. Choosing a noncompetitive bid means that the buyer accepts the interest rate determined at auction and the buyer is guaranteed to receive the bond in the full amount requested. Such a bid may be made through TreasuryDirect (http://www.savingsbonds.gov), a government Web site that is run by the Bureau of the Public Debt, part of the U.S. Department of the Treasury. A competitive bid requires that the buyer use a bank, broker, or dealer. With a competitive bid there is uncertainty of about whether the buyer will be accepted or, if accepted, will get the number of bonds requested. These bonds are available only in electronic entries in accounts.

I Bonds and EE Bonds. I bonds and EE bonds are not typical bonds. They are available in small denominations. They can be purchased at local banks and other financial institutions, as well as through TreasuryDirect, and sometimes through payroll deductions.

I bonds, whose rate of return is tied to the inflation rate, may be purchased in denominations of as little as $50. I bonds are a low-risk, liquid savings product. They are available through TreasuryDirect or payroll deduction, as well as at most local banks and other financial institutions. These bonds earn interest from the first day of their issue month. They are an accrual-type security, which means they increase in value monthly and the interest is paid when they are cashed. They can earn interest for up to thirty years. The I bond’s interest is based on a composite rate that is a fixed rate for the life of the bond and an inflation rate that changes twice a year.

EE bonds are popular, low-risk savings products with interest rates based on a fixed rate of return. EE bonds are available at the TreasuryDirect Web site. If purchased electronically, EE bonds are sold at face value, which means the buyer pays $50 for a $50 bond. Purchases in amounts of $25 or more, to the penny, are possible.

Paper EE bonds are also available. The price is 50 percent of face value, that is, $25 for a $50 EE bond. Buyers are issued bond certificates. Paper EE bonds are purchased through local banks, other financial institutions, or through an employer’s payroll deduction plan, if available.

MUNICIPAL BONDS

State, county, and local governments also borrow money by selling municipal bonds (frequently referred to as “munis”). Municipal bonds are either general obligation or revenue bonds. The principal of general obligation bonds (also known as “GOs”) is paid from tax payments from citizens and from user fees for services provided by the political unit. The costs of building schools and sew-
ers, for example, are paid for through general obligation bonds. A revenue bond is one that is issued by an enterprise for a public purpose that is expected to generate revenues, such as the building of airports, utility company infrastructure, toll roads, universities, and hospitals. The money to pay bond interest and principal at maturity will be paid by successful enterprises’ revenue-generating activities.

Municipal bonds are ranked by financial information rating services. For example, the same ranking used by S&P for corporate bonds is used for municipal bonds.

BONDS AS AN INVESTMENT
Bonds are purchased by Americans for investment. Bonds are considered to be a less-risky type of investment. Bonds of the U.S. government are perceived to be the safest of all investments. Among the considerations for an investment are the following:

Risk Involved. There are several risks associated with bonds, even though there is a general belief that they are safer than, for example, investments in stocks and real estate. Among the risks are these:

Market risk: the risk an investor faces should interest rates rise after the bonds have been purchased. As market interest rates rise, the price of bonds falls (and vice versa). All bonds—corporate, Treasury, and municipal—are subject to market risk.

Credit risk: the risk associated with investments in corporate and municipal bonds (but not Treasuries). This risk relates to the actual creditworthiness of the issuer of the bonds. Since a bond is a loan, a bondholder has to assess the likelihood that the issuer will be able to pay the periodic interest payments and the bond’s par value at maturity.

With Treasury bonds, there is virtually no credit risk since most investors see them as having the full faith of the U.S. government behind them. Because of this perceived absence of default, investors typically use the rate offered on Treasuries as the benchmark against which other investments are evaluated.

Call risk: the risk that issuers may call back, or retire, the bonds. Such bonds may be retired when interest rates are declining. The bondholder is paid par value (and usually a small “call premium” as well) and any accrued interest since the last interest payment date. At such a time, the investor may want to replace the earlier bonds, but finds that the interest earned will be less than was the case earlier. Furthermore, if the investor had originally purchased the bonds at a premium, it is likely that the original purchase price would not be realized when the bond is called.

Corporate and municipal bonds may be callable. U.S. Treasuries are not.

Tax Effects of Bond Holdings. While interest on corporate bonds is fully taxable to the bondholder, interest on Treasuries is exempt from state (but not federal) income tax. Interest on municipal bonds is exempt from federal income tax. If the municipal bond is issued by the jurisdiction in which the bondholder resides, the interest is tax-exempt from both the federal government and the state government. If there is a local income tax, the interest is tax-exempt at this level, too. Thus in some instances the bondholder has a triple exemption. Because of the tax-exempt nature of municipal bonds, their rates are usually one- to two-percentage points lower than that of a comparable taxable corporate bond, for which there is no tax exemption.

SOME GENERAL CONSIDERATIONS.
Bonds typically earn a return greater than that offered by a bank on its savings account or certificates of deposit. Bonds provide certainty about the interest payments that will be received. Prices of bonds are much less volatile when compared to prices of stocks. Defaults on bonds are not common. It is also possible to buy bond funds, similar to those provided for stocks.

Much information is available at Web sites. Using such keywords terms as asset-backed bonds, bond fund, foreign government bonds, or zero bonds at a comprehensive search engine will provide descriptions and characteristics of each.

SEE ALSO Capital Markets; Finance; Investments

BIBLIOGRAPHY

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