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Alan Hamlin
Southern Utah University

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SUSTAINABILITY REPORTING BY SMALL AND MIDSIZE COMPANIES – METHODS, NATURE AND EXTENT OF REPORTING

Marianne L. James, California State University, Los Angeles

ABSTRACT

Organizations of all types and across many industries implement sustainability programs that help preserve precious resources, minimize the organizations" negative impact on the environment and multiple stakeholders, and tend to reduce costs in the long-run. Organizations communicate information about their sustainability programs utilizing various methods and levels of detail. During the past decade, an increasing number of companies have started to publish formal sustainability reports; this trend continues to grow. Recent research studies investigating sustainability reporting focus on large global entities. While many small and midsize companies have implemented extensive sustainability programs, little is known about their sustainability reporting practices.

This study investigates the methods, nature, and extent of sustainability reporting by small and midsize companies to stakeholders such as investors, customers, employees, and other interested individuals and organizations. The study focuses on the small and medium-size companies identified by FORTUNE"s 2013 annual survey as the „Best Companies to Work For."

The study found that 44% of the medium-size and six percent of the small companies in the sample issued formal comprehensive sustainability reports, most of them in a stand-alone format. Companies that issued a formal sustainability report tended to provide the greatest amount of quantitative information. Fifty percent of the companies that issued formal sustainability reports were computer-technology companies. In addition, the majority of the formally reporting companies utilized the guidelines of the Global Reporting Initiative (GRI). Overall, companies that applied the GRI guidelines tended to report more quantitative information than those that did not apply the GRI guidelines.

Although most of companies published some selected information about their sustainability-related efforts, nearly half of the medium-size and 84% of the small companies did not publish a significant amount of quantitative sustainability-related information. Moreover, those companies that published selected information tended to focus primarily on positive results and the information was largely qualitative in nature. The study found that while small and midsize companies tend to communicate information about a wide spectrum of economic, environmental, and social related sustainability efforts and some publish formal reports, comparability among companies is difficult. Information users and preparers could greatly benefit by consistent, comparable reporting of the comprehensive effect of organizations" activities on multiple current and future stakeholders.

The results from this study provide important insights about sustainability reporting by small and midsize companies that may be useful to standard-setters as well as information providers and information users. As the global sustainability-reporting trend continues, formal reporting may assist small and midsize companies to continue to create value and to enhance their comparability and competitiveness with other entities.

INTRODUCTION

Organizations of all types and sizes and across many industries have implemented sustainability-related programs. Public and private for-profit companies, governmental units, and not-for-profit entities have embraced activities and programs that preserve and protect limited resources and enhance the well-being of multiple stakeholders. Examples of sustainability-related programs and practices are numerous and include purchasing of energy efficient equipment; reducing waste and increasing recycling; reducing harmful emissions; investing in renewable energy; manufacturing and purchasing products that preserve natural resources such as water, air, and minerals; supporting product design that incorporates efficient use of resources while minimizing the negative impact on the environment; constructing new or converting existing buildings consistent with the criteria set forth by the US Green Building Council; and encouraging and supporting carpooling and telecommuting.

During the last decade, the majority of large global companies have started formal reporting of the details and results of their sustainability programs. In the U.S. and many other nations, sustainability reporting is essentially voluntary. Recent studies investigate the method, nature, and extent of sustainability reporting by large multinational companies. Relatively little is known about sustainability reporting by small and midsize companies. In addition, many of the small companies tend to be privately held and may not issue reports that are publicly available. This study investigates sustainability reporting by small and midsize companies. The sample selected represents the companies that in 2013 were ranked by FORTUNE as the "Best Companies to Work For" and were classified by the survey as medium-size and small companies.

The study finds that less than half of the companies issued a formal sustainability report; although, some of the companies provided comprehensive web-site only information. Many of the formally reporting companies utilized the reporting guidelines of the Global Reporting Initiative (GRI). The companies reported information about a wide of spectrum of sustainability-related issues concerning economic sustainability, and a wide range of environmental and social issues. While the majority of the companies that did not issue formal publicly available sustainability reports provided selected information on their websites, the nature and extent of the information provided varied considerably and tended to be qualitative in nature.

The study results suggest that consistent comparable information about organizations" sustainability would be useful to internal and external information users. The findings of this study may provide important insights that may be useful to standard-setters and information providers.

BACKGROUND LITERATURE

In 1987, the Brundtland Commission defined sustainable development as a "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, Brundlandt Commission, 1987, 41). The term sustainability generally relates to a company"s ability to create value in the long-run. While the term "sustainability" frequently is associated with environmental issues; today, most organizations apply it in a broader sense to include the wellbeing of their employees, the community in which they operate, and other stakeholders.

Although sustainability-related activities vary considerably among organizations, a recent survey of 178 executives involved with corporate sustainability initiatives revealed that environmental and social initiatives represented the two most common types of sustainability programs (Ballou, et al. 2012). Specifically, 84.8% of the survey participants reported that their sustainability programs included environmental initiatives and 70.2% reported that their sustainability programs included social initiatives (Ballou, et al. 2012).

The trend to incorporate sustainability into an organization's operations and strategies transcends public and private companies; governmental units; and colleges and universities. Some universities have already implemented extensive sustainability-oriented programs and have made a significant commitment to sustainability-related research. For example, in 2009, California State University, Los Angeles established the *Centers for Energy and Sustainability*, which also is supported by the National Science Foundation and focuses on sustainable energy research (CSULA, n.d.). Another example is Florida International University's *Go Green* initiative, which includes a nature preserve educational program, green office efforts, and sustainability training (FIU, n.d.) In addition, some universities, such as Humboldt State University, have integrated sustainability throughout their curriculum (HSU, n.d.).

Many for-profit organizations encourage their customers to support environmental and social sustainability effort; for example, some offer incentives for switching to paperless account statements, plant trees on customers' behalf, and match customers' and clients' charitable contributions. Utility companies, such as Southern California Edison (n.d.) and Florida Power & Light Company (n.d.), provide incentives to customers to reduce the amount of energy consumed and reward customers for replacing energy-inefficient major appliances with energy-efficient ones.

While decision makers tend to realize that sustainability programs are extremely important to the wellbeing of current and future generations, cost savings also tend to provide important considerations for implementing sustainability programs. A survey of executives at large companies found that of the 274 survey respondents, 74% identified cutting costs and 68% identified shareholder expectations among the determining factors for their companies' sustainability agendas during the next two years (Ernst and Young &GreenBiz Group, 2011).

Sustainability Reporting Trend

Most companies communicate information about their sustainability efforts to their stakeholders as part of advertisements, product packaging, public relations announcements, and promotions on company websites; some may even publicize them on corporate vehicles. For example, when AT&T started adding alternative-fuel vehicles to its fleet, it also added a "Green Technology" insignia on its vehicles (ATT, 2008).

Traditionally, companies and their financial statement users focused on reporting of financial/economic results; however, during the past few decades, sustainability reporting has become an important aspect of external reporting by many companies. While some companies refer to sustainability reports as corporate social responsibility (CSR), corporate stewardship, or environmental, social, governance (ESG) reports, a recent survey (KPMG, 2013) found that currently, 43% of the largest companies in 41 countries utilized the term "sustainability report."

Studies suggest that increasingly, financial statement preparers and users recognize the value-content and importance of non-financial information. For example, a Price water house Coopers (2002) survey showed that Chief Financial Officers (CFOs) and managing directors identified non-financial performance measures as more important than financial performance measures in determining long-term creation of investor value. A recent study (Holder-Webb et al.

2009) suggests that non-financial measures provide investors with a better understanding of corporate performance.

Consistent with these findings, reporting of non-financial information relating to organizations" creation of value has increased significantly during the past decade and recent studies suggest that formal sustainability reporting is globally continuing to gain momentum. For example, a study by Ernst & Young and Boston College Center of Corporate Citizenship (2013) revealed that 95% of the global 250 companies and 53% of the S&P 500 companies are currently issuing sustainability reports; in comparison, in 1990, only a few companies issued formal reports (EY & Boston College Center for Corporate Citizenship, 2013).

A recent survey (KPMG, 2013) investigated global reporting practices among the 100 largest companies in 41 countries. The study of the 4,100 largest companies (100 from each of the 41 countries) revealed that in the Americas, 86% of the U.S. based companies, 79% of the Canadian based companies, and 88% of Brazilian based companies reported on sustainability during the 2012/13 reporting period. In Europe, the countries with the highest reporting rates were in the U.K, with 100% of the largest companies reporting; in France, with 94% of the companies reporting; and in Denmark with 91% of the companies reporting on sustainability. In Asia Pacific, the countries with highest reporting rates were in Japan, with 99% of the companies reporting; in China, with 59% of the companies reporting; and in Australia, with 57% of the companies reporting. In the Middle East and Africa, large companies were reporting on sustainability in only three countries; these were, South Africa, with 97% of the companies reporting; Nigeria, with 68% companies reporting; and Israel, with 18% of the companies reporting (KPMG, 2013).

In the U.S. and in many other nations, reporting currently is still voluntary. However, the NASDAQ OMX a global financial exchange company, which includes the NASDAQ U.S. stock exchange, strongly encourages sustainability reporting (NASDAQ OMX, n.d.). Furthermore, the Ceres Institute recently recommended that other major U.S. stock exchanges require that companies disclose information about ten sustainability-related categories; these are governance and ethical oversight, environmental impact, government relations, climate change, diversity, employee relations, human rights, impact of products and services and integrity, supply chain, and community relations (Ceres, 2014).

While largely voluntary, sustainability reporting is motivated at least in part by investor expectations. Investors tend to expect, support, and reward responsible corporate behavior. According to the US SIF (also referred to as the Forum of Sustainable and Responsible Investment), $3 trillion dollars are currently invested in sustainability and corporate responsibility-related funds (US SIF, 2012).

Integrated Reporting

Currently, many companies that formally report on sustainability issue a separate report that is not part of their annual report; this is especially the case for U.S. companies. However, a trend toward integrating annual financial and sustainability reporting has recently emerged. This is referred to as "Integrated Reporting." Some also refer to it as the "Triple Bottom Line," a term which stands for "People, Profit, Planet" and was coined in 1994 by John Elkington, founder of the British consulting firm "SustainAbility (The Economist, 2009).

Among U.S. based companies, integrated reporting is relatively uncommon; a 2013 report by the Investor Responsibility Research Center Institute found that only seven of the S&P 500 companies issued an integrated report (IRRCI, 2013). In some countries, reporting rules and regulations already strongly encourage or even require integrated reporting by listed companies. For instance, companies listed on the Johannesburg Stock Exchange must comply with the South African Code of Corporate Governance (King III), which requires that these companies issue an integrated report (IIRC, 2013). In Denmark, consistent with the Danish Financial Statements Act, large public companies must provide information on their corporate social responsibility-related activities in their annual report (CSRgov, n.d.). Furthermore, Brazil"s BM&FBOVESPA exchange adopted a "report-or-explain" approach in 2012 (PwC, 2012), requiring that companies report sustainability-related information in their annual report or explain why they are not reporting. In France, article 225 of a 2010 law referred to as „Grenelle II" requires that listed companies include sustainability-related information in their annual report, in essence publish an integrated report (PwC, 2012, France). While a few countries require integrated reporting, in the U.S. and in many other nations, sustainability and integrated reporting continues to be voluntary and the nature, extent and quality of reporting varies considerably.

Reporting Standards and Guidelines

The perpetual efforts of the Global Reporting Initiative (GRI) to develop and update their global sustainability reporting guidelines support a continuing global trend toward formal sustainability reporting. Currently, about 63% of the S&P 500 companies that issue formal sustainability reports utilize the guidelines provided by the GRI (E&Y & Boston College, 2013). Recent efforts by the U.S.-based Sustainability Accounting Standards Board (SASB), which is developing industry-specific sustainability reporting standards (SASB, n.d.) may further enhance this formal reporting trend and lead to more comparable reports.

In addition, the International Integrated Reporting Council (IIRC), which was established in 2010 under the Prince of Wales" *Accounting for Sustainability Project* (Accounting for Sustainability, n.d.) continues to support the emerging trend toward integrated reporting and provide the necessary framework for high-quality and comparable reporting. On December 9, 2013, after a global consultation period, the IIRC issued its first framework for integrated reporting (IIRC, 2013). On December 13, 2013, HRH the Prince of Wales" Accounting for Sustainability (A4S) Initiative established a Chief Financial Officer Leadership Network. The purpose of the Network is to share successful strategies and to "focus on the role CFOs play in integrating environmental and social issues into financial decision making." (Accounting for Sustainability, 2013, A4S CFP Leadership).

The IIRC"s efforts have gained the support of key organizations. For example, the American Institute of Certified Public Accountants (AICPA) expressly welcomed the issuance of the framework (AICPA, 2013). The AICPA is also a member of the A4S Accounting Bodies Network, which helps promote accounting for sustainability and supports use of integrated reporting (Accounting for Sustainability, n.d., Accounting Bodies Network).

Small and Midsize Companies

While currently, a significant percentage of large U.S.-based and global companies issue formal sustainability reports, small and midsize companies are less likely to formally report on their sustainability efforts. In addition, many small and midsize companies are private entities that are not required to issue annual reports, although many of them choose to issue financial statements for various reason such as to comply with lender requirements. Nevertheless, because of their frequently close relationship with their customers and clients, small and midsize companies may especially benefit from formally reporting of their sustainability efforts. This is particularly true for the increasing number of small and midsize entities that provide sustainability-related goods and services to their clients and customers to support their sustainability efforts.

Benefits of Sustainability and Integrated Reporting

Companies that voluntarily report on their sustainability efforts tend to derive multiple benefits. These include investor and customer goodwill; cost savings; enhanced understanding of the comprehensive impact of the companies‟ activities on multiple stakeholders; and a better understanding of the interrelationships among various departments, resources, and the external as well as internal environment. Integrating financial and sustainability information may further maximize the long-run benefits. Mervyn King, Chairman of the IIRC, links integrated reporting with „integrated thinking.‟ (King, 2013). According to Mr. King, "integrated thinking‟ deals with value creation short, medium and long term and the integrated report tells the story of this value creation in clear, concise and understandable language" (King, 2013, 5). Thus, companies of all types and sizes may benefit from communicating their sustainability efforts through formal reporting, either in a standalone or in an integrated report.

PURPOSE OF RESEARCH STUDY

Research studies that investigate organizations‟ formal reporting of sustainability-related activities typically focus on large global companies that issue publicly available formal sustainability reports. Although, many small and midsize companies have implemented extensive sustainability-related projects, little information is known about their sustainability reporting practices.

Yet, small and midsize companies vitally contribute to the economy; enhance and influence the wellbeing of their clients, customers, and community in which they operate; and consume and preserve precious resources. In addition, small and midsize companies tend to have an especially close relationship with their stakeholders. Thus, information about their sustainability-related activities is very important to multiple stakeholders.

The objective of this research study was to determine the methods, nature, and extent of sustainability reporting by small and midsize companies to stakeholders such as investors, customers, employees, and other interested individuals and organizations.

RESEARCH METHODOLOGY

To accomplish the objective of this study and to address the lack of readily available comparable information, internet-based research was utilized. The methodology, including sample section, data collection, and analysis are described below.

Sample Selection

This study focused on highly regarded companies that serve as role models and trend setters within the business community and their industry and are recognized for their strong commitment to socially responsible practices. Specifically, the sample consisted of small and midsize companies recognized by FORTUNE‟s annual survey as the "Best companies to work for," which includes 31 small and 29 medium-size companies for the year 2013 (Fortune, 2013). These companies were selected because companies with a strong commitment to their employees' wellbeing may also show a strong commitment to other sustainability-related activities. The FORTUNE survey defines small companies as those with less than 2,500 employees and medium-size companies as those that have between 2,500 and 9,999 employees.

Data Collection

Data was collected for each of the sample companies utilizing the following systematic approach: First, company-specific websites were reviewed to determine whether a company issued a formal sustainability or integrated report. The most current available reports were downloaded for detailed review. For most companies, the most current reports were those for the 2012/13 fiscal period. In addition, publicly available annual financial reports or 10-K SEC filings were downloaded. Next, companies' sustainability-related links or WebPages were reviewed and available information downloaded or printed for further review. In addition, internet-based searches for keywords and variations of keywords, such as "sustainability," "corporate social responsibility," "corporate responsibility reporting," "environment," "green," "corporate stewardship," "community involvement," ESG (environmental, social, governance)," and other related terms were utilized to collect additional information about companies‟ sustainability-related activities.

Data Analysis

The data collected using internet-based research was analyzed in detail. Based on these analyses, the companies were grouped into the following eight reporting categories:

- Companies issuing formal standalone sustainability reports
- Companies issuing integrated reports
- Formally reporting companies that utilized the GRI framework
- Companies issuing annual reports
- Companies disclosing qualitative and quantitative information on their web-sites only
- Companies without significant amount of sustainability disclosures (includes companies that made only selected primarily qualitative disclosures)
- Niche companies (companies that provide goods or services that support their customers‟ sustainability efforts) making significant sustainability-related disclosures
- Niche companies without significant sustainability-related disclosures

Based on extensive analysis, the nature, type, and extent of sustainability-related information reported were determined and common reporting trends and related characteristics identified. For companies that issued a formal sustainability report, the reports were analyzed with reference to the specific reporting guidelines utilized.

For GRI-referenced reports, the application level (A, B, or C), the type and number of performance indicators for which information was presented for each major sustainability-related area, as well as the existence and manner of report verification (i.e., GRI verification, external third-party verification, self-reporting) were determined. For formal non-GRI referenced reports, the specific reporting guidelines referenced (if any) were noted and the issues and scope for which quantitative and qualitative information was reported identified. For companies that did not issue formal sustainability reports, their web-site information, annual reports, and news announcements were reviewed to determine the scope and level of detail that was reported. For all companies in the sample, the most frequently reported issues were identifies. The results were evaluated and summarized.

RESULTS

Detailed analysis of the data collected for the sample companies is summarized below.

Reporting Categories

Based on the analysis of the sample companies" most current sustainability reports, corporate websites, annual reports, and general internet-based information, the companies were grouped into eight reporting categories. Since sample companies could be assigned to several groups, the total percentages exceeded 100%. The related results are presented in Table 1 and briefly discussed below.

Table 1
CLASSIFICATION OF COMPANIES BY REPORTING CATEGORY

Reporting Categories	Medium Companies N = 29 Percentage (number)	Small Companies N = 31 Percentage (number)
Issuing formal standalone sustainability report	41 (12)	6 (2)
Issuing integrated report	3 (1)	0 (0)
Formal reporting companies utilizing the GRI guidelines	62* (8)	100* (2)
Issuing annual report	69 (20)	33 (10)
Disclosing significant amount of quantitative and or qualitative information on website only	7 (2)	10 (3)
Without significant sustainability reporting	49 (14)	84 (26)
Niche company with moderate or significant information on own sustainability	10 (3)	3 (1)
Niche company disclosing very little about own sustainability	7 (2)	33 (10)

* Percentage is based on 13 medium-size and two small companies that issued formal sustainability reports.

Based on the eight categories, 41% of the medium-size and six percent of the small companies issued formal standalone sustainability reports. Only three percent of the medium-size companies and none of the small companies issued an integrated report that combined in one report complete financial statements and extensive sustainability-related information. The company that issued an integrated report was NovoNordisk (2013), a Danish-based pharmaceutical company. Integrated reporting is consistent with the Danish Financial Statements

Act’s requirements for large companies. Some of the companies that issued formal sustainability reports also made a significant amount of information available on their sustainability-related websites.

Sixty-two percent of the medium-size and 100% of the small companies that issued formal sustainability or integrated reports utilized the G3 or G3.1 GRI guidelines. Specifically, seven of the twelve medium-size companies that issued standalone sustainability reports and the one medium-size company that issued an integrated report, as well as both small companies that issued standalone sustainability reports utilized the GRI guidelines. Of those ten companies, four reported consistent with application levels A or A+, three consistent with levels B or B+, and three consistent with levels C or C+. Detailed information about GRI report application levels and scope of reported information is shown in the following section.

Some of the companies that utilized the GRI guidelines also provided disclosures consistent with other guidelines such as ISO Environmental Management Standards, which relate to environmental issues (ISO, n.d.) and the UN Global Compact, which sets guidelines for reporting on ten universally accepted principles relating to human rights, labor, environment, and anti-corruption (UNGC, n.d.).

An additional seven percent of the medium-size and ten percent of the small companies disclosed a considerable amount of selected quantitative and/or qualitative information on their websites only, without providing hard-copy or down-loadable comprehensive reports. Sixty-nine percent of the medium-size and 33% of the small companies issued publicly available annual/10-K reports; many of the small companies were privately held and not required to issue publicly available reports.

Analysis of the companies‟ annual and 10-K reports showed that while some of them made selected sustainability-related disclosures that related to environmental and social issues the majority did not do so. Moreover, those that made sustainability-related disclosures tended to focus on specific risk factors, such as environmental issues, litigation, and regulatory requirements. An exception was one of the medium-size companies (Roche); its 2012 annual report included more than 30 pages related to responsible business; people; community involvement; and safety, security, health and environment (Roche, 2013).

The majority of the companies made some selected qualitative disclosures on their websites. Such disclosures typically described positive achievements such as donations to community causes, LEEDS certifications, and awards and recognitions. Some companies emphasized their commitment to sustainability, to ethical conduct, conservations, etc. However, 49% of the medium-size and 84% of the small companies did not make significant comprehensive quantitative sustainability disclosures that would facilitate comparability among companies.

Seventeen percent of the medium-size companies and 36% of the small companies provided sustainability-related goods or services to clients. Of those five medium-size and eleven small companies, 60% of the medium-size and only nine percent of the small companies reported a substantial amount of information about their own sustainability-related activities.

Overall, the scope of reported information varied among companies. Some companies provided four-year comparisons, some focused primarily on current year results; and some provided information about long-term sustainability related goals. For example, in addition to providing detailed current year and comparative years‟ data, one company also provided projected information till the year 2025.

Characteristics of Formally Reporting Companies – Industry

Of the twelve medium-size and two small-size companies that issued formal standalone sustainability reports, six of them (50%) operate in computer-technology related industries – software, hardware, and data storage; two develop and sell toys and games; two manufacture and/or distribute automotives; one provides infra-structure; and one is a pharmaceutical company. In addition, the company that issued an integrated report also is a pharmaceutical company.

Of the two medium-size and three small companies that reported a significant amount of quantitative and qualitative information on their websites only, one provides data storage to clients, one provides lodging, one specializes in department and home searches, and two are in the oil and gas industry.

Commonly Reported Sustainability-Related Issues – GRI Reporting Companies

Based on extensive analysis, the nature, type, and extent of information reported were determined and common reporting trends identified. Overall, companies that issued formal sustainability reports and especially those that applied the GRI framework tended to report information about a broader array of issues and disclosed a greater amount of information than those companies that did not issue formal sustainability reports.

Eight (62%) of the medium-size and both (100%) of the small companies that issued formal sustainability reports utilized the GRI's G3 or G3.1 guidelines. Three application levels are available to choose from – A, B, and C. Application level A requires additional disclosures in all reporting categories and level C requires the least amount of detail. Consistent with the GRI G3 and G3.1 guidelines, the sample companies that utilized the GRI guidelines under either of the three application levels reported information on the following issues:

- Profiles disclosures: (a) strategy and analysis, which consists of statements made by the company's most senior management and includes qualitative disclosures about issues such as key events, failures, and strategic priorities; (b) organizational profile, which includes qualitative information such primary brands, countries of operation, markets served, legal form of organization and quantitative information about the scale of operation in terms of number of employees, net revenue, and number of operations; (c) report perimeters, such as reporting date and cycle, and reporting boundaries. This information is qualitative. Application level B required reporting on all profile disclosures, while level C required reporting on selected disclosures (GRI, FAQs, n.d.).
- Corporate governance, commitments and engagements: includes qualitative information about the organizations governance structure, the basis for identifying stakeholder groups, and materiality; and quantitative information on governance, including personnel information by gender, age, and minority group representation.
- Information about their performance relating to three areas: economic, environmental, and social. In addition, companies that reported consistent with GRI application levels A and B were required to provide information about labor practices and decent work, human rights, society, and product responsibility, which are subcategories of the "social" category. Companies that reported consistent with application level C were required to provide information on a minimum of ten (10) performance indicators, one from each of

the three main categories; application level B required reporting on a minimum of 20 performance indicators; and application level A required reporting on all 63 core performance indicators as well as some sector-specific supplement indicators (GRI, 2011).

Of the eight medium-size companies that reported consistent with the GRI guidelines, three prepared their sustainability reports consistent with application levels A+ or A, which required that they provide information on 63 core performance indicators as well as some sector-specific supplemental indicators, or explained why they were unable to report on a particular indicator. The plus indicates that the reports were externally audited; while its absence means that a company self-assessed the application level. Two of the eight companies prepared their reports consistent with application level B; both of them self-verified. Three of the GRI-consistent reporting companies reported under application levels C or C+. Four of the medium size companies were externally audited.

One of the small-size companies prepared its audited sustainability report consistent with application level A+ and another small company consistent with application level B+. While both companies were classified as "small" in the FORTUNE's "Best Companies to Work For" ratings, they were subsidiaries of or associated with larger global organizations.

Since GRI guidelines for application levels B and C currently provide a considerable degree of flexibility, among sample companies, the number and types of performance indicators for which the companies provide full or partial information varied considerably even within specific application levels. For instance, while application level B requires reporting of at least 20 performance indicators, two of the B-level reporting companies reported on a total of 45 (eight economic, 15 environmental, ten labor practices, three society, and nine product responsibility related) and 28 (two economic, thirteen environmental, seven labor, three human rights, one society, and two product responsibility related), respectively.

Similarly, application level C companies reported information about more than the minimum required ten performance indicators. For example, one of the medium-size companies reported information about 32 performance indicators related to the following categories – two economic, 13 environmental, six labor practices and decent work, five social performance, two customer privacy, and four philanthropy and community engagement. Another C level company reported information about 28 performance indicators – four related to economic performance, 15 environmental, and nine labor practices related. Another C level reporting company provides information on 23 environmental performance indicators in its citizenship report; in addition, the company provided information on nine economic, three human rights, four social, and two product related performance indicators; however, some of the information what reported outside the citizenship (sustainability) report with the location indicated in the company's GRI index.

Commonly Reported Economic Indicators

Commonly reported economic performance indicators presented in the sample Companies' GRI-based reports included the following sustainability-related issues:

- Direct economic value generated and distributed (e.g., revenues, operating costs, employee compensation, donations and other community investments).
- Employee coverage under defined benefit pension plans.
- Financial implications, risks and opportunities for the company's activities due to climate change.
- Policies, practices and proportion of spending related to local suppliers.

All of the companies that prepared formal sustainability reports utilizing the GRI framework reported their direct economic value generated; although, some of the companies referred to annual reports for the location of the information.

Commonly Reported Environmental Indicators

Commonly reported environmental performance indicators presented in GRI-based reports included the following sustainability-related issues:

- Materials related: percentage of materials used that are recycled
- Energy related: direct energy consumption; energy saved through efficiency, renewable energy, and other initiatives
- Water related: consumption; percentage of water recycled and reused
- Emissions related: direct and indirect greenhouse emissions; initiatives to reduce greenhouse emissions
- Waste and recycling-related information: total waste by type, disposal methods, significant spills
- Product and services related: initiatives to reduce impact of products and services
- Compliance with environmental regulations and fines related to environmental issues

All companies that utilized the GRI framework consistent with any of the three application levels reported information about their direct energy consumption, energy saved due to conservation and efficiency, total direct and indirect greenhouse gas emissions by weight; and total weight of waste by type and disposal method.

Commonly Reported Social - Labor Practice Indicators

Social performance indicators consisted of four sub-categories – labor-related, human rights, society, and product responsibility. While some of the companies did not report on labor indictors, most of them did. Commonly reported labor practice related performance indicators included:

- Total work force by employment type, employee contract, and region
- Employee turn-over by age, gender and region
- Benefits provided to full-time employees
- Percentage covered by bargaining agreement
- Training by gender and employee category
- Life-long learning programs
- Occupational related injury rates, fatalities, and absentees

Even though C level reporting companies are not required to report their performance on labor practices, two of the companies chose to report on various labor-related performance indicators. Both companies reported information about their total workforce by employment type, employment contract, region, and gender; new hires and employee turnover by age, gender and region; benefits provided to part and full time employees; injury rates, occupational related deceases, fatalities, and absentees by gender and region; and programs for skills management and lifelong learning.

Commonly Reported Social - Society Indicators

Commonly reported society-related indicators addressed issues related to companies" and employees' community engagement; humanitarian efforts; and anti-corruption policies, legal actions, and compliance with policies.

Commonly Reported Social -- Product Responsibility Including Privacy

The companies that reported consistent with application level A were required to report information related to nine (9) aspects of product responsibility. In addition, some of the B-level reporting companies also provided information on product responsibility. For example, one of the B-level companies reported on all nine indicators and another reported on two indicators; in addition, two of the C application level reporting companies reported on two product responsibility indicators. The two most frequently reported indicators related to product life cycle as related to health and safety, customer satisfaction, and customer complaints with respect to data security and information privacy; and monetary value of fines related to non-compliance with laws and regulations.

Information Commonly Reported by Companies Issuing Non-GRI Sustainability Reports

Five of the medium-size companies that issued formal sustainability reports did not utilize the GRI framework. The scope, nature and type of information reported by those companies varied significantly. Some of their reports were quite detailed, addressing environmental, social, and governance issues; and included current year as well as comparative year information regarding issues such as energy saved through use of energy efficient equipment, reduction in water use, reduction in CO_2 emissions, the results of recycling efforts, donations to specific not-for-profit organizations, and the composition of personnel. Some of the reports provided a significant amount of quantitative information focusing primarily on specific areas, such as environmental issues or community and employee wellbeing; others were primarily qualitative and descriptive in nature and tended to focus on areas that the company excelled at.

Non-GRI companies consistently reported information about:

- Employee-related issues and benefits and wellness programs
- Corporate awards and distinctions
- Community engagement and donations
- Their commitment to reducing greenhouse gas emissions; related programs and initiatives
- Water usage and management
- Corporate governance
- Ethical principles

Some of this information tended to be reported outside the sustainability report. In addition, some of the reports referred to the Dow Jones Sustainability Index and the Carbon Disclosure Project. While the nature, type and extent of information provided in Non-GRI referenced reports varied considerably, some of the companies provided a wealth of information about issues that frequently are reported under the GRI guidelines. However, more variability existed among the reports and in some cases companies issued reports at varying intervals. For example, one of the companies issued a detailed sustainability 80+ page report in 2010 followed by its most current report consisting of a 25-page update in 2011. The company provided four-year comparative information that addresses issues such as its economic performance; product related performance, such as number of violations, factory seal, and sourcing; environment, such as greenhouse gas emission, energy consumption, CO_2 emissions, water consumption, and waste; employee-related performance, such as diversity, ethnicity and minorities, training, unionization; community-related performance, such as financial support, donations, employee volunteer hours; and awards and recognition.

Another company issued a 16-page report focuses on greenhouse gas emissions, green reduction, electricity use, water use, waste, supply chain, employee engagement; products; and sustainability reporting. Another entity issues a report exceeding 40 pages report that focuses on carbon foot print, environmental initiatives, and security and privacy.

Information Commonly Reported by Companies without Formal Sustainability Reports

The scope, nature and type of information reported by companies that did not issue formal sustainability reports and instead reported information only on their company website varied significantly. While a few companies disclosed significant qualitative information especially on CO_2 emissions and water usage, most companies tended to provide primarily descriptive qualitative information. Reported information tended to be on selected areas and selected aspects within those areas. Overall, companies tended to focus heavily on their positive achievements related to selected sustainability-related issues.

Commonly reported information disclosed by those companies related to:

- Community involvement and philanthropic activities, both with respect to the company and its employees; public health and education.
- Awards and designations achieved by the company (e.g., LEEDS certification, industry recognition, etc.)
- References to company's code of ethics
- Employee wellness programs
- Climate change, and especially CO_2 emissions information
- Recycling efforts
- Waste management
- Water usage

Some of the companies did not provide quantitative sustainability-related information; a number of them were health-care oriented organizations. While some of these organizations disclosed information about their community involvement including community health education and health screening programs, they generally did not provide information about environmentally-oriented issues such as waste disposal, energy use and conservation.

SUMMARY AND IMPLICATIONS

Sustainability reporting varied significantly among the small and medium-size sample companies. Less than half of the medium-size and only two of the small companies issued formal sustainability or integrated reports; of these, 62% of the medium-size and all of the small companies utilized the GRI framework. With respect to utilization of the GRI framework, the findings of this study are consistent with those of other studies that focus on large companies.

Companies that utilized the GRI reporting guidelines tended to report a greater amount of detailed quantitative information than those companies that did not utilize the global reporting guidelines. Overall, formally reporting companies tended to provide more detailed information than companies that did not issue a formal report. In addition, the use of the GRI framework and the associated GRI indexing system enhanced the comparability among the reports. However, even among GRI-referenced reports, significant variations were noted since companies may choose from among three application levels and, within a particular application level, may choose from among a number of performance indicators.

Companies that disclosed only selected information on their websites and did not issue formal reports tended to focus on specific issues and emphasize positive results; in some cases, reporting appeared to be largely promotional in nature. Furthermore, while 60% of the GRI-referenced reports were audited, non-GRI referenced sustainability information typically was unaudited. Consistent with the spirit of sustainability, several of the formal reports were available solely in a down-loadable format; some were structured as website links.

In addition, a considerable percentage of the companies did not make significant quantitative disclosures about their sustainability-related activities. Some non-GRI reporting companies provide sustainability-related information in various information sources, which may make it more cumbersome for stakeholders seeking comprehensive knowledge. Integrated reporting could help address this issue and benefit not only information users, but also information preparers.

Limitations

The relatively small sample size limits testing for statistically significant variables that may influence sustainability reporting. Furthermore, some of the private companies did not issue annual reports, which limits testing for related financial measures. In addition, the sample selected deals with companies that are highly rated by employees, which may increase the likelihood of companies reporting about their related sustainability efforts. The study should be repeated with a larger sample from a diverse population of companies.

Implications

Because of the variability in reporting, comparability among companies is difficult. Consistent application of a common framework, such as the GRI or the currently being developed SASB standards may greatly enhance comparability and be beneficial to information users. Opportunities exist for companies to further enhance their reporting, for meeting the needs of their stakeholders, and for better understanding their own internal operations and their comprehensive effect on the external environment. Companies that provide sustainability-related goods or services may especially benefit from reporting about their own sustainability-related activities. Furthermore, opportunities may exist for non-reporting companies that voluntary report detailed and comprehensive information about their sustainability-related activities.

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THE VALUE OF GRADUATE EDUCATION TO PROMOTE SUSTAINABILITY IN HEALTHCARE ORGANIZATIONS

Marc Marchese, King's College
Bernard Healey, King's College
Francis Belardi, Guthrie Healthcare Clinic

ABSTRACT

Most healthcare systems continue to increase the price of their services while delivering lower quality services to their customers. Unfortunately, this strategy is no longer capable of providing sustainability to the vast majority of healthcare providers. These healthcare systems seem to be unaware of the changes that are occurring in the healthcare environment and making matters worse most of their employees are lacking the business skills necessary to respond to these environmental changes. Many of our healthcare systems have developed bureaucratic rules and regulations that stifles creativity thus eliminating the ability to rapidly respond to a changing business environment. They are unable to capitalize on the many opportunities that present themselves because of the much needed reform efforts found in healthcare today.

Kotter (2014) points out that in order to take advantage of market opportunities mature organizations require the creation of a dual operating system capable of creating a sense of urgency about responding to external conditions. This would entail the availability of a group of empowered entrepreneurs who work for the healthcare system attempting to provide disruptive innovation within the large health care delivery system.

This study of a large healthcare delivery system attempted to discover if graduate education in healthcare administration significantly affected employees" awareness of their changing environment and preparedness of their business acumen to exploit these changes. The findings in this paper clearly advocate for graduate education for healthcare employees in order to prepare for organizational challenges.

INTRODUCTION

It has been known for years that the major problems found in healthcare are a direct result of the rising cost and poor quality of American healthcare delivery systems. In order to address these problems healthcare providers must first understand the problems they face and then develop the business skills that are necessary to improve the efficiency and quality of healthcare services to their consumers.

Chopra (2014) points out that the majority of root causes of environmental change and subsequent business downturns are not only identifiable but preventable. The lack of recognition is a direct result of top management's inability to understand the need for constant innovation. Kotter (2014) argues that this is a very dangerous course to follow for any business in today's turbulent environment. In order to remain in business for the long-term the business must have a strategy in place to rapidly respond to the environmental realities and then be able to exploit the opportunities that may become available.

Cutler (2014) points out that there is a need to better organize groups of health care providers to improve health outcomes at a lower price. Kotter (2014) proposes the development of the dual operating system that could provide the much needed creativity and innovation that is so necessary to deal with a changing business environment. There would be a combination of a group of empowered entrepreneurs attempting to provide innovation within the large health care delivery system. In essence these entrepreneurs using their dual operating system would be functioning as a start up with the power to take risk in their attempt at improvement. There is a tremendous need for agility and creativity along with a sense of urgency required to take advantage of the many opportunities that present themselves because of much needed reform efforts found in the way health care services are being delivered to the American population. In order for this strategy to be successful employees must be aware of upcoming environmental changes and have the business knowledge that is necessary to exploit these changes.

A potential approach to prepare a healthcare workforce to become more entrepreneurial is to encourage employees to pursue graduate education in business or healthcare management/administration. A quality healthcare administration or business graduate program should expose employees to the most recent trends in the healthcare industry as well as further develop their employees‟ business skills. In response to the growing business complexity of the medical profession (Miron-Shatz, Shatz, Becker, Patel &Eysenbach, 2014) there are over 50 medical schools in the United States today that have a MD / MBA program to help prepare physicians for the workplace. Similarly, there are articles that promote the value of a graduate business degree to help medical professionals be prepared to improve the efficiency and profitability of their organizations (e.g., Ornstein, 2010). Research on the value of graduate business or healthcare administration to physicians however is limited. In one study a survey was administered to physicians and other healthcare professionals that just completed a graduate business program. The survey did reveal participant satisfaction with the program right after when the program was finished. No comparison groups were included in the study (Young, Hough &Peskin, 2003). This investigation utilizes a comparison group within a large healthcare organization to determine the extent to which graduate education influences employees on their perceived business acumen and knowledge of healthcare trends. Since physicians often leave primary care positions to move into upper-level administration, it is important to determine whether or not graduate business or healthcare programs have a significant impact on those participants compared to nonparticipants. If there are no substantial differences in the business skills or knowledge, then the value of offering this benefit is highly questionable.

H1 *Healthcare employees with a graduate education in business or healthcare are more knowledgeable of current healthcare trends than employees without this education.*

H2 *Healthcare employees with a graduate education in business or healthcare believe they have stronger business acumen than employees without this education.*

METHODS

A large healthcare system in the northeast was surveyed to discover their employees' knowledge of current and future environmental trends in the healthcare sector along with their level of business acumen. The survey was administered via survey monkey to all 4200 employees of this organization. 783 employees responded to this survey for a response rate of 18.6%.

This survey consisted of two sections pertaining to the above topics along with a third section on demographic information concerning the respondents. The first section of the survey contained 9 items pertaining to key business components (e.g., tax implications, human resources, legal, government). The second section asked respondents about their familiarity with the 10 most critical trends (e.g., use of analytics, care for the mentally ill, PPACA) in healthcare (Emanuel, 2014). The final section pertained to five demographic items (age, sex, tenure, education & full-time status).

RESULTS

The respondents were primarily female (70%) with an average age just under 50. A slight majority (51%) of these employees worked at this organization for over 10 years and about 90% are full-time employees. Only 12.5% of these employees have any type of graduate education in business or healthcare administration.

The internal consistency reliability of the 9-item scale on business acumen was .94, whereas the 10-item scale for healthcare trends had an internal consistency reliability of .95. Both of these coefficients are quite impressive.

The survey data was broken down based upon whether or not the respondent had completed any type of graduate education in business or healthcare administration. Demographic comparisons were made between those with a graduate education and those without. The only statistically significant difference (p<.01) based on this difference was that there was more male employees with a graduate education (19%) than female employees with a graduate education (11%). When this analysis was done for physicians only, there were no statistically significant differences based upon this classification.

Table 1 below displays mean differences across all employees on the two scales. For every single item on both scales employees with a graduate certificate or degree reported higher business acumen and knowledge of health care trends. Support for both hypotheses are thus indicated in these tables.

Table 2 presents this same analysis for physicians only. The results were almost as substantial. In six of the nine business areas physicians with a graduate degree reported statistically higher scores. Similarly, for healthcare trends physicians with a graduate certificate/degree reported considerably higher knowledge.

TABLE 1
Mean differences across all employees with & without graduate certificate/degree in HCA

	No grad certificate or degree (n = 617)	Grad certificate or grad degree (n = 88)	p-value
Business Acumen:			
1) Legal	2.18	2.88	.000
2) Tax	1.89	2.35	.000
3) HR	2.49	3.25	.000
4) Marketing	2.46	3.24	.000
5) Management	2.58	3.52	.000
6) Revenue	2.37	3.31	.000
7) Expense	2.42	3.34	.000
8) Patient	3.14	3.65	.000
9) Government	2.18	2.75	.000
TOTAL score	**21.62**	**28.99**	**.000**

Health care trends:			
1) Use of analytics in healthcare decision-making	1.97	2.69	.000
2) Care for the mentally ill	1.95	2.41	.000
3) Treatment of chronic illness	2.33	2.80	.000
4) New healthcare technologies	2.27	2.97	.000
5) Rise of specialty clinics	2.05	2.71	.000
6) Changes in employer healthcare programs	2.20	2.93	.000
7) Impact of the PPACA	2.65	3.22	.000
8) Implications of inflation on healthcare services	2.52	3.21	.000
9) Changes in medical education	2.25	2.69	.000
10) Changes in the healthcare workforce	2.49	3.02	.000
TOTAL score	**22.71**	**28.99**	**.000**

Table 2
Mean differences between physicians with & without graduate certificate/degree in HCA

	No grad certificate/ degree (n = 35)	Grad certificate or grad degree (n =13)	p-value
Business Acumen:			
1) Legal	2.18	2.88	.003
2) Tax	1.89	2.35	.106
3) HR	2.49	3.25	.023
4) Marketing	2.46	3.24	.032
5) Management	2.58	3.52	.031
6) Revenue	2.37	3.31	.037
7) Expense	2.42	3.34	.009
8) Patient	3.14	3.65	.078
9) Government	2.18	2.75	.134
TOTAL score	**21.62**	**28.99**	**.007**
Health care trends:			
1) Use of analytics in healthcare decision-making	1.97	2.69	.010
2) Care for the mentally ill	1.95	2.41	.193
3) Treatment of chronic illness	2.33	2.80	.092
4) New healthcare technologies	2.27	2.97	.046
5) Rise of specialty clinics	2.05	2.71	.030
6) Changes in employer healthcare programs	2.20	2.93	.010
7) Impact of the PPACA	2.65	3.22	.018
8) Implications of inflation on healthcare services	2.52	3.21	.070
9) Changes in medical education	2.25	2.69	.654
10) Changes in the healthcare workforce	2.49	3.02	.047
TOTAL score	**22.71**	**28.99**	**.019**

DISCUSSION

There is growing evidence of the need for investment in the preparation of human capital for the changes that are occurring in the delivery of healthcare services by American healthcare providers. This investment requires preparing employees with environmental information along with the requisite business skills to deal with an uncertain and ever changing healthcare environment.

The results of this study revealed that individuals who had received business education training were more aware of the changing healthcare environment and better prepared to exploit the opportunities that were made available by these changes. Healthcare employers should strongly consider this initiative to develop their workforce for the future.

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COMPARISON OF TAX/LEGAL RESEARCH SERVICES

Theresa Tiggeman, University of the Incarnate Word
April Poe, University of the Incarnate Word
Michael Forrest, University of the Incarnate Word

ABSTRACT

The main goals of tax research include answering tax questions and communicating information. Additionally, the tax researcher needs to work efficiently and effectively. This paper introduces commercial tax services as tools to conduct efficient and effective tax research. Moreover, this paper discusses specific commercial services including RIA Checkpoint (RIA), CCH IntelliConnect (CCH), Bloomberg BNA U.S. Income Portfolios Library, Lexis-Nexis, LexisNexis Academic, and Westlaw. Karlin (2009) cites advantages of tax research services including libraries, searches, and links.

INTRODUCTION

Magro and Nutter (2012) studied experience in making tax decisions and found that "lack of experience is a primary concern of corporate tax executives" (p. 292). They stated "the tax function is a leading cause of material weaknesses and restatements under Sarbanes-Oxley and tax executives cite increasing difficulty in hiring and retaining qualified professionals" (p. 291). In a survey of accounting firms, communication was determined to give an accounting firm a competitive edge (Blanthorne, Bhamornsiri, & Guinn, 2005). Communication ranked second out of six factors for promotion (Blanthorne, et al., 2005). The main goals of tax research include answering tax questions and communicating resulting information (Raabe, Whittenburg, Sanders, & Sawyers, 2012; Rupert, Pope, & Anderson, 2015). Additionally, the tax researcher needs to work efficiently and effectively. This paper describes commercial tax services as tools to conduct efficient and effective tax research. Moreover, this paper discusses specific commercial services including RIA Checkpoint (RIA), CCH IntelliConnect (CCH), Bloomberg BNA U.S. Income Portfolios Library (BNA), Lexis-Nexis, LexisNexis Academic, and Westlaw. Karlin (2009) cites advantages of tax research services including libraries, searches, and links.

ETHICS OF USING COMMERCIAL TAX SERVICES

Using commercial services efficiently and effectively allows a tax researcher to find solutions to problematic issues in taxation (Karlin, 2009; Needleman, 2013; Raabe et al., 2012). Commercial services typically lead researchers to consult primary and secondary sources within one website (Karlin, 2009; Raabe et al., 2012). Primary sources include tax laws, regulations, court cases, and treaties. Primary sources have a high level of authority and can be relied on by tax researchers in making determinations of proper treatment of issues. Secondary sources include commentary, publisher interpretations, journal articles, and textbooks. Secondary sources are useful in understanding issues or analyzing how other taxpayers may be treating a situation, but do not have binding or precedential authority (Karlin, 2009; Raabe et al., 2012). Moreover, all necessary supporting information needs to be incorporated into communications (Raabe et al., 2012). Raabe, Whittenburg, Sanders, and Sawyers (2012) noted that limiting tax research to just commentary (secondary source) is unethical. Such practice would also show a lack of due diligence. The tax researcher should determine and evaluate primary sources and recent changes. Fortunately, commercial tax services link directly to primary sources (Catanach, & Rhoades-Catanach, 2013; Karlin, 2009; Raabe et al., 2012). Raabe et al. (2012) warned, "professional judgment is required because the controlling law is imprecise and can be interpreted differently by the taxpayer, the IRS, and the courts" (p. 194).

CATEGORIES OF COMMERCIAL TAX SERVICES

Two categories of commercial tax services include annotation and topical (Catanach, & Rhoades-Catanach, 2013; Karlin, 2009; Raabe et al., 2012). Some authors refer to annotated tax services as code-oriented (Karlin, 2009). Compilations are another name for annotated tax services (Raabe et al., 2012). The grouping of annotations or code-oriented classifications revolves around the Internal Revenue Code (IRC) sections (Karlin, 2009; Raabe et al., 2012). These authors noted that annotations provide summaries of the code by the tax service editorial staff. Additionally, annotations summarize "related court cases and administrative rulings" (Raabe et al., 2012, p. 192).

Topical tax services report results of tax research projects with an integrated approach (Karlin, 2009; Raabe et al., 2012). These authors discussed that topical tax services assist tax researchers by bringing together information grouped by relevant code sections. Topical tax services, compared to annotations, have longer explanations, are easier to comprehend, and are a good starting point for the tax researcher (Karlin, 2009). Karlin (2009) pointed out that the less familiar a researcher is about a code section, the more benefit there is to be gained by using topical tax services. However, some authors noted that "the distinction between the two methods was important in a paper environment, but now, with the advent of keyword searches, it"s less significant" (Catanach, & Rhoades-Catanach, 2013, para. 6). It is important to note that a topical tax service may not provide full coverage of all code sections, so if support is not located within a topical tax service, the researcher needs to expand his or her search through code-oriented services.

As the tax researcher prepares to conduct a search, the following decision tree might be helpful to keep in mind. If a particular code section, ruling, or tax case is known, a citator service will provide a listing of other sources that have cited the same provision. This is often a good starting place for a research project. Then, when delving into further research, the researcher can proceed either with sources that are organized around particular legal provisions, such as Internal Revenue Code sections, or by the topical subject matter of the research issue. The discussion below introduces various tax research tools that will aid the tax researcher.

CITATORS

Tax researchers must deal with volumes of information in a constantly changing tax world (Catanach, & Rhoades-Catanach, 2013; Karlin, 2009; Raabe et al. 2012). These authors discussed the ability of a tax researcher to employ a citator to trace the origins and changes of legal sources. In addition, citators increase efficiency in the tax research process by identifying the current legal standing of a particular provision. The citator lists the "cases, revenue rulings and revenue procedures that have ever cited a ruling" (Karlin, 2009, p. 130). Some limitations of citators are potentially not referencing all documents related to the tax question and not effectively guiding the researcher to other resources (Karlin, 2009; Raabe et al. 2012).

However, Raabe et al. (2012) cautioned "the citator is a vital tool in the research process…only careless or improperly trained practitioners rely on legal sources that have not been checked through a citator" (p. 243). Commerce Clearing House (CCH), Research Institute of America (RIA), LexisNexis, through Shepard"s, and Westlaw, through KeyCite, all offer citators (Raabe et al. 2012).

RIA CHECKPOINT

The Research Institute of America sponsors RIA Checkpoint (Karlin, 2009; Needleman, 2013; Raabe et al. 2012). RIA began in 1935 as a research source (Williams, 2014). RIA Checkpoint provides the tax researcher with keyword searches in both technical and natural language (Karlin, 2009; Rupert et al. 2015). Other search features include citation and content searching (Raabe et al. 2012).

Features of RIA Checkpoint include the Federal Tax Coordinator (FTC), a value added topical research tool (Karlin, 2009; Raabe et al. 2012). The FTC highlights the search keyword, provides the title, and includes editorial comments called observations (Raabe et al. 2012). The FTC employs hyperlinks to locate primary sources (Karlin, 2009; Raabe et al. 2012). Tax researchers cite primary sources after evaluation; however, "paragraph numbers of the FTC should **not** be cited as support by a tax professional" (Raabe et al. 2012, p. 198, original emphasis). Another valuable tool in RIA Checkpoint is the United States Tax Reporter (USTR) (Catanach, & Rhoades-Catanach, 2013; Raabe et al. 2012). The USTR annotates primary tax laws and regulations, and explains tax cases and other rulings (Hoffman, Raabe, Maloney, Young, & Smith, 2015; Raabe et al. 2012). Such a source is useful for honing in on specific code sections. A useful feature of the USTR is its New Matter or Recent Developments volume that provides a reference table for new information not yet included in the main data set (Karlin, 2009). Additionally, the USTR contains a topical source, Federal Tax Coordinator 2d (Catanach, & Rhoades-Catanach, 2013; Hoffman et al. 2015). Topical searches are more applicable for retrieving multiple code sections. RIA Checkpoint also provides well-respected journals known as Warren, Gorham & Lamont (WG&L) (2013; Karlin, 2009; Raabe et al. 2012; Williams, 2014). These journals originated in 1961 (Williams, 2014). Many entities, corporations, firms, and even the Supreme Court use these journals as secondary tax research resources (Karlin, 2009; Williams, 2014).

Raabe et al. (2012) compares CCH IntelliConnect (CCH) to RIA Checkpoint. These authors noted that CCH is more streamlined than RIA. All CCH databases employ keyword searching. Additionally, CCH has a thesaurus in the background of the search function (Catanach, & Rhoades-Catanach, 2013; Raabe et al. 2012). CCH also has the feature of date limitations for searches (Raabe et al. 2012). In contrast, RIA Checkpoint has a date filter, but it is limited and does not apply to all types of searches. CCH uses filters to categorize results. For example, one filter, Results by Library, finds editorial information. The Documents Type filter brings forth journals, annotations, and other resources (Raabe et al. 2012). CCH has a resource, Tax Research Consultant (TRC) that mirrors RIA‟s Federal Tax Coordinator. CCH‟s Standard

Federal Income Tax Reporter (SFITR) is a code section-based tool that resembles the United Sates Tax Reporter. Like RIA, CCH has journals and other secondary resources (Raabe et al. 2012). CCH and RIA both issue daily updates (Needleman, 2013). The Master Tax Guide contained in CCH is an excellent source for answering basic tax questions (Catanach, & Rhoades-Catanach, 2013, 2013; Raabe et al. 2012). Because it allows the researcher to view the tax code by year, CCH provides tax archives that assist professionals in audit situations (Raabe et al., 2012). Finally, CCH utilizes citation templates for locating information when citation information is lacking (Raabe et al. 2012).

BNA PORTFOLIOS

BNA includes over 200 “portfolios” which discuss, in depth, specific tax issues (Karlin, 2009; Raabe et al. 2012). “The portfolios are unique because they are written for professionals, by professionals” (Raabe et al. 2012, p. 209). The strength of BNA is in its topic oriented approach, which users can access through a search or table of contents by topic (Karlin, 2009; Raabe et al. 2012). Portfolios can be described as small textbooks covering specific issues. For any included topic, all relevant code sections are discussed, reducing the chance that an exception or an appropriate code section is not located. Some examples of portfolio topics include attribution rules, bankruptcy, corporate reorganizations, and disregarded entities. BNA portfolios are written by identified experts for each topic and provide well-integrated tax planning discussions. A subscription to BNA is often purchased as an addition to one of the code-oriented services such as CCH, RIA, Westlaw, and LexisNexis. Although it is topic oriented, the portfolios are completely cited. The relevant full texts of primary sources cited are hyperlinked so that they can be accessed directly (Karlin, 2009; Raabe et al. 2012).

Lexis relates to tax and legal tools while Nexis provides news-oriented information (Raabe et al. 2012). The Tax Center in LexisNexis facilitates tax professionals in research. Geared to attorneys, the Tax Center is not as efficient as RIA or CCH (Altshuler, 2001; Raabe et al., 2012). However, Lexis provides Auto-Cite which is an excellent citation service (Altshuler, 2001). Moreover, LexisNexis provides information about specific firms (Catanach, & Rhoades-Catanach, 2013). The “LexisNexis Dossier can deliver profiles on approximately 35 million companies as well as on 1,000 industries” (Catanach, & Rhoades-Catanach, 2013, para. 32).

LexisNexis has the following tax services: Federal Code Reporter, and Tax Advisor and Federal Topical (Raabe et al., 2012). Like RIA and CCH, LexisNexis has primary sources and secondary analytical information. The keyword search is much like RIA using KeyWord in Context (KWIC). Another feature of LexisNexis is Get a Document that will retrieve documents by entering recognized citation formats (Raabe et al. 2012).

LexisNexis Academic, provided by many universities in their academic libraries, offers a less detailed version (Raabe et al. 2012). The tax research function retrieves primary sources, journals, and other informational sources. Like other services, LexisNexis Academic employs keywords searching in natural language, or KWIC terms (Raabe et al. 2012).

WESTLAW

Because Westlaw markets mainly to attorneys, it is not as prevalent as RIA and CCH in accounting tax research (Raabe et al. 2012). Tax firms employing attorneys often use Westlaw (Raabe et al. 2012). Westlaw provides KeyCite, which is an excellent citator (Altshuler, 2001; Raabe et al. 2012). Westlaw contains an extensive database providing access to RIA, CCH, "law reviews, legal texts, various tax news services, and the WG&L treatises, manuals, journals, and newsletters" (Raabe et al. 2012, p. 211). Because it provides such a wide array of entry points for database searching, Westlaw designed a new research product, WestlawNext, which allows researchers to commence a search without having to select a particular database first (Knapp & Willey, 2013; Raabe et al. 2012). A WestlawNext search mirrors, or has the same "feel," as a Google search because it provides broader search capabilities, allowing the researcher to locate relevant law with natural language searching, which is easier to use than technical based search vehicles, that, for example, require Boolean logic. Because Westlaw incorporates so many databases, a useful feature is the Database Wizard (Raabe et al. 2012). The Westlaw Wizard guides tax researchers by organizing a subject using two or fewer databases (Westlaw, 2009).Westlaw includes a thesaurus and other types of search tools to make creating pertinent searches more convenient (Raabe et al. 2012). Adding the tax tab enables tax researchers to locate tax materials and databases. Results Plus reveals to the researcher other search strategies to consider. Another feature is the West Key Numbering System (Key Number), an organizational tool, which allows a researcher to "perform either a keyword search or drill down through the list of topics" (p. 216). Key Search works with Key Number to locate material when the researcher is not familiar with a certain area of the tax code (Raabe et al. 2012).

CONCLUSION

A tax researcher typically is familiar with many tools to locate applicable authority to support a conclusion or position for a tax issue. Depending on where the researchers work, they may not have access to more than one of the major services or even a lesser well known service that this paper did not discuss. In case tax professionals change jobs, or the employer switches the services it purchases, or the researchers themselves change the service they have access to, they should be familiar with the major options. They should also be aware of the capabilities and relative strengths and weaknesses of the major services. Since the inception of the major tax research services, when they were paper versions filling many binders, the online services are more convenient and powerful, but there still is not just one accepted "best" choice for research.

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CAPITAL BUDGETING PRINCIPLES: *BRIDGING THEORY AND PRACTICE*

Atul K. Saxena[i]

ABSTRACT

One of the important qualities that accrediting bodies, e.g., the AACSB are looking for in business schools is learning outcomes that relate theory with practice. In fact, they encourage business schools to include pedagogical tools in the curriculum that foster practical applications of complex theoretical concepts, thereby making them intuitive and somewhat easier to grasp by students. Additionally, prospective employers, college professors, and students themselves are interested in learning valuable skills such as conducting research, team building, leadership, and interdependence that they can take with them to their job. This paper describes a capital budgeting project that is a real world simulation of a new business startup. It allows students to acquire the valuable skills mentioned above. The proposed project is suitable for graduate (MBA) and upper- level undergraduate courses. The project has been assigned in an MBA program with great success in the core corporate finance. But it can also be amended and utilized in the capstone strategic management course. For undergraduate finance students, this project can be assigned in the second (intermediate) finance course. The project is particularly appealing to non-traditional business students, who often desire to establish their own firms. The project directs their focus on the achievement and profitability of their future dreams while applying in practice what they learn in theory.

INTRODUCTION

Social scientists and academicians have stressed offering students multiple techniques of pedagogy for better learning outcomes. These techniques include one-minute papers, more detailed research papers, simulations, power point presentations, and real-world projects among others. Research has shown that generation-X actually prefers experiential learning to the more traditional lecture-based pedagogy (Bale and Dudney, 2000). Frequently professors spend a lot of time and effort searching for projects to supplement their lectures to enrich their coursework. The accrediting bodies encourage schools to include such pedagogical tools that bridge theory with practice. While instructors have always desired such tools, lately there is an increased demand from employers and student graduates to obtain these valuable hands-on experiences by simulating the real world before entering it.

While useful to both graduate and undergraduate students, practical learning experience is more important for the former group. This paper describes a project that can be used in upper level undergraduate finance (and strategic management) courses, but is particularly geared towards graduate students. The project requires students to apply financial analysis to the startup of a small company. This project has already been assigned successfully in MBA (and undergraduate) courses at a business school for a number of years with good results. Since most of the students enrolled in the core MBA corporate finance course are classified as non-traditional, they frequently have a dream of establishing their own company, of being entrepreneurs. This project provides them the opportunity to apply theoretical concepts and focus on the costs and benefits of their future plans.

Viewing various business functions on a small scale provides insight in understanding the interactions among functions in larger, established firms. While this paper involves the application of financial analysis, the project can be modified for any other business discipline, such as management or marketing. Over the course of study in an MBA program, it can also be used as a continuing project, adding facets to the study in each discipline. It may be modifi67ed to provide an examination of the practicalities in setting up businesses for other professionals, such as medical offices, engineering firms, etc. Its main benefit for the student is to encourage the disciplined thought and planning required in establishing a successful business.

The rest of the paper is organized as follows. Section II reviews the relevant literature. Section III discusses some desirable attributes of a class project assignment. Section IV explains the project in detail. Based upon procedural logic, Section IV is further divided into four sequential sub-sections. Section V summarizes the paper and provides some concluding remarks.

LITERATURE REVIEW

In a classic study on how to frame classroom learning experiences that model necessary attributes for the foundations of success, Bruner *et al.* (1999) found the following as important:

1. Select cases that employ, exercise or explore a tool or concept
2. Highlight the dilemmas of the decision maker
3. Set the numbers and critique them
4. Embrace uncertainty
5. Demand the action recommendations arising from analysis
6. Look for unintended consequences
7. Explore opportunities for further work

If a project possesses several of the above attributes, it is considered good. Remarkably, the project explained in this paper meets most of the above criteria.

Bale and Dudney (2000) surveyed students to research their preferred mode of learning. They find from their survey results that for Generation X students (born between 1961 and 1981) “hybrid” teaching models incorporating both andragogy (self-directed, self-motivated) and pedagogy methods are most effective. Making reference to another related study they go on to conclude that Generation X wants to see value and relevance in education, otherwise they are not motivated to learn new skills. They prefer experiential learning using as many of the five senses as possible (Caudron 1997). The startup project explained here is an example of hybrid teaching model that incorporates both andragogy and pedagogy.

Deeter-Schmelz, Kennedy, and Ramsey (2002) conclude that team projects play a vital role in modern pedagogy. Moreover, as team projects become even more common in business courses, an increased understanding of factors contributing to team effectiveness is necessary for instructors to assist students in realizing the potential benefits of this pedagogical tool. Their results support the positive and direct role of cohesion as an input variable on teamwork. Ashraf (2004) finds that in business schools across the United States, one of the most common pedagogical tools is the use of group projects. "Passive" instruction (i.e., lecture only) is considered to be an inferior mode of teaching. He highly recommends the use of group-based projects as pedagogical tools. Since we suggest that our project be preferably given as a team assignment, recommendations of both Deeter-Schmelz*et al* (2002) and Ashraf (2004) are met.

A simulation, like any pedagogical tool, must be evaluated in terms of its effectiveness in achieving course objectives. In a study, Chapman and Sorge (1999) investigate how well a particular simulation does in achieving course objectives and compare its performance to the textbook and papers used in the course. They find that compared to the textbook and research papers, students consistently gave simulation the highest ratings. In another study, Olson *et al* (2006) discuss and encourage the use of simulation as a pedagogical tool. While their simulation is developed for Eastern European transition economies, it is applicable to any pedagogical learning situation, specifically to the general operations of the firm at the microeconomic level of decision-making. Our project conforms to both studies, Chapman and Sorge and Olson *et al*.

While most of the above studies pertain to general education and business courses, there is some literature that is specifically relevant to finance courses. For example, Gurnani (1984) extensively reviews and compares capital budgeting concepts as advocated in theory with the methods employed by industry. Capital budgeting is an interdisciplinary function, involving diverse areas such as engineering, finance, and management. The ability of a firm to make sound decisions in this area rests not only on the theoretical techniques employed but also on the judgment, intuition, and creativity of the analysts and decision makers. He claims that the academic literature has concentrated heavily on developing and refining quantitative evaluation criteria, methods of measuring return, risk analysis techniques, and procedural aspects of capital investment decision making. However, academic research has been criticized because it tends to be essentially concerned with accuracy of analysis, sophistication of methodology, and improving conditions in a laboratory setting without regard to the realities of corporate decision making. One reason for the gap is a lack of bridging theory with practice at the school level. We feel that this project is the perfect bridge.

Benton Gup (1994) surveys academics and practitioners and ranks those finance concepts considered most important for students to acquire. The academics rank time value of money capital budgeting, CAPM, capital structure, and valuation as the top five financial concepts for this purpose. It is striking that all five are included to some degree in the project discussed in this paper. The practitioners ranking excluded CAPM and valuation but included accounting and cost of capital. This project requires a critical understanding of the cost of capital concept.

In what has to be one of the most comprehensive and impressive studies in corporate finance, Harvey and Graham (2001) sampled 4440 firms receiving responses from 392 chief financial officers (CFO"s) to examine the proverbial *bridge* between theory and practice. Their findings are both reassuring and surprising. It is reassuring to them that NPV is dramatically more important now as a project evaluation method than it was 10 or 20 years ago. The CAPM is also widely used in the real corporate world. However, they find it surprising that more than half of the respondents would use their firm's overall discount rate to evaluate an investment in an overseas market, even though the investment likely has different risk attributes than the overall firm. This indicates that practitioners might not apply the CAPM or NPV rule correctly, perhaps indicating a need for a better bridge between theory and practice. A class assignment such as proposed in this paper would be useful to reinforce this bridge.

Weaver and Michelson (2004) suggest a project that could accompany a corporate finance course to enhance the learning of theoretical concepts. It is a simple Excel model that provides measures of the standard deviation of forecasted internal rate of return (IRR) given traditional data inputs such as annual cash flows, terminal values and equity. The model first calculates IRR using traditional discounted cash flow methods and then provides heuristic estimates of variability measured in terms of "high," "low" and "most likely" values. It also provides an actual measurement of risk in terms of mean and standard deviation and upper and lower quartiles, along with a graphical presentation of various risk parameters. While the Excel model just described is a good class project, our startup project is more comprehensive in nature covering a wider variety of financial concepts.

DESIRABLE ATTRIBUTES OF A CLASS PROJECT

Project assignments vary widely in their complexity and the amount of time needed for completion. For example, an economic ordering quantity (EOQ) model with imperfect quality items can be rather challenging for a typical corporate finance course, it may be well suited for a decision science course (Wang, Tang, and Zhao, 2007). Most finance class projects do not necessarily have to be as complex as EOQ models. The project outlined in this paper is rigorous yet relatively simple. It is a real world simulation of a firm and the decision making that goes on within it by its financial managers. As discussed above, Chapman and Sorge (1999) recommend the prudent use of such pedagogical tools. However, designing an appropriate project can be tricky and time consuming. From our own experiences in the classroom, we have found that certain key factors must be considered when designing a project assignment.

First, a well-designed class project must logically follow the concepts learned in class and/or the text. There ought to be opportunities for students to clearly and easily relate to certain key theoretical concepts and apply them in practice through the project. Second, it must be do-able within the term of the course, which is the case of the proposed assignment. Another issue is whether a project can be done individually or in a group setting. Most instructors encourage projects to be done in small groups of 3 or 4, depending on the class size. Despite the potential for the classic free-rider problem (Ashraf 2004), group projects support the important goals of team building, leadership, responsibility and mutual trust. Business program accrediting bodies, e.g., AACSB, put enormous weight on these values. Moreover, there are alternative means of mitigating free ridership, e.g., peer evaluation by team members. However, a situation may arise that is not suitable for teams and group assignment. For instance, if the class size is very small or students are extremely busy (executives, etc.) who do not have enough flexible time to meet in teams. A desirable project can be done individually, as is ours.

THE PROJECT

There are several steps involved in this project assignment. The first step involves selecting the type of business to be established. Step two entails setting the assumptions under which the financial analysis will be performed. The third step involves calculating a financing rate (the cost of capital), estimating the revenues and expenses over an extended period of time (say a 5-year period). The fourth step consists of applying various capital budgeting techniques to reach an accept/reject decision. The final step consists of evaluating and assessing the risk involved in the cash flows and profitability. Each step is explained in detail in the following subsections.

Selection of the Business Type

It is helpful to select a business that does not depend on results of research and development activities, exploration, etc. These unknown or future factors add considerable complexity to the project and undermine the task of estimating probable cash flows from the business by making the whole project seem unreal. Business types such as retail, most manufacturing, consulting, construction, or service make the project more manageable for the student. For those students who do not have a specific type of business they would like to establish, a business run by a family member or friend can be a good choice since discussions with these owners can provide a solid base for estimating the startup requirements, revenues, costs and growth potential.

Occasionally, students run into problems with certain business selections. For instance, franchises can be problematic if estimates of revenues, costs, franchise fees, and other data are not provided by the franchiser. Buying an existing business for project analysis moves the student outside the procedures provided in classroom discussion in the MBA's core corporate finance course and therefore makes the project more difficult for them. This activity is best analyzed with acquisition procedures rather than capital budgeting used in this project. Indeed, this variation of the project can be used for a finance course on Mergers and Acquisitions.

Not-for-profit businesses are frequently avoided by students because they assume that they are not suitable for a profit analysis. However, since these businesses must take in at least as much money as they spend to stay in existence, they are as appropriate for this project as a for-profit business. Businesses that require very large capital outlays at startup for assets with lives longer than the project horizon (say 5 years) will generally not be profitable within the analysis period. This problem can be overcome and is discussed in Section IV-C.

Statement of Assumptions

A statement of assumptions used to estimate cash flows is an important habit for students to build. While in the project its function is strictly to build the initial cash flow estimates and provide a base for risk analysis, in an actual establishment of a firm it allows periodic reassessment of the progress expected. Should what initially appeared to be a profitable venture fail to meet projections or economic conditions worsen beyond expectations, the owner may need to either take alternative measures or shut down before losses become excessive. For a project manager in an established firm, changing assumptions may invalidate prior capital budgeting cash flow estimates. It is the responsibility of the project manager to keep upper management informed of these changing circumstances and to re-estimate the probable profit of the project. Failure to do so can significantly impact the profitability of the firm and in turn have a devastating effect on the career of the project manager. Finally, assumptions are also required for the instructor to evaluate the student's ability to apply the concepts. Assumptions generally include such things as the economic conditions, growth in revenues/costs, hiring of employees, increases in fixed assets, cost of capital, termination revenues and expenses, initial inventories and fixed assets, etc. Table 1 contains an example of the set of assumptions to be used for this case.

As suggested in the simplified example in Table 1, the best estimate for sales growth is projected to be 10% annually. Students might more reasonably predict sales growth of 25% in year 2, 15% in year 3 followed by 5% growth in the last two years. As examples, assumptions might also include a significant increase in payroll in year 3 as a planned administrative staff addition occurs. At the same time one might see increased office expenses and depreciation. Students need to be encouraged to be creative, imaginative, yet realistic when making these assumptions.

TABLE 1
AN EXAMPLE OF A SET OF ASSUMPTIONS

Business Type: Retail Outlet

Expected Case Assumptions*:

1.	Sales Growth	10% of Revenues per year
2.	COGS	60% of sales
3.	Utilities	$5,000 per year
4.	Advertising	$10,000 per year
5.	Miscellaneous exp.	$9,000 per year

*Note that this is only a partial set of assumptions for illustration purpose.

Cost of Capital and Cash Flow Estimates

Since the project involves a startup company, a basic assumption is that at least initially, it is a sole proprietorship and the cost of capital is composed of the student"s own required rate of return plus the cost of borrowing money. Students are asked to call a financial institution to determine what lending rate would be required for a business of the type chosen. The weighted average of these two rates is used as the discount rate for capital budgeting purposes. Students may wish to assume additional investors and incorporate their required rates as well when computing the overall cost of capital.

Students are also asked to estimate cash flows for the initial startup costs and revenue/expenses for five years at which time the business is shut down or sold. The five year life span may appear somewhat arbitrary at first. However from experience, this is a long enough horizon to include most of the changes a new company may encounter so students have the opportunity to manage the growth. At the same time, a 5-year life span of the project is not so long as to make long-term estimates of cash flows too unrealistic and far-fetched. The process and organization of cash flows in this paper follow that presented by Titman, Martin, and Keown (2014).

To demonstrate knowledge of technology (a desirable tool by AACSB), spreadsheets are required for the organization and estimation of cash flows. The initial outlay includes all cash flows that occur at the beginning. Table 2 provides a complete output of the capital budgeting analysis. It shows that our sample project requires modifications to the proposed property as well as furniture and fixtures to open. It also has deposits and opening expenses. These could be utility and phone deposits, operating licenses, and the initial advertising campaign. Working capital requirements might include cash.

TABLE 2

AN EXAMPLE OF A COMPLETE CAPITAL BUDGETING SPREADSHEET

Initial Expenses	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed Assets	$100,000					
Renovations	$20,000					
Working Capital	$10,000					
Bank Balance	$25,000					
Inventory	$30,000					
Miscellaneous	$9,000					
Initial Cash Outlay	$194,000					
Revenues		$500,000	$550,000	$605,000	$665,500	$732,050
Cost of Revenues		$300,000	$330,000	$363,000	$399,300	$439,230
Payroll		$50,000	$52,500	$55,125	$57,881	$60,775
Utilities		$5,000	$5,000	$5,000	$5,000	$5,000
Lease/Rent		$10,000	$10,000	$10,000	$10,000	$10,000
Advertising		$10,000	$10,000	$10,000	$10,000	$10,000
Maintenance		$1,000	$1,000	$1,000	$1,000	$1,000
Insurance Expense		$500	$500	$500	$500	$500
Other Overheads		$500	$500	$500	$500	$500
Depreciation		$2,000	$2,200	$2,420	$2,662	$2,928
Earnings before Tax		**$121,000**	**$138,300**	**$157,455**	**$178,657**	**$202,116**
Less Taxes @ 40%		$48,400	$55,320	$62,982	$71,463	$80,847
Earnings After Tax		$72,600	$82,980	$94,473	$107,194	$121,270
Add Depreciation		$900	$900	$900	$900	$900
Salvage Value/Inventory						$51,000
Net Cash Flow	**$194,000**	**$73,500**	**$83,880**	**$95,373**	**$108,094**	**$173,170**
Cumulative NPV*	**($194,000)**	**($127,182)**	**($57,860)**	**$13,796**	**$87,625**	**$195,150**

*Assume 10% Discount Rate

The next cash flow category includes revenues and expenses occurring throughout the five-year life of the project on an annual basis. Generally called after-tax cash flows, these include annual revenues, annual expenses, depreciation, and taxes. The format of these cash flows follows the general format of an income statement except that interest expense is not included. All after-tax financing expenses are recovered by the level of the interest rate used to discount the cash flows. The final cash flow category is the terminating cash flows. These include all one-time cash flows occurring at shut down and could include after-tax salvage value, disposal/restoration expenses, sale of business revenue, etc. Since these cash flows occur in year five, they should be netted with the year five after-tax cash flows. At this point students should have six cash flows: total initial outlay and cash flows for years 1-5 (year 5 includes the terminal cash flow). Additional instructions given to students in this phase can include:

- After-tax cash flows in years 1-5 must vary. Texts frequently repeat the use of year 1 cash flows in all succeeding years of the project life for ease of classroom instruction. Requiring variability forces a more realistic picture of a firm.
- Record cash flows as they occur. While the after-tax cash flows format resembles an accounting income statement, it does not follow accounting practices. Cash flows should coincide with cash going into and out of a bank account.
- At termination students can assume a complete shutdown with or without salvage value or the sale of the company. For firms that had costly and long-lived fixed assets, realistic profitability will require the sale of the assets or the company in year 5.
- Categories estimated in the after-tax cash flows should be moderate in breadth. For instance, estimates for total revenue and total cost are too broad. For a retail outlet, estimating revenue and costs for every item sold is too detailed.
- Straight line depreciation or MACRS can be used.

Students who are seriously considering starting the business analyzed in the project are permitted and encouraged to be as detailed as they feel necessary.

Capital Budgeting Techniques and Acceptability Analysis

Once the net cash flows are obtained, the acceptability of the business is evaluated. Students are required to use several decision criteria methods: pay back period, discounted pay back period, net present value (NPV), profitability index, internal rate of return (IRR), and modified internal rate of return.

- Payback period provides the number of years required for the initial outlay to be recovered from the after-tax cash flows. Since this is strictly an accumulation of the cash flows in years 1-5, it fails to account for the *time value of money* and is considered to be a less than accurate method and, financially speaking, a naïve way of evaluating the acceptability of the project. Acceptability of the business depends on owner-set criteria. For example, the initial outlay must be recovered within 3 years. If the pay back is equal to or less than this hurdle, the business is acceptable. Despite its limitations, the pay back period method remains a popular capital budgeting technique (Harvey and Graham, 2001). It is frequently used as a *preliminary* screening measure in large firms and as the sole requirement in cash poor firms.
- Discounted pay back corrects for the lack of use of the time value of money in the pay back method by discounting each year's cash flow to year zero using the cost of capital as the discount rate. Therefore, this technique is regarded as an improvement on its predecessor and not as naïve. It is interpreted in the same manner as pay back but will obviously take longer to recover the initial

outlay since the cash flows are in present value terms. Once again, the owner must set the acceptability criterion.

- Net present value (NPV) is the present value of the cash *inflows* minus the present value of the cash *outflows* and provides the dollar estimate of the change in the value of the firm. The business is acceptable if the NPV is positive.
- Profitability index is the present value of the cash *inflows* divided by the present value of the cash *outflows* and provides the dollar return for each dollar invested. The business is acceptable if theprofitability index is greater than one.
- The internal rate of return (IRR) is the discount rate that equates the present value of the future cash flows to the initial outlay. It provides the percent return on funds invested *assuming* that the cash flows are reinvested at the internal rate of return as they flow into the firm. This is known as the reinvestment rate assumption. If these funds cannot be reinvested at that rate, the return will not be achieved. For this reason, sometimes the IRR rule is regarded as too optimistic, and the *modified* IRR is computed as discussed in the next paragraph. The internal rate of return must begreater than the firm"s cost of capital for the business to be profitable.
- When the reinvestment rate assumption cannot be met, or when a relatively more conservative technique is desired, the *modified* internal rate of return is calculated. All the cash flows are compounded to the final year (year 5 for the project) using a reasonable rate for reinvestment, generally the cost of capital, and totaled to arrive at the future value of all cash flows. The modified-IRR is the implied rate that equates the initial outlay with the future value just calculated. This modified-IRR must be greater than the cost of funds.

If the business is unprofitable, students are asked to discuss some methods that might make it profitable. For example, operating from a home office or obtaining lower cost facilities might delay costs, or slowing/increasing the growth rate might provide a greater spread between revenues and costs. Students are not required to apply these suggestions.

Risk Assessment

Students are also asked to analyze business risk using one of four risk analysis techniques and to discuss their findings. The methods suggested are sensitivity analysis, scenario analysis, decision tree analysis, and simulation. In all cases, the student can also determine the probability of the net present value falling below zero since this requires the average of several estimates of the net present value and its standard deviation. Although these techniques carry different nomenclature depending on the source, their definitions below should be familiar to faculty.

- In sensitivity analysis, the assumptions used in the analysis are changed one at a time to determine those with high impact on the net present value. These are called driver variables and generally require a high degree of confidence in the estimate or the ability to be well managed for an overall assessment of low business risk.
- Scenario analysis involves modifying the expected scenario already presented with the worst case and best case estimates of the assumptions used to create the model. This has the advantage of incorporating the interactions of all the variables into the analysis.
- Decision tree analysis provides re-evaluation points as the establishment of the business progresses. Owners can incorporate their experience at these points to re-estimate profitability. They may decide to expand/contract the business, modify facilities, shut down, etc. The decision tree provides “legs” to determine the net present values for each of the possible paths that the firm might take. The expected net present value and its standard deviation can assist in the risk assessment.

- Simulation provides estimates of the net present value by randomly selecting a value from each variable‟s probability distribution and combining them for the trial NPV calculation. Computer simulation software is generally instructed to make 1,000 to 10,000 trail runs, creating a net present value probability distribution. The area under the curve below a net present value of zero provides an assessment of the risk of the business.

Summarization of the acceptability of the business including both the decision criteria and the risk analysis concludes the project. Since risk analysis provides no definitive answer for how much risk is acceptable, students must apply their own risk preferences to this decision. Depending upon the preparedness of students, this section can be excluded from undergraduate finance courses if it becomes too overwhelming for them.

SUMMARY

This paper describes a capital budgeting project for the startup of a new business (e.g., a sole proprietorship). It is a real-world project that is do-able in a semester. It is preferably assigned as a group project, but can be adapted for individual student assignment. The company/business type is chosen by the student(s). Based on the types of assets and services required, students estimate the initial startup cost, the recurring revenues and expenses over the life of the business and any terminating cash flows. Once the cash flows are estimated, the business is evaluated for profitability and risk using the capital budgeting techniques of the *netpresent value* (NPV) and the *internal rate of return* (IRR). Students then must decide if theywould proceed with that “dream” business.

The project can be assigned to MBA students in their core corporate finance course or with slight modifications it can also be included in courses such as management, marketing or entrepreneurship. A remarkable characteristic is that the project can be used as a thread connecting much of the MBA curriculum, creating a management business plan, a marketing plan, a cash budget, etc. in different classes. The described project has also been used in undergraduate finance classes by eliminating the risk analysis. Certain non-business professional programs, such as health care or engineering, where students frequently plan to open their own business, may also find it beneficial to include it in their curriculum.

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COLLECTIVE IDENTITIES, CONTRASTING IDENTITIES: A STUDY OF INTRA-ORGANIZATIONAL IDENTITY-LEARNING

Ali Mir, William Paterson University Raza Mir, William Paterson University
TaghiRamin, William Paterson University
MurokiMwaura, William Paterson University

ABSTRACT

In this paper, we report on a study that explores how organizational participants "learn" the concept of collective identity. Through an examination of two different organizational settings, we attempt to show how organizational members jointly create and recreate distinctive, recognizable collective identities. Their construction of collective and individual identities can be viewed as an ongoing reciprocating process of learning, interpretation and negotiation. Just as the concept of individual identity can be conceived of as a sense of self that is not only produced within the situation but also brought to it, so too can the concept of collective identity be conceived of as a sense of organizational self which is both produced within the situation and also transcends the situation. Collective identity is seen as that sense of organizational self that is experienced and learnt by organizational members which endures over time and is transmittable to future generations.

What does it mean to speak of collective identity? At the very least, we can say that the concept of collective identity suggests the existence of some form of relationship between the individual self and some larger referent such as a group, community, or organization (Koschmann, 2013). With the work environment providing a substantial arena for the enactment of such a relationship, it should come as no surprise that the nature of collective identity has been of particular interest to organizational scholars. Researchers studying person-organization fit (Cha, Chang & Kim, 2014), gender and occupation (Ashcraft, 2012), organizational sensemaking (Patriotta&Spedale, 2009), entrepreneurship (Wry, Lounsbury&Glynn, 2011), and organizational identification (Lok, &Willmott, 2014) have shared as a problematic the relationship between the individual self and the collective. The nature of this relationship has had a long history of being researched by social identity and self-categorization theorists (Tajfel, Flament, Billig& Bundy, 1971), anthropologists (Geertz, 1973) and symbolic interactionists (Hewitt, 1988). Earlier theorists of organizational learning had used cybernetic metaphors (Argyris&Schon, 1974) to articulate how relationships between individuals and collectives traverse various contingent and dialectic terrains, through a series of feedback loops. Using these theories collective identity has been associated by current organizational researchers with both remembering and forgetting (Anteby&Molnár, 2012), with time as well as space (Ybema, 2010), with the workspace and life beyond it (Conroy & O'Leary-Kelly, 2014). Common to all these theories is the assumption that the study of the collective is a necessary companion to the study of the individual self. Despite the breadth and depth of this scholarly activity, there is much that remains elusive in our understanding of the relationship between the individual self and the collective.

Specifically, our interest in this research is in understanding the interactive processes through which both individual and collective identities are mutually created, experienced, learnt, and transmitted. In this paper, we attempt to examine how organizational members create and recreate distinctive, recognizable collective identities for themselves and the organizations they are associated with. In order to examine these issues, we report on an extensive qualitative research project conducted by the lead author in two student-run businesses at a large university in the northeastern United States. Collective identity forms an integral part especially of organizations that articulate a mission beyond the profit motive (Ergas, 2010), which makes the non-profit organization an especially rich terrain to examine this concept empirically. Our empirical analysis shows that individuals construct collective identities through their daily enactment of organizational processes, rituals, and symbols within the organizational space. We study the sense-making and meaning-making activities of individual organizational members, because it is from their inter-subjectively shared meaning that the organization emerges as a social reality (Smircich, 1983). From this perspective, we can begin to see how collective identity may in turn, become a critical part of the individual self. An examination of this process holds promise for not only better understanding how organization members contribute to and experience collective identity, but also how members of organizations with superficially similar structures and processes may construct substantially different collective identities.

In the rest of this paper we report on our findings, which reveal both similarities and contrasts in the ways members of these two organizations make sense of their collective identities.

RESEARCH DESIGN AND DATA COLLECTION

The organizations studied in this research are Grassroots Cafe, a vegetarian restaurant, and Copyserve, a photocopy and graphic design service (all names in the paper have been changed for confidentiality). Both are collective organizations composed and managed exclusively by undergraduate student members. Within the structure of the university, the businesses operate under the University Entrepreneurship Center (UEC). The purpose of the UEC is to provide support and resources to Grassroots, Copyserve, and eight other student managed businesses on campus.

The research was conducted with the prior permission and extensive cooperation of members of both businesses and the UEC. The principal researcher obtained prior permission from the UEC leadership, and of the student leaders who managed both organizations. He then conducted an extensive observation of these sites over four months. Activities observed included servicing customers, coordination of meetings and various other organizational functions. The researcher attended planning meetings, purchasing runs and financial reconciliation meetings. He also observed people preparing and selling food at the Grassroots café, and volunteered in those activities, including set-up and cleanup. With Copyserve, he participated in print-runs, copier maintenance, troubleshooting and cleanup routines as well. In addition, he interviewed a number of organizational members across both collectives, using unstructured, naturalistic techniques (Putnam, 1983). Participant observation was meticulously documented through more than 400 pages of field notes, interviews were recorded and transcribed, and other researchers were used to provide feedback on coding methods, concept cards and evaluative schema (Miles and Huberman, 1994).

The methodology applied was in data analysis interpretive and phenomenological in character; indeed, an interest in identity was not the entry point for this research project, but rather an issue that emerged over time. This research project be characterized as exploratory; what it lacks in breadth of scope can be compensated for by an internal validity that is more important for theory building (Jacobides, 2005; Yin, 2013).

Upon analysis, we found that the members of Grassroots and Copyserve have fashioned organizations that their members experience in strikingly different ways. Grassroots has been described by its members as viable, creative, a place to learn and grow, and an arena for the development of satisfying personal relationships. Copyserve, by contrast, has been depicted in more diffuse and varied ways. Struggling for its financial viability and losing its relevance in the era of digital communication, it has been depicted as a place to express personal creativity for some, but not others. Moreover the organization has, over time developed a hierarchical character, with the organizational membership divided into two distinct parts, the "copy side" and the "design side." The "design side is seen as more prestigious, which produces intra-member tensions more characteristic of a traditional organization, rather than the egalitarian collective it aspires to be. The implicit tensions between the two organizations, with one seeming more in tune with its broader vision than the other, also create further dynamics which are relevant to the identity issues we are examining here.

Early on, the principal researcher became intrigued by the interplay of similarities and differences in these two organizations thrown up by the data, and resolved to focus subsequent observations and interviews on illuminating the ongoing processes that have created and are continuing to create organizational meanings experienced by the members of Grassroots and Copyserve.

This paper marks our attempt to "make sense" of our observational and interview data that was generated from that process, by engaging in an exploration of the collective identities that emerged from the study. Just as the concept of individual identity may be conceived as a sense of self that is not only produced within the situation but also brought to it (Hewitt, 1988), collective identity is conceived as that sense of "organizational self" experienced and constructed by organizational members which endures over time and is transmittable to future generations. This sense of organizational self became apparent early in the research, as members of both Grassroots and Copyserve seemed to share a strong sense of connectedness and commitment to images of their organizations.

Initial research suggested that members from both organizations viewed this strong sense of connectedness and commitment in direct contrast to other, hierarchical, organizations operating in the geographic vicinity of the university. Frequent reference to "no bosses here" and "we are all managers" and direct comments to suggest that "we"re different from a real business" tended to support this contention. These sentiments were expressed across both organizations, suggesting an exploration of their common, egalitarian and democratic structures and processes. Consensus decision-making, "all-staff" meetings, and peer evaluation processes might explain the strong sense of collective identity we perceived.

Or, perhaps it was the overarching influence of the university environment and common access to institutional resources, which would account for the observed phenomena. Institutional theorists (DiMaggio & Powell, 1983) argue for the power of isomorphic tendencies whereby diverse organizations evolve toward greater similarity due to the homogenizing forces of the environment. Could isomorphic evolution provide a reasonable explanation for the similarities in the collective identities we observed?

As we began to analyze the primary data from the observations, we began to sense however, that these collective identities, while similar to the extent that organizational members contrasted themselves with "other" external organizations, were also quite distinct from one another. Grassroots‟ members seemed to exhibit model practices of cooperative action, decentralized and regenerative leadership, collective decision making, and reasonably efficient and profitable operation, along with a confident view of the organization‟s future. Copyserve‟s membership seemed to be characterized by confusion, centralized and inconsistent leadership, distrust, and a lack of faith in ongoing financial viability. These differences became increasingly visible to us as our research progressed, and it became clear that structural and isomorphic explanations provided an insufficient account of the complexities we observed.

A PHENOMENOLOGICAL APPROACH

A more fruitful exploration of the collective identities of these two organizations flows from a phenomenological approach (Berger and Luckman, 1967; Husserl, 1970.) Such an approach is grounded in the belief that objects have no *a priori* meanings. Only through individuals‟ interactions with those objects are they imbued with meaning. "Reality," thus, is a "social construction." Members of an organization are not engaged in an act of "finding" an organizational identity, but are rather engaged in an ongoing process of identity creation through their acts of sense making.

From this perspective we began to explore the meanings and interpretations of their organizational experiences held by individual members. The strength of the phenomenological approach was its ability to illuminate the particular, specific, and fluid meanings which members attached to various organizational processes they experienced. Thus, as our analysis progressed we examined ways the differential enactment of organizational processes (hiring, evaluations, training, control, and decision making) and the nature of work (routine, non-routine) as understood by organizational members contributed to the construction of contrasting collective identities.

Hence, while institutional examination of organizational processes and structures as distinct objects points out the similarities between the two organizations, phenomenological accounts of individuals‟ experience of these processes and structures provide a multiplicity of meanings, and thus, an explanation for the differences we observed between the two organizations. In sum, our purpose is to explore the concept of collective identity and describe the processes that have led to the creation of the distinctive, recognizable collective identities we have observed at Grassroots and Copyserve. First we examine the structures, organizational inputs and processes the two groups share. We then explore the divergent enactment of organizational processes through which organizational members have created, and continue to create the distinctive collective identities of Grassroots and Copyserve.

Collective Identities

Existing as they do within a common institutional framework, Grassroots and Copyserve exhibit considerable similarities in organizational inputs, structures and processes. Grassroots and Copyserve are composed of members drawn from a common pool of undergraduate students, and are connected to the university bureaucracy through a common "linking pin," the University Entrepreneurship Center (UEC). The members of both groups are similar in age and developmental stage. According to Karen, the coordinator of the UEC for the past eleven years, many of them are on their own for the first time, relatively free from parental influence or control. They exhibit a confident attitude in the face of challenges: "We can do it on our own!" is a typical response of group members. This attitude notwithstanding, Karen and the other staff of the UEC offer a number of resources to all the student businesses, including group process training, office space, and accounting support. The UEC also encourages interaction and cooperation among the businesses through their members‟ joint attendance at training sessions and participation in an umbrella "Board of Student Entrepreneurs" which is designed to represent and advocate the interests of the student businesses to the larger university system. Karen is not only the supervisor of and advisor to the student businesses, but also appears to be their "spiritual leader," the guardian and transmitter of their histories and a self-avowed champion of collective organization.

Thus, as a consequence of structural isomorphic forces Grassroots and Copyserve are similarly organized as collectivist-democratic organizations, and appear to exhibit many of the characteristics that distinguish such organizations from bureaucratic forms (Rothschild-Whitt, 1979.) First, rejecting position-based authority, they locate authority in the collectivity as a whole. This can be seen in the institution of the consensus-based "all-staff meeting", at which the entire membership of each group meets in order to consider "proposals" for policy changes, major purchases and to supervise the activities of the organization‟s operating committees whose members are chosen through a process of self-nomination and election by the all-staff meeting.

Also consistent with a collectivist-democratic form of organization there exists no formal hierarchy of positions within the groups. Each member is a "worker-manager" who is responsible to all the other "worker-managers." This is often expressed by members of both organizations as "There are no bosses here!" which is reflected in both groups‟ use of a self-report system in controlling lateness and a peer-appraisal performance evaluation process. Both organizations rely on individuals‟ honesty and willingness to cite themselves for tardiness on their shifts, as exemplified by Grassroots‟ "Spot Policy" and Copyserve‟s "Dot Policy". Those with excessive "spots" or "dots" are asked to explain their lateness to democratically appointed committees and make plans to work out a compensatory "contract." Similarly, performance appraisal is accomplished non-hierarchically through the "evals" process, whereby once each semester the members of each group participate in their own daylong forum to provide one another with performance feedback. The "evals" experience has been described by members of both Grassroots and Copyserve as rewarding, emotionally intense, anxiety provoking and tiring.

Third, compensation is basically egalitarian, with differentials based only on seniority within the group ("new" first semester or "old" member). An additional criterion determining compensation at Grassroots is the number of committees on which the member serves.

Fourth, formal organizational processes are designed to encourage appreciation for the "whole" person. This can be most readily seen in the practice of punctuating meetings with "Opening Words" and "Closing Words" from members. Meetings begin with each member greeting the others, and communicating whatever personal information about his/her day's activities, problems, experiences, etc. the member chooses to share. They close with members sharing their feelings about the meeting.

In summary, we found both organizations "sharing" various aspects of collective identity associated with (a) common access to institutional resources and leadership, and joint participation in training; (b) a sense of being "different" from the "regular" hierarchical/bureaucratic businesses that abound in their task environment (represented by the University as well as by the restaurants and copy stores on campus and in town); and (c) a set of collectivist-democratic structures and processes that provide both Grassroots and Copyserve with a common organizational framework.

Contrasting Identities

As we have seen, Grassroots and Copyserve have many common structural features that, we have argued, have led to similarities in the collective identities experienced by the members of the two organizations. An explanation for the differences between their collective identities can be found in actual organizational processes such as *staffing, training, control* and *decision-making* as enacted within each organization, and in the *nature of the work* itself that is performedby the members of each group. Each of these processes will be examined to reveal how individuals within each collective have come to understand and enact them in quite different manners.

Staffing: Through attracting and choosing new organizational members, the staffing process serves a critical function by conveying key organizational values to prospective members while allowing for the assessment of "fit" between these prospective new members and the organization. Organizational values can be transmitted through the organization's recruitment literature, its choice of recruitment sources, information contained on the application, and the selection process itself (O'Reilly, Chatman & Caldwell, 1991). Specifically, staffing processes are intended to ensure that the organization chooses the "right kind of people".

In both Grassroots and Copyserve, staffing is handled by the "hiring committee," which has responsibility (as conferred by all-staff) to process applications and conduct interviews at the beginning of each semester to ensure adequate staffing. Given the limitation of membership to undergraduate students, both organizations experience considerable turnover of their workforces at the end of each semester with the exit of graduating members.

While recruitment is accomplished similarly by the two groups (due, at least in part, to their limited pool of potential applicants) through the posting of notices on bulletin boards and the efforts of current members to recruit their friends, selection, and the selection interview process are enacted in very different manners. In both organizations, applications are screened by the hiring committee. The surviving candidates are interviewed by the hiring committee as a panel. At Copyserve the key to "fit" is generally seen in the individual's previously acquired skills and experience. Selection interviews at Copyserve focus on the applicants' possession of technical skills for the "copy side" and artistic ability and design experience for the "design side." Interview questions tend to pose scenarios hinging on the solution of technical problems in an independent manner. A typical question might be "What would you do if you were alone on shift, there were a line of customers out the door, and the copier broke?" Less attention is paid to pre-existing "personality characteristics," according to members of the hiring committee. As one hiring committee member explained, the person's "personality" is not so important, because "people grow in Copyserve...they even change their personalities."

At Grassroots, by contrast, interviewers pose scenarios focusing on the management of interpersonal relationships. Tricia, a soon-to-graduate steering committee member, reports having been asked "How would you handle it if someone on your shift just wasn't doing his/her job properly?" Jim, a first-semester apprentice was asked: "What would you do if you had a problem, or you noticed that someone wasn't performing up to par? How would you handle it?"

He believes his answer was significant in his being selected:

> *First I"d approach the person, individually, and just bring it up kind of lightly, like „How do you feel about this?" Ask them, like if they"re having trouble or, you know, basically approach the person. And if that didn"t work, then bring it to ...a group or a committee - this is before I even know what an all-staff was or whatever. I was just like „I"ll bring it to the group."... I think they liked that...*

In summary, members of Copyserve tend to look primarily for technical skills and previous experience and to pose scenarios focusing on independence and ingenuity in the solution of technical problems, while members of Grassroots concern themselves with interpersonal relationships and the effective resolution of problems among interdependent members of the group.

Training: Training of new-hires is intended to bring those individuals “up-to-speed” by helping them acquire the skills and knowledge necessary to allow them to function on the job. On-going organizational training is focused on maintaining or increasing individual organization members’ skill level and breadth of knowledge of the work of the organization. Members of Copyserve and Grassroots experience quite different forms of training as well as contrasting emphases in the content of that training. In Copyserve the focus of training is on the technical aspects of the job: operating the cash register, computer, and photocopier. New members participate in cash register training and are exposed to a series of independently structured tutorials (designed by former members) intended to generate familiarity and competence working with the computers and photocopiers. While the technical aspects of new-hire training are also performed at Grassroots, the context in which they are introduced is quite different, focusing on teambuilding rather than independent learning. As one member recalls:

> *[There were] 14 of us...There were 4 people on the training team. We had to fill some paperwork out, obviously.... And then we went in the kitchen. They told us about the history, and that was good. We made honey mustard dressing.... They showed us how to make it, like one part mustard, one part honey, and this and that. We made that. Another group made...beans and rice, and another group made the salad, and we took a tour to the loading dock...Took a tour of the kitchen...like where everything was...we all came together ...an hour or two later... We came together and we ate, and we all brought the food, we all set up the food on the table...and we sat down at the table where we first came in. It was more comfortable. Very much more comfortable, like people were starting to talk amongst themselves...and we ate...It was good.*

Thus, while training for new members of Copyserve emphasizes the independent acquisition of necessary technical skills, training for Grassroots recruits, while accomplishing the transmission of necessary “survival skills” (e.g., Where is the dumpster to which I’ll have to take the trash?) and the modeling/trial of specific job skills (e.g., How do we make the rice?) has an additional outcome. New-hire training at Grassroots creates a feeling of “community” or “family.” The training format of working together, and then sitting down to share the fruits of those joint endeavors provides a powerful introduction to the cooperative, interdependent nature of the work roles members will be performing.

Ongoing training also differs in emphasis between the two organizations. Whereas technical skills appear to receive constant emphasis throughout one’s tenure at Copyserve, at Grassroots the technical aspects of training are quickly complemented by interpersonal process training (meeting facilitation, shift facilitation, group decision making). The need for members to appear technically competent on the job following training was apparent in our observations at

Copyserve. A member of Copyserve sums up the feelings often associated with acquiring this competence:

You don't wanta ask questions cause the person who got hired with you isn't asking questions anymore and he or she may be just as shaky on what they're doing but it's just ... it's that feeling in the group that your training wheels are off now and that's the pressure...that you have to learn to just be independent in the organization.

While Copyserve members transmit the value of independence through their training processes, Grassroots training conveys the value of interdependence:

It"s more than just a job. It"s kind of like having a baby...It"s like a family and a small child. Everyone has a responsibility. As a whole. Not as individual parts...

Much of the learning by members of both organizations takes place through observation, both informal, and as a formal program of "shadowing" senior members of the groups. Observing the behavior of senior members is an additional way that neophytes are introduced to the "collective identity" and underlying values of the group. One member of Copyserve described his own observations and reactions.

Sally would just go about her business, like she was independent, like she was taking care of the group's business but she was doing it independently, like she knew what she had to do and went and did it no questions asked--nothing, and then I saw Jane (also hired at the same time) starting to do that and I was like O.K. maybe I should just try and push all the buttons on the copier or I'll just try to ha ndle this RSO card by myself...I have to learn how to do this by myself.... it"s like you have to individually decide to take on stuff and you can only do that if you're independent enough to do everything by yourself.

Independence is valued as a positive force for learning, as another Copyserve member suggests:

I mean you learn how to do things. I can design a flyer, I can fix the photocopier, I can do the bookkeeping, and work the computer...I mean it forces you to learn how to do everything.

The ongoing learning process at Grassroots takes place in the context of an informal hierarchy of experience. Teaching, modeling and sharing organizational knowledge are seen as part of the role of the senior members:

Even though it's a collective, certain people have been there longer, and have to...help other people learn how to run the collective before we leave...We want to give everyone as much information as possible, so that they can run the collective on their own, and then they'll do the same thing.

So, while members of both Copyserve and Grassroots learn by observing and modeling behaviors of senior members of their groups, what they learn is quite different.

Control: Control of organizational members' attendance is accomplished through each organization's "Dot" or "Spot" self-enforcement policy. At Copyserve, however, there is a generalized belief that no one will ever get fired, the final action prescribed for repeat-offenders.

You would never get fired from Copyserve ... Somehow they find some redeeming factor in you and make you part of the group, and an effective part of the group. It's like a family, you never get turned away. You never get turned away.

By contrast, we witnessed the process by which a member of Grassroots was terminated. William had accumulated sufficient "spots" to be called before a meeting of the steering committee, where the members tried to impress on him the seriousness of his behavior. They asked him to explain his excessive and repeated lateness and lack of responsibility while "on shift," and attempted to set up a plan whereby he could work his way back into honorable standing. William did not comply with this plan, and a proposal for his termination was shortly brought to all-staff meeting. At the all-staff meeting, this proposal was discussed. William was given the opportunity to defend himself, and all members who wished to do so had the opportunity to express their opinions, and in many cases, their strong emotions. After a lengthy discussion, members voted. Several individuals "stood aside," neither supporting the proposal to terminate William nor blocking it. Nobody blocked (vetoed) the proposal, and so William was terminated with two weeks‟ notice. Tricia, who supported the proposal for his termination, commented:

> *I think towards the end, maybe, like recently, like since he's been fired he's really trying to get the idea of a collective...I think that he really learned something from us firing him. I think that was the best thing we could have done.*

This comment (which begs comparison with parental explanations such as "I did it for your own good" and "I did it because I love you") points up the metaphor of "family," which is frequently invoked by the members of both groups. There is much to suggest, however, that the nature of "family" experienced by members of Copyserve differs from that experienced at Grassroots. Where Copyserve might convey family support through an unwillingness or inability to "set limits" on its members, Grassroots seems to convey a form of family support which, when enacted suggests "we love you enough to say no and to set firm limits." When an individual is unwilling to abide by those limits, the group is willing to resort to termination. Over the past five years, at least six people have been dismissed from Grassroots, while no one has been fired at Copyserve.

Recent discussions at Grassroots about the possibility of installing a time clock to help control lateness echo a similar proposal made at Copyserve two years ago, and while both proposals were handily defeated, their mere existence suggests ongoing disagreements surrounding the most appropriate method for internal control. Copyserve's members have adopted a variety of rules and policies regarding members' use of different machines, while Grassroots' members have traditionally relied more on unwritten, internalized norms of responsibility to the group as a whole as well as to other members to govern individuals' conduct. At least one member of Copyserve feels threatened by the group‟s efforts at control:

> *The best you can hope for and what you would want is for people to police themselves...It would be everything against what Copyserve is if you try to, it would do too much damage to almost like censor people, to hold them to such strict regulations that would cut off their independence so they could do things, and for them to maybe even blow something off because then, you take outa the equation the whole spontaneity of it...trying to regulate the whole spontaneity of work.*

Ironically, Grassroots members have been recently rewriting their "Spots" policy to add additional formal steps and procedures, in an effort to gain control over certain members who seem to be increasingly immune to the collective‟s traditional internalized controls.

Decision Making: As previously discussed, decisions in collectivist-democratic organizations are generally taken by group consensus (Rothschild-Whitt, 1979.) The weekly two-hour all-staff meetings held by both Grassroots and Copyserve are venues at which the groups' formal processes of decision-making can be observed. Attendance is required for all members, who are paid their regular hourly wage for the time thus spent. For Grassroots members, attendance at all-staff is seen as critical in order to keep abreast of the group's functioning. When apprised of our research interest in their organization, members consistently recommended that we be sure to attend all-staff meetings and stated that all-staff would be where we would see how Grassroots "really works." By contrast, at Copyserve all-staffs serve as a time and place to recap and disseminate important decisions that have already taken place. To be "in the know" and a decision-maker at Copyserve is connected to being present during numerous work shifts, at which times decisions are reached.

> *Being there for a lot of copy shifts is the most important thing in Copyserve. You could do nothing and be there every day at least four hours a day and you would know everything that goes on in that business, but if you were to go to maybe just a steering meeting or an all-staff meeting you would have no idea of what happens during the week.*

Whereas at Grassroots decisions made at all-staff influence the daily operation and functioning of the business, at Copyserve decisions made during the daily operation of the business are generally recounted during all-staff for the benefit of those not yet aware of the emerging policy. At Grassroots policies tend to be decided upon and flow from the all-staff toward daily operations, while at Copyserve policies tend to emerge as results of individuals‟ daily experience of trial, error and problem solving. These policies are subsequently "published" at the all-staff.

We have seen that all-staff meetings serve different organizational purposes at Grassroots and Copyserve. Next, we shall examine the differing ways in which the two collectives enact the processes of the all-staff. All-staff meetings at Grassroots and Copyserve have similar structures. The meeting is led by a member who acts as "facilitator." He or she is assisted by a note-taker, a timekeeper and a "stacker" who maintains a list of members wishing to speak on a particular issue and calls upon them in turn. The format for the all-staff begins with "Opening Words," also known as a "go-around." Each group member is supposed to greet the others, and connect with them by sharing some personal experience, thoughts, and feelings. The all-staff format ends with "Closing Words," another opportunity for each group member to directly address his/her co-members and take their leave. In-between are sandwiched the "business" of the meeting, including committee reports, follow-up on old business, and "discourse," time devoted to members‟ speaking out about the problems and issues listed on the meeting agenda. Particularly revealing of the differences between Grassroots and Copyserve is the enactment of "Opening Words" and "Closing Words." In the course of our observations at Grassroots, these were always completed, even when the meeting was running extremely late, and the members appeared to be desperate to leave. "Opening Words" was often, although not universally, used by members as an opportunity to connect with one another.

> *My life is in shambles, and this (Grassroots) is the only structure I have.*
>
> *We had to put my dog down this afternoon. I"m sorry I was late for my shift today, but I just couldn"t get over it.*

At Copyserve, by contrast, our observations revealed that “Opening Words” and “Closing Words” were frequently omitted altogether, or paid only cursory lip service by the majority of members. During one all-staff meeting, for instance, discussion of business related issues proceeded for more than 30 minutes before one member queried, “We forgot to have go-around, didn’t we?”

DISCUSSION

At least two major themes emerge from our research. The first concerns the relationship between *collective identity* and the *self*. The second concerns the relationship between *collective identity* and the enactment of organizational processes.

Understanding the relationship between collective identity and the self is critical for, as we suggested earlier, collective identity is as much an individual level phenomenon as it is a collective phenomenon. The relation of the self to the collective has been of interest to researchers for over a century. Over the past twenty years the question of principal interest has shifted from “How do individuals behave when in groups?” to “How do groups behave within individuals?”(Miller & Prentice, 1994). This shift reflects the efforts of social identity and self-categorization theorists to place the collective inside the heads of individuals rather than somewhere external to them. These theorists contend that the particular social categories with which an individual identifies him or herself have a profound impact on his or her psychological functioning (Miller & Prentice, 1994).

In order to theorize the relationship between the individual self and a collective identity in which that self participates, we must first examine the concept of “self”. The self can be viewed as “the concept of the individual as articulated by the indigenous psychology of a particular cultural group...The self embodies what the culture believes is humankind’s place in the cosmos: its limits, talents, expectations, and prohibitions.” (Cushman, 1990: 599). Thus, the concept of self exists not as a transcultural, transhistorical, unchanging structure, but rather as a local, historicized, fluid social construction. The particular concept of self that was constructed by North Americans in the modern, post-World War II period was characterized as individualistic and self-contained. Geertz’s description is quite graphic:

> *The Western conception of the person [is] a bounded, unique, more or less integrated motivational and cognitive universe, a dynamic center of awareness, emotion, judgment and action, organized into a distinctive whole and set contrastively against other such wholes and against a social and natural background (Geertz, 1979: 229).*

The consequences of this concept of self for North American individuals of the late 20th century have been significant. The self-contained individualistic self has been described as “empty” of family, community, tradition and shared meaning, experiencing this emptiness as a “chronic, undifferentiated emotional hunger” (Cushman, 1990: 600). Evidence of this emptiness and emotional hunger has been detected in many of the “popular” problems of our day, such as low self-esteem, eating disorders, drug abuse, religious “cult” membership and even chronic consumerism. All of these ills can be interpreted as attempts by the individual to “fill up” his/her inner emptiness.

With this particular understanding of the late 20th century North American self, we can resume our discussion of the relationship between individual self and collective identity. It is our view that members of an organization can, given appropriate circumstances and through particular processes, jointly construct a collective identity which will serve to "fill" their "empty" individual selves -- at least partially -- by creating and providing family, community, tradition, and shared meaning. One of the distinguishing features of the Grassroots collective identity appears to be the extent to which it enables its members to fill the self in this manner. In particular, experience of family, community and rich symbolic traditions make a common contribution to the construction of individual selves within the organization. In contrast, the collective identity at Copyserve provides a considerably wider range of inputs, encouraging greater variability in self-construction. Juxtaposing two Copyserve members‟ comments is illustrative:

> *I mean Copyserve is me and I"m Copyserve, I mean it"s your business, it"s my business...it was central to my career here, to my student career.*
>
> *When I walk out the door at the end of my shift, I leave Copyserve behind, I"m just Maureen now.*

In sum, the collective identities constructed by members of Grassroots and Copyserve offer different "ingredients" for the "filling up" of individual selves. Further, there is considerable individual difference in the manner and degree to which collective identity comes to influence the self-construction of members.

The second major theme that has emerged from our research concerns the relationship between collective identity and the enactment of organizational processes. Specifically, it appears that the enactment of organizational processes exerts a strong influence on the nature of collective identities created and sustained. The salience of independence in the work environment of Copyserve stands in contrast to the salience of interdependence in the work environment of Grassroots. The pervasiveness of independence can be seen at Copyserve in the selection process, control processes, and in the nature of the work itself. Independence is sought by new members as a means to display their newfound competence to other members. Control, decision-making, and authority can be seen to reside in those individuals who have "taken on the most". Finally, the reliance on technology inherent in work at Copyserve serves to encourage independence. Whether one is designing a new flyer, or making 10,000 copies, the end product reflects the interaction of a singular individual with a machine. In addition, the work requires people to "think on their feet", a process which leads to the development of policies and procedures which may differ significantly from shift to shift. The salience of independence throughout Copyserve is evident in the overwhelming task focus apparent in their daily operations.

In contrast, Grassroots' collective identity is tied very closely to the notion of interdependence. This interdependence seems to flow from those same processes of selection, control, and the nature of work, which contribute to the independence so prevalent at Copyserve.

The "breaking bread" conclusion to new-hire training and the "opening words/closing words" rituals provide stark contrasts to the individual level training regime and cursory and inconsistent "go-around" which characterize Copyserve's all-staff meetings. At Grassroots, individuals are selected and evaluated largely on the basis of their ability to work well as team members. The washing, cooking, serving, and cleaning that take place consistently every day provide a work context, which, while requiring a certain level of independence with respect to task accomplishment, demands a high degree of interdependence. Further, the monotony and physical exertion inherent in their repetitious tasks are balanced in their experience by their feelings of warmth and connectedness to the group.

In sum, interdependence is as valued among the members of Grassroots as independence is among members of Copyserve. These divergent values are revealed through the ways in which the members of the two organizations enact the organizational processes we have described, and have had a significant impact on the construction of substantially different collective identities.

CONCLUSION

How, then, do we see the relationship between collective identity and the self as it is manifested in these two organizations? Organizational theorists‟ exploration of this relationship defines two polar extremes. At one pole are those theorists who see organizations as reified and ahistorical entities, crucibles of personality and performance where organizational members are molded, where the relationship between the organization and the individual is a unidirectional process of shaping and aligning. This positivistic, functionalist view informs a large section of traditional organizational scholarship, and indeed, many of the Human Resource practices of organizations.

At the other pole is the pure phenomenological perspective, which posits a near-solipsistic view of organizations as entities that exist purely in the minds of their constituents, where “collective identity” might be conceptualized as an ephemeral conjunction among individuals’ experiences and interpretations.

Our examination of Grassroots and Copyserve, however, leads us to theorize a far more dynamic relationship. While the two organizations share a variety of structural characteristics, resources and constraints on their operations, their significant differences in terms of technology and their members’ enactment of organizational processes have contributed toward the development of unique “collective identities”. What we observe are organizations that manifest complex and dynamic identities, identities that are being constantly renegotiated in the course of a dialectic exchange among the group and its members. This dialectic contributes towards the creation of identities, both individual and collective.

What then, is the fundamental contribution of this research to issues of organizational identity and learning? We believe that our exploration into collective identity provides two points for reflection. First, by investigating collective identity through a study of two apparently similar organizations, we were able to recognize and report on those issues of identity that emerged by contrast. In the positivistic language of mainstream organizational scholarship, our research design allowed us to “control” for a number of “variables” leaving us free to notice and then theorize the differences between the two organizations‟ collective identities. This investigation led us to appreciate the reciprocal and dynamic nature of the relationship between collective identity and the self.

The second point of reflection flows from the *negotiated* nature of organizational identity and its linkages with older individual subjectivities that have been influential in shaping the organization. Any radical attempt at “reshaping” organizational identity is bound to encounter this heritage of the organizational past.

The study of identity and identification in organizations continues to be an important element of organizational studies. With our study, we have made a simultaneous analysis of processes of identification *with* organizations and *in* organizations (see Lok&Willmott 2014, to note the importance of this simultaneity). In doing so, we have hopefully advanced the study of the dynamics of organizational identification, through the interplay of collective and contrasting identities. It is our belief that organizational identity is shaped primarily through these dynamic interactions of inside and outside forces.

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MARKETING SOCIAL NETWORKING IN THE *FORTUNE* 500

Carl J. Case, St. Bonaventure University
Kristen S. Ryan, St. Bonaventure University
Darwin L. King, St. Bonaventure University

ABSTRACT

As electronic social networking continues to evolve and mature, it is important to determine if marketing opportunities remain. This study, therefore, examined the state of social networking at the Fortune 500 organizations in order to better understand implementation and potential advantages. Results show that these firms rely primarily on five social networking technologies and that the corporate home page is the primary location for web promoting its use of social networking. Findings also suggest that industry sector and company size are factors with regard to social network promotion. Given these results, firms may be able to find gaps and seize promotion advantages relative to their industry competitors.

INTRODUCTION

The continuing evolution of electronic social networking is fascinating. There has been an unprecedented rise in popularity of Facebook and a decline in the use of MySpace. In addition, today there are products such as YouTube, Twitter, and LinkedIn that have tremendous brand loyalty. In fact, businesses spent nearly $5 billion in social media advertising in 2012 alone (Zaleski, 2014). An *InformationWeek* social networking survey of non-IT professionals found that there is one primary driver behind external social networking (Healey, 2013). Fifty-six percent of respondents indicated that their efforts are market-driven based on branding and promotional efforts. Moreover, a CMO Council State of Marketing survey of more than 550 senior marketing executives found that 30% planned to use social networking or online community building to deploy new marketing automation during 2013 (Henschen, 2013).

The most utilized platforms include Facebook, LinkedIn, Twitter, YouTube, and blogs. An examination of the monthly unique visitor count demonstrates the popularity of these products. In February 2015, there were 159 million visitors to Facebook, 288 million visitors to Twitter, 58 million visitors to LinkedIn, and 166 million visitors to YouTube (twitter.com, 2015; complete.com, 2015). Moreover, in May 2014, Technorati, a blog search engine, tracked 1.3 million blogs, 41,000 of which were business blogs (technorati, 2014).

The increasing use of social media as a marketing tool is not surprising, considering the increase in adoption of social media by online adults. According to a Pew Research Center report, 73% of online adults use a social networking site, 42% use multiple social networking sites, and 71% are Facebook users (Duggan and Smith, 2013). In terms of demographics, Facebook usage among seniors (Internet users 65 or older) increased from 35% in late 2012 to 45% in late 2013. Instagram and Twitter users, on the other hand, are primarily younger adults (18-29 years old) and non-whites. In addition, women are four times more likely to be Pinterest users than men and LinkedIn has the highest usage among college graduates and higher income ($75,000 or more) households. It is interesting to note that LinkedIn is the only social networking site with a higher usage rate among 50-64 year olds (24%) than the 18-29 year old age bracket (15%). Relative to engagement, 63% of Facebook users visit the site at least once per day and 40% visit multiple times per day. Instagram ranks second in engagement with 57% of users visiting at least once daily and 35% reporting multiple visits per day. Twitter users are third highest in engagement with 46% of users visiting daily and 29% visiting multiple times per day. Pinterest and LinkedIn have the lowest levels of engagement with Pinterest having 23% and LinkedIn having 13% of users visiting the sites daily.

In order to assist organizations in determining how and where its social networking technologies should be promoted, this research examines several questions. What are the primary social networking technologies utilized by businesses? How are these technologies marketed? Does this marketing vary by industry sector or by the size of the firm?

PREVIOUS RESEARCH

As social media usage has grown, companies have attempted to incorporate more and more social media platforms into their communication plans and promotional programs. A discussion of how companies are taking advantage of these technologies to facilitate marketing functions and corporate communication functions follows.

While the percentage of *Fortune* 500 firms utilizing various social media platforms is on the rise, closer examination by the University of Massachusetts Dartmouth Center for Marketing Research reveals that mere presences does not indicate interactivity between companies and online social media users (Barnes, Lescault, and Wright, 2013). For example, while 35% of *Fortune* 500 companies have Google + accounts, an additional 93 companies (19%) have corporate accounts that are open, but inactive. However, the study did find that 79% of the *Fortune* 500 blogs are active, in other words, they are kept current, take comments, have RSS feeds, and take subscriptions. Moreover, 77% of *Fortune* 500 companies have Twitter accounts with a tweet in the past 30 days.

Beyond having presence on various social media sites, marketers are increasingly examining best practices of these evolving tools in order to achieve desired outcomes. One consideration is whether or not demographic characteristics of brand online supporters should be hidden or revealed. For example, should online visitors see pictorial information about other people that have voluntarily affiliated with the brand? One study suggests the advantages to revealing the identity of followers may be more beneficial for companies seeking consumers that are relatively new to a brand as opposed to companies with well-known brands. The study found that approximately 2.1 million consumers between 13 and 80 years old use social media to learn about unfamiliar brands or products (Nayloy, Lamberton, and West, 2012). The findings also suggest that if the brand followers are similar to the intended target audience, companies may benefit by revealing demographic characteristics of social media brand followers.

Social media also presents an opportunity for *Fortune* 500 firms to leverage positive Corporate Social Responsibility (CSR) efforts. Researchers found that *Fortune* 500 companies with strong CSR credentials were earlier adopters of Twitter, had greater success in gaining followers, and generated responsiveness in the form of replies, mentions, and retweets of posts (Lee, Oh and Kim, 2013). In addition, companies with successful CSR programs and policies were able to utilize social media to foster user-driven communication about their CSR activities as opposed to firm-driven communication.

Finally, social media platforms present an opportunity to enhance customer service.

Genesis, a customer service provider, found that with respect to the actionable Tweets and Facebook posts a company receives, only 20% are related to marketing issues, with the rest being related to service (Knapp, 2012). As a result, firms that are not incorporating social media into their customer service program may be missing a key opportunity. The study also found that only 27% of *Fortune* 500 companies incorporated links to their Twitter and Facebook profiles on their websites and more than half did not provide their Twitter handle or a link to their Facebook page. In addition, only 10% of the firms provided an email address for customer service on the company home page.

RESEARCH DESIGN

This study utilized the *CNN Money* website (2013) list of the *Fortune* 500 firms to obtain the *Fortune* 500 company directory and corresponding company web address and industry sector. A three-step methodology was utilized to determine social network marketing for each organization. First, each company home page was examined to determine which social networking technologies, if any, are utilized. A preliminary analysis found the presence of nine primary technologies and nine lesser used technologies (identified as "other"). The primary technologies include blogs, Facebook, Flickr, Google+, Instagram, LinkedIn, Pinterest, Twitter, and YouTube. Second, if any of the nine technologies were not found on the home page, the home page's search engine was utilized to search for the given technology. Third, if the technology was not located on the given *Fortune* 500 company website, the technology's website, such as Twitter.com, was utilized to search for the company. Utilization was then examined to determine the prevalence of each technology relative to industry sector and relative to company size. In terms of industry sector, a non-stratified random sample of firm types with at least a critical mass of 10 firms within the sector was utilized in an effort to simplify the analysis. Finally, correlation coefficients were calculated to determine potential relationships for each of the most common social networking technologies relative to primary web location and relative to firm size.

RESULTS

This study found that the *Fortune* 500 firms utilize several of social networking technologies. Figure 1 provides an analysis of technology usage and demonstrates that the most common technology is LinkedIn, with 97% of the firms implementing the technology. The other highly implemented products are Twitter (76% of firms), Facebook (74% of firms), YouTube (67% of firms), and blogs (53% of firms). The least commonly utilized technologies include Google+ (17% of firms), Pinterest (8% of firms), Flickr (6% of firms), "Other" (6% of firms), and Instagram (3% of firms). "Other" social networking technologies were implemented by 6.4% of firms and include Forum, Foursquare, iTunes, Mobile Alerts, Slideshare, Spiceworks, StockTwits, Tumblr, and Viggie.

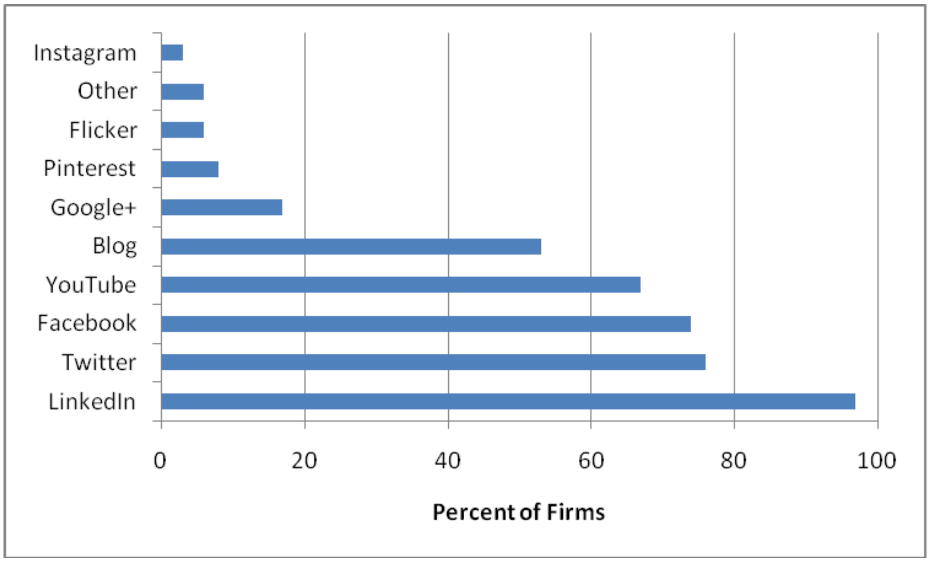

Figure 1: Overall Social Network Usage

Table 1 details the primary web location where the technology information was found. The company home page was first examined for technologies. If a given technology such as YouTube was not found on the home page, a search of the company's website was performed. If this search was unsuccessful, the given technology's website, for example, Twitter.com, was used to search for the company name to locate an account. These searches found that LinkedIn, for instance, was listed on 30% of the *Fortune* 500 firms' company home pages. The technologies with the highest incidence on the company home page were Twitter (55% of firms), Facebook (54% of firms), YouTube (42% of firms), and LinkedIn (30% of firms). The technology with the highest incidence on a company's non-home page was blogs (30% of firms). The technology that was least promoted, in other words, was not listed on the given *Fortune* 500 company web site but was listed on the technology's web page was LinkedIn (63% of firms).

Table 1
PRIMARY WEB LOCATION OF TECHNOLOGY INFORMATION

Technology	Company Home Page	Company Non-Home Page	Technology's Web Site
LinkedIn	30%	4%	63%
Twitter	55%	7%	14%
Facebook	54%	5%	14%
YouTube	42%	6%	19%
Blog	22%	30%	0%
Google+	14%	2%	1%
Pinterest	5%	1%	2%
Flickr	4%	2%	0%
Instagram	1%	1%	1%

Because a company home page is a primary conduit for company marketing, the data was analyzed by industry sector to determine if there are differences in utilization of the company home page by industry sector. Table 2 provides an analysis of the five primary social networking technologies by industry sector as identified in the *CNN Money* website data. Given that LinkedIn, Twitter, Facebook, YouTube, and blogs were most commonly implemented technologies, only these five technologies were examined. In an effort to simplify the analysis, just industry sectors with at least 10 firms within that sector were summated. This resulted in 17 industry sectors, accounting for 61% of the firms in the *Fortune* 500. Note that results are calculated based upon the percentage of firms using the given technology within that industry sector.

With respect to LinkedIn, insurance companies (49% of firms), wholesalers (30% of firms), and healthcare companies (24% of firms) have the highest sector immersion. In terms of Twitter, insurance companies (62% of firms), specialty retailers (49% of firms), and telecommunication companies (49% of firms) have the highest sector immersion. Relative to Facebook, insurance companies (68% of firms), specialty retailers (57% of firms), and telecommunication companies (49% of firms) have the highest sector immersion. With respect to YouTube, insurance companies (54% of firms), telecommunication companies (38% of firms), and wholesalers (35% of firms) have the highest sector immersion. In terms of blogs, telecommunication companies (24% of firms), insurance companies (22% of firms), and specialty retailers (19% of firms)) have the highest sector immersion. When examining which sector has the highest overall use of the five technologies, insurance companies lead the way. Specifically, 49% of insurance firms use LinkedIn, 62% use Twitter, 68% use Facebook, 54% use YouTube, and 22% use blogs. On the other hand, petroleum refining has the lowest usage with only 3% using LinkedIn, 5% using Twitter, 8% using Facebook, 5% using YouTube, and none using blogs.

Table 2
SOCIAL NETWORK USAGE ON COMPANY HOME PAGE BY INDUSTRY SECTOR

Industry Sector	Number of Firms in *Fortune* 500	LinkedIn	Twitter	Facebook	YouTube	Blog
Insurance	37	49%	62%	68%	54%	22%
Specialty Retailer	27	8%	49%	57%	32%	19%
Wholesaler	26	30%	35%	35%	35%	11%
Telecommunications	23	19%	49%	49%	38%	24%
Utilities: Gas and Electric	23	11%	30%	24%	24%	14%
Healthcare	22	24%	35%	32%	27%	11%
Commercial Bank	18	16%	30%	27%	27%	8%
Chemicals	15	22%	27%	27%	24%	14%
Food Consumer Products	15	11%	24%	24%	22%	11%
Motor Vehicles & Parts	15	8%	16%	11%	14%	14%
Mining, Crude-Oil Production	14	19%	16%	22%	14%	11%
Pharmaceuticals	13	8%	22%	16%	14%	11%
Aerospace & Defense	12	16%	19%	`6%	14%	11%
Computers	12	19%	27%	27%	16%	16%

Table 2 **SOCIAL NETWORK USAGE ON COMPANY HOME PAGE BY INDUSTRY SECTOR**						
Industry Sector	Number of Firms in *Fortune* 500	LinkedIn	Twitter	Facebook	YouTube	Blog
Petroleum Refining	11	3%	5%	8%	5%	0%
Engineering, Construction	10	11%	8%	11%	11%	5%
General Merchandiser	10	0%	19%	22%	16%	8%
Total (61% of Firms)	303					

Table 3 provides a breakdown by company size for each technology that markets the technology on their home page. In terms of the *Fortune* 1-100 firms, the most commonly marketed technologies are Twitter (62% of firms), Facebook (58% of firms), and YouTube (41% of firms). Relative to the *Fortune* 101-200 firms, the most commonly marketed technologies are Twitter (62% of firms), Facebook (57% of firms), and YouTube (54% of firms). With respect to the *Fortune* 201-300 firms, the most commonly marketed technologies are Facebook (63% of firms), Twitter (61% of firms), and YouTube (44% of firms). In terms of the *Fortune* 301-400 firms, the most commonly marketed technologies are Twitter (45% of firms), Facebook (42% of firms), and YouTube (31% of firms). Relative to the *Fortune* 401-500 firms, the most commonly marketed technologies are Facebook (51% of firms), Twitter (46% of firms), and YouTube (40% of firms). When comparing organization size, the *Fortune* 1-100 firms had the highest implementation percentage for 5 of the 9 technologies. In addition, Twitter and Facebook were the social networking technologies promoted most frequently on company home page for any size organization.

Table 3 **SOCIAL NETWORKING TECHNOLOGIES FOUND ON COMPANY HOME PAGE BY FIRM SIZE**					
Type	*Fortune* 1-100	*Fortune* 101-200	*Fortune* 201-300	*Fortune* 301-400	*Fortune* 401-500
LinkedIn	34%	29%	33%	23%	32%
Twitter	62%	62%	61%	45%	46%
Facebook	58%	57%	63%	42%	51%
YouTube	41%	54%	44%	31%	40%
Blog	23%	32%	29%	16%	12%
Google+	19%	16%	13%	12%	12%
Pinterest	7%	4%	5%	6%	5%
Flickr	5%	6%	4%	1%	4%
Instagram	3%	0%	3%	0%	0%

Table 4 provides a breakdown by company size for each technology that does not market the technology on their home page but has the technology listed on another of its company webpages. In terms of the *Fortune* 1-100 firms, the most commonly marketed technologies are blogs (38% of firms), Twitter (13% of firms), and YouTube (13% of firms). Relative to the *Fortune* 101-200 firms, the most commonly marketed technology are blogs (25% of firms) with no more than 3% implementing any other technology. With respect to the *Fortune* 201-300 firms, the most commonly marketed technology are blogs (28% of firms) with no more than 7% implementing any other technology. In terms of the *Fortune* 301-400 firms, the most commonly marketed technologies are blogs (31% of firms) and Twitter (10% of firms). Relative to the *Fortune* 401-500 firms, the most commonly marketed technology are blogs (27% of firms) with no more than 2% implementing any other technology. When comparing organization size, the *Fortune* 1-100 firms had the highest implementation percentage for 8 of the 9 technologies. In addition, blogs were the social networking technology most frequently found on a company non-home page for any size organization.

Table 4

SOCIAL NETWORKING TECHNOLOGIES FOUND ON COMPANY NON-HOME PAGE BY FIRM SIZE

Type	*Fortune* 1-100	*Fortune* 101-200	*Fortune* 201-300	*Fortune* 301-400	*Fortune* 401-500
LinkedIn	9%	3%	2%	4%	1%
Twitter	13%	2%	7%	10%	2%
Facebook	11%	3%	3%	8%	2%
YouTube	13%	2%	5%	0%	2%
Blog	38%	25%	28%	31%	27%
Google+	4%	1%	1%	3%	0%
Pinterest	2%	2%	1%	1%	0%
Flickr	4%	3%	0%	3%	1%
Instagram	2%	3%	0%	0%	0%

Table 5 provides a breakdown by company size for each technology that is not listed on any company webpage but found in the given technology's database. In terms of the *Fortune* 1-100 firms, the most commonly marketed technologies are LinkedIn (56% of firms) and YouTube (22% of firms). Relative to the *Fortune* 101-200 firms, the most commonly marketed technologies are LinkedIn (63% of firms) and YouTube (22% of firms). With respect to the *Fortune* 201-300 firms, the most commonly marketed technologies are LinkedIn (62% of firms) and YouTube (19% of firms). In terms of the *Fortune* 301-400 firms, the most commonly marketed technologies are LinkedIn (71% of firms), Twitter (19% of firms), and Facebook (17% of firms). Relative to the *Fortune* 401-500 firms, the most commonly marketed technologies are LinkedIn (65% of firms) and Facebook (22% of firms). Overall, LinkedIn is the social networking technology most commonly not found on a given company's website but found in the technology's web site for all organization sizes.

Table 5

SOCIAL NETWORKING TECHNOLOGIES FOUND ON TECHNOLOGY WEB PAGE BY FIRM SIZE

Type	*Fortune* 1-100	*Fortune* 101-200	*Fortune* 201-300	*Fortune* 301-400	*Fortune* 401-500
LinkedIn	56%	63%	62%	71%	65%
Twitter	12%	13%	9%	19%	18%
Facebook	10%	12%	9%	17%	22%

Table 5 **SOCIAL NETWORKING TECHNOLOGIES FOUND ON TECHNOLOGY WEB PAGE BY FIRM SIZE**					
Type	*Fortune* 1-100	*Fortune* 101-200	*Fortune* 201-300	*Fortune* 301-400	*Fortune* 401-500
YouTube	22%	22%	19%	15%	16%
Blog	2%	0%	0%	0%	0%
Google+	0%	3%	0%	1%	2%
Pinterest	1%	2%	2%	1%	3%
Flickr	0%	0%	0%	0%	0%
Instagram	0%	1%	2%	0%	2%

Finally, Spearman Rho correlation coefficients were calculated to determine potential relationships between each of the most common social networking technologies and the three primary web locations and the five firm size categories. Table 6 illustrates that there are correlations significant at the .05 level (2-tailed test) for each of the technologies with respect to location. Moreover, each technology had a positive correlation with firm size. In other words, technology marketing increased with the size of the firm. In particular, Twitter, YouTube, and blogs had correlations significant at the .05 level (2-tailed test).

Table 6 **SPEARMAN RHO CORRELATION COEFFICIENTS OF TECHNOLOGIES WITH PRIMARY WEB LOCATION AND FIRM SIZE**		
Technology	Location	Firm Size
LinkedIn	.325**	.027
Twitter	.817**	.163**
Facebook	.843**	.055
YouTube	.865**	.187**
Blog	.935**	.167**

** Significant at the .01 level (2-tailed)

CONCLUSIONS, IMPLICATIONS, AND LIMITATIONS

Results indicate that the *Fortune* 500 companies have implemented a variety of social networking mechanisms. The most common technology is LinkedIn, utilized by 97% of firms. Twitter, Facebook, YouTube, and blogs are used by 53% to 76% of the *Fortune* 500 companies. The least common technologies, utilized by 17% or less of firms, include Google+, Pinterest, Flickr, Other, and Instagram.

In terms of where the social networking technology is primarily promoted, results show that the company home page is the most common location for Twitter (55% of firms), Facebook (54% of firms), and YouTube (42% of firms). Blogs, on the other hand, were found on the given company's website, but not on the home page for 30% of firms. Finally, LinkedIn (63% of firms) was the technology that was usually not found on the given company's website but was correlated with location.

With respect to industry sector, insurance companies had the overall highest percentage utilization of the five primary social networking technologies. Specifically, 49% of insurance firms use LinkedIn, 62% use Twitter, 68% use Facebook, 54% use YouTube, and 22% use blogs. All other sectors varied in terms of implementation. For example, relative to specialty retailers, only 8% of firms use LinkedIn, 49% use Twitter, 57% use Facebook, 32% use YouTube, and 19% use blogs. The lowest percentage utilization is in the petroleum refining sector with merely 3% using LinkedIn, 5% using Twitter, 8% using Facebook, 5% using YouTube, and none using blogs.

Findings also show that for technologies marketed on the firm's home page, Twitter and Facebook were the social networking technologies promoted for all sizes of firms. For example, 62% of the *Fortune* 1-100 firms, 62% of the *Fortune* 101-200 firms, 61% of the *Fortune* 201-300 firms, 45% of the *Fortune* 301-400 firms, and 46% of the *Fortune* 401-500 firms use Twitter. Moreover, 58% of the *Fortune* 1-100 firms, 57% of the *Fortune* 101-200 firms, 63% of the *Fortune* 201-300 firms, 42% of the *Fortune* 301-400 firms, and 51% of the *Fortune* 401-500 firms use Facebook. Blogs were the social networking technology most frequently found on a company website but not identified on the home page. Specifically, blogs were found on non-home pages of 38% of the *Fortune* 1-100 firms, 25% of the *Fortune* 101-200 firms, 28% of the *Fortune* 201-300 firms, 31% of the *Fortune* 301-400 firms, and 27% of the *Fortune* 401-500 firms. And, LinkedIn is the social networking technology not found on a given company's website but found in the technology's web site. LinkedIn was only found on LinkedIn's site for 56% of the *Fortune* 1-100 firms, 63% of the *Fortune* 101-200 firms, 62% of the *Fortune* 201-300 firms, 71% of the *Fortune* 301-400 firms, and 65% of the *Fortune* 401-500 firms. Overall, each of the five technologies were positively correlated with firm size. In particular, Twitter, YouTube, and blogs were significantly correlated with company size.

Implications

There are four important implications as a result of these findings:

1. One implication is that is a dichotomy in the social networking technologies employed by firms. Five products (LinkedIn, Twitter, Facebook, YouTube, and blogs) are utilized by 53-97% of firms. This suggests that there may be marketing opportunities with regard to Google+, Pinterest, Flickr, Other, and Instagram. Although these technologies are not utilized by most firms, it is possible that each technology may grow in popularity as the world of social networking evolves. Firms that implement these products in the near future may be able to enjoy first-mover competitive advantages.

2. A second implication is with respect to the organizational home page being the primary mechanism for web promoting the organization's social media presence. For seven of the nine technologies, the home page was the primary location. Blogs, on the other hand, were found on non-home page web pages. Moreover, LinkedIn was found primarily on LinkedIn's website. It is possible that blogs are viewed by the organization as an internal tool, thus there is less a need to promote them on the home page. In terms of LinkedIn, given its ubiquity within the business world, *Fortune* 500 firms apparently do not

perceive value in promoting its usage on its corporate website. As a result, there may be marketing opportunities both with regard to blogs and LinkedIn promotions of the corporate home page given the scarcity of these at the present time.

3. A third implication relates to industry sector. There are distinct differences in social networking technology implementation when examining industry sector. For example, the insurance sector had a high saturation with 49% implementing LinkedIn, 62% implementing Twitter, 68% implementing Facebook, and 54% implementing YouTube. In terms of general merchandisers, 0% implemented LinkedIn, 19% implemented Twitter, 22% implemented Facebook, and 16% implemented YouTube. It is difficult to speculate on why there are such differences. It is possible the segments such as insurance, given the competitive nature of this industry, are more aggressive in their marketing. At a minimum, however, this study's results are useful depicting usage within a given sector and, thus, identifying opportunities for a firm within that sector. For instance, because only 19% of general merchandisers use Twitter, a general merchandiser that does implement Twitter may have a significant marketing advantage over the other general merchandisers.

4. A fourth implication is that company size is a factor with regard to social network marketing. With respect to home page marketing, the *Fortune* 1-100 firms were the largest percentage implementers of 5 of the products. The *Fortune* 101-200 firms were the largest percentage implements of 3 of the remaining 4 technologies. In terms of non-home page marketing, the *Fortune* 1-100 firms were the largest percentage implementers of 8 of the 9 products. Relative to non-company marketing, *Fortune* 401-400 firms were the largest percentage implementers of 3 of the 9 products. Of importance is that each of the five most common social networking technologies was positively correlated with company size. It is possible that because the *Fortune* 100 have the greatest financial resources and likely largest market, they are better able and more likely to have social networking as a priority. However, given the relative low cost of social marketing promotion and thus low barrier to entry, smaller firms that implement and promote these technologies may still have first-mover advantages.

The limitations of this study are primarily a function of the research methodology. The study examined web page marketing but did not explore traditional methods of marketing that can be employed to market social networking availability. For example, the organization may promote their use of LinkedIn by employing company email or newsletters to target this information to its stakeholders. In addition, company size was segmented into five levels for convenience purposes. Future research is needed to determine if there are other size levels that more accurately discriminate usage. Finally, the study did not further segment industry sector by firm size to determine if this combination effects social network marketing. Overall, however, this research clarifies the state of social networking at the *Fortune* 500 and will assist organizations in determining potential marketing advantages.

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CREATIVITY: UNDERSTADING MANAGEMENT OF EMPLOYEE CREATIVITY

Masato Fujii, Kobe University

ABSTRACT

Creativity has been regarded as one of the critical resources that contemporary companies should possess. Regarding this concern, researchers have investigated the mechanism of creativity. Previous research suggests that intrinsic motivation is one of the most important factors that promote employee creativity. Thus, as constraints reduce intrinsic motivation, many researchers have indicated that constraints inhibit employee creativity. For example, time constraints disturb employees' autonomous thinking or autonomous behavior. In contrast, some studies have demonstrated that constraints enhance employee creativity because they encourage employees to generate new ideas. For example, financial constraints have been cited as one such constrains. Therefore, the influences of constraints on creativity yield mixed results. This study defined this inconsistency as the paradox of constraints on creativity and attempted to investigate solutions to the paradox.

To solve the paradox, the present study adopted a long-term viewpoint in recognition of the difficulties presented by a short-term approach. From this perspective, this article explains the management of long-term creativity using qualitative data from a single case study of a direct marketing company that actively promotes continuous employee creativity. Data were collected during interviews with the company's employees and managers (N = 11). Nine participants were employees who crafted creative direct mails and two participants were managers.

The results revealed that employees created each direct mail by following rules and took for granted that they follow the rules. Furthermore, it was found that managers emphasized to employees the merits of following the rules on a daily basis. In other words, the employees produced creative direct mails within constraints facilitated by managers. Thus, the employees refer to the constraints as their reference points.

Collectively, the results suggested that managers could enhance employee creativity by imposing constraints through organizational routine. Additionally, the results indicated how to solve the paradox of constraints on creativity, which contributes both theoretically and practically. Regarding the theoretical implication, this study clarified the solution of the paradox and, in terms of the practical implications, described the management of creativity.

INTRODUCTION

In the field of creativity research, many researchers have attempted to clarify what creativity is or how to measure creativity. Previous studies are very important to understand creativity; however, the extant research has been detached from practice fields. In this way, the management of creativity has been overlooked. Thus, this study focuses on how to manage employee creativity.

In managing employee creativity, previous studies have indicated that a paradox of constraints arises and that this paradox impacts, in some way, employee creativity; that is, constraints can enhance creativity under some situations and inhibit under others. This study focuses on this paradox and attempts to solve it. To solve the problem, this study discusses creativity from a long-term perspective because it is difficult to define whether the paradox is solved in the short-term.

This study examined the management of employees in a direct marketing company in Japan that has successfully promoted employee creativity for the last 8 years. The results of this study indicate that procedural constraints and constraints of consciousness enhance creativity and that these constraints do not inhibit creativity under situations whereby they are regarded as organizational routine by the employees.

THEORETICAL BACKGROUND

Importance of Creativity and Definition of Creativity

The subject of creativity has gained considerable attention in contemporary management scholarship in recent years (Anderson, Potočnik, & Zhou, 2014). Creativity has come to be regarded as the first step toward innovation (Amabile, 1988) and, therefore, necessary for business performance (Mumford, Hester, & Robledo, 2012). For these reasons, this study focuses on the management of employee creativity.

Recognizing that there is no unified definition of creativity, this study considers the following definition of Amabile (1988), who defined creativity as "the production of novel and useful ideas by an individual or a small group of individuals working together" (p. 126). According to this definition, creativity means idea production and directs researchers' attention to the ideas and the products. Moreover, Ford (1996) described three characteristics of creativity: creativity refers to attribute of idea, product, and process, and it can be examined and judged; "creativity is a subjective judgment made by members of the field regarding the novelty and value of a product" (p. 1115); and "creativity assessments are domain-specific" (p. 1115). Based on these definitions and characteristics, this study defines creativity as the production of ideas, products, and processes that members in the field find novel and useful.

Previous studies have also explored the process of creativity. Amabile (1988) suggested three points that lead to employee creativity: first, the intrinsic motivation to perform the task; second, the skills involved in the task domain; and third, skills in creative thinking. She maintained that all points are necessary to foster creativity and without any one of these points it is difficult to promote creativity. Furthermore, she argued that intrinsic motivation is the most important point among the aforementioned for leading creativity. In fact, the extant research has mainly focused on intrinsic motivation as a main factor to promote employee creativity (e.g., Anderson et al., 2014; Rosso, 2014; Shalley, Zhou, & Oldham, 2004).

Constraints that Inhibit Creativity

This section reviews previous research that investigated the antecedents of creativity. Given that previous research has focused predominately on intrinsic motivation, this review directs its attention to constraints that inhibit intrinsic motivation. Gruber and Davis (1988) conducted a case study of the doctoral dissertation process and found that creativity takes a long time to develop. According to Gruber and Davis (1988), "creative work is not a matter of milliseconds, minutes, or even hours but of months, years, and decades" (p. 265). Andrews and Smith (1996) expanded this to an empirical investigation of a "creative" (i.e., novel and useful) marketing program. The result of the investigation indicated that time pressure inhibited production of the creative marketing program. In the same manner, Hennessey and Amabile (2010) stated that time pressure inhibits creativity. Although they admitted that time pressure had a possibility to promote creativity under specific conditions, they argued that such an environment that promotes creativity is rare. Hence, Hennessey and Amabile (2010) argued that constraints inhibit creativity.

Based on the above studies, previous research has proven that time constraints reduce creativity. In short, constraints that reduce employees' intrinsic motivations inhibit employee creativity. However, some previous research has indicated that constraints enhance employee creativity. In fact, it is easy to assume that time constraints enable employees to promote their work and that resource constraints motivate employees to generate ideas. The following section discusses constraints that enhance creativity.

Constraints that Enhance Creativity

Andrews and Farris (1972) conducted an empirical study to explore the relationship between time pressure and innovation. They found that time pressure improved the outcome of scientists and engineers. Although Andrews and Farris (1972) did not directly examine the relationship between time pressure and creativity, the results suggest that time pressure could promote creativity. As for the relationship between time pressure and creativity, Baer and Oldham (2006) investigated the relation more precisely to reveal an inverted U-shaped relationship between time pressure and creativity under the condition in which employees had high openness to experience and received organizational support. Furthermore, Unsworth and Clegg (2010) examined the relationship between idea generation and time pressure. The results of their research indicated that when engineers generated new ideas, time pressure had a positive influence on the process.

These results suggest that time pressure promotes creativity. Therein lays the paradox. Although some previous studies show that constraints inhibit creativity, the converse that constraints enhance creativity, has also been demonstrated. In addition to time constraints, earlier studies have attempted to identify other constraints, such as input and financial constraints. Moreau and Dahl (2005) indicated that some input constraints have a positive relation to creativity in the absence of other constraints. Moreover, Hoegl, Gibbert, and Mazursky (2008) found innovation to occur in situations where there was lack of financial resources.

Taken together, on one hand, some literature suggests that intrinsic motivation has a large impact on creativity. Thus, many studies have attempted to identify constraints that inhibit intrinsic motivation. However, on the other hand, some studies suggest that constraints enhance creativity. Hence, constraints have mixed effects on employee creativity. This study defines the mixed effects as the paradox of constraints on creativity, which will be discussed in the next section.

Paradox of Creativity

The results of earlier studies demonstrate the paradox on creativity (Rosso, 2014; Sagiv, Arieli, Goldenberg, & Goldschmidt, 2010). In other words, the paradox describes a situation in which constraints simultaneously inhibit and enhance employee creativity. In this section, this study reviews previous studies that have attempted to resolve this paradox.

Sagiv et al. (2010) approached the paradox from a viewpoint of cognitive style. They concluded that constraints emphasized employee creativity when the employees had systematic cognitive styles. However, there are two limitations to be considered in their study. First, they tried to solve the paradox by focusing on individual characteristics. Second, they were likely to neglect the types of constraints. These limitations make it difficult to manage creative practice because it is difficult for managers to judge employees' cognitive styles or find appropriate constraints. Recognizing these limitations, Rosso (2014) and Roskes (2015) focused on the types of antecedents of creativity.

Rosso (2014) conducted a field study to investigate the kinds of constraints that inhibit or enhance creativity. The results indicated that process constraints inhibit creativity, whereas product constraints enhance creativity. Although Rosso (2014) tackled the limitations of Sagiv et al.'s research, Rosso's study also has a limitation. As acknowledged by Rosso (2014), the balance between constraints and freedoms is important; however, it is very difficult to find the optimum point.

Roskes (2015) explained about the paradox from the relationship between constraints and employees' motivation. The results of the study indicated that constraints that limit cognitive resources have positive effects on creativity when employees work under approach motivation, which means that "instigated or directed by positive or desirable event or possibility" (Elliot, 1999, p. 169). Conversely, the constraints have negative effects on creativity when employees work under avoidance motivation, which means that "instigated or directed by a negative or undesirable event or possibility" (Elliot, 1999, p. 169). Furthermore, Roskes's study also showed that constraints that limited channels of cognition had positive effects on creativity where employees had avoidance motivation; however, the constraints had negative effects on creativity when employees had approach motivation. However, Roskes (2015) focused on individual characteristics and neglected how managers handle employee creativity.

Although previous studies have tackled the paradox of constraints on creativity, the paradox remains unsolved. This is because it is difficult to understand each employee's cognitive style, motivation, and personality. Therefore, managers have difficulty in managing employee creativity. For this reason, this study attempts to explore management techniques that do not rely on deep knowledge of individual employee characteristics. Furthermore, this study also attempts to explore the long-term management of employee creativity because it is unclear whether the paradox of constraints on creativity can be resolved in the short-term. Thus, this study examines how to promote the employee creativity from a long-term perspective and poses the following research question:

RQ *How does a manager promote employee creativity in the long-term?*

METHODS

This study employed a single case study analysis. This approach is characterized by three points: first, it allows the study to holistically and comprehensively understand management practice (Yin, 1984); it enables the study to explore and develop new theories (Yin, 1984); and it allows the researchers to gather long-term qualitative data (Yin, 1984). Thus, the study argues that it is reasonable to employ a case study research methodology to explore the management of employee creativity.

In the study, the author interviewed employees from a direct marketing company. The company had won Japan's Direct Mail Award eight years in a row (2008−2015). The critical criterion of the award is whether the direct mail is novel and useful. Therefore, the fact that the company has received the award for the last eight years can be regarded as evidence that the company has managed creativity in the long term.

The most prominent sources of data were semi-structured interviews with employees. In total, 11 interviews were conducted (4 women and 7 men). Nine participants were involved in the production process and two participants were involved in management (one participant was a CEO and the other a human resources management professional). All interviews were tape-recorded and later transcribed.

CASE SYNOPSIS

This study chose a Japanese direct marketing company as the object of study. The business of this company is to create direct marketing campaigns for various companies. Direct marketing is one form of marketing and is compared with mass marketing. Although mass marketing literally targets unidentified customers (i.e., mass consumer reach), direct marketing is more targeted and reaches the targeted audience via mail or e-mail.

Although the subject company usually performs direct marketing as well as other marketing functions, the company specializes in direct mail practice. In fact, as mentioned above, the company is recognized as a creative company in the field of direct mail. In this company, all the employees create direct mail in two steps. First, the employees analyze their client based on Point of Sale (POS) data. Following this analysis, they meet frequently with the client. In this study, this step is called the employees' procedure for creating direct mails for clients. Second, the employees focus on the client's needs and apply the theories of direct marketing. One of these theories is the reverse engineering of mail content. This theory holds that employees check that their direct mails have been implemented according to the 10 points about good direct mail. In this study, this is called the employees' consciousness. In short, employees in the company crafted many direct mails by following the aforementioned procedure and consciousness.

RESULT

From the interviews, this study revealed two constraints. First, the employees had crafted direct mails within constraints by following the aforementioned procedure. For example, all employees engaging in the production process followed the same procedure to make every product. As for the procedure, data analysis was conducted before designing the products. Second, the employees had crafted direct mails within constraints by following the aforementioned consciousness. Here, consciousness describes a situation in which employees consider clients' needs and focus on the procedure of direct mails.

Furthermore, following the procedural constraints and constraints of consciousness was regarded by employees as a natural order. All the employees who were interviewed believed that it was very difficult to produce creative direct mails without following these constraints. In other words, employees recognized the constraints as unwritten rules for them to follow.

The interview data showed this recognition to emerge from long-term management. The company managers told the employees about the merits of operating to these constraints on a daily basis. For example, managers explained that the constraints about procedure helped employees to find points on which they should focus. Moreover, they emphasized that the constraints of consciousness helped employees to create useful and novel results.

In sum, employees produced creative direct mails by following the aforementioned two constraints. First, employees followed procedural constraints and then they applied the constraints of consciousness. Furthermore, managers promoted employee creativity on a daily basis by encouraging employees to follow these two constraints. Thus, these constraints enhanced employee creativity in the company.

DISCUSSION

Why Constraints Promote Creativity

Analysis of these interviews indicated that two constraints promoted employee creativity over the long term. These two constraints made it easier for employees to focus on their tasks; that is, well-defined tasks allowed employees to generate new ideas and use their resources efficiently. Thus, employee creativity can be continuously promoted.

Previous studies examined the effects of precisely defined tasks (Sagiv et al., 2010; Rosso, 2014). For instance, Sagiv et al. (2010) argued that constraints allowed employees to understand the tasks to be solved. Moreover, Rosso (2014) showed that constraints defined the tasks on which employees focused. However, given the results in the literature, these constraints possibly inhibit creativity. This is because the procedural constraints restrict employees' autonomous improvements, and constraints of consciousness restrict employees' thinking. In other words, constraints both enhance and inhibit creativity; thus, the paradox of constraints on creativity remains unresolved.

How to Solve the Paradox and Manage Employee Creativity

This study investigated how to promote employee creativity over the long-term and focused on work process constraints. The results suggested that the constraints presented by this company did not restrict employee creativity; that is, this study argues that these constraints enhance employee creativity.

To explain why these constraints enhanced employee creativity, this study applies the concept of organizational routine. Although organizational routine generally promotes homogeneous behaviors, some researchers have argued that organizational routine promotes heterogeneous behaviors (cf. March & Olsen, 1976; Cyert & March, 1992). March and Olsen (1976) argued that "the structural constraints limit but do not ordinarily completely specify the patterns of attention" (p. 39). They also stated that "there are behavioral variations within the constraints" (p. 39). Moreover, Cyert and March (1992) demonstrated that constraints are chosen strategically to match environmental conditions. Given these discussions, this study argues that organizational routine does not prescribe employee's behaviors at all; rather, it enables employees to behave differently while using the constraints as reference points.

In light of this discussion by March and his colleagues, this study argues that employees consider procedural constraints and constraints of consciousness as reference points. In fact, many interviewees of this study described that it was difficult to create direct mails without following the procedure and focusing on the consciousness. Thus, as these constraints formulated the tasks on which employees should focus, the employees promoted creativity consistently under procedural constraints and constraints of consciousness. Furthermore, these constraints did not inhibit employees' intrinsic motivations as they were a normative reference.

Taken together, this study proposes that constraints, as reference points, can enable employees to promote creativity without decreasing their intrinsic motivation. The results of this study suggest that organizational routine may be the key to solving the paradox of constraints on creativity. Moreover, researchers in the field of creativity need to focus on concepts that have received scant attention in the literature (i.e., creativity and routine).

CONCLUSION

This study investigated the long-term management of employee creativity. The results of this study showed that managers promoted employee creativity by imposing constraints in the form of organizational routine. This type of management can solve the paradox of constraints on creativity and facilitate employee creativity over the long-term. Given the findings, this study has theoretical and practical implications. Theoretically, the study suggests how to solve the paradox of constraints on creativity. Practically, the current study indicates how to manage employee creativity in long-term. Although the study has the aforementioned implications, there exists a limitation: the current study is based on single case. Therefore, future research can explore—via conducting comparative case studies—the possibility that constraints, as an organizational routine, enhance employee creativity.

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AN INTERNATIONAL INDIVIDUAL INCOME TAX COMPARSION: THE UNITED STATES, AUSTRALIA, AND UNITED KINGDOM

Darwin King, St. Bonaventure University
Carl Case, St. Bonaventure University

ABSTRACT

This paper compares and contrasts the individual income tax systems in the U.S., Australia, and the UK for the 2013 tax year. Many aspects of the three countries individual income tax structure will be studied including tax rate schedules, filing requirements, income inclusions, income exclusions, standard deductions, personal exemptions, itemized deductions, and tax credits. Finally, a comparison of how tax revenues are spent in each country will be studied. This analysis should provide insight into what each respective government is attempting to promote or support and what practices or activities are being discouraged through the current tax code of each country. A number of interesting similarities and differences are discussed in the final portion of this paper.

INTRODUCTION

The major sources of revenues for the United States are individual income taxes, Social Security (and other payroll) taxes, corporate income taxes, excise taxes, and gift taxes (Congressional Research Service (CRS), 2014). The calculation of taxable income in the U.S. system begins with gross income and subtracts the taxpayers above the line deductions which are called deductions for Adjusted Gross Income (AGI). From this figure, both personal exemptions and the larger of the standard deduction or itemized deductions are subtracted to arrive at taxable income. Once the tax on the taxable income has been determined, other taxes may be added and available tax credits are subtracted. This final tax liability figure is then compared with tax payments made by the taxpayer to arrive at a balance due or refund. The U.S. system uses a calendar year basis (January 1st – December 31st) with tax returns due by April 15th of the following year. Form 1040 is the basic tax form used by the majority of U.S. taxpayers and is a one page two-sided document.

The U.S. tax system is based upon the "ability to pay" principle where progressive tax rates are utilized so that wealthier taxpayers pay a larger percentage rate of tax. Currently, the seven progressive tax rates for 2013 are 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% (CRS,p.2). The 39.6% rate was added for the 2013 tax year (maximum tax rate in 2012 was 35%). Individual income taxes have consistently, in recent years, been the largest federal revenue source. In 2012, individual income taxes accounted for 46% of total federal revenue, social insurance and retirement receipts were 35% of total revenues, corporate income taxes provided only 10% of total revenues, excise taxes represented 3% of the total, and the final 6% of tax revenues were collected from estate and gift taxes and customs duties (U.S. Office of Management and Budget, 2014).

The Australian tax system is based on a fiscal year ending on June 30th rather than a calendar year used in the U.S. The "Australian Tax Return for Individuals" is a lengthy 10 page document. Total income is determined on pages two and three and includes salaries, wages, employer lump sum payments, employment termination payments, Australian government pensions and other payments, interest, dividends, other miscellaneous forms of income (Australian Tax Return for Individuals, 2013). Page four of the return summarizes the taxpayer's deductions and loss carry forwards and page five is used to claim tax reductions (offsets) for spouses including additional age deductions. A line on page 5 is used to include supplemental income items which are summarized on a four page form that is in addition to the basic return. Supplemental income includes partnership and trust income, business income, capital gains, foreign source income, rent income, and any other type of reportable income (Australian Tax Return for Individuals-Supplementary Section, 2013).

Pages six and seven of the Australian income tax form summarize Medicare related items and private health insurance policy details. Pages eight and nine require information concerning the taxpayer's spouse. Page 10 is the "taxpayer's declaration" which must be signed by all of the taxpayers. The Australian tax system also uses progressive tax rates that range from 10% to 45% (Australian Taxation Office). The maximum tax bracket of 45% is significantly more than the maximum 39.6% rate in the U.S. Individual income taxes are the largest revenue source for the Australian government (43.4%) followed by company and resource rent taxes (21.9%) and sales taxes (13.8%) (Australian Commonwealth Budget for 2012-2013-Taxation and Spending.)

The UK tax system is similar to that of the U.S. in that UK source income is subject to UK taxation regardless of the citizenship and place of residence of the individual taxpayer (HM Revenue & Customs). Form SA100 is the basic individual income tax return that the government encourages taxpayers to file online. The government website, HM Revenue & Customs, contains a tax return template with instructions to guide taxpayers to the completion of his or her tax return. Similar to Australia, there is an SA101 form for additional information not contained on the basic return itself. For example, the supplemental income form requests information from taxpayers as to certain specialized interest earned, life insurance gains, stock dividends, and other forms of non-traditional income. In addition, this supplementary income form contains an area to calculate the married couple's allowance.

Individual income taxes are also the major revenue source for the UK. The next three principal revenue flows for the UK government are National Insurance contributions, value added taxes (VAT), and corporation income taxes (Public Spending Facts UK, 2014). Lesser important revenue sources include council (local government) taxes, excise duties on alcohol and cigarettes, stamp duties, carbon taxes, airport taxes, inheritance taxes, and a capital gains tax. The UK tax system is similar to the U.S. with taxable income including earnings from employment, earnings from self-employment, interest on most savings, dividends on stock, and most pension income (HM Revenue & Customs, 2014). Also, the UK revenue code allows for a number of exclusions to income similar to U.S. statutes. Finally, the UK tax system includes a personal allowance similar to the standard deduction found in the U.S. Internal Revenue Code (IRC).

The remainder of this paper compares the three countries tax structure by reviewing the progressive tax rate schedules, filing requirements, items included or excluded from gross income, standard deductions and/or personal exemptions, itemized deductions, and tax credits. The final portion of our paper compares and contrasts how the tax revenues are spent in each country. This information should provide the reader with a better understanding of what goals each country is attempting to accomplish to best serve its citizens.

TAX RATE SCHEDULES

The U.S. has utilized a progressive tax rate system for most of its existence. The basic philosophy of the U.S. and many other countries is that tax rates should be progressive with the most affluent citizens paying the highest tax rate. The following table illustrates the progressive individual income tax rates for the 2013 tax year. Notice that the U.S. marginal tax brackets begin with a very conservative 10% rate. The top bracket of 39.6% was added for the first time in 2013. A year earlier the highest U.S. tax rate was 35%.

It is interesting to note in the U.S. progressive tax structure that a "marriage penalty" exists above the 25% bracket. In the 10%, 15%, and 25% brackets the income subject to these rates for married filing jointly taxpayers is exactly twice that of a single taxpayer, For example, the 25% bracket applies to taxable income of $72,501 to $146,400 for a married couple. The single bracket is exactly half of married filing jointly bracket ranging from $36,251 to $87,850. The marriage penalty exists in the four progressive tax rates above 25%. The most obvious is the new 39.6% bracket where single taxpayers begin paying this rate when taxable income exceeds $400,000. This highest tax rate applies to married filing jointly taxpayers with income of only $450,000 not $800,000 (twice the single amount). In effect, wealthy married taxpayers are penalized for filing a joint return. This is a problem that has existed in the U.S. system for many years and had received much criticism from affluent married taxpayers.

2013 TAX BRACKETS (FOR TAXES DUE APRIL 15, 2014)-U.S.				
Tax rate	Single filers	Married filing jointly or qualifying widow/widower	Married filing separately	Head of household
10%	Up to $8,925	Up to $17,850	Up to $8,925	Up to $12,750
15%	$8,926 to $36,250	$17,851 to $72,500	$8,926 to $36,250	$12,751 to $48,600
25%	$36,251 to $87,850	$72,501 to $146,400	$36,251 to $73,200	$48,601 to $125,450
28%	$87,851 to $183,250	$146,401 to $223,050	$73,201 to $111,525	$125,451 to $203,150
33%	$183,251 to $398,350	$223,051 to $398,350	$111,526 to $199,175	$203,151 to $398,350
35%	$398,351 to $400,000	$398,351 to $450,000	$199,176 to $225,000	$398,351 to $425,000
39.6%	$400,001 or more	$450,001 or more	$225,001 or more	$425,001 or more

The 2013-2014 Australian income tax rate schedule is similar to that of the U.S. in that a progressive tax structure is used ranging from 19% to 45% (Australian Taxation Office, 2014). The ability to pay principle dictates that those with higher incomes should pay a larger percentage of tax. In addition to personal income taxes, residents must also pay a Medicare levy of 1.5%. For Australian residents, there is a "tax-free threshold" built into the tax table where the first $18,200 of income is not taxable (Australian Taxation Office, 2014). Residents receive this benefit by filing a "Tax File Number Declaration" prior to starting work.

The second Australian tax rate schedule presented below applies to foreign residents. This is significantly different than the previous table that applied to Australian citizens. Foreign resident tax rates begin at 32.5% on the first dollar of taxable income. There is no tax-free threshold or 19% tax rate. The highest brackets of 37% and 45% are applicable to foreign residents working in Australia. Foreign residents, however, are not assessed the 1.5% Medicare tax levy that residents must pay.

Individual income tax rates-**Australian Residents** - Tax rates 2013-14
The following rates for 2013-14 apply from 1 July 2013

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $80,000	$3,572 plus 32.5c for each $1 over $37,000
$80,001 – $180,000	$17,547 plus 37c for each $1 over $80,000
$180,001 and over	$54,547 plus 45c for each $1 over $180,000

Individual Income Tax Rates - **Foreign residents** - Tax rates 2013–14
The following rates for 2013–14 apply from 1 July 2013.

Taxable income	Tax on this income
0 – $80,000	32.5c for each $1
$80,001 – $180,000	$26,000 plus 37c for each $1 over $80,000
$180,001 and over	$63,000 plus 45c for each $1 over $180,000

The UK tax rates, like the U.S. and Australia, are progressive in nature. UK tax brackets increase from an introductory 10% figure (which applies to saving interest income only) to the maximum rate of 45% (HM Revenue & Customs, 2014). The basic income tax rates that apply to most forms of income are the 20% basic rate, the 40% higher rate, and the highest additional rate of 45%. The top marginal bracket was reduced from 50% to 45% effective with the 2013-2014 fiscal year. The following tax table, found on the HM Revenue & Customs website, is shown in British pounds. The current value of the pound is approximately $1.70 (CNN Money, 5/8/14). Converting to dollars using the 1.7 rate shows that the basic 20% income tax rate applies to taxable income of up to approximately $54,400. The higher 40% rate applies to taxable income above $54,400 to a maximum of $255,000. The highest additional rate of 45% applies when taxable income exceeds $255,000.

UK INCOME TAX RATES AND TAXABLE BANDS 2013 - 14 AND 2014 - 15		
Rate	**2013-14**	**2014-15**
Starting rate for savings: 10%*	£0 - £2,790	£0 - £2,880
Basic rate: 20%	£0 - £32,010	£0 - £31,865
Higher rate: 40%	£32,011 - £150,000	£31,866 - £150,000
Additional rate: 50%	N/A	N/A
Additional rate: 45% from 6 April 2013	Over £150,000	Over £150,000

FILING REQUIREMENTS

The filing requirements for each of these three countries differ significantly. U.S. citizens must file a tax return when their taxable income exceeds the sum of their standard deduction and personal exemptions (discussed later) (IRS, 2014). Taxpayers who are age 65 or older receive a small benefit with a slightly higher standard deduction. As the filing requirements table below shows, a single taxpayer under age 65 must file a tax return if gross income exceeds $10,000. This situation holds true for married taxpayers when gross income exceeds $20,000.

U.S. INDIVIDUAL INCOME TAX FILING REQUIREMENTS		
If your filing status is…	And at the end of the tax year you were…	2013 Gross Income:
Single	Under age 65	$10,000
	Over age 65	$11,500
Head of Household	Under age 65	$12,850
	Over age 65	$14,350
Married Filing Jointly	Under age 65 (both spouses)	$20,000
	Over age 65 (one spouse)	$21,200
	Over age 65 (both spouses)	$22,400
Married Filing Separately	Under age 65	$3,900
	Over age 65	$3,900
Any	Self-employed	$400

Filing requirements in Australia, according to the Australian Taxation Office (ATO), are fairly complicated (Australian Tax Office, 2014). The government website contains a six page document providing situations when a taxpayer must file or lodge a tax return. The website instructs younger Australian residents who are not eligible for the seniors and pensioners tax offsets to file a return if reportable income exceeds $18,200. For taxpayers under age 18, a return must be filed if income was $416 or more and it was not salary or wages (i.e. interest, dividends, etc.). For foreign residents who had income taxable in Australia, a return must be filed if income is $1 or more. Other situations where the taxpayer would be required to lodge or file a return included operating a business, receiving funds from a trust, and holding a job where tax withholdings are made using a pay as you go (PAYG) system.

Seniors and pensioners who were eligible for a tax offset (benefit for the elderly and retired) must file or lodge a return if he or she were single, widowed, or separated and income exceeded $32,279. Elderly taxpayers who lived with their spouse for the entire year are required to file a tax return if income exceeds $28,974. The government website contains multiple pages with a Rebate Income Calculator to determine the taxpayer's "rebate income" which determines if the taxpayers receive the seniors and pensioners tax offset. The Australian Tax Office webpages include many more situations where taxpayers must lodge or file a return that are not discussed here due to length considerations.

The UK requires its citizens to pay income tax using the pay as you earn (PAYE) method (UK Government Website). The PAYE system extracts both income tax and National Insurance from taxpayers in the net pay calculation. This system also applies to interest on savings and investments with income taxes being automatically withheld at the source on this income. Given this situation, many taxpayers are not required to file a tax return since all of their income has had tax withheld prior to its receipt. According to GOV.UK, a tax return must be completed if untaxed income exceeds 2,500 pounds ($4,250). If a taxpayer's financial situation changes, a Self-Assessment tax return may be required. The GOV.UK site provides examples where a tax return may be required. These situations include starting a new business, receipt of untaxed income from property or investments, accumulating deductible expenses greater than 2,500 pounds, or having capital gains tax to report.

Taxpayers are told that they must register with HM Revenue & Customs (HMRC) if they are unsure if a tax return must be filed. HMRC will then make the determination and alerts the taxpayer. HMRC instructs taxpayers to register for Self-Assessment prior to completing their first tax return. The HMRC then creates accurate records for the taxpayer to ensure that the correct amount of income and National Insurance taxes are paid on a timely basis. The HMRC website advises taxpayers that the tax year runs from April 6th of one year to April 5th of the following year. Taxpayers must register with the HMRC for self-assessment by October 5th of the year that a tax return is required. Prior to registering with the HMRC for self-assessment, the taxpayer must have a National Insurance number. According to the HMRC, following the self-assessment registration by the taxpayer, a ten digit "Unique Taxpayer Reference" or UTR is assigned. This unique number is similar to the Social Security numbers used by U.S. taxpayers.

INCOME INCLUSIONS

The U.S. IRC requires that most forms of income be reported as taxable gross income. The code states that all forms of income are taxable unless Congress has granted it a specific exclusion. IRS Publication 17, Your Federal Income Tax, provides a detailed review of items that are considered reportable income (Publication 17 (IRS), 2013). Reportable income items include wages, salaries, tips, interest, dividends, rental income, retirement and pension income, social security receipts, and many forms of other income. Interest income is classified as taxable and nontaxable on U.S. tax returns. Most interest income is taxable but certain types are considered exclusions. Exclusions are discussed later in this paper.

Most dividends paid by U.S. corporations are considered “qualified” which grants a lower tax rate to this form of income. Qualified dividends in past years have been taxed at capital gains rates of either 0% or 15%. Beginning with the 2013 tax year, the maximum tax rate on qualified dividends has been increased to 20% for very wealthy taxpayers. Pension and other retirement plan receipts are normally taxable since the typical situation is that the taxpayer’s employer has made all of the contributions to the retirement plan. If the taxpayer contributed part of the pension payments with after-tax dollars, only the percentage related to the employer payments is taxable. If the taxpayer made the pension payments with pre-tax dollars, the full amount of the pension receipts are taxable income. Forms of other income include business income, gambling winnings, prizes, jury duty fees, alimony payments received, farm income, and income from an estate or trust. As mentioned earlier, all forms of income are normally taxable if they are not excluded by statute.

According to the Australian Taxation Office, income inclusions embrace all of the following forms of income. First, salaries or wages, commissions, bonuses, income from part-time or casual work, parental leave pay, and foreign employment are some of the most common forms of income (Australian Taxation Office, Individual Income Tax Return Instructions 2013). Other forms of taxable income are allowances, earnings, tips, director’s fees, and similar items. This included car and travel allowances, tool, clothing, and laundry allowances, first aid and risk allowances, and meal and entertainment allowances. Similar to U.S. tax laws, the travel or overtime meal allowance paid by the employer is not reportable if the full amount was spent on deductible expenses, was not shown on the taxpayer’s wage statement, and did not exceed the “Commissioner’s reasonable allowance amount.”

Another form of income is employer lump sum payments. These items include income received for unused annual leave or unused long service leave. Employment termination payments received by an employee are also taxable income. Australian Government allowances and payments are normally taxable. Allowances include youth allowances, parenting payments, partner allowances, sickness allowances, widow allowances, exceptional circumstances relief payments, interim income support payments, and other taxable Commonwealth education or training payments. This is a very complex area with many forms of taxable government payments.

Other forms of income are Australian Government pensions and allowances. These include government payments for age pensions, bereavement allowances, disability support pensions, age service pensions, income support supplements, invalid service pensions, and many others. Another form of taxable income is Australian annuities and superannuation income payments. Australian annuities are paid by Australian life insurance companies and friendly societies (Australian Individual Income Tax Instructions, p.16). Australian superannuation income streams are paid by Australian superannuation funds, retirement savings account (RSA) providers, and life insurance companies. A final class of personal services income on the Australian tax return is any “attributed” personal services income, if applicable.

A form of non-personal service income that is taxable in Australia is interest income paid on savings accounts or term deposits. Dividends received also represent taxable income including dividends applied under a dividend reinvestment plan. A final class of income on the Australian tax return involves “employee share schemes (ESS).” ESS’s involve discounts earned by a taxpayer in the purchase of stock shares. The taxable amount in these situations is the difference between the market value of the ESS interests and the amount paid by the taxpayer to acquire them (Australian Income Tax Instructions, p.22). It is obvious from this discussion that the vast majority of income receipts represent taxable income in Australia.

There is also an extensive list of income inclusions in the UK tax system. According to the HM Revenue & Customs website, taxable income includes the following receipts: earnings from employment, earnings from self-employment, most pension income, interest on most savings accounts, dividend income, rental income, and income from a trust (HM Revenue & Customs, 2013). Forms of pension income include state pensions, personal or company pensions, and retirement annuities. Other taxable state benefits include carer's allowances, jobseeker's allowances, employment and support allowances, incapacity benefits (after the 29th week), and weekly bereavement allowances. Rental income from a lodger in the taxpayer's own home is taxable if it exceeds 4,250 pounds ($7,225) per year. Rental income from other properties owned by the taxpayer is fully taxable.

An exception to the rule that interest income is taxable is the Individual Savings Account (ISA). The ISA is a tax favored savings and investment account. The account can contain both cash and investment securities. The interest and dividends earned on an ISA and profits from the sale of ISA investments are not taxable as either ordinary income or capital gains. The maximum contribution to an ISA for the 2014-2015 tax year is 11,880 pounds ($20,196) of which no more than 5,940 pounds ($10,098) can be in the form of cash (HM Revenue & Customs: Tax Efficient Savings and Investments). An advantage to taxpayers is that losses from the sale of investments in an ISA can be used to reduce the capital gains tax from the sale of securities outside the ISA. An ISA also exists in the form of a Junior ISA designed especially for children under the age of 18 who are living in the UK. For the 2014-2015 tax year, the Junior ISA can be funded for a maximum of 3,840 pounds ($6,528). Children cannot withdraw funds from this account until they have reached the age of 18.

In the UK, there are a number of employee benefits that represent taxable income. Normally, if the employer provides a car for the taxpayer, the value of the vehicle benefit is taxable. This vehicle benefit is reduced if the employee makes payments to the employer for the employee's personal use of the car. Low interest or interest free loans from the employer are also taxable if the loan is more than 10,000 pounds ($17,000) for the 2014-2015 tax year. The maximum loan limit in the previous 2013-2014 tax year was only 5,000 pounds ($8,500). An employer provided residence is also taxable if the accommodation cost more than 75,000 pounds ($127,500). This employee residence benefit is not taxable if the accommodations are provided so the taxpayer can do his or her job or can do the job better. Finally, if the employer pays the employee's medical insurance, the value of the medical insurance is a taxable benefit.

INCOME EXCLUSIONS

The U.S. IRC contains a number of exclusions that do not represent taxable income to the taxpayer (Publication 17, p.46-97). Exclusions include gifts, inheritances, Social Security and Railroad Retirement benefits (for low income taxpayers), life insurance proceeds paid upon the death of another, interest on state, local, and municipal bonds, workmen's compensation payments, scholarship and fellowship grants, employer provided educational assistance (limited) and interest on educational savings bonds.

The IRC also contains exclusions that are termed employee "De Minimis Benefits." These are employer provided benefits that are not of significant value and therefore are not taxable to the employee. These benefits include an employer provided turkey or ham at holiday time. Employer provided holiday gifts in the form of cash or a gift certificate, however, do represent taxable income. Other employer provided benefits that are excluded from income are commuter transit passes of up to $245 per month and qualified parking benefits up to the same $245 figure (IRC §132(a)). Current legislation also allows an exclusion of up to $5,250 of qualified employer provided educational assistance (IRC §127(a)(2)).

Another recently enacted exclusion involves the forgiveness of qualified principle residence indebtedness. Although most debt cancellations result in income for the taxpayer, this is an exception to that rule. With the decrease in the value of housing in many areas, Congress passed legislation to aid taxpayers and exclude the cancelled primary residence debt from income. Another exclusion for 2013 involved amounts paid as accelerated death benefits under an insurance contract before the insured's death. This exclusion is allowed if the insured taxpayer is terminally or chronically ill. Other exclusions involve qualified savings bonds and the sale of the taxpayer's home. Interest on qualified savings bonds intended to be used for the payment of higher educational expenses is excluded from income. The profits made on the sale of the taxpayer's primary residence are excluded up to $250,000 if the taxpayer is single and $500,000 for taxpayers filing a joint return (certain requirements must be met)(IRC §121(b)(2)(A)).

The Australian tax code also includes many receipts that taxpayers may exclude from income. As mentioned earlier, a major exclusion in the Australian tax system is the tax-free threshold of $18,200 of earned income. According to the Australian Taxation Office webpage, exclusions include Australian Government pensions and disability support payments, Australian government allowances and payments for carer allowances, baby bonuses, and child care benefits. Other exempt income includes overseas pay and allowances for Australian Defense Forces and Federal Police personnel and Australian Government education payments such as allowances for students under age 16. These items are not taxable in the year received but they are considered in the calculation of deductible tax losses carried forward from past years.

Prizes won in ordinary lotteries such as lotto draws, caskets, and raffles are excluded from income and are not taxable. Prizes won on game shows are also not taxable unless the taxpayer regularly appears on such shows. Rewards and small gifts such as cash birthday presents are not taxable. There are numerous classes of exempt income listed in the instructions for the Australian Individual Income Tax Return (Australian Taxation Office, Individual Tax Return Instructions, 2013). Listing just a few of these exclusions they include Veterans' Affairs disability pension and allowances, war widows and war widowers pensions, Australian-American Educational Foundation grants, Commonwealth scholarships provided to foreign students, Commonwealth trade learning scholarships, Australian Government disaster recovery payments, child disability assistance paid under the Social Security Act of 1991, and family tax benefits. A major exclusion is household assistance package payments such as clean energy supplement payments, essential medical equipment payments, low income supplements, and single income family supplements. These are but a few of the many government payments that are exempt from tax.

Not to be outdone, the UK tax code also includes many receipts that are nontaxable and exempt from income tax. First, there are many government (state) benefits that are exempt. A few of these include disability living allowances, attendance allowances, lump sum bereavement payments, pension credits, free TV licenses for over 75s, winter fuel payments and Christmas bonuses, employment and support allowances, child benefits, guardian's allowances, maternity allowances, industrial injuries benefits, severe disablement benefits, war widow's pensions, and young person bridging allowances. As mentioned earlier, interest income from Individual Savings Accounts and profits from the sale of securities in those accounts are also exempt from tax. The first 4,250 pounds ($7,225) of rents received from a lodger in the taxpayer's primary residence is excluded from income tax. Two final exclusions are receipts from the working tax credit and the child tax credit.

Although most employment fringe benefits are taxable in the UK, such as company cars, low interest loans, and medical insurance, there are a number of employment benefits that are exempt from tax. These include meals provided for all employees in a staff canteen. The meals must not be provided as part of a salary sacrifice or flexible benefit arrangement. Hot drinks and water provided by the employer are also exclusions. Mobile phones provided by the employer are exempt if they are provided only to the employee and not members of his or her family. Parking at or near the place of business is similarly exempt from tax. Finally, Christmas parties and childcare provided by the employer are excluded from the income of the employee.

STANDARD DEDUCTIONS / ITEMIZED DEDUCTIONS / PERSONAL EXEMPTIONS

The U.S. tax system has included provisions for standard deductions and personal exemptions for many years. These items are subtracted from gross income to arrive at the taxable income figure. Taxpayers in the U.S. are allowed the larger of the standard deduction or his or her total itemized deductions. The standard deduction in 2013 for single and Married Filing Separate (MFS) taxpayers is $6,100 (2013 IRS Pub. 17, p.143). The Married Filing Joint (MFJ) standard deduction in 2013 is $12,200 which is exactly twice the amount allowed for singles.

An additional standard deduction amount is allowed to taxpayers who are over age 65 or blind. For single and head of household (HOH) taxpayers, the added amount of standard deduction is $1,500 for either age or blindness and $3,000 additional if the taxpayer is both 65 or older and blind. Therefore, a single taxpayer in 2013 who is both age 65 or older and blind is entitled to a standard deduction of $9,100 ($6,000 + $1,500 + $1,500). The added amount of standard deduction for MFJ and MFS taxpayers is $1,200 for both age and blindness. Therefore, a couple filing MFJ where both taxpayers are age 65 or over are allowed a standard deduction of $14,600 ($12,200 + $1,200 + $1,200).

Taxpayers in the U.S. are also allowed a personal exemption for both spouses and each dependent. For 2013, the personal exemption amount is $3,900. Therefore, for a husband, wife, and two children family, the total personal exemption amount would be $15,600 ($3,900 X 4). In this situation, the first $15,600 of income is exempt from tax. The personal exemption in the U.S. is adjusted for inflation each year and increased for 2013 by $100 from the 2012 personal exemption figure of $3,800.

U.S. Itemized Deductions

As mentioned above, taxpayers in the U.S. are allowed the larger of his or her standard deduction or the sum of their itemized deductions. Itemized deductions have existed in the U.S. Internal Revenue Code for many years. Expenditures that are currently classified as itemized deductions include charitable contributions, interest expense, taxes, medical and dental expenses, and other deductions. These are all claimed by the taxpayer by attaching Schedule A (Itemized Deductions) to Form 1040.

Charitable contributions include gifts to religious, charitable, educational, scientific, or literary organizations. Gifts in the form of cash and property are allowed as charitable contributions but contributions of services are not deductible (ex. an accountant donating his or her service time to a church). Similarly, gifts to political organizations, social clubs, labor unions, and chambers of commerce are not deductible.

The types of interest expense that are currently deductible in the U.S. are very limited. The interest on most personal debt does not currently qualify as deductible interest. This includes loans for personal vacations, autos, boats, and other capital items for personal use. The form of interest that represents the major deduction for U.S. taxpayers is interest on debt used to finance a primary home or second residence. Interest points paid on a mortgage to purchase a personal residence is also deductible. Payments of interest on the indebtedness of another person, when the taxpayer is not liable for payment, are not allowed as an itemized deduction. Interest on gambling debts is not allowed as an itemized deduction. Finally, interest on loans used to purchase investment property (stocks/bonds, etc.) is deductible as "investment interest." Investment interest is deductible to the extent of the taxpayer's net investment income for the year. Investment interest not allowed (because of the lack of net investment income) is carried over to future years.

The next category of itemized deductions is taxes. Deductible taxes in the U.S. for 2013 included state and local income taxes, real estate taxes, personal property taxes, taxes on property producing rent or royalty income, and occupational taxes. State sales taxes are deductible in 2013 if they exceed state income taxes. In these situations, the taxpayer is allowed a deduction for the larger of the two taxes. Many types of taxes are nondeductible. These include Federal income taxes, social security taxes, driver's, fishing, and hunting licenses, car inspections, gift taxes, Federal excise taxes, fines and penalties, trash and garbage pickup fees, and customs duties.

Medical expenses represent another major category of itemized deductions. These include doctor and dentist expenses, prescription costs, hospitalization charges, medical insurance premiums, medical transportation, medical meals and lodging, and many forms of medical supplies and equipment. These expenses are totaled and then a 10% of Adjusted Gross Income (AGI) limitation applies. This means that only the medical expenses that exceed 10% of the taxpayer's AGI are deductible. This percentage limitation is reduced to 7 ½ % if the taxpayers are age 65 or older. In many cases, this limitation eliminates medical expenses for the taxpayer. Non-deductible medical expenditures include bottled water, maternity clothes, medicines purchased without a prescription, cosmetic surgery, and weight-loss expenses not for the treatment of obesity or other disease.

The final class of itemized deductions found on Schedule A is simply termed "other." These costs include unreimbursed employee business expenses, tax preparation fees, investment expenses, safety deposit box rental fees (if used to store taxable investments), job searching expenses (in the taxpayer's present occupation), occupational taxes, union dues paid, tools used in the taxpayer's job, and specialized work uniforms and work clothes (protective garments such as work boots and gloves). Commuting expenses (to and from work) are not deductible as miscellaneous itemized. The majority of miscellaneous itemized deductions are only deductible to the extent that they exceed 2% of the taxpayers Adjusted Gross Income (AGI). A few miscellaneous itemized deductions are not subject to the 2% rule and these include gambling losses up to the amount of gambling income, impairment-related work expenses of persons with disabilities, amortizable premium on taxable bonds, and casualty and theft losses from income producing property.

Australian Deductions & Allowances

The Australian tax code also allows a number of deductions and allowances. A review of the 2013 Australian Tax Return show that pages 4 and 5 are dedicated to reporting a taxpayer's deductions and tax offsets (i.e. deductions for spouses and age) (Australian Tax Return, 2013). Page 4 of the return first lists work-related deductions followed by interest and dividend deductions, gifts and donations, and costs of managing tax affairs. The bottom of page 4 is used to report tax loss carryforwards from previous years. Page 5 of the Australian tax return serves to report tax offsets for spouses and seniors or pensioners.

The instructions for the Australian tax return include a number of work-related deductions including car expenses, travel expenses, uniforms and protective clothing, self-education expenses, and miscellaneous work expenses (Australian Tax Return Instructions, 2013). Taxpayers can deduct work related car expenses of a vehicle owned or leased for work. Similar to U.S. rules, normal commuting expenses from home to work are not deductible but vehicle costs from a first or primary job to a second job are deductible. If the taxpayer has work-related travel of 5,000 kilometers or less, a cents per kilometer method is allowed. Using this method, no actual receipts are needed but a daily work logbook should be maintained by the taxpayer.

A second work-related deduction is for travel expenses. These expenses must be directly related to the taxpayer's work as an employee. Travel costs include airfare, taxi, or bus fares, bridge and road tolls, parking fees, meals and accommodations while away overnight for work, and petrol, oil, and repair costs. Similar to U.S. rules, the taxpayer does not have to report either the travel allowance provided by the employer or the related expenses if all of the employer payments were used for work-related purposes.

A third type of work deduction involves work-related clothing, laundry, and dry cleaning expenses. Again, similar to U.S. rules, taxpayers can deduct the costs of protective clothing, uniforms, occupation-specific clothing, and the laundering and dry cleaning of work clothing. Occupation-specific clothing allows people to easily recognize that occupation such as checkered pants normally worn by a chef while working in the kitchen. In other words, these articles of clothing are not normal business apparel such as a suit and tie. Clothing and footwear to protect the employee from the risk of injury or illness is also deductible. This includes fire resistant clothing, sun protection clothing, safety colored vests, steel-capped boots, gloves, and heavy duty shirts and trousers (but not jeans which are considered normal apparel).

The fourth class of work deductions is self-education expenses. These are educational costs that maintain the skills or knowledge of the employee in his or her current position. Education that will likely increase the employee's current pay is also deductible. Similar, again, to U.S. regulations, education costs that relate only in a general way to the employee's current position or enables the taxpayer to gain new employment are not deductible as work-related educational expense.

The fifth group of work-related deductions is termed "Other." These other deductions include union dues, subscriptions (dues) to trade or professional associations, overtime meal expenses, professional conferences and workshops, reference books and trade magazines, hard hats, safety glasses, and sunscreens (used on the job), and work-related portions of computer, phone, and home office expenses. In addition, the cost of tools, equipment, and professional libraries may be claimed as an immediate deduction for their full cost, if the purchase price of the items was less than $300.

In addition to the work-related deductions listed above, the Australian tax code also allows deductions for interest, dividends, gifts or donations, and the costs of managing tax affairs. The interest and dividend deductions include any bank account keeping fees for accounts held for investment purposes, fees for investment advice, and interest paid on loans used to purchase income producing investments. In addition, costs related to managing investments such as travel and buying specialists investment journals or subscriptions. These are very similar to investment expenses allowed to U.S. taxpayers as miscellaneous itemized deductions.

Gifts and donations are the next deduction listed on the Australian Tax Return. Only gifts to approved organizations are deductible. Taxpayers can confirm if an organization is an approved one by visiting the government site at abn.business.gov.au. Gifts made to "bucket collections" of up to $10 are deductible without a receipt.

A final group of deductions involves costs of managing tax affairs. These costs include preparing and lodging a tax return, fees paid to a recognized tax advisor, travel to obtain tax advice, buying tax reference manuals, and appeals made to the Administrative Appeals Tribunal or courts in relation to a taxpayer's tax affairs. Interest charged by the Australian government on taxes owed is also deductible. Tax advice received from a non-recognized tax advisor is not deductible as well as tax penalties assessed by the government.

Tax loss carryforwards are sometimes allowed as a deduction for the taxpayer. Government tax form instructions direct the taxpayer to visit "ato.gov.au/instructions2013" for worksheets in order to calculate if such a deduction applies. Another worksheet is necessary to claim a spousal deduction. To claim this tax offset (deduction), the taxpayer's adjusted taxable income (ATI) must be $150,000 or less, the spouses ATI must be $9,973 or less, the taxpayer "maintained" the spouse, both the taxpayer and spouse were Australian residents, and neither the taxpayer nor spouse received any parental leave pay. Again, a complex worksheet must be completed to determine if the taxpayer is eligible for this deduction. Finally, a seniors or pensioners tax offset may be available to the taxpayer dependent on a system of worksheets used to determine its applicability.

To finalize the discussion on Australia, a brief discussion of the Medicare system in Australia is appropriate. Page 6 of the Australian income tax return gathers information from the taxpayer to determine the amount of the Medicare levy. According to the Australian Taxation Office website, Medicare is the "scheme that gives Australian residents access to health care" (Australian Taxation Office). Most Australian taxpayers must pay a Medicare levy of 1.5% of his or her taxable income. The levy is actually determined by the Australian government based on the taxpayer's inputs to page 6 of the tax return. A Medicare levy exemption applies to foreign residents, residents of Norfolk Island, taxpayers not entitled to Medicare benefits, or taxpayers who meet certain medical requirements such as blind pensioners. In addition, a Medicare surcharge exists for higher income taxpayers. The surcharge begins at 1% and increases to 1.25% and 1.5% depending on income. For example, single taxpayers earning over $84,001 to $97,000 pay the additional 1% surcharge. If the single taxpayer earns $130,001 or more, the Medicare levy surcharge is 1.5%. Further discussion of the Australian health care system is beyond the scope of this paper.

U.K. Deductions & Allowances

The UK tax code describes a fairly complex determination method to calculate the taxpayer's personal allowance, which would be similar to the standard deduction in the U.S. The personal allowance is calculated using the age and income of the taxpayers (HM Revenue & Customs, 2013). For example, for the 2013-14 tax year, taxpayers born after April 5, 1948, the maximum personal allowance is 10,000 pounds ($17,000). This figure is reduced if "adjusted net income" exceeds 100,000 pounds ($170,000) and can be completely eliminated depending on income. This is similar to the U.S. tax code which in the past contained provisions to eliminate both the standard deduction and personal exemptions for wealthy taxpayers.

The maximum personal allowance is increased to 10,660 pounds ($18,122) for taxpayers born before April 6, 1938 and is reduced if income exceeds 27,000 pounds ($45,900). Finally, for taxpayers born between April 6, 1938 and April 5, 1948, the maximum personal allowance is 10,500 pounds ($17,850) and is likewise reduced if income exceeds 27,000 pounds. Since the UK uses a PAYE (Pay As You Earn) system, the taxpayer's personal allowance is calculated automatically following the government's receipt of employer provided tax documents or the taxpayer's Self-Assessment tax return.

The UK tax system also includes other deductions or allowances. One is the Blind Person's Allowance. This is given to taxpayers who are certified blind or live in Scotland or Northern Ireland and are unable to perform work for which good eyesight is essential. The current Blind Person's Allowance is 2,230 pounds ($3,791) and there are no age or income restrictions (HM Revenue & Customs, 2013). This is allowed in addition to the personal allowance discussed above. Therefore, a blind taxpayer would not pay tax until his or her income exceeded 12,230 pounds ($20,791) which is the basic standard personal allowance of 10,000 pounds plus the blind allowance of 2,230 pounds.

Another allowance available to taxpayers in the UK is the Married Couple's Allowance. This is available to taxpayers who are married or in a civil partnership, are taxpayers, and either the taxpayer or spouse was born prior to April 6, 1935. If the taxpayers were married prior to December 5, 2005, the husband can claim the deduction which reduces the taxpayer's tax bill by 10% of the Married Couple's Allowance to which they are entitled. In this situation, the actual allowance depends on the husband's income. If the taxpayers were married after December 5, 2005, the taxpayer with the higher income can claim this deduction. Again, the taxpayer's tax bill is reduced by 10% of the Married Couple's Allowance entitled to them.

TAX CREDITS

Tax credits have been commonly used in the U.S. IRC for many years. Tax credits are more valuable dollar for dollar since tax credits directly reduce the taxpayer's tax liability. Deductions, however, only reduce the taxpayer's income figure to arrive at a taxable income number. Therefore, a $1,000 deduction for a taxpayer in the 25% bracket would decrease his or her tax liability by $250 ($1,000 X 25%). A tax credit of $1,000 decreases the tax liability by the full $1,000. The following paragraphs discuss a few of the many tax credits available in the U.S., Australia, and the UK.

Many of the tax credits in the U.S. tax system are aimed at helping families with children. For example, the child and dependent care credit was designed to aid parents with small children who must pay for child care during normal work hours (IRC §21(a)-(f)). If this tax credit were not available, parents who held a low paying job may be forced to spend amounts for child care that approximate the amount of wages earned on the job. This situation could easily provide enough of a disincentive to working that the parent choses to stop working and go on some type of government assistance program. In an effort to minimize this situation, taxpayers are able to take a tax credit of between 20% and 35% (depending on AGI) of the child and dependent care expenses incurred up to $3,000 (for one child) or $6,000 (two or more children) (IRC §21(a)(2)).

Another tax credit that provides relief to taxpayers with young children is termed the child tax credit (IRC §24(a)-(f)). This is a $1,000 tax credit for each qualifying child under the age of 17 at the end of the tax year. This has been a huge benefit to lower income families with children. This credit is especially designed to aid lower income families. The child tax credit is reduced for married filing joint returns with AGI in excess of $110,000 and single taxpayers with AGI exceeding $75,000 (IRC §24(b)(2)). This credit combined with the Earned Income Credit (discussed below) has provided significant relief for lower income taxpayers with young children.

The current U.S. IRC provides encouragement for taxpayers to advance his or her education and attend a college or university. Educational benefits come both in the form of tax credits and deductions for AGI. For example, the American Opportunity Credit (prior to 2009 termed the Hope Scholarship Credit) provides benefits for students in their first four years of postsecondary education (IRC §25A(i)). Taxpayers with children in college are allowed a tax credit of up to $2,500 per eligible student. The credit is allowed for the payment of tuition, fees, and other course materials such as books and supplies. To qualify, the student must be pursuing a program leading to a degree. Up to 40% of this credit may be refundable (not limited to the taxpayer's tax liability).

Another education oriented tax credit is the Lifetime Learning Credit (IRC §25A(c)). This credit is allowed up to a maximum of $2,000 per tax return (not per student). The credit is allowed for the payment of tuition, fees, and books and/or supplies (required to be purchased from the college or university). This credit is limited to the amount of the taxpayer's tax liability and any unused credit is lost. This shows the value of refundable tax credits, like the Earned Income Credit, which can provide the taxpayer with cash flows in excess of his or her tax liability.

Other educational associated benefits are available to U.S. taxpayers in the form of deductions (IRC §222(a)-(d)). For example, up to $2,500 of student loan interest may be taken as a deduction for AGI on page 1 of Form 1040. The student loan interest may be that of the taxpayer, spouse, or dependent children. The loan must have been secured to pay qualified tuition, fees, room, board, books, supplies, and other necessary educational expenses. Finally, a tuition and fees deduction is allowed up to a maximum of $4,000. Again, this is taken as a deduction for AGI on page 1 of Form 1040.

Another major credit available in 2013 is the earned income credit (EIC) (IRC §32(a)-(j)). The EIC is a tax credit for taxpayers who have earned income (wages and salaries) and earn less than $51,567. The intent of this credit is to provide assistance to lower income working taxpayers. Taxpayers with three or more children, two children, one child, and even no children may be entitled to the EIC if the taxpayer's AGI is low. For example, to qualify for the EIC with no children, the taxpayer must earn less than $14,340 (if single) or $19,680 (if Married Filing Joint (MFJ)). The calculation of the EIC is fairly complex but the key is that the taxpayer(s) must have had some earned income (i.e. wages). Publication 17 uses several pages of text to explain the 15 rules that must be passed in order to qualify for the EIC. The EIC is a refundable credit that can provide taxpayers with cash flows in excess of his or her tax liability.

In addition to the major tax credits reviewed above, there are a number of lesser known and used tax credits. These include the adoption credit of up to $12,970 which is given to taxpayers who adopt an eligible child under the age of 18 or physically or mentally handicapped child (or adult) regardless of age (IRC §23(a)-(i)). The mortgage interest credit is intended to aid lower income taxpayers in purchasing a home (2013 IRS Pub. 17, pp.245-246). Taxpayers are eligible for this tax credit only if they were issued a qualified mortgage credit certificate (MCC) by the state or local government. The MCC is issued in connection with a new mortgage for the purchase of the taxpayer's primary residence.

Another tax credit is the residential energy credit (IRC §25C-D). This credit is given to taxpayers for installing qualified energy efficient improvements in/on the taxpayer's primary residence. These improvements include insulation, new windows and doors (energy efficient), energy efficient heat pumps, and air conditioners. A final tax credit is the retirement savings contribution credit (IRC §25B(a)-(f)). This is available to lower income taxpayers who make contributions to traditional or Roth IRA's or 401(k) or 403(b) plans. The intent of this credit is to encourage lower income taxpayers to save more for his or her retirement.

As discussed earlier in this paper, the Australian tax code contains both deductions and offsets. In the Australian system, offsets are similar to tax credits in the U.S. According to the Australian Taxation Office website, "in addition to claiming allowable deductions, taxpayers may be entitled to claim tax offsets" (Australian Taxation Office, 2013). Tax offsets are sometimes referred to as "rebates." These rebates or offsets reduce the amount of tax payable on a dollar for dollar basis. These offsets can reduce the taxes payable to zero but do not result in an additional refund like the U.S. refundable tax credits (i.e. Earned Income Credit).

Several of the most typical offsets or rebates involve situations when taxpayers have received government benefits, when dependents exist, when health insurance or medical expenses have be paid, and situations involving senior Australians and pensioners. The benefit recipient offset is available to taxpayers who receive certain types of Australian Government allowances and payments. The benefit's recipient may qualify for no tax if he or she has no other taxable income and has received the qualifying benefits and allowances for the full tax year. If the taxpayers have other taxable income, some tax will be due on these receipts.

As mentioned earlier, taxpayers may be entitled to a tax offset for maintaining a dependent spouse born before July 1, 1952. Also, maintaining a spouse, child, brother, sister, parent, or spouse's parent who is an invalid qualifies for a tax offset. A tax offset calculator exists on the Australian Taxation Office website to aid taxpayers in arriving at an accurate figure for this rebate. Another offset involves health insurance purchased by the taxpayers. Depending on income, the private health insurance rebate aids taxpayers in reducing health care costs. The government calculates this rebate when the taxpayer files his or her tax return. The offset or rebate can be taken as either a premium reduction or a refundable tax offset through the taxpayer's tax return.

Another rebate or offset arises with the payment of medical expenses by the taxpayer. Depending on adjusted taxable income (ATI) and family status, a tax offset for a portion of medical expenses paid may be available to the taxpayer. The Australian Taxation Office website contains a chart that describes what portion of the medical expenses may be available as a rebate (Australian Taxation Office, 2013). For example, single taxpayers with ATI of $84,000 or less can claim a rebate of 20% of net medical expenses in excess of a threshold of $2,120. Single taxpayers with ATI in excess of $84,000 may claim 10% of net medical expenses over a base amount of $5,000 as a medical expense offset.

Two final rebates or offsets are the seniors and pensioners tax offset and the mature age worker tax offset. To qualify for these rebates, which are calculated by the government, taxpayers must meet certain income and eligibility requirements. Again, the government has prepared a calculator, found on the taxation office webpage, to calculate this offset. A final rebate or offset is the mature age worker offset which is designed to encourage and reward mature workers who stay in the workforce. This rebate is available to Australian residents born before July 1, 1957 who earn less than \$63,000. If these conditions are met, the maximum tax offset is \$500. Again, the government calculates this rebate based upon information reported on the tax return. It is apparent that the Australian system of rebates or offsets is complicated with the actual calculation of these amounts done by the government itself.

The UK system has a limited number of what is termed tax credits. The GOV.UK website contains information on the two basic tax credits available to individual taxpayers. Taxpayers is the UK, if they are new to tax credits, must contact the "Tax Credit Helpline" to request a tax credit claim form. Taxpayers can neither apply online nor download the tax credits form. It is mailed to the taxpayer within 2 weeks of the request. In later years, taxpayers need only call the tax credit helpline to update their claim. To complete a tax credit form for UK residents, the taxpayer must provide his or her National Insurance number, income for the past year, details of any benefits received, details or childcare payments, and the number of hours worked each week.

The first tax credit found on the GOV.UK site is the working tax credit. This is a tax credit of up to 1,940 pounds (\$3,298). The working tax credit is available to taxpayers who are age 16 or over, work a certain number of hours per week, get paid for the work performed, and have income below a government specified level. The government provided tax credits calculator determines the amount of working tax credit available to the taxpayer. The working tax credit is available to taxpayers without children and taxpayers currently on work leave or about to start a new job.

Also, according to GOV.UK, the working tax credit increases to 2,935 pounds (\$4,990) if the taxpayer suffers from a disability with additional credit available if the disability is deemed to be severe. Most taxpayers must work a minimum of 30 hours per week to qualify for this tax credit. For taxpayers (with no children) who are age 60 or over or have a disability, the required number of work hours is reduced to 16 per week. Single taxpayers with one or more children must also work a minimum of 16 hours per week. A married couple with one or more children must normally work at least 24 hours total with one spouse working at least 16 hours. As far as income is concerned, taxpayers must use the tax credits calculator to see if their income exceeds the maximum allowed to receive this credit. This tax credit is complicated enough that taxpayers, on their own, could not accurately determine the allowable amount of this credit, so the tax credits calculator is required to accomplish this.

The second UK tax credit described on the GOV.UK website is the child tax credit. This credit is available to taxpayers who are responsible for a child under age 16 or under age 20 enrolled in approved education or training. Government instructions state that a taxpayer is normally responsible for a child if they live with the taxpayer and the taxpayer is the main carer of the child, the child keeps their toys and clothes in the taxpayer's home, and the taxpayer pays for the child's meals and provides spending or "pocket" money. The taxpayer need not be working to claim this credit. Again, the amount of the child tax credit must be determined by the tax credit calculator.

The child tax credit has two parts: the basic credit and additional credits known as elements. The basic child tax credit is 545 pounds ($927) a year. The additional elements for each child can add an additional 2,750 pounds ($4,675) to the basic credit amount. If the child is disabled, this element amount is increased to 3,100 pounds ($5,270). The child tax benefits are paid either weekly or every 4 weeks to an account of the person mainly responsible for the child. There is a maximum income limitation (above which no credit is allowed) but it is not specified in the government directions. The GOV.UK website directs taxpayers to use the tax credit calculator in order to determine if he or she qualifies for this credit.

The final section of this paper is a comparison of how tax revenues are spent by the United States, Australia, and United Kingdom. A review of this information provides insight into the goals and objectives of each country in the process of caring and supporting its inhabitants. For example, which country most emphasizes education or health care for its citizens? The extent of spending for education, infrastructure, health care, defense (military), and other budget items speaks volumes about what the individual country is attempting to accomplish.

TAX REVENUE EXPENDITURES BY COUNTRY

Expenditures of U.S. income tax revenues for 2013 are summarized on the Whitehouse.gov website. According to this site, income tax revenues for 2013 were 2.9 trillion dollars with spending of 3.8 trillion which resulted in a sizeable deficit of 901 billion. Fifty years ago, in 1963, those same tax receipts and expenditures figures were 106.6 and 111.3 billion resulting in a deficit for that year of 4.7 billion (Whitehouse.gov, Historical Tables). The following table summarizes government spending by expenditure class for 2013.

U.S. INCOME TAX REVENUE EXPENDITURES FOR 2013	
Expenditure Type	Percentage
Health Care (Health and Medical)	25.2%
National Defense	24.8%
Job and Family Security (Social Security)	18.8%
Education and Job Training	2.9%
Veterans Benefits and Services	5.4%
Natural Resources, Energy, and Environment	1.9%
Other Government Programs	12.4%
Net Interest	8.6%

A review of the table above shows that half of the U.S. government income tax receipts were spent on defense and health care. Each of these major expenditure areas accounted for approximately one-quarter of total tax expenditures with health care slightly exceeding defense spending. The major subcategories of national defense included military personnel salaries and benefits, ongoing operations, equipment, and supplies, research and development, weapons, and construction, atomic energy defense activities, and defense-related FBI activities. For health care, the major line items included Medicaid and Children's Health Insurance Program (CHIP), Medicare doctor and prescription drug payments, health research and food safety, disease control and public health services, and additional health care activities.

The third largest expenditure class was job and family security. This included the subcategories of unemployment insurance, food and nutrition assistance, housing assistance, earned income, making work pay, and child tax credits, supplemental security income, Federal military and civilian employee retirement and disability, child care, foster care, and adoption support, temporary assistance for needy families, and railroad retirement and additional income security. The next major expenditure line item is education and job training. This includes elementary, secondary, and vocational education, student financial aid for college, job training and employment services, employment training for people with disabilities, and additional education and job services. It is surprising to see that educational expenditures amounted to only 2.9% of Federal income tax expenditures, which is less than one-eighth the spending for defense and health care.

Veteran's benefits and services accounted for 5.4% of income tax expenditures. The subcategories of these expenditures include income and housing support, health care, education, training, and additional veteran's benefits. Note that some additional expenditures for health care and education are included in these figures. Natural resources, energy, and environment costs accounted for about 2% of the total expenditures. The components of this class of costs included water and land management, energy supply and conservation, environmental protection, and other energy and natural resources costs.

The category of "Other Governmental Programs" (12.4% of expenditures) has many components. These include international affairs (1.8%), science, space and technology programs (1.1%), immigration, law enforcement, and administration of justice (2.1%), agriculture (1.1%), community, area, and regional development (.4%), response to natural disasters (.9%), and many additional government programs (5%). The final expenditure class is net interest (interest on Federal debt less any interest income received by the government). This cost has continued to increase over the years and now represents a significant 8.6% of total tax revenue expenditures. Net interest has slowly increased from 7% of income tax expenditures in 1963 to the current 8.6% fifty years later.

The Australian Commonwealth receipts for the 2012-2013 fiscal year was approximately 376.1 billion (Australian Commonwealth Budget, 2012-2013). The three largest forms of government receipts were individual income taxes (43.4%), company and resource rent taxes (21.9%), and sales taxes (13.8%). The budget page also reports where taxpayer's money is spent. Total expenditures were 376.3 which basically provided Australia with a balanced budget and a minimal deficit. Actually, the Australian budget website predicted a budget surplus when all revenue and expenditure figures for the period are finalized.

Expenditures of income tax receipts for 2012-2013 in Australia are presented in the following table. The largest component of government expenditures was in the form of Social Security and Welfare payments (35%) followed by health care expenditures (16.2%). Educational expenses (7.9%) were approximately half of the health care costs. General public services (5.9%) and defense (5.7%) spending were approximately equal in amount. General public services include legislative and executive affairs, financial and fiscal affairs, general research, general services, and Government superannuation benefits. The last two spending classes are "all other functions" (10.7%) and "other purposes" (18.6%). Other functions include tourism and area promotion, labor and employment affairs, immigration, and other economic affairs. Other purposes include public debt and superannuation interest, general-purpose inter-governmental transactions, natural disaster relief, and a contingency reserve.

AUSTRALIAN TAX REVENUE EXPENDITURES FOR 2012-2013	
Expenditure Type	Percentage
Social Security and Welfare	35.0%
Health Care	16.2%
Education	7.9%

General Public Services	5.9%
Defense	5.7%
All Other Functions	10.7%
Other Purposes	18.6%

The 2012-2013 Australian budget was based on a number of key initiatives. In addition to an attempt to return the budget to a surplus situation, a number of new and improved governmental programs were introduced. These initiatives included the first steps towards developing a National Disability Insurance Scheme, allowing carry-back tax losses for businesses, providing tax breaks for small businesses by allowing assets of up to $6,500 to be immediately expensed, development of an improved dental service system, building an aged care system for the future, and investing in national infrastructure including highways, railroads, and ports. In particular, Australia is investing 61 billion in their health care system, which represents a 37% increase since the 2007-2008 fiscal year.

Total government spending in the UK for 2013 was estimated to be 675.1 billion pounds ($1.15 trillion). The major categories of spending by the UK government are summarized in the following table. Pensions represent the largest expenditure class followed by health care costs and welfare payment. Educational costs represent the fourth largest type of UK government expenditures. Interest payments for the UK, similar to the U.S., are material in size amounting to 47.2 billion pounds ($80.2 billion) in 2013.

UK TAX REVENUE EXPENDITURES FOR 2013	
Expenditure Type	Percentage
Pensions	20.6%
Health Care	18.4%
Welfare	17.4%
Education	12.9%
Defense	6.3%
Protection	4.8%
Transport	2.6%
General Government	2.0%
Other Spending	8.0%
Interest	7.0%

Pension payments encompassed sickness and disability payments, old age pensions, and survivor's pensions. Health care costs included medical services, public health services, health research & development, and miscellaneous health services. Welfare payments comprised family and children payments, unemployment benefits, housing payments, social exclusion payments, social protection research & development, and social protection. Educational expenditures incorporated pre-primary and primary education, secondary education, post-secondary education, tertiary education, and education not definable by level. Defense costs consisted of military defense, civil defense, foreign military aid, foreign economic aid, and defense research & development. Protection expenditures involve police services, fire protection services, law courts, prisons, public order and safety, and public order and safety research & development.

Transport expenditures include railroads, local and national roads, local public transport, transport capital improvements, London underground expenses, and Northern Ireland driver, vehicle and public trust costs. General government costs encompass executive and legislative expenses, general services, and general public services research & development. Finally, the "other spending" line item consists of a large number of governmental services. These include basic research, agricultural, forestry and fishing expenses, mining, manufacturing and construction costs, economic affairs, waste management, waste water management, pollution abatement, housing development, community development, street lighting, housing and community amenities, recreational and sporting services, cultural and religious recreation, and miscellaneous other items.

CONCLUSION / SUMMARY

There are many similarities and differences in the individual income tax systems as they currently exist in the U.S., Australia, and the UK. Each country utilizes a progressive tax rate system that is based on the "ability to pay" principle. Taxpayers in the upper income brackets are expected to pay a higher rate of tax compared to their lower income counterparts. The U.S. individual income tax brackets for 2013 are 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. Australian individual income tax brackets for residents are 19%, 32.5%, 37%, and 45%. Finally, the UK individual progressive tax rates are 20%, 40%, and the newly established top bracket of 45% (decreased from the previous 50% rate). The U.S. system provides lower and middle income taxpayers with two conservative tax brackets of 10% and 15%. The lowest tax bracket for Australia and the UK employs a much higher introductory tax rate of 19% or 20%.

There are many similarities in the types of deductions and tax credits allowed individuals in the three countries reviewed. In particular, benefits are provided to taxpayers for spouses and children either in the form of deductions or tax credits. Likewise, each country utilizes some form of standard deduction or personal exemption to shelter a certain amount of taxpayer income. This process involves subtracting from gross income a number of deductions and exemptions or allowances in order to arrive at taxable income. The tax due is then determined by applying the progressive tax rates on the taxpayer's taxable income. As presented above, there are specialty deductions, allowances, and tax credits that are unique to each country reviewed.

Finally, there are also similarities and differences between these three countries in the way that tax revenues are spent by the individual governments. For example, the three largest governmental expenditure classes for the U.S. are health care, national defense, and job and family security (social security). For Australia, the three largest spending classes are social security and welfare, health care, and education. The largest government expenditures for the UK are pensions, health care, and welfare. Government expenditures for education as a percent of the total budget differed significantly. The UK devoted 12.9% of total budget expenditures to education while Australia allocated 7.9% of expenditures to education. Sadly, U.S. educational spending amounted to only 2.9% of total government expenditures.

This paper compared the 2013 tax systems of the U.S., Australia, and the UK. Each of these countries employs a very sophisticated and complicated system to determine the individual income tax liability for each taxpayer. The hours devoted to this process by individual taxpayers, accountants, and government employees is astronomical. The authors question if current internal revenue codes, given their complexity, are providing the fairest, least costly, and most efficient means to provide for the welfare of the citizens of each of these countries.

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IMPROVING PROCESSES FOR EXPATRIATE SELECTION

Catherine Loes, Belmont University

ABSTRACT

In an increasing globalized society, organizations have had to adapt and manage a rapidly changing external environment. This study adds to the research on how expatriates are selected for these roles and how organizations can improve processes. This research project examined how control over the expatriate selection process moved from functional department managers to the Human Resources department in a large multi-national Fortune 50 company. The researcher used Resource Dependency Theory (RDT) developed by Salancik and Pfeffer to provide a foundation for understanding how control shifts within organizations faced with scarce resources. Case-study methodology was used and data were collected through interviews, field observation, and document review. The findings suggest changes to the expatriate selection process changed over time through increased attention to employee development and the need to expose future leaders to international experiences. The researcher recommends the implementation of personal selection tools and the subsequent collection and analysis of appropriate data. Future research with organizations of differing sizes should be researched to identify other selection methods.

INTRODUCTION

Companies are becoming increasingly globalized; they hire international employees, engage international partners and suppliers, and seek and sell to international customers. Organizations have had to manage and adapt to the changes necessary to be competitive in a global economy such as determining where to locate operations (Porter, 1998), understanding how to enter foreign markets (Buckley & Casson, 1998), and understanding the effects of outsourcing (Golhar & Deshpande, 2009). These are significant issues concerning the external environment for organizational globalization. Yet, there are also globalization concerns with the internal organizational environment such as aligning Human Resources activities with organizational strategic plans (Edström & Lorange, 1984; Schuler, Dowling, & De Cieri, 1993) and developing globally competent managers (Harvey & Novicevic, 2001). As an organization gains experience in the global environment, its leaders face questions of how to best select and utilize employees as part of its global strategy. One strategic choice involves using expatriates for assignments instead of hiring host country nationals (Black & Mendenhall, 1989; Lazarova & Cerdin, 2007; Selmer & Lauring, 2009). Expatriates are often considered to be more effective in carrying out the organization's mission, they are more knowledgeable about the organization's methods and resources, and they are better equipped to represent the organizational culture (Harzing, 2001). Expatriates also aid in organizational standardization from the parent company to subsidiaries or foreign locations (Myloni, Harzing, & Mirza, 2007). Currently, the number of U.S expatriates is approximately 500,000 (Caron, 2011; I.R.S., 2010) and according to the 2014 Brookfield Global Relocation Trends Survey of 159 small, medium, and large multinational firms, 75 percent of the firms plan to increase or maintain their number of expatriates in 2015 (Brookfield Global Relocation Services, 2014).

For organizations that aim to compete in the global environment, the use of expatriates can be a competitive advantage. However, there are risks associated with the use of expatriates such as the early return of the expatriate from the host country (Caligiuri, 2000a; Tung, 1981; Tung, 1982), damage to the organization's reputation from delay or disruption of projects, loss of good will (Bolino, 2007), missed opportunities, and poorly executed assignments (Mendenhall & Oddou, 1985).

STATEMENT OF PROBLEM

Early in an organization's experience in international personnel selection, decisions are made in the functional units, yet the literature on expatriates suggests that over time, the decision control shifts to the Human Resources unit from other functional units (Beechler & Yang, 1994). What is not clear is what forces cause the shift to occur.

A study of one organization was conducted to provide a foundation to understand the forces that move control of expatriate personnel selection from an organization's functional units to its centralized Human Resources unit. This understanding will benefit organizations that use expatriates, in particular those that have used expatriates for only a short time. The organization studied has gained experience from selecting expatriates for many years. That experience can be synthesized and used to provide knowledge that can improve employee selection and the return on investments made by an organization from these assignments.

The discussion to follow begins with an introduction to the complexities surrounding expatriate selection and the impacts of failed assignments. Next, the study, its theoretical foundations, and the organization studied are described. Finally, the data collection and analysis, findings from the study, and recommendations for practice are discussed.

LITERATURE REVIEW

Selection of Expatriate Personnel

Despite research that has provided guidance for international assignment selection, (Caligiuri et al. 2009; Collings, Scullion & Morley, 2007; Graf, 2004; Tye & Chen, 2005) most "U.S. firms seem to focus their selection efforts" on 'technical competence' (Mendenhall, Dunbar, & Oddou, 1987, p. 331), current job performance, or personal recommendation from colleagues instead of using a strategic, formalized process (Harris & Brewster, 1999). The 2014 Brookfield Global Mobility Trends Survey reports only 22 percent of its survey respondents have a "formal career-management process for international assignees" (p. 12).

Often, Human Resources personnel are not consulted during the selection process; rather, they are included only in facilitating administrative duties of the expatriation function (Caligiuri, Tarique, & Jacobs, 2009). Yet, other formalized personnel processes such as employee annual ratings, benefit enrollment, and termination procedures are managed within the Human Resources unit. The Human Resources unit is typically where assessment tools are used to measure employee traits other than job performance (Caligiuri et al., 2009). Bartlett and Ghoshal (1991) believed that Human Resources personnel should be instrumental in the coordination and control of international personnel decisions.

Identifying Individual Characteristics for Expatriates

Harvey and Novicevic (2001) observed that as organizations "increasingly grow and compete globally," expatriate selection becomes more strategic (p. 69). Yet, when organizations undervalue the importance of interpersonal characteristics, expatriates are selected based on technical skills and previous employment success (Collings et al. 2007; Harvey & Novicevic, 2001). Mendenhall and Oddou (1985) suggested that often managers select employees for expatriate assignments based on functional capabilities because they believe that functional skills are universally transferable. For example, if an employee is a successful sales manager in Omaha, Nebraska then that same manager will be a successful sales manager in Tokyo, Japan. Technical skills should be considered when evaluating individuals for expatriate assignments to ensure they have confidence to perform their assignment without the support from the organization, supervisors or peers that are often available in the domestic context (Lee & Croker, 2006). But Earley and Peterson (2004) and Yamazaki and Kayes (2004) suggested that individual characteristics as well as functional skills should be assessed when selecting employees for expatriate assignments. Individual characteristics such as high levels of mindfulness and the ability to see "novel distinctions" in one's environment (Langer & Moldoveanu, 2000, p. 2) and having a willingness and motivation to work abroad (Lee & Croker, 2006; Shaffer, Harrison, Gregersen, Black, & Ferzandi, 2006) should also be used when selecting employees for expatriate assignments.

Individuals functionally qualified for an expatriate assignment may not possess the capacity to perform the needed tasks effectively in a different culture (Harris & Brewster, 1999). The characteristics that an expatriate needs to complete an assignment successfully were not always required for past functional assignments and require further assessment. The third edition of the *Handbook of Intercultural Training* lists thirty-six different assessment tools to evaluate necessary expatriate characteristics such as personality traits, interpersonal and communication abilities, flexibility and adaptability, etc. (Landis, Bennett & Bennett, 2004). The challenges organizations face are determining which assessment tools most effectively identify candidates who are likely to be successful expatriates and which tools best match their needs for expatriate selection.

The logical unit to administer the assessments is Human Resources. The Human Resources unit is staffed with personnel who have knowledge of assessment, are aware of resources available for assessment, have access to personnel data, and will have the ability to align assessment for expatriate assignments with other personnel assessments. The Human Resources unit is responsible for all other personnel data and can offer broader knowledge of expatriate candidates through the use of these data. Increasing the role of Human Resources in international personnel selection can lead to more informed decisions. Kanter (1979) stated that individuals "with the tools, information, and support to make more informed decisions and act more quickly can often accomplish more" (p. 73).

Expatriate Assignment Failures

Reasons for expatriate assignment failures have been studied across disciplines such as anthropology (Hall, 1959), psychology (Sinangil & Ones, 2003), management (Collings et al., 2007) and human resources (Caligiuri & Colakoglu, 2007). Expatriate assignment failure has been studied by researchers from at least as early as 1965 when Edwin Henry wrote "What

Business Can Learn from Peace Corps Selection and Training." Henry, a former Director of the Selection Division of the Peace Corps, said that out of the 15 percent of volunteers who terminated their assignment early, only three to four percent of the early returns could be attributed to improper selection. He compared that rate to the estimated corporate rate of expatriate early returns of 30 percent. Henry attributed the low early return rate of the Peace Corps volunteers to a rigorous selection and training process intended to select and train only the most suitable candidates.

The failure rate of corporate expatriate assignments has been reported to range between five and seventy percent (Harzing, 1995; Mendenhall & Oddou, 1985; Tung, 1981). This is a wide range of rates; yet, a five percent failure rate applied to the current 500,000 expatriates would mean 25,000 failed assignments. Although these 25,000 assignments would be spread over numerous organizations, the effects of a single failed expatriate assignment can be significant for an organization. For example, an organization's Human Resources unit must address the administrative tasks associated with repatriation which can include relocation, job re-placement, and benefit and payroll changes. Also, a replacement employee must be selected for the repatriating employee causing an unplanned ripple effect of employee shifts throughout the organization (Jamali & Sidani, 2008).

A discussion of failed expatriate assignments would be incomplete without addressing the financial impact. The initial cost of a single expatriate assignment can be as high as four times an employee's current US salary to account for travel, relocation, living expenses, and training (Selmer, 2001; Zetlin, 1994). Although the actual dollar amounts will vary, some sources indicate a single expatriate assignment can cost an organization up to $1.2 million (Graf & Harland, 2004; Zetlin, 1994). Companies face a large financial risk with the loss of a single expatriated employee and companies with multiple expatriates can face a significant financial risk.

In addition to effects at the organizational level, a failed expatriate assignment also has consequences at the individual level (Black, Mendenhall, & Oddou, 1991; Swaak, 1995). These individual effects may include marital issues such as separation or divorce, or family trauma that includes conflict with and among children (Harvey, 1997; Harvey & Novicevic, 2001). Individuals involved in failed assignments also face conflict within the organization when they return, such as difficulty reintegrating into the organizational culture and being blamed for the failed assignment (Bolino, 2007; Collings et al. 2007). Expatriates who fail often cause significant damage to their careers and are forced to take a lower-level position or leave the organization.

Once an organization decides to send an employee to live and work in another country, managers and Human Resources personnel must focus on finding the right employee to fill an expatriate job. Stone (1991) and Katz and Seifer (1996) concluded that incorrect personnel selection is a primary contributor to expatriate failure. Caligiuri, Tarique, and Jacobs (2009) suggested that the "lack of formal international assignee selection systems in firms is, in part, related to the role the Human Resources function plays in the placement of international assignees"…Human Resources personnel are "not often asked to participate" (p. 259). Functional managers are most likely to select employees for expatriate roles (Caligiuri et al. 2009; Harris & Brewster, 1999). Several reasons have been proposed for functional managers' lead role in this process such as the desire to control employees in their departments, lack of time to use procedural channels, or lack of clear understanding of Human Resources' capabilities (Leblebic, Salancik, Copay, & King, 1991; Harris & Brewster, 1999).

The Brookfield Global Mobility Trends Survey (2014) identified poor candidate selection as one of the top three reasons for assignment failure. Tung (1981), Mendenhall and Oddou (1985) and Zeira and Banai (1985), among others, suggested an improved selection process that includes identifying and selecting for certain individual characteristics could reduce expatriate assignment failures.

Resource Dependency Theory

As companies increase their use of expatriates the remaining number of employees both qualified and available for these assignments decreases (Leblebic et al., 1991). Harzing (1995) suggested that when the number of qualified employees decreases, the selection of those employees becomes even more critical. As the pool of qualified employees decreases, functional managers seek to retain control of their employees in order to maintain their units' success.

The increased demand for qualified employees can lead to intra-organizational conflict and uncertainty. Resource Dependency Theory (RDT), developed by Salancik and Pfeffer (1974), suggests that organizations seek control over resources to reduce uncertainty in future situations. Salancik and Pfeffer (1977) identified three "conditions that are likely to affect the use of power in organizations: scarcity, criticality, and uncertainty" (pp. 12-13). Although much of the research on RDT is focused on the organization and its external environment, the theory can be used to understand internal decisions and power struggles between departments (Davis & Cobb, 2010).

RDT provides a foundation to understand what occurs when critical resources - qualified expatriate candidates - become scarce. When individuals within an organization rely on resources and those resources are threatened or become scarce, this causes uncertainty for both the individual and the organization. The individuals become doubtful and uncertain about participation with others in the organization which leads to intra-organizational conflict (Pfeffer & Salancik, 2003).

Scarcity of Qualified Expatriates

Interdependence between organizational units is affected by the nature and extent of scarcity of resources. In addition to reduction in the size of the pool of available expatriates due to increased use, the size of the pool of qualified employees who are willing to become expatriates is also reduced by social trends "such as a changing work ethos and dual career couples" (Harzing, 1995, p. 2). Harzing also suggested that when an expatriate fails it is "likely to discourage potential candidates" from taking these assignments, further reducing the number of qualified employees who are willing to accept an expatriate assignment (p. 2). RDT suggests that in order for organizations or functional units to be successful they must secure these scarce and valued resources (Ulrich & Barney, 1984). As demand for these employees grows, organizations face challenges in meeting that demand (Earley & Peterson, 2004), specifically for "employees who can understand, work with, and direct, people from various cultures" (Black & Mendenhall, 1989, p. 512). Ng, Van Dyne, and Ang (2009) reported that in a survey of senior leaders from over forty nations, a lack of qualified talent to work in multiple cultures is cited as the "greatest challenge facing global organizations" (p. 512). Pfeffer (1992) observed that as the importance of a resource grows–in this case, qualified employees for expatriate assignments–the more "it will be sought by many, making it scarce" (p. 44).

METHODOLOGY

Case Study

A study of a single organization was conducted to begin to understand how expatriate selection processes change over time and to identify forces that contribute to the change. The research question explored in the study was:

How did control of expatriate selection move from functional managers to Human Resources and why did this move occur?

A qualitative study was selected as the appropriate method to conduct this research because of: (1) the nature of the research question; (2) the exploratory nature of the study; and (3) the opportunity to examine a "phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident" (Merriam, 1998; Yin, 1994 p.13, Yin, 2009). In addition to the exploratory nature of the study, the specific variables to research were unclear so that a qualitative study was more appropriate (Creswell, 2003).

The case study was conducted based on Lincoln and Guba's (1985) naturalistic inquiry. The focus of the study was a multinational financial firm that has a history of using expatriates. Murphy and Dee (1992) stated that if an organization is considered a leader in its industry it is a strong candidate as the subject of a case study. The organization chosen for this research study is recognized nationally as a leader in its industry. The organization's history of expatriate use allowed for discovery of current and former expatriate selection processes. The Jones Company (a pseudonym is used as requested by the organization), is headquartered in a medium size city, operates in countries across the world and has expatriates in each of these countries. The Jones Company has used expatriates for more than 25 years. The company had 55 expatriates at the time of the study.

Data were collected from three sources: interviews, observational field notes, and document review. Not all participants had direct historical experience with the expatriate selection process but they could provide 'hearsay' on past situations. The interview protocol was created with a purpose to ensure important questions were asked, but to avoid restricting the course of the interview (Weiss, 1994). The questions were both structured and semi-structured. The structured questions were used to ensure continuity among the participants and the semi-structured questions were used to create a guided dialogue with the participant without restrictions. An example of a structured question used in the study is "How long have you worked for The Jones Company," and an example of a semi-structured question is "How often do expatriates return early from an assignment?" To determine where in the organization the expatriate selection process occurs, each participant was asked, "Who in the organization makes decisions on which employees get selected for expatriate positions?" Also, each participant was asked "Are there ever concerns or problems filling expatriate positions?"

Participant Selection

Individuals with experience working with or working as expatriates from four different departments of the Jones Company were interviewed to collect first-hand impressions of how the interview participants were selected through a purposeful (Lincoln & Guba, 1985) process to ensure "information rich" subjects who could provide the greatest insight into the research questions (Miles & Huberman, 1994). Nine interviews were conducted to validate reports across the organization (Myloni et al., 2007, p. 2067).

The participants of the study fit into one or more of the following categories and had experience with the expatriate selection process or direct experience as an expatriate or both:

(1) Senior leaders (executives), (2) Human Resource personnel, (3) Former expatriates, (4) Current expatriates, (5) Functional managers.

TABLE 1
Interview Participants

Category	Current Position	Tenure at Company (years)	M/F
Manager			
Human Resource Employee	Senior Manager and former expatriate Senior Manager and former expatriate Human Resources Manager Manager and current expatriate	25 25 10 11	M M F F
Senior/Executive	Human Resources Employee Human Resources Employee Human Resources Employee	11 11 12	F F F
	Executive Director of Succession Planning	7 5	F F

These categories were selected because they represent a diversity of perspectives about the expatriate selection process and its history within the organization. Senior leaders were interviewed because these employees create and drive organizational processes. These individuals have the authority to manage conflicting processes and impose change throughout the organization. Human Resources personnel were interviewed because they play a critical role with personnel decisions and manage all personnel data for the organization. Human Resources personnel were able to describe the change of expatriate selection to include the Human Resources department. Former expatriates were interviewed to get a first-hand perspective of the process they encountered when they became expatriates. Current expatriates were interviewed to get a first-hand perspective on the current selection process from the viewpoint of the expatriate and to compare and contrast their experiences with former expatriates. Functional managers were interviewed to provide a view of scarcity of potential candidates for expatriate positions and the qualifications needed in a successful expatriate. The diversity of participants provided differing views of the expatriate selection process and enabled a more complete view than would be achieved with only one category of participants.

Personal data collected about the participants included tenure with the company, and current and former positions. The length of employment at the company was important to ensure the participants had experience with the expatriate selection process over time. Table 1 shows the interview participants and the personal data collected for each.

Dialogue was the primary instrument of communication during the interviews. Dialogue, as described by Isaacs (1999) is a shared inquiry, whose intention is to understand the topic of inquiry. The aim of these interviews was to collect histories and current accounts of expatriate personnel selection largely in the form of narratives.

Data Analysis Process

Content analysis was used to identify key themes and meanings in the data from the interviews, field notes and document review (Krippendorff, 2004; Patton, 2002). A directed content analysis approach was used to identify themes and inferences that originated in the literature and tied the data back to the research questions (Krippendorff, 2004; Zhang & Wildemuth, 2009). As the analysis process continued, the researcher allowed additional themes not considered in the initial round of analysis to emerge from the data.

Theme Development

After coding and reviewing the texts two themes emerged based on the interpretation of the texts. To gain a deeper understanding of the themes, the codes created during the analysis were reviewed in the Code Manager function of Atlas.ti 6.2. The Code Manager allows codes to be created, modified, viewed, sorted, linked, et cetera. The Code Manager in Atlas.ti 6.2 also displays the "groundedness" of each code. Groundedness is a count of the number of quotations associated with a code which offers a level of validity for that code. The researcher sorted the codes based on groundedness and used this function to view all of the codes and their code counts. Next, the researcher input the themes and codes with their groundedness number into a Microsoft Excel spreadsheet. This process of organization allowed the researcher to match each of the codes with the themes in order to review and validate each of the themes.

Themes

Two themes emerged from the data: (1) *employee development is the primary basis for selection for expatriate selection* and, (2) *the expatriate selection process adapts and improves over time.*

Theme One

Employee development is the primary criterion for expatriate selection.

Overall, the participants believed that although the organization fills expatriate positions with employees who possess the functional skills needed for a particular role, the primary deciding factor in filling the expatriate position is the individual's need for international professional development. In the Jones Company, senior leaders consider the individuals selected for expatriate roles to be the future leaders of the organization. Their managers and their managers' peers have identified these individuals as future leaders based on job performance and perceived potential to grow in the company. Several of the participants in this study believed that because the Jones Company is an international company, the individual must have diverse experience such as understanding work in other countries and differences in international business practices—in order to advance into leadership roles in this global organization. Currently, The Jones Company selects employees for expatriate assignments in order to develop their skills toward becoming leaders in the organization. The employees selected have been identified as high-potential employees and are considered future leaders of the organization.

Earlier in the organization's history, expatriate positions were filled with employees who had functional skill needed for the position. These early expatriates returned to the US and grew into leadership positions over time. Many of these early expatriates are nearing retirement creating a shortage of employees who have international work experience.

These data suggest that as employees near retirement, employees qualified to fill leadership positions become increasingly scarce and providing expatriate experiences helps to develop the leaders needed in the future.

Theme Two

The expatriate selection process adapts and improves over time.

Participants in the study believed the expatriate selection process had changed during their time at the organization. Notable changes were involvement of the Human Resources department in the expatriate selection process, and the initiation of a forum for employees to indicate willingness to work abroad.

Ten years ago at the Jones Company expatriate selection decision were made by senior leaders in their monthly meetings with no input from Human Resources. Currently, the Human Resources unit provides personnel data that is used for selecting expatriates and this process is part of the organization's succession planning. The expatriate selection process has become more transparent over the last 10 years.

One manager believed that the current president and his knowledge of Human Resources capabilities in addition to the company's participation in a national quality award process drove change to include Human Resources in the selection decision. As the organization's tenure in expatriate deployment lengthened, senior leadership intervened and mandated that Human Resources would be the lead oversight of the expatriate selection Some interview participants indicated that the implementation of new personnel software has been instrumental in making more informed personnel decisions. Employees' personnel information is managed through an online database that collects and organizes data input from the employee, managers and supervisors, and Human Resources. An employee inputs information into one area of the database that includes current and prior positions, training attended, and relocation willingness. Typically, employees do not request to be considered for an expatriate position, but certain categories of employees, can indicate in their personnel records whether they would be open to accepting one.

Overall, the participants indicated that the expatriate selection process had changed for the better with examples of a perceived more formalized process and the inclusion of the Human Resource unit. However, the participants did not provide any quantitative information to support their opinions such as a reduction in the rate of expatriate failure.

FINDINGS

The results of the study suggest the Jones Company's attention to process improvement has contributed to improvements to the expatriate selection process. The attention to process improvement and knowledge of how to improve processes provides the company a platform for improvements.

Employees selected for expatriate assignments enhance performance for the organization and selection decisions receive buy-in from senior leaders, functional managers and Human

Resource personnel. The selection process has been improved by involving the Human Resource department. From these findings, the following conclusions are drawn:

(1) Change to the selection process has brought about improvement.

Managers of expatriates want the most qualified employees to fill roles in their units. Decisions regarding expatriate selections are made in an environment that is open to a number of individuals - senior leaders, functional managers, and Human Resources personnel. The open nature of the decision making process provides a forum for a discussion on employee selection that is beneficial for the organization, not just individual units. The transparency of the expatriate selection process increases collaboration across units to achieve organizational goals.

(2) The Human Resources unit contributes information on each employee that may not be widely known, adding important perspectives to the process.

The expatriate decision process allows the Human Resources department to supplement the information provided in the personnel file and the information provided by current and former managers. The information provided by Human Resources can include information about an expatriate candidate's spouse or family situation or assessment findings identified through cultural assessment tools. Expatriate selection decisions made with more data than an individual's functional skills lead to better placement decisions that benefit the organization as a whole.

Expatriate assignments are filled with employees identified as future leaders of the study organization. These employees must have international experience in order to lead in this global organization and this experience is often acquired during an expatriate assignment. The organization places importance on employee leadership development over functional skills when identifying candidates for expatriate assignments. The Human Resources department, not the functional manager, controls expatriate selection as part of the Succession Planning process.

The Human Resources department, functional managers, and senior leaders collaborate and decide together on the best candidate to fill each expatriate position.

Participants in this study indicate that the Human Resources department manages the personnel data for each employee throughout the company and is best suited to collect, sort, and analyze personal records to provide information that contributes to informed personnel decisions. The Human Resources department acts as an advisor to the decision-makers about potential concerns with an employee. The participants in the study believed the expatriate selection process has improved with the inclusion of the Human Resources department but offered no quantitative data to support the belief. Several participants indicated that if expatriate assignment failure was an organizational concern, the organization would take steps to address the issue.

One can conclude:

1. Criteria designed to evaluate an individual's potential success in the functional assignment, the relational aspects of the assignment and the potential of the individual to grow should be added to the data used to select qualified candidates to fill expatriate assignments.

2. The data collected from each expatriate assignment could provide useful information for use in all future expatriate selections to ensure the employee is a good fit with the assignment and is equipped to thrive in the international role.

3. The use of personnel data from across the organization provides decision-makers a wide perspective on the employees qualified to fill expatriate positions.

LIMITATIONS OF THE STUDY

There are implicit limitations with one case study of a single organization. This study focused on one organization which limits the generalizability across the wide range of organizations involved in expatriate selection. However, this study can serve as a pilot study, and the findings from this study can be used as a foundation for further study of expatriate selection processes.

FUTURE RESEARCH

Using this study as a foundation, studies of the expatriate selection processes of other companies should be conducted. The degree and type of involvement of the human resources function in the selection of expatriates should be examined. Also, this study can be used as a pilot for studies of other organizations that operate internationally. Findings from these studies may indicate whether the processes in use contribute to the effectiveness of the expatriate selection and ultimately the assignment. These studies would be conducted using the same methodology used in the study of The Jones Company and comparisons between organizations could be made.

Other studies could be developed to include multiple organizations with differing lengths of experience with expatriate selection to identify what is learned from experience. Organizations that use in-house selection processes should be compared with those that outsource the process to determine whether or not outsourcing expatriate selection to organizations that claim a high degree of expertise high degree of expertise could provide an alternative approach to improvement.

RECOMMENDATIONS FOR PRACTICE AND CONCLUSION

Organizations need to assess the benefits of expatriate assignments at both the individual and organizational levels. To aid in the assessment, organizations should devise methods to track each expatriate assignment. One set of measures should ascertain the success of the international experience for the individual. This could be done by conducting during-assignment and post-assignment interviews that summarize the individual's experience. These summaries could be analyzed and used to prepare future expatriates for similar assignments. Another set of measures would evaluate the success of the assignment from the viewpoint of the organization. Other tracking mechanisms could evaluate the process of selection and identify the characteristics that dominated the selection. Those measures could be related to organizational and individual outcomes from the assignment. The collection and analysis of this information could be applied to future selections to improve the outcomes both organizationally and individually.

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THE STUDY OF ORGANIZATIONAL CITIZENSHIP BEHAVIOR WITH A FOCUS ON THE COMPLEXITY OF MOTIVES

Hiroaki Matsushita, Kobe University

ABSTRACT

This study concerns an employee's motive for engaging in organizational citizenship behavior (OCB). OCB is extra-role behavior taken by employee in an organization. Since Bateman and Organ (1983) formally introduced the OCB construct, it has received a great deal of attention from organizational scholars. In the literature of OCB, it was main stream to explore the antecedents of OCB. Employee's motive was noted as one of the antecedents. Previous studies have argued that the motive for OCB is egoistic as well as altruistic. A number of studies focusing on the relationship between motives and OCB have emerged; however, many of them analyzed the relationship between one motive and OCB. Recently, a few studies show that these motives are mixed in a person. Interestingly, there are mixed results about the relationship between mixed-motive and OCB. There has yet not been a clear explanation offered for why such mixed results were found. To investigate this issue, this study focused on the individual's own interpretation of his/her motives for OCB because it is thought that some kind of cognitive process occurs before a motivated individual takes an action. I interviewed 10 employees, and showed that the interviewees' values influenced their interpretations of their motives for engaging in OCB. In addition, it was suggested that values such as an emphasis on altruism might weaken the relationship between mixed motives and OCB, on the other hand, values such as an emphasis on pragmatism may strengthen the relationship between mixed-motive and OCB. These findings can provide an in-depth explanation about such mixed results and offer useful knowledge for managers who may attempt to encourage employees to engage in OCB.

INTRODUCTION

Recently, researchers have become interested in the motive for organizational citizenship behavior (OCB). Previous studies showed that altruistic and egoistic motives are the antecedents of OCB. However, earlier studies did not fully investigate mixed-motive, which include both altruistic and egoistic motives. A few studies that examined this subject indicated mixed results about the effects of having both altruistic and egoistic motives behind an action. That is, guided by both altruistic and egoistic motives, some individuals hesitate to engage in OCB and others, in contrast, actively perform.

To explore this mixed result, I focus on interpreting the individual's motives. I conducted a qualitative investigation by interviewing employees. I found that personal values can affect the relationship between motives and OCB. This study therefore provides a more in-depth explanation of the mixed results that arise from engaging in OCB.

LITERATURE REVIEW

What is OCB?

A great deal of research on OCB has appeared in the literature over the past decade. The extra-role behavior taken by an employee in an organization is OCB. Organ (1988) defines OCB as “the individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization (p.4).” The individual who engages in OCB is called a “good soldier (Bateman & Organ, 1983; Organ, 1988).

OCB consists of a multidimensional construct. For example, Organ (1988) has identified five categories of OCB: altruism, conscientiousness, sportsmanship, courtesy, and civic virtue. Altruism includes all discretionary behaviors that have the effect of helping a specific person with an organizationally relevant task or problem (p. 8). Conscientiousness comprises the various instances in which organization members carry out certain role behaviors well beyond the minimum levels that are required (p. 9). Sportsmanship refers to the actions that an individual takes to avoid complaining, whining about petty grievances, railing against real or imagined slights, and exaggerating small matters (p. 11). Courtesy has to do with the actions involved in helping someone prevent a problem from occurring, or taking steps in advance to mitigate the problem (p. 12). Civic virtue implies a sense of involvement in what policies are adopted and which candidates are supported (p. 13). For example, attending meetings, reading the interoffice mail, discussing issues during personal time that occur in work, and so on.

The characteristics of OCB are follows. First, OCB suggests that the behavior is “discretionary,” meaning that these actions are not a part of a formal job description and are not a required part of the employee’s role; therefore, the employee is not subject to punishment if he/she does not engage in OCB. Second, OCB is not recognized by a formal reward system. Actually, however, the manager often evaluates an employee’s OCB, such as helping others in the workplace. Regarding this point, Organ, Podsakoff and MacKenzie (2006) have suggested that OCB is not defined by the evaluation of the manager. OCB is defined by the criteria wherein the actions are discretionary, and that such actions are done by employees who are not encouraged by the presence of formal rewards. Third, OCB contributes to the effectiveness of an organization. For example, an employee’s willingness to help others and avoid complaining contributes to maintaining or enhancing the efficiency of the work group and operating unit. Participating in the goings-on within the organization leads to a reduction in conflict between employees.

These ideas have been developed as an extension of Katz (1964), who noted that actions that are not specified as the minimum requirements in a job description contribute to the effectiveness of the organization. Based on his argument, Smith, Organ and Near (1983) conceptualized such behaviors as OCB, and suggested that it was a worthwhile exercise to inquire into the antecedents of OCB (p. 654).

The Study of OCB in Early Research

OCB is considered as a behavior that contributes to the effectiveness of the organization. Thus, most researchers have explored the antecedents of OCB, especially in early studies (Bolino & Turnley, 2005; Organ & Ryan, 1995; Spitzmuller, VanDyne & Ilies, 2008).

In describing the causes of OCB, most scholars have mainly based their analyses on the social exchange theory, according to which a person under certain conditions seeks to reciprocate those from whom that person benefits (Blau, 1964). When a person receives benefits from organizational officials, and such efforts are interpreted as volitional and nonmanipulative in intent, then that person will seek to reciprocate those efforts (Bateman & Organ, 1983). But the person may not have the ability or opportunity to reciprocate with greater work output or creative solutions to work on problems (Bateman & Organ, 1983; Organ, 1988). Therefore, the person may choose to reciprocate by providing another resource that is under his/her control, such as OCB (Penner, Midili & Kegelmeyer, 1997).

In fact, much of the research that has explained the antecedents of OCB through the social exchange theory has focused on job satisfaction (Bateman & Organ, 1983; Moorman, 1993; Smith et al., 1983: Williams & Anderson, 1991), organizational commitment (Gregersen, 1993; Shore & Wayne, 1993; Williams & Anderson, 1991), and the leader's support (Netemeyer, Boles, McKee & McMurrian, 1997; Smith et al., 1983; Settoon, Bennett & Liden, 1996).

Motive for Engaging in OCB

Many of these studies assume that engaging in such behavior is a response to an individual's positive experiences in the organization because these studies are based on the social exchange theory (Penner, Midili & Kegelmeyer, 1997; Rioux & Penner, 2001). According to Bateman and Organ (1983), individuals who received benefits from the organization tried to reciprocate for such benefits. In other words, individuals engage in OCB to achieve reciprocation (Bateman & Organ, 1983; Organ, 1988).

Penner et al. (1997) suggested that individuals had one or more motives when engaging in OCB and that those motives are a good predictor of OCB. Moreover, Penner et al. (1997) introduced the functional approach, which focused on the function or purpose served by behavior. Based on the argument by Penner et al. (1997), Rioux and Penner (2001) developed the citizenship motives scale, and they defined three motives for OCB: prosocial values (a need to be helpful and a desire to build positive relationships with others, p. 1307), organizational concern (a desire by the participants for the company to do well and a desire on the part of the participants to show pride in and commitment to the organization, p. 1307), impression management (a desire to avoid looking bad to coworkers and supervisors, and to obtain rewards, p. 1307). Bolino (1999) also focused on motives as the antecedents of OCB. Bolino (1999) suggested that a person often has a desire to enhance or protect himself/herself; therefore, he/she engages in OCB. He called such individuals who have egoistic motives a "good actor" (Bolino, 1999).

Notably, Penner et al. (1997), Rioux and Penner (2001), and Bolino (1999) focused on self-serving motives. Until recently, however, researchers had not examined such egoistic motives, to explore the antecedents of OCB (Bolino, Klotz & Turnley, 2013; Boino, Turnkey & Niehoff, 2004; Klein, 2007; Niehoff, 2004). An early study showed that most researchers had positive assumptions about the altruistic motive behind OCB (Bolino, 1999). Actually, Organ (1988) maintains that OCB is a consequence of a person's other-serving motive rather than a self-serving motive. It was suggested that such an assumption has driven many studies (Bolino et al., 2004), and that as a result, egoistic motives were overlooked.

In response to these notions, recent studies have investigated the relationship between OCB and motives. Hui, Lam, and Law (2000) found that there was a significant positive relationship between OCB and the degree of a person's recognition of the instrumentality for OCB. Dávila and FinKelstein (2010), using Rioux and Penner (2001)'s motive scale, found that prosocial values and organizational concern had a significant impact on OCB, but that impression management did not influence OCB significantly. Thus, there has been no consensus about whether motives are a good predictor of OCB (Bolino & Turnley, 1999; Dávila & FinKelstein, 2010; Rioux & Penner, 2001).

Mixed-Motive Perspective

Although a number of studies focusing on the relationship between motives and OCB have emerged, many of them analyzed the relationship between one motive and OCB. Yet it is actually not necessary that an individual has only a single motive when taking a certain action. Individuals often take an action with two or more motives. This point has been made in Bolino (1999), but it has thus far not been empirically investigated.

Recently, a few studies have attempted to explain OCB in terms of the mixed-motive perspective. Grant and Mayer (2009) noted that individuals might have both an altruistic and an egoistic motive. Focusing on the interaction of the altruistic motive and the egoistic motive, they suggested that individuals can simultaneously display both types of motives by contributing in ways that both help others and at the same time strengthen their own reputation. They found that the individual who has a high level of both altruistic and egoistic motives engages in OCB more than those who act out of either an altruistic or an egoistic motive.

However, Feiler, Tost and Grant (2012) showed the opposite result to Grant and Mayer (2009). Feiler et al. (2012) suggested that a mix of egoistic and altruistic motives reduces the likelihood of an individual's giving due to an increase in his/her awareness of persuasion and the occurrence of psychological reactivity in individuals. They investigated the case of a request for a donation and found that individuals who had both altruistic and egoistic motives were less engaged in giving behavior than those who had either an altruistic or an egoistic motive.

Limitations of the Existing Studies

Interestingly, both Feiler et al. (2012) and Grant and Mayer (2009) have the same opinion regarding motives, but those results are mixed. There has yet not been a clear explanation offered for why such mixed results were found. To investigate this issue, the present study focuses on the individual's own interpretation of his/her motives for OCB. It is thought that some kind of cognitive process occurs before a motivated individual takes an action. The research question (RQ) is follows.

RQ How do employees interpret their motives for engaging in OCB?

This study undertook a qualitative investigation and asked about the employee's motive for OCB. This method enables us to obtain a better understanding of the relationship between motives and OCB.

METHOD

Data

In this study, I interviewed 10 employees in August and September, 2014. Among the interviewees, four held sales positions, one held a technical position, one held an accounting position, three held clerical positions, and one held both a sales and office position. The interviewees all work at different companies.

Interview Method

Each interview took an average of about 1 hour. Before beginning the study, I sent interview guidelines to each interviewee to explain the purpose of the study. The interview lasted about 1 hour per person. I conducted a semi-structured interview, mainly asking the following three questions. First, I asked each interviewee for a specific example of OCB in which he/she had engaged. Second, I inquired about the motives for each action. Third, I asked about the interviewee's own interpretation of his/her motives.

Analysis

The interview data were analyzed through the following procedures. First, I selected the statements that reflected altruistic motives, egoistic motives, or a combination of altruistic and egoistic motives from the interviewees' statements about their motives for OCB. For the criteria by which to choose each motive, this study relied on the definitions of altruism and egoism in the literature of sociology (Comte, 1875). In the present study, an altruistic motive is therefore defined as "because I want to benefit others," and an egoistic motive is defined as "because I want to benefit myself." Second, I selected the statements that concerned each interviewee's interpretation of his/her motives. Third, I abstracted each remark based on my own interpretation and coded it. For the coding, I requested a coworker to check the interpretation in order to increase the validity of the interpretation. This study focuses on an interpretation of the motives of the employee who demonstrates both altruistic and egoistic motives. Therefore, I describe each interviewee's statements about his/her own interpretation toward having both altruistic and egoistic motives.

RESULT

One interviewee hesitated to engage in OCB that had both altruistic and egoistic motives. He had an uncomfortable feeling about his motives because he thought they ought to be altruistic.

> *If I completely do such an action hypocritically, it is only an ulterior motive. Others also might find it disgusting if they knew my behavior was hypocritical. So, I feel a little inferior about behaving in a completely hypocritical manner. It is a little mentally painful to completely act based on hypocrisy (Mr. F).*

However, some interviewees felt comfortable regarding their motives. According to their statements, they had a positive image of their motives because they thought such behaviors benefitted others as well as themselves.

> *While not lying, the action is also good, for it may be for me and the other party. Everyone is happy (Mr. M).*

> *There is no difference in that act, even doing it with a scheming feeling even doing in moral fiber. So, I'm not thinking anything about it. In addition to that, it is a good feeling to act from moral values, and makes an even better impression. So it does not conflict. It's a win-win (Mr. K).*

One interviewee did not hesitate to engage in OCB, although he felt uncomfortable about having both altruistic and egoistic motives. However, he changed his thinking about OCB, and with that, he let go of his discomforted feeling. In other words, this interviewee stopped thinking about his own motives for OCB by changing the interpretation of OCB.

> *I do not really like it to flatter the boss. Never I'm not to work in order to flatter the boss. It is only for our customers. I went into this profession because I wanted to be for the customers. But I think it's important, even to flatter. Even had a good job, I could not be promoted if I were hated by the people surrounding me. So it also becomes important to use flattery in that sense. I try to think of "it must be done. So we should do it." I'm doing a little change my way of thinking (Mr. D).*

DISCUSSION

One person said that he would hesitate to engage in OCB because of feeling uncomfortable about his/her own motive. This person thought that the motives for OCB should be altruistic, and felt uncomfortable about having not only an altruistic but also an egoistic motive. However, some of the interviewees had a positive rather than a negative feeling regarding their motives because they thought that engaging in OCB would benefit both others as well as themselves. In short, these persons who did not hesitate to engage in OCB had pragmatic values.

I suggest that whether the employee who has both altruistic and egoistic motives hesitates to engage in OCB depends on the values that he/she holds. That is, values such as an emphasis on altruism may weaken the relationship between mixed-motive and OCB. However, values such as an emphasis on pragmatism may strengthen the relationship between mixed-motive and OCB.

One interviewee who was uncomfortable because of having both altruistic and egoistic motives tried to regulate his own motivation. This person's discomfort was caused by thinking about his own motives. However, he did not hesitate to engage in OCB. He changed his interpretation of OCB and stopped thinking about his own motives for this behavior. These findings may provide a new perspective that can explain the relationship between mixed-motive and OCB.

These findings can provide an in-depth explanation about such mixed results. Also, these findings offer useful knowledge for managers who may attempt to encourage employees to engage in OCB.

CONCLUSION

The results of this study show mixed results about the relationship between OCB and mixed-motive. To cope with this problem, I focused on interpreting the motives behind OCB. I interviewed 10 employees. The results suggest that the interviewees' values influenced their interpretations of their motives for engaging in OCB.

LIMITATION

There were several limitations of this research. First, many of those interviewees were male. I hope that future research clarify the difference in the interpretation about motives for OCB in male and female. Second, this research found that values might affect the relationship between mixed-motive and OCB, but could not investigate quantitatively about the influence of values. Therefore, it should be investigated quantitatively about the relationships between values and, mixed-motive and OCB in future research.

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MUST SUSTAINABLE PROJECTS BE JUSTIFIED BY FAITH ALONE? KAPLAN'S MODEL REVISITED

Michael J. Pesch, St. Cloud State University
Peter J. Fuchsteiner, St. Cloud State University

ABSTRACT

In Robert S. Kaplan's classic article, "Must CIM Be Justified By Faith Alone?" (Harvard Business Review, March-April 1986), Kaplan argues that evaluating the financial viability of investments in computer integrated manufacturing systems (CIM) does not have to rely solely on "faith" that the high costs of CIM are justified by hard-to-measure benefits such as increased flexibility, enhanced quality, and learning advantages.

There are many parallels between the challenges of financially evaluating CIM investment proposals and evaluating investments in sustainable projects such as solar energy, wind turbines, LED lighting, geo-thermal, and storm water retention systems. Similar to CIM projects, sustainable projects usually feature many intangible costs and benefits that are difficult to incorporate into a discounted cash flow (DCF) analysis.

This paper summarizes Kaplan's key points from his classic article and applies his model to the challenges of using DCF to justify investments in sustainable projects. A special focus is given to Murphy Warehouse Company's sustainable investment decision on a storm water retention project that features a long payback period.

INTRODUCTION

In Robert S. Kaplan's classic article, "Must CIM Be Justified By Faith Alone?" (Harvard Business Review, March-April 1986), Kaplan argues that evaluating the financial viability of investments in computer integrated manufacturing systems (CIM) does not have to rely solely on "faith" that the high costs of CIM are justified by hard-to-measure benefits such as increased flexibility, enhanced quality, and learning advantages.

While defending discounted cash flow (DCF) as a fundamental and critical financial tool for evaluating capital investment proposals, Kaplan identifies shortcomings in the application of DCF by many managers, and proposes a way to put a monetary value on the intangible qualitative benefits of a CIM project. Kaplan's paper is a major contribution for how to evaluate capital projects that feature many intangible benefits, while adhering to the discipline of the DCF financial tool in making capital investment decisions.

There are many parallels between the challenges of financially evaluating CIM investment proposals and evaluating investments in sustainable projects such as solar energy, wind turbines, LED lighting, geo-thermal, and storm water retention systems. Similar to CIM projects, sustainable projects usually feature many intangible costs and benefits that are difficult to incorporate into DCF analysis.

This paper summarizes Kaplan's critique of the strengths and weaknesses of DCF and some common investment assumptions and requirements that often block approval of viable projects. Kaplan's critique is then discussed as it pertains to sustainable projects, which typically involve major capital expenditures and numerous intangible benefits of strategic importance. Kaplan's alternative approach for including intangible benefits in DCF analysis is delineated, followed by an application of Kaplan's approach to a real sustainable investment decision at Murphy Warehouse Company.

LITERATURE REVIEW

Kaplan's 1986 article is a milestone in the evolution of capital budgeting methodologies because it directly addresses the issue of how to consider subjective factors that, while hard to measure, are nevertheless important to investment outcomes. Google Scholar lists 671 article citations of Kaplan's article. Many of these articles are from the 1990s and tend to focus on investment decisions in manufacturing technology (e.g. Godwin & Ehle (1996), Kumar (1996), Shank & Govindarajan (1992)), the theme on which Kaplan wrote. Other articles applied Kaplan's approach to other investment decision scenarios such as solar technology (Awerbuck (1995)), quality (Merino (1990), Enterprise Resource Planning (ERP) systems (Murphy and Simon (2002)), Radio Frequency Identification (RFID) (Curtin, et al. (2007)), and Lean manufacturing systems (Gurumurthy & Kodali (2007 & 2008)).

The application of Kaplan's model to investments in sustainable technologies appears to be limited to a few articles on solar technology and "green" manufacturing (Kuldip (2006 & 2011)). This article proposes an expanded application of Kaplan's approach to sustainable investments in service industries and investments across a wide range of sustainable technologies and practices that directly impact the strategic fortunes of the firm.

MISAPPLICATIONS OF DCF AND PAYBACK PERIOD ANALYSIS

Discounted cash flow and payback period analysis are sound financial tools for evaluating the worthiness of capital investments. However, as Kaplan points out, these tools are often applied under assumptions that are biased, mistaken, or unrealistic. Each of these misapplications of the DCF financial tool is summarized below.

Unrealistic Rates Of Return On Alternative Investments Of Capital

Some companies use very high and unrealistic required rates of return in their DCF analysis. Imposing rates of return ("hurdle rates") of 15% or more can often result in the rejection of projects that could exploit strategic opportunities. So why is this done? Perhaps these managers believe that applying high hurdle rates will magically create higher return projects for the company.

In any case, Kaplan points out that the only purpose of discounting future cash flows is to use a discount rate that reflects the project's opportunity cost of capital. The opportunity cost of capital is the return available in the capital markets for investments of the same risk. Although the opportunity cost of capital can change over time, Kaplan suggests that a rate of return of 8% is more realistic.

Likewise, companies lose opportunities when they arbitrarily apply payback period requirements as short as 3-5 years. A project that promises to drive down long-term costs, ramp up quality performance, provide more flexibility to customize products and services, or respond more quickly to customer needs should not be rejected merely because the investment is paid back in seven years instead of five.

Kaplan observes that an excessive penalty is imposed by artificially high hurdle rates for projects that feature strategic benefits enjoyed by the company long after the investment is paid off. In fact, it is highly likely that new business models will be needed to replace old and out-moded models if the company is to survive in the long-term.

High hurdle rates undercut a company's vital need to develop new strategic competencies that align with the changing requirements of the marketplace. This directly applies to sustainable investments that involve permanent changes to the company's business model, including factors such as energy sourcing, supply chain partnerships, and technology adoption.

A Mistaken Belief That The Status Quo Will Not Change

The alternative to investing in new capital projects is often the status quo of not investing and thinking that the level of returns on the company's current competitive strategies will continue well into the future. This is often a mistaken assumption, especially if new technologies and ideas already are being presented in the marketplace. Competition is likely to adopt these new ideas, leaving the company to scramble to catch up later, while suffering loss of market share and reputation in the interim.

Sustainability already is a critical element of competitive strategy for many companies. Over the past decade, the perception of sustainable investments has gone from something done by people with strong beliefs in environmental issues and liberal politics, to being a critical means for forging new supply chain partnerships, appealing to younger millennial-aged customers, saving on long-term energy costs, and creating an innovative work culture. When it comes to sustainable investments, few companies today can afford to rely on the status quo as a viable strategic position.

Bias In Favor Of Incremental Versus Revolutionary Projects

Companies often place limits on the amount of capital a manager can authorize before approval from higher levels of management is required. Consequently, lower-level managers might break a large project into a series of smaller projects that are launched over a longer period of time. This can result in sub-optimal outcomes that favor incremental projects over projects that could bring synergies and revolutionary results, especially if they are implemented in a timely way that takes advantage of strategic opportunities.

Taking into account the intangible benefits of investing in revolutionary projects versus incremental projects is an important problem in capital investment analysis. Sustainable investments often promise revolutionary advantages, but if analysts don't include these in the financial calculus, approval is less likely.

CHALLENGES OF ASSESSING INTANGIBLE COSTS AND BENEFITS

In evaluating capital projects, DCF should be used in ways that reflect realistic rates of return and payback periods, recognize that returns on capital from deferring to the status quo are not reliable, and approach projects with a long-term strategic view rather than a short-term incremental view. But this is not enough. Another significant challenge is how to consider costs and benefits that are intangible and hard to measure.

Using DCF, it is fairly easy to evaluate many costs and benefits involving facility construction, equipment, installation, labor, materials, inventories, energy, financing, tax breaks, rebates, and lost production. Harder to quantify are the revenues that can be identified as coming from developing new competencies and strategic advantages not yet achieved. These intangible future revenue sources are mostly likely real, but difficult to assess within the confines of DCF.

Kaplan cites examples of intangible revenue enhancements that can be gleaned from CIM projects, including increased flexibility to both new and customized products, enhanced quality through greater precision and production reliability, reduced lead times, and experience and learning from new technologies. Similarly, sustainable projects feature many intangible benefits that are strategically important but difficult to quantify, including:

1. Being an early adopter of new technologies and sustainable strategies that provide competitive advantages that attract new customers.
2. Learning and experience that keeps the company abreast of major technology advances.
3. The synergies of joining with sustainable supply chain partners and government agencies.
4. The free publicity of being a sustainable practices company.
5. Contributions to the corporate mission and values.
6. The recruiting advantages in hiring talented employees who want to work for a company with sustainable goals.
7. A gain in confidence to pursue LEED, ISO 14000, and Energy Star certifications, which lead to further adoptions of sustainable practices.
8. The synergies of merging sustainable projects with Lean practices that promote waste reduction.
9. The promotion of a company culture of continuous improvement that is proactive and fights against complacency.

It is valid to question the value of intangible benefits such as those listed above. However, one mistake that is often done with intangible factors is that they are ignored in DCF calculations because a precise value cannot be determined. The problem with not including intangible factors in DCF analysis is that it essentially says these factors have zero value when in fact “zero” is the most unlikely value we should attribute to them.

KAPLAN’S APPROACH FOR EVALUATING INTANGIBLE FACTORS

To properly apply the DCF financial tool and more accurately account for both quantifiable and qualitative factors in evaluating candidate projects for capital investment, Kaplan recommends the following steps:

1. Choose a discount rate that represents the true cost of capital.
2. Identify the quantifiable costs and benefits of the project.
3. Identify the qualitative and intangible factors that are hard to measure, but are likely to have real value to the company if the project is implemented.
4. Conduct a DCF analysis using the quantitative cost and benefit information identified in Step 2.
5. If the DCF analysis conducted in Step 4 results in a positive Net Present Value (NPV), approve the project.
6. If the DCF analysis does not result in a positive NPV, ask if the minimum value of the intangible/qualitative factors (identified in Step 3) is at least the amount of the financial shortfall for project approval, as calculated in Step 4.

7. If the minimum net value of the intangible factors is determined to be worth at least the amount of the financial figure needed to approve the project, then approve the project. If it is not, the project should be rejected.

For example, if a company considers installing a geothermal heating and cooling system for one of its facilities, it would typically account for the costs of installation, equipment, and disruption to business activities. The company would also evaluate the annual energy savings captured by the new system over the costs of the existing heating and cooling equipment. Using DCF and a realistic opportunity cost of capital, the company can easily account for the quantitative costs and benefits involved in the project.

If the NPV of the project is positive, the project should be approved. However, if the NPV is negative, the company should further consider the intangible benefits of the project that most likely exist but are hard to measure. These might include the value of improved customer/supplier relationships, learning new technologies, positive publicity, and promoting the company's mission of being a good corporate citizen.

Let's say the company's DCF on the geothermal project requires an additional $50,000 per year to be approved. Once the hard to measure benefits are accounted for, the company leaders should ask, "Is the total value of these intangible benefits worth *at least* $50,000 per year to our company?" If so, the company should approve the project. If not, the company should reject the project and continue to search for alternative investments.

The benefit of Kaplan's approach is that it puts a minimum value on intangible but real benefits, rather than assuming them to have a value of zero merely because they can't be precisely quantified. Accounting for the value of intangible benefits using Kaplan's approach provides the company a means for justifying more investments that have important strategic consequences for the company, while upholding the discipline imposed by DCF on capital investment decisions.

KAPLAN'S APPROACH APPLIED TO A SUSTAINABLE INVESTMENT DECISION

Murphy Warehouse Company (MWC) is one of the Upper Midwest's largest logistics companies. It is a family-owned private company that was founded in 1904. As CEO, Richard Murphy Jr. represented the fourth generation of family leadership of the company. MWC operates twelve warehouses in the Twin Cities metropolitan area that together total 2.6 million square feet of space, of which four are Murphy owned totaling 1.1 million sq. ft.

In 1987, amendments to the Clean Water Act imposed a federal mandate on local governments to conduct stormwater quality management to protect against pollutants from stormwater entering rivers and lakes. The federal mandate provided no funds for local governments to build and operate the infrastructure to manage stormwater. To cover their costs, municipalities resorted to user fees to pay for their stormwater systems. In 2005, Minneapolis started assessing a stormwater fee on all property owners.

Shortly after Minneapolis started imposing the stormwater fee, Richard Murphy sat at his desk and reviewed stormwater bills from the City of Minneapolis totaling $68,000 annually for a 22-acre MWC-owned facility called Warehouse 701. Murphy thought to himself, "I'm literally pouring money down the drain—or in this case, the storm sewer!"

Warehouse 701 was the oldest of MWC's four owned warehouses. Original buildings were constructed on the site in 1904, with several expansions over the decades leading to the present 550,000 square foot facility. MWC's other three warehouses were built in the 1990s and included large on-site stormwater retention basins to hold stormwater and filter out pollutants as the water seeps slowly into the ground. These basins were built to conform to building codes and integrated into the site designs for the construction of the new warehouses. The newer warehouses could handle all of their stormwater and municipal stormwater fees were not assessed on these properties.

Warehouse 701 was a different situation. Ninety-five percent of the 22-acre site was comprised of water-impervious roof or pavement that generated tremendous volumes of stormwater runoff from a typical July thunderstorm. Most of this water was diverted into the Minneapolis storm sewer system.

Murphy did his research and found an engineer who could design and construct a stormwater management system for Warehouse 701 at a cost of $580,000. It would include a large bio-retention basin, three rain gardens to absorb water runoff, and modified roof outlets to manage stormwater surge.

The challenge for Murphy was determining whether the high cost of the project and the longer than normal payback period could be justified. The project would eliminate the quarterly storm sewer bills from the City of Minneapolis, and Murphy knew processing stormwater on-site was the environmentally responsible thing to do. But spending well over a half million dollars was a steep price to pay, especially when there were so many other ways to invest in MWC's future.

Richard Murphy Jr. first calculated a rough payback period for the stormwater project:

$$\frac{\$580{,}000 \text{ installation cost}}{\$68{,}000 \text{ annual stormwater fees}}$$

$$= 8.53 \text{ years}$$

The payback calculation did not account for an assumed 5% annual inflation increase in the stormwater fee, which would lower the payback period to slightly more than seven years. Nevertheless, this was a long payback period by conventional standards.

Murphy calculated the net present value of the project under different discount rate assumptions (Table 1). Assumptions include:

1. The project will be funded out of cash savings.
2. Stormwater fee savings increase by 5% each year for 10 years.
3. The life of the stormwater project is 10 years.
4. Depreciation and tax effects are ignored.
5. Aside from the initial project cost, no additional fixed or variable costs are assumed.

Table 1
NPV of Stormwater Project Under Different Discount Rate Assumptions

Discount Rate	NPV
5%	$67,619
10%	($74,092)
15%	($173,794)
20%	($245,927)

The impact of the differences in discount rates can be seen in Table 1. In applying Kaplan's approach, MWC should ask what opportunity cost of capital should be applied to the NPV analysis. If the investment environment is paying low interest rates on "risk-free" cash savings, a 5% cost of capital might be assumed for such investments.

However, a project like the stormwater project has more uncertainties involved, including disruptions to company operations, unexpected discoveries while excavating the site, complications with utilities, overtime wages to maintain customer services levels, etc. Given these additional risks, a higher discount rate might be justified, such as 10%. Discount rates of 15% and 20% impose significant negative consequences on the project's NPV and should be carefully evaluated as to how well they represent the opportunity cost of alternative investments with comparable risk levels. High discount rates should not be applied in mistakenly thinking this alone will magically generate higher return projects.

If Richard Murphy Jr. decides to use a 10% discount rate, he faces the next step of Kaplan's approach of evaluating the minimum value of intangible and hard to measure benefits of the stormwater project. These include the following:

1. MWC is a privately-owned company that has been in existence for over 100 years. It takes a long-term view in making investment decisions, and carefully considers how well those decisions fit with strategic goals.
2. Being a good corporate citizen and neighbor are important values in MWC's mission statement.
3. MWC's customers, both current and future, are very interested in the sustainable activities practiced by their supply chain partners.
4. The stormwater investment helps MWC qualify for future applications for LEED, ISO 14000, and Energy Star sustainable certifications.
5. Researching, planning, and implementing sustainable projects provide significant learning opportunities that will benefit MWC in the long term.
6. Being seen as a leader in sustainability within the community is good for promoting business and forging positive relations with government officials.

If Murphy decides that a 10% discount rate should be applied to the stormwater project, he now must decide if the intangible benefits are worth *at least* $74,092 net value over a 10-year investment period, since that is the amount the project's NPV falls short for approval (Table 1). If the answer is yes, Murphy should approve the project. If not, he should find alternative ways to invest MWC's capital.

WHAT DID RICHARD MURPHY JR. DECIDE?

In 2008, after weighing the hard financial figures, and deciding that the intangible advantages more than outweighed the concerns that the pure financial analysis was less than ideal, Richard Murphy Jr. went ahead with the stormwater retention project. The project did not have any major surprises involving unexpected costs, and the retention system now handles all stormwater on site. MWC is presently the largest landowner in Minneapolis that does not pay a stormwater fee.

Despite the longer payback period and marginal NPV (depending on the discount rate applied), MWC has enjoyed the fruits of the intangible benefits of moving forward with the stormwater sustainable project. These benefits include:

1. Recognition in the community as a leader in the community in adopting sustainable practices, while maintaining a strong business approach. Richard Murphy Jr. has spoken with dozens of business and community groups about his experiences with sustainable projects at MWC.
2. On Earth Day in April, 2009, Richard Murphy Jr. and MWC were recognized by Minneapolis Mayor R.T. Ryback at a televised press conference for its successful implementation of its stormwater retention system.
3. Murphy and the stormwater project were featured in "Simply Science," a regular late night news report on the Twin Cities NBC affiliate television station.
4. Prompted by the success of the stormwater project, Murphy hired a consultant to advise and guide MWC toward LEED certification ("Leadership in Energy and Environmental Design"). All of MWC's company-owned facilities are now Silver or Gold LEED-certified, with three facilities at the Gold level.
5. As part of the LEED certification process, it was discovered that MWC's facilities also met the EPA's Energy Star Certification, with scores in the 99th percentile for being "Most Efficient."
6. Murphy knows that his logistics business thrives in part because many of his customers chose MWC for its sustainable practices to help fulfill their own strategic goals of building a "green" supply chain.
7. The stormwater project was one of several successful sustainable initiatives at MWC. Others included replacing manicured lawn with natural prairie landscaping, painting warehouse ceilings white to reflect light, and installing High Air Turnover (HAT) units to distribute warehouse heat more evenly.
8. Murphy used his experience in these projects, as well as his new knowledge from working with the LEED consultant, to research and implement solar panel arrays on the roofs of his warehouses to supply 40% of his energy needs. (The financial feasibility of solar investments is limited by caps on available subsidies from government and the local utility.)
9. In 2012, Murphy replaced the T-5 lighting system with LED lighting in a 350,000 sq. ft. warehouse. Although costing nearly a half-million dollars, Murphy again looked at both the hard financial numbers, as well as the intangible benefits of LED lighting in approving the project. At the time, it was the largest LED-lit facility in the Midwest.

CONCLUSION

Due to increased awareness of environmental issues, consumers are not only demanding environmentally friendly products and services but are also expecting that companies run their businesses by taking into account the environmental impact of their operations. Corporations are responding to this demand by evaluating ways to adopt best practices in environmental sustainability. Increasingly, more companies are embedding environmental performance and other green values and measures into their core business goals, making their environmental sustainability plans and achievements public, and requiring that their suppliers incorporate green practices in their operations.

Despite the high visibility and strategic importance of sustainability, companies must still apply strict financial analysis to any sustainable capital investment proposal. The DCF tool imposes financial discipline on investment decisions and should not be abandoned just because all intangible benefits of the project cannot be precisely measured in financial terms. Likewise, corporate leaders should not use the DCF tool to calculate measureable costs and benefits, fail to account for intangible benefits (assuming them to have zero value), then reject sustainable proposals if they generate negative NPVs.

Kaplan's approach for evaluating sustainable project proposals is financially sound and strategically focused. It protects the company's financial assets, while providing superior opportunities to approve sustainable projects that drive long-term competitive success.

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LOYALTY PROGRAMS AND THE RISK OF INDUSTRY COMMODITIZATION

Hans Schumann, Texas A&M University – Kingsville

ABSTRACT

Loyalty is the Holy Grail for marketers. If the customer is loyal to you, you will get more than your market share of the customer's purchases; they will be willing to pay you more; they will be more forgiving when unfortunate problems arise with your product; and, spread positive word-of-mouth advertising to all their friends. To achieve this loyalty you must be doing something right in your customer's mind.

The foundation upon which this loyalty is built varies. Sometimes it is based upon the respect that the firm has earned because of what they have accomplished, the way they have treated you in the past, a comfort level in knowing what to expect vis-à-vis frequenting another provider, or the fear of the unknown and the uncertainty of using a competitor.

Because of power of a customer loyalty there is a temptation for firms to develop and launch "Loyalty Programs" to artificially encourage this consumer behavior.

To qualify as a true loyalty program the firm's activity must be organized with the specific goal of influencing the odds of winning future sales which would otherwise be in doubt. Based upon that definition, loyalty programs can take different forms. They range from simple punch cards allowing a coffee shop frequenter a "Free" coffee after 10 previous coffee purchases to very complex structures such as airline frequent flyer programs which have developed their own "currency" or point systems. Others develop organized social structures, clubs, or user groups for their customers.

Some of the most complex loyalty programs are partnerships over multiple vendors. Understanding the dynamics of these multi-vendor programs will be explored in this paper. The most current example are Airline frequent flyer programs that allow for alliance member to share the program with other airline, hotel, car rental, and banking partners. Prior to 1973, United States retailers had a tradition of handing out trading stamps. In these programs, retailers would sign with one of several trading stamp companies and agree to distribute the stamps (usually at a ratio of 1 stamp per $ in sales). The consumer would then in-turn redeem then completed stamp books for free goods.

This paper helps explains the phenomena of these programs and why large department stores are unlikely to adopt. In the case of trading stamps, the paper explains the reason for their demise.

INTRODUCTION

Loyalty programs are marketing activities organized with the specific goal of influencing the odds of winning future and repeat business which would otherwise be in doubt. They take on different forms from simple punch cards allowing a coffee shop frequenter a "Free" coffee after 10 previous coffee sales to more organized programs assigning and tracking points based upon a purchaser's history. Other firms have chosen to reward their best customers with special events such as user group conventions or customer clubs (Butcher, 1998).

Other traditional ways to improve sales are by lowering prices, increasing quality, and by providing better service. Executives will often claim that they create loyalty by having a better value proposition, but in accordance to the AMA definition we use here, we do not consider an improved value proposition as a structured marketing program.

Although it seems that we are inundated by loyalty programs, it is remarkable how many world class retailers (including many category leaders such as Wal-mart etc.) have chosen not to create such programs. Much literature exists that explores the program effectiveness; some more convincing than others. Dowling and Uncles (1997) note that "Given the popularity of loyalty programs, they are surprisingly ineffective". Additionally some firms that have created "loyalty programs" do so in order to achieve other goals such as market research. (Berman 2006) One could question if these are truly designed to be loyalty programs or rather marketing intelligence programs that give discounts to customers for their permission to track and analyze their behavior. Many grocery store programs seam to fall into that category. Berman (2006) states that "Loyalty Program data is typically based on large samples, transactional data, and does not require the active involvement of members aside from swiping their loyalty card. In addition many loyalty program members are willing to provide demographic data as part of their loyalty membership application"

The first supermarket chains to collect supermarket purchase data created a wealth of data for them to use as well as to sell to vendors who were interested in who was and were not buying their products. By analyzing point-of-sale data, one could reconfigure shelf-space and attempt to increase sale of related or correlated products.

Most "Loyalty Programs" are based upon the concept of monitoring a customer's purchase behavior and offering discounts based upon their purchase behavior. This begs the question: has the program created loyalty, or are they just fancy codified ways to lower the price. If the later, economists would be inclined to treat them as non-linear prices and there is a great deal of literature that talks about non-linear prices structures, especially in monopolistic or monopolistically competitive environments.

The American Marketing Association defines loyalty programs as "continuity incentive programs offered by a retailer to reward customers and encourage repeat business" (Dorotic (2012)). Furthermore, Dorotic succinctly states that to be classified as a loyalty program, the programs should: foster loyalty; be structured; be long term in nature; reward customers; and be an ongoing marketing effort. We will use this definition throughout this paper.

Unfortunately, many of such programs may not be as effective as one would hope and in many cases we may wish to question if they should be considered a loyalty programs at all.

For a program to be a loyalty program, the consumers in an industry featuring such programs should have an incentive to purchase all or most of their products from a single source rather than letting each decision be independent. In this paper we will look at the structure a program needs to have to satisfy this condition; why many fail; and why some, if not most, industries choose NOT to use these tools as a means of competition.

REVIEW OF THE LITERATURE

Loyalty Programs have piqued the interest of other professions as well including economists, lawyers as well as marketing professionals. Using multi-period models with switching costs economists (Kobayashi, 2005 and Klemperer, 1987) have studied how an effective loyalty program can increase these costs. If switching costs increase, so should the expected price and profit levels in that industry. If the programs do not increase the switching costs, no loyalty has been created. Increases in switching costs or enhanced product differentiation can impact not just market share of wallet, which the marketing literature predominately focuses on, but also overall nature of firm competition and the effects that may have upon equilibrium price levels.

Lawyers, legislators, and the courts have been interested in the potential of loyalty programs to have anti-trust considerations for over 100 years. In the 19th century, various states passed laws banning the practice with courts occasionally over-ruling them. A California judge in 1899 found "It [the trading stamp program] appears to be simply a device to attract customers, or to induce those who have bought once to buy again, and in this aspect as innocent as any form of advertising." (WCT 1915) The controversy over the legality of trading stamp programs continued until at least 1972 when the US Supreme court allowed the FTC to regulate the trading stamp programs under what has been called the "Fairness doctrine".

Many studies have shown that customers are often members of multiple loyalty programs in the same industry. If a customer has formally enrolled in multiple loyalty programs in the same industry, isn't that an indictment that the retailers haven't created loyalty at all? If there is no cost to joining a program, even the most non-loyal customer will become a member of a firm's loyalty program.

Measuring the impact of these programs presents a significant academic challenge. Even when these programs are studied and a correlation is found often the loyalty observed may not be caused by the program but the loyal customers are those that self-select to join the program. Dorotic (2012) found that "Typical early LP adopters are heavy users in a category, who already exhibit relatively high loyalty to the provider". Leenheer(2007) when looking at grocer programs in the Netherlands found that if you fail to account for this bias, researchers would be overestimating the effect on share of wallet by a factor of 7. A typical average gain of 4.1% share of wallet supplied an even smaller gain in revenue because of revenue gains were significantly reduced by the discounts and rewards redeemed. Since their model only looks at revenue without adjusting for the cost-of-goods for the increased sales, it is likely that none of the Dutch programs were profitable.

The metrics of what researchers are looking for vary by their discipline. Much of the marketing literature looks at attitudinal data and/or share of wallet. Economists (Kim, Shi, Srinivasan, (2001), Sherman (1968), et. al.) tend to be look more toward the structure of competition and pricing power. Legal Scholars tend to be interested in anti-trust and customer discrimination issues.

The prevalence of loyalty programs in retailing is truly amazing with 90% of US customer reporting to belong to at least one program. (Berman, 2006) Equally shocking however is the number of world class retailers who do not have, or have resisted, or ended a loyalty program. A who's who of leading retailers including Wal-mart, Target, AT&T, etc. do not bank on loyalty programs to add to their success. One major question is "Why"?

Loyalty programs couple the purchase decisions of the present with those of the future. By definition, if they do not, they fail in their effort on promoting "loyalty". One question that very few researchers since Schumann (1986) have asked is – Do customers want to purchase all of their products from the same retailer? If the answer is no, loyalty programs, if successful, will reduce the utility that consumers receive from the bundled product purchases. Of course they might have been compensated by a transfer of some of the producer surplus to the customer through the program's reward, but in this case at the expense of the retailer.

In fact, the largest and often most respected retailers such as Wal-mart, do not depend upon a loyalty program strategy and have resisted the calls to create one. Other firms such as AT&T who had loyalty programs have discontinued their efforts.

Defenders of loyalty programs (Berman), even when they don't document that these programs actually create loyalty, point to other benefits which by themselves may warrant running their program. Topping this list of benefits are the positive effects of customer intelligence; electronic couponing; customer purchase tracking; and mailing list sales.

The vast majority of academic articles on loyalty programs pay homage to two types of programs -- S&H trading stamps and airline frequent flyer programs. Both of these programs have very interesting characteristics that are usually not explored in great detail in subsequent literature. In particular, both are based upon the fact that almost the entire industry followed suit, and that both have a non-linear award structure. A program "point" becomes more valuable, the more points you have accumulated.

THE CONCAVE NATURE OF LOYALTY PROGRAM REWARD BENEFITS

For a marketing program to function as a loyalty program the value of the accumulated benefits need to be a upwardly sloping convex function at least through a portion of the curve. Without such curvature (figure 1a), the program does not increase the likelihood of purchase given that previous purchases have been made. In other words, the marginal benefit of purchase does reduce the cost or increase the benefit from the next product purchase, in other words it does not reward "loyalty". A convex function (figure 1b) would mean that the marginal benefits to a consumer go down as more products are purchased – clearly the opposite of what a loyalty program is designed to do. A straight line function (figure 1c) would be equivalent to a reduction in price. Member benefits are the same regardless of purchase history. The electronic couponing benefits of most supermarket programs are of this third type.

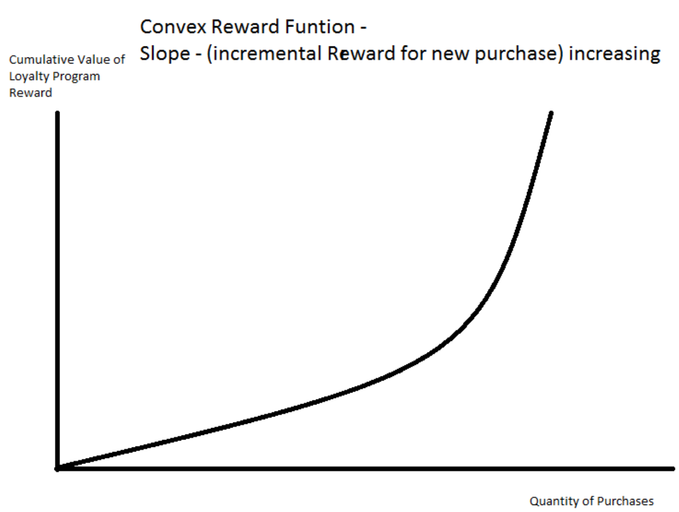

Figure 1a

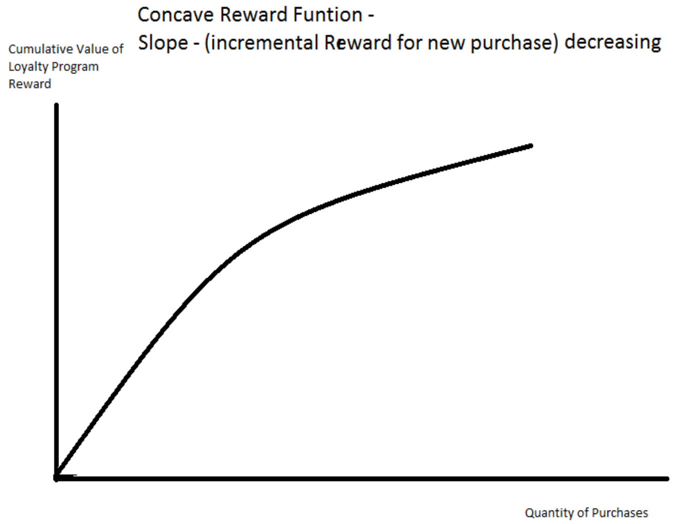

Figure 1b

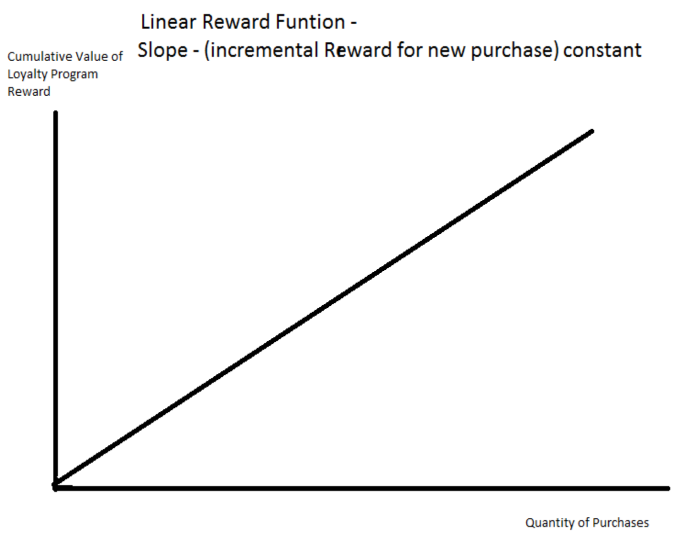

Figure 1c

Many point-based programs easily achieve this test of convexity. For example, even the local coffee shops 10-punch card has no value until the tenth use; also, the value of having 20,000 miles in one airline program is worth more than having 10,000 miles in two airline programs.

REASONS AN INDUSTRY MAY NOT WANT TO FORCE LOYALTY

One of the most intriguing questions in this field is: Why did many retailers and entire industries such as large department stores resist loyalty programs? The answer may be very simple – forcing consumer loyalty is not in their best interest. Competing for the entire consumer purchase stream at once may be less beneficial that competing on each individual product basis.

Most executives will tell you that the more their industry becomes commoditized the less pricing power they have and that the equilibrium industry prices will drop. In an industry where effective loyalty programs prevail (as opposed to so-called loyalty programs that do not artificially promote loyalty), competition shifts from the individual product basis to a store-level basis. Consumers are being courted to choose which store or program to become loyal to. Competition then enters the equation through the design and increasing generosity of the loyalty program and/or through lowering base prices. Consumers will have to calculate to what firm it is in their best interest to be loyal. In other words, the firm which has the lowest bundle price (or alternatively the lowest average product costs when adjusted for their consumer-specific product preferences and expected loyalty program rewards) will get all of that customers purchases.

Statistics tell us that if we let a random variable, V, designate the difference in value the consumer has for a product supplied by one vendor over the other, [For simplicity, let us assume that this distribution, V is the same for each product, with mean μ and standard deviation σ], the distribution of the sum of total of N purchases will have a total mean of $N\mu$ and a standard deviation of between $\sigma/\sqrt{N}$ if they are independent and σ if they are perfectly correlated.

If the latter is not the case and customers do not always prefer products from the same store (in other words not perfect correlation), the "average" preference goes down as more products are purchased. As the "average" differentiation goes down, commoditization goes up and the average sustainable equilibrium price drops. An industry is much better off competing in N separate games than one big game with a smaller average differentiation. In this context, the expected average price and profit levels (adjusted by loyalty program rewards) is higher when no loyalty programs exist.

Readers will note that this is exactly the same concept as to why finance professors have taught us to diversify our investment portfolio. Through diversification our portfolio will reduce its expected variation and be significantly less risky in its performance. Diversified portfolio will behave much more similar are not likely to negatively (or, unfortunately, positively) deviate greatly from the market.

The importance of this finding is that it explains why large multi-product retailers choose not to compete via loyalty programs, but prefer to compete one product at a time. With all firms competing with loyalty programs, the resulting market is on average more commoditized, not less. Lowering price (either individual product prices, or increasing the reward) becomes more powerful as there is less average differentiation. Since each firm is facing this exact situation, economic theory will tell us that any equilibrium with purchases artificially bundled through loyalty programs will happen at a lower price (and profit) level, than had the competition been on the level of each individual product.

WHY FREQUENT FLYER PROGRAMS AND TRADING STAMP PROGRAMS WERE EFFECTIVE

As described by Schumann (1986) both of these programs have very unique characteristics that make the above analysis not apply. In the case of airlines, each airline does not compete in every market. Although consumers usually have a choice of airlines, in most major markets (hub cities) there is a dominant local airline and a variety of competitors, each of which only serve a few markets non-stop. This dominance of a specific carrier at a market was look at by Borenstein (1989). He concluded that airline frequent flyer programs provide some of the explanation of airport dominance found. On an individual flight basis consumers have very little preference for one airline flight over another. If however they are asked to be loyal to one airline and their route network, there is a great deal of differentiation. Because of this, Schumann was able to develop a model that showed that airlines would prefer to compete on a system-to-system basis with loyalty programs.

Airline frequent flyer programs geographically divide the country into areas where each dominant carrier has solidified its hold. Whose airline loyalty program you participate in is usually based upon what city you live in. Not being a Delta Airlines mile collector for those travelers living in Atlanta would usually be foolish, while travelers living in Dallas will likely choose to be an American Airline frequent flyer program participant.

Because of the strength of these airline programs, they have been able to expand their breadth by inviting partners (other airlines, hotel, car rental companies, etc.) to join their team. By joining and participating in established program, they can piggyback on the loyalty effect much like they participated in trading stamp programs of the past.

Schumann (1986) showed that airlines have successfully run their frequent flyer loyalty programs because airlines have very differentiated route networks and do not generally duplicate each other's markets (only looking at non-stop service, not connecting traffic).

He also shows that the independent ownership structure of firms participating in the Trading Stamps regimes preforms the same task. Here, even though each trading stamp "team" offered the same types of products (each team had grocers, dry cleaners, gas stations, hardware stores, etc.), it was the independence of each merchant, that allowed each small businessman to increase their prices when an effective city-wide loyalty program was overlaid. Raising the price on any individual product increases the total expected team purchase price.

A price increase at any individual store raises the total team purchase bundle price by that amount, but has a much smaller impact on the average team product price. Because of this, price increases in a trading stamp world have a much smaller impact on sales loss than in a traditional market. With comparatively little sales loss due to price increases, merchants on both teams will increase prices until they level at a substantial higher equilibrium level. Granted, these price increases not only run the risk of some product sale losses, but, the higher prices also run the risk of being the proverbial "straw the breaks the camel's back" that causes the customer to switch their entire sales away from one team to the competing trading stamp firms' team. As each store is independently owned, this externality that is hoisted on the team members has no impact on their own profitability and hence each merchant feels comfortable to ignore it.

Had the retailer also held an equity stake in their team member stores, price increases would have been viewed as significantly more costly and would not have happened. This explains why we see practically no loyalty program activity for retailers such as Wal-Mart, Target, and K-mart.

As Schumann (1986) reports in 1973 there were two forces that caused the trading stamps to disappear almost overnight. The first of these was the FTC regulation that required that an additional consumer option need to be added to give cash as a redemption option at a fixed rate per book of stamps. This had as an effect or linearization of the redemption schedule. More importantly however, the Arab oil embargo caused gas stations which had been issuing 28% of the trading stamps had lines and regulated prices. Overnight they stopped issuing stamps. Without them, supermarkets now were 77% of the programs leaving them essentially in the same position the department stores are now. Very quickly they stopped issuing stamps as well and the 100-year old phenomena of trading stamps came to a sudden halt.

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BIG GAAP VS LITTLE GAAP

Ronald A. Stunda, Valdosta State University
Mark B. Wills, Valdosta State University

ABSTRACT

Two major issues are confronting the Accounting industry and associated standards setting board in the U.S. today: 1. How to make following generally accepted accounting principles less confusing and more cost-beneficial for smaller public companies, and; 2. How and to what extent International Financial Reporting Standards (IFRS) should be integrated into the U.S. standards. The process of melding these two has not exactly been easy for the Financial Accounting Standards Board (FASB). This paper serves to update where U.S. standards lie with respect to the confluence of these two issues by bringing readers up to date with the historical background, differences in GAAP versus IFRS, and challenges going forward of this co-mingled issue.

INTRODUCTION

For decades, small business owners, accountants, and others have argued the need for different accounting standards to be used by smaller, privately held companies as a replacement for the complex and burdensome standards issued by the Financial Accounting Standards Board (FASB). Opponents, on the other hand, have argued for only one set of accounting standards, contending that multiple accounting standards could only lead to confusion and a lack of credibility for issuers of financial statements prepared under "lesser" standards. Compelling arguments can be made by both camps, but the practical portion of the argument has, in recent years, tilted in favor of some version of "Little GAAP." The continued proliferation of complex and controversial standards, some of which are costly and difficult to apply has lead the American Institute of Certified Accountants (AICPA) and the FASB to increase their efforts regarding this difficult issue.

THE DILEMA

Small- and Medium-Sized Entities (SMEs)

The increasing costs of compliance with GAAP that is responsive mainly to the needs of public company investors and analysts, is not feasible for most private companies (Brackney & Mautz 2008). The cost would be more acceptable if information included in the financial statements was relevant to users. Further, if the information was useful for strategic or management purposes, then the costs to comply with GAAP would be simply incremental. But, for most small companies, a great deal of the information is not relevant to them or their users, so the majority of the costs to document, comply and audit is simply for compliance with GAAP, and appears as sunk, non-relevant, wasteful costs that cannot be justified by private companies.

So, what are the differences in relevant information to public and private companies? Public companies and private companies have significantly different users of their financial statements. For public companies, the primary users of their financials are investors and analysts.

For private companies, the primary users are lenders, followed by suppliers, bonding companies, other regulators, and owners and investors (Cohn 2013). Small companies have much less access to capital which is what drives their need for the various lenders and creditors. The investors in public companies and private companies are typically very different too. Most investors in public companies tend to be financially diversified. In order to reduce their risks, they develop a portfolio of stock shares in a number of firms. The level of risk is the market risk, so the investor is interested in information that is useful in assessing the market risk of their portfolio (Merklin 2013). For their counterparts, the analysts, information needs are driven by computerized trading models and they have strategies for identifying inefficiencies. Their focus is totally on profits and how highly investments are leveraged. The typical small business owner tends to be less diversified with most of the business capital committed to a single business and they are typically more closely involved in the management of that company, and have internal information readily available to them. Financial statements prepared in accordance with GAAP typically do not provide information that is relevant to strategic management decisions for smaller companies.

The traditional accounting model was based on income, performance and accountability, and the standards are gradually shifting the focus to a very complex financial economic model based on current and future cash flows, with a spotlight on valuation (Eckstein 2013). In other words, the environment is shifting from traditional values such as stewardship and accountability and more towards objectives of the SEC; protecting investors, creating efficient markets, and facilitating capital formation. The SEC is focused on the needs of financial analysts and outside investors, rather than the relevance to nonpublic users (Wright 2012). Additionally, the smaller companies cannot afford to keep up with the complexity of the standards or the annual audit fees of CPA firms that continue to rise due to the complex standards and compliance with them.

The disparity here is that the SEC and FASB both have objectives and missions that favor public companies, the standards set for them and their interests. Moreover, the FASB is financially supported by public companies. So, even though there are a reported 28 million private companies and 14,000 public companies, the attentions of the SEC and FASB remain focused on the latter (Brozovsky & Christie 2010).

Historical Background

The background of this issue may be portrayed by the following timeline (AICPA Financial Reporting Framework for Small and Medium-Sized Entities Task Force Overview 2013):

1972 “The Wheat Report”: A Study on Establishment of Accounting Principles (AICPA). The report created a new standard-setting structure composed of three organizations—The Financial Accounting Foundation (FAF), the Financial Accounting Standards Board (FASB), and the Financial Standards Advisory Council (FASAC).

1972-2005 Numerous studies and reports on GAAP for private companies.

2004 FASB establishes the Small Business Advisory Committee to obtain more active involvement by the small business community in the development of financial accounting and reporting standards.

2005 Private Company Financial Reporting Task Force Report, AICPA (“Castellano Report”)

2006 Formation of the Private Company Financial Reporting Committee (PCFRC) to provide the FASB with the input on the needs of private companies and the users of their financial statements.

2009 Blue-Ribbon Panel on Standard Setting for Private Companies was formed "to address how accounting standards can best meet the needs of users of U.S. private company financial statements."

2009 AICPA Council expresses overwhelming support for GAAP differences for private companies.

2011 Blue Ribbon Committee submits their recommendations in a "Report to the Board of Trustees of the Financial Accounting Foundation (FAF).

2011 The FAF announces the creation of a Trustee Working Group to address issues associated with the standard setting for nonpublic companies.

2012 The FAF establishes The Private Company Council (PCC). The PCC has two major responsibilities:

1. The PCC and the Financial Accounting Standards Board, working jointly, will mutually agree on a set of criteria to decide whether and when alternatives within U.S. Generally Accepted Accounting Principles (GAAP) are warranted for private companies. Based on those criteria, the PCC will review and propose alternatives within U.S. GAAP and address the needs of users of private company financial statements.
2. The PCC also serves as the primary advisory body to the FASB on the appropriate treatment for private companies for items under active consideration on the FASB's technical agenda.

For several decades small, private companies and their auditors have become increasingly frustrated and vocal about the escalation in overly burdensome and costly authoritative standards. Their complaints include, but are not limited to:

1. The needs of users to provide company financial statements are being neglected.
2. There is an insufficient weighing of the costs of using GAAP and benefits thereof for private company financial reporting.
3. No consideration is given to whether variable interest entities (VIE), uncertain tax positions, fair value measurements, and goodwill impairment are relevant for private companies, and thus whether GAAP public company standard should apply to private companies (Campbell & Morris 2006).

A major problem facing regulators is that the terms, "nonpublic," "private" and "small" are used interchangeably. Private does not necessarily imply small. The PCFRC considers a private company one that is not a financial institution and does not have U.S. Securities and Exchange Commission (SEC) reporting requirements (Committee, PCFR 2006). Yet, the financial transactions of many private companies are no less complex than their public counterparts. The top 100 private companies have estimated mean average annual revenues over $10 billion with a median of just under $6 billion (Forbes.com, November 3, 2010). Where should the line of demarcation be drawn or what threshold should be used to determine if private company GAAP is applicable? This is a very contentious issue.

2012 FASB established the Private Company Financial Reporting Committee (PCFRC) to address standards for private companies. The PCFRC recently issued a significant statement suggesting that the International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs) represent an "attractive alternative for U.S. private companies."

2013 The AICPA issued the Financial Reporting Framework (FRF) for small- and medium-sized entities (SMEs). This is an option for businesses where they may not need to prepare US GAAP-based financial statements. Since the FRF for SMEs is not GAAP, its use is completely optional and there is no effective date for implementation.

As can be seen from the above historical timeline, the financial reporting framework has evolved from fairly broad concepts more than four decades ago to a more precise mechanism for both capturing and adapting to changes in the overall business environment. That process is still evolving today.

IFRS for SMEs

IFRS for SMEs are intended for companies that do not have publicly-traded stock or debt and do not hold assets in a fiduciary capacity like banks, brokers, dealers, credit unions, or other similar entities, including certain nonprofits (Henson 2009). Generally, creditors and absentee owners of privately held companies are most interested in short-term information related to liquidity, profitability, and cash flows. They do not normally have an interest in information necessary for trend analysis or for the ability to forecast earnings. Moreover, the users of private company financial information can normally obtain additional information about a company and its financial success through direct interaction with the company's management. With the needs of these users in mind, the International Accounting Standards Board (IASB) has developed a body of accounting standards for SMEs that:

1. are brief and written in understandable language;
2. include only those matters expected to be applicable to small, privately held companies; and
3. are not expected to be unnecessarily expanded upon or interpreted.

By limiting the standards to those matters believed to be most likely applicable to small- and medium-sized private companies, the IASB has significantly reduced the time and cost associated with the preparation of financial statements. To compare volume and complexity, IFRS is written in 2,500 pages and IFRS for SMEs is written in 250 (Nobes 2009).

Under the IFRS for SMEs, management and its external accountants or auditors will no longer need to filter through, study and/or analyze professional standards which may not be applicable or which may have presented some unintended consequences to smaller entities (Maryland Association of CPAs 2011). Many recently issued FASB statements have required numerous interpretations and revisions. The IASB, however, currently intends to undergo a thorough review of IFRS for SMEs once the standards have been in effect for two years. Once this initial review has taken place, the IASB intends to revise the standards no more frequently than in three-year intervals. Furthermore, the IASB intends that all amendments and additions to the standards will have a one-year period before the effective date of any revision (FASB, IASB Update, 2014).

Since the AICPA has recognized the IASB as an accounting body for the purposes of establishing accounting and reporting standards, it is now possible for a CPA (subject to state board acceptance) to express an opinion on financial statements prepared in accordance with IFRS for SMEs, in the same manner as another comprehensive basis of accounting (Schipper 2003).

IFRS Challenges

The conversion to IFRS for SMEs is not without its challenges. First of all, an entity would need to convince the users of its statements (shareholders, creditors, bonding companies, etc.) that such an adoption would be acceptable. Additionally, a company adopting IFRS for SMEs would need to assess the differences between its current basis of presentation and IFRS for SMEs. Although many companies will find the new standards appealing, they may also find some of the new requirements objectionable. Lastly, companies may find it difficult to find a CPA or firm willing to express an opinion based on the new standards in that the standards are less than six months old, which means that training and experience regarding the standards is presently limited.

Significant Consistency Difference

Under IFRS for SMEs, certain items are accounted for differently, but many are treated in a manner consistent with existing U.S. GAAP. Listed below are certain items that may be treated differently under IFRS for SMEs, as compared to U.S. GAAP (FASB, IASB Update, 2014):

Revenue Recognition

Consistent with U.S. GAAP, revenue from long-term construction contracts must be accounted for using the percentage of completion method of accounting. However, the use of the complete contract method of accounting, with is permitted under certain circumstances for U.S. GAAP, is prohibited. Similar to U.S. GAAP, IFRS for SMEs required the immediate recognition of anticipated losses on long-term contracts.

Special Purpose Entities

Consistent with ASC 810, IFRS for SMEs requires consolidation accounting in circumstances where the entity controls, through voting majority and certain variants of voting control, the Special Purpose Entity. IFRS for SMEs acknowledges certain circumstances under which an entity controls the Special Purpose Entity by means other than voting control, and should therefore consolidate the Special Purpose Entity.

Interest Capitalization

Under IFRS for SMEs Section 17.11(e), construction period interest is not considered to be a part of the costs of property, plant, and equipment, and entities are required to expense all borrowing costs as such costs are incurred. Borrowing costs are defined in Section 25 as interest and other costs incurred in connection with the borrowing of funds.

Accounting for Leases

IFRS provide a similar standard for lease accounting, but offer no rules, tests, or further guidance to the preparer.

Deferred Income Tax Assets and Liabilities

Unlike U.S. GAAP, all deferred income tax assets and liabilities are classified as long-term without regard to the financial statement classification of the difference that results in the deferred income tax asset or liability.

Business Combinations

Expenses associated with business combinations are considered a part of the total acquisition costs and are not expensed as required under the provisions of U.S. GAAP. Goodwill is considered an asset with a determinable life and is therefore amortized. Absent a determination of its life, goodwill is to be amortized over a period not to exceed 10 years. Identifiable intangible assets are recorded in connection with a business combination when fair value can be determined with sufficient reliability. They are not appropriately recorded when they cannot be separated from goodwill or there is not a history of similar intangible assets being exchanged from which reliable measures of fair value can be determined.

Investment Property

Investment property, defined as property owned or leased under a finance lease held for rent or capital appreciation or both and not used as a part of the entity's operations or not held for sale in the ordinary course of an entity's business, shall be annually adjusted to its fair value (after initially accounting for the property at its historical costs) when such value can be determined without undue cost effort on an ongoing basis. Changes in investment property fair value shall be recorded as a part of the entity's profit and loss.

Other

In accordance with IFRS for SMEs, applicable line items in an entity's balance sheet and income statements are required to include a reference to the related note, salaries and other compensation for all key management personnel are required to be disclosed in total, the currency of the entity shall be disclosed, and the entity shall disclose its domicile and legal form of the entity, its country of incorporation, and the address of its principle office.

The Major Differences IFRS for SMEs are founded upon the concept of principles-based accounting standards, which rely upon a simple set of key objectives for financial reporting. Although a certain amount of rules are necessary, rule makers in a principles-based environment do no write standards in a matter intended to cover every imaginable circumstance. Instead, concepts are developed to cover the accounting and disclosure for most basic accounting transactions, and accountants are then required to use professional judgement to account for a variety of transactions and to account for them in accordance with the key objectives for financial reporting.

At first glance and as noted by the FASB, principals-based standards, when applied properly, appear to be more useful to investors as the characteristics of relevance and reliability are the primary focus. This theory is of course, based on the notion that management will exercise sound judgment, select and evaluate the appropriate principle (e.g., substance over form), and remain objective throughout the decision process. Allowing management such a high degree of interpretative freedom may well lead to inappropriate, inaccurate, and aggressive reporting practices particularly when financial reporting decisions are tied to incentive based compensation plans and market estimates and projections.

Rules-based accounting standards, on the other hand, are designed to provide a rule to every account for every imaginable accounting transaction and required disclosure, as well as every imaginable exception to the rule. Historically, U.S. GAAP has tended to be rules-based, which is part of the reason that many U.S. accounting standards are complex, lengthy, and seem to require endless interpretation. Moreover, rules-based accounting standards can produce unreliable and inconsistent information. As with the Enron accounting scandal, for example, rules-based accounting standards can all lead to transactions that would appear to be designed by management to avoid the application of certain accounting rules (Seabury 2009).

Both rules-based and principles-based standards have advantages and disadvantages. Most accountants generally agree that management and auditors prefer rules-based standards due to the clarity they bring to transaction analysis and classification. The downside is that rules allow management the opportunity to circumvent or evade recording liabilities and expenses leading to a misrepresentation of operating results and financial position. Principles-based standards, on the other hand, provide a conceptual basis for accountants to follow instead of a list of detailed rules which is more likely to result in transactions that reflect their true economic substance. The primary shortcoming of principle-based standards is that professionals are likely to interpret a given standard differently for the same class of transactions resulting in a variety of financial statement impacts, not the least of which is comparability.

Section 2 of IFRS for SMEs, "Concepts and Pervasive Principles," sets forth 10 basic principles that should be the objective of financial reporting for small and medium-sized entities along with the qualities that make financial information useful. These principles require that financial information:

1. be understandable;
2. be relevant;
3. consider materiality;
4. be reliable-
5. reflect substance over form;
6. be carefully prepared and reflective of prudence on the part of accountants preparing the information;
7. be complete;
8. be comparable to others in the same industry and comparable year-to-year;
9. be timely; and
10. consider the balance between the benefits derived from its presentation and the cost of providing it.

IFRS for SMEs eliminates accounting topics not relevant to non-public companies (e.g. earnings-per-share, segment reporting, etc.) and also provide for fewer disclosures and more clear and concise choices among accounting policy alternatives. Section 10.4 and 10.5 of IFRS for SMEs provide guidance for accountants in addressing issues not covered by IFRS for SMEs by providing, in those circumstances, that an entity's management shall use its judgement in developing and applying an accounting policy that results in reliable information relevant to financial statement users. In making this judgement, Section 10.5 instructs management to seek guidance in the IFRS for SMEs for similar or related issues, and follow the "Concepts and Pervasive Principles" of Section 2. IFRS for SMEs significantly reduce required disclosures with the exception of disclosures relative to matters addressed by Section 10.4 and 10.5.In such matters, accountants are required to indicate details of the transaction, event, or condition; how the matter was accounted for; and why management believes the accounting is appropriate.

FRF for SMEs

The FRF for SMEs presents another option, i.e. "Non-GAAP". This option proposes a method for presenting a framework that falls under the definition of "other comprehensive bases of accounting" (OCBOA). It is designed to simplify the process of preparing financial statements by reporting clearly what a business owns, what it does and it's cash flow (Panel, Blue Ribbon 2011). In general, the FRF for SMEs is a principles-based framework that primarily uses historical cost as its measurement basis. While incorporating many traditional accounting principles, it also incorporates some accrual income tax accounting methods. In some cases, alternative accounting methods are provided, which gives management the flexibility to choose the accounting method most suitable to the entities facts and circumstances.

Excluded from this framework are, for example, concepts such as other comprehensive income, variable interest entities and other GAAP concepts that make many small-to-medium size company owners and controllers question whether GAAP has relevance to their financial statements. If the framework does not specifically address a particular transaction, management would use its judgment and apply the general principles and concepts contained in the framework when developing accounting policies (Hepp & Illiano 2010). The goal is to provide financial statements possessing the four principal qualitative characteristics of understandability, relevance, reliability, and comparability. The framework is also intended to be a stable platform that does not undergo frequent amending or updating. However, it still needs to be responsive to the reporting needs of small- and medium-sized entities and will be modified as needed.

Types of Companies that Might Find the FRF for SMEs Beneficial:

It has been proposed that specific types of SMEs might find it more conducive to operating in a revised financial reporting framework. These SMEs might have the following common characteristics (Spencer 2014):

1. No regulatory or contractual reporting requirements that essentially require it to use GAAP-based financial statements
2. No intention of going public
3. For-profit
4. Owner-managed (closely held company in which the people who own a controlling ownership interest are substantially the same set of people who run the company)
5. Rely on financial statements to confirm performance, cash flows, what they own and what they owe
6. Key users of financial statements have direct access to management
7. Bank lending decisions are based on available collateral or other evaluation mechanisms not directly related to the financial statements

Entities that fall within the above parameters would find it more cost conducive to utilizing an alternative set of reporting standards as opposed to operating in an environment that possesses the full constraints of GAAP.

The FASB's Progress

Although numerous private company stakeholders have expressed dissatisfaction with current GAAP, FASB does offer some relief to private companies with a handful of alternatives. Over time, FASB has embedded modifications or exceptions for private companies. There are about 25 modifications in the current code for private companies, but the most common exceptions, eight in number, are delays in effective dates of the standards for privately held companies. Another seven include exemptions from disclosures, and five contain simpler measurements for private companies (Buckstein 2009). Some private companies that are required to issue GAAP based financial statements to their users do so, but with departures from certain requirements. Frequent departures include the exclusion of deferred income taxes, not accruing employee benefit costs, and not consolidating variable interest entities (AICPA 2013).

Reporting in this manner is common and accepted as a legitimate alternative to full GAAP provided their external users are willing to rely on the statements for their decisions with the omitted information. Another alternative is issuing the financial statements in an Other Comprehensible Basis of Accounting (OCBOA). OCBOA statements often include those presented on a basis that includes cash, modified cash or income tax basis. These alternative bases are all recognized, but not often accepted by third party users.

CONCLUSIONS

The release of this framework comes out just as the Financial Accounting Standards Board (FASB) voted to issue three Private Company Council (PCC) initiatives for public exposure. if approved, these proposals would create GAAP changes for private companies related to recognition of certain intangible assets acquired in a business combination, amortization of goodwill, use of a simplified goodwill impairment model and allow for two simpler approaches to accounting for certain types of interest rate swap agreements (Bekaert 2010). Private companies have argued that current GAAP requirements related to these areas have little relevance to their financial statement users.

In addition, International Financial Reporting Standards (IFRS), which is being considered by the SEC for eventual implementation here in the USA, as previously discussed, has a version available for small- and medium-sized companies. Applying international standards to a company's financial statements would not be in compliance with GAAP, but would be another option eventually available.

The bottom line is accounting standards setters are considering ways to make financial reporting for privately held companies simpler and more meaningful to financial statement users. Business owners and management of these companies should work closely with their advisors and the users of their financial statements and carefully consider what is best for their circumstances as it relates to their financial reporting needs.

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